

MEMORANDUM



0000101475

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

DATE: August 7, 2009

RE: STAFF REPORT FOR DS WATER COMPANY'S APPLICATION FOR A  
PERMANENT RATE INCREASE (DOCKET NO. W-04049A-08-0339)

Attached is the Staff Report for DS Water Company's application for a permanent rate increase. Staff recommends approval of the rate increase 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 August 21, 2009.

SMO:JMM:lhmm

Originator: Jeffrey M. Michlik

Arizona Corporation Commission

DOCKETED

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AZ CORP COMMISSION  
DOCKET CONTROL

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Service List for: DS Water Company  
Docket No. W-04049A-08-0339

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

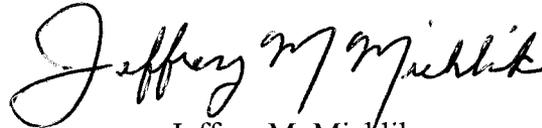
**DS WATER COMPANY  
DOCKET NO. W-04049A-08-0339**

**APPLICATION FOR A  
PERMANENT RATE INCREASE**

**August 7, 2009**

## STAFF ACKNOWLEDGMENT

The Staff Report for DS Water Company ("Company"), Docket No. W-04049A-08-0339, was the responsibility of the Staff members listed below. Jeffrey M. Michlik was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Bradley Morton was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Jeffrey M. Michlik  
Public Utility Analyst V



Katrin Stukov  
Utilities Engineer



Bradley Morton  
Consumer Analyst II

**EXECUTIVE SUMMARY  
DS WATER COMPANY  
APPLICATION FOR A PERMANENT RATE INCREASE  
DOCKET NO. W-04049A-08-0339**

DS Water Company ("Company") is engaged in the business of providing utility water services to customers in Mohave County. The Company is located on Interstate 15 near Littlefield, and it provides service to approximately 89 customers. The Company's current rates became effective June 17, 2003, per Arizona Corporation Commission ("Commission") Decision No. 65977.

The Company's rate application requested an increase in revenue of \$7,914, or 18.00 percent over test year revenue of \$43,968. The Company's proposed revenues of \$51,882 result in an operating loss of \$104,006, and a negative operating margin. The Company proposed an original cost rate base ("OCRB") of \$308,226. The Company is seeking a rate increase at this time to offset significant operating losses of \$111,919. This is the Company's first rate case. Decision No. 65977 granted the Company its Certificate of Convenience and Necessity and ordered the Company to file a rate case application no later than July 1, 2008. The Company's proposed rates would increase the typical residential bill with a median usage of 5,671 gallons from \$31.62 to \$37.30, for an increase of \$5.68 or 17.96 percent.

Staff's recommended rates would increase revenue by \$26,060 or 57.80 percent over adjusted test year revenues of \$45,090. As Staff's recommended rate increase is significantly higher than the Company's increase, Staff is requesting the Company to re-notify its customers of the rate increase and advise the customers of Staff's recommended increase. Staff-recommended revenues of \$71,150 result in operating income of \$7,115, a 10 percent operating margin and a 2.28 percent rate of return on an OCRB of \$311,598. Staff's recommended rates would increase the typical residential bill with a median usage of 5,671 gallons from \$31.62 to \$39.27, for an increase of \$7.65 or 24.19 percent.

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**Fact sheet**

**Type of Ownership:** Arizona "C" Corporation.

**Location:** The Company serves water customers located on interstate 15 near Littlefield, which is in Mohave County, Arizona.

**Rates:** Permanent rate increase application filed: July 3, 2008. The application became sufficient on February 27, 2009.

**Current Rates:** Decision No. 65977, dated June 17, 2003.

**Prior Test Year:** Not applicable, this is the Company's first rate case.

**Current Test Year Ended:** December 31, 2007.

**Metered Rates:**

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge Based on 5/8 x 3/4 inch meter	\$20.56	\$24.26	\$25.00
Gallons in minimum	0	0	0
Tier One from 1 gallon to 4,000 gallons	\$1.77	\$2.09	N/A
Tier Two from 4,001 gallons to 50,000 gallons	\$2.38	\$2.80	N/A
Tier Three all gallons over 50,001	\$3.60	\$3.06	N/A
Tier One from 1 gallon to 4,000 gallons	N/A	N/A	\$2.00
Tier Two from 4,001 gallons to 10,000 gallons	N/A	N/A	\$3.75
Tier Three all gallons over 10,001	N/A	N/A	\$6.32
Typical residential bill (based on median usage of 5,671 gallons)	\$31.61	\$37.30	\$39.27

**Fact Sheet (Continued)**

**Customers:**

The Company serves 89 customers.

**Notifications:**

Customer notification was filed with the Arizona Corporation Commission on July 3, 2008. As Staff's recommended rate increase is significantly higher than the Company's increase, Staff is asking that the Company re-notify its customers.

**Complaints:**

From January 1, 2006, through June 9, 2009, there has been one complaint. The single complaint filed in 2007 has been resolved.

### **Summary of Rate Filing**

On July 3, 2008, DS Water Company ("Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On February 27, 2009, the application was deemed sufficient by the Utilities Division Staff ("Staff").

Based on test year results, as adjusted by Staff, the Company had an operating loss of \$17,117, for a negative operating margin, as shown on Schedule JMM-1.

The Company's proposed rates would produce operating revenues of \$51,882 and result in an operating loss of \$104,006, for a negative operating margin. The Company's proposed rates would increase the typical residential bill with a median usage of 5,671 gallons from \$31.62 to \$37.30, for an increase of \$5.68 or 17.96 percent.

Staff's recommended rates would produce operating revenues of \$71,150 and result in an operating income of \$7,115, a 10 percent operating margin and a 2.28 percent rate of return on an OCRB of \$311,598. Staff's recommended rates would increase the typical residential bill with a median usage of 5,671 gallons from \$31.62 to \$39.27, for an increase of \$7.65 or 24.19 percent.

The Company utilized a test year ending December 31, 2007.

### **Company Background**

The Company is an Arizona "C" corporation, located on Interstate 15 near Littlefield, in Mohave County, and provides utility water services to 89 customers in Mohave County, Arizona. The Company's current rates became effective July 1, 2003, per Commission Decision No. 65977.

This is the Company's first rate increase request since its Certificate of Convenience and Necessity ("CC&N") was granted in Commission Decision No. 65977.

### **Consumer Services**

A review of the Consumer Services Section database for the Company from January 1, 2006, through June 9, 2009, revealed that in 2006 there were zero complaints. In 2007 there was one complaint regarding the inability to reach the Company. In 2008, there were zero complaints. Finally in 2009, there were zero complaints and zero opinions.

### **Compliance**

The Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is not located in an Arizona Department of Water Resources (“ADWR”) designated Active Management Area.

The Arizona Department of Environmental Quality (“ADEQ”) has reported major deficiencies in monitoring and reporting requirements for lead & copper. Because of the compliance monitoring deficiencies, ADEQ cannot determine if the Company’s system PWS #08-072 is currently delivering water that meets water quality standards required by Arizona Administrative Code (“A.A.C.”), Title 18, Chapter 4.<sup>1</sup>

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

The Company has a certificate of good standing from the Arizona Department of Revenue, dated June 25, 2008.

