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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

2008 APR 25 A 10: 58

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 25, 2008

RE: **AMENDED** STAFF REPORT FOR WILHOIT WATER COMPANY, INC. – THUNDERBIRD MEADOWS’ APPLICATIONS FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02065A-07-0312) AND FINANCING REQUESTS (DOCKET NOS. W-02065A-07-0307 AND W-02065A-07-0306).

Attached is the Amended Staff Report for Wilhoit Water Company, Inc. - Thunderbird Meadows’ applications for a permanent rate increase and associated financing requests. Staff recommends approval of the rate increase application using Staff’s recommended rates and charges, and approval of Staff’s financing recommendations and amended surcharges.

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 May 5, 2008.

EGJ:JMM:tdp

Originator: Jeffrey M. Michlik

Arizona Corporation Commission
DOCKETED

APR 25 2008

DOCKETED BY	NR
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Service List for: Wilhoit Water Company, Inc. - Thunderbird Meadows
Docket Nos. W-02065A-07-0312, et al

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**AMENDED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

WILHOIT WATER COMPANY, INC. - THUNDERBIRD MEADOWS

**DOCKET NOS. W-02065A-07-0312, W-02065A-07-0307
AND W-02065A-07-0306**

**APPLICATIONS FOR A
PERMANENT RATE INCREASE AND
ASSOCIATED FINANCING REQUESTS**

April 25, 2008

STAFF ACKNOWLEDGMENT

The Amended Staff Report for Wilhoit Water Company, Inc. - Thunderbird Meadows ("Company"), Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-07-0307 was the responsibility of the Staff members listed below. Jeffrey M. Michlik was responsible for the financial review and analysis of the Company's applications, recommended revenue requirements, rate base and rate design. Del Smith was responsible for the engineering and technical analysis. Deb Reagan was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Jeffrey M. Michlik
Public Utility Analyst V



Del Smith
Utilities Chief Engineer



Deb Reagan
Consumer Analyst II

EXECUTIVE SUMMARY
WILHOIT WATER COMPANY, INC. – THUNDERBIRD MEADOWS’
APPLICATIONS FOR A PERMANENT RATE INCREASE
AND FINANCING REQUESTS
DOCKET NOS. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-07-0307

Wilhoit Water Company, Inc. (“Wilhoit”) is engaged in the business of providing water services to customers in Yavapai County. The Company is composed of three independent water systems. The Thunderbird Meadows water system (“Thunderbird” or “Company”) is located in Wilhoit, Arizona and serves an area southeast of U.S. Highway 89. The Blue Hills water system is located in Dewey, Arizona and the Yavapai Estates water system is located in Chino Valley, Arizona. The three Wilhoit systems along with the Dells Water Company (“Dells”) are all managed by the same parent company which is Glenarm Land Company (“Glenarm”).

Thunderbird provides services to approximately 128 customers and its current rates were effective December 9, 1992, per Arizona Corporation Commission (“Commission”) Decision No. 58102.

Rate Case:

Thunderbird’s rate application requested an increase in revenue of \$43,692, or 90.72 percent over test year revenue of \$48,161. Thunderbird’s proposed revenues of \$91,853 result in an operating income of \$34,457, and an operating margin of 37.51 percent. Thunderbird proposed an original cost rate base (“OCRB”) of \$24,572. Thunderbird is seeking a rate increase at this time to help pay for the maintenance of the system and a well that was dug after its last rate increase. In addition, Thunderbird is seeking a modest return on its investment, has not had a rate increase since 1992, and the costs to operate the water company have increased with inflation in the interim. Thunderbird’s proposed rates would increase the typical residential bill with a median usage of 3,114 gallons from \$26.16 to \$52.40, for an increase of \$26.24 or 100.31 percent.

Staff’s recommended rates would increase revenue by \$3,639 or 7.56 percent over test year revenues of \$48,161. Staff recommended revenues of \$51,800 result in operating income of \$7,779, and an operating margin of 15.02 percent. Staff recommended an OCRB of \$7,333. Staff’s recommended rates would increase the typical residential bill with a median usage of 3,114 gallons from \$26.16 to \$27.44, for an increase of \$1.28 or 4.89 percent.

Financings:

A Procedural Order dated January 7, 2008, was issued in Docket No. W-02065A-07-0306 et al, which ordered the Company to file a separate financing application for Commission approval of long-term debt to fund the construction of a new water source. It was further ordered that the Utilities Division file an Amended Staff Report with respect to the rate application herein and file a separate Staff Report with respect to the financing application which was to be filed in the future.

On March 6, 2008, the Company, in compliance with the referenced Procedural Order, filed a financing application with the Commission. Please refer to the separately issued Staff Report for Staff's recommendation regarding the financing application (Docket No. W-02065A-08-0138).

Additionally, the Company requested authorization to issue a debt instrument in the amount of \$15,000, to Glenarm for funds advanced by it to drill a well in 2006. The well is not used and useful at this stage as it is not interconnected with the water system. It is also a low-producing well. Staff recommends denial of this requested financing.

The Company also requests authorization to finance \$131,059 related to additional storage tanks that will be needed for Thunderbird, which will be financed through a loan from the Water Infrastructure Financing Authority ("WIFA"). Staff recommends authorization of the loan amount and an infrastructure surcharge subject to certain restrictions to finance this debt.

Compliance:

Thunderbird is not in compliance with Decision No. 58102, dated December 9, 1992, in which it was ordered to make arrangements with the appropriate taxing authorities to repay all accrued property taxes. Staff recommends that rates and/or surcharges authorized in this case not become effective until the month subsequent to the Company's filing in this docket of a finalized plan (agreement with the Yavapai County Treasurer's Office) for payment of all of its delinquent property taxes owed on its utility property in Yavapai County.

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Fact sheet

Type of Ownership: Arizona "C" Corporation.

Location: Thunderbird serves water customers located in Wilhoit, which is in Yavapai County, Arizona.

Rates: Permanent rate increase application filed: May 21, 2007. The application became sufficient on September 10, 2007.

Current Rates: Decision No. 58102, dated December 9, 1992.

Prior Test Year: December 31, 1990.

Current Test Year Ended: December 31, 2006.

Metered Rates:

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	\$12.46	\$25.00	\$16.50
Gallons in minimum	0	0	0
Tier One from 1 gallon to 6,000 gallons	\$4.40	\$8.80	
Tier Two all gallons over 6,001 gallons	\$5.50	\$11.84	
Tier One from 1 gallon to 3,000 gallons			\$3.45
Tier Two from 3,001 gallons to 10,000 gallons			\$5.18
Tier Three all gallons over 10,001			\$6.20
Typical residential bill (based on median usage of 3,114 gallons)	\$26.16	\$52.40	\$27.44

Fact Sheet (Continued)

Customers:

The Company serves 128 customers.

Notifications:

An amended customer notification was filed with the Arizona Corporation Commission on June 15, 2007.

Complaints:

From January 1, 2005, through March 28, 2008 there have been eight complaints, eleven inquires and twenty opinions opposing the rate increase filed.

Summary of Rate Filing

On May 21, 2007, Wilhoit Water Company, Inc. – Thunderbird Meadows (“Thunderbird” or “Company”) filed an application for a permanent rate increase and two associated financings with the Arizona Corporation Commission (“Commission”). On September 10, 2007, the application was deemed sufficient by the Commission’s Utilities Division Staff (“Staff”).

