

OPEN MEETING ITEM



0000084293

COMMISSIONERS
MIKE GLEASON - Chairman
WILLIAM A. MUNDEL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

ORIGINAL



ARIZONA CORPORATION COMMISSION

22

DATE: APRIL 22, 2008
DOCKET NO: W-02096A-07-0460
TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda Martin. The recommendation has been filed in the form of an Order on:

FORREST G. AND ALICE W. WILKERSON, dba
VERDE LEE WATER COMPANY
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

MAY 1, 2008

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

MAY 6, 2008 and MAY 7, 2008

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

Arizona Corporation Commission
DOCKETED
APR 22 2008

DOCKETED BY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MIKE GLEASON - Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 KRISTIN K. MAYES
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF
9 FORREST G. AND ALICE W. WILKERSON,
10 DBA VERDE LEE WATER COMPANY FOR A
11 PERMANENT RATE INCREASE.

DOCKET NO. W-02096A-07-0460

DECISION NO. _____

12 ORDER

13 Open Meeting
14 May 6 and 7, 2008
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 Forrest G. and Alice W. Wilkerson, dba Verde Lee Water Company (“Verde Lee” or
18 “Company”), an Arizona corporation, are engaged in the business of providing water utility service to
19 the public in a portion of Greenlee County, Arizona. On August 2, 2007, Verde Lee filed with the
20 Arizona Corporation Commission (“Commission”) an application requesting authority to increase its
21 rates and charges.

22 On October 5, 2007, the Commission’s Utilities Division Staff (“Staff”) determined that
23 Verde Lee’s application was sufficient and classified the Company as a Class E utility.

24 On January 24, 2008, Staff filed its Staff Report, recommending an alternative rate schedule
25 be approved without a hearing. However, Staff’s recommended rates were greater than those proposed
26 by the Company and Staff recommended that any Decision in the matter be stayed pending re-
27 notification by the Company to its customers of Staff’s recommended rates.

28 On March 21, 2008, a Procedural Order was issued directing the Company to mail the
notification to its customers not later than April 2, 2008.

In response to that notice, two Verde Lee customers filed comments opposed to Staff’s
recommended rate increases.

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Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. The Company is an Arizona ‘C’ corporation engaged in the business of providing water utility service to the public in a portion of Greenlee County, Arizona, pursuant to authority granted by the Commission in Decision No. 40507 (February 16, 1970). The Company’s present rates and charges for water service were approved in Decision No. 62623 (June 9, 2000).

2. On August 2, 2007, Verde Lee filed an application requesting authority to increase its rates and charges (“Application”) and notified its customers of the proposed rates and charges by first class U.S. mail. No letters of protest from customers were received in response to this notification.

3. On August 31, 2007, Staff filed its Letter of Deficiency.

4. On September 17, 2007, the Company filed its responses to the letter.

5. On October 5, 2007, Staff determined that Verde Lee’s Application was sufficient and classified the Company as a Class E Utility. On November 28, 2007, Staff filed a Motion for an Extension requesting additional time to file its Staff Report until December 31, 2007 (“Motion”).

6. On December 11, 2007, a Procedural Order was issued granting Staff’s Motion for Extension to file its Staff Report until December 31, 2007.

7. On January 10, 2008, Staff filed a second Motion for Extension requesting additional time to file its Staff Report until January 18, 2008 (“Second Motion”).

8. On January 11, 2008, a Procedural Order was issued granting Staff’s Second Motion to file its Staff Report until January 18, 2008.

9. On January 24, 2008, Staff filed its Staff Report in this matter recommending approval of an alternative rate schedule without a hearing and making other recommendations. In the Staff Report, Staff recommended a rate structure that would result in a greater rate increase than that requested by the Company. As such, Staff recommended that the issuance of a Decision in this

1 docket be stayed pending re-notification by the Company to its customers of Staff's recommended
2 rates.

