



ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Ernest Johnson
Director
Utilities Division

DATE July 21, 2008

RE: STAFF REPORT FOR BELLEMONT WATER COMPANY'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02526A-08-0078)

Attached is the Staff Report for Bellemont Water Company's application for a permanent rate increase. Staff recommends approval of its rates and charges.

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 July 31, 2008.

EGJ:CSB:kdh

Originator: Crystal S. Brown

Attachment: Original and thirteen copies

Arizona Corporation Commission
DOCKETED
JUL 21 2008

DOCKETED BY	
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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Service List for: Bellemont Water Company
Docket Nos. W-02526A-08-0078

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

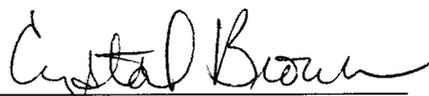
**BELLEMONT WATER COMPANY
DOCKET NO. W-02526A-08-0078**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

JULY 21, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Bellemont Water Company (Docket No. W-02526A-08-0078) was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's application for a permanent rate increase, Staff's revenue requirement, rate base, and rate design. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Alfonso Amezcua was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.



Crystal Brown
Public Utilities Analyst V



Marlin Scott, Jr.
Utilities Engineer



Alfonso Amezcua
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY OF
BELLEMONT WATER COMPANY
DOCKET NO. W-02526A-08-0078**

Bellemont Water Company ("Bellemont" or "Company") is a class E for-profit Arizona public service corporation that provides potable water service to seven metered commercial customers. The Company is located about ten miles southwest of Flagstaff, Arizona.

On March 22, 2007, Bellemont Water Company ("Bellemont" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for an emergency rate increase because both of the Company's two wells were running dry and not recovering. During this period, the Company provided water service to seven commercial customers and approximately 200 standpipe customers. Standpipe customers typically generate approximately 70 to 80 percent of Bellemont's total revenues. The Company, however, discontinued standpipe service to address its water supply concerns. As a result of this loss of standpipe revenue and the additional costs of hauling water, the Commission in Decision No. 69673, dated June 28, 2007, approved an emergency rate of \$30 per one thousand gallons of usage, an increase of 975 percent over the tier-one commodity charge of \$2.79 per one thousand gallons.

Bellemont's low-producing wells initially caused the Company to purchase hauled water for a three-week period beginning in mid-January 2007. The Company did not haul water on a consistent basis because it did not have the funds to pay for the service. Staff found that the Company lacked the ability to consistently provide reliable water service on a demand basis. Moreover, Decision No. 69673, ordered that the standpipe service remain discontinued until further order from the Commission.

Decision No. 69673 also ordered that Bellemont file a permanent rate increase application within six months of the effective date of the emergency rate case decision. On February 8, 2008, the Company filed its permanent rate application.

Bellemont's proposed rates, as filed, would produce total operating revenue of \$28,749 and an operating loss of \$11,485, for no rate of return on an Original Cost Rate Base ("OCRB") of \$110,322 as shown on Schedule CSB-1. Staff recommends rates that would produce total operating revenue of \$45,512 and operating income of \$8,730, or a 10.00 percent rate of return on an OCRB of \$87,304, as shown on Schedule CSB-1. Staff's recommended rates would increase the typical 3/4-inch meter commercial bill with a median usage of 1,565 gallons from \$72.96 to \$115.43 for an increase of \$42.47, or 58.20 percent, as shown on Schedule CSB-5.

Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule CSB-4.

Staff further recommends that the Company be ordered to file, with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company be ordered to comply with Commission Decision No. 65853, dated April 25, 2003, which ordered the Company to maintain its records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") which requires accrual accounting and maintaining adequate support for plant additions and operating expenses.

In order to address the Company's noncompliance with Decision No. 65853 and the recurring accounting deficiencies that have resulted from that noncompliance, Staff further recommends that the Company be ordered to file with Docket Control a plan, subject to Staff approval, describing the actions it will take to maintain its books and records in compliance with the NARUC USOA within 60 days of the date of the decision resulting from this proceeding.

Staff further recommends that the Company (1) obtain a competent professional experienced in water utility accounting to record or to assist in the recording of its financial transactions in accordance with Generally Accepted Accounting Principles ("GAAP") and the NARUC USOA and (2) provide water utility accounting training to its current staff.

Staff further recommends that the Company be ordered to adjust its records to conform with the Commission's decision in this case and make a filing by May 15, 2009, showing the adjusting entries (i.e. the accounts debited and credited) and the resulting general ledger balances with Docket Control.

Staff further recommends using the depreciation rates shown in the attached Engineering Report.

Staff further recommends that the Company be ordered to install a wellhead meter. Staff estimates the cost to install a wellhead meter at \$500. Staff further recommends that the Company, by December 31, 2008, file with Docket Control as a compliance item in this docket, documentation demonstrating that the wellhead meter has been installed.

Staff further recommends that the Company's standpipe service not be reinstated.

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ATTACHMENT

Engineering Report.....	Attachment A
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Fact Sheet

Company:

Type of Ownership: Arizona "C" Corporation

Location: The Company is located approximately 10 miles southwest of Flagstaff, Arizona. The Company is not located in an Active Management Area ("AMA").

Rates:

Current Rates (Emergency Rates): Decision No. 69673, dated June 28, 2007

Permanent rate increase application filed: February 8, 2008

Current test year ended: September 30, 2007

Prior test year ended: December 31, 2001

Monthly Charges:

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge:			
5/8 x 3/4-inch meter	\$17.00	\$27.00	\$27.00
3/4-inch meter	\$26.00	\$40.00	\$45.00
1-inch meter	\$44.00	\$60.00	\$75.00
2-inch meter	\$130.00	\$150.00	\$160.00
4-inch meter	\$435.00	\$485.00	\$500.00
Commodity Charge - Residential:			
0 to 4,000 gallons	\$30.00	\$7.00	\$45.00
4,000 to 10,000 gallons	\$30.00	\$11.00	\$50.00
Over 10,000 gallons	\$30.00	\$13.00	\$55.00
Commodity Charge - Commercial:			
0 to 4,000 gallons	\$30.00	\$7.00	Non Applicable
4,000 to 10,000 gallons	\$30.00	\$11.00	\$50.00
Over 10,000 gallons	\$30.00	\$13.00	\$55.00
Stand pipe			
Per 1,000 gallons	Discontinued	\$8.00	Discontinued

Customers:

Number of customers in prior test year (12/31/01) 7

Number of customers in the current test year (9/30/07): 7

Seasonal customers: N/A

Customer notification for rate application filed: April 3, 2008

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

No. of complaints: 0

No. of inquiries: 0

No. of opinions: 0

Period: January 1, 2005 – June 27, 2008

Summary of Filing

The test year results as adjusted by Arizona Corporation Commission (“Commission”) Utilities Division Staff (“Staff”), for Bellemont Water Company (“Bellemont” or “Company”) show total operating revenue of \$19,905 and an operating loss of \$14,617 for no rate of return on an Original Cost Rate Base (“OCRB”) of \$87,304, as shown on Schedule CSB-1.

Bellemont’s proposed rates, as filed, would produce total operating revenue of \$28,749 and an operating loss of \$11,485, for no rate of return on an OCRB of \$110,322, as shown on Schedule CSB-1. The Company’s proposed rates would decrease the typical ¾-inch meter commercial bill with a median usage of 1,565 gallons from \$72.96 to \$50.96 for a decrease of \$22.00, or 30.28 percent, as shown on Schedule CSB-5.

Staff recommends rates that would produce total operating revenue of \$45,512 and operating income of \$8,730, or a 10.00 percent rate of return on an OCRB of \$87,304, as shown on Schedule CSB-1. Staff’s recommended rates would increase the typical ¾-inch meter commercial bill with a median usage of 1,565 gallons from \$72.96 to \$115.43 for an increase of \$42.47, or 58.20 percent, as shown on Schedule CSB-5.

Background

On March 22, 2007, Bellemont filed with the Commission an application for an emergency rate increase because both of the Company’s two wells were running dry and not recovering. During this period, the Company provided water service to seven commercial customers and approximately 200 standpipe customers. Standpipe customers typically generate approximately 70 to 80 percent of Bellemont’s total revenues. The Company, however, discontinued standpipe service to address its water supply concerns. As a result of this loss of standpipe revenue and the additional costs of hauling water, the Commission in Decision No. 69673, dated June 28, 2007, approved an emergency rate of \$30 per one thousand gallons of

usage, an increase of 975 percent over the tier-one commodity charge of \$2.79 per one thousand gallons.

Bellemont's low producing wells initially caused the Company to purchase hauled water for a three-week period beginning in mid-January 2007. The Company did not haul water on a consistent basis because it did not have the funds to pay for the service. Staff found that the Company lacked the ability to consistently provide reliable water service on a demand basis. Moreover, Decision No. 69673 ordered that the standpipe service remain discontinued until further order from the Commission.

Decision No. 69673 also ordered that Bellemont file a permanent rate increase application within six months of the effective date of the emergency rate case Decision.

On February 8, 2008, Bellemont filed with the Commission an application for a permanent rate increase. On March 7, 2008, Staff deemed the application insufficient, pursuant to A.A.C. R14-2-103.B. On April 7, 2008, Bellemont submitted a revised application for a permanent rate increase with the Commission. On April 15, 2008, Staff found the revised application deficient. On April 25, 2008, Bellemont provided amendments to its application for a permanent rate increase. On May 12, 2008, Staff filed the sufficiency letter.

Bellemont has only commercial customers.

Consumer Services

Staff reviewed the Commission's records and found no complaints or inquiries for the period January 1, 2005 to June 27, 2008.

Compliance (Test Year Matters)

Bellemont is current on its Utilities and Corporations Divisions annual reports. Bellemont is also current on its sales tax report. Bellemont is not current on its 2007 property taxes and is working to correct the problem.

Compliance (Decision No. 65853, NARUC Uniform System of Accounts)

Decision No. 65853, dated April 25, 2003, ordered¹ the Company to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

Staff noted during the course of its audit in this proceeding that the Company did not consistently follow the NARUC USOA as mandated by the Commission. Specifically, the

¹ Decision No. 65853, page 5 at line 13 and page 10 at line 19 ½.

Company did not consistently follow accounting instruction no. 2 of the NARUC USOA which states:

Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. **Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto.** (emphasis added)

When accounting transactions are not supported by invoices, the financial information provided by the Company cannot be relied upon for ratemaking or any other purpose.

Staff reported errors in the Company's accounting in the Staff Report of the 2002² rate case. The same or similar errors continue to exist in the Company's records relevant to the current rate case. A summary of significant problems is presented below:

1. Accrual Accounting – Generally Accepted Accounting Principles (“GAAP”) as well as the NARUC USOA requires that the Company follow accrual accounting. Accrual accounting requires revenues to be recorded when earned and expenses to be recorded when incurred. In violation of accrual accounting, the Company recorded approximately \$1,600 in back property tax billings as a current expense in the test year.
2. Unsupported Plant Additions – The Company was unable to provide support for approximately \$15,000 in claimed plant additions.
3. Unsupported Expenses – The Company was unable to provide support for approximately \$3,500 in claimed test year expenses.

