

ORIGINAL



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MEMORANDUM

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TO: Docket Control
FROM: Ernest Johnson
Director
Utilities Division

EA for EGT

DATE January 31, 2008

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

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

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 11, 2008.

EGJ:BCA:tdp

Originator: Brendan C. Aladi

Arizona Corporation Commission
DOCKETED

JAN 31 2008

DOCKETED BY *ME*

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

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

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

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

January 31, 2008

STAFF ACKNOWLEDGMENT

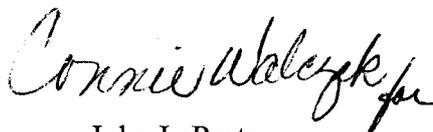
The Staff Report for Groom Creek Water Users Association (Docket Nos. W-01865A-07-0385 and W-01865A-07-0384) was the responsibility of the Staff members listed below. Brendan C. Aladi was responsible for the review and analysis of the permanent rate increase and financing authority applications, Staff's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



Brendan C. Aladi
Public Utilities Analyst III



Marlin Scott, Jr.
Utilities Engineer



John LaPorta
Public Utilities Consumer Analyst II

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

Groom Creek Water Users Association (“Groom Creek” or “Association”) is located approximately five miles southeast of Prescott, in Yavapai County. The Association provides water service to approximately 228 customers, and it is not located in an Active Management Area.

The Association proposed total operating revenue of \$151,316, a \$94,184 or 164.9 percent, increase over its test year revenue of \$57,132. The Association’s proposed revenues of \$151,316 result in an operating income of \$106,992 for a 70.7 percent operating margin. The Association’s requested rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 1,532 gallons from \$18.60 to \$44.93 for an increase of \$26.33 or 141.6 percent as shown on Schedule BCA-5. The Association also requested authorization to obtain a \$500,000 line of credit at approximately 9.7 percent to finance replacement of mains, valves, service lines and meters.

Staff recommends total operating revenue of \$118,879, an increase of \$56,656, or 91.1 percent, above the adjusted test year revenue of \$62,223. Staff’s recommended revenues would result in an operating income of \$79,525 for an operating margin of 66.9 percent and produce a debt service coverage ratio (“DSC”) of 1.25 on the current outstanding loan of \$141,306 and a new \$491,134 20-year amortizing loan at 8.0 percent. Staff’s recommended rates would increase the typical 5/8- X 3/4-inch meter residential bill with a median usage of 1,532 gallons from \$18.60 to \$29.29, an increase of \$10.69 or 57.5 percent, as shown on Schedule BCA-5. Staff’s recommended rates and service charges are presented in Schedule BCA-4 of this report.

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

Staff concludes that a line of credit is an inappropriate financial instrument to finance the proposed long-lived capital improvements. Staff further concludes that the Association’s issuance of a long-term amortizing loan of approximately 20-years for the \$491,134 estimated cost of the first phase capital improvements is appropriate, is within its corporate powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practices.

Staff recommends that the Commission authorize Groom Creek to obtain an 18 to 22-year amortizing loan at a rate not to exceed 8.0 percent for an amount not to exceed \$491,134 to finance the first phase capital improvements and to deny the request for authority to obtain a \$500,000 line of credit.

Staff recommends that the Association file a backflow prevention tariff in the form found on the Commission’s website at www.azcc.gov/divisions/utilities/forms/cross_c.pdf. The tariff

shall be docketed as a compliance item in this docket within 45 days of the effective date of decision in this proceeding for review and certification by Staff.

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ATTACHMENTS

Engineering Report for Rate Application Attachment A

Engineering Memorandum for Financing Application..... Attachment B

RATE CASE

Fact Sheet

Company:

Current Rates: Decision No. 62619, dated June 9, 2000.

Type of Ownership: Association

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

Rates:

Permanent rate increase application filed: June 25, 2007

Current test year ended: December 31, 2006

Prior test year ended: December 31, 1998 (rate increase).

Monthly Charges:

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge 5/8 x 3/4 – inch meter	\$14.00	\$42.00	\$22.50
Gallons in Minimum	0	1,000	0
Commodity Charge:			
0 to 3,000 gallons (per 1,000 gallons)	\$3.00		
3,001 to 6,000 gallons (per 1,000 gallons)	\$3.50		
6,001 to 10,000 gallons (per 1,000 gallons)	\$4.00		
Over 10,000 gallons (per 1,000 gallons)	\$8.00		
1,001 to 6,000 gallons (per 1,000 gallons)		\$5.50	
6,001 to 10,000 gallons (per 1,000 gallons)		\$8.00	
10,001 to 20,000 gallons (per 1,000 gallons)		\$10.00	
Over 20,000 gallons (per 1,000 gallons)		\$12.00	
0 to 3,000 gallons (per 1,000 gallons)			\$4.43
6,001 to 10,000 gallons (per 1,000 gallons)			\$6.65
Over 10,000 gallons (per 1,000 gallons)			\$16.00

<u>Typical residential bill:</u>	Current Rates	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Average use (2,433 gallons)	\$21.30	\$49.88	\$33.28
Median use (1,532 gallons)	\$18.60	\$44.93	\$29.29

Customers:

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

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

Current test year customers by meter size:

5/8 X 3/4 – inch 228

Seasonal customers: approximately 137 (60 percent)

Customer notification for financing application filed: None

Customer notification for rate application filed: June 25, 2007

Number of customer complaints and/or opinions concerning rate/financing applications filed: 3.

Percentage of complaints to customer base: 1%

Summary of Filing

The test year results, as adjusted by the Arizona Corporation Commission (“Commission”) Utilities Division (“Staff”), for Groom Creek Water Users Association (“Groom Creek” or “Association”) show total operating revenue of \$62,223 and an operating income of \$22,870 on an Original Cost Rate Base (“OCRB”) of \$31,385 for an operating margin of 36.75 percent, as shown in Schedule BCA-1.