Based on test year results, as adjusted by Staff, Thunderbird had an operating income of \$4,901, for an operating margin of 10.18 percent, as shown on Schedule JMM-1.

Thunderbird’s proposed rates would produce operating revenues of \$91,853 and result in an operating income of \$34,457, for an operating margin of 37.51 percent. Thunderbird’s requested rates would increase the typical residential bill with a median usage of 3,114 gallons from \$26.16 to \$52.40, for an increase of \$26.24 or 100.31 percent.

Staff’s recommended rates would produce operating revenues of \$51,800 and result in an operating income of \$7,779, for an operating margin of 15.02 percent. Staff’s recommended rates would increase the typical residential bill with a median usage of 3,114 gallons from \$26.16 to \$27.44, for an increase of \$1.28 or 4.89 percent.

Thunderbird utilized a test year ending December 31, 2006.

Company Background

Wilhoit Water Company, Inc. (“Wilhoit”) is an Arizona “C” corporation consisting of three separate water systems, all of which are located in Yavapai County, Arizona. In addition to Thunderbird, Wilhoit also operates the Blue Hills and Yavapai Estates (“Yavapai”) water

systems. Wilhoit and Dells Water Company ("Dells") are subsidiaries of Glenarm Land Company ("Glenarm").

The Commission has granted Thunderbird three rate increases (See Commission Decision No. 52042, dated April 10, 1981, Commission Decision No. 57237, dated February 14, 1991, and Commission Decision No. 58102, dated December 9, 1992), since its formation in 1968.

The current rates have been in effect since January 1, 1993, per Decision No. 58102.

During the test year ended December 31, 2006, Thunderbird provided water service to 128 metered customers.

The Company has no advances in aid of construction or contributions in aid of construction.

Consumer Services

A review of the Consumer Services Section database for Thunderbird from January 1, 2005, through March 28, 2008, revealed that in 2008 there were no complaints, one inquiry, and no opinions. In 2007 there were eight complaints (three billings and five quality of service), ten inquiries and twenty opinions opposing the rate increase. In 2006, there were four complaints (three quality of service and one construction), three inquiries and no opinions. Finally in 2005, there were two complaints (one non pay disconnect and one repair), no inquiries and no opinions.

Compliance

Staff's review of Decision No. 58102 and related Staff memoranda revealed several areas of non-compliance with previous Commission Orders. A discussion of each non-compliance issue is presented below:

Sale of Assets and Cancellation of a Portion of the Wilhoit Certificate of Convenience and Necessity ("CC&N") (Docket No. W-02056A-03-0490)

On July 16, 2003, in Docket No. W-02056A-03-0490, Wilhoit filed an application for approval of the sale of that portion of its assets used to serve the Glenarm Farms water system to the City of Avondale and to cancel that portion of its CC&N. The assets requested to be transferred were encumbered by Maricopa County tax liens at the time totaling approximately \$215,000.

The application indicated that the sale was being entered into under threat of condemnation. A Staff Report filed October 6, 2003, recommended approval of the sale and that the Commission order Wilhoit to file evidence that the State of Arizona would be paid amounts to satisfy the outstanding personal property tax obligation before the close of escrow.

The City of Avondale argued that the delinquent tax would be extinguished upon the sale to the City of Avondale in its capacity as a subdivision of the state. Staff's closing brief, however, indicated that cities are required to pay delinquent property taxes attached to the property they acquire. At the time of the hearing on the matter, the City of Avondale was on record as already providing service to the customers in the Glenarm Farms area.

Following a hearing, a Proposed Order was issued on January 7, 2004 which recommended approval of the sale and cancellation of a portion of the CC&N subject to several conditions, one of which was the filing of evidence that the outstanding tax liens were satisfied before the close of escrow or 30 days from the Decision, whichever occurred first.

According to the Commission's records, Wilhoit requested that consideration of the Proposed Order be pulled from the Open Meeting agenda and it was. Wilhoit never subsequently requested that it be placed back on the agenda. On June 7, 2004, the Commission's Legal Division sent a letter to Mr. Douglas Martin, who represented Wilhoit, requesting that Wilhoit have the case placed on an Open Meeting agenda before December 31, 2004. There was no docketed response to the letter.

The sale and deletion docket remains open and Wilhoit is still the company of record for this area on the Commission's maps and records. To facilitate the processing of the case, Staff sent a letter to the parties of record on September 13, 2006, requesting the following information:

1. Has the transaction been consummated? If so, on what date?
2. Please provide a copy of the executed sales agreement.
3. What are the parties intentions regarding the Proposed Order and the Commission's review and vote on this matter?
4. What is the status of the property tax delinquencies of Wilhoit Water Company relative to the area transferred to Avondale?

Staff did not receive any responses from any party and the letter to Wilhoit's attorney was returned as non-deliverable.

On June 21, 2007, in the course of the current rate cases, Staff sent Wilhoit a data request which included the four questions listed above. Wilhoit responded to that data request by producing the sales agreement with the City of Avondale dated July 3, 2003. Wilhoit also represented that the sale was consummated on September 10, 2004, and that the attorney for the City of Avondale has been unable to resolve the tax issue.

The transfer case is now over four years old. Wilhoit's wells and pipe in the transfer area have been abandoned and are not included in the current rate requests. The City of Avondale is now directly serving the customers in the transfer area. Staff concludes that it would not be in the public interest to pursue or further process the sale of assets and CC&N cancellation for the Glenarm Farms area and recommends that the Commission administratively close Docket No. W-02056A-03-0490 and remove the appropriate area from Wilhoit's service territory as shown

on the Commission's CC&N maps.

Prior Rate Case Docket No. W-02065A-90-005

In Decision No. 57237, dated February 14, 1991, the Commission expressed concern over probable cross-subsidization among Wilhoit's water systems. Accordingly, Wilhoit was ordered to maintain separate records of revenues, expenses, and rate bases for each of its systems. In the subsequent rate case (Docket No. W-02065A-92-0120), Wilhoit was in compliance with this recordkeeping provision of the Order. However, the Company is no longer in compliance, and it could not support separate expenses and rate bases for each of its systems in the current rate case. Wilhoit is out of compliance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

Prior Rate Case Docket No. W-02065A-92-0120

Staff's review of a notice of legal action dated September 14, 1993, as filed by the Legal Division of the Commission revealed that there are several compliance items unresolved that arose from Decision No. 58102 dated December 9, 1992. Wilhoit was required to do the following:

- a. Wilhoit Water Company, Inc. shall file copies with the Director of the Utilities Division of "paid-in-full" tax statements for current property tax payments within 90 days of the tax statement due date (Due 2/1/93).
- b. Wilhoit Water Company, Inc. shall make arrangements with the appropriate taxing authorities to repay all accrued property tax and associated interest and to provide written summary to the Director of Utilities Division of the details of such arrangements/agreements (Due 6/9/93).