Staff recommends that the Company be ordered to comply with Commission Decision No. 65853, dated April 25, 2003, which ordered the Company to maintain its records in accordance with the NARUC USOA which requires accrual accounting and maintaining adequate support for plant additions and operating expenses.

In order to address the Company's noncompliance with Decision No. 65853 and the recurring accounting deficiencies that have resulted from the noncompliance, Staff further recommends that the Company be ordered to file with Docket Control a plan, subject to Staff approval, describing the actions it will take to maintain its books and records in compliance with the NARUC USOA within 60 days of the date of the decision resulting from this proceeding.

Staff further recommends that the Company (1) obtain a competent professional experienced in water utility accounting to record or to assist in the recording of its financial

² Docket No. W-02526A-02-0320

transactions in accordance with GAAP and the NARUC USOA and (2) provide water utility accounting training to its current staff.

Staff further recommends that the Company be ordered to adjust its records to conform with the Commission's decision in this case and make a filing by May 15, 2009, showing the adjusting entries (i.e. the accounts debited and credited) and the resulting general ledger balances with Docket Control.

Engineering Analysis and Recommendations

Staff inspected the Company's plant facilities on April 11, 2008. A complete discussion of Staff's technical findings and recommendations as well as a complete description of the water system are provided in the attached Engineering Report.

Rate Base

Staff's adjustments decreased the Company's proposed rate base by \$23,018, from \$110,322 to \$87,304, as shown on Schedule CSB-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Adjustment A decreases plant in service by \$24,791, from \$237,829 to 213,038, as shown on Schedule CSB-2, page 2. Staff reflected all plant additions and retirements from the end of the test year in the last rate proceeding to the end of the test year in the instant rate proceeding.

Wells and Springs - Adjustment "a" decreases this account by \$13,040, from \$27,133 to \$14,093, as shown on Schedule CSB-2 pages 2 and 3. Staff removed \$3,900 in costs for which the Company was unable to provide actual invoices. Further, Staff removed \$9,140 for the costs incurred for a well that is no longer in service.

Pumping Equipment - Adjustment "b" decreases this account by \$9,751, from \$60,967 to \$51,216, as shown on Schedule CSB-2 pages 2 and 3. Staff's adjustment removes plant that is no longer in service as discussed in the attached Engineering Report.

Water Treatment Equipment - Adjustment "c" decreases this account by \$2,000, from \$4,681 to \$2,681, as shown on Schedule CSB-2 pages 2 and 3. Staff removed \$2,000 in costs for which the Company was unable to provide actual invoices.

Accumulated Depreciation

Adjustment B increases accumulated depreciation by \$1,179 from \$127,507 to \$128,686, as shown on Schedule CSB-2, pages 1, 9, and 10. The increase is based upon the adjustments Staff made to plant in service.

Working Capital

Bellefont did not claim any working capital allowance. Staff's adjustments to working capital resulted in a net increase of \$2,952 from \$0 to \$2,952, as shown on Schedule CSB-2, pages 1 and 11, as a result of increasing cash working capital.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

Operating Income Statement

Operating Revenue

Metered Water Revenue – Adjustment A decreases metered water revenue by \$6,671 from \$25,851 to \$19,180, as shown on Schedule CSB-3 pages 1 and 2.

The Company reported \$25,851 in metered revenue consisting of \$19,180 generated from sales to metered customers; \$5,946 generated from standpipe sales; and \$725 generated from miscellaneous service charges. Staff removed the \$5,946 in standpipe sales to be consistent with Staff's recommendation that standpipe service not be reinstated until the Company obtains a more reliable source of water. Further, Staff reclassified the \$725 to "Other Water Revenue" as shown on Schedules CSB-3, pages 1 and 2.

The Company's \$19,180 in sales revenue generated from metered customers included approximately \$1,530 in revenue generated from the \$30 per 1,000 gallons emergency rate. Staff did not remove this revenue as it reflects Staff's determination that the higher level of operating expenses experienced during the emergency rate case has continued in the instant case and should be recovered through rates.

Other Water Revenue – Adjustment B increases other water revenue by \$725 from \$0 to \$725, as shown on Schedule CSB-3 pages 1 and 2. The amount was reclassified from "Metered Water Revenue".

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$5,712, from \$40,234 to \$34,522, as shown on Schedule CSB-3, page 1. Details of Staff's adjustments are presented below.

Purchased Water – Adjustment C decreases purchased water expense by \$3,950 from \$3,950 to \$0, as shown on Schedule CSB-3 pages 1 and 2. Staff decreased the amount because Staff is recommending that purchased water costs be treated as a pass through expense via a separate water hauling tariff as discussed in greater detail in the "Rate Design" section of this report.

Purchased Power – Adjustment D increases purchased power expense by \$324 from \$5,767 to \$6,091, as shown on Schedule 3 pages 1 and 2. The Company's general ledger was for the period October 1, 2006 through September 30, 2007 and reported a purchased power balance of \$5,767. Staff compared the actual invoices to the general ledger balance and found that the September 2007 bill in the amount of \$372.89 was omitted from the general ledger total. Staff added the September bill and removed \$49.55 in late fees included in various test year bills.

Materials and Supplies Expense – Adjustment E decreases repairs and maintenance expenses by \$472 from \$4,460 to \$3,988, as shown on Schedule CSB-3 pages 1 and 2. Staff's adjustment removes costs that the Company was unable to support with actual invoices.

Office Supplies and Expense – Adjustment F decreases office supplies by \$1,830 from \$2,000 to \$170, as shown on Schedule CSB-3 pages 1 and 3. Staff's adjustment removes costs that the Company was unable to support with actual invoices.

Outside Services Expense – Adjustment G increases outside services expense by \$3,311 from \$6,610 to \$9,921, as shown on Schedule CSB-3 pages 1 and 3. Staff's calculation of the outside services expense includes \$4,902 for the services of a certified public accountant who prepares income tax returns, sales tax reports, property tax reports, and Commission utility reports, and performs accounting work and other miscellaneous work as needed. Staff also added \$1,290 (\$107.50 per month x 12 months) for the cost of a certified water operator.

Further, Staff added \$4,854 ($\12.64^3 an hour x 32 hours per month x 12 months) for the following services that are presently being provided at no cost. The Company indicated that it had no money to pay the individual(s) performing the services:

1. Responding to customer inquiries, emergency callouts, etc. including alerting repair personnel,
2. General bookkeeping,

³ Median wage for a utility meter reader in Coconino County

3. Meter reading, entering meter readings into the billing program, printing the bills, folding, placing in envelopes, stamping and mailing,
4. Picking up mail from P.O. Box including payments,
5. Receiving payments from customers and providing research for customers who have lost their bill or forgot to bring it,
6. Entering payments into cash receipts journal, balancing, and preparing deposits,
7. Taking deposits to bank,
8. Receiving, verifying, and paying Company bills,
9. Additional activities as required,

Water Testing – Adjustment H increases water testing expense by \$140 from \$1,043 to \$1,183, as shown on Schedule CSB-3 pages 1 and 3. This adjustment reflects the annual water testing costs reported in the attached Engineering Report.

Rents Expense – Adjustment I decreases rents expenses by \$2,143 from \$2,143 to \$0, as shown on Schedule CSB-3 pages 1 and 3. The \$2,143 reflects the lease cost of a card system machine used in conjunction with the standpipe sales. Staff is removing this cost in order to be consistent with Staff's recommendation to discontinue standpipe service until the Company obtains a more reliable source of water.

Transportation Expense – Adjustment J decreases transportation expense by \$246 from \$2,023 to \$1,777, as shown on Schedule CSB-3 pages 1 and 3. Staff's adjustment removes costs that the Company was unable to support with actual invoices.

Insurance, General Liability – Adjustment K decreases general liability expense by \$250 from \$1,833 to \$1,583, as shown on Schedule CSB-3 pages 1 and 3. Staff's adjustment removes the cost of a bond incurred for the emergency rate case as a non-recurring expense.

Regulatory Commission Expense, Rate Case – Adjustment L increases rate case expense by \$1,000, from \$0 to \$1000, as shown on Schedule CSB-3 pages 1 and 4. This adjustment reflects Staff's determination of the annual normalized level of rate case expense for the instant case.

Miscellaneous Expense – Adjustment M increases miscellaneous expenses by \$958 from \$1,007 to \$1,965, as shown on Schedule CSB-3 pages 1 and 4. Staff's calculation of miscellaneous expense includes \$889 for travel (i.e. lodging and meals) incurred by individuals who do not live near the water system and may sometimes be required to stay overnight in Flagstaff for business purposes. Staff also added \$687.96 for phone service (\$57.13 per month x 12 months) and \$388 for trash service (\$97.02 per quarter x 4).

Depreciation Expense – Adjustment N decreases depreciation expense by \$901 from \$5,876 to \$4,975, as shown on Schedule CSB-3 pages 1 and 5. Staff's depreciation expense reflects application of Staff's recommended depreciation rates.

Property Taxes – Adjustment O decreases property tax expense by \$1,653 from \$3,472 to \$1,819, as shown on Schedule CSB-3 pages 1 and 5. Staff's adjustment reflects the most recent property tax bill.

Revenue Requirement

In prior years, the Company had several hundred standpipe customers that generated approximately 70 to 80 percent of its total revenue. The Company's prior permanent rate case reported approximately \$80,000 in total revenue; \$56,000 was generated from standpipe sales and the remaining \$24,000 was generated from the Company's seven customers. In Decision No. 69673, dated June 28, 2007, the Commission discontinued the Company's standpipe service in order to address the Company's water production problems.

The standpipe revenue that was used to offset and lower the amount of revenue needed from the seven customers is no longer available. Further, the current emergency rates are not sufficient to cover the Company's ongoing operating expenses. Therefore a 128.65 percent increase in rates is necessary in order to keep the Company financially viable.

Staff recommends total operating revenue of \$45,512, an increase of \$25,607, or 128.65 percent above the Staff adjusted test year revenue of \$19,905. Staff's recommended revenue provides operating income of \$8,730 for an operating margin of 19.18 percent and a 10 percent return on an OCRB of \$87,304 as shown on Schedule CSB-1.

Rate Design

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

The Company is presently under emergency rates approved in Decision No. 69673, dated June 28, 2007. The monthly customer charges vary by meter size as follows: 5/8-3/4 inch \$17.00; 1-inch, 3/4 inch \$26.00; 1-inch, \$44.00; 1½-inch, 65.00; 2-inch, \$130.00; 3-inch, \$208; 4-inch, \$435.00, and 5-inch, \$650. No gallons are included in the minimum. The present commodity rate is \$30.00 per 1,000 gallons.

Staff's recommended rates are extraordinarily high because the total revenue requirement must be generated from seven commercial customers. The monthly minimum charges vary by meter size and include no gallons. The commodity rates are based on an inverted two-tier rate design for the all meter sizes except residential which has three tiers (the Company currently has no residential customers). Staff's recommended rates would increase the typical 3/4-inch meter commercial bill with a median usage of 1,565 gallons from \$72.96 to \$115.43 for an increase of \$42.47, or 58.20 percent, as shown on Schedule CSB-5.