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

Staff’s recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 1,532 gallons from \$18.60 to \$29.29, an increase of \$10.69 or 57.5 percent, as shown on Schedule BCA-5. Staff recommends rates that would produce total

operating revenue of \$118,879, operating income of \$79,525 and an operating margin of 66.90 percent. The typical residential bill with a median usage of 1,532 gallons would increase by \$10.69, or 57.5 percent, from \$18.60 to \$29.29 as shown in Schedule BCA-5.

Background

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

On June 25, 2007, Groom Creek filed both a financing application and an application for a permanent rate increase. On July 25, 2007 Staff filed a Letter of Insufficiency. Staff issued a Letter of Sufficiency August 10, 2007. The financing application and the application for a permanent rate increase were combined per a Procedural Order issued on November 30, 2007, and the time clock in this matter was suspended. A subsequent Procedural Order dated December 27, 2007, directed Staff to file its report by January 31, 2008. The Association provided evidence in its Application that customers had been notified of the filing for the rate case by mail on June 25, 2007.

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

Consumer Services

Staff reviewed the Commission's records and found eight complaints (one billing, one new service, four quality of service, and two deposits) and four opinions (one in favor of rate increase and three opposed to the rate increase) for the period January 1, 2004 to January 30, 2008.

Engineering Analysis and Recommendations

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

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

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

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

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

Compliance

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

The U.S. Environmental Protection Agency announced that the arsenic standard in drinking water will be reduced from 50 parts per billion ("ppb") to 10 ppb by 2006. The Association reported arsenic concentration for its two wells at less than 1 part per billion ("ppb"). Based on this arsenic concentration, the Association is in compliance with the new arsenic standard of 10 ppb.

Decision No. 62619, dated June 09, 2000 authorized the Association to collect \$450 for service line and meter installations. The Association had 215 customers at the end of 1998 and currently serves approximately 228 customers, an increase of 13 customers. The Association reported a balance of \$9,536 in the meter and meter installation account and did not adjust the balance down to \$6,921 per the prior Decision No. 62619.

The Chairman of the Association acknowledged that service line and meter installation charges had been collected prior to the election of the current Association Board. The status of refunds to customers is unknown and no records regarding refunds were maintained. Since the current Association Board took office, Groom Creek has collected service line and meter installation charges from two customers. A partial refund has been made to one of those customers and no refund is yet due to the second customer.

Rate Base

Staff's adjustments decreased the Association's proposed rate base by \$28,664 from \$60,049 to \$31,385 as shown in Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

Plant In Service – Adjustment A reclassifies the plant in service to reflect the balances authorized in the prior rate case, Decision No. 62619, as the beginning balances and makes

adjustments to remove unsupported plant additions and retirements since the last test year through the end of the current test year totaling \$12,564. Adjustment B adds \$400 to Power Operated Equipment to reflect the total of invoices supporting plant additions.

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

Working Capital - Adjustment D provides a cash working capital allowance of \$4,579 based on the formula method. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, purchased power expenses plus one twenty-fourth of purchased power expenses. Groom Creek did not claim a cash working capital allowance.

Operating Income Statement

Staff's adjustments increased the Association's proposed operating income by \$10,062 from \$12,808 to \$22,870 as shown in Schedule BCA-3 page 1. Details of Staff's adjustments to operating revenues and expenses are discussed below.

Operating Revenue

Metered Water Revenue - Adjustment A increases metered revenue by \$5,091, from \$55,902 to \$60,903, to reflect the revenue generated by the test year billing determinants in the Association's filing.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$4,972 from \$44,324 to \$39,353.

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

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

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

Outside Services - Adjustment E increases this account by \$192, from \$20,171 to \$20,363, to remove an unsupported amount of \$60 and to reflect \$252 reclassified from water testing expense.

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

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

Income Tax Expense – Adjustment H decreases this account to by \$1,578 from \$1,578 to \$0 to remove income tax expense claimed for which the Association should not be liable. The Association has not applied for income tax exemption under the Internal Revenue Code, Section 501 (C) as it should have.

Revenue Requirement

Staff recommends total operating revenue of \$118,879, a \$56,656 or 91.05 percent increase over the Staff adjusted test year operating revenue of \$62,223. Staff's recommended revenue provides an operating income of \$79,525 and operating margin of 66.90 percent as shown in Schedule BCA-1. Staff's recommended revenue produces a pro forma 1.25 DSC on the current outstanding loan of \$141,306 and a new \$491,134 20-year amortizing loan at 8.0 percent¹ and it would provide sufficient cash flow for all obligations.

Rate Design

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

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

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

Staff recommends A three-tier inverted rate structure for 5/8 x 3/4-inch and 3/4-inch meters and a two-tier inverted rate structure for larger meters. Currently, all customers are served by 5/8 x 3/4-inch meters. The breakover points for 5/8 x 3/4-inch meters are at 3,000 and 10,000 gallons. Staff's recommended rates would increase the median usage (1532 gallons)

¹ The \$491,134 loan is discussed below.

5/8 x 3/4-inch meter residential customer's bill from \$18.60 to \$29.29, an increase of \$10.69 or 57.5 percent.

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

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

The Association proposes to increase service charges for Reconnection (delinquent) from \$10 to \$50. Staff finds \$40 as a reasonable and normal charge and recommends it.

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

The Association proposes to increase service charges for Re-establishment (Within 12 months) from \$14 to \$75. Staff finds \$30 as a reasonable and normal charge and recommends it.

The Association proposes to increase NSF charges from \$25 to \$40. Staff finds \$40 as a reasonable and normal charge and recommends it.

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

The Association proposes to increase Meter Re-reads (if correct) from \$5 to \$25.00. Staff finds \$25 as a reasonable and normal charge and recommends it.

The Association proposes to increase late payment charge-per month from \$5 to \$10.00. Staff finds 1.50 percent per month 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 Association may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).
- That the Commission order Groom Creek to maintain its records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

- Authorization of the depreciation rates shown in Table B of the Engineering report.
- That the Association file with Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Association inquire of customers that are not currently reported as having paid advances, whether they have written documentation showing their name, date, and amount paid for meter and service line installations. If customers have the documentation, then the Association should adjust its records and refund the customers the amounts due, calculated in accordance with Commission rules within 60 days.
- Staff recommends that the Association file a backflow prevention tariff in the form found on the Commission's website at www.azcc.gov/divisions/utilities/forms/cross_c.pdf. The tariff shall be docketed as a compliance item in this docket within 45 days of the effective date of the order in this proceeding for review and certification by Staff.