Wilhoit is not current on its property and sales tax payments. In addition, Wilhoit has delinquent taxes going back to the early 1990's. Copies of the amounts owed separated by water system from the Yavapai County Assessors' web site (dated April 9, 2008) are as follows:

<u>Parcel No.</u>	<u>Company/Water System</u>	<u>Back Taxes Owed</u>
907-60-190	The Dells Water Company	\$0.00
929-92-340	Wilhoit Water Company Thunderbird Meadows	\$41,251.83
929-92-290	Wilhoit Water Company Blue Hills	\$7,100.79

929-95-120	Wilhoit Water Company Yavapai Mobile Home Estates	\$27,828.55
929-95-131	Wilhoit Water Company Yavapai Mobile Home Estates	<u>\$162.26</u>
Total taxes owed, as of April 9, 2008		<u>\$76,343.43</u>

According to a response to a Staff data request, Wilhoit, through its Attorney Martin & Bell, L.L.C., contacted the Yavapai County Treasurer's Office. Martin & Bell submitted a memo to Staff stating that Ross Jacobs, the County Treasurer "indicated a desire to work with the water companies to pay the back taxes in a timely fashion and indicated that he would be open to abating, an as yet undefined portion of the penalties and interest, if a reasonable repayment plan could be fashioned."

Wilhoit's attorneys indicated to Mr. Jacobs "that the Company did not currently have the financial wherewithal to commit to a repayment schedule, but that if the current rate requests pending before the ACC were successful, Wilhoit and Dells would be prepared to enter into a repayment agreement."

As Wilhoit has not made good on past compliance requirements from the previous cases, and there is a pattern of the Company not paying taxes, Staff concludes that it is appropriate to defer the effective date for any new rates and/or surcharges approved regarding any of the Wilhoit systems or Dells until the month subsequent to the date a copy of a final agreement between Wilhoit and the Yavapai County Treasurer's office regarding payment of delinquent taxes is filed in this docket.

Other Compliance Items

The Company is in good standing with the Corporations Division of the Commission.

Engineering Analysis

The plant facilities were visited on October 12, 2006, by Del Smith, Staff Utilities Engineer in the accompaniment of Mr. Jim West of West & Company, LLC, authorized representative of the Company. A complete discussion of Staff's technical findings and recommendations and a complete description of Thunderbird was provided in Staff's Engineering Report, issued November 9, 2007. However, for information regarding the new water source, please see Staff's separately issued Financing Report, Docket No. W-02065A-08-0138, issued April 25, 2008, as this information supersedes any information contained in the previous report.

The Arizona Department of Environmental Quality ("ADEQ") issued a notice of violation ("NOV") on February 27, 2007. The NOV is an informal compliance assurance tool

used by ADEQ to put the responsible party, in this case Thunderbird, on notice that ADEQ believes a violation of an environmental requirement has occurred.

Rate Base

Staff decreased rate base by \$17,239. The change was the result of adjustments made to reflect the disallowance of plant in the amount of \$30,072, reduction of accumulated depreciation by \$9,344 and the inclusion of the formula-method for cash working capital allowance in the amount of \$3,489. See Schedule JMM-2 page 1.

Plant-in-Service

Staff disallowed plant in service in the amount of \$30,072. Of this amount \$15,072 is related to a well that was constructed in 2006, but is still not used and useful, and the remaining \$15,000 related to plant additions in 1997 that Thunderbird was unable to substantiate. As a result, there were no new additions added to plant in service since the 1992 rate case (Decision No. 58102).

Accumulated Depreciation

Staff decreased Thunderbird's proposed accumulated depreciation amount by \$9,344, which is related to Staff's removal of the above mentioned \$30,072 in plant in service.

Working Capital

Thunderbird neglected to claim any cash working capital allowance. Staff included a cash working capital allowance of \$3,489, calculated using the formula-method.

Operating Revenue

Staff made no adjustments to Thunderbird's test year operating revenues of \$48,161.

Operating Expenses

As previously mentioned in the Compliance section of this Report, Wilhoit did not maintain records to separately identify expenses for its individual water systems. As a result identifying the expenses directly attributable to the individual Wilhoit systems or Dells could not be achieved. In an attempt to overcome this recordkeeping deficiency, Wilhoit/Glenarm allocated certain expenses among its systems using the following percentages: Thunderbird, 45 percent; Yavapai, 35 percent; Blue Hills, 20 percent; and Dells, 0 percent. According to Glenarm, these allocation factors represent relative customer counts for the systems at an unspecified historical date.

Staff developed an alternate allocation methodology for allocating expenses that could not be directly attributed to one of the Wilhoit systems or Dells, since the customer counts used

by Wilhoit are stale and because in some instances customer count is not the preferred allocation basis. Staff's customer based allocation factors by water system are as follows: Thunderbird, 34.69 percent; Yavapai, 29.81 percent; Blue Hills, 17.34 percent; and Dells 18.16 percent.

Staff's adjustments to operating expenses resulted in a decrease of \$14,136 from \$57,396 to \$43,260 as shown on Schedule JMM-3 page 1. The adjustments are explained below.

Salaries and Wages – Adjustment A decreased salaries and wages by \$4,208 from \$19,551 to \$15,343, to reflect a pro rata share (34.69 percent) of the \$44,231 salary pool based on the number of customers.

Repairs and Maintenance – Adjustment B decreased repairs and maintenance expenses by \$6,030 from \$7,439 to \$1,409. This adjustment reflects a pro rata share (\$620 or 34.69 percent) of the \$1,788 repair and maintenance expense pool based on the number of customers and \$788 of direct costs. Staff's \$1,788 expense pool reflects a \$6,444 decrease from the Company's \$8,232 expense pool, to remove non-test year and unsupported amounts.

Office Supplies and Expense – Adjustment C decreased office supplies expense by \$557 from \$1,460 to \$903, to reflect Staff's estimation of a reasonable office supply amount. The Company provided Staff with no supporting documentation (i.e. invoices) to support its claimed costs. Staff estimated office supplies expense at \$0.5876 per customer per month based on supply items such as postage, envelopes, printer cartridges, etc. (128 customers x 12 months x 0.5876 = \$903).

Water Testing Expense – Adjustment D decreased water testing expense by \$175 from \$1,724 to \$1,549 (see Engineering Report).

Rents – Adjustment E decreased rent expense by \$1,320 from \$2,970 to \$1,650, to reflect an equal allocation of the \$6,600 pooled rent expense among the three Wilhoit systems and Dells.

General Liability Insurance – Adjustment F decreased Insurance – General Liability by \$341 from \$1,488 to \$1,147. This adjustment reflects a pro rata share (\$1,147 or 34.69 percent) of the \$3,307 general liability insurance expense pool based on the number of customers.

Miscellaneous Expense – Adjustment G decreased miscellaneous expense by \$1,180 from \$1,580 to \$400. \$300 of which was reclassified from water testing expense, and the remaining balance of \$100 was based on Staff's allocation methodology, utilizing an equal allocation to each of the three Wilhoit systems and Dells.

Depreciation Expense – Adjustment H decreased depreciation by \$1,418 from \$1,504 to \$86, as a result of decreasing plant in service.

Taxes other than Income – Adjustment I decreased taxes other than income by \$3,152 from \$3,152 to \$0, as these were sales taxes paid to the Arizona Department of Revenue and should be removed from expenses, since the corresponding collected taxes were removed from revenue.