Staff recommended increases to certain miscellaneous service charges as shown on Schedule CSB-4. The Staff recommended amount represents the upper limit range charged for similarly-sized companies that were used in a Staff prepared miscellaneous service charge study.

The Company's proposed service line and meter installation charges were calculated based on out dated amounts. Staff recommends approval of Staff's Service Line and Meter Installation Charges as discussed in the attached Engineering Report.

Standpipe Service

Staff recommends that the standpipe service remain discontinued until the Company finds a more reliable source of water as discussed in the attached Engineering Report. Staff is not opposed to reconsidering the re-instatement of standpipe service if in the future, the Company performs an engineering study. The engineering study would have to show, to Staff's satisfaction, that Bellemont's water source has improved to a level that enables it to reliably meet the demands of both its metered and standpipe customers.

Water Hauling Tariff

In a normal year Bellemont's wells produce an adequate supply of water. However, as discussed in the attached Engineering Report, the Company's wells are low producing and may not always produce enough water. Bellemont supplements its water supply with purchased water when shortages occur.

Water hauling can be a sudden and significant expense. When water hauling expense is included in operating expenses and no water hauling occurs, the Company will over-recover. However, if no water hauling expense is included in the operating expenses and the Company incurs water hauling expense, the Company will under-recover and could face severe financial hardship. Since Bellemont does not purchase water every year and cannot reliably predict the intervals when it will need to purchase water, Staff has determined that a water hauling tariff is appropriate because the tariff will ensure that the Company neither over-nor under-recovers purchased water costs.

Staff recommends approval of a water hauling surcharge as reflected on Schedule CSB-4. The tariff would be modeled after the water hauling tariff approved for Pine Water Company in Decision No. 67166, dated August 10, 2004. The tariff provides for a per-gallon surcharge calculated by multiplying the number of gallons a customer used during the month that the Company incurred water hauling expense times the per gallon rate. The per gallon rate would be calculated by dividing the actual water hauling costs less curtailment penalty fees collected by the total gallons sold for the month.

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges shown in Schedule CSB-4.

Staff further recommends that the Company be ordered to file, with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company be ordered to comply with Commission Decision No. 65853, dated April 25, 2003, which ordered the Company to maintain its records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") which requires accrual accounting and maintaining adequate support for plant additions and operating expenses.

In order to address the Company's noncompliance with Decision No. 65853 and the recurring accounting deficiencies that have resulted from that noncompliance, Staff further recommends that the Company be ordered to file with Docket Control a plan, subject to Staff approval, describing the actions it will take to maintain its books and records in compliance with the NARUC USOA within 60 days of the date of the decision resulting from this proceeding.

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Staff further recommends that the Company be ordered to adjust its records to conform with the Commission's decision in this case and make a filing by May 15, 2009, showing the adjusting entries (i.e. the accounts debited and credited) and the resulting general ledger balances with Docket Control.

Staff further recommends using the depreciation rates shown in the attached Engineering Report.

Staff further recommends that the Company be ordered to install a wellhead meter. Staff estimates the cost to install a wellhead meter at \$500. Staff further recommends that the Company, by December 31, 2008, file with Docket Control, as a compliance item in this docket, documentation demonstrating that the wellhead meter has been installed.

Staff further recommends that the Company's standpipe service not be reinstated.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$25,851	\$19,180	\$34,941	\$44,787
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	725	0	725
Reconciling Amount ¹	0	0	(6,192)	0
Total Operating Revenue	\$25,851	\$19,905	\$28,749	\$45,512
Operating Expenses:				
Operation and Maintenance	\$30,836	\$ 27,678	\$30,836	\$27,678
Depreciation	5,876	4,975	5,876	4,975
Property & Other Taxes	3,472	1,819	3,472	1,819
Income Tax	50	50	50	2,310
Total Operating Expense	\$40,234	\$34,522	\$40,234	\$36,782
Operating Income/(Loss)	(\$14,383)	(\$14,617)	(\$11,485)	\$8,730
Rate Base O.C.L.D.	\$110,322	\$87,304	\$110,322	\$87,304
Rate of Return - O.C.L.D.	-13.04%	-16.74%	-10.41%	10.00%
Operating Margin ²	-55.64%	-73.43%	-39.95%	19.18%
Increase in revenue over Staff adj TY				\$25,607
Increase in revenue over Staff adj TY (%)				128.65%

NOTES:

¹ Amount to reconcile the Company proposed \$34,941 total revenue to the total revenue that the Company's proposed rates actually produce (excluding standpipe sales).

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

RATE BASE

	----- Original Cost -----		
	Company	Adjustment Ref	Staff
Plant in Service	\$ 237,829	\$ (24,791) A	\$ 213,038
Less:			
Accum. Depreciation	127,507	1,179 B	128,686
Net Plant	\$ 110,322	\$ (25,970)	\$ 84,352
Less:			
Line Extension Advances	\$ -	\$ -	\$ -
Service Line and Meter Advances	-	-	-
Total Advances	\$ -	\$ -	\$ -
Contributions Gross	\$ -	\$ -	\$ -
Less:			
Amortization of CIAC	-	-	-
Net CIAC	\$ -	\$ -	\$ -
Total Deductions	\$ -	\$ -	\$ -
Plus:			
1/24 Purchased Power & Water	\$ -	\$ 254 C	\$ 254
1/8 Operation & Maint.	-	2,698 D	2,698
Inventory	-	-	-
Prepayments	-	-	-
Total Additions	\$ -	\$ 2,952	\$ 2,952
Rate Base	\$ 110,322	\$ (23,018)	\$ 87,304

Explanation of Adjustments

- A - See Schedule CSB-2, Page 2
- B - See Schedule CSB-2, Pages 9 and 10
- C - See Schedule CSB-2, Page 11
- D - See Schedule CSB-2, Page 11

PLANT ADJUSTMENT

	Company			Staff
	Exhibit	Adjustment		Adjusted
301 Organization	\$ -	\$ -		\$ -
302 Franchises	\$ 1,339	\$ -		\$ 1,339
303 Land & Land Rights	\$ 23,400	\$ -		\$ 23,400
304 Structures & Improvements	\$ 24,515	\$ -		\$ 24,515
307 Wells & Springs	\$ 27,133	\$ (13,040) a		\$ 14,093
311 Pumping Equipment	\$ 60,967	\$ (9,751) b		\$ 51,216
320 Water Treatment Equipment	\$ 4,681	\$ (2,000) c		\$ 2,681
330.1 Distribution Reservoirs - Storage	\$ 54,464	\$ -		\$ 54,464
330.1 Distribution Reservoirs - Pressure	\$ -	\$ -		\$ -
331 Transmission & Distribution Mains	\$ 23,036	\$ -		\$ 23,036
333 Services	\$ -	\$ -		\$ -
334 Meters & Meter Installations	\$ 16,293	\$ -		\$ 16,293
335 Hydrants	\$ -	\$ -		\$ -
336 Backflow Prevention Devices	\$ -	\$ -		\$ -
339 Other Plant and Misc. Equipment	\$ 1,553	\$ 0		\$ 1,553
340 Office Furniture & Equipment	\$ -	\$ -		\$ -
341 Transportation Equipment	\$ -	\$ -		\$ -
343 Tools Shop & Garage Equipment	\$ 448	\$ 0		\$ 448
344 Laboratory Equipment	\$ -	\$ -		\$ -
345 Power Operated Equipment	\$ -	\$ -		\$ -
346 Communication Equipment	\$ -	\$ -		\$ -
347 Miscellaneous Equipment	\$ -	\$ -		\$ -
348 Other Tangible Plant	\$ -	\$ -		\$ -
105 C.W.I.P.	\$ -	\$ -		\$ -
TOTALS	\$ 237,829	\$ (24,791)		\$ 213,038

For Explanations of Adjustments, see Schedule CSB-2, Page 3.

STAFF PLANT ADJUSTMENTS

a - WELLS & SPRINGS - Per Company	\$ 27,133	
Per Staff	14,093	<u>(\$13,040)</u>

To reflect the correct calculation of the ending balance as follows:

Per Company	Difference	Per Staff	
\$14,093	\$0	\$14,093	Plant balance of last Staff report adopted in Dec. No. 65853
\$3,900	(\$3,900)	\$0	To remove unsupported costs
\$9,140	(\$9,140)	\$0	To remove costs for a well that was not in service
<u>\$27,133</u>	<u>(\$13,040)</u>	<u>\$14,093</u>	Total

b - PUMPING EQUIPMENT - Per Company	\$ 60,967	
Per Staff	51,216	<u>(\$9,751)</u>

To reflect the correct calculation of the ending balance as follows:

Per Company	Difference	Per Staff	
\$60,600	\$0	\$60,600	Plant balance of last Staff report adopted in Dec. No. 65853
\$0	\$178	\$178	Plant addition per Staff Engineering
\$367	\$0	\$367	2007 plant addition
<u>\$60,967</u>	<u>\$178</u>	<u>\$61,145</u>	Subtotal
\$0	(\$4,865)	(\$4,865)	To remove plant that is not in service per Staff Engineering
\$0	(\$1,020)	(\$1,020)	To remove plant that is not in service per Staff Engineering
\$0	(\$77)	(\$77)	To remove plant that is not in service per Staff Engineering
\$0	(\$290)	(\$290)	To remove plant that is not in service per Staff Engineering
\$0	(\$476)	(\$476)	To remove plant that is not in service per Staff Engineering
\$0	(\$120)	(\$120)	To remove plant that is not in service per Staff Engineering
<u>\$0</u>	<u>(\$3,081)</u>	<u>(\$3,081)</u>	To remove plant that is not in service per Staff Engineering
<u>\$0</u>	<u>(\$9,929)</u>	<u>(\$9,929)</u>	Subtotal
<u>\$60,967</u>	<u>(\$9,751)</u>	<u>\$51,216</u>	Total

c - WATER TREATMENT EQUIPMENT - Per Company	\$ 4,681	
Per Staff	2,681	<u>(\$2,000)</u>

To reflect the correct calculation of the ending balance as follows:

Per Company	Difference	Per Staff	
\$2,681	\$0	\$2,681	Plant balance of last Staff report adopted in Dec. No. 65853
\$2,000	(\$2,000)	\$0	To remove unsupported costs
<u>\$4,681</u>	<u>(\$2,000)</u>	<u>\$2,681</u>	