FINANCING

Introduction

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

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

Public Notice

Groom Creek has not noticed its customers regarding the financing application. The Association should notice its customer for the financing application.

Purpose and Terms of the Proposed Financing

The Association is requesting a line of credit approval in the amount of \$500,000 at 9.7 percent interest for a water distribution main replacement project that will consist of:

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

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

Engineering Analysis

Staff examined the first phase of the construction plans and estimated cost of \$491,134 for the Groom Creek's construction projects and found them to be reasonable and appropriate. A complete discussion of the construction projects and costs are discussed in the attached Engineering Memorandum. Staff makes no "used and useful" determination of the proposed plant and no particular future treatment should be inferred for rate-making or rate base purposes.

Financial Analysis

Staff's analysis is based on Groom Creek's financial statements dated December 31, 2006. The financial analysis shown on Schedule BCA-6 presents selected financial information from the financial statements and the pro forma effect of the proposed \$491,134 loan with Staff's recommended revenues and expenses from the rate case. Schedule BCA-6 also shows the capital structure and debt service coverage ("DSC") and times interest earned ("TIER") ratios.

Capital Structure

At December 31, 2006, Groom Creek's capital structure consisted of 3.3 percent short-term debt, 66.1 percent long-term debt, and 30.7 percent equity. Groom Creek's drawing the entire proposed loan of \$491,134 would result in a pro forma capital structure comprised of 2.6 percent short-term debt, 92.4 percent long-term debt and 5.0 percent equity as shown on Schedule BCA-6.

Interest and Debt Service Coverage

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

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

TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

Schedule BCA-6 shows that for the year ending December 31, 2006, Groom Creek had a 1.82 TIER and a 1.34 DSC. The pro forma analysis shows that Staff's recommended revenue

with a fully drawn \$491,134 20-year, 8 percent amortizing loan results in a pro forma TIER and DSC of 1.70 and 1.25, respectively. The pro forma TIER and DSC show that Groom creek would have adequate cash flow to meet all obligations including the proposed debt.

Conclusions and Recommendations

Staff concludes that a line of credit is an inappropriate financial instrument to finance the proposed long-lived capital improvements. Staff further concludes that issuance of a long-term amortizing loan of approximately 20-years for the \$491,134 estimated cost of the first phase capital improvements is appropriate, is within its corporate powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practices.

Staff recommends that the Commission authorize Groom Creek to obtain an 18 to 22-year amortizing loan at a rate not to exceed 8.0 percent for an amount not to exceed \$491,134 to finance the first phase capital improvements and to deny the request for authority to obtain a \$500,000 line of credit.

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

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

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$55,902	\$60,993	\$151,316	\$117,649
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,230	1,230	0	1,230
Total Operating Revenue	\$57,132	\$62,223	\$151,316	\$118,879
Operating Expenses:				
Operation and Maintenance	\$35,625	\$35,988	\$35,373	\$35,988
Depreciation	4,871	863	4,871	863
Property & Other Taxes	2,502	2,502	2,502	2,502
Income Tax	1,578	0	1,578	0
Total Operating Expense	\$44,576	\$39,353	\$44,324	\$39,353
Operating Income/(Loss)	\$12,556	\$22,870	\$106,992	\$79,525
Rate Base O.C.L.D.	\$60,049	\$31,385	\$60,049	\$31,385
Rate of Return - O.C.L.D.	20.91%	72.87%	178.17%	253.38%
Times Interest Earned Ratio (Pre-Tax)	1.82	0.49	2.29	1.70
Debt Service Coverage Ratio (Pre-Tax)	1.34	0.51	1.71	1.25
Operating Margin	21.98%	36.75%	70.71%	66.90%

- 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	\$296,908	(\$12,964) A,B	\$283,944
Less:			
Accum. Depreciation	237,630	20,279 C	257,909
Net Plant	\$59,278	(\$33,243)	\$26,035
Less:			
Plant Advances	\$0	\$0	\$0
Accumulated Deferred Income Taxes	0	0	0
Total Advances	\$0	\$0	\$0
Contributions Gross	\$0	\$0	\$0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	\$0	\$0	\$0
Total Deductions	\$0	\$0	\$0
Plus:			
1/24 Power	(\$0)	\$144 D	\$144
1/8 Operation & Maint.	32	4,435 D	4,467
Inventory	0	0	0
Prepayments	740	0	740
Total Additions	\$771	\$4,579	\$5,350
Rate Base	\$60,049	(\$28,664)	\$31,385

Explanation of Adjustment:

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

PLANT ADJUSTMENT

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

Explanation of Adjustment:

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

Adjustments for plant additions and retirements are as follows:

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

- B - To recognize \$400 the total of invoices Supporting plant additions.

ACCUMULATED DEPRECIATION ADJUSTMENT

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

Explanation of Adjustment:

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

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

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	\$55,902	\$5,091	A	\$60,993
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	1,230	0		1,230
Total Operating Revenue	\$57,132	\$5,091		\$62,223
Operating Expenses:				
601 Salaries and Wages	\$0	\$0		\$0
610 Purchased Water	0	0		0
615 Purchased Power	3,501	(50)	B	3,451
618 Chemicals	0	0		0
620 Repairs and Maintenance	2,426	1,316	C	3,742
621 Office Supplies & Expense	1,388	(592)	D	796
630 Outside Services	20,171	192	E	20,363
635 Water Testing	2,208	(252)	F	1,956
641 Rents	0	0		0
650 Transportation Expenses	0	0		0
657 Insurance - General Liability	1,460	0		1,460
659 Insurance - Health and Life	0	0		0
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	4,220	(0)		4,220
403 Depreciation Expense	4,871	(4,008)	G	863
408 Taxes Other Than Income	0	0		0
408.11 Property Taxes	2,502	0		2,502
409 Income Tax	1,578	(1,578)	H	0
Total Operating Expenses	\$44,324	(\$4,972)		\$39,353

