



0000094788

ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Ernest C. Johnson
Director
Utilities Division

DATE: March 23, 2009

RE: STAFF REPORT FOR WALNUT CREEK WATER COMPANY, INC.'S
APPLICATION FOR A PERMANENT RATE INCREASE, DOCKET NO.
W-02466A-08-0486

Attached is the Staff Report for Walnut Creek Water Company, Inc.'s application for a permanent rate increase. Staff recommends approval of the application using Staff's recommended 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 April 2, 2009.

EGJ:CRM:kdh

Originator: Charles R. Myhlhousen

Attachment: Original and thirteen copies

Arizona Corporation Commission

DOCKETED

MAR 23 2009

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Docket No. W-02466A-08-0486

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

WALNUT CREEK WATER COMPANY, INC.

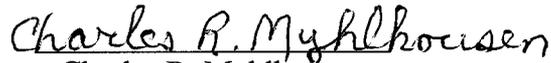
DOCKET NO. W-02466A-08-0486

**APPLICATION FOR A
PERMANENT RATE INCREASE**

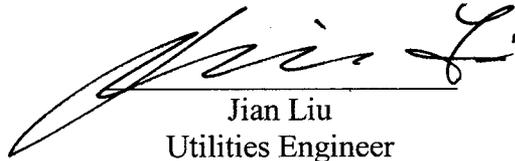
MARCH 23, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Walnut Creek Water Company, Inc., Docket No. W-02466A-08-0486, was the responsibility of the Staff members listed below. Charles R. Myhlhousen was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Jian Liu was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on the Company and reviewing customer complaints filed with the Commission.



Charles R. Myhlhousen
Public Utility Analyst III



Jian Liu
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
WALNUT CREEK WATER COMPANY INC
DOCKET NO. W-02466A-08-0486

Walnut Creek Water Company Inc. ("Company") is located approximately four miles southwest of Kingman, Arizona in Mohave County. The Company is engaged in the business of providing water utility service exclusively to Arizona customers in Mohave County. The Company provides service to approximately 255 customers. The Company's current rates were effective October 1, 1990, in Decision No. 55186.

The Company's rate application requested an increase in revenue of \$88,003 or a 78.33 percent increase over test year revenue of \$112,350. The Company's proposed revenues of \$200,353 resulting in an operating income of \$9,082, for a rate of return of 3.04 percent. The Company's proposed original cost rate base ("OCRB") is \$298,672. The Company's requested rates would increase the typical residential bill with a median usage of 6,101 gallons from \$23.20 to \$37.57, for an increase of \$14.37 or 61.9 percent.

Staff is recommending an increase over test year revenue of \$70,474 or a 62.73 percent increase over test year revenue of \$112,350. Staff's recommended revenues of \$182,824, result in an operating income of \$29,854, for a rate of return of 10.00 percent. Staff's recommended OCRB is \$298,460. Staff's recommended rates would increase the typical residential bill with a median usage of 6,101 gallons from \$23.20 to \$35.63, for an increase of \$12.43 or 53.6 percent.

Staff's recommendation will allow the Company sufficient revenue to pay expenses and for contingencies.

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule CRM-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 per Commission Rule (14-2-409D-5).
- The Company be ordered to docket with the Commission, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- The Company be ordered to use depreciation rates by individual National Association of Regulatory Commissioners category on a going-forward basis as delineated in Table B of the Engineering Report.
- The Company be ordered to use the mid-year convention in calculating depreciation for first and last year of life of all plant.

TABLE OF CONTENTS

	<u>PAGE</u>
FACT SHEET	1
RATES.....	1
CUSTOMERS.....	2
NOTIFICATION	2
SUMMARY OF FILING	2
COMPANY BACKGROUND	2
CONSUMER SERVICES.....	2
COMPLIANCE.....	3
RATE BASE.....	3
PLANT-IN-SERVICE.....	3
ACCUMULATED DEPRECIATION	3
ADVANCES-IN-AID-OF-CONSTRUCTION	4
CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION	4
WORKING CAPITAL.....	4
OPERATING REVENUE.....	4
OPERATING EXPENSES.....	4
RATE OF RETURN.....	5
REVENUE REQUIREMENT	5
RATE DESIGN	5
STAFF RECOMMENDATIONS.....	7

SCHEDULES

SUMMARY OF FILINGSCHEDULE CRM-1

RATE BASE.....SCHEDULE CRM-2

PLANT ADJUSTMENTSCHEDULE CRM-2

ACCUMULATED DEPRECIATION ADJUSTMENTSCHEDULE CRM-2

STATEMENT OF OPERATING INCOME.....SCHEDULE CRM-3

RATE DESIGN.....SCHEDULE CRM-4

PLANT BALANCES AND ACCUMULATED DEPRECIATION.....SCHEDULE CRM-5

TYPICAL BILL ANALYSIS.....SCHEDULE CRM-6

ATTACHMENT

ENGINEERING REPORTA

Fact Sheet

Current Rates: Decision No. 55186, September, 1990, rates effective October 1, 1990.

Type of Ownership: Arizona "Sub Chapter-S" Corporation.

Location: The Company is located approximately four miles southwest of Kingman, Arizona in Mohave County.

Rates

Permanent rate increase application filed: September 22, 2008, amended December 5, 2008.

Current Test Year Ended: December 31, 2007.

Monthly Minimum Charges:

	Company Present <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	\$15.00	\$18.00	\$18.00
Gallons in Minimum	2	2	0
Commodity Charge Excess of minimum, per 1,000 gallons			
Tier One zero gallons to 10,000 gallons	2.00		
Tier Two All gallons over 10,000 gallons	2.70		
Tier One 2,001 gallons to 5,000 gallons		4.58	
Tier Two 5,001 gallons to 10,000 gallons		5.30	
Tier Three All gallons over 10,000 gallons		7.90	
Tier One zero gallons to 3,000 gallons			2.00
Tier Two 3,001 gallons to 9,000 gallons			3.75
Tier Three All gallons over 9,000 gallons			5.90
Typical residential bill (Based on median usage of 6,101 gallons)	\$23.20	\$37.57	\$35.63

Customers

Average number of customers in prior test year ending April 30, 1990, was 24, current test year 254.

Notification

An affidavit of mailing of the customer notification was mailed on September 22, 2008, with re-notification on December 4, 2008.

Summary of Filing

Based on test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), Walnut Creek Water Company, Inc. ("Company") suffered an operating loss of \$40,620, for no rate of return as shown on Schedule CRM-1.

The Company proposed rates produce operating revenue of \$200,353 and an operating income of \$9,082, for a rate of return of 3.04 percent. The Company's proposed rates would increase the typical residential bill with a median usage of 6,101 gallons from \$23.20 to \$37.57, for an increase of \$14.37 or 61.9 percent.

Staff's recommended rates produce operating revenue of \$182,824 and an operating income of \$29,854, for a rate of return of 10.00 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 6,101 gallons from \$23.20 to \$35.63, for an increase of \$12.43 or 53.6 percent.

The Company is a class D utility.

Company Background

The Company received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 55186, dated September 4, 1986. The Company's prior rate application utilized a test year ending April 30, 1990.

On September 22, 2008, the Company filed the instant application for a permanent rate increase with the Commission. On October 22, 2008, the Company filing was found deficient. On December 5, 2008, the Company submitted the deficient items. On January 5, 2009, the Company's application was deemed sufficient. The Company's current test year ending is December 31, 2007.