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	Staff		Staff		Depreciation Rates	2002 Additions	2002 Retirements	Depreciation	2002	
	31-Dec-01 Original Cost	31-Dec-01 Accumulated Depreciation	31-Dec-01 Original Cost	31-Dec-01 Accumulated Depreciation					Total Cost	Accumulated Depreciation
301 Organization Cost	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	1,339	0	0	0	0.00%	0	0	0	1,339	0
303 Land & Land Rights	23,400	0	0	0	0.00%	0	0	0	23,400	0
304 Structures & Improv	24,515	10,009	0	0	3.33%	0	0	816	24,515	10,825
307 Wells & Springs	14,093	5,754	0	0	3.33%	0	0	469	14,093	6,223
311 Electric Pumping Equip	60,600	24,743	0	0	12.50%	0	0	7,575	60,600	32,318
320 Water Treatment Equip	2,681	1,095	0	0	20.00%	0	0	536	2,681	1,631
330.1 Dist. Resvnr - Storage	54,464	22,237	0	0	2.22%	0	0	1,209	54,464	23,446
330.2 Dist. Resvnr - Pressure	0	0	0	0	0.00%	0	0	0	0	0
331 Trans. & Distr. Mains	23,036	9,405	0	0	2.00%	0	0	461	23,036	9,866
333 Services	0	0	0	0	3.33%	0	0	0	0	0
334 Meters	16,293	6,652	0	0	8.33%	0	0	1,357	16,293	8,009
335 Hydrants	0	0	0	0	0.00%	0	0	0	0	0
339 Other Plant & Misc. Equip	1,553	634	0	0	6.67%	0	0	104	1,553	738
340 Office Furniture & Fixt	4,319	1,763	0	0	6.67%	0	0	288	4,319	2,051
341 Transportation Equip	14,656	5,984	0	0	20.00%	0	0	2,931	14,656	8,915
343 Tools & Work Equip	448	183	0	0	5.00%	0	0	22	448	205
345 Power Operated Equip	0	0	0	0	0.00%	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0.00%	0	0	0	0	0
2001/2002 Totals	\$241,397	\$88,459	\$0	\$0		\$0	\$0	\$15,769	\$241,397	\$104,228
271 Contribs in Aid of Constr	0	0	0	0		0	0	0	0	0
Net	\$241,397	\$88,459	\$0	\$0		\$0	\$0	\$15,769	\$241,397	\$104,228

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	2003 Additions		2003 Retirements		Fully Depreciated		2003 Depr. Expense		2003 Total Cost		2003 Accumulated Depreciation		2003 Net Book Value	
	Cost		Cost	Depreciation	Depreciated	Depreciated	Depr. Expense	Total Cost	Total Cost	Depreciation	Depreciation	Book Value	Book Value	
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
302 Franchise Cost	0	0	0	0	0	0	0	1,339	1,339	0	0	1,339	1,339	
303 Land & Land Rights	0	0	0	0	0	0	0	23,400	23,400	0	0	23,400	23,400	
304 Structures & Improv	0	0	0	0	0	0	816	24,515	24,515	11,642	11,642	12,873	12,873	
307 Wells & Springs	0	0	0	0	0	0	469	14,093	14,093	6,693	6,693	7,400	7,400	
311 Electric Pumping Equip	0	0	0	0	0	0	7,575	60,600	60,600	39,893	39,893	20,707	20,707	
320 Water Treatment Equip	0	0	0	0	0	0	536	2,681	2,681	2,167	2,167	514	514	
330.1 Dist. Resrvr - Storage	0	0	0	0	0	0	1,209	54,464	54,464	24,655	24,655	29,809	29,809	
330.2 Dist. Resrvr - Pressure	0	0	0	0	0	0	0	23,036	23,036	10,326	10,326	12,710	12,710	
331 Trans. & Distr. Mains	0	0	0	0	0	0	0	0	0	0	0	0	0	
333 Services	0	0	0	0	0	0	0	0	0	0	0	0	0	
334 Meters	0	0	0	0	0	0	1,357	16,293	16,293	9,366	9,366	6,927	6,927	
335 Hydrants	0	0	0	0	0	0	0	0	0	0	0	0	0	
339 Plant Structures & Imprv	0	0	0	0	0	0	104	1,553	1,553	841	841	712	712	
340 Office Furniture & Fixt	0	4,319	0	4,319	0	0	144	0	0	(2,124)	(2,124)	2,124	2,124	
341 Transportation Equip	0	14,656	0	14,656	0	0	1,466	0	0	(4,275)	(4,275)	4,275	4,275	
343 Tools & Work Equip	0	0	0	0	0	0	22	448	448	228	228	220	220	
345 Power Operated Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	
347 Miscellaneous Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	
2003 Totals	\$0	\$18,975	\$18,975	\$18,975	\$0	\$0	\$14,159	\$222,422	\$222,422	\$99,413	\$99,413	\$123,009	\$123,009	
271 Contribs in Aid of Constr	0	0	0	0	0	0	0	0	0	0	0	0	0	
Net	\$0	\$18,975	\$18,975	\$18,975	\$0	\$0	\$14,159	\$222,422	\$222,422	\$99,413	\$99,413	\$123,009	\$123,009	

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	2004 Additions		2004 Retirements		Fully Depreciated	2004		2004 Total Cost	2004 Accumulated Depreciation	2004 Net Book Value
	Cost	Depreciation	Cost	Depreciation		Depr. Expense	Depreciation			
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	1,339	0	1,339	1,339
303 Land & Land Rights	0	0	0	0	0	0	23,400	0	23,400	23,400
304 Structures & Improv	0	0	0	0	0	816	24,515	12,458	12,057	12,057
307 Wells & Springs	0	0	0	0	0	469	14,093	7,162	6,931	6,931
311 Electric Pumping Equip	0	0	0	0	0	7,575	60,600	47,468	13,132	13,132
320 Water Treatment Equip	0	0	0	0	0	536	2,681	2,704	(23)	(23)
330.1 Dist. Resvnr - Storage	0	0	0	0	0	1,209	54,464	25,864	28,600	28,600
330.2 Dist. Resvnr - Pressure	0	0	0	0	0	0	0	0	0	0
331 Trans. & Distr. Mains	0	0	0	0	0	461	23,036	10,787	12,249	12,249
333 Services	0	0	0	0	0	0	0	0	0	0
334 Meters	0	0	0	0	0	1,357	16,293	10,724	5,569	5,569
335 Hydrants	0	0	0	0	0	0	0	0	0	0
339 Plant Structures & Improv	0	0	0	0	0	104	1,563	945	608	608
340 Office Furniture & Fixt	0	0	0	0	0	0	0	(2,124)	2,124	2,124
341 Transportation Equip	0	0	0	0	0	0	0	(4,275)	4,275	4,275
343 Tools & Work Equip	0	0	0	0	0	22	448	250	198	198
345 Power Operated Equip	0	0	0	0	0	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0	0	0	0	0	0
2004 Totals	\$0	\$0	\$0	\$0	\$0	\$12,550	\$222,422	\$111,962	\$110,460	\$110,460
271 Contribs in Aid of Constr	0	0	0	0	0	0	0	0	0	0
Net	\$0	\$0	\$0	\$0	\$0	\$12,550	\$222,422	\$111,962	\$110,460	\$110,460

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	2005 Additions		2005 Retirements		Fully Depreciated	2005		2005 Total Cost	2005 Accumulated		2005 Net Book Value
	Cost	Depreciation	Cost	Depreciation		Depr. Expense	Depreciation		Depreciation	Book Value	
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	1,339	0	0	1,339	1,339
303 Land & Land Rights	0	0	0	0	0	0	23,400	0	0	23,400	23,400
304 Structures & Improv	0	0	0	0	0	816	24,515	0	13,274	11,241	11,241
307 Wells & Springs	0	0	0	0	0	469	14,093	0	7,631	6,462	6,462
311 Electric Pumping Equip	0	0	0	0	0	7,575	60,600	0	55,043	5,557	5,557
320 Water Treatment Equip	0	0	0	0	0	536	2,681	0	3,240	(559)	(559)
330.1 Dist. Resvrv - Storage	0	0	0	0	0	1,209	54,464	0	27,073	27,391	27,391
330.2 Dist. Resvrv - Pressure	0	0	0	0	0	0	0	0	0	0	0
331 Trans. & Distr. Mains	0	0	0	0	0	461	23,036	0	11,248	11,788	11,788
333 Services	0	0	0	0	0	0	0	0	0	0	0
334 Meters	0	0	0	0	0	1,357	16,293	0	12,081	4,212	4,212
335 Hydrants	0	0	0	0	0	0	0	0	0	0	0
339 Plant Structures & Imprv	0	0	0	0	0	104	1,553	0	1,048	505	505
340 Office Furniture & Fixt	0	0	0	0	0	0	0	0	(2,124)	2,124	2,124
341 Transportation Equip	0	0	0	0	0	0	0	0	(4,275)	4,275	4,275
343 Tools & Work Equip	0	0	0	0	0	22	448	0	273	175	175
345 Power Operated Equip	0	0	0	0	0	0	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0	0	0	0	0	0	0
2005 Totals	\$0	\$0	\$0	\$0	\$0	\$12,550	\$222,422	\$12,550	\$124,512	\$97,910	\$97,910
271 Contribs in Aid of Constr	0	0	0	0	0	0	0	0	0	0	0
Net	\$0	\$0	\$0	\$0	\$0	\$12,550	\$222,422	\$12,550	\$124,512	\$97,910	\$97,910

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

2006 Additions	2006 Retirements		Fully Depreciated	2006		2006 Total Cost	2006 Accumulated		2006 Net Book Value
	Cost	Depreciation		Depr. Expense	Depreciation				
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0	1,339	0	1,339	1,339
0	0	0	0	0	0	23,400	0	23,400	23,400
0	0	0	0	0	816	24,515	14,091	10,424	10,424
0	0	0	0	0	469	14,093	8,100	5,993	5,993
367	9,929	9,929	51,038	598	598	51,038	45,712	5,326	5,326
0	0	0	0	536	536	2,681	3,776	(1,095)	(1,095)
0	0	0	0	1,209	1,209	54,464	28,283	26,181	26,181
0	0	0	0	0	0	23,036	11,709	11,327	11,327
0	0	0	0	461	461	0	0	0	0
0	0	0	0	0	0	16,293	13,438	2,855	2,855
0	0	0	0	1,357	1,357	0	0	0	0
0	0	0	0	0	0	0	0	0	0
0	0	0	0	104	104	1,553	1,152	401	401
0	0	0	0	0	0	0	(2,124)	2,124	2,124
0	0	0	0	0	0	0	(4,275)	4,275	4,275
0	0	0	0	22	22	448	295	153	153
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
\$367	\$9,929	\$9,929	\$51,038	\$5,572	\$5,572	\$212,860	\$120,156	\$92,704	\$92,704
0	0	0	0	0	0	0	0	0	0
Net	\$367	\$9,929	\$51,038	\$5,572	\$5,572	\$212,860	\$120,156	\$92,704	\$92,704

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	9/30/2007	9/30/2007 Retirements		Fully Depreciated	Jan. to Sept. Depr. Expense	9/30/2007 Total Cost	9/30/2007 Accumulated Depreciation	9/30/2007 Net Book Value
	Cost	Cost	Depreciation					
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	1,339	0	1,339
303 Land & Land Rights	0	0	0	0	0	23,400	0	23,400
304 Structures & Improv	0	0	0	0	612	24,515	14,703	9,812
307 Wells & Springs	0	0	0	0	352	14,093	8,452	5,641
311 Electric Pumping Equip	178	0	0	0	4,793	51,216	50,505	711
320 Water Treatment Equip	0	0	0	0	402	2,681	4,178	(1,497)
330.1 Dist. Resvrv - Storage	0	0	0	0	907	54,464	29,189	25,275
330.2 Dist. Resvrv - Pressure	0	0	0	0	0	0	0	0
331 Trans. & Distr. Mains	0	0	0	0	346	23,036	12,054	10,982
333 Services	0	0	0	0	0	0	0	0
334 Meters	0	0	0	0	1,018	16,293	14,456	1,837
335 Hydrants	0	0	0	0	0	0	0	0
339 Plant Structures & Imprv	0	0	0	0	78	1,553	1,230	323
340 Office Furniture & Fixt	0	0	0	0	0	0	(2,124)	2,124
341 Transportation Equip	0	0	0	0	0	0	(4,275)	4,275
343 Tools & Work Equip	0	0	0	0	22	448	317	131
345 Power Operated Equip	0	0	0	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0	0	0	0
9/30/2007 Totals	\$178	\$0	\$0	\$0	\$8,530	\$213,038	\$128,686	\$84,352
271 Contribs in Aid of Constr	0	0	0	0	0	0	0	0
Net	\$178	\$0	\$0	\$0	\$8,530	\$213,038	\$128,686	\$84,352

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 127,507
Accumulated Depreciation - Per Staff	128,686
Total Adjustment	<u>\$ 1,179</u> B

To reflect Staff's calculation of accumulated depreciation expense based upon Staff's adjustments to plant.