OPERATING INCOME/(LOSS)	\$12,808	\$10,062	\$22,870
--------------------------------	-----------------	-----------------	-----------------

Other Income/(Expense):				
419 Interest and Dividend Income	\$5,330	\$0		\$4,590
421 Non-Utility Income	0	0		0
427 Interest Expense	7,910	(0)		7,910
4XX Reserve/Replacement Fund Deposit	0	10,005		10,005
426 Miscellaneous Non-Utility Expense	0	0		0
Total Other Income/(Expense)	(\$2,580)	(\$10,004)		(\$13,325)

NET INCOME/(LOSS)	\$10,228	\$58	\$9,545
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STAFF ADJUSTMENTS

A -	METERED WATER REVENUE - Per Company Per Staff	\$55,902 60,993	<u>5,091</u>
	To reflect the revenue generated by the test year billing determinants.		
B -	PURCHASED POWER - Per Company Per Staff	\$3,501 3,451	<u>(\$50)</u>
	To reflect the aggregate of the test year purchased power invoices.		
C -	REPAIRS AND MAINTENANCE - Per Company Per Staff	\$2,426 3,742	<u>\$1,316</u>
	To recognize the total of the test year supported expenses.		
D -	OFFICE SUPPLIES & EXPENSE - Per Company Per Staff	\$1,388 796	<u>(\$592)</u>
	To reflect the documented test year expenses.		
E -	OUTSIDE SERVICES - Per Company Per Staff	\$20,171 20,363	<u>\$192</u>
	To remove unsupported amount of \$60 and to add \$252 for reclassification of water testing expense.		
F -	WATER TESTING - Per Company Per Staff	\$2,208 1,956	<u>(\$252)</u>
	To reclassify invoices to outside services.		

STAFF ADJUSTMENTS (Cont.)

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

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

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment G - Test Year Depreciation Expense

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

Composite Depreciation Rate (Depr Exp / Depreciable Plant): 3.66%

CIAC: \$ -

Amortization of CIAC (Line 25 x Line 26): \$ -

Depreciation Expense Before Amortization of CIAC: \$ 863

Less Amortization of CIAC: \$ -

Test Year Depreciation Expense - Staff: **\$ 863**

Depreciation Expense - Company: \$ 4,871

Staff's Total Adjustment: **\$ (4,008)**

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

To remove income tax expense Claimed, for which Company is not liable.
Company did not apply for and receive income tax exemption under
the Internal Revenue Code, Section 501 (C).

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$14.00	\$42.00	\$ 22.50
3/4" Meter	17.25	N/A	33.75
1" Meter	28.75	N/A	56.25
1½" Meter	57.50	N/A	112.50
2" Meter	92.00	N/A	180.00
3" Meter	172.50	N/A	360.00
4" Meter	287.50	N/A	562.00
6" Meter	575.00	N/A	1,125.00
Gallons in Minimum	0.00	1,000	0.00
<u>Company Current 5/8 X 3/4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 5/8 X 3/4-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 5/8 x 3/4-inch Meters</u>			
Tier One Rate - 0 - 3,000 gallons			4.43
Tier Two Rate - 3,001 - 10,000 gallons			6.65
Tier Three Rate - Over 10,000 gallons			16.00
<u>Company Current 3/4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 3/4-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 3/4-inch Meters</u>			
Tier One Rate - 0 - 3,000 gallons			4.43
Tier Two Rate - 3,001 - 10,000 gallons			6.65
Tier Three Rate - Over 10,000 gallons			16.00

RATE DESIGN

Monthly Usage Charge	Present Rates	-Proposed Rates- Company	Staff
<u>Company Current 1-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 1-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 1-inch Meters</u>			
Tier One Rate - 0 - 12,000 gallons			6.65
Tier Two Rate - Over 12,000 gallons			16.00
<u>Company Current 1.5-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 1.5-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 1.5-inch Meters</u>			
Tier One Rate - 0 - 18,000 gallons			6.65
Tier Two Rate - Over 18,000 gallons			16.00
<u>Company Current 2-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 2-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 2-inch Meters</u>			
Tier One Rate - 0 - 25,000 gallons			6.65
Tier Two Rate - Over 25,000 gallons			16.00

RATE DESIGN

Monthly Usage Charge	Present Rates	-Proposed Rates- Company	Staff
<u>Company Current 3-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 3-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 3-inch Meters</u>			
Tier One Rate - 0 - 43,000 gallons			6.65
Tier Two Rate - Over 43,000 gallons			16.00
 <u>Company Current 4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 4-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 4-inch Meters</u>			
Tier One Rate - 0 - 63,000 gallons			6.65
Tier Two Rate - Over 63,000 gallons			16.00
 <u>Company Current 6-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 6-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 6-inch Meters</u>			
Tier One Rate - 0 - 123,000 gallons			6.65
Tier Two Rate - Over 123,000 gallons			16.00