Consumer Services

A review of the Commission's records from January 1, 2006, through February 24, 2009, revealed that there was one customer complaint.

Compliance

A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is current in its property and sales tax payments.

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

The Arizona Department of Environmental Quality ("ADEQ") has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The Company is not located within any Active Management Area and is not subject to conservation and monitoring requirements.

Rate Base

The Company's original cost rate base in the rate application is \$298,672. Staff made adjustments to decrease the Company's rate base by \$212 from \$298,672 to \$298,460. Adjustments are discussed below. See Schedule CRM-2 page 1.

Plant-in-Service

Staff decreased plant in service by \$58,462 from \$731,225 to \$672,763. Staff removed the cost of well number five in the amount of \$48,372. Staff also removed the cost of the pumping equipment for well number five in the amount of \$10,090. Staff determined that these plant items were not used and useful. See Schedules CRM-2 page 2.

Accumulated Depreciation

Staff decreased accumulated depreciation by \$44,725 from \$431,345 to \$386,620. The Company did not compute depreciation on additional plant items using the half-year convention methodology for the year they were added to plant in service. The Company incorrectly used a full year depreciation amount. See Schedule CRM -2 page 3 and Schedule CRM-5.

Staff's accumulated depreciation amount was calculated by adding depreciation expense for the years from May 1, 1990 through the end of the test year of 2007, and subtracting accumulated depreciation for plant retirements to the Commission approved accumulated depreciation balance in the prior test year ended April 30, 1990, of \$40,885 arriving at accumulated depreciation of \$386,620. See Schedules CRM-2 page 3 and CRM-5.

Advances-in-Aid-of-Construction

The Company has no advances-in-aid-of-construction.

Contributions-in-Aid-of-Construction

The Company has no contributions-in-aid-of-construction.

Working Capital

The Company did not claim any working capital allowance. Staff typically only allows cash working capital allowance calculated by the formula method for small class D and E utilities. The formula method always produces a positive cash working capital need. Staff recommends working capital allowance in the amount of \$13,525. See schedule CRM-2 page 1.

Operating Revenue

Staff did not make any adjustment to the Company's test year revenue. See Schedule CRM-1.

Operating Expenses

Staff adjustments to operating expenses resulted in a decrease of \$38,301 from \$191,271 to \$152,970 as shown on Schedule CRM-3 pages 1 through 3. Adjustments are discussed below.

Adjustment 1: Staff decreased repairs and maintenance expense by \$21,996 from \$54,658 to \$32,662 to more clearly reflect the on-going expense. Staff normalized this expense by averaging the previous four years plus the test year. See Schedule CRM-3 page 1 and page 2.

Adjustment 2: Staff decreased outside services expense by \$3,272 from \$6,872 to \$3,600. Staff removed the annual map invoice of \$893 and invoices pertaining to wastewater of \$2,379. The Map invoice of \$893 was considered in Staff's recommended water testing expense. See Schedule CRM-3 page 1 and page 2.

Adjustment 3: Staff increased water testing by \$1,109 from \$592 to \$1,701 to reflect Staff's recommended expense level. This adjustment reflects the annual water testing costs determined per Staff's Engineering Report at Table 1. See Schedule CRM-3 page 1 and page 2.

Adjustment 4: Staff decreased miscellaneous expense by \$432 from \$825 to \$393 to more clearly reflect the on-going bad debt expense. Miscellaneous expense consisted of bad debts write-off in the test year. Staff normalized bad debt expense by averaging the three previous years plus the test year. See Schedule CRM-3 page 1 and page 2.

Adjustment 5: Staff decreased depreciation expense by \$13,710 from \$36,340 to \$22,630 to reflect the removal of depreciation on fully depreciated plant and the depreciation taken on Well No. 5 and the pumping equipment for that well. Well number 5 and the associated pump are not used and useful. Staff used the going-forward rates to compute depreciation. See Schedule CRM-3 page 1 and page 3.

Rate of Return

Staff's recommended revenue gives the Company a ten percent rate of return. See Schedule CRM-1.

Revenue Requirement

Staff recommends total operating revenue of \$182,824, an increase of \$70,474, over the Staff's adjusted test year revenue of \$112,350. Staff's recommendation provides operating income of \$29,854. See Schedule CRM-1.

Rate Design

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

The Company's proposed rates would increase the median usage residential customer bill by \$14.37 from \$23.20 to \$37.57 or 61.9 percent.

Staff's recommended rates would increase the median usage residential customer bill by \$12.43 from \$23.20 to \$35.63 or 53.6 percent. See Schedule CRM-6.

The Company currently has a two-tier rate design for all meter sizes. Staff recommends a three-tier inverted rate design for the 5/8 x 3/4 inch and 3/4 inch meters and a two-tier inverted rate design for larger sizes meters. Staff recommends a tariff of \$5.90 per 1,000 gallons for construction/bulk water.

Inverted tier rates encourage efficient use of water.

Staff recommends approval of Staff's Service Line and Meter Installation Charges.

The Company did not propose charges for fire sprinklers. Staff recommends charges for fire sprinklers.

The Company proposed increases to service charges as follows: See Schedule CRM-4.

The Company proposes an increase to Establishment charge from \$15.00 to \$50.00. The Company has not provided adequate information to support that amount. Staff recommends \$30.00 as being reasonable and normal.

The Company proposes an increase to Establishment (after hours) from \$20.00 to \$75.00. The Company has not provided adequate information to support that amount. Staff recommends \$60.00 as being reasonable and normal.

The Company proposes an increase to Reconnection (delinquent) from \$25.00 to 90.00. The Company has not provided adequate information to support that amount. Staff recommends \$25.00 as being reasonable and normal.

The Company proposes an increase to Reconnection (delinquent) after hours from zero to \$125.00. The Company has not provided adequate information to support that amount. Staff recommends \$50.00 as being reasonable and normal.

The Company proposes an increase to Meter Test from \$25.00 to \$50.00. The Company has not provided adequate information to support that amount. Staff recommends \$25.00 as being reasonable and normal.

The Company proposes not to change Deposit as per rule. Staff concurs.

The Company proposes not to change Deposit Interest as per rule. Staff concurs.

The Company proposes not to change Re-establishment (within 12 months per month). Staff concurs.

The Company proposes an increase to Not Sufficient Funds check form \$25.00 to \$30.00. Staff concurs.

The Company proposes not to change Deferred Payment from 1.5 percent. Staff concurs.

The Company proposed an increase to Meter Re-read (if correct) from \$10.00 to \$15.00. Staff concurs.

The Company proposes an increase to Late Fee from n/a to \$10.00. The Company has not provided adequate information to support that amount. Staff recommends 1.50 percent per month on the unpaid balance as being reasonable and normal.

Staff Recommendations

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule CRM-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 per Commission Rule (14-2-409D-5).
- The Company be ordered file to with the Commission, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- The Company be ordered to use the depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going-forward basis as delineated in Table B of the Engineering Report.
- The Company be ordered to use the mid-year convention in calculating depreciation for first and last year of life on all plant.