STAFF RATE BASE ADJUSTMENTS

F	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff	\$	-	
				254	\$254
		To reflect Staff's calculation of working capital based upon Staff's recommendations for purchased power and purchased water.			
G	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff	\$	-	
				2,698	\$2,698
		To reflect Staff's calculation of working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).			

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$ 25,851	\$ (6,671) A	\$ 19,180
460 Unmetered Water Revenue	\$ -	\$ -	\$ -
474 Other Water Revenues	\$ -	\$ 725 B	\$ 725
Total Operating Revenue	\$ 25,851	\$ (5,946)	\$ 19,905
Operating Expenses:			
601 Salaries and Wages	\$ -	\$ -	\$ -
610 Purchased Water	\$ 3,950	\$ (3,950) C	\$ -
615 Purchased Power	\$ 5,767	\$ 324 D	\$ 6,091
618 Chemicals	\$ -	\$ -	\$ -
620 Materials and Supplies	\$ 4,460	\$ (472) E	\$ 3,988
621 Office Supplies & Expense	\$ 2,000	\$ (1,830) F	\$ 170
630 Outside Services	\$ 6,610	\$ 3,311 G	\$ 9,921
635 Water Testing	\$ 1,043	\$ 140 H	\$ 1,183
641 Rents	\$ 2,143	\$ (2,143) I	\$ -
650 Transportation Expenses	\$ 2,023	\$ (246) J	\$ 1,777
657 Insurance - General Liability	\$ 1,833	\$ (250) K	\$ 1,583
659 Insurance - Health and Life	\$ -	\$ -	\$ -
666 Regulatory Commission Expense - Rate Case	\$ -	\$ 1,000 L	\$ 1,000
675 Miscellaneous Expense	\$ 1,007	\$ 958 M	\$ 1,965
403 Depreciation Expense	\$ 5,876	\$ (901) N	\$ 4,975
408 Taxes Other Than Income	\$ -	\$ -	\$ -
408.11 Property Taxes	\$ 3,472	\$ (1,653) O	\$ 1,819
409 Income Tax	\$ 50	\$ -	\$ 50
Total Operating Expenses	\$ 40,234	\$ (5,712)	\$ 34,522
OPERATING INCOME/(LOSS)	\$ (14,383)	\$ (234)	\$ (14,617)

STAFF ADJUSTMENTS

A	- METERED WATER REVENUE - Per Company	\$ 25,851	
	Per Staff	19,180	<u>(\$6,671)</u>

Staff removed \$5,946 in standpipe revenue as Staff has recommended that the standpipe service be discontinued until the Company finds a more reliable source of water. Staff reclassified \$725 generated from miscellaneous service charges from "Metered Revenue" to "Other Revenue".

\$25,851	Metered water revenue per Company
(\$5,946)	Remove stand pipe revenue
<u>(\$725)</u>	Reclassify other water revenue
\$19,180	Staff's metered water revenue

B	- OTHER WATER REVENUE - Per Company	\$ -	
	Per Staff	725	<u>\$725</u>

To reclassify \$725 generated from miscellaneous service charges that were incorrectly included in the metered revenue account.

C	- PURCHASED WATER	\$ 3,950	
	Per Staff	0	<u>(\$3,950)</u>

To remove a non-recurring expense.

D	- PURCHASED POWER EXPENSE - Per Company	\$ 5,767	
	Per Staff	6,091	<u>\$324</u>

To reflect 12 months of purchased power expense by including the September 2007 purchased power bill in the amount of \$372.89 and to remove \$49.55 in late fees.

\$5,767.37	
\$372.89	To add the Sept 2007 purchased power bill
<u>(\$49.55)</u>	To remove late fees
\$6,090.71	Staff's power expense

E	- MATERIAL AND SUPPLIES - Per Company	\$ 4,460	
	Per Staff	3,988	<u>(\$472)</u>

To remove unsupported costs.

STAFF ADJUSTMENTS (Cont.)

F	- OFFICE SUPPLIES AND EXPENSE - Per Company	\$ 2,000	
	Per Staff	170	(\$1,830)
	To remove unsupported costs.		

G	- OUTSIDE SERVICES - Per Company	\$ 6,610	
	Per Staff	9,921	\$3,311
	To reflect Staff's calculation of Outside Services expense as follows		

Calculation of Outside Services			
Rodney C. Wilson, CPA	\$ 375.00	Conferences with client, prepare sales tax rpt, property tax issues	
Rodney C. Wilson, CPA	\$ 220.00	Business consultation, accounting work	
Rodney C. Wilson, CPA	\$ 603.80	Preparation and payment of first quarter sales tax report	
Rodney C. Wilson, CPA	\$ 500.00	Emergency rate case	
Rodney C. Wilson, CPA	\$ 1,726.00	\$1,200 for tax return, prop tax, utility rpt; \$250 emerg rate case	
Rodney C. Wilson, CPA	\$ 375.00	Emergency rate case	
Rodney C. Wilson, CPA	\$ 501.99	tax return, training on Quick Books, sales tax, etc.	
Rodney C. Wilson, CPA	\$ 600.00	tax return, training on Quick Books, sales tax, etc.	
	\$ 4,901.79		
	\$ (500.00)	Remove emergency rate case expense	
	\$ (250.00)	Remove emergency rate case expense	
	\$ (375.00)	Remove emergency rate case expense	
	\$ 3,776.79		
Cost for certified operator	\$ 1,290.00	(\$107.50 x 12)	
Cost for meter reading, billing, bookkeeping	\$ 4,853.76	(\$12.64 per hr x 32 hrs per month x 12 months)	
	\$ 9,920.55	Staff's total outside services	

H	- WATER TESTING - Per Company	\$ 1,043	
	Per Staff	1,183	\$140
	To reflect Staff's normalized annual water testing expense		

I	- RENTS - Per Company	\$ 2,143	
	Per Staff	0	(\$2,143)
	To remove the lease cost of a card system used in conjunction with stand pipe sales that Staff has recommended be discontinued.		

J	- TRANSPORTATION EXPENSE - Per Company	\$ 2,023	
	Per Staff	1,777	(\$246)
	To remove unsupported costs.		

K	- INSURANCE, GENERAL LIABILITY - Per Company	\$ 1,833	
	Per Staff	1,583	(\$250)
	To remove the cost of a bond incurred for the emergency rate case		

STAFF ADJUSTMENTS (Cont.)

L	- REGULATORY COMMISSION EXPENSE, RATE CASE - Per Company	\$	-	
	Per Staff		1,000	<u>\$1,000</u>
	To provide a normalized level of rate case expense.			

M	- MISCELLANEOUS EXPENSE - Per Company	\$	1,007	
	Per Staff		1,965	<u>\$958</u>
	To reflect Staff's calculation of Miscellaneous expense			

	\$	888.76	Travel expenses (lodging & meals)
	\$	687.96	Phone service (\$57.13 per month x 12 months)
	\$	<u>388.08</u>	Trash service (\$97.02 per quarter x 4)
	\$	1,964.80	

STAFF ADJUSTMENTS (Cont.)

N - DEPRECIATION - Per Company \$5,876
 Per Staff 4,975 (\$901)

Acct No.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$ -	\$ -	\$ -	0.00%	\$ -
302	Franchises	\$ 1,339	\$ 1,339	\$ -	0.00%	\$ -
303	Land & Land Rights	\$ 23,400	\$ 23,400	\$ -	0.00%	\$ -
304	Structures & Improvements	\$ 24,515	\$ -	\$ 24,515	3.33%	\$ 816
307	Wells & Springs	\$ 14,093	\$ -	\$ 14,093	3.33%	\$ 469
311	Pumping Equipment	\$ 51,216	\$ 51,216	\$ -	12.50%	\$ -
320	Water Treatment Equipment	\$ 2,681	\$ -	\$ 2,681	20.00%	\$ 536
330.1	Distribution Reservoirs - Storage	\$ 54,464	\$ -	\$ 54,464	2.22%	\$ 1,209
330.2	Distribution Reservoirs - Pressure	\$ -	\$ -	\$ -	5.00%	\$ -
331	Transmission & Distribution Mains	\$ 23,036	\$ -	\$ 23,036	2.00%	\$ 461
333	Services	\$ -	\$ -	\$ -	3.33%	\$ -
334	Meters & Meter Installations	\$ 16,293	\$ -	\$ 16,293	8.33%	\$ 1,357
335	Hydrants	\$ -	\$ -	\$ -	0.00%	\$ -
336	Backflow Prevention Devices	\$ -	\$ -	\$ -	0.00%	\$ -
339	Other Plant and Misc. Equipment	\$ 1,553	\$ -	\$ 1,553	6.67%	\$ 104
340	Office Furniture & Equipment	\$ -	\$ -	\$ -	6.67%	\$ -
341	Transportation Equipment	\$ -	\$ -	\$ -	0.00%	\$ -
343	Tools Shop & Garage Equipment	\$ 448	\$ -	\$ 448	5.00%	\$ 22
	Total Plant	\$ 213,038	\$ 75,955	\$ 137,083		\$ 4,975

Depreciation Expense Before Amortization of CIAC: \$ 4,975
 Less Amortization of CIAC*: \$ -
Test Year Depreciation Expense - Staff: \$ 4,975
 Depreciation Expense - Company: \$ 5,876
Staff's Total Adjustment: \$ (901)

*** Amortization of CIAC Calculation:**
 Contribution(s) in Aid of Construction (Gross) \$ -
 Less: Non Amortizable Contribution(s) 0
 Less: Fully Amortized Contribution(s) 0
 Amortizable Contribution(s) \$ -
 Times: Staff Proposed Amortization Rate 0.00%
Amortization of CIAC \$ -

O - PROPERTY TAXES - Per Company \$ 3,472
 Per Staff 1,819 (\$1,653)

To remove costs not incurred during the test year.