Property Taxes – Adjustment J increased property taxes by \$2,948 from \$0 to \$2,948, to reflect the actual 2006 property tax assessment by the County.

Income Taxes – Adjustment K increased income taxes by \$1,297 from \$0 to \$1,297, to reflect Staff's recommendation based on taxable income and application of statutory federal and state tax rates.

Revenue Requirement

Staff utilized an operating margin instead of a rate of return on rate base to determine the revenue requirement. In using rate of return to support the Company's needs, the Company's very small rate base does not produce sufficient revenue. Therefore, Staff utilized operating margin to determine revenue requirement.

Operating Margin

Thunderbird's proposed rates and charges would provide an operating income of \$34,457 for an operating margin of 37.51 percent.

Staff's recommended rates and charges would provide an operating income of \$7,779 for an operating margin of 15.02 percent.

Rate Design

Thunderbird's proposed rates would increase the typical residential bill with a median usage of 3,114 gallons from \$26.16 to \$52.40, for an increase of \$26.24 or 100.31 percent.

Staff's recommended rates would increase the typical residential bill with a median usage of 3,114 gallons from \$26.16 to \$27.44, for an increase of \$1.28 or 4.89 percent.

Staff concurs with Thunderbird's increase in service line and meter installation charges. For service charges and the monthly service charge for fire sprinklers, Staff recommends charges that are consistent with other water companies' tariffs.

Summary of Financings

As mentioned earlier, a Procedural Order dated January 7, 2008, was issued in Docket No. W-02065A-07-0306 *et. al*, which ordered the Company to file a separate financing application for Commission approval of long-term debt to fund the construction of a new water

source. It was furthered ordered that the Utilities Division file an amended Staff Report with respect to the rate application herein and file a separate Staff Report with respect to the financing application which was to be filed in the future.

On March 6, 2008, the Company, in compliance with the referenced Procedural Order, filed a financing application with the Commission. Please refer to the separately issued Staff Report for Staff's recommendation regarding the financing application under Docket No. W-02065A-08-0138. However, please refer to the instant Report for Staff's recommended surcharge related to the construction of the new water source.

Introduction

On May 21, 2007, Thunderbird filed two financing applications along with its rate application with the Commission. The first application requested retroactive debt authorization to borrow \$15,000, at a 10 percent annual interest rate from its parent company, Glenarm, to be repaid over a period of 10 years. The second application requested debt authorization to borrow \$131,058.62, at a 10 percent annual interest rate from Glenarm to be repaid over a period of 10 years. However, it was later decided by the Company that they would apply for a Water Infrastructure Finance Authority ("WIFA") loan, instead of borrowing from Glenarm.

Public Notice

The Company included an affidavit of Publication on October 29, 2007, in the Courier, a daily newspaper published in the City of Prescott.

Purpose and Terms of the Proposed Financing

The purpose of the first long-term debt financing is to reimburse the Company for a loan that it received from its parent company to drill a well. The Company claims this was a necessary expense in order to provide water to its customers, and, in turn, rely less on water that it purchases from Walden Meadows Community Co-Op, Inc. ("Walden Meadows").

The purpose of the second long-term debt financing is to install two 25,000 gallon steel storage tanks, a 14,000 gallon galvanized storage tank with ring, and costs of the miscellaneous plumbing and electrical for both, in order to remedy the current maintenance issues.

Engineering Analysis of the Proposed Financings

Staff examined the well, construction plans and estimated costs and found them to be reasonable and appropriate, however, the well is still not used and useful, as it is not interconnected with the rest of the system. Staff also found the additional storage tanks and the associated costs to be reasonable and appropriate.

A complete discussion of the construction projects and costs are discussed in the Engineering Report.

Financial Analysis

Staff determined that the first financing, which was not authorized by the Commission, in the amount of \$15,000, should be treated as additional paid-in-capital by the owners of Thunderbird. Additionally, the owners did not consult with Staff or ADEQ, nor did they hire a hydrologist, and as a result the well was drilled in a poor water-producing area. Staff therefore, will classify the \$15,000 as additional-paid-in-capital, and since the well is not used and useful, Staff excluded it from plant and rate base considerations.

Staff determined the additional storage tanks (i.e. the 14,000 gallon and 25,000 gallon tanks) to be reasonable and appropriate and has completed a financial analysis to ensure that the Company will have the wherewithal to finance the construction of new storage tanks.

Staff recommends an infrastructure surcharge to pay for the two additional storage tanks, and new water source.

Surcharge Rates

Staff has determined that additional storage tanks at a cost of \$131,059 are needed, and a new water source at a cost of \$345,000 is also needed (see Staff's separately issued Finance Report, Docket No. W-02065A-08-0138) for a total of \$476,059.

As explained earlier in the Compliance section of this Report, the Company has exhibited a pattern of not using revenue collected from customer billing to pay its expenses. As a result, Staff recommends an Infrastructure Surcharge as the mechanism to account for the Company's financing needs, instead of including the financing in rates, as is typically done in a rate and financing case.

Staff's analysis is based on the Company's financial statements dated December 31, 2006. The financial analysis shown on Schedule JMM-6 presents selected financial information from the financial statements, the pro forma effect of the Infrastructure Surcharge Alternative No. 1 loan amount of \$476,059, and the pro forma effect of the proposed Infrastructure Surcharge Alternative No. 2 loan amount \$276,059. Schedule JMM-6 also shows the times interest earned ratio ("TIER") and debt service coverage ("DSC").

Staff presents Alternative No. 2 to demonstrate the cost savings to customers of Thunderbird if Walden Meadows cooperates and thereby avoids the costs associated with building a redundant distribution system (see Staff's separately issued Engineering Report, Docket No. W-02065A-08-0138, for a more technical discussion of the new water source).

Staff utilized a traditional 20-year loan and an interest rate of 8.00 percent, for the analysis of the effects of the infrastructure surcharges.

Schedule JMM-6, Column A presents Staff's recommended amounts based on the rate case analysis only, without any of the loans. Column B presents the adjustments that must be made to create pro forma results of Infrastructure Surcharge Alternative No. 1 in the amount of \$476,059. Column C represents the sum of Column A and the adjustments in Column B. Column D presents the adjustments that must be made to create pro forma results of Infrastructure Surcharge Alternative No. 2 in the amount of \$276,059. Column E represents the sum of Column A and the adjustments in Column D.

Schedule JMM-7 presents Staff's calculation of the additional infrastructure surcharges that Thunderbird should be allowed to charge and collect from its customers once all of Staff's previously mentioned conditions have been met.

Staff divided the total increase in revenue by the equivalent number of annual bills (1,536) to derive the Surcharge amount. See lines 8 and 24 of Schedule JMM-7.

Staff utilized the NARUC multiplier which is based on flow capacity to determine the surcharge amounts for all meter sizes. For example, line 12 shows how the infrastructure surcharge was determined for a 3/4" meter customer by taking the NARUC multiplier of 1.5 times the infrastructure surcharge amount in line 8 (\$31.11) which equals \$46.66.

As JMM-7 shows, the infrastructure surcharge resulting from financing \$476,059, results in a \$31.11 surcharge per month per customer, while a infrastructure surcharge resulting from financing \$276,059 results in a \$18.04 surcharge per month per customer. The best solution is for Walden Meadows and Thunderbird come to some type of agreement to "wheel" the water to Thunderbird via Walden Meadow's distribution line.

