

ORIGINAL



0000103376

MEMORANDUM

EA for SMD

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: February 09, 2010

RE: STAFF REPORT FOR LAGOON ESTATES WATER COMPANY'S
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-
01825A-09-0345)

Attached is the Staff Report for Lagoon Estates 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 February 18, 2010.

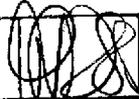
EGJ:DRE:kdh

Originator: Darak R. Eaddy

Arizona Corporation Commission

DOCKETED

FEB 10 2010

DOCKETED BY 

ARIZONA CORPORATION
COMMISSION
DOCKET CONTROL

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

LAGOON ESTATES WATER COMPANY

DOCKET NO. W-01825A-09-0345

**APPLICATION FOR A
PERMANENT RATE INCREASE**

February 09, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Lagoon Estates Water Company, Docket No. W-01825A-09-0345 was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy
Public Utility Analyst II



Marlin Scott, Jr.
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
LAGOON ESTATES WATER COMPANY
APPLICATION FOR A PERMANENT RATE INCREASE
DOCKET NO. W-01825A-09-0345**

Lagoon Estates Water Company ("Lagoon Estates" or "Company") is an Arizona S Corporation engaged in the business of providing potable water service to approximately 372 customers. Lagoon Estates provides water service to an area located near the Colorado River approximately 20 miles south of Bullhead City, in Mohave County, Arizona. The Company's current rates were effective August 17, 2005, per Decision No. 68084.

The Company proposes total operating revenue of \$229,609,¹ an increase of \$30,000, or 15.03 percent over test year revenue of \$199,609, resulting in an operating margin of 10.34 percent. Staff recommends total operating revenue of \$225,304, an increase of \$25,195, or 12.59 percent over the Staff-adjusted test year revenue of \$200,109, resulting in an operating margin of 10.46 percent. The Company's proposed revenues result in an operating income of \$23,741. Staff recommended revenues would result in an operating income of \$23,573.

The Company has proposed an original cost rate base ("OCRB") of \$76,273. The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,586 gallons from \$25.04 to \$31.19, an increase of \$6.15 or 24.6 percent.

Staff has recommended an OCRB of \$107,302. Staff utilized an operating margin to determine revenue requirement due to Lagoon Estates' low rate base not producing sufficient revenues for the Company's operating needs when applying a rate of return on rate base.

Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,586 gallons from \$25.04 to \$26.68, for an increase of \$1.64 or 6.5 percent.

Staff Recommendations:

Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule DRE-4, pages 1 and 2. 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 be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

¹ The Company requested total operating revenue of \$229,609 on page 6 of the Company's application. However, Lagoon Estates' proposed rates and rate structure would actually produce \$234,115 in revenues.

Staff further recommends that the Company adopt the typical and customary depreciation rates as delineated on Table H in Section H of the attached Engineering Report.

Staff further recommends approval of separate installation charges for the service line and meter installation charges as delineated in Tables I-1 in Section I of the attached Engineering Report.

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ATTACHMENT

Engineering ReportA

Fact sheet

Type of Ownership Arizona S Corporation.

Location The Company provides potable water service to customers in Mohave County, Arizona approximately 20 miles south of Bullhead City, Arizona.

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

Rates Permanent rate increase application filed: July 2, 2009. The application became sufficient on November 25, 2009.

Current Rates Decision No. 68084, dated August 17, 2005.

Prior Test Year December 31, 2003.

Current Test Year Ended December 31, 2008.

Monthly Minimum Rates

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge			
5/8 X 3/4 – inch meter	\$ 15.00	\$ 20.00	\$ 15.00
3/4 – inch meter	\$ 20.25	\$ 25.25	\$ 22.50
1 – inch meter	\$ 35.00	\$ 40.00	\$ 37.50
1 - 1/2 – inch meter	\$ 65.00	\$ 70.00	\$ 75.00
2 – inch meter	\$ 108.00	\$ 113.00	\$ 120.00
3 – inch meter	\$ 190.00	\$ 195.00	\$ 240.00
4 – inch meter	\$ 325.00	\$ 330.00	\$ 375.00
6 – inch meter	\$ 625.00	\$ 630.00	\$ 750.00
8 – inch meter	\$ 825.00	\$ 830.00	\$1,200.00

Commodity Rates

<u>5/8 x 3/4 Inch Meter</u>			
0 to 3,000 gallons	\$ 2.00	\$ 2.25	\$ 2.15
3,001 to 10,000 gallons	\$ 2.55	\$ 2.80	\$ 3.30
Over 10,000 gallons	\$ 3.25	\$ 3.50	\$ 3.90

Fact Sheet (Continued)

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
<u>1 Inch Meter</u>			
0 to 10,000 gallons	\$ 2.55	\$ 2.80	\$ 3.30
Over 10,000 gallons	\$ 3.25	\$ 3.50	\$ 3.90
<u>2 to 8 Inch Meter</u>			
0 to 30,000 gallons	\$ 2.55	\$ 2.95	\$ 3.30
Over 30,000 gallons	\$ 3.25	\$ 3.75	\$ 3.90

Typical 5/8 x 3/4-inch residential bill

Average use (5,972 gallons)	\$28.58	\$35.07	\$31.26
Median use (4,586 gallons)	\$25.04	\$31.19	\$26.68

Customers

Average number of customers in prior test year (12/31/03): 258

Average Number of customers in the current test year (12/31/07): 372

Current test year customers by meter size:

5/8 X 3/4 – inch	366
3/4 – inch	0
1 – inch	2
1 1/2 – inch	0
2 – inch	1
3 – inch	2
4 – inch	0
6 – inch	0
8 – inch	1

Notifications

An affidavit of mailing of the customer notification was filed on January 10, 2010.