3 10. On March 21, 2008, a Procedural Order was issued directing the Company to mail the
4 notification to its customers not later than April 2, 2008, and in response to that notice, two Verde
5 Lee customers filed comments opposed to Staff's recommended rate increases.

6 11. During the test year ended December 31, 2006, the Company served 185 metered
7 customers who were all served with 5/8" x 3/4" meters.

8 12. Average and median usage on the 5/8" x 3/4" meters during the test year were 9,492
9 and 6,625 gallons per month, respectively.

10 13. The rates and charges for the Company at present, as proposed in the application, and
11 as a recommended by the Staff are as follows:

	Present	Proposed	Rates
	Rates	Company	Staff
<u>MONTHLY USAGE CHARGE:</u>			
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
1-1/2" 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
<u>COMMODITY RATES:</u>			
All meter sizes			
Per 1,000 gallons	\$2.70	\$3.42	N/A
<u>5/8" x 3/4" Meter</u>			
Zero gallons to 3,000 gallons	N/A	\$3.42	\$2.55
3,001 gallons to 10,000 gallons	N/A	3.42	3.83
Over 10,000 gallons	N/A	3.42	4.60
<u>3/4" Meter</u>			
Zero gallons to 3,000 gallons	N/A	\$3.42	\$2.55
3,001 gallons to 10,000 gallons	N/A	3.42	3.83
Over 10,000 gallons	N/A	3.42	4.60
<u>1" Meter</u>			
Up to 35,000 gallons	N/A	3.42	3.83
Over 35,000 gallons	N/A	3.42	4.60

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<u>1-1/2" Meter</u>				
Up to 100,000 gallons	N/A	3.42	3.83	
Over 100,000 gallons	N/A	3.42	4.60	
<u>2" Meter</u>				
Up to 180,000 gallons	N/A	3.42	3.83	
Over 18,000 gallons	N/A	3.42	4.60	
<u>3" Meter</u>				
Up to 400,000 gallons	N/A	3.42	3.83	
Over 400,000 gallons	N/A	3.42	4.60	
<u>4" Meter</u>				
Up to 645,000 gallons	N/A	3.42	3.83	
Over 645,000 gallons	N/A	3.42	4.60	
<u>6" Meter</u>				
Up to 1,330,000 gallons	N/A	3.42	3.83	
Over 1,330,000 gallons	N/A	3.42	4.60	

SERVICE LINE AND METER INSTALLATION CHARGES:

	<u>Company Proposed</u>				<u>Staff's Recommendations</u>		
	<u>Present</u>	<u>Service Line Change</u>	<u>Meter Installation</u>	<u>Total Proposed</u>	<u>Service Line Charge</u>	<u>Meter Installation</u>	<u>Total Recommended</u>
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	1,300.00	630.00	965.00	1,595.00	470.00	830.00	1,300.00
2" Compound	1,930.00	630.00	1,690.00	2,320.00	470.00	1,460.00	1,930.00
3" Turbine	1,855.00	805.00	1,470.00	2,275.00	595.00	1,260.00	1,855.00
3" Compound	2,570.00	845.00	2,265.00	3,110.00	595.00	1,975.00	2,570.00
4" Turbine	2,870.00	1,170.00	2,350.00	3,520.00	880.00	1,990.00	2,870.00
4" Compound	3,675.00	1,230.00	3,245.00	4,475.00	880.00	2,795.00	3,675.00
6" Turbine	5,375.00	1,730.00	4,545.00	6,275.00	1,330.00	4,045.00	5,375.00
6" Compound	6,970.00	1,770.00	6,280.00	8,050.00	1,330.00	5,640.00	6,970.00
8"	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10"	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
12"	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

	<u>Current Charges</u>	<u>Company Proposed</u>	<u>Staff Recommendations</u>
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	50.00	50.00	50.00
Reconnection (Delinquent)	30.00	30.00	30.00
Reconnection (After Hours)	35.00	35.00	35.00
Meter Test (If Correct)	30.00	30.00	30.00
Deposit Requirement	*	*	*
Deposit Interest	*	*	*