Staff recommends Infrastructure Surcharge Alternative No. 2, and that this alternative is conditioned on the following three requirements:

1. Thunderbird provides a copy of an executed loan with WIFA.
2. Thunderbird provides a copy of an approval of construction for the tanks from ADEQ.
3. Thunderbird provides a copy of an executed agreement with Walden Meadows that gives Thunderbird the right to use Walden Meadows' existing transmission line to "wheel" the water to Thunderbird.

Staff recommends that the collection of the surcharges remain in effect until further order of the Commission, and that all of the Wilhoit water systems and Dells be ordered to file rate cases within five years of the effective date of this Decision.

Staff recommends that the additional storage tanks related to Surcharge Alternative No. 2 be placed in service within 1 year of the effective date of this Decision, and that the new water source be placed in service by March 31, 2009. If these deadlines are not met, Staff recommends that the associated financing authorization and surcharge be void.

Staff further recommends that the Company deposit all surcharge revenues collected from customers separately in an interest bearing bank account, and that the amounts collected can only be expended for debt service for the intended system improvements.

Staff recommends that the Company, as a compliance item in this Docket, file annual reports with the Commission reflecting the surcharge amounts collected and expended by the Company and any remaining balance.

Finally Schedules JMM-8 and JMM-9, which are similar to Schedule JMM-5, show the effects of the surcharges on the current typical 5/8 inch residential customer's bill. Schedule JMM-8 adds the Infrastructure Surcharge Alternative No. 1 amount of \$31.11 to Staff's already recommended monthly minimum increase for 5/8 inch residential customers of \$16.50, for a total monthly minimum charge of \$47.61. Likewise Schedule JMM-9 adds the Infrastructure Surcharge Alternative No. 2 amount of \$18.04 to Staff's already recommended monthly minimum increase for 5/8 inch residential customers of \$16.50, for a total monthly minimum charge of \$34.54.

Staff's recommended Infrastructure Surcharge Alternative No. 1 would increase the current typical residential bill with a median usage of 3,114 gallons from \$26.16 to \$58.55 for a combined increase of \$32.39 or 123.81 percent.

Staff's recommended Infrastructure Surcharge Alternative No. 2 would increase the current typical residential bill with a median usage of 3,114 gallons from \$26.16 to \$45.48 for a combined increase of \$19.32 or 73.85 percent.

Interest and Debt Service

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

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.

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.

The Company's TIER and DSC resulting from its 2006 adjusted financial statements are not meaningful as the Company had unauthorized debt. Including Staff's recommended revenue requirement and fully drawing both loans in the amount of \$476,059 results in a pro forma TIER and DSC of 1.53 and 1.21, respectively. The pro forma TIER and DSC show that Thunderbird would have adequate cash flow to meet all obligations including the proposed debt.

Staff Recommendations

Staff recommends the following:

- 1) approval of its rates and charges as shown in Schedule JMM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D;
- 2) the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued;
- 3) that the Commission administratively close Docket No. W-02056A-03-0490 and remove the appropriate area from Wilhoit's service territory as shown on the Commission's CC&N maps;
- 4) that the Company be ordered to maintain separate revenues, expenses, and rate bases for each of the Wilhoit water systems and Dells, and additionally provide separate balance sheets for each water system, and as a compliance item in this Docket, file separate annual reports with the Commission;
- 5) that any new rates or surcharges approved in this Docket not go into effect until after an agreement between the Company and the Yavapai County Treasurer's office to settle all back property taxes is executed and filed with Docket Control.
- 6) that Thunderbird reclassify the loan amount of \$15,000 as paid-in-capital in the equity section of its balance sheet;
- 7) That the Commission order Wilhoit Water Company, Inc. and Walden Meadows Community Co-Op, pursuant to A.R.S. § 40-331 and § 40-332, to negotiate an agreement to interconnect the infrastructure of the two separate water systems in a manner allowing Thunderbird Meadows to "wheel" water from any new water source through the existing infrastructure of Walden Meadows.
- 8) approval of Infrastructure Surcharge Alternative No. 2 (the interconnection of the two systems), and that this alternative is conditioned on the following three requirements:
 - a) Thunderbird must provide a copy of an executed loan with WIFA.

- b) Thunderbird must provide a copy of an approval of construction for the tanks from ADEQ.
 - c) Thunderbird must provide a copy of an executed agreement with Walden Meadows that gives Thunderbird the right to use Walden Meadows' existing transmission line to "wheel" the water to Thunderbird;
- 9) that the collection of the surcharge remain in effect until further order of the Commission, and that all of the Wilhoit water systems and Dells be ordered to file rate cases within five years of the effective date of this Decision;
 - 10) that the additional storage tanks related to Surcharge Alternative No. 2, be placed in service within 1 year of the effective date of this Decision, and that the new water source be placed in service by March 31, 2009. If these deadlines are not met, the associated financing authorization and surcharge are void;
 - 11) that the Company deposit all surcharge revenues collected from customers separately in an interest bearing bank account, and that the amounts collected can only be expended for debt service on system improvements;
 - 12) that the Company, as a compliance item in this Docket, file annual reports with the Commission reflecting the surcharge amounts collected and expended by the Company and include any remaining balance;
 - 13) that by March 31, 2009, Wilhoit file, as a compliance item with the Commission's Docket Control, the ADEQ Approval of Construction for the plant related to the Company's development of a new water source. In addition, Staff believes that Thunderbird should be evaluated from a global perspective to determine system adequacy and efficiency. Staff further recommends that the Company take immediate action to seek assistance from ADEQ through its system evaluation program. Upon completion of the ADEQ system evaluation, Staff further recommends that Thunderbird immediately apply for a Technical Assistance Grant from the Water Infrastructure and Finance Authority ("WIFA") to fund projects that will improve system performance;
 - 14) that within 60 days of the effective date of the order in this matter Thunderbird address ADEQ NOV deficiencies number 1 and number 2 and file, as a compliance item in this Docket, documentation demonstrating that the improvements have been completed;
 - 15) that within 60 days of the effective date of the order in this matter Thunderbird make all necessary corrections to ADWR registration records to reflect ownership of all wells by Thunderbird and file, as a compliance item in this Docket, documentation demonstrating that such corrections have been made;

- 16) that the Company monitor Thunderbird and submit the gallons pumped and sold to determine the non-account water for one full year. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent Thunderbird shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If Thunderbird believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall Thunderbird allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be filed, as a compliance item in this Docket, within 13 months of the effective date of the order issued in this proceeding;
- 17) that Thunderbird be required to report its customer count by system in future Annual Reports;
- 18) that Thunderbird utilizes the depreciation rates delineated in the Engineering Report on a going-forward basis; and
- 19) that by December 31, 2008, Thunderbird complete the needed improvements identified during Staff's site inspection and file, as a compliance item in this Docket, documentation demonstrating that the improvements have been completed.