Walnut Creek Water Company, Inc.
Docket No. W-02466A-08-0486
Test Year Ended December 31, 2007

Schedule CRM-1

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$95,156	\$95,156	\$183,159	\$165,630
Unmetered Water Revenue	14,929	14,929	14,929	14,929
Other Water Revenues	2,265	2,265	2,265	2,265
Total Operating Revenue	\$112,350	\$112,350	\$200,353	\$182,824
Operating Expenses:				
Operation and Maintenance	\$146,412	\$121,821	\$146,412	\$121,821
Depreciation	36,340	22,630	36,340	22,630
Property & Other Taxes	8,519	8,519	8,519	8,519
Income Tax	0	0	0	0
Total Operating Expense	\$191,271	\$152,970	\$191,271	\$152,970
Operating Income/(Loss)	(\$78,921)	(\$40,620)	\$9,082	\$29,854
Rate Base O.C.L.D.	\$298,672	\$298,460	\$298,672	\$298,460
Rate of Return - O.C.L.D.	-26.42%	-13.61%	3.04%	10.00%
Times Interest Earned Ratio (Pre-Tax)	N/A	N/M	N/A	N/A
Debt Service Coverage Ratio (Pre-Tax)	N/A	N/M	N/A	N/A
Operating Margin	-70.25%	-36.16%	4.53%	16.33%

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$731,225	(\$58,462)	1	\$672,763
Less:				
Accum. Depreciation	431,345	(44,725)	2	386,620
Net Plant	\$299,880	(\$13,737)		\$286,143
Less:				
Plant Advances	\$0	\$0		\$0
Customers Deposits	1,208	0		1,208
Total Advances	\$1,208	\$0		\$1,208
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$1,208	\$0		\$1,208
Plus:				
1/24 Power	\$0	\$851	3	\$851
1/8 Operation & Maint.	0	12,674	3	12,674
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$13,525		\$13,525
Rate Base	\$298,672	(\$212)		\$298,460

Explanation of Adjustment:

Adjustment No. 1.

Staff removed the cost of well no. five and the pumping equipment for that well. The well and pumping equipment are not used and useful.
See Schedule CRM-2 page 2 of 3.

Adjustment No. 2.

Staff adjustment to accumulated depreciation for the half-year convention and removal of well no. 5 and the pumping equipment.

Adjustment No. 3.

The Company did not claim cash working capital.
Staff computed cash working capital using the formula method.



	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	4,425	0	4,425
304 Structures & Improvements	2,544	0	2,544
307 Wells & Springs	71,921	(48,372) 1	23,549
311 Pumping Equipment	77,031	(10,090) 2	66,941
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Stan	5,266	0	5,266
331 Transmission & Distribution M	506,623	0	506,623
333 Services	6,729	0	6,729
334 Meters & Meter Installations	0	0	0
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipm	10,211	0	10,211
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipm	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	46,475	0	46,475
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	\$731,225	(\$58,462)	\$672,763

Explanation of Adjustment:

Adjustments No. 1 and 2.

Staff removed the cost of Well No. 5 and the pumping equipment for that well.

The well and pumping equipment are not used and useful.



	<u>Amount</u>	
Accumulated Depreciation - Per Company	\$431,345	
Accumulated Depreciation - Per Staff	<u>386,620</u>	1
Total Adjustment	<u><u>(\$44,725)</u></u>	

Explanation of Adjustment:

- 1- Staff started with the accumulated depreciation balance from the last rate case in 1990 and added each subsequent year to adjusted depreciation through year 2007 to determine the accumulated depreciation balance for 2007.

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$110,085	\$0	\$110,085
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	2,265	0	2,265
Total Operating Revenue	\$112,350	\$0	\$112,350
Operating Expenses:			
601 Salaries and Wages	\$37,166	\$0	\$37,166
610 Purchased Water	0	0	0
615 Purchased Power	20,429	0	20,429
618 Chemicals	0	0	0
620 Repairs and Maintenance	54,658	(21,996) 1	32,662
621 Office Supplies & Expense	3,939	0	3,939
630 Outside Services	6,872	(3,272) 2	3,600
635 Water Testing	592	1,109 3	1,701
641 Rents	1,500	0	1,500
650 Transportation Expenses	12,685	0	12,685
657 Insurance - General Liability	7,746	0	7,746
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	825	(432) 4	393
403 Depreciation Expense	36,340	(13,710) 5	22,630
408 Taxes Other Than Income	4,439	0	4,439
408.11 Property Taxes	4,080	0	4,080
409 Income Tax	0	0	0
Total Operating Expenses	\$191,271	(\$38,301)	\$152,970
OPERATING INCOME (LOSS)	(\$78,921)	\$38,301	(\$40,620)



1	REPAIRS AND MAINTENANCE - Per Company	\$54,658	
	Per Staff	32,662	<u>(\$21,996)</u>

Staff decreased repairs and maintenance expense by \$21,996 from \$54,658 to \$32,662.
Staff normalized repairs and maintenance expense over five years using 2003 through 2007 years expenses.

2	OUTSIDE SERVICES - Per Company	\$6,872	
	Per Staff	3,600	<u>(\$3,272)</u>

Staff decreased outside services by \$3,272 from \$6,872 to \$3,600. to \$3,600.
Staff removed the MAP invoice for \$893. Staff removed \$1,120 and \$1,159 for invoices for a wastewater facility which is not a water company expense.

3	WATER TESTING - Per Company	\$592	
	Per Staff	1,701	<u>\$1,109</u>

Staff increased water testing expense by \$1,109 from \$592 to \$1,701. This adjustment reflects the normalized annual water testing expense costs determined per Staff's Engineering Report at Table 1.

4	MISCELLANEOUS EXPENSE - Per Company	\$825	
	Per Staff	393	<u>(\$432)</u>

Staff decreased miscellaneous expense by \$432 from \$825 to \$393. Staff normalized the bad debt expense over the last three years.

Walnut Creek Water Company, Inc.

Docket No. W-02466A-08-0486

Test Year Ended December 31, 2007

Schedule 3

Page 3 of 3



5	DEPRECIATION - Per Company	\$36,340	
	Per Staff	<u>22,630</u>	<u>(\$13,710)</u>

Staff decreased depreciation expense by \$13,710 from \$36,340 to \$22,630. Staff removed the depreciation expense for the well and pumping equipment pertaining to that well. Staff also removed the depreciation on a fully depreciated plant item. Staff used the going-forward depreciation rates.

Annual Depreciation Expense:

Plant in Service	\$672,763
Less: Non Depreciable Plant	4,425
Fully Depreciated Plant	<u>2,544</u>
Depreciable Plant	\$665,794
Times: Staff Proposed Depreciation Rate	<u>3.3990%</u>
Credit to Accumulated Depreciation	
Less: Amort. of CIAC* @ 3.3990%	<u>0</u>
Annual Depreciation Expense	<u><u>\$22,630</u></u>

Monthly Usage Charge	Present	Company Proposed	Staff Recommended
	Rates	Rates	
5/8" x 3/4" Meter	\$15.00	\$18.00	\$18.00
3/4" Meter	18.75	24.00	24.00
1" Meter	24.00	30.00	30.00
1 1/2" Meter	30.00	36.00	36.00
2" Meter	40.00	46.00	46.00
3" Meter	50.00	56.00	56.00
4" Meter	n/a	n/a	112.00
6" Meter	n/a	n/a	224.00
Gallons included in Minimum	2,000	2,000	0