	Re-Establishment	**	**	**
1	NSF Check	\$20.00	\$30.00	\$30.00
2	Deferred Payment Per Month	N/A	N/A	N/A
	Meter Re-Read (If Correct)	15.00	15.00	15.00
3	<u>Monthly Service Charge for Fire Sprinkler:</u>			
4	4" or Smaller	N/A	N/A	****
	6"	N/A	N/A	****
5	8"	N/A	N/A	****
	10"	N/A	N/A	****
6	Larger than 10"	N/A	N/A	****

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

*** 1.50 percent per month of the unpaid balance.

**** 100 percent of month 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.

14. Staff determined Verde Lee's original cost rate base to be \$490,644, which is the same as its fair value rate base ("FVRB"). This is a \$215,089 increase to Verde Lee's proposed FVRB of \$275,555, based primarily upon Staff's adjustment to accumulated depreciation, and adjustments to plant in service and working capital. Staff's proposed rate base adjustments are reasonable and will be adopted.

15. In the test year, Verde Lee collected total operating revenue of \$100,664, and Staff made no adjustments to test year operating revenues.

16. Staff increased Verde Lee's test year operating expenses by \$17,555, from \$122,927 to \$140,482, due to adjustments to repairs and maintenance expense, water testing expense, and depreciation expense. Staff's proposed adjustments to operating expenses are reasonable and will be adopted.

17. Based on Staff's analysis, Verde Lee's present water rates and charges produced operating revenues of \$100,664 and adjusted operating expenses of \$140,482, which resulted in a test year net operating loss of \$39,818 and no rate of return on FVRB.

18. The water rates and charges Verde Lee proposed would produce operating revenue of \$115,189 and adjusted operating expenses of \$122,927, resulting in an operating loss of \$7,738, for no rate of return on its FVRB.

1 19. The water rates and charges Staff recommends would produce adjusted operating
2 revenues of \$140,482 and adjusted operating expenses of \$140,482, resulting in zero operating
3 income or loss and no rate of return on its FVRB.

4 20. In its Staff Report, Staff asserts that recommending a higher rate increase in order
5 generate positive net income was not advisable. As stated by Staff, "the breakeven level [Staff]
6 recommends in this case is approximately 275 percent greater than the revenue the Company
7 requested, covers all the Company's anticipated new expenses, and increases depreciation expense by
8 more than 53 percent. Additionally, to ameliorate the rate shock to ratepayers in this case, Staff
9 believes a higher rate of increase at this time is inappropriate." (*Staff Report, page 4.*)

10 21. In response to the notice, the Commission received two customer comments opposed
11 to Staff's recommended rate increase.

12 22. The Company's proposed rate schedule would increase the median 5/8" x 3/4" meter
13 monthly residential customer bill (6,625 gallons) by \$4.47, or 14.5 percent, from \$32.89 to \$37.66
14 and would increase the average monthly residential customer bill (9,492 gallons) by \$6.83, or 16.8
15 percent, from \$40.63 to \$47.46.

16 23. Staff's recommended rates would increase the median 5/8" x 3/4" meter monthly
17 residential customer bill (6,625 gallons) by \$9.89, or 30.1 percent, from \$32.89 to \$42.78 and would
18 increase the average monthly residential customer bill (9,492 gallons) by \$13.13, or 32.3 percent,
19 from \$40.63 to \$53.76. Staff's recommendations are reasonable and will be adopted.

20 24. Staff's Engineering Report notes that the Company implemented a Point-of-Use
21 Treatment Plan, noting that Verde Lee requested approval of its Point-of-Use Treatment Device
22 Tariff as set forth in the Engineering Report in Exhibit POU to that report, attached as Exhibit A
23 hereto. One outcome the POU treatment devices will have is the lowering of the arsenic levels in the
24 water from between 14 parts per billion ("ppb") and 27 ppb, to below the U.S. Environmental
25 Protection Agency ("EPA") maximum contaminant level for arsenic ("MCL") of less than 10 µg/l.
26 As such, Staff recommends approval of the Company's Point-of-Use Treatment Device Tariff set

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1 forth in Exhibit POU, attached as Exhibit A. Staff's recommendation is reasonable and will be
2 adopted.