Number of opinions filed against the rate increase application: 2.

Fact Sheet (Continued)

Number of customer complaints filed against the Company from January 1, 2006 to February 2, 2010: 0.

Percentage of opinions to customer base: 0.54 percent (2 / 372).

Summary of Filing

The test year results as adjusted by Utilities Division Staff ("Staff") for Lagoon Estates Water Company ("Lagoon Estates" or "Company") reflect total operating revenue of \$200,109 and operating loss of \$1,622 as shown on Schedule DRE-1. The original cost rate base ("OCRB") as adjusted by Staff is \$107,302.

Lagoon Estates proposed rates would produce total operating revenue of \$229,609^b and operating income of \$23,741, or a 10.34 percent operating margin. The Company proposes a fair value rate base of \$76,273, which does not differ from its original cost rate base ("OCRB"). The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,586 gallons from \$25.04 to \$31.19, an increase of \$6.15 or 24.6 percent, as shown on Schedule DRE-5.

Staff-recommended rates would produce total operating revenue of \$225,304 and operating income of \$23,573, or a 10.46 percent operating margin. Staff recommends an OCRB of \$107,302. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,586 gallons from \$25.04 to \$26.68, for an increase of \$1.64 or 6.5 percent.

The Company reports that its proposed rate increase is necessary at this time due to rising operating expenses. The Company claims its financial difficulty is further exacerbated by Lagoon Estates being an older system. The Company noted that much of its equipment and plant is in need of upgrading and/or replacement, and that there is a need for additional funds to hire additional employees to handle the growth on the system.

During the test year ended December 31, 2008, Lagoon Estates provided potable water service to approximately 372 customers.

The Company is registered as an Arizona S corporation with the Corporations Division of the Arizona Corporation Commission ("Commission").

^b The Company requested total operating revenue of \$229,609 on page 6 of the Company's application. However, Lagoon Estates' proposed rates and rate structure would actually produce \$234,115 in revenues.

Company Background

Lagoon Estates is an Arizona S corporation that provides potable water service to customers in an area located near the Colorado River approximately 20 miles south of Bullhead City, in Mohave County, Arizona. The Company's service territory encompasses approximately 3.7 miles.

On July 2, 2009, Lagoon Estates filed an application for a permanent rate increase. On August 3, 2009, Staff filed a Letter of Deficiency. Staff issued a Letter of Sufficiency on November 25, 2009. The Company filed, with Docket Control on January 5, 2010, a copy of its affidavit of service notifying customers of its pending rate increase application.

The Company provides services mostly to small residential customers with one large 8-inch meter customer, a local high school.

Consumer Services

A review of the Consumer Services Section database from January 1, 2006, through February 2, 2010, revealed that there were 2 opinions filed opposing the rate increase request. The review revealed that during the same time period there had been no complaints filed against the Company.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

Lagoon Estates is current on its property and sales tax payments.

Lagoon Estates is in good standing with the Corporations Division of the Commission.

Engineering

The water system was field inspected on September 4, 2009, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Karen Brereton, Operator for the Company. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

The Company has been using a depreciation rate of 3.23% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been adopting Staff's typical and customary depreciation rates. Staff recommends that the Company adopt the typical and customary depreciation rates as delineated on Table H in Section H of the attached Engineering Report.

Rate Base

Staff's adjustments increased Lagoon Estates' proposed rate base by \$31,029 from \$76,273 to \$107,302 as shown on Schedule DRE-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Staff's adjustments to plant in service resulted in a net decrease of \$2,367, from \$557,271 to \$554,904 as shown on Schedule DRE-2, page 2. A significant portion of Staff's decrease to plant in service was the result of Staff's adjustments to reflect the plant in service balances established in the Company's last rate case, by Decision No. 59852.

Structures and Improvements - Adjustment "a" increases the structures and improvements account by \$1,655, from \$43,779 to \$45,434 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$35,264 balance established by Decision No. 68084, and \$10,170 increase in structures and improvements supported by documentation.

Transmission and Distribution Mains - Adjustment "b" decreases the transmission and distribution mains account by \$5,669, from \$220,674 to \$215,005 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$171,389 balance established in Decision No. 68084 and a \$43,616 increase for transmission and distribution mains supported by documentation submitted by the Company.

Meters and Meter Installations