Commodity Rates

All meter sizes

Per 1,000 gallons in excess of gallons in monthly minimum

5/8x3/4 Inch Meter

Tier 1 2,001 gallons to 10,000 gallons
Tier 2 All gallons over 10,000 gallons

2.00	n/a	n/a
2.70	n/a	n/a

Tier 1 2,001 gallons to 5,000 gallons
Tier 2 5,001 gallons to 10,000 gallons
Tier 3 All gallons over 10,000

n/a	4.58	
	5.30	
	7.90	

Tier 1 zero gallons to 3,000 gallons
Tier 2 3,001 gallons to 9,000 gallons
Tier 3 All gallons over 9,000 gallons

n/a		2.00
		3.75
		5.90

3/4 Inch Meter

Tier 1 2,001 gallons to 10,000 gallons
Tier 2 All gallons over 10,000 gallons

2.00	n/a	n/a
2.70	n/a	n/a

Tier 1 2,001 gallons to 5,000 gallons
Tier 2 5,001 gallons to 10,000 gallons
Tier 3 All gallons over 10,000

n/a	4.58	
	5.30	
	7.90	

Tier 1 zero gallons to 3,000 gallons
Tier 2 3,001 gallons to 9,000 gallons
Tier 3 All gallons over 9,000 gallons

n/a		2.00
		3.75
		5.90

1 Inch meter

Tier 1 2,001 gallons to 10,000 gallons
Tier 2 All gallons over 10,000 gallons

2.00	n/a	n/a
2.70	n/a	n/a

Tier 1 2,001 gallon to 5,000 gallons
Tier 2 5,001 gallons to 10,000 gallons
Tier 3 All gallons over 10,000

n/a	4.58	
	5.30	
	7.90	

Tier 1 zero gallon to 10,000 gallons
Tier 2 All gallons over 10,000 gallons

		3.75
		5.90

1.5 Inch meter

Tier 1 2,001 gallons to 10,000 gallons
Tier 2 All gallons over 10,000 gallons

2.00	n/a	n/a
2.70	n/a	n/a

Tier 1 2,001 gallon to 5,000 gallons
Tier 2 5,001 gallons to 10,000 gallons
Tier 3 All gallons over 10,000

n/a	4.58	
	5.30	
	7.90	

Tier 1 zero gallon to 20,000 gallons
Tier 2 All gallons over 20,000 gallons

		3.75
		5.90

2 Inch meter

Tier 1 2,001 gallons to 10,000 gallons
Tier 2 All gallons over 10,000 gallons

2.00	n/a	n/a
2.70	n/a	n/a

Tier 1 2,001 gallons to 5,000 gallons
Tier 2 5,001 gallons to 10,000 gallons
Tier 3 All gallons over 10,000

n/a	4.58	
	5.30	
	7.90	

Tier 1 zero gallon to 40,000 gallons
Tier 2 All gallons over 40,000 gallons

		3.75
		5.90

3 Inch meter

Tier 1 2,001 gallons to 10,000 gallons
Tier 2 All gallons over 10,000 gallons

2.00	n/a	n/a
2.70	n/a	n/a

Tier 1 2,001 gallons to 5,000 gallons
Tier 2 5,001 gallons to 10,000 gallons
Tier 3 All gallons over 10,000

n/a	4.58	
	5.30	
	7.90	

Tier 1 zero gallon to 144,000 gallons
Tier 2 All gallons over 144,000 gallons

		3.75
		5.90

4 Inch Meter				
Tier 1 2,001 gallons to 10,000 gallons	2.00	n/a		n/a
Tier 2 All gallons over 10,000 gallons	2.70	n/a		n/a
Tier 1 2,001 gallons to 5,000 gallons		n/a		
Tier 2 5,001 gallons to 10,000 gallons		n/a		
Tier 3 All gallons over 10,000	n/a	n/a		
Tier 1 zero gallons to 225,000 gallons				3.75
Tier 2 All gallons over 225,000 gallons				5.90
6 Inch Meter				
Tier 1 2,001 gallons to 10,000 gallons	2.00	n/a		n/a
Tier 2 All gallons over 10,000 gallons	2.70	n/a		n/a
Tier 1 2,001 gallons to 5,000 gallons		n/a		
Tier 2 5,001 gallons to 10,000 gallons		n/a		
Tier 3 All gallons over 10,000	n/a	n/a		
Tier 1 zero gallons to 450,000 gallons				3.75
Tier 2 All gallons over 450,000 gallons				5.90
Construction/Bulk, per 1,000 gallons - all gallons.	n/a	n/a		5.90

Service Line and Meter Installation Charges

	Present	Line Charge	Installation	Proposed	Line Charge	Installation	Recommended
5/8" x 3/4" Meter	\$ 520.00	n/a	n/a	\$ 830.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4" Meter	600.00	n/a	n/a	830.00	445.00	255.00	700.00
1" Meter	690.00	n/a	n/a	1,050.00	495.00	315.00	810.00
1 1/2" Meter	935.00	n/a	n/a	1,475.00	550.00	525.00	1,075.00
2" Turbine Meter	1,525.00	n/a	n/a	2,110.00	830.00	1,045.00	1,875.00
2" Compound Meter	n/a	n/a	n/a	n/a	830.00	1,890.00	2,720.00
3" Turbine Meter	2,080.00	n/a	n/a	2,750.00	1,045.00	1,670.00	2,715.00
3" Compound Meter	n/a	n/a	n/a	n/a	1,165.00	2,545.00	3,710.00
4" Turbine Meter	3,175.00	n/a	n/a	n/a	1,490.00	2,670.00	4,160.00
4" Compound Meter	n/a	n/a	n/a	n/a	1,670.00	3,645.00	5,315.00
6" Turbine Meter	5,680.00	n/a	n/a	n/a	2,210.00	5,025.00	7,235.00
6" Compound Meter	n/a	n/a	n/a	n/a	2,330.00	6,920.00	9,250.00

Service Charges

	Company Present	Company Proposed	Staff Recommended
Establishment	\$ 15.00	\$50.00	\$ 30.00
Establishment (after hours)	20.00	75.00	60.00
Reconnection (delinquent)	25.00	90.00	25.00
Reconnection (delinquent) after hours	-	125.00	50.00
Meter Test	25.00	50.00	25.00
Deposit per rule	per rule	same	*
Deposit Interest (2) per rule	per rule	same	6.00%
Re-Establishment (Within 12 Months) months off	months off	same	**
NSF Check	15.00	30.00	30.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Road	10.00	15.00	15.00
Late Fee	n/a	10.00	***

Fire Sprinklers

	Present	Proposed	Recommended
4 inch or Smaller	n/a	n/a	****
6 inch	n/a	n/a	****
8 inch	n/a	n/a	****
10 inch	n/a	n/a	****
Larger than 10 inch	n/a	n/a	****

Company Proposed

- 1 Per Rule Deposit (R-14-2-403.B)
- 2 Per Rule Deposit Interest (R-14-2-403.B.3)
- 3 Per Rule Reestablishment (14-2-403.D.1)

Staff Recommended

- 1 * Per rule R14-2-403.B
- 2 ** Months off system time the minimum (R-14-2-403.D)
- 3 *** 1.5 percent of the unpaid balance per month.
- 4 **** 100 percent of monthly minimum for a comparable Sized Meter Connection. but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Walnut Creek Water Company, Inc.
Docket No. W-02466A-08-0486
Test Year Ended December 31, 2007