WILHOIT WATER COMPANY, INC. - THUNDERBIRD MEADOWS

Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-07-0307

Schedule JMM-1

Test Year Ended December 31, 2006

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$48,161	\$48,161	\$91,853	\$51,800
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$48,161	\$48,161	\$91,853	\$51,800
Operating Expenses:				
Operation and Maintenance	\$52,740	\$38,929	\$52,740	\$38,929
Depreciation	1,504	86	1,504	86
Property & Other Taxes	3,152	2,948	3,152	2,948
Income Tax	0	1,297	0	2,058
Total Operating Expense	\$57,396	\$43,260	\$57,396	\$44,021
Operating Income/(Loss)	(\$9,235)	\$4,901	\$34,457	\$7,779
Rate Base O.C.L.D.	\$24,572	\$7,333	\$24,572	\$7,333
Rate of Return - O.C.L.D.	N/M	N/M	N/M	N/M
Operating Margin	-19.18%	10.18%	37.51%	15.02%

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

N/M: Not Meaningful

WILHOIT WATER COMPANY, INC. - THUNDERBIRD MEADOWS

Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-07-0307

Test Year Ended December 31, 2006

Schedule JMM-2

Page 1 of 3

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$167,817	(\$30,072)	A	\$137,745
Less:				
Accum. Depreciation	143,245	(9,344)	B	133,901
Net Plant	\$24,572	(\$20,728)		\$3,844
Less:				
Plant Advances	\$0	\$0		\$0
Customer Deposits	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 Purchased Water and Power	\$0	\$689	C	\$689
1/8 Operation & Maint.	0	2,800	C	2,800
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$3,489		\$3,489
Rate Base	\$24,572	(\$17,239)		\$7,333

A See Schedule JMM-2, page 2.

B See Schedule JMM-2, page 3.

C Staff's inclusion of formula-method working capital based on recommended operating expenses.

WILHOIT WATER COMPANY, INC. - THUNDERBIRD MEADOWS

Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-07-0307
 Test Year Ended December 31, 2006

Schedule JMM-2
 Page 2 of 3

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	1,250	0	1,250
304 Structures & Improvements	626	0	626
307 Wells & Springs	33,548	(25,072) A	8,476
311 Pumping Equipment	26,583	(5,000) A	21,583
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Star	10,084	0	10,084
331 Transmission & Distribution M	81,670	0	81,670
333 Services	7,744	0	7,744
334 Meters & Meter Installations	6,148	0	6,148
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equiprr	0	0	0
340 Office Furniture & Equipment	164	0	164
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equiprr	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$167,817	(\$30,072)	\$137,745

Explanation of Adjustment:

- A The adjustments can be attributed to the Company's inability to substantiate plant values in 1997, and a well that was constructed in 2006, but is still not used and useful.

WILHOIT WATER COMPANY, INC. - THUNDERBIRD MEADOWS

Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-07-0307
Test Year Ended December 31, 2006

Schedule JMM-2
Page 3 of 3

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$143,245
Accumulated Depreciation - Per Staff	<u>133,901</u>
Total Adjustment	<u><u>(\$9,344)</u></u> B

Explanation of Adjustment:

A - Accumulated depreciation per Decision No. 58102	\$54,190
Plus: Staff's recalculation of depreciation expense from years 1993 through year 2006.	<u>79,711</u>
	<u>\$133,901</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$48,161	\$0	\$48,161
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$48,161	\$0	\$48,161
Operating Expenses:			
601 Salaries and Wages	\$19,551	(\$4,208) A	\$15,343
610 Purchased Water	10,429	0	10,429
615 Purchased Power	6,099	0	6,099
618 Chemicals	0	0	0
620 Repairs and Maintenance	7,439	(6,030) B	1,409
621 Office Supplies & Expense	1,460	(557) C	903
630 Outside Services	0	0	0
635 Water Testing	1,724	(175) D	1,549
641 Rents	2,970	(1,320) E	1,650
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	1,488	(341) F	1,147
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense	0	0	0
675 Miscellaneous Expense	1,580	(1,180) G	400
403 Depreciation Expense	1,504	(1,418) H	86
408 Taxes Other Than Income	3,152	(3,152) I	0
408.11 Property Taxes	0	2,948 J	2,948
409 Income Tax	0	1,297 K	1,297
Total Operating Expenses	\$57,396	(\$14,136)	\$43,260
OPERATING INCOME/(LOSS)	(\$9,235)	\$14,136	\$4,901
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	\$0	\$0	\$0
NET INCOME/(LOSS)	(\$9,235)	\$14,136	\$4,901

STAFF ADJUSTMENTS

A -	SALARIES AND WAGES - Per Company	\$19,551	
	Per Staff	15,343	(\$4,208)
	To adjust salary based on Staff's allocation methodology.		
B -	REPAIRS AND MAINTENANCE - Per Company	\$7,439	
	Per Staff	1,409	(\$6,030)
	Disallowance of invoices not in the test year or unsubstantiated, and reallocation of repairs and maintenance expense based on Staff's allocation methodology.		
C -	OFFICE SUPPLIES & EXPENSE - Per Company	\$1,460	
	Per Staff	903	(\$557)
	To adjust expense to a level Staff determined to be a reasonable amount.		
D -	WATER TESTING - Per Company	\$1,724	
	Per Staff	1,549	(\$175)
	To decrease water testing costs to reflect Staff's recommended level.		
E -	RENTS - Per Company	\$2,970	
	Per Staff	1,650	(\$1,320)
	To adjust rent expense based on Staff's allocation methodology.		
F -	INSURANCE - GENERAL LIABILITY - Per Company	\$1,488	
	Per Staff	1,147	(\$341)
	To adjust insurance expense based on Staff's allocation methodology.		
G -	MISCELLANEOUS EXPENSE - Per Company	\$1,580	
	Per Staff	400	(\$1,180)
	Disallowance of invoices not in the test year and reallocation of miscellaneous expenses based on Staff's allocation methodology. Plus the reclassification of \$300 from water testing expense.		

STAFF ADJUSTMENTS (Cont.)

H -	DEPRECIATION - Per Company	\$1,504	
	Per Staff	86	<u>(\$1,418)</u>

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$137,745	
Less: Non Depreciable Plant	1,250	
Fully Depreciated Plant	133,901	
Depreciable Plant	<u>\$2,594</u>	
Times: Staff Proposed Depreciation Rate Going Forward	3.33%	
Credit to Accumulated Depreciation	<u>\$86</u>	
Less: Amort. of CIAC* @ 0.00%	<u>0</u>	
Pro Forma Annual Depreciation Expense	<u>\$86</u>	

I -	TAXES OTHER THAN INCOME - Per Company	\$3,152	
	Per Staff	0	<u>(\$3,152)</u>

To remove sales tax expense.

J -	PROPERTY TAXES - Per Company	\$0	
	Per Staff	2,948	<u>\$2,948</u>

To record the full 2006 property tax assessment of \$2,948.

K -	INCOME TAX - Per Company	\$0	
	Per Staff	1,297	<u>\$1,297</u>

Increased Income Tax by \$496 to reflect calculation of income tax expense based on Staff's adjusted test year taxable income.