Staff has confirmed, through the Mohave County Treasurer’s website, that as of July 7, 2009, the Company is current on its property taxes.

### **Engineering Analysis**

The plant facilities were visited on August 14, 2008, by Katrin Stukov, Staff Utilities Engineer, in the accompaniment of Rick Holm, President of the Company. A complete discussion of Staff’s technical findings and recommendations and a complete description of the Company is provided in Staff’s Engineering Report.

### **Rate Base**

Staff increased rate base by \$3,372. The change was the result of adjustments made to reflect the disallowance of plant in the amount of \$13,715, reduction of accumulated depreciation by \$11,911 and the inclusion of the formula-method for cash working capital allowance in the amount of \$5,176. See Schedule JMM-2, page 1.

### **Plant-in-Service**

Staff disallowed plant in service in the amount of \$13,715. In response to a Staff data request, the Company recorded tenant improvements in lieu of Rent for the period March 1, 2007, through December 31, 2007, in account 304 structures and improvements. Staff has reclassified the \$7,782 in account 304 structures and improvements to account 641 rent expenses. Staff removed \$5,933 from plant account 331 transmission and distributions mains, as the Company could not provide Staff with any invoices.

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<sup>1</sup> Per ADEQ Compliance Report dated September 12, 2008.

### **Accumulated Depreciation**

Staff decreased the Company's accumulated depreciation amount by \$11,911, which is related to Staff's removal of the above-mentioned \$13,715 in plant in service, and Staff's recalculation of accumulated depreciation since the last rate case.

### **Working Capital**

The Company neglected to claim any cash working capital allowance. Staff included a cash working capital allowance of \$5,176, calculated using the formula-method.

### **Operating Income**

#### **Operating Revenue**

Staff's adjustment to operating revenue resulted in an increase of \$1,122 from \$43,968 to \$45,090 as shown on Schedule JMM-3, page 1. The adjustment is explained below:

Metered Water Revenue – Adjustment A increased metered water revenue by \$1,122 from \$43,606 to \$44,728. Staff imputed revenue to reflect the fact that the Company has been incorrectly billing its current 1 inch metered customers at the 3/4 inch metered rate. The additional \$1,122 represents the additional revenue the Company should have received if it had properly billed its 1 inch metered customers.

#### **Operating Expenses**

Staff's adjustments to operating expenses resulted in a decrease of \$93,680 from \$155,887 to \$62,207 as shown on Schedule JMM-3, page 1. The adjustments are explained below.

Salaries and Wages – Adjustment B decreased salaries and wages by \$75,389 from \$95,389 to \$20,000, based on Staff's experience and comparability to other small water systems, many of which do not receive salaries (See Heart Cab Company W-02355A-09-0275, Timber Knoll Home Owners Association W-01902A-09-0293, and Parker Springs Water W-01853A-09-0622). Staff believes a salary of \$20,000 is reasonable in this case.

Water Testing Expense – Adjustment C increased water testing expense by \$778 from \$750 to \$1,528.

Rents – Adjustment D decreased rent expense by \$9,062 from \$15,680 to \$6,618. First, Staff reduced equipment rental expense by \$14,400. In response to a Staff data request, the Company stated that they rented both a backhoe and water truck for \$1,200 a month during the test year. The Company further stated that the water truck was not used much, and the backhoe was used several times for emergency purposes. The Company is no longer incurring this

monthly equipment rental expense, as the owner has taken back both the backhoe and water truck. As this is not reflective of an on-going expense, Staff has removed \$14,400 in equipment rental expense. Staff also increased rent expense by \$7,782 to reflect the reclassification of structures and improvement (account 304) costs to rents.

Transportation Expense – Adjustment E decreased transportation expense by \$6,854 from \$7,854 to \$1,000. Based on a conversation with Rick Holm, the Company truck was used for both personal and business use. As the service area is in an eight-mile radius, and serves eighty-nine metered customers, Staff believes a yearly transportation expense of \$1,000 is reasonable. Staff recommends that, in the future, the Company keep a mileage log in the Company truck, which contains the beginning and ending mileage, along with the nature of the trip.

General Liability Insurance – Adjustment F decreased Insurance – General Liability by \$499 from \$4,782 to \$4,283. This adjustment removes the insurance related to a track hoe, which was used for repairs. Staff does not consider this an on-going insurance expense, and has removed it.

Depreciation Expense – Adjustment G decreased depreciation by \$3,762 from \$20,660 to \$16,898 as a result of decreasing plant in service, and using a half-year depreciation methodology for plant added during the year.

Taxes other than Income - Adjustment H decreased taxes other than income by \$50 from \$50 to \$0 to remove a penalty of \$50 that was assessed by the Arizona Department of Revenue.

Property Taxes – Adjustment I increased property taxes by \$1,109 from \$1,109 to \$2,218, to reflect a full year of property taxes assessed by the County.

Income Taxes – Adjustment J increased income taxes by \$50 from \$0 to \$50, to reflect Staff's recommendation, which is based on taxable income and application of statutory federal and state tax rates.

### **Revenue Requirement**

Based on Staff's analysis, Staff has determined, in this case, that a 2.82 rate of return on rate base is fair and reasonable. Staff bases its conclusions on the following facts and circumstances:

This is the Company's first rate case since its CC&N, and the Company filed this rate case to be in compliance with the Commission's previous order. Since the rates set in CC&N cases are based on projections, the actual revenues produced may not be what was projected.

In this case, growth has been much slower than was anticipated at the time the CC&N was granted, and, as a result, the projected revenues in the fifth year were not achieved.

Staff's recommended rate of return on rate base will mitigate the rate shock that would result if a higher rate of return on rate base were used.

Staff's recommended rate of return on rate base results in a 10 percent operating margin, which would provide the Company with sufficient operating income.

The Company's proposed rates and charges would result in an operating loss of \$104,006; Staff's recommended 2.82 percent rate of return on rate base would provide an operating income of \$7,115.

For all of the above reasons Staff believes a 2.82 rate of return on rate base is fair and reasonable for this company in this case. Consequently, Staff's recommended revenue increase is significantly higher than what the Company requested in the application.

### **Rate Design**

The Company's proposed rates would increase the typical residential bill with a median usage of 5,671 gallons from \$31.62 to \$37.30, for an increase of \$5.68 or 17.96 percent.

Staff's recommended rates would increase the typical residential bill with a median usage of 5,671 gallons from \$31.62 to \$39.27, for an increase of \$7.65 or 24.19 percent.

As Staff's recommended rate increase is significantly higher than the Company's increase, Staff recommends the Company re-notify its customers of Staff's recommended rate increase.

Staff recommends the monthly minimum for standpipe construction water be removed.

Staff recommends service line and meter installation charges consistent with Table D of the Engineering Report. For service charges, Staff recommends charges that are consistent with other water companies' tariffs.

### **Staff Recommendations**

Staff recommends approval of its rates and charges as shown in Schedule JMM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff further recommends that any increase in permanent rates and charges in this matter shall not become effective until the first day of the month after the Company files with Docket Control, as a compliance item in this docket, ADEQ documentation reporting the Company is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff further recommends that the Company evaluate its water system and prepare a report for corrective measures demonstrating how the Company will reduce its water loss to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2010. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost effective. The Company shall file such report with Docket Control, as a compliance item in this docket, within six months of the effective date of the decision in this case. In no case shall water loss be 15 percent or greater.