Schedule CRM-5

ACCT NO	TY Ended Decemner 31, 2007 DESCRIPTION	Plant-in-Service	Accum Depr.
301	Organizartion Cost	0	0
302	Franchise Cost	0	0
303	Land & Land Rights	\$ 4,425	0
304	Structures & Improvements	2,544	2,544
307	Wells & Springs	23,549	10,008
311	Pumping Equipment	66,941	1,518
320	Water Treatment Equipment	0	0
320.1	Water Treatment Plants	0	0
320.2	Solution Chemical Feeders	0	0
330	Distribution Reservoirs & Standpipes	5,266	5,530
330.1	Storage Tanks	0	0
330.2	Pressure Tanks	0	0
331	Transmission & Distrib. Mains	506,623	328,359
333	Services	6,729	6,554
334	Meters & Meters Installations	0	0
335	Hydrants	0	0
336	Backflow Prevention Devices	0	0
339	Other Plant & Misc. Equipment	10,211	4,850
340	Office Furniture & Equipment	0	0
340.1	Computers & Software	0	0
341	Transportation Equipment	0	0
343	Tools, Shop & Garage Equip.	0	0
344	Laboratory Equipment	0	0
345	Power Operated Equipment	46,475	27,256
346	Communication Equipment	0	0
347	Miscellaneous Equipment	0	0
348	Other Tangilble Plant	0	0
	TOTAL WATER PLANT	\$ 672,764	\$ 386,620

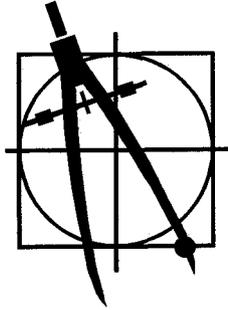
General Service 5-8 Inch Meter

Average Number of Customers: 247

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	9,204	\$29.41	\$54.02	\$24.61	83.7%
Median Usage	6,101	\$23.20	\$37.57	\$14.37	61.9%
<u>Staff Proposed</u>					
Average Usage	9,204	\$29.41	\$47.70	\$18.29	62.2%
Median Usage	6,101	\$23.20	\$35.63	\$12.43	53.6%

**Present & Proposed Rates (Without Taxes)
General Service 5-8 Inch Meter**

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$15.00	\$18.00	20.0%	\$18.00	20.0%
1,000	15.00	18.00	20.0%	20.00	33.3%
2,000	15.00	18.00	20.0%	22.00	46.7%
3,000	17.00	22.58	32.8%	24.00	41.2%
4,000	19.00	27.16	42.9%	27.75	46.1%
5,000	21.00	31.74	51.1%	31.50	50.0%
6,000	23.00	37.04	61.0%	35.25	53.3%
7,000	25.00	42.34	69.4%	39.00	56.0%
8,000	27.00	47.64	76.4%	42.75	58.3%
9,000	29.00	52.94	82.6%	46.50	60.3%
10,000	31.00	58.24	87.9%	52.40	69.0%
15,000	44.50	97.74	119.6%	81.90	84.0%
20,000	58.00	137.24	136.6%	111.40	92.1%
25,000	71.50	176.74	147.2%	140.90	97.1%
50,000	139.00	374.24	169.2%	288.40	107.5%
75,000	206.50	571.74	176.9%	435.90	111.1%
100,000	274.00	769.24	180.7%	583.40	112.9%
125,000	341.50	966.74	183.1%	730.90	114.0%
150,000	409.00	1,164.24	184.7%	878.40	114.8%
175,000	476.50	1,361.74	185.8%	1,025.90	115.3%
200,000	544.00	1,559.24	186.6%	1,173.40	115.7%



**Engineering Report for:
Walnut Creek Water Company, Inc
for a Rate Increase
Docket No. W-02466A-08-0486**

By: Jian W Liu
Utilities Engineer

February 27, 2009

EXECUTIVE SUMMARY

CONCLUSIONS:

1. ADEQ reported that the Walnut Creek drinking water system (PWS Number 08-078) is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated 09/12/08).
2. The Company is not located in any Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements. ADWR reported that it has determined that Walnut Creek is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. Staff concludes that the existing water system has adequate well production and storage capacity to serve the existing connections and reasonable growth.

RECOMMENDATIONS

1. Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going forward bases.
2. Staff recommends an average annual cost of \$1,701 be adopted for the water testing expense in this proceeding.
3. Staff recommends that the charges listed under "Staff's Recommendation" in Table C be adopted.
4. Staff recommends that within 90 days of a Decision in this matter the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit a detailed cost analysis and explanation demonstrating why water loss reduction to

less than 10 percent is not cost-effective. In no case shall water loss be greater than 15 percent.

TABLE OF CONTENTS

	<u>Page</u>
A. LOCATION OF COMPANY	1
B. DESCRIPTION OF THE WATER SYSTEM.....	1
C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")	2
D. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE.....	2
E. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE	2
F. WATER TESTING EXPENSES	3
G. WATER USE.....	3
H. GROWTH.....	4
I. DEPRECIATION RATES	5
J. CURTAILMENT PLAN TARIFF	7
K. METER AND SERVICE LINE INSTALLATION CHARGES	7

FIGURES

County Map.....	FIGURE 1
Certificated Area.....	FIGURE 2
Process Schematic.....	FIGURE 3

A. LOCATION OF COMPANY

Walnut Creek Water Company, Inc (“Walnut Creek” or “Company”) water system is located approximately four miles southwest of Kingman in Mohave County, Arizona. The Company’s existing CC&N has an area totaling approximately 950 acres. Figure 1 shows the location of Walnut Creek within Mohave County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on January 14, 2009, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Dennis Sim of the Company.

The facility consists of five wells, two storage tanks (one 65,000 gallon and one 250,000 gallon), and a distribution system. At the time of Staff’s inspection, Wells 1 and 5 were not connected to the water system and not providing service to customers, and were determined to not be “used and useful” for the Company’s provision of service to customers for purposes of this rate case. Therefore, Staff recommends that the rate base be adjusted to exclude the cost of Wells 1 and 5. Figure 3 provides a process schematic for the water system.

(Tabular Description of Water System)

Well Data

	Well No 1	Well No 2	Well No 3	Well No 4	Well No 5
ADWR ID No.	55-529524	55-506325	55-580129	55-581044	55-208038
Casing Size	7 inch	6 inch	6 inch	6 inch	8 inch
Casing Depth	650 ft	850 ft	900 ft	700 ft	920 ft
Pump Size	None	25 Hp	15 Hp	20 Hp	40 Hp
Pump Yield	None	150 gal/min	100 gal/min	110 gal/min	300 gal/min
Meter Size	None	2 inch	3 inch	3 inch	4 inch
Year Drilled	1990	1984	2000	2000	2005

Storage, Pumping

Structure or equipment	Location	Capacity
booster pumps	Near Well No 1	Two 5 HP
booster pumps	Near Well No 2	Two 10 HP
booster pumps	Near Well No 1	Three 10 HP
Storage tank	Near Well No 2	One 65,000 gallons
Storage tank	Near Well No 1	One 250,000 gallons

Distribution Mains

Diameter (inch)	Material	Length(ft)
4	PVC	13,002
6	PVC	39,359
6	AC	13,032
8	PVC	1,995
8	AC	10,137

Meters

Size (inch)	Quantity
5/8 X 3/4	248
1	3
2	2

Water System Analysis

The existing water system has adequate well production and storage capacity to serve the existing connections and reasonable growth.

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

ADEQ reported that the Walnut Creek drinking water system (PWS Number 08-078) is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated 09/12/08).

D. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for Company. (ACC Compliance Section Email dated 2/20/09)

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

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

Staff received an ADWR compliance status report on February 19, 2009. ADWR reported that it has determined that Walnut Creek is currently in compliance with departmental requirements governing water providers and/or community water systems.