WILHOIT WATER COMPANY, INC. - THUNDERBIRD MEADOWS

Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-07-0307

Test Year Ended December 31, 2006

Schedule JMM-4

Page 1 of 2

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
<u>5/8" x 3/4" Meter</u>	\$12.46	\$25.00	\$16.50
3/4" Meter	21.00	-	24.75
1" Meter	35.00	-	41.25
1½" Meter	70.00	-	82.50
2" Meter	112.00	-	132.00
3" Meter	210.00	-	264.00
4" Meter	350.00	-	412.50
6" Meter	700.00	-	825.00
Gallons Included in Minimum	0.00	0.00	0.00
Commodity Charge per 1,000 gallons			
<u>All Meter Sizes</u>			
0 - 6,000 gallons	\$4.40	\$8.80	N/A
Over 6,000 gallons	5.50	11.84	N/A
<u>5/8" x 3/4" and 3/4" Meter (Residential)</u>			
1 - 3,000 gallons	N/A	N/A	\$3.45
3,001 to 10,000 gallons	N/A	N/A	5.18
Over 10,000 gallons	N/A	N/A	6.20
<u>5/8" x 3/4" and 3/4" Meter (Commercial)</u>			
1 - 10,000 gallons	N/A	N/A	5.18
Over 10,000 gallons	N/A	N/A	6.20
<u>1" Meter (Commercial)</u>			
1 - 25,000 gallons	N/A	N/A	5.18
Over 25,000 gallons	N/A	N/A	6.20
<u>1 1/2" Meter (Commercial)</u>			
1 - 63,000 gallons	N/A	N/A	5.18
Over 63,000 gallons	N/A	N/A	6.20
<u>2" Meter (Commercial)</u>			
1 - 109,000 gallons	N/A	N/A	5.18
Over 109,000 gallons	N/A	N/A	6.20
<u>3" Meter (Commercial)</u>			
1 - 237,000 gallons	N/A	N/A	5.18
Over 237,000 gallons	N/A	N/A	6.20
<u>4" Meter (Commercial)</u>			
1 - 381,000 gallons	N/A	N/A	5.18
Over 381,000 gallons	N/A	N/A	6.20

RATE DESIGN - (Cont.)

6" Meter (Commercial)

1 - 780,000 gallons	N/A	N/A	\$5.18
Over 780,000 gallons	N/A	N/A	6.20

Service Line and Meter Installation Charges

			Service Line Charge	Meter Charges	Total Recommended
5/8" x 3/4" Meter	\$278.00	\$520.00	\$385.00	135.00	\$520.00
3/4" Meter	309.00	600.00	385.00	215.00	\$600.00
1" Meter	360.00	690.00	435.00	255.00	\$690.00
1½" Meter	552.00	935.00	470.00	465.00	\$935.00
2" Meter	779.00	1,595.00	630.00	965.00	\$1,595.00
3" Meter	1,010.00	2,275.00	805.00	1,470.00	\$2,275.00
4" Meter	1,703.00	3,520.00	1,170.00	2,350.00	\$3,520.00
6" Meter	3,769.00	6,275.00	1,730.00	4,545.00	\$6,275.00

Service Charges

Establishment	\$30.00	\$100.00	\$30.00		
Reconnection (Delinquent)	30.00	100.00	30.00		
Meter Test (If Correct)	35.00	150.00	35.00		
Deposit	*	*			
Deposit Interest	*	*			
Re-Establishment (Within 12 Months)	**	**			
NSF Check	\$15.00	\$35.00	\$30.00		
Deferred Payment (per annum)	6.00%	6.00%	6.00%		
Meter Re-Read (If Correct)	15.00	35.00	15.00		
Late fee	0.00	10.00	***		

Monthly Service Charge for Fire Sprinkler

4" or Smaller	\$5.00	\$0.00	****
6"	7.00	-	****
8"	7.00	-	****
10"	7.00	-	****
Larger than 10"	7.00	-	****

* Per Commission Rules (R14-2-403.B)
 ** Months off system times the minimum (R14-2-403.D)
 *** 1.5% of unpaid monthly balance.
 **** 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.

Wilhoit Water Company, Inc. - Thunderbird Meadows

Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-0307

Schedule JMM-5

Test Year Ended December 31, 2006

TYPICAL BILL ANALYSIS

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

Average Number of Customers: 128

<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	4,033	\$30.21	\$60.49	\$30.28	100.23%
Median Usage	3,114	\$26.16	\$52.40	\$26.24	100.31%
<u>Staff Recommend</u>					
Average Usage	4,033	\$30.21	\$32.20	\$1.99	6.59%
Median Usage	3,114	\$26.16	\$27.44	\$1.28	4.89%

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	\$12.46	\$25.00	100.64%	\$16.50	32.42%
1,000	16.86	33.80	100.47%	19.95	18.33%
2,000	21.26	42.60	100.38%	23.40	10.07%
3,000	25.66	51.40	100.31%	26.85	4.64%
4,000	30.06	60.20	100.27%	32.03	6.55%
5,000	34.46	69.00	100.23%	37.21	7.98%
6,000	38.86	77.80	100.21%	42.39	9.08%
7,000	44.36	89.64	102.07%	47.57	7.24%
8,000	49.86	101.48	103.53%	52.75	5.80%
9,000	55.36	113.32	104.70%	57.93	4.64%
10,000	60.86	125.16	105.65%	63.11	3.70%
15,000	88.36	184.36	108.65%	94.11	6.51%
20,000	115.86	243.56	110.22%	125.11	7.98%
25,000	143.36	302.76	111.19%	156.11	8.89%
50,000	280.86	598.76	113.19%	311.11	10.77%
75,000	418.36	894.76	113.87%	466.11	11.41%
100,000	555.86	1,190.76	114.22%	621.11	11.74%
125,000	693.36	1,486.76	114.43%	776.11	11.93%
150,000	830.86	1,782.76	114.57%	931.11	12.07%
175,000	968.36	2,078.76	114.67%	1,086.11	12.16%
200,000	1,105.86	2,374.76	114.74%	1,241.11	12.23%

FINANCIAL ANALYSIS

Selected Financial Data
 Infrastructure Surcharge Alternative No. 1 and No. 2

Line No.	[A] Staff Recommended Permanent Rates Without Loan	[B] Infrastructure Surcharge Alternative No. 1 at 8.00 Percent Interest Adjustments	[C] Staff Recommended Loan Prin & Interest	[D] Infrastructure Surcharge Alternative No. 2 at 8.00 Percent Interest Adjustments	[E] Staff Recommended Loan Prin & Interest
1	INCOME STATEMENT				
2	Operating Revenue	\$ 51,800	\$ 47,783	\$ 51,800	\$ 47,783
3	Metered Water Revenue	-	-	-	-
4	Infrastructure Surcharge Alternative 1	-	-	-	-
5	Infrastructure Surcharge Alternative 2	-	-	-	-
6	Other Water Revenues	-	-	-	-
6	Total Operating Rev:	\$ 51,800	\$ 47,783	\$ 99,583	\$ 27,709
7	Operating Expenses				
7	Salaries and Wages	\$ 15,343	\$ -	\$ 15,343	\$ -
8	Purchased Water	10,429	-	10,429	-
9	Purchased Power	6,099	-	6,099	-
10	Repairs and Maintenance	1,409	-	1,409	-
11	Office Supplies and Expense	903	-	903	-
12	Water Testing	1,549	-	1,549	-
13	Rents	1,650	-	1,650	-
14	Insurance - General Liability	1,147	-	1,147	-
15	Miscellaneous Expense	400	-	400	-
16	Depreciation Expense	86	-	86	-
17	Taxes Other Than Income	2,948	-	2,948	-
18	Income Tax	2,058	-	2,058	-
19	Total Operating Expense	\$ 44,021	\$ -	\$ 44,021	\$ -
20	Operating Income	\$ 7,779	\$ 47,783	\$ 55,562	\$ 27,709
21	Interest Income	\$ -	\$ -	\$ -	\$ -
22	Interest Expense	\$ -	\$ 37,721	\$ 37,721	\$ 21,874
23	Interest-Customer Deposits	\$ -	\$ -	\$ -	\$ -
24	Total Other Interest Expense	\$ -	\$ 37,721	\$ 37,721	\$ 21,874
25	Net Income	\$ 7,779	\$ 10,062	\$ 17,841	\$ 5,835
26	Principal Repayment	\$ -	\$ 10,062	\$ 10,062	\$ 5,835
30	TIER [L 18 + L 20] + L 22	N/A		1.53	1.72
30	DSC	N/A		1.21	1.36
31	[L 16 + L 17 + L 20] + [L 22 + L 26]	N/A			