RATE DESIGN

Service Line and Meter Installation Charges	Present Rates	-Proposed Rates-		-Recommended-	
		Company	Staff	Service Line Charge	Meter Charge
5/8" x 3/4" Meter	\$450.00	\$7,500.00	\$520.00	\$ 385.00	\$ 135.00
3/4" Meter	515.00	N/A	600.00	385.00	215.00
1" Meter	590.00	N/A	690.00	435.00	255.00
1½" Meter	820.00	N/A	935.00	470.00	465.00
2" Meter	1,380.00	N/A	1,595.00	630.00	965.00
3" Meter	1,935.00	N/A	2,275.00	805.00	1,470.00
4" Meter	3,030.00	N/A	3,520.00	1,170.00	2,350.00
6" Meter	5,535.00	N/A	6,275.00	1,730.00	4,545.00
Service Charges					
Establishment	\$10.00	\$75.00	\$25.00		
Establishment (After Hours)	0.00	0.00	40.00		
Reconnection (Delinquent)	10.00	50.00	30.00		
Meter Test (If Correct)	7.50	25.00	25.00		
Deposit	*	*	*		
Deposit Interest Per Annum	*	*	*		
Re-Establishment (Within 12 Months)	14.00	75.00	**		
NSF Check	25.00	40.00	20.00		
Deferred Payment - Per Month	5.00	10.00	1.50%		
Meter Re-Read (If Correct)	10.00	25.00	20.00		
Late Payment Charge-Per Month	0.00	10.00	1.50%		
Monthly Service Charge for Fire Sprinkler					
4" or Smaller	\$0.00	\$0.00	***		
6"	0.00	0.00	***		
8"	0.00	0.00	***		
10"	0.00	0.00	***		
Larger than 10"	0.00	0.00	***		

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

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

Average Number of Customers: 228

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	2,433	\$21.30	\$49.88	\$28.58	134.2%
Median Usage	1,532	\$18.60	\$44.93	\$26.33	141.6%
<u>Staff Recommend</u>					
Average Usage	2,433	\$21.30	\$33.28	\$11.98	56.2%
Median Usage	1,532	\$18.60	\$29.29	\$10.69	57.5%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$14.00	\$42.00	200.0%	\$22.50	60.7%
1,000	17.00	42.00	147.1%	26.93	58.4%
2,000	20.00	47.50	137.5%	31.36	56.8%
3,000	23.00	53.00	130.4%	35.79	55.6%
4,000	26.50	58.50	120.8%	42.44	60.2%
5,000	30.00	64.00	113.3%	49.09	63.6%
6,000	33.50	69.50	107.5%	55.74	66.4%
7,000	37.50	77.50	106.7%	62.39	66.4%
8,000	41.50	85.50	106.0%	69.04	66.4%
9,000	45.50	93.50	105.5%	75.69	66.4%
10,000	49.50	101.50	105.1%	82.34	66.3%
15,000	89.50	151.50	69.3%	162.34	81.4%
20,000	129.50	201.50	55.6%	242.34	87.1%
25,000	169.50	261.50	54.3%	322.34	90.2%
50,000	369.50	561.50	52.0%	722.34	95.5%
75,000	569.50	861.50	51.3%	1,122.34	97.1%
100,000	769.50	1,161.50	50.9%	1,522.34	97.8%
125,000	969.50	1,461.50	50.7%	1,922.34	98.3%
150,000	1,169.50	1,761.50	50.6%	2,322.34	98.6%
175,000	1,369.50	2,061.50	50.5%	2,722.34	98.8%
200,000	1,569.50	2,361.50	50.5%	3,122.34	98.9%

WIFA LOAN FINANCIAL ANALYSIS

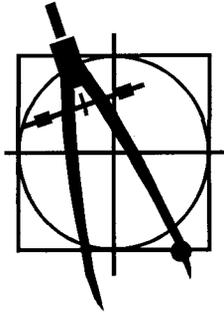
Test Year Income Statement, Capital Structure and Pro Forma Based on Audit
Including Immediate Effects of the Proposed Debt

INCOME STATEMENT

	<u>December 31, 2006</u>	<u>Pro Forma</u>
Operating Revenue:	\$57,132	\$118,879
Operating Expenses:		
Purchased Water/Pumping Power	\$3,501	\$3,451
Admin. & General	27,238	26,839
Maintenance & Testing	4,634	5,698
Depreciation (d)	4,871	863
Property Taxes	2,502	2,502
Other taxes	0	0
Total Operating Expense	\$42,746	\$39,353
Pre-Tax Operating Income (a)	\$14,386	\$79,526
Interest Income	\$5,330	\$4,590
Interest Expense (b)	7,910	46,692
Pre-Tax Net Income	\$11,806	\$37,423
Principal Repayment (c)	\$6,498	\$ 17,633
Reserve/Replacement Deposit (e)	0	10,005
TIER (Times Interest Earned Ratio)		
(a) ÷ (b)	1.82	1.70
DSC		
[(a) + (d)] ÷ [(b) + (c)]	1.34	1.25

CAPITAL STRUCTURE

Short-term Debt	\$7,210	3.3%	\$ 17,632.67	2.6%
Long-term Debt	\$145,959	66.1%	\$632,440	92.4%
Common Equity	\$67,704	30.7%	\$34,380	5.0%
Total Capital	\$220,873	100.0%	\$684,453	100.0%