F. WATER TESTING EXPENSES

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company did not report its total water testing expense during the test year. Staff has reviewed the Company's testing expense and has calculated the testing costs as reflected in Table 1 which shows Staff's annual monitoring expense estimate of \$1,701 with participation in the MAP.

Table 1 Water Testing Cost

Monitoring – 3 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$17	72	1224	408
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	893
Lead & Copper - annual	\$30	40	1200	400
Total				\$1,701

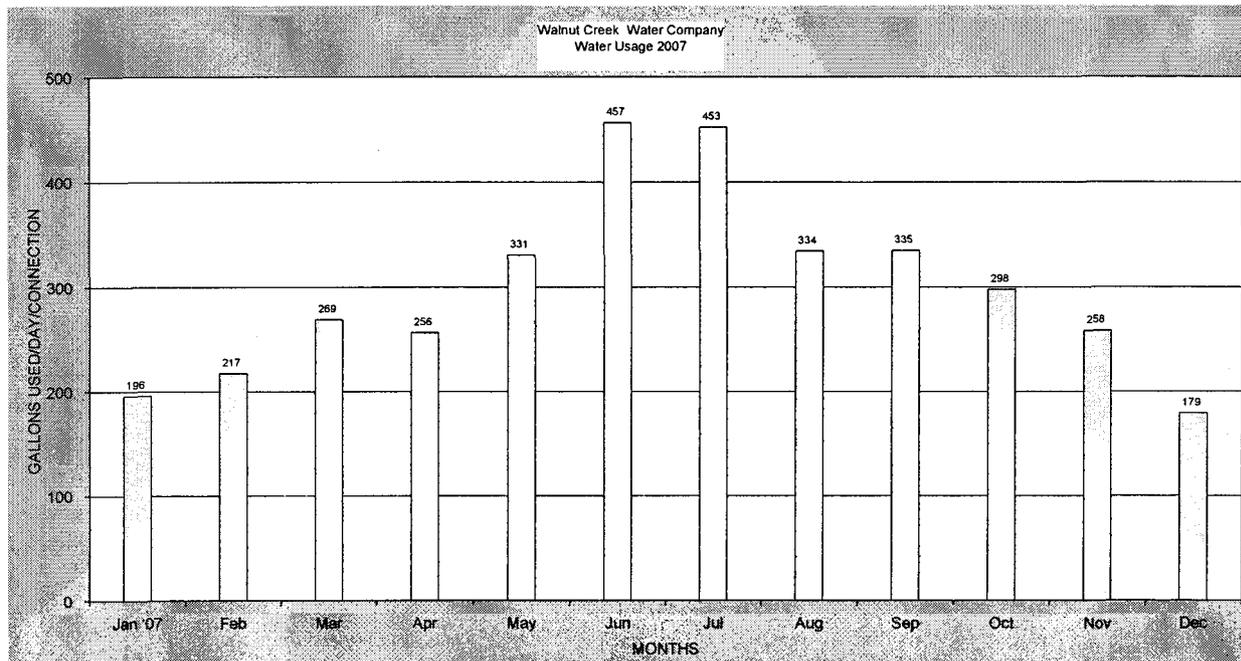
Note: ADEQ's MAP invoice was \$892.50

Staff recommends its annual water testing expense of \$1,701 be used for purposes of this application.

G. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2007 is presented below. The high monthly domestic water use was 457 gal/day per service connection in June and the low monthly domestic water use was 179 gal/day per service connection in December. The average annual use was 299 gal/day per service connection.



Non-account Water

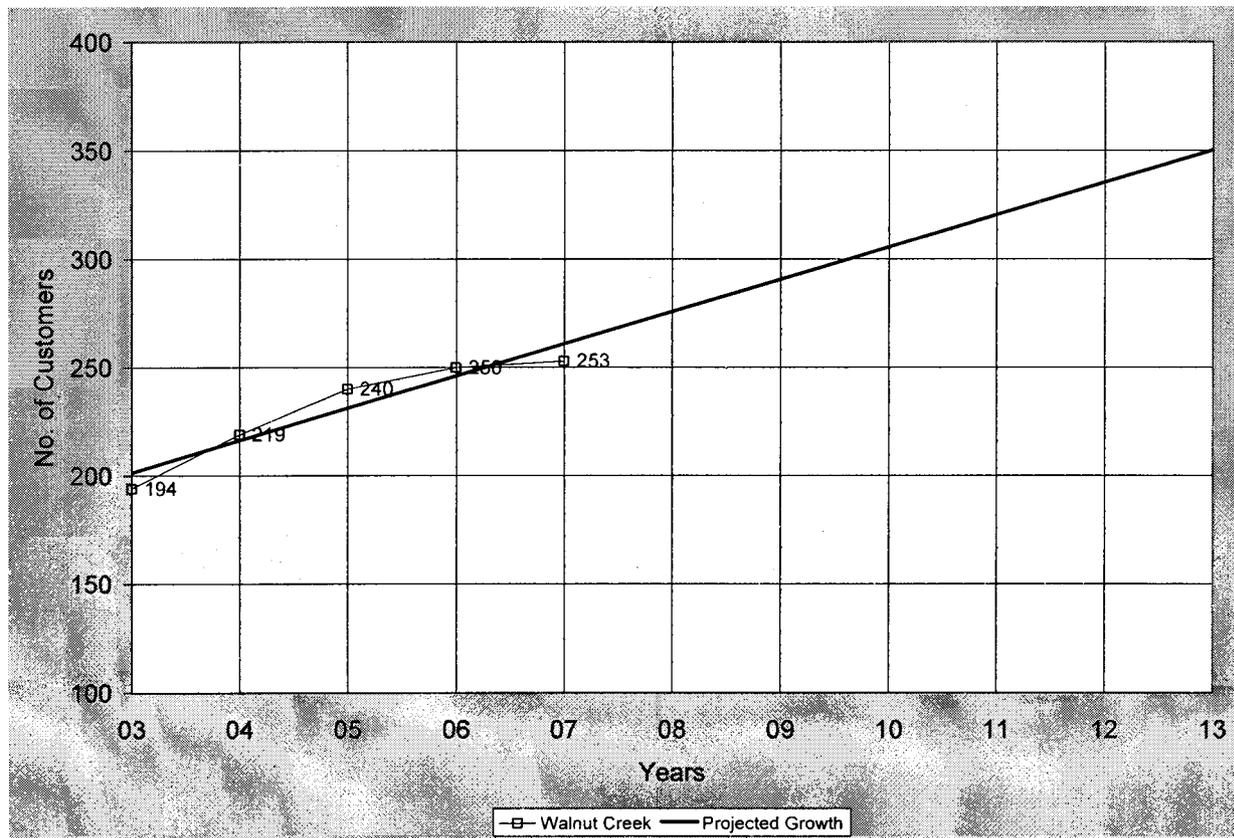
Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 33,526,000 gallons pumped and 27,470,000 gallons sold, resulting in a water loss of 18.06 percent for 2007.

Staff recommends that within 90 days of a Decision in this matter the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective. In no case shall water loss be greater than 15 percent.

H. GROWTH

Figure 4 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 253 customers and it is projected that the Company could have approximately 350 customers by 2013.

Figure 4 Projected Growth



I. DEPRECIATION RATES

Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category. Individual depreciation rates by NARUC category are presented in Table B.