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SURCHARGE AMOUNTS

Equivalent Annual Bills (1,536) = Number of Customers 128 times 12 months

Infrastructure Surcharge Alternative No. 1 - Additional Tanks (Loan Amount \$131,059) + New Well Source (Loan Amount \$345,000)
 Total Increase in Revenue \$ 47,783
 Equivalent Annual Bills 1,536

Surcharge Amount \$ 31.11

Pro forma Effects on monthly bill

5/8"x 3/4" Meter	1	x	\$ 31.11	=	\$ 31.11
3/4" Meter	1.5	x	\$ 31.11	=	\$ 46.66
1" Meter	2.5	x	\$ 31.11	=	\$ 77.77
1½" Meter	5	x	\$ 31.11	=	\$ 155.54
2" Meter	8	x	\$ 31.11	=	\$ 248.87
3" Meter	15	x	\$ 31.11	=	\$ 466.63
4" Meter	25	x	\$ 31.11	=	\$ 777.72
6" Meter	50	x	\$ 31.11	=	\$ 1,555.45

Infrastructure Surcharge Alternative No. 2 - Additional Tanks (Loan Amount \$131,059) + New Well (Loan Amount \$145,000)
 Total Increase in Revenue \$ 27,709
 Equivalent Annual Bills 1,536

Surcharge \$ 18.04

5/8"x 3/4" Meter	1	x	\$ 18.04	=	\$ 18.04
3/4" Meter	1.5	x	\$ 18.04	=	\$ 27.06
1" Meter	2.5	x	\$ 18.04	=	\$ 45.10
1½" Meter	5	x	\$ 18.04	=	\$ 90.20
2" Meter	8	x	\$ 18.04	=	\$ 144.32
3" Meter	15	x	\$ 18.04	=	\$ 270.59
4" Meter	25	x	\$ 18.04	=	\$ 450.99
6" Meter	50	x	\$ 18.04	=	\$ 901.98

Wilhoit Water Company, Inc. - Thunderbird Meadows

Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-0307
 Test Year Ended December 31, 2006

Schedule JMM-8

TYPICAL BILL ANALYSIS - WITH SURCHARGE ALTERNATIVE NO. 1
 General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 128

<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	4,033	\$30.21	\$60.49	\$30.28	100.23%
Median Usage	3,114	\$26.16	\$52.40	\$26.24	100.31%
<u>Staff Recommend</u>					
Average Usage	4,033	\$30.21	\$63.31	\$33.10	109.57%
Median Usage	3,114	\$26.16	\$58.55	\$32.39	123.81%

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	\$12.46	\$25.00	100.64%	\$47.61	282.10%
1,000	16.86	33.80	100.47%	51.06	202.85%
2,000	21.26	42.60	100.38%	54.51	156.40%
3,000	25.66	51.40	100.31%	57.96	125.88%
4,000	30.06	60.20	100.27%	63.14	110.05%
5,000	34.46	69.00	100.23%	68.32	98.26%
6,000	38.86	77.80	100.21%	73.50	89.14%
7,000	44.36	89.64	102.07%	78.68	77.37%
8,000	49.86	101.48	103.53%	83.86	68.19%
9,000	55.36	113.32	104.70%	89.04	60.84%
10,000	60.86	125.16	105.65%	94.22	54.81%
15,000	88.36	184.36	108.65%	125.22	41.72%
20,000	115.86	243.56	110.22%	156.22	34.84%
25,000	143.36	302.76	111.19%	187.22	30.59%
50,000	280.86	598.76	113.19%	342.22	21.85%
75,000	418.36	894.76	113.87%	497.22	18.85%
100,000	555.86	1,190.76	114.22%	652.22	17.34%
125,000	693.36	1,486.76	114.43%	807.22	16.42%
150,000	830.86	1,782.76	114.57%	962.22	15.81%
175,000	968.36	2,078.76	114.67%	1,117.22	15.37%
200,000	1,105.86	2,374.76	114.74%	1,272.22	15.04%

Wilhoit Water Company, Inc. - Thunderbird Meadows

Docket Nos. W-02065A-07-0312, W-02065A-07-0306, and W-02065A-0307
 Test Year Ended December 31, 2006

Schedule JMM-9

TYPICAL BILL ANALYSIS - WITH SURCHARGE ALTERNATIVE NO. 2

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

Average Number of Customers: 128

<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	4,033	\$30.21	\$60.49	\$30.28	100.23%
Median Usage	3,114	\$26.16	\$52.40	\$26.24	100.31%
<u>Staff Recommend</u>					
Average Usage	4,033	\$30.21	\$50.24	\$20.03	66.30%
Median Usage	3,114	\$26.16	\$45.48	\$19.32	73.85%

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	\$12.46	\$25.00	100.64%	\$34.54	177.21%
1,000	16.86	33.80	100.47%	37.99	125.33%
2,000	21.26	42.60	100.38%	41.44	94.92%
3,000	25.66	51.40	100.31%	44.89	74.94%
4,000	30.06	60.20	100.27%	50.07	66.57%
5,000	34.46	69.00	100.23%	55.25	60.33%
6,000	38.86	77.80	100.21%	60.43	55.51%
7,000	44.36	89.64	102.07%	65.61	47.90%
8,000	49.86	101.48	103.53%	70.79	41.98%
9,000	55.36	113.32	104.70%	75.97	37.23%
10,000	60.86	125.16	105.65%	81.15	33.34%
15,000	88.36	184.36	108.65%	112.15	26.92%
20,000	115.86	243.56	110.22%	143.15	23.55%
25,000	143.36	302.76	111.19%	174.15	21.48%
50,000	280.86	598.76	113.19%	329.15	17.19%
75,000	418.36	894.76	113.87%	484.15	15.73%
100,000	555.86	1,190.76	114.22%	639.15	14.98%
125,000	693.36	1,486.76	114.43%	794.15	14.54%
150,000	830.86	1,782.76	114.57%	949.15	14.24%
175,000	968.36	2,078.76	114.67%	1,104.15	14.02%
200,000	1,105.86	2,374.76	114.74%	1,259.15	13.86%