Staff further recommends that the Company file as a compliance item in this docket, no later than December 31, 2009, documentation issued by ADWR indicating that the Company's System Water Plan meets ADWR requirements.

Staff further recommends that the Company be ordered to utilize the depreciation rates delineated in the Engineering Report on a going-forward basis.

Staff further recommends that, in the future, the Company keep a mileage log in the Company truck which contains the beginning and ending mileage, along with the nature of the trip.

**DS Water Company**

Docket No. W-04049A-08-0339

Schedule JMM-1

Test Year Ended December 31, 2007

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
<b>Revenues:</b>				
Metered Water Revenue	\$43,606	\$44,728	\$51,520	\$70,788
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	362	362	362	362
<b>Total Operating Revenue</b>	<b>\$43,968</b>	<b>\$45,090</b>	<b>\$51,882</b>	<b>\$71,150</b>
<b>Operating Expenses:</b>				
Operation and Maintenance	\$134,068	\$43,041	\$134,068	\$43,041
Depreciation	20,660	16,898	20,660	16,898
Property & Other Taxes	1,159	2,218	1,159	2,218
Income Tax	0	50	0	1,877
<b>Total Operating Expense</b>	<b>\$155,887</b>	<b>\$62,207</b>	<b>\$155,887</b>	<b>\$64,035</b>
<b>Operating Income/(Loss)</b>	<b>(\$111,919)</b>	<b>(\$17,117)</b>	<b>(\$104,006)</b>	<b>\$7,115</b>
<b>Rate Base O.C.L.D.</b>	<b>\$308,226</b>	<b>\$311,598</b>	<b>\$308,226</b>	<b>\$311,598</b>
<b>Rate of Return - O.C.L.D.</b>	<b>N/M</b>	<b>N/M</b>	<b>N/M</b>	<b>2.28%</b>
<b>Operating Margin</b>	<b>N/M</b>	<b>N/M</b>	<b>N/M</b>	<b>10.00%</b>

NOTE: 1. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

**RATE BASE**

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$401,272	(\$13,715)	A	\$387,558
Less:				
Accum. Depreciation	87,266	(11,911)	B	75,355
<b>Net Plant</b>	<b>\$314,006</b>	<b>(\$1,804)</b>		<b>\$312,203</b>
Less:				
Plant Advances	\$4,080	\$0		\$4,080
Accumulated Deferred Income Taxes	1,700	0		1,700
<b>Total Advances</b>	<b>\$5,780</b>	<b>\$0</b>		<b>\$5,780</b>
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
<b>Total Deductions</b>	<b>\$5,780</b>	<b>\$0</b>		<b>\$5,780</b>
Plus:				
1/24 Power	\$0	\$102	C	\$102
1/8 Operation & Maint.	0	5,074	C	5,074
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$0</b>	<b>\$5,176</b>		<b>\$5,176</b>
<b>Rate Base</b>	<b>\$308,226</b>	<b>\$3,372</b>		<b>\$311,598</b>

*Explanation of Adjustment:*

- A See Schedule JMM-2, page 2.
- B See Schedule JMM-2, page 3.
- C Staff's inclusion of the formula-method for determining cash working capital based on Staff's recommended operating expenses.

**DS Water Company**

Docket No. W-04049A-08-0339

Test Year Ended December 31, 2007

Schedule JMM-2

Page 2 of 3

**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$1,057	\$0	\$1,057
302 Franchises	28,781	0	28,781
303 Land & Land Rights	0	0	0
304 Structures & Improvements	34,084	(7,782) A	26,302
307 Wells & Springs	18,849	0	18,849
311 Pumping Equipment	52,570	0	52,570
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Star	37,572	0	37,572
331 Transmission & Distribution M	174,229	(5,933) A	168,297
333 Services	21,830	0	21,830
334 Meters & Meter Installations	9,630	0	9,630
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipm	0	0	0
340 Office Furniture & Equipment	0	0	0
340.1 Computers & Software	2,960	0	2,960
341 Transportation Equipment	11,964	(0)	11,964
343 Tools Shop & Garage Equipm	239	(0)	239
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	613	0	613
346 Communication Equipment	6,894	(0)	6,894
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$401,272</b>	<b>(\$13,715)</b>	<b>\$387,558</b>

*Explanation of Adjustment:*

- A Staff has reclassified \$7,782 in account 304 structures and improvements to rent expense. In addition, Staff removed \$5,933 from plant account 331 transmission and distribution mains, as the Company could not provide Staff with any invoices.

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$87,266
Accumulated Depreciation - Per Staff	75,355 B
<b>Total Adjustment</b>	<b><u>(\$11,911)</u></b>

*Explanation of Adjustment:*

B See Schedule 2 page 2 of 3

**STATEMENT OF OPERATING INCOME**

	Company Exhibit	Staff Adjustments		Staff Adjusted
<b>Revenues:</b>				
461 Metered Water Revenue	\$43,606	\$1,122	A	\$44,728
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	362	0		362
<b>Total Operating Revenue</b>	<b>\$43,968</b>	<b>\$1,122</b>		<b>\$45,090</b>
<b>Operating Expenses:</b>				
601 Salaries and Wages	\$95,389	(\$75,389)	B	\$20,000
610 Purchased Water	0	0		0
615 Purchased Power	2,453	(0)		2,453
618 Chemicals	30	(0)		30
620 Repairs and Maintenance	3,195	0		3,195
621 Office Supplies & Expense	0	0		0
630 Outside Services	612	(0)		612
635 Water Testing	750	778	C	1,528
641 Rents	15,680	(9,062)	D	6,618
650 Transportation Expenses	7,854	(6,854)	E	1,000
657 Insurance - General Liability	4,782	(499)	F	4,283
659 Insurance - Health and Life	0	0		0
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	3,322	(0)		3,322
403 Depreciation Expense	20,660	(3,762)	G	16,898
408 Taxes Other Than Income	50	(50)	H	0
408.11 Property Taxes	1,109	1,109	I	2,218
409 Income Tax	0	50	J	50
<b>Total Operating Expenses</b>	<b>\$155,887</b>	<b>(\$93,680)</b>		<b>\$62,207</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(\$111,919)</b>	<b>\$94,801</b>		<b>(\$17,117)</b>
<b>Other Income/(Expense):</b>				
419 Interest and Dividend Income	\$147	\$0		\$147
421 Non-Utility Income	0	0		0
427 Interest Expense	20	0		20
4XX Reserve/Replacement Fund Deposit	0	0		0
426 Miscellaneous Non-Utility Expense	0	0		0
<b>Total Other Income/(Expense)</b>	<b>\$127</b>	<b>\$0</b>		<b>\$127</b>
<b>NET INCOME/(LOSS)</b>	<b>(\$111,792)</b>	<b>\$94,801</b>		<b>(\$16,990)</b>

**STAFF ADJUSTMENTS**

A -	METERED WATER REVENUE - Per Company	\$43,606	
	Per Staff	44,728	\$1,122

Staff imputed metered revenue to reflect the fact that the Company has been incorrectly billing its current 1 inch metered customers at the 3/4 inch metered rate. The additional \$1,122 represents the additional revenue the Company should have received if it had properly billed its 1 inch metered customers.