Table B. Depreciation Rates

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

NOTES:

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

J. CURTAILMENT PLAN TARIFF

The Company has an approved Curtailment Plan Tariff on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

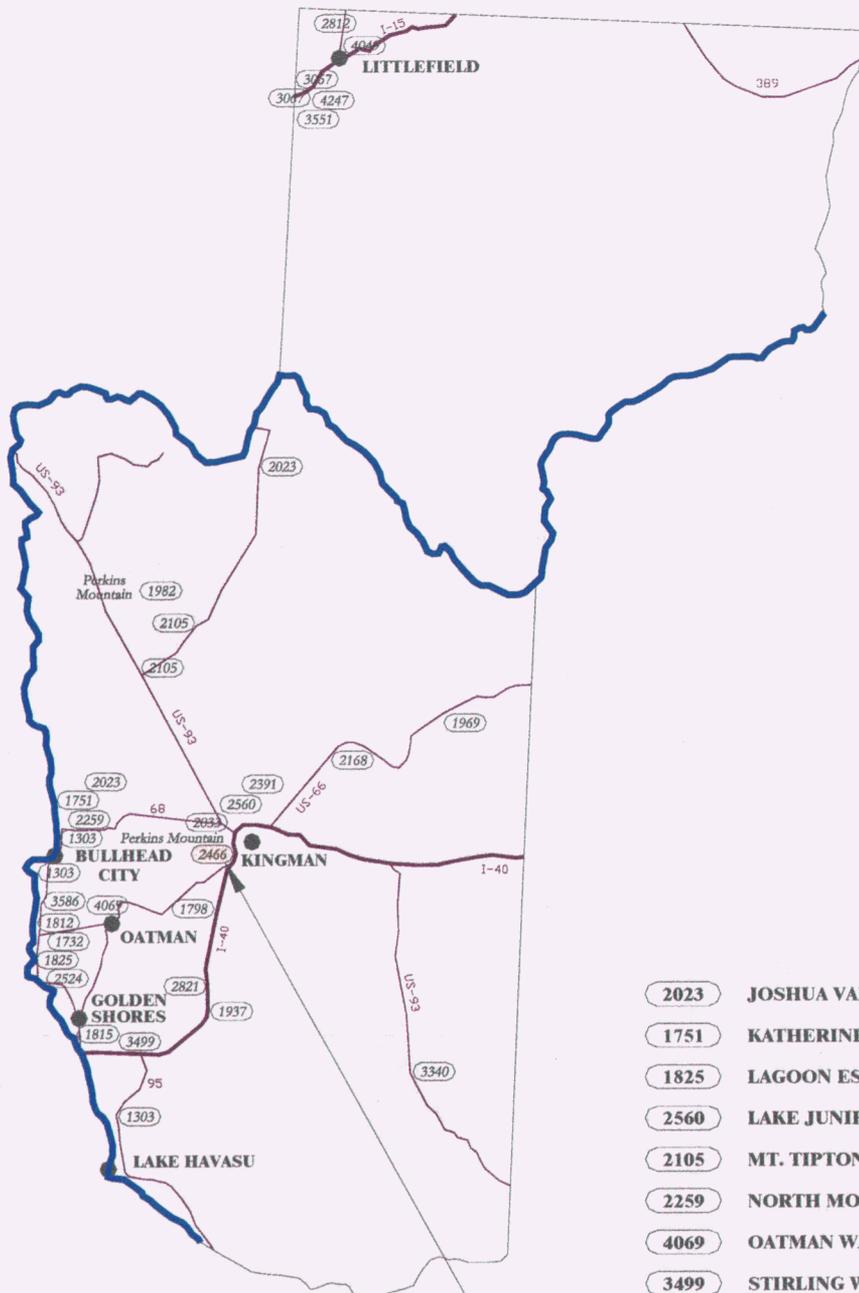
The Company has requested changes in its service line and meter installation charges. These charges are refundable advances. The Company requested charges that exceed Staff's customary range of charges. The Company did not propose charges for compound meters or turbine meters larger than 3 inches because it did not believe it would ever have a request for these meters. However, Staff is recommending rates be listed for all meters. 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, separate service line and meter charges have been developed by Staff. Staff recommends that the charges listed under "Staff's Recommendation" in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed Charges	Staff recommended Service Line Charges	Staff recommended * Meter Charges	Staff recommended Total Charges
5/8" x 3/4"	250	830	445	155	600
3/4"	275	830	445	255	700
1"	300	1,050	495	315	810
1-1/2"	450	1,475	550	525	1,075
2" - Turbine	625	2,110	830	1,045	1,875
2" - Compound	No Tariff	No Tariff	830	1,890	2,720
3" - Turbine	825	2,750	1,045	1,670	2,715
3" - Compound	No Tariff	No Tariff	1,165	2,545	3,710
4" - Turbine	No Tariff	No Tariff	1,490	2,670	4,160
4" - Compound	No Tariff	No Tariff	1,670	3,645	5,315
6" - Turbine	No Tariff	No Tariff	2,210	5,025	7,235
6" - Compound	No Tariff	No Tariff	2,330	6,920	9,250

*Note: Meter charge includes meter box or vault.

MOHAVE COUNTY



- 1303 ARIZONA-AMERICAN WATER COMPANY
- 3067 BEAVER DAM WATER COMPANY, INC.
- 1812 BERMUDA WATER COMPANY, INC.
- 2812 BIASI WATER COMPANY, INC.
- 2391 CERBAT WATER COMPANY
- 2821 DOUBLE R WATER DISTRIBUTORS, INC.
- 4049 DS WATER COMPANY
- 2524 FORT MOHAVE INDIAN TRIBE
- 1815 GOLDEN SHORES WATER COMPANY, INC.
- 1969 HATCH VALLEY WATER COMPANY

- 2023 JOSHUA VALLEY UTILITY COMPANY
- 1751 KATHERINE RESORT WATER COMPANY
- 1825 LAGOON ESTATES WATER COMPANY, INC.
- 2560 LAKE JUNIPER WATER COMPANY, INC.
- 2105 MT. TIPTON WATER COMPANY, INC.
- 2259 NORTH MOHAVE VALLEY CORPORATION
- 4069 OATMAN WATER COMPANY, LLC
- 3499 STIRLING WATER COMPANY
- 4247 SUNRISE UTILITIES, LLC
- 3586 SUNRISE VISTAS UTILITIES COMPANY
- 1798 SUNSET WATER COMPANY
- 2168 TRUXTON CANYON WATER COMPANY, INC.
- 2033 VALLEY PIONEER'S WATER COMPANY, INC.
- 3551 VIRGIN MOUNTAIN UTILITIES COMPANY
- 2466 WALNUT CREEK WATER COMPANY, INC.
- 1982 WHITE HILLS WATER COMPANY, INC.
- 1732 WILLOW VALLEY WATER COMPANY, INC.
- 3340 WOODY'S ENTERPRISES, LTD
- 1937 YUCCA WATER ASSOCIATION, INC.