RATE DESIGN

Present Rates	-Proposed Rates-	
	Company	Staff

Monthly Customer Charge

5/8" x 3/4" Meter	\$17.00	\$27.00	27.00
3/4" Meter	26.00	40.00	45.00
1" Meter	44.00	60.00	75.00
1 1/2" Meter	65.00	75.00	120.00
2" Meter	130.00	150.00	160.00
3" Meter	208.00	240.00	330.00
4" Meter	435.00	485.00	500.00
6" Meter	650.00	700.00	700.00

Gallons Included In Monthly Customer Charge:

For all meter sizes	0	0	0
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Emergency Rates

Commodity charge per 1,000 gallons	\$30.00	N/A	N/A
Standpipe service charge per 1,000 gallons	Discontinued	N/A	N/A

Permanent Rates

Commodity Charge - Residential			
0 to 4,000 gallons	\$2.79	\$7.00	45.00
4,001 to 10,000 gallons	\$4.19	\$11.00	50.00
10,001 and above gallons	\$5.02	\$13.00	55.00

Commodity Charge - Nonresidential

0 to 10,000 gallons	\$4.19	\$11.00	50.00
10,001 and above gallons	\$5.02	\$13.00	55.00

Standpipe Service

\$6.00	\$15.00	Discontinued
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Service Line and Meter Installation Charges

Present Rates	Company Proposed	Staff Proposed			
		Services	Meters	Total	
5/8" x 3/4" Meter	\$ 420.00	\$ 450.00	\$ 415.00	\$ 105.00	\$ 520.00
3/4" Meter	485.00	500.00	415.00	205.00	\$620.00
1" Meter	635.00	750.00	465.00	265.00	\$730.00
1 1/2" Meter	880.00	1,000.00	520.00	475.00	\$995.00
2" Turbine Meter	1,505.00	2,000.00	800.00	995.00	\$1,795.00
2" Compound Meter	0.00	0.00	800.00	1,840.00	\$2,640.00
3" Turbine Meter	2,145.00	3,000.00	1,015.00	1,620.00	\$2,635.00
3" Compound Meter	0.00	0.00	1,135.00	2,495.00	\$3,630.00
4" Turbine Meter	3,340.00	5,000.00	1,430.00	2,570.00	\$4,000.00
4" Compound Meter	0.00	0.00	1,610.00	3,545.00	\$5,155.00
6" Turbine Meter	6,010.00	10,000.00	2,150.00	4,925.00	\$7,075.00
6" Compound Meter	0.00	0.00	2,270.00	6,820.00	\$9,090.00

Water Hauling Surcharge¹

N/A N/A Cost (1)

(1) Per gallon rate calculated by dividing actual hauling costs less curtailment penalty fees collected by the total gallons sold for the month. Customer bill amount will be calculated by multiplying the gallons used for the month times the per gallon rate. Customers will be billed in the month following actual costs incurred.

Service Charges

Present Rates	-Proposed Rates-		
	Company	Staff	
Establishment	\$ 25.00	\$ 50.00	\$ 30.00
Establishment (After Hours)	37.50	75.00	45.00
Reconnection (Delinquent)	25.00	50.00	30.00
Reconnection (Delinquent - After Hours)	0.00	50.00	45.00
Meter Test (If Correct)	40.00	50.00	40.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	25.00	20.00
Deferred Payment	1.50%	1.50%	0.00%
Meter Re-Read (If Correct)	15.00	50.00	20.00
Late Fee	0.00%	1.50%	1.50%

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

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

N/A: Not applicable

TYPICAL BILL ANALYSIS - COMMERCIAL

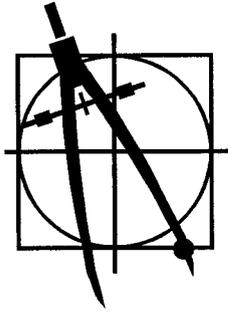
3/4 - Inch Meter

Average Number of Customers: 4

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	2,250	\$93.50	\$55.75	(\$37.75)	-40.4%
Median Usage	1,565	\$72.96	\$50.96	(\$22.00)	-30.2%
<u>Staff Recommended</u>					
Average Usage	2,250	\$93.50	\$146.25	\$52.75	56.4%
Median Usage	1,565	\$72.96	\$115.43	\$42.47	58.2%

Present and Proposed Rates (Without Taxes)
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	\$26.00	\$40.00	53.8%	\$45.00	73.1%
1,000	56.00	47.00	-16.1%	90.00	60.7%
2,000	86.00	54.00	-37.2%	135.00	57.0%
3,000	116.00	61.00	-47.4%	180.00	55.2%
4,000	146.00	68.00	-53.4%	225.00	54.1%
5,000	176.00	79.00	-55.1%	275.00	56.3%
6,000	206.00	90.00	-56.3%	325.00	57.8%
7,000	236.00	101.00	-57.2%	375.00	58.9%
8,000	266.00	112.00	-57.9%	425.00	59.8%
9,000	296.00	123.00	-58.4%	475.00	60.5%
10,000	326.00	134.00	-58.9%	525.00	61.0%
15,000	476.00	199.00	-58.2%	800.00	68.1%
20,000	626.00	264.00	-57.8%	1,075.00	71.7%
25,000	776.00	329.00	-57.6%	1,350.00	74.0%
50,000	1,526.00	654.00	-57.1%	2,725.00	78.6%
75,000	2,276.00	979.00	-57.0%	4,100.00	80.1%
100,000	3,026.00	1,304.00	-56.9%	5,475.00	80.9%
125,000	3,776.00	1,629.00	-56.9%	6,850.00	81.4%
150,000	4,526.00	1,954.00	-56.8%	8,225.00	81.7%
175,000	5,276.00	2,279.00	-56.8%	9,600.00	82.0%
200,000	6,026.00	2,604.00	-56.8%	10,975.00	82.1%



**Engineering Report for
Bellemont Water Company**

Docket No. W-02526A-08-0078 (Rates)

By Marlin Scott, Jr. *msj*

June 11, 2008

CONCLUSIONS

- A. Bellemont Water Company ("Company") does not have adequate well and storage capacity at this time. However, once the new 150,000 gallon storage tank is approved and placed into service, this system could adequately serve its customer base.
- B. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Company is currently delivering water that meets the water quality standards.
- C. The Company is not within an Active Management Area ("AMA") and therefore, is not subject to AMA reporting and conservation requirements. According to ADWR, the Company is not a community water system and therefore, does not need to submit a System Water Plan or an Annual Water Use Report.
- D. A check with the Utilities Division Compliance Section showed that the Company had no delinquent Commission compliance issues.
- E. The Company has an approved curtailment tariff that became effective on May 1, 2003.
- F. The Company has an approved backflow prevention tariff that became effective on June 3, 2007.

RECOMMENDATIONS

- 1. Staff recommends that the Company be ordered to install a wellhead meter. Staff estimates the cost to install a wellhead meter at \$500. Staff further recommends that the Company, by December 31, 2008, file with Docket Control, as a compliance item in this docket, documentation demonstrating that the wellhead meter has been installed.
- 2. Staff recommends that the Company's standpipe service not be reinstated. Staff is not opposed to reconsidering the re-instatement of standpipe service if in the future, the Company performs an engineering study. The engineering study would

have to show, to Staff's satisfaction, that Bellemont's water source has improved to a level that enables it to reliably meet the demands of both its metered and standpipe customers.

3. Staff recommends that an annual water testing expense of \$1,183 be used for purposes of this application and further recommends that the remaining \$192 of the reported \$1,375 be classified as part of the water operator's fee.
4. The Company has adopted Staff's typical and customary depreciation rates and Staff recommends that the Company continue to use the depreciation rates delineated in Table B on a going-forward basis.
5. Staff recommends its Service Line and Meter Installation Charges as delineated in Table C.

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A. LOCATION OF COMPANY

Bellemont Water Company (“Company”) serves the community of Bellemont, which is located approximately 10 miles west of Flagstaff along Interstate 40. Figure 1 shows the location of the Company within Coconino County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 1/3 square-mile.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on April 11, 2008, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Klaudia Ness, Secretary for the Company, and Greg Brower, representing Schuff Steel Company. Schuff Steel is a commercial customer of the Company.

The current operation of the water system consists of one main well pumping an estimated 10 gallons per minute (“GPM”), a 100,000 gallon storage tank, three booster pumps, a 5,000 gallon pressure tank, and a distribution system serving seven commercial customers. The Company also has standpipe infrastructure, but due to past source production problems, this standpipe service was discontinued by order of the Commission. The Company also just completed the construction of an additional 150,000 gallon storage tank in May 2008. A system schematic of this process is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Data

Well Information	Well #2 (Main Well)	Well #3	Well #4 (Stand-By)
ADWR ID No.	55-513823	55-27693	55-584028
Casing Size	6-inch	8-inch	8-inch
Casing Depth	225 ft.	55 ft.	110 feet
Pump Size	10-Hp		5-Hp
Pump Type	Submersible	(Collapsed casing)	Submersible
Pump Yield	10 GPM (estimated)		1-3 GPM (estimated)
Wellhead meter	None	(Not used & useful)	(currently inoperable)
Treatment	Liquid chlorinator		None

Table 2. Tanks & Pumping Facilities

Equipment	Capacity
Storage tanks	100,000 gallons (150,000 gallon tank currently awaiting approval)
Booster pumps	10-Hp & two 25-Hp
Pressure tank	5,000 gallon

Table 3. Water Mains

Diameter	Material	Length
6-inch	PVC	1,518 ft.
4-inch	PVC	482 ft.
6-inch Master-meter	In 5' x 5' vault	

Table 4. Customer Meters

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

* Note: One customer has two meters.

Table 5. Equipment & Structures

Equipment & Structures
Standpipes, 2" & 4" - both @ Well #2
Meter vault, 12' x 12' - at Well #2
Pump house, 17' x 37' - located at storage tank site
Well house, 10' x 10' - for Well #2