B -	SALARIES AND WAGES - Per Company	\$95,389	
	Per Staff	20,000	(\$75,389)

Staff reduced Salary expense, based on Staff's experience with small water companies, many of which do not claim salaries. Staff believes a salary of \$20,000 is reasonable in this case.

C -	WATER TESTING - Per Company	\$750	
	Per Staff	1,528	\$778

To reflect the amount recommended by Staff Engineering.

D -	RENTS - Per Company	\$15,680	
	Per Staff	6,618	(\$9,062)

Staff reduced rental expense by \$14,400 to reflect the fact that the Company is no longer leasing the water truck or back hoe. Staff increased rental expense by \$7,782, as a result of reclassifying this expense from account 304 structures and improvements.

E -	TRANSPORTATION EXPENSE - Per Company	\$7,854	
	Per Staff	1,000	(\$6,854)

Staff reduced transportation expense by \$6,854 to reflect a reasonable amount based on the Company's size and amount of customers.

F -	INSURANCE - GENERAL LIABILITY - Per Company	\$4,782	
	Per Staff	4,283	(\$499)

Staff removed \$499 related to insurance that was purchased along with rental equipment. Staff does not consider this cost on-going.

**STAFF ADJUSTMENTS (Cont.)**

G -	DEPRECIATION - Per Company	\$20,660	
	Per Staff	16,898	(\$3,762)

Staff decreased

**Pro Forma Annual Depreciation Expense:**

Plant in Service		\$387,558	
Less: Non Depreciable Plant		29,838	
Fully Depreciated Plant		0	
Depreciable Plant		\$357,720	
Times: Staff Proposed Depreciation Rate		4.72%	
Credit to Accumulated Depreciation		\$16,898	
Less: Amort. of CIAC* @ 4.72%		0	
<b>Pro Forma Annual Depreciation Expense</b>		<b>\$16,898</b>	

**\* Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)		\$0	
Less: Non Amortizable Contribution(s)		0	
Fully Amortized Contribution(s)		0	
Amortizable Contribution(s)		\$0	
Times: Staff Proposed Amortization Rate		4.72%	
<b>Amortization of CIAC</b>		<b>\$0</b>	

H -	TAXES OTHER THAN INCOME - Per Company	50	
	Per Staff	0	(\$50)

To remove the penalty of \$50.00 that was assessed by the Arizona Department of revenue.

I -	PROPERTY TAXES - Per Company	\$1,109	
	Per Staff	2,218	\$1,109

This adjust increases property taxes to reflect a full year, not a half year.

J -	INCOME TAX - Per Company	\$0	
	Per Staff	50	\$50

This adjustment increases income tax to reflect Staff's recommendation, which is based on taxable income and application of the statutory federal and state tax rates.

**RATE DESIGN**

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$20.56	\$24.26	\$25.00
3/4" Meter	20.56	24.26	37.50
1" Meter	33.48	39.50	62.50
1 1/2" Meter	57.00	67.26	125.00
2" Meter	92.00	108.56	200.00
3" Meter	175.00	206.50	400.00
4" Meter	300.00	354.00	625.00
6" Meter	575.00	678.50	1,250.00
Standpipe Construction Water	135.00	135.00	0.00
Commodity Rate (per 1,000 gallons)			
<u>All Meter Sizes Except Construction Water</u>			
0 to 4,000 gallons	\$ 1.77	\$ 2.09	N/A
4,001 to 50,000 gallons	2.38	2.80	N/A
Over 50,000 gallons	2.60	3.06	N/A
<u>5/8" x 3/4" Meter (Residential)</u>			
1 - 4,000 gallons	N/A	N/A	\$ 2.00
4,001 - 10,000 gallons	N/A	N/A	3.75
Over 10,000 gallons	N/A	N/A	6.32
<u>5/8" x 3/4" Meter (Commercial)</u>			
1 - 10,000 gallons	N/A	N/A	3.75
Over 10,000 gallons	N/A	N/A	6.32
<u>1" Meter (Residential &amp; Commercial)</u>			
1 - 18,000 gallons	N/A	N/A	3.75
Over 18,000 gallons	N/A	N/A	6.32
<u>1 1/2" Meter (Residential &amp; Commercial)</u>			
1 - 40,000 gallons	N/A	N/A	3.75
Over 40,000 gallons	N/A	N/A	6.32
<u>2" Meter (Residential &amp; Commercial)</u>			
1 - 65,000 gallons	N/A	N/A	3.75
Over 65,000 gallons	N/A	N/A	6.32
<u>3" Meter (Residential &amp; Commercial)</u>			
1 - 140,000 gallons	N/A	N/A	3.75
Over 140,000 gallons	N/A	N/A	6.32
<u>4" Meter (Residential &amp; Commercial)</u>			
1 - 225,000 gallons	N/A	N/A	3.75
Over 225,000 gallons	N/A	N/A	6.32
<u>6" Meter (Residential &amp; Commercial)</u>			
1 - 450,000 gallons	N/A	N/A	3.75
Over 450,000 gallons	N/A	N/A	6.32
<u>Construction Water (per 1,000 gallons)</u>	\$ 2.60	\$ 3.06	\$ 6.32

**RATE DESIGN - (Cont.)**

Service Line and Meter Installation Charges			Service Line Charge	Meter Installation	Total Recommend
5/8" x 3/4" Meter	\$425.00	\$425.00	\$345.00	\$80.00	\$425.00
3/4" Meter	450.00	450.00	345.00	105.00	450.00
1" Meter	500.00	500.00	325.00	175.00	500.00
1½" Meter	700.00	700.00	365.00	335.00	700.00
2" Meter	1,125.00	1,125.00	495.00	630.00	1,125.00
3" Meter	1,505.00	1,505.00	570.00	935.00	1,505.00
4" Meter	2,340.00	2,340.00	820.00	1,520.00	2,340.00
6" Meter	4,450.00	4,450.00	1,335.00	3,110.00	4,445.00
<b>Service Charges</b>					
Establishment	\$20.00	\$24.00	\$24.00		
Establishment (After Hours)	30.00	36.00	36.00		
Reconnection (Delinquent)	30.00	36.00	36.00		
Reconnection (Delinquent) after hours	N/A	N/A	N/A		
Meter Test (If Correct)	30.00	36.00	36.00		
Deposit	*	*	*		
Deposit Interest	6.00%	6.00%	*		
Re-Establishment (Within 12 Months)	**	**	**		
NSF Check	15.00	30.00	30.00		
Deferred Payment (per month)	1.50%	1.50%	1.50%		
Meter Re-Read (If Correct)	10.00	12.00	12.00		
Late Fee (per month)	1.50%	\$ 10.00	1.50%		
Main Extension	Cost	***	Cost		
Call Out (for malfunction on customer side of meter)	25.00	***	25.00		

\* Per Commission Rules (R14-2-403.B)  
\*\* Months off system times the monthly minimum (R14-2-403.D)  
\*\*\* Company did not provide information in the application for that service.