3 25. Staff recommended that the Company be ordered to correct its books and records to
4 properly reflect the correct plant in service balances and the associated accumulated depreciation
5 balances for ratemaking purposes.

6 26. Staff has additionally recommended that the Company be ordered to adopt Staff's
7 depreciation rates and use these rates by individual National Association of Regulatory Utility
8 Commission category as delineated in Table B of Staff's Engineering Report

9 27. No objections were filed to the Staff Report.

10 28. According to the Staff Engineering Report, the Company's current system can
11 adequately serve its present customer base.

12 29. Staff reports that the Arizona Department of Environmental Quality ("ADEQ")
13 reported no deficiencies for the Company and determined that Verde Lee's water system is currently
14 delivering water that meets the water quality standards required by A.A.C., Title 18, Chapter 4.

15 30. The Company is not within an Active Management Area, and, as such, is not subject
16 to Arizona Department of Water Resources reporting and conservation requirements.

17 31. Verde Lee has in place approved curtailment and backflow prevention tariffs.

18 32. Verde Lee is current in its property and sales tax payments.

19 33. Because an allowance for Verde Lee's property tax expense is included in the
20 Company's rates and will be collected from its customers, the Commission seeks assurances from the
21 Company that any taxes collected from ratepayers are being remitted to the appropriate taxing
22 authority. It has come to the Commission's attention that a number of water companies have been
23 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,
24 some for as many as twenty years. It is reasonable, therefore, that as a preventative measure Verde
25 Lee annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the
26 Company is current in paying its property taxes in Arizona.

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34. We find that Staff's proposed rates and charges and additional recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. The Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Company and of the subject matter of the application.

3. Notice of the application was provided in the manner prescribed by law.

4. The rates and charges authorized below are just and reasonable and should be approved without a hearing.

5. Staff's recommendations, as set forth in Findings of Fact Nos. 24, 25, and 26 are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Forrest G. and Alice W. Wilkerson, dba Verde Lee Water Company, are hereby directed to file with Docket Control as a compliance item in this docket on or before May 30, 2008, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$ 21.25
3/4" Meter	31.80
1" Meter	53.15
1-1/2" Meter	106.25
2" Meter	170.00
3" Meter	340.00
4" Meter	531.25
6" Meter	1,062.50

COMMODITY RATES: (Per 1,000 gallons)

<u>5/8" x 3/4" Meter</u>	
Zero gallons to 3,000 gallons	\$2.55
3,001 gallons to 10,000 gallons	3.83
All gallons over 10,000 gallons	4.60
<u>3/4" Meter</u>	
Zero gallons to 3,000 gallons	\$2.55

1	3,001 gallons to 10,000 gallons	3.83
2	All gallons over 10,000 gallons	4.60
3	<u>1" Meter</u>	
4	Up to 35,000 gallons	3.83
5	Over 35,000 gallons	4.60
6	<u>1-1/2" Meter</u>	
7	Up to 100,000 gallons	3.83
8	Over 100,000 gallons	4.60
9	<u>2" Meter</u>	
10	Up to 180,000 gallons	3.83
11	Over 18,000 gallons	4.60
12	<u>3" Meter</u>	
13	Up to 400,000 gallons	3.83
14	Over 400,000 gallons	4.60
15	<u>4" Meter</u>	
16	Up to 645,000 gallons	3.83
17	Over 645,000 gallons	4.60
18	<u>6" Meter</u>	
19	Up to 1,330,000 gallons	3.83
20	Over 1,330,000 gallons	4.60