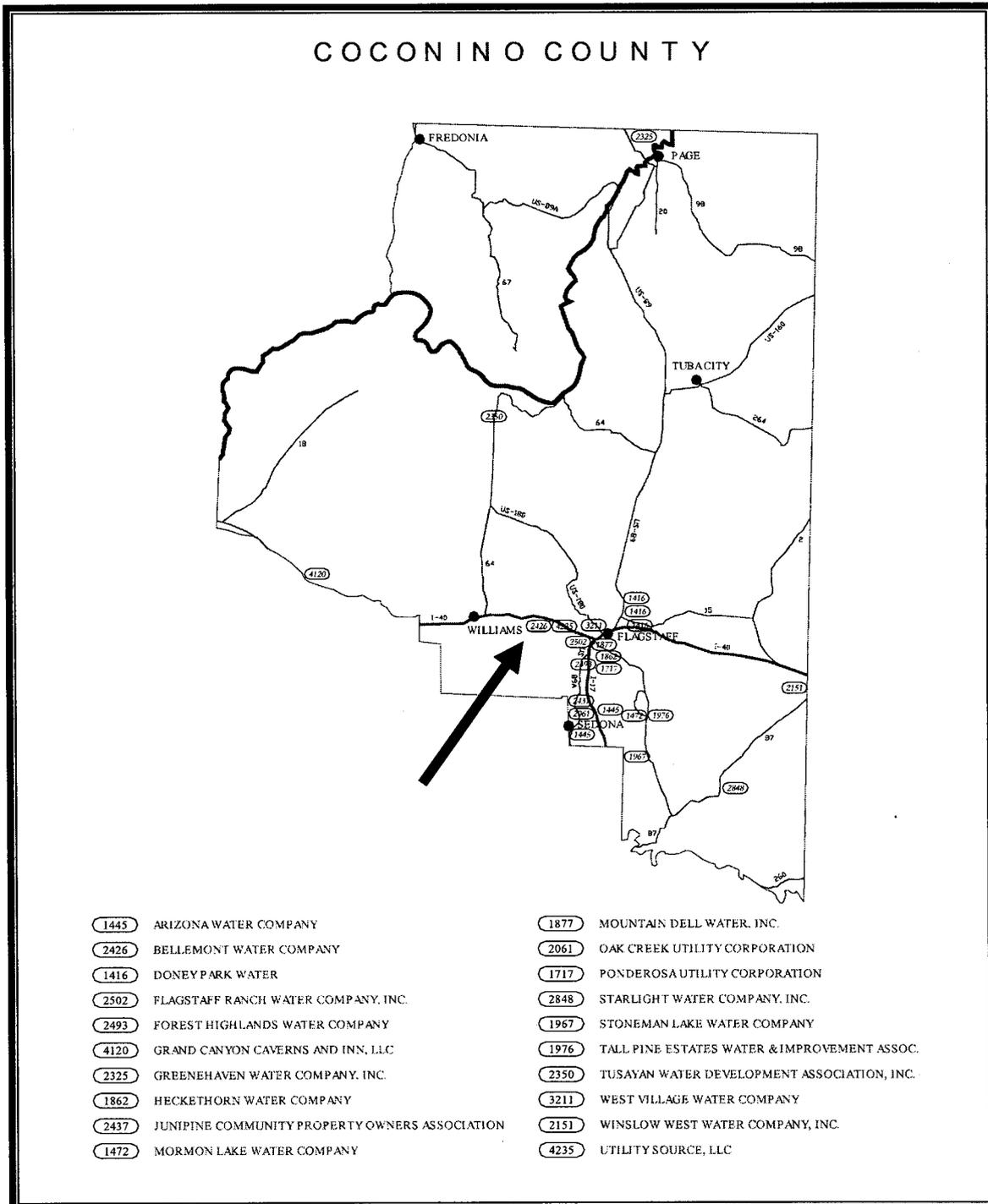


Figure 1. County Map

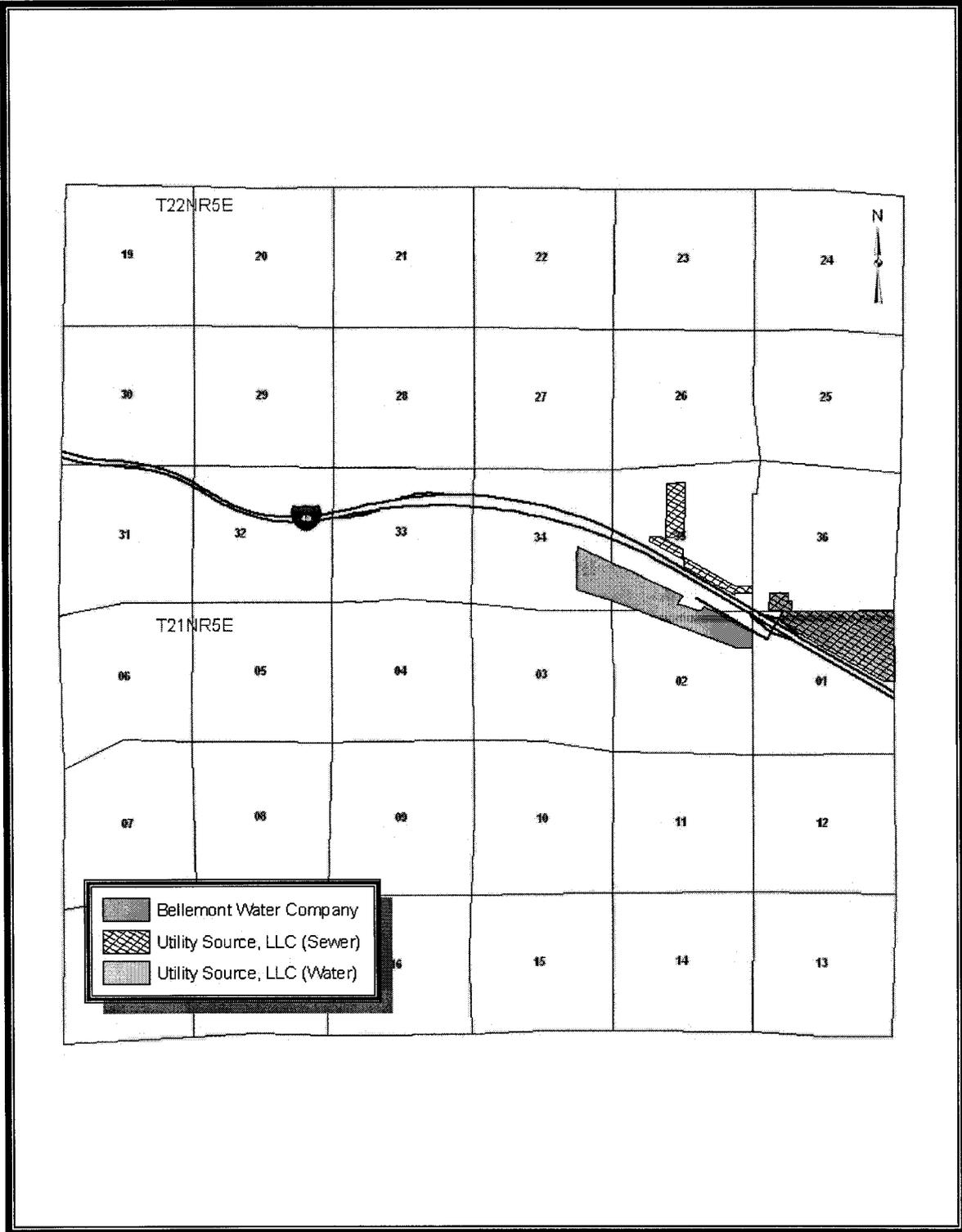


Figure 2. Certificated Area

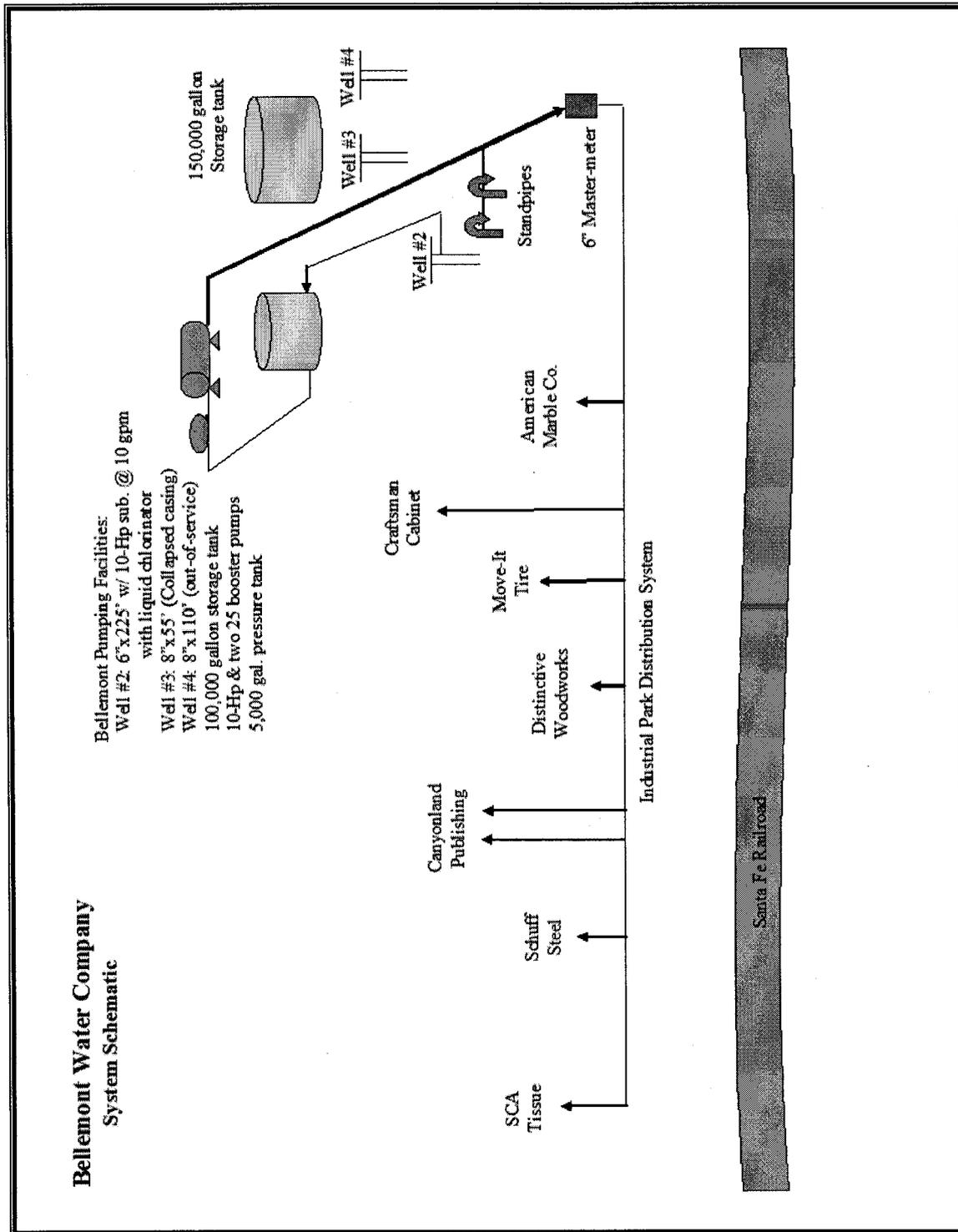


Figure 3. System Schematic

Well Drilling and Depletion

Since 1986, numerous well drillings have been performed by the prior owner of the Company and most of these wells have depleted and been abandoned. Several of these wells have been drilled up to 240 feet in depth and have depleted over time.

The current Company owner took over ownership in 2006. During 2006, the Company was leasing two Santa Fe Railroad wells that were later sold to another party. As a result, the Santa Fe source was discontinued and the Company had to rely on its own low producing wells. In early 2007, the Company attempted to find a new water source by drilling another well at a cost of \$9,140. This well had an 8-inch diameter casing and was drilled to a depth of 440 feet, which was drilled approximately 200 feet deeper in the vicinity of Well #2. This well drilling resulted in no water and was capped.

Search for Permanent Water Source

The Company had proposed to explore a permanent water source by drilling to a depth of 2,000 to 4,000 feet. According to the Company, this deep well drilling option is very risky and instead, the Company is pursuing a water system interconnection with Camp Navajo. Camp Navajo is an Army Depot located south of the Company and the Santa Fe Railroad tracks.