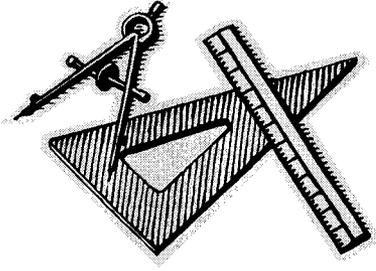
**TYPICAL BILL ANALYSIS**  
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 83

<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	8,686	\$38.79	\$45.74	\$6.95	17.92%
Median Usage	5,671	\$31.62	\$37.30	\$5.68	17.96%
<u>Staff Recommend</u>					
Average Usage	8,686	\$38.79	\$50.57	\$11.78	30.37%
Median Usage	5,671	\$31.62	\$39.27	\$7.65	24.19%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$20.56	\$24.26	18.00%	\$25.00	21.60%
1,000	22.33	26.35	18.00%	27.00	20.91%
2,000	24.10	28.44	18.01%	29.00	20.33%
3,000	25.87	30.53	18.01%	31.00	19.83%
4,000	27.64	32.62	18.02%	33.00	19.39%
5,000	30.02	35.42	17.99%	36.75	22.42%
6,000	32.40	38.22	17.96%	40.50	25.00%
7,000	34.78	41.02	17.94%	44.25	27.23%
8,000	37.16	43.82	17.92%	48.00	29.17%
9,000	39.54	46.62	17.91%	51.75	30.88%
10,000	41.92	49.42	17.89%	55.50	32.40%
15,000	53.82	63.42	17.84%	87.10	61.84%
20,000	65.72	77.42	17.80%	118.70	80.61%
25,000	77.62	91.42	17.78%	150.30	93.64%
50,000	137.12	161.42	17.72%	308.30	124.84%
75,000	202.12	237.92	17.71%	466.30	130.70%
100,000	267.12	314.42	17.71%	624.30	133.72%
125,000	332.12	390.92	17.70%	782.30	135.55%
150,000	397.12	467.42	17.70%	940.30	136.78%
175,000	462.12	543.92	17.70%	1,098.30	137.67%
200,000	527.12	620.42	17.70%	1,256.30	138.33%



**ENGINEERING REPORT FOR DS  
WATER COMPANY  
DOCKET NO. W-04049A-08-0339 (Rates)**

**October 8, 2008**

**CONCLUSIONS**

1. The Arizona Department of Environmental Quality has reported major deficiencies in monitoring and reporting requirements for lead & copper. Because of the compliance monitoring deficiencies, ADEQ cannot determine if the Company's system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. The Company's water system has a water loss of 13.5 percent, which exceeds the recommended threshold amount of 10 percent.
3. The Company water system's well production and storage capacities are adequate to serve the present customer base and a reasonable level of growth.
4. The Company is not located in the Arizona Department of Water Resources ("ADWR") designated Active Management Area.
5. ADWR has determined that the Company has not submitted its Annual Report for Community Water System or System Water Plan and, therefore, the Company is not in compliance with the reporting requirements of *Arizona Revised Statutes* § 45-341-343.
6. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.
7. The Company has an approved curtailment plan tariff.
8. The Company has an approved backflow prevention tariff.

## RECOMMENDATIONS

1. Staff recommends that any increase in permanent rates and charges in this matter shall not become effective until the first day of the month after the Company files with Docket Control, as a compliance item in the same docket, ADEQ documentation reporting that the Company is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. The Company's water system has water loss of 13.5 percent. Staff recommends that the Company evaluate its water system and prepare a report for corrective measures demonstrating how the Company will reduce its water loss to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2010. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost effective. The Company shall file such report with Docket Control, as a compliance item in this docket, within six months of the effective date of the decision in this case. In no case shall water loss be 15 percent or greater.
3. Staff recommends that the Company file as a compliance item in this docket no later than December 31, 2009, documentation issued by ADWR indicating that the Company's System Water Plan meets ADWR requirements.
4. Staff recommends its annual water testing expense of \$1,528 be used for purposes of this application.
5. Staff recommends that the Company adopt depreciation rates as shown in Depreciation Rate Table ordered in Decision No. 65977, as delineated in Table C.
6. Staff recommends that service line and meter installation charges labeled "Staff's Recommendation" in Table D be adopted.

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**A. INTRODUCTION AND LOCATION OF COMPANY**

On July 3, 2008, DS Water Company (“DS or Company”) filed a rate application with the Arizona Corporation Commission (“ACC” or “Commission”). The Company’s service area is located near Littlefield in Mohave County.

Figure 1 shows the location of the Company within Mohave County and Figure 2 delineates the approximate two square-miles or 1,280 acres of the Company’s certificated area.