Figure 1: Mohave County Map

MOHAVE COUNTY

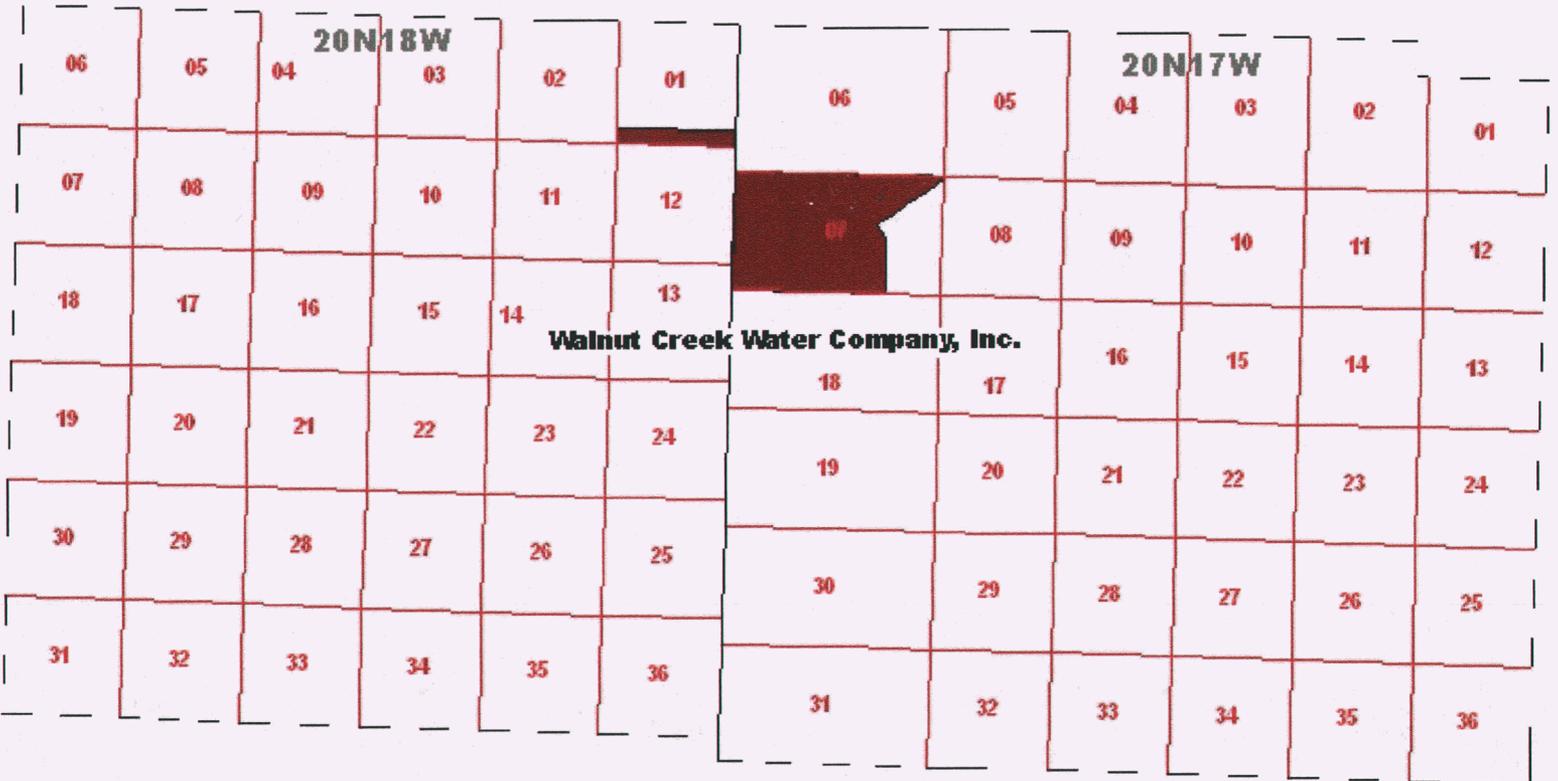


Figure 2: Certificated Area

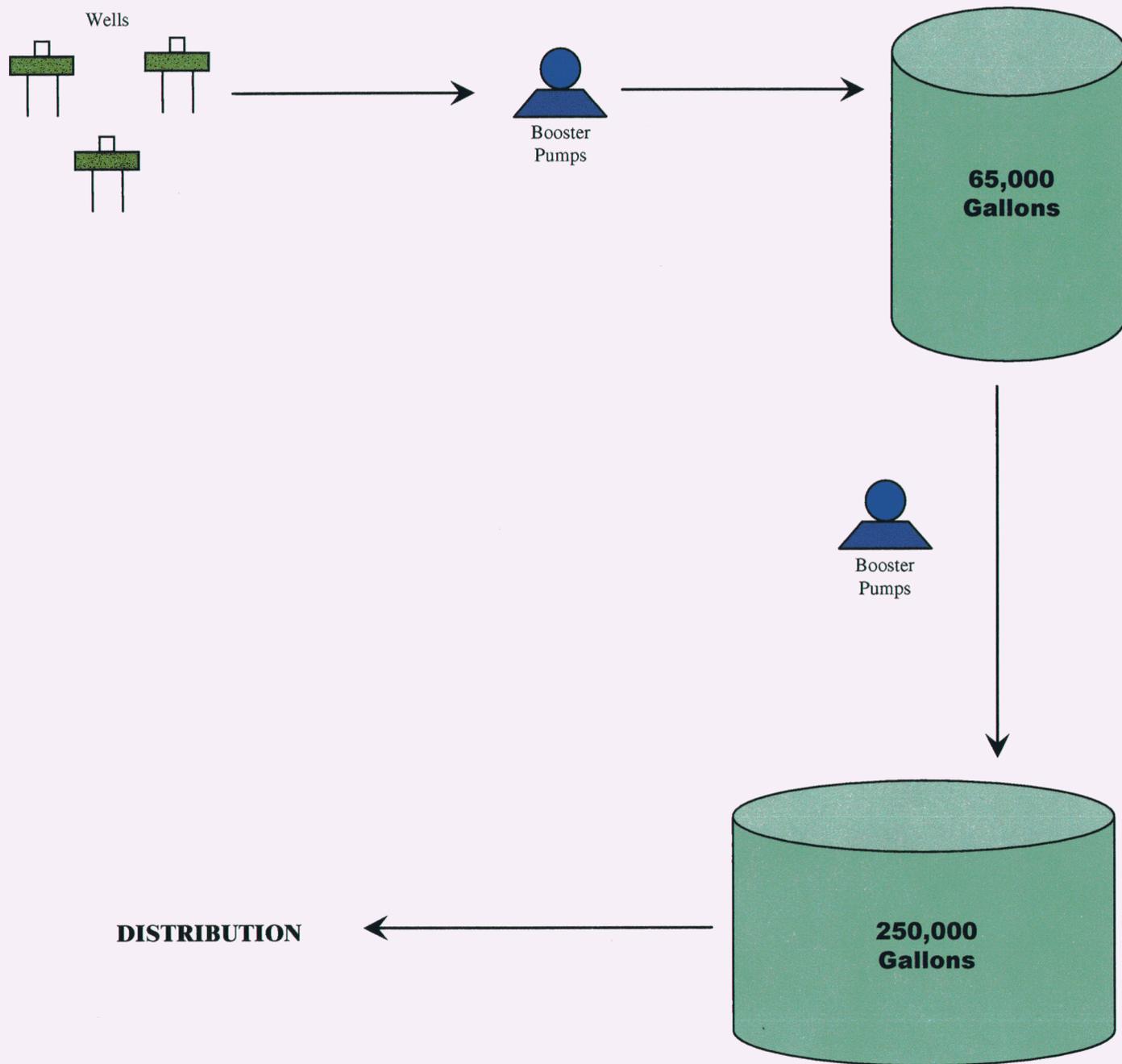


Figure 3. Process Schematic