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	Service Line	Meter	Total	
	<u>Charge</u>	<u>Installation</u>	<u>Charges</u>	
19	5/8" x 3/4" Meter	\$305.00	\$70.00	\$375.00
20	3/4" Meter	305.00	130.00	435.00
21	1" Meter	355.00	155.00	510.00
22	1-1/2" Meter	380.00	360.00	740.00
23	2" Turbine	470.00	830.00	1,300.00
24	2" Compound	470.00	1,460.00	1,930.00
25	3" Turbine	595.00	1,260.00	1,855.00
26	3" Compound	595.00	1,975.00	2,570.00
27	4" Turbine	880.00	1,990.00	2,870.00
28	4" Compound	880.00	2,795.00	3,675.00
29	6" Turbine	1,330.00	4,045.00	5,375.00
30	6" Compound	1,330.00	5,640.00	6,970.00
31	8"	At Cost	At Cost	At Cost
32	10"	At Cost	At Cost	At Cost
33	12"	At Cost	At Cost	At Cost

1 SERVICE CHARGES:

2	Establishment	\$25.00
2	Establishment (After Hours)	50.00
3	Reconnection (Delinquent)	30.00
3	Reconnection (After Hours)	35.00
4	Meter Test (If Correct)	30.00
	Deposit Requirement	*
5	Deposit Interest	*
	Re-Establishment	**
6	NSF Check	\$30.00
7	Deferred Payment Per Month	N/A
7	Meter Re-Read (If Correct)	15.00

8 Monthly Service Charge for Fire Sprinkler:

9	4" or Smaller	****
	6"	****
10	8"	****
	10"	****
11	Larger than 10"	****

12 * Per Commission rule A.A.C. R-14-2-403(B).

13 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

14 *** 1.50 percent per month of the unpaid balance.

15 **** 100 percent of month minimum for a comparable Sized Meter Connection, but no less
 16 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.

17 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
 18 provided on and after June 1, 2008.

19 IT IS FURTHER ORDERED that Forrest G. and Alice W. Wilkerson, dba Verde Lee Water
 20 Company, shall notify their customers of the rates and charges authorized herein, and their effective
 21 date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in their
 22 next regular scheduled billing.

23 IT IS FURTHER ORDERED that Forrest G. and Alice W. Wilkerson, dba Verde Lee Water
 24 Company, shall correct their books and records to properly reflect the correct plant in service
 25 balances and the associated accumulated depreciation balances.

26 IT IS FURTHER ORDERED that Forrest G. and Alice W. Wilkerson, dba Verde Lee Water
 27 Company, shall adopt Staff's depreciation rates and use these rates by individual National
 28 Association of Regulatory Utility Commission category as delineated in Table B of Staff's

1 Engineering Report

2 IT IS FURTHER ORDERED that the Point-Of-Use Treatment Device Tariff attached as
3 Exhibit A to this Decision is approved.

4 IT IS FURTHER ORDERED that Forrest G. and Alice W. Wilkerson, dba Verde Lee Water
5 Company, shall annually file as part of their annual report, an affidavit with the Utilities Division
6 attesting that the Company is current in paying its property taxes in Arizona.

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
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11 CHAIRMAN

COMMISSIONER

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13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14
15 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
16 Director of the Arizona Corporation Commission, have
17 hereunto set my hand and caused the official seal of the
18 Commission to be affixed at the Capitol, in the City of Phoenix,
19 this ____ day of _____, 2008.

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21 BRIAN C. McNEIL
22 EXECUTIVE DIRECTOR

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24 DISSENT _____

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26 DISSENT _____
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SERVICE LIST FOR:

VERDE LEE WATER COMPANY

DOCKET NO.

W-02096A-07-0460

Forrest G. Wilkerson
VERDE LEE WATER COMPANY
P.O. Box 984
Clifton, Arizona 85533

Christopher Kempley, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Ernest G. Johnson, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

EXHIBIT "A"Company: Verde Lee Water Company, Inc.**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)

EXHIBIT "A"

Company: Verde Lee Water Company, Inc.

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)

EXHIBIT "A"

Attachment-AAC

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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

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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.

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- 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:

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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>