Figure 1

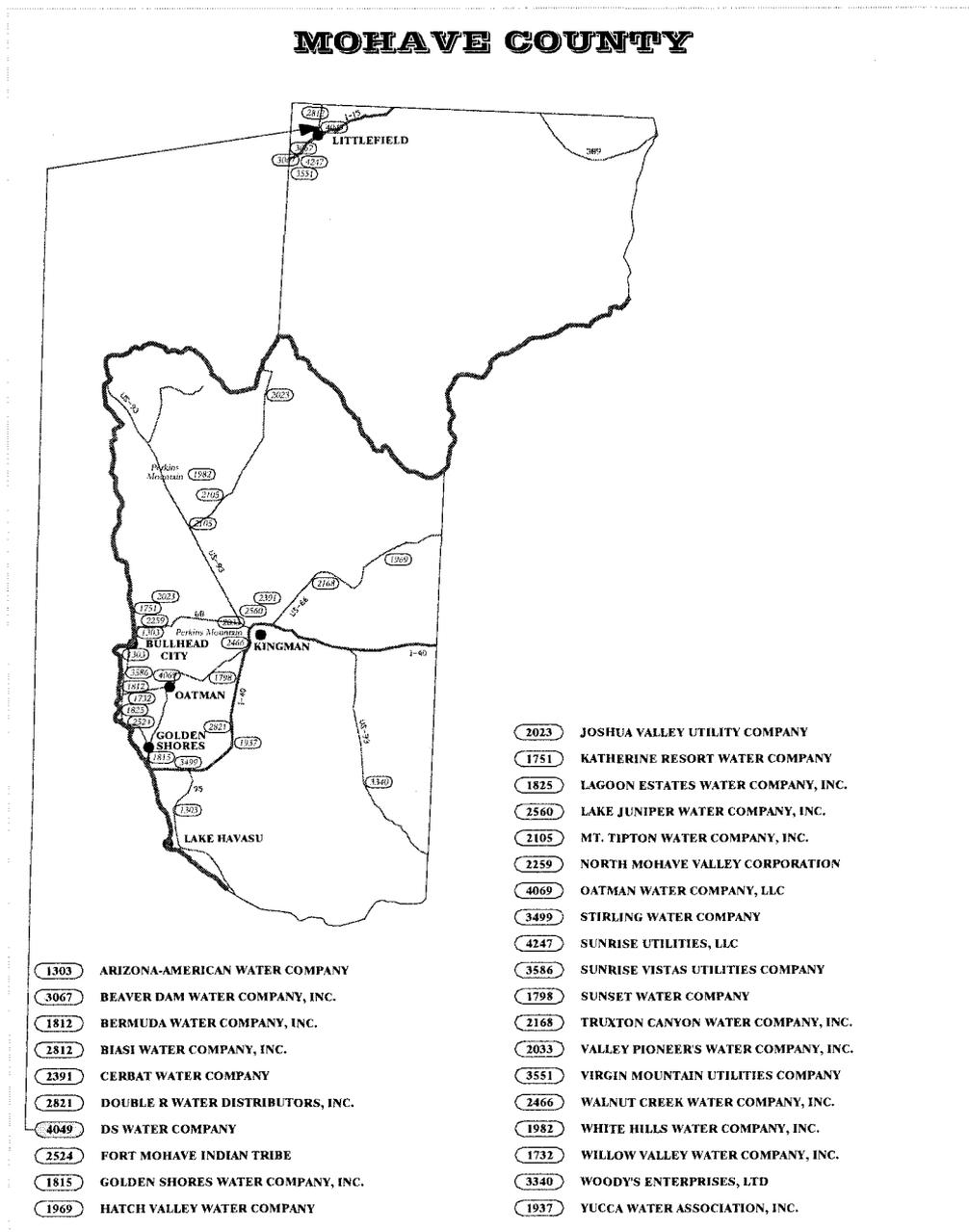
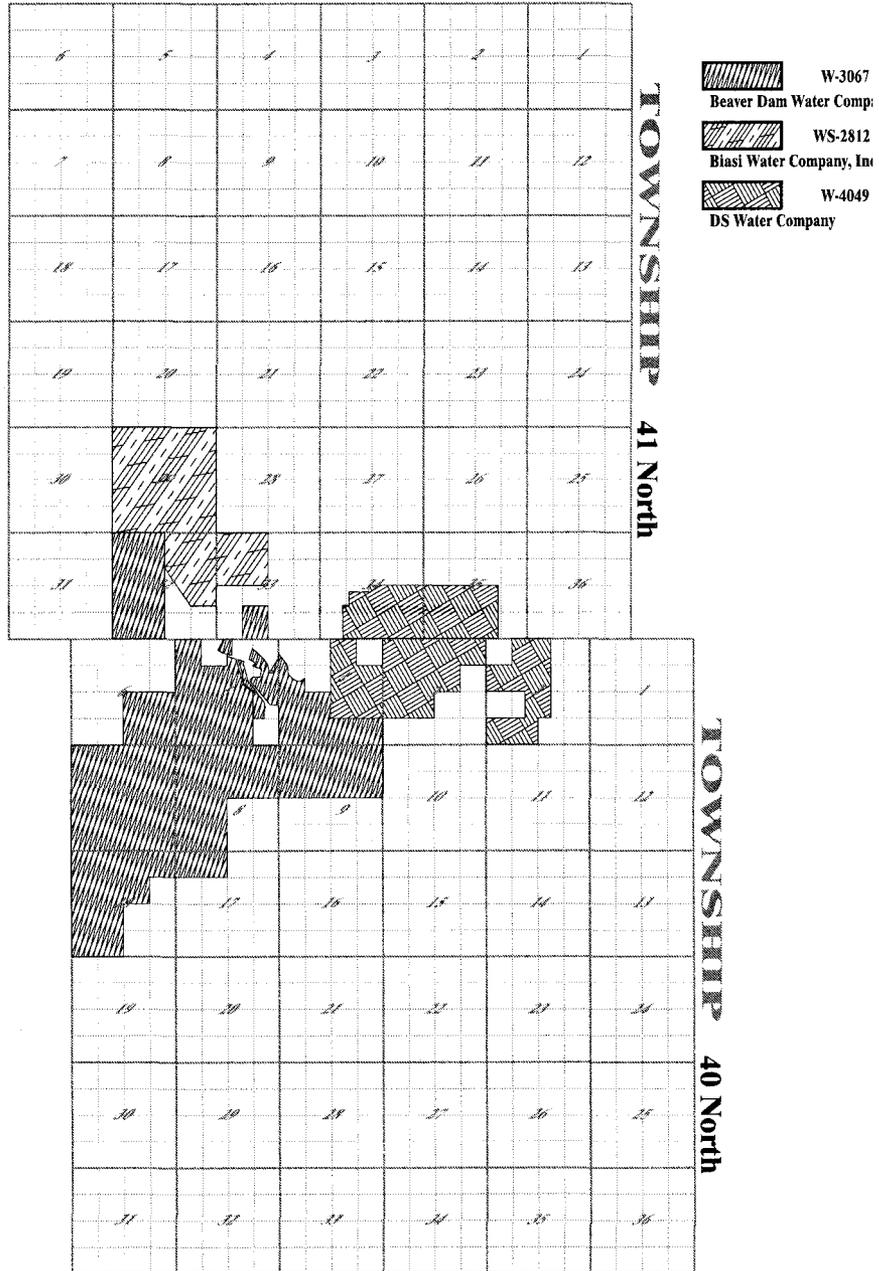


Figure 2

**COUNTY:** *Mohave*

**RANGE** 15 West



**B. DESCRIPTION OF THE WATER SYSTEMS**

The DS water system was visited on August 14, 2008, by Katrin Stukov, Staff Utilities Engineer, in the accompaniment of Rick Holm, the Company's President. The water system consists of two wells (one inactive), two storage tanks, a booster station with two booster pumps and eleven bladder pressure tanks and a distribution system serving 89 metered customers located on both sides of the Virgin River. A water system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing.

Table A. Plant Facilities Summary<sup>1</sup>**Well Data**

	Well No 1	Well No. 2
ADWR ID No.	55-512262	Not in Service
Casing Size	8 inch	
Casing Depth	51 ft	
Pump Size	20 Hp	
Pump Yield	186 gal/min	
Meter Size	6 inch	
Year Drilled	1985	

**Storage, Pumping, Structures**

Structure or equipment	Quantity and Capacity
Booster Pump	1- 5 HP 1-10 HP
Pressure Tanks	8 – 119 gallon
Storage tanks	2- 80,000 gallons
Well Pump House	1
Steel support structure over Virgin River	245 ft
Pressurization House	1