Water Facility Agreement

In 2007, a new fire district was formed in the Bellemont area. As a result, the Company was required to meet new fire flow requirements for its commercial customers (1,000 GPM for a duration of 2 hours or 120,000 gallons per day). To assist with the funding of additional plant facilities to meet this new fire flow requirement, the Company and one of its customers, Schuff Steel Company, entered into a Water Facility Agreement ("WFA"). This WFA for advances-in-aid-of-construction ("AIAC") was for the construction of a new 150,000 gallon storage tank and a back-up generator at the total cost of \$220,065. The construction of storage tank and the installation of the generator were completed in May 2008 and are currently awaiting the ADEQ Certificate of Approval of Construction. The WFA is also pending Staff's review and approval.

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the Test Year ending September 2007. As reflected in Figure 4, the consumption usage dropped due to the depletion of the well production and the need to haul water. The commercial customer consumption experienced a high monthly usage of 2,393 gallons per day ("GPD") per connection in November 2006 and a low monthly water use of 248

GPD per connection in June 2007 for an average monthly use of 903 GPD per connection.

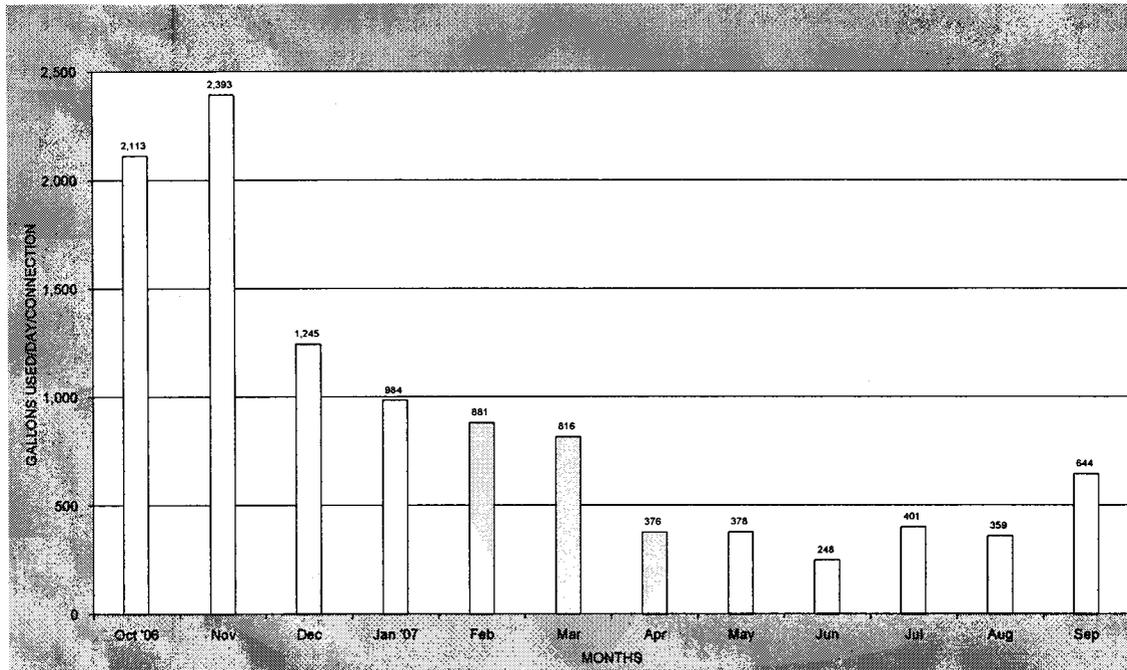


Figure 4. Water Use

Non-Account Water

The Company reported an estimated 1,955,000 gallons of water pumped and 1,947,000 gallons of water sold, resulting in a questionable water loss of 0.4%. During Staff's field inspection, it was noted that wellhead had no meter and that the Company was instead, measuring the well production by the level of water in storage tank. This measuring method to record the gallons pumped is not accurate because the water that flows into the distribution system is not measured simultaneously.

In the Company's prior rate case and its rendered Decision No. 65853 (April 25, 2003), the Company was ordered to install a wellhead meter when the well is deepened. Although the Company replaced its well pump (but did not deepen the well) in early 2007, the Company did not install the wellhead meter. Since this water system has a source production problem, it would be beneficial for the Company to install a wellhead meter in order to assist in monitoring the source production. Staff estimates the cost to install this wellhead meter at \$500.

Therefore, Staff recommends that the Company be ordered to install a wellhead meter. Staff further recommends that the Company, by December 31, 2008, file with Docket Control, as a compliance item in this docket, documentation demonstrating that the wellhead meter has been installed.

Standpipe Service

In an emergency rate case proceeding and its rendered Decision No. 69673 (June 28, 2007), the Commission ordered that the Company not reinstate its standpipe service until further order from the Commission. The Company has requested that its standpipe service be reinstated to provide service to only weekend customers. Staff recommends that this service not be reinstated until a more reliable source of water is found.

Staff is not opposed to reconsidering the re-instatement of standpipe service if in the future, the Company performs an engineering study. The engineering study would have to show, to Staff's satisfaction, that Bellefont's water source has improved to a level that enables it to reliably meet the demands of both its metered and standpipe customers.

System Analysis

The current estimated well capacity of 10 GPM and storage capacity of 100,000 gallons is not adequate for this system at this time because the storage capacity does not meet the new fire flow requirement. However, once the new added 150,000 gallon storage tank is approved and placed into service, this system could adequately serve its customer base.

D. GROWTH

Figure 5 details the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year 2007, the Company had seven metered customers and it is projected that the Company could have approximately 10 customers by 2012.

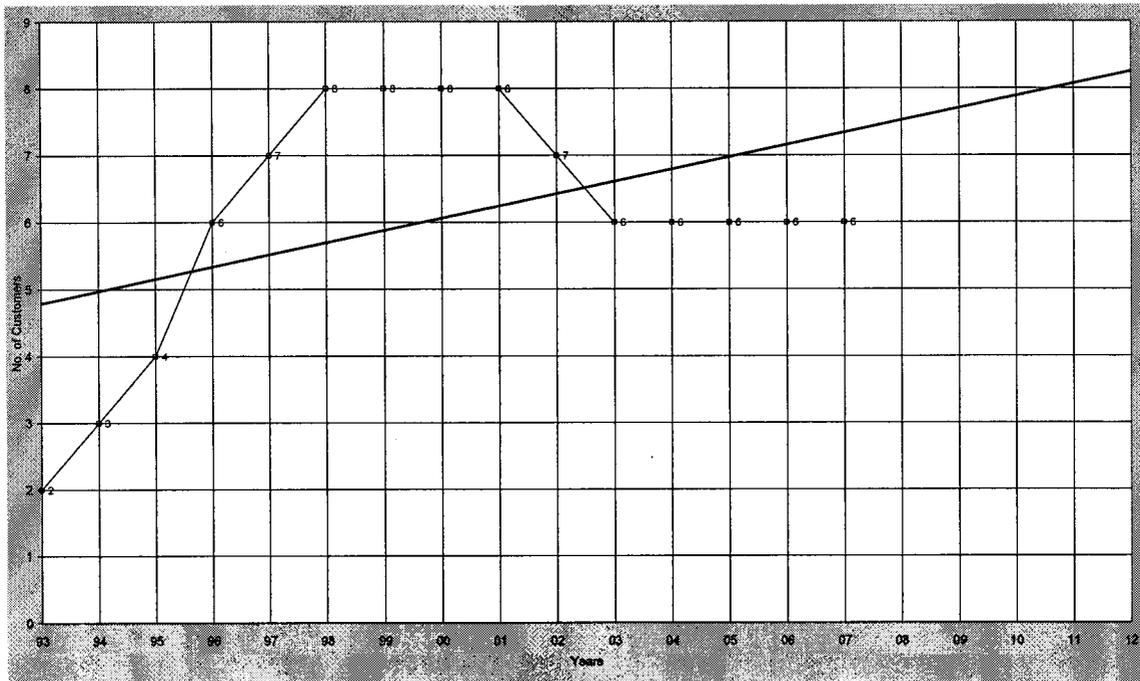


Figure 5. Growth Projection

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated November 19, 2007, that was submitted with the rate application; ADEQ reported no deficiencies and has determined that the Company’s system, PWS #03-394, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program (“MAP”). The Company reported its water testing expense at \$1,375 during the test year by combining water testing costs and a portion of water operator’s fees. Staff has reviewed these expenses and has recalculated the annual expense by adding the omitted monitoring requirements for lead & copper and Disinfection/Disinfection By-Product (“D/DBP”). Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. The Company chlorinates its wells and therefore, is required to monitor for D/DBP. Table A shows Staff’s adjusted annual monitoring expense estimate of \$1,183 with participation in the MAP.

Table A. Water Testing Cost

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – monthly	\$17.50	12	\$210
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$263
Lead & Copper – per year	\$36	10	\$360
D/DBP – TTHM/HH5 – per year	\$350	1	\$350
Total			\$1,183

Note: ADEQ's MAP invoice for the 2007 Calendar Year was \$262.85.

Staff recommends an annual water testing expense of \$1,183 be used for purposes of this application and further recommends that the remaining \$192 of the reported \$1,375 be classified as part of the water operator's fee.

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

Active Management Area (“AMA”) Compliance

The Company is not located in any AMA and therefore, is not subject to any AMA reporting and conservation requirements.

System Water Plan and Annual Water Use Report Compliance

ADWR has implemented the following regulations; *Arizona Revised Statutes* § 45-341 (Definitions), § 45-342 (System water plan) and § 45-343 (Records and annual report of water use). According to ADWR, the Company is not a community water system and therefore, does not need to submit a System Water Plan or an Annual Water Use Report.

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

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

H. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary depreciation rates. These rates are presented in Table B and it is recommended that the

Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going-forward basis.

Table B. Depreciation Rates

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

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company requested changes to its service line and meter installation charges. These requested charges are similar to Staff's customary installation charges. After Staff discussions with the Company, the Company has agreed to the lower end of Staff's customary range of charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of the charges as shown in Table C below, with separate installation charges for the service line and meter installations.

Table C. Service Line and Meter Installation Charges

Meter Size	Co.'s Current Charges	Co.'s Proposed Charges	Service Line Charges	Meter Installation Charges	Total Charges
5/8 x 3/4-inch	\$420	\$450	\$415	\$105	\$520
3/4-inch	\$485	\$500	\$415	\$205	\$620
1-inch	\$635	\$750	\$465	\$265	\$730
1-1/2-inch	\$880	\$1,000	\$520	\$475	\$995
2-inch – Turbine	\$1,505	\$2,000	\$800	\$995	\$1,795
2-inch – Compound	-	-	\$800	\$1,840	\$2,640
3-inch – Turbine	\$2,145	\$3,000	\$1,015	\$1,620	\$2,635
3-inch – Compound	-	-	\$1,135	\$2,495	\$3,630
4-inch – Turbine	\$3,340	\$5,000	\$1,430	\$2,570	\$4,000
4-inch – Compound	-	-	\$1,610	\$3,545	\$5,155
6-inch – Turbine	\$6,010	\$10,000	\$2,150	\$4,925	\$7,075
6-inch – Compound	-	-	\$2,270	\$6,820	\$9,090

2. Curtailment Tariff

The Company has an approved curtailment tariff that became effective on May 1, 2003.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff that became effective on June 3, 2007.