Engineering Report for Groom Creek Water Users Association

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

By: Marlin Scott, Jr.
Utilities Engineer

January 25, 2008

CONCLUSIONS

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

RECOMMENDATIONS

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

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

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A. LOCATION OF ASSOCIATION

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

B. DESCRIPTION OF THE WATER SYSTEM

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

Table 1. Well Sites

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

Table 2. Water Mains

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

Table 3. Customer Meters

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

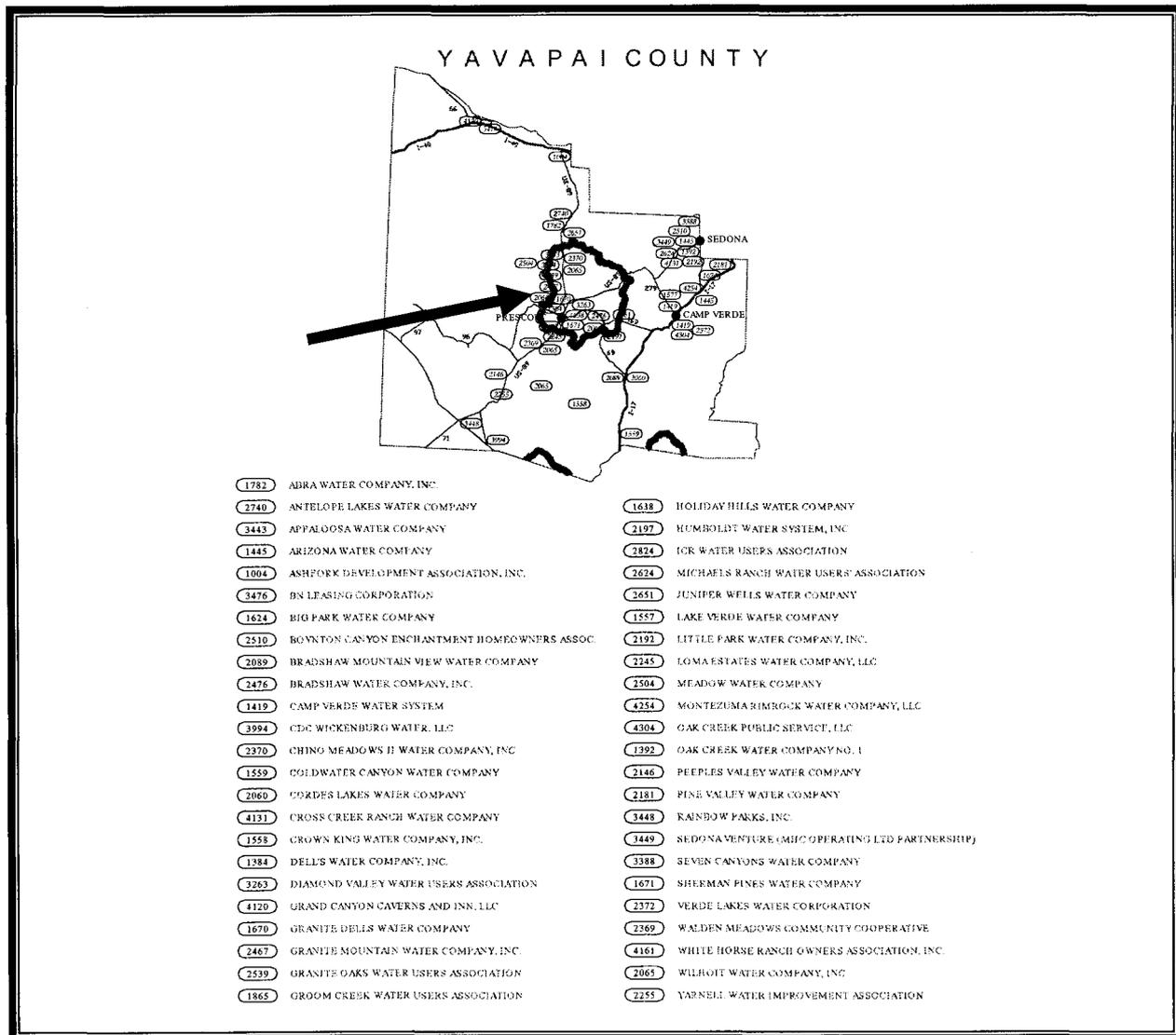


Figure 1. Yavapai County Map

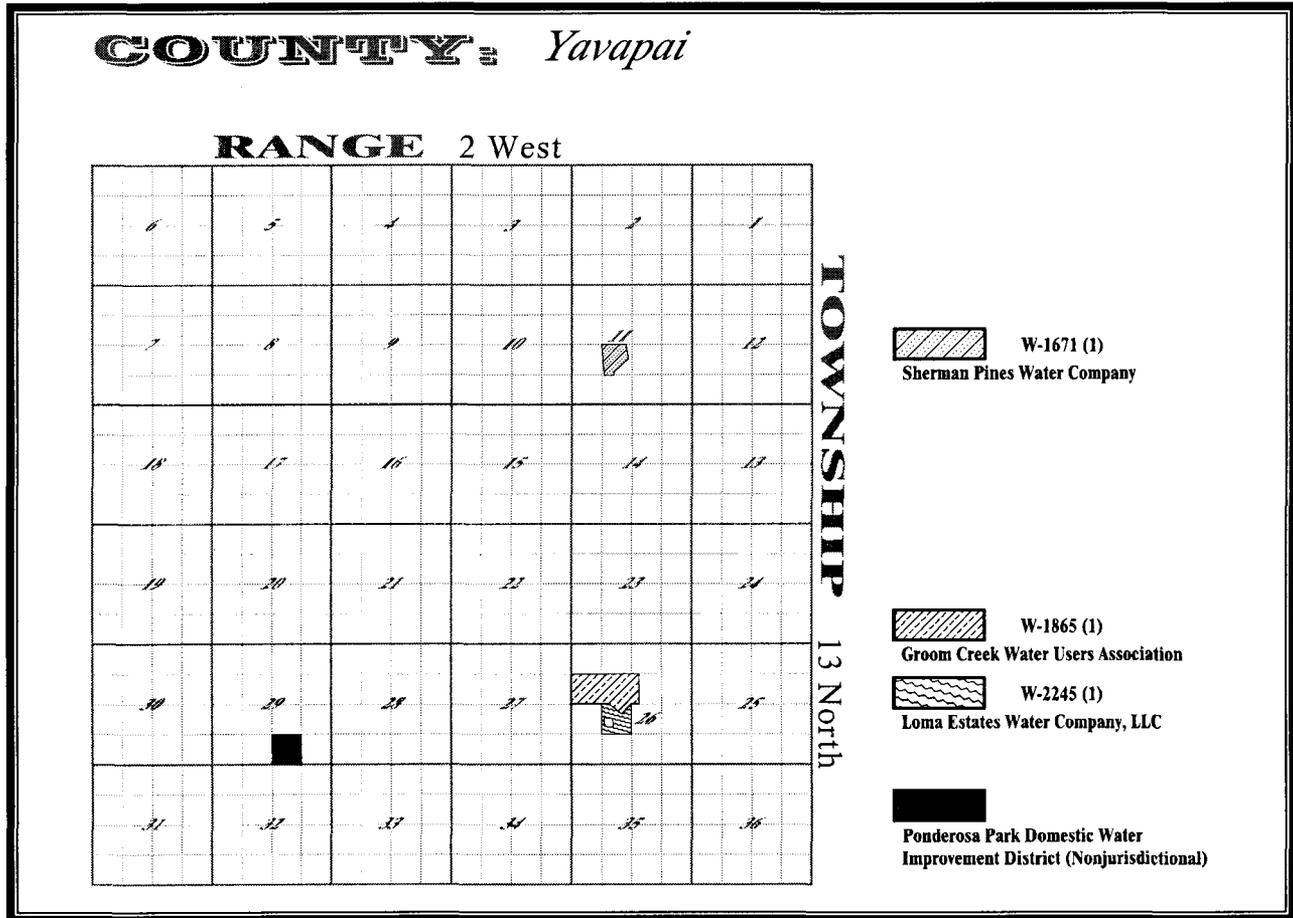


Figure 2. Certificated Area

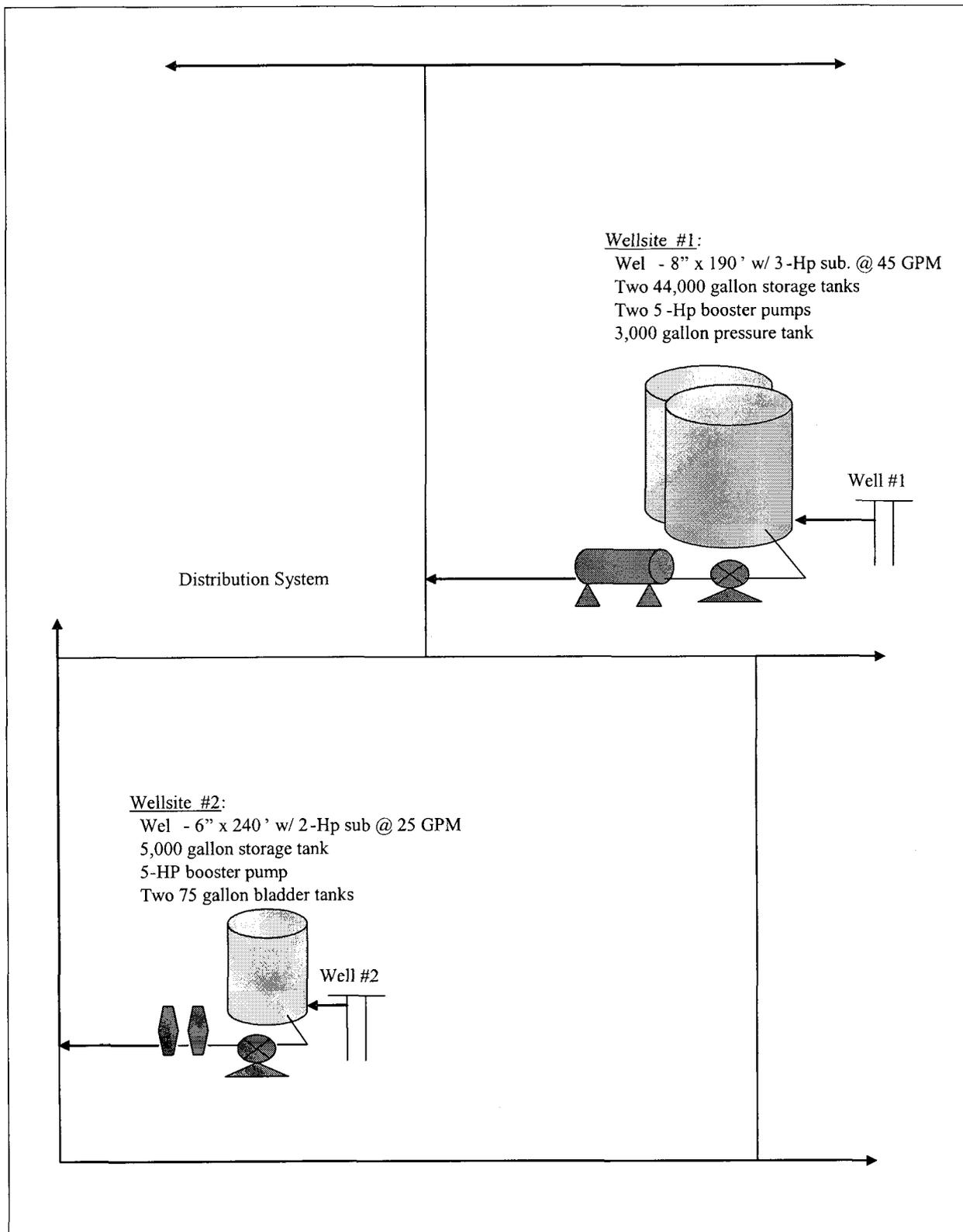


Figure 3. System Schematic

C. WATER USE

Water Sold

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

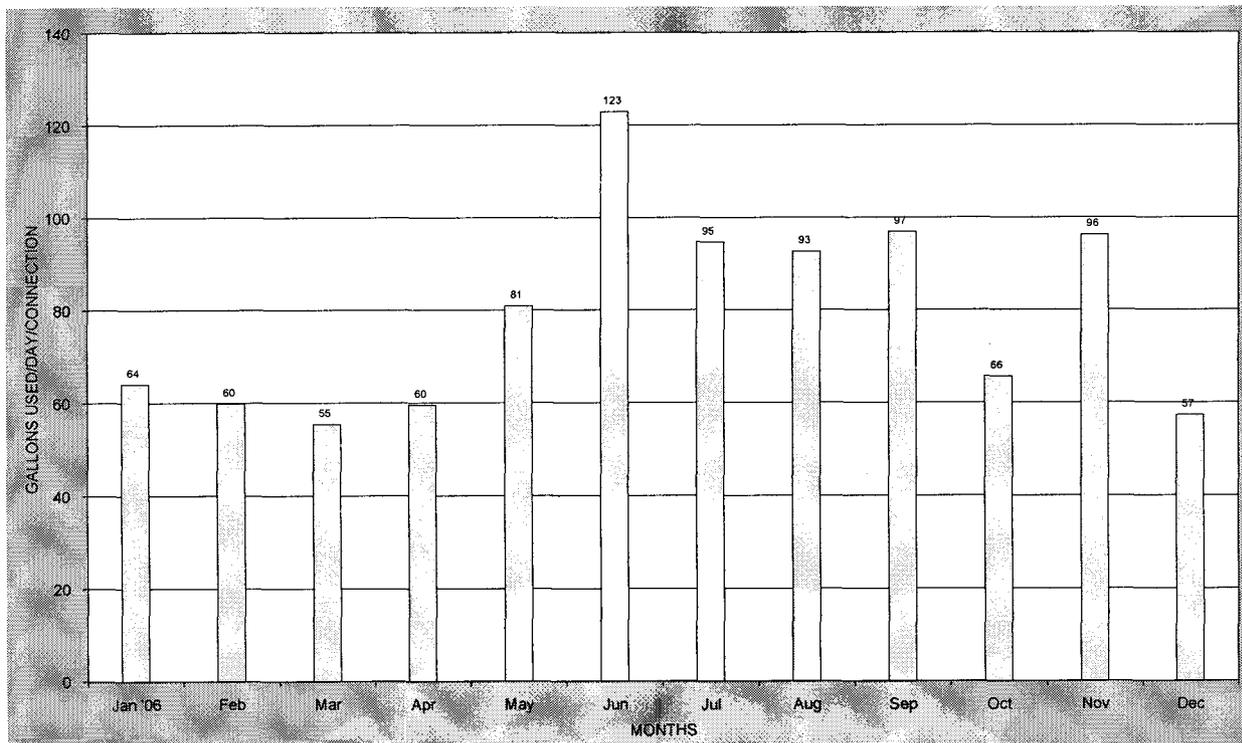


Figure 4. Water Use

Non-Account Water

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

System Analysis

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

D. GROWTH

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



Figure 5. Growth Projection

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

Compliance

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

Water Testing Expense

The Association is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an

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

The Association reported its water testing expense at \$2,208 during the test year by combining water testing costs and a portion of water operator's fees. Staff has reviewed these expenses and has recalculated the annual expense by adding the omitted monitoring requirements for lead & copper and Disinfection/Disinfection By-Product ("D/DBP"). Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. The Association chlorinates its wells and therefore, is required to monitor for D/DBP. Table A shows Staff's adjusted annual monitoring expense estimate of \$1,956 with participation in the MAP.

Table A. Water Testing Cost

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

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

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

Arsenic

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