**Distribution Mains**

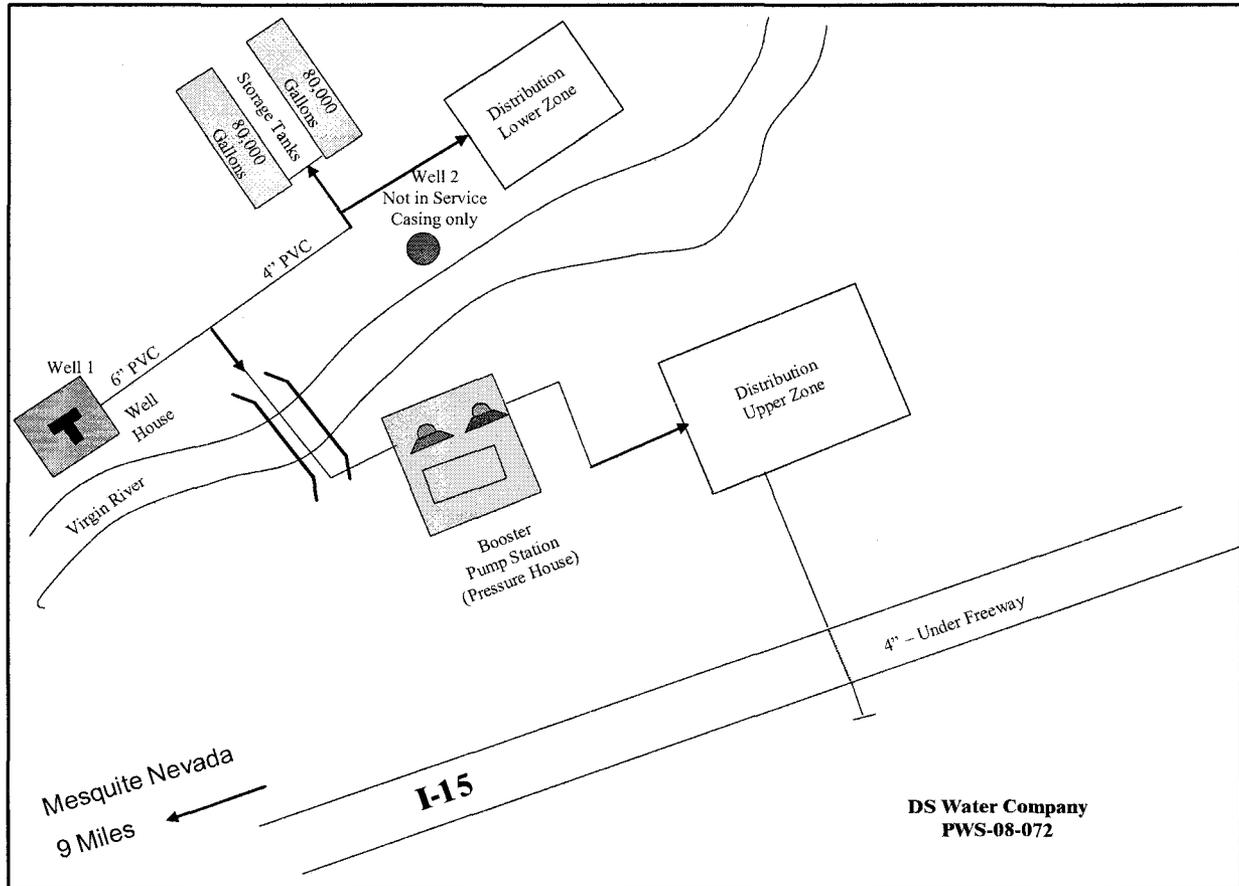
Diameter	Material	Length
8 inch	PVC	1,500 ft
6 inch	PVC / Steel	5,585 ft
4 inch	PVC	19,318 ft
2 inch	PVC	6,104 ft

**Meters**

Size	Quantity
5/8 x 3/4 inch	83
1 inch	6

<sup>1</sup> Based on the Company's application and Staff's site visit

Figure 3 System Schematic

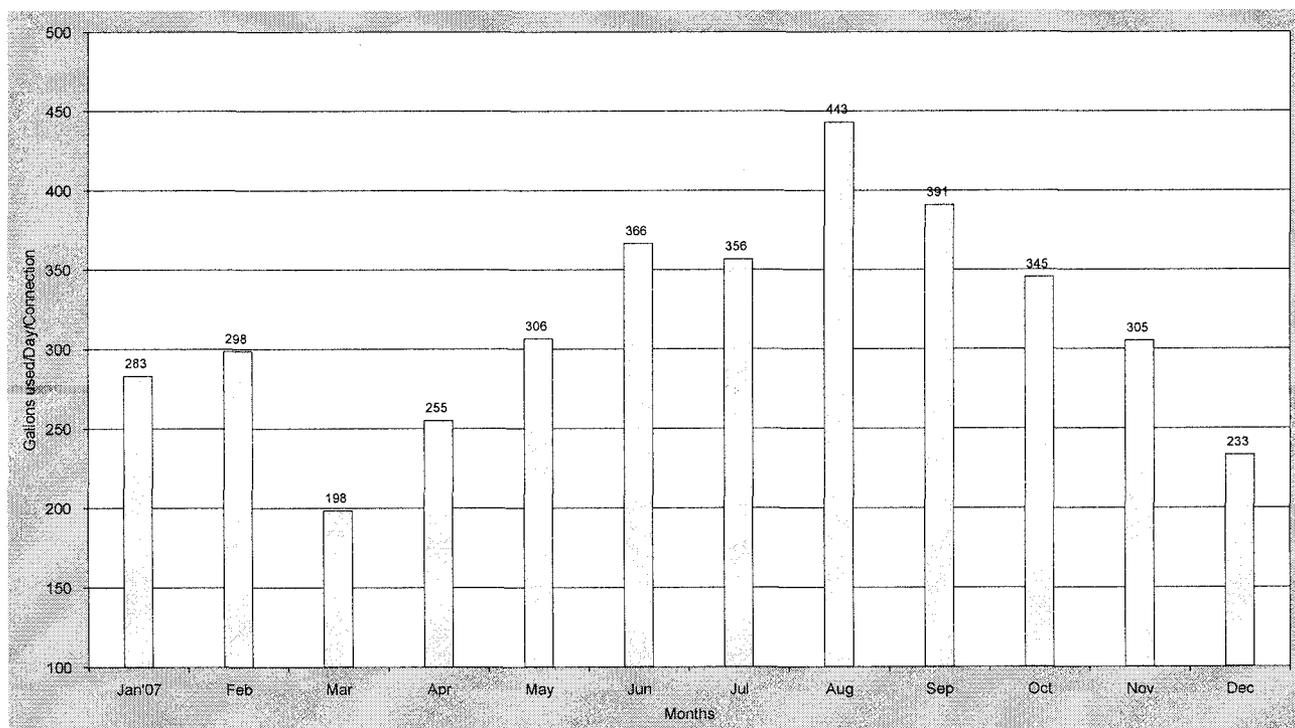


## C. WATER USE

### Water Sold

Figure 4 represents the water consumption data for the test year ending December 31, 2007, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 443 gallons per day (“GPD”) per connection in August, and the low water use was 198 GPD per connection in March. The average annual use was 315 GPD per connection.

Figure 4 Water Use



### Non-account Water

Non-account water should be 10 percent or less. 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 company to identify water and revenue losses due to leakage, theft and flushing. The Company reported 11,825,815 gallons pumped and 10,234,910 gallons sold for the test year, resulting in a water loss of 13.5 percent, which exceeds the recommended threshold amount of 10 percent.