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

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

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

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

H. DEPRECIATION RATES

The Association has been using a depreciation rate of 5.00% in every National Association of Regulatory Utility Commissioners (“NARUC”) plant category. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (For example, a uniform 5% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

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

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00

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

NOTES:

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

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

The Association has requested a change in its service line and meter installation charges. The Association's requested change relates to a request for an impact fee of \$7,500 for only the 5/8 x 3/4-inch meter. After Staff discussions with the Association, the Association understood the difference between an impact fee (hook-up fee) and the service line and meter installation

charges. As a result of this discussion, the Association has agreed to the higher end of Staff's customary range of 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, Staff recommends approval of the "total" charges as shown in Table C below, with separate installation charges for the service line and meter installations.

Table C. Service Line and Meter Installation Charges

Meter Size	Association's Current Charges	Recommended Service Line Charges	Recommended Meter Charges	Recommended Total Charges
5/8 x 3/4-inch	\$450	\$385	\$135	\$520
3/4-inch	\$515	\$385	\$215	\$600
1-inch	\$590	\$435	\$255	\$690
1-1/2-inch	\$820	\$470	\$465	\$935
2-inch	\$1,380	\$630	\$965	\$1,995
3-inch	\$1,935	\$805	\$1,470	\$2,275
4-inch	\$3,030	\$1,170	\$2,350	\$3,520
6-inch	\$5,535	\$1,730	\$4,545	\$6,275

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

2. Curtailment Tariff

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

3. Backflow Prevention Tariff

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

MEMORANDUM

DATE: January 18, 2008

TO: Brendan Aladi
Public Utilities Analyst III
Utilities Division

FROM: Marlin Scott, Jr. 
Utilities Engineer
Utilities Division

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

Introduction

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

Existing Water System

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

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

Financing Application

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

1. Replacement of all transite pipes with PVC - C900 pipes, approximately 3.6 miles
2. Installation of gate valves and blow-off valves

3. Replacement of all existing service lines, 225 each
4. Replacement of water meters, 225 each
4. Installation of 43 remaining service taps for future services

The Association is also proposing to increase its storage tank capacity and is exploring the possibility of installing fire hydrants on the new distribution mains.

Project Costs

Staff contacted the Water Infrastructure Finance Authority and was informed that the Association was granted a technical assistance grant for evaluation of its water system improvement projects. On December 14, 2007, on behalf of the Association, Damon S. Williams Associates, LLC ("DSWA") submitted cost estimates for the Association's improvements projects consisting of the distribution system improvements, additional storage capacity, additional booster pumping capacity, and disinfection provisions. DSWA estimated the total cost of these projects to be \$2,974,952.

In order to match the Association's financing request of \$500,000, Staff requested and was provided by DSWA a revised spreadsheet for the distribution main replacement project estimated at \$491,134. This revised project estimate, called the "Stagecoach Option", would replace the distribution mains in phases and the Stagecoach Option would be the first phase that would replace 6,000 feet of the approximate 21,000 feet of water mains. The Stagecoach Option spreadsheet is attached.

Staff has reviewed the Stagecoach Option, the first phase of the distribution main replacement project, and finds its cost estimate of \$491,134 to be appropriate and reasonable for purposes of this financing request.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Compliance

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

Conclusion

The Association submitted a financing request for \$500,000 for the water distribution main replacement project. Staff has reviewed the Stagecoach Option, the first phase of the distribution main replacement project, and finds its cost estimate of \$491,134 to be appropriate and reasonable for purposes of this financing request. No "used and useful" determination of the proposed project items was made and no particular treatment should be inferred for rate making or rate base purposes in the future.