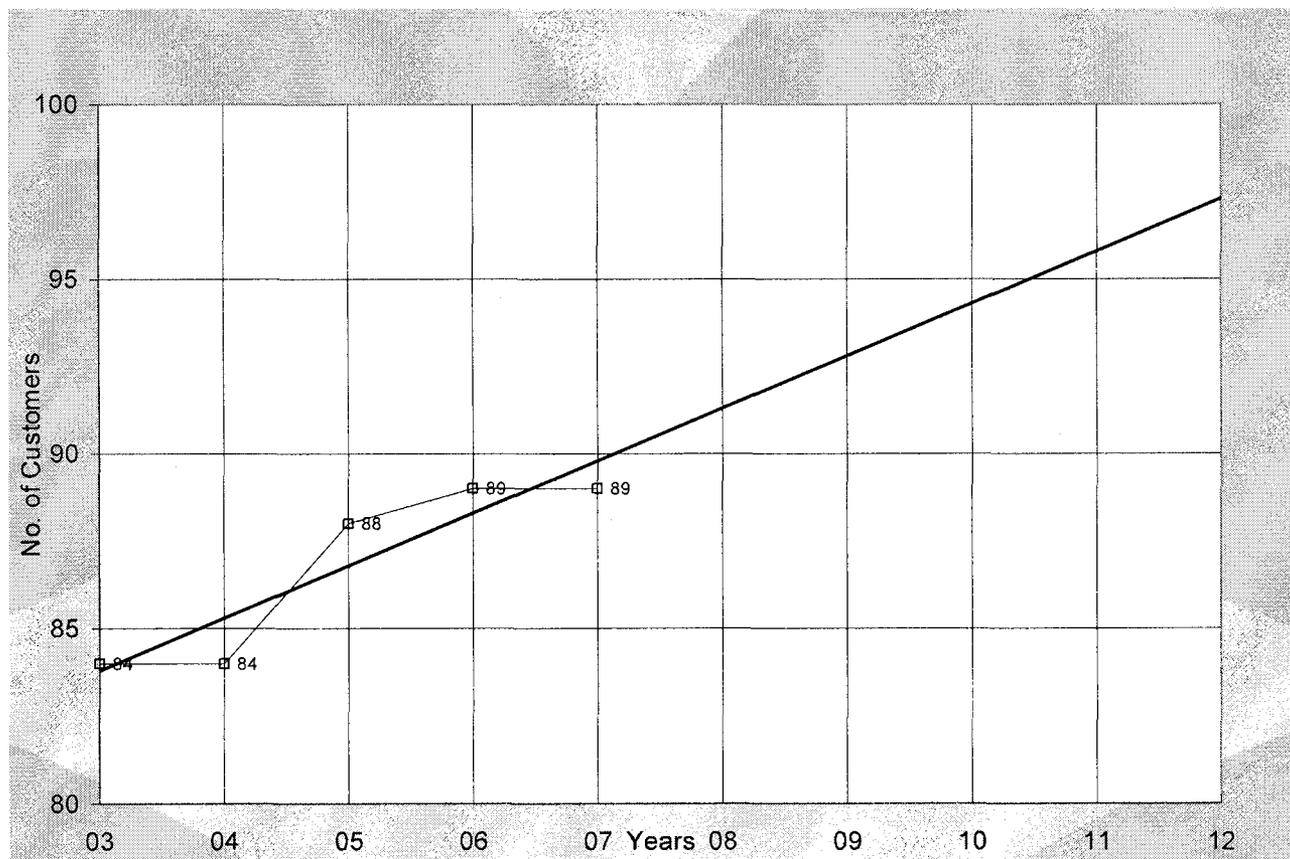
### System Analysis

Based on the data provided by the Company, the system's well production capacity is 186 GPM and total storage capacity is 160,000 gallons. There are no fire hydrants in the distribution system. The system had 89 connections as of December 2007. Staff concludes that the system's well production and storage capacities are adequate to serve the present customer base and reasonable growth.

### **D. GROWTH**

The Company has experienced limited growth. Based on customer data obtained from the Company's Annual Reports, it is projected that the Company could have over 95 customers by 2012. Figure 5 depicts actual growth from 2003 to 2007 and projects an estimated growth for the next five years using linear regression analysis.

Figure 5 Growth Projection



## E. ADEQ COMPLIANCE

### Compliance

The Arizona Department of Environmental Quality has reported major deficiencies in monitoring and reporting requirements for lead & copper. Because of the compliance monitoring deficiencies, ADEQ cannot determine if the Company's system PWS# 08-072 is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.<sup>2</sup>

### Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$750 for the 2007 test year. Staff has reviewed the Company's water testing expense and has recalculated annual water testing costs by adding Lead & Copper testing expense. Table B shows Staff's adjusted annual monitoring expense estimate of \$1,528 with participation in the MAP (ADEQ - MAP invoice for the 2008 Calendar Year was \$484).

Table B. Water Testing Cost

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – monthly	\$17	12	\$204
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$484
Lead & Copper – biannually	\$30	10	\$600
Courier Service- monthly	\$20	12	\$240
Total			<b>\$1,528</b>

## F. ADWR COMPLIANCE

The Company is not located in an ADWR designated Active Management Area.

According to an ADWR Compliance Status Report, dated September 23, 2008, the Company has not submitted its Annual Report for Community Water System or System Water Plan and, therefore, the Company is not in compliance with the reporting requirements of *Arizona Revised Statutes* § 45-341-343.

<sup>2</sup> Per ADEQ Compliance Report dated September 12, 2008.

Staff recommends that the Company comply with all ADWR reporting requirements and report the required information to ADWR for its review. Upon receiving the required information and completion of its review of the Company's System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan, ADWR will issue a letter stating whether or not the System Water Plan filed meets ADWR requirements.

#### **G. ACC COMPLIANCE**

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company<sup>3</sup>.

#### **H. DEPRECIATION RATES**

In Decision No. 65977, dated June 17, 2003, depreciation rates for the Company were adopted. The depreciation rate table submitted by the Company with this application did not include certain plant accounts specified in Decision No. 65977. (For example, the Company has not classified its plant-in-service into the sub-accounts: NARUC Accounts No. 330.1 and 330.2). The Company did not provide specific reasons for this deviation.

Staff recommends that the Company use the depreciation rates ordered in Decision No. 65353, as delineated in Table C.

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<sup>3</sup> Per ACC Compliance status check dated July 30, 2008.

**TABLE C  
DEPRECIATION RATE TABLE FOR WATER COMPANIES**

NARUC Account 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:

- 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.
- Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

## I. OTHER ISSUES

### 1. Service Line and Meter Installation Charges

The Company did not request changes in its service line and meter installation charges in its application. These charges are refundable advances. 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 are recommended as shown in Table D. Staff recommends that the charges labeled under "Staff's Recommendation" in Table D be adopted.

Table D Service Line and Meter Installation Charges

Meter Size	Company Current Tariff	Company Proposed Tariff	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$425	\$425	\$345	\$80	\$425
3/4-inch	\$450	\$450	\$345	\$105	\$450
1-inch	\$500	\$500	\$325	\$175	\$500
1-1/2-inch	\$700	\$700	\$365	\$335	\$700
2-inch	\$1,125	\$1,125	\$495	\$630	\$1,125
3-inch	\$1,505	\$1,505	\$570	\$935	\$1,505
4-inch	\$2,340	\$2,340	\$820	\$1,520	\$2,340
6-inch	\$4,445	\$4,445	\$1,335	\$3,110	\$4,445

### 2. Curtailment Plan Tariff

The Company has an approved curtailment plan tariff.

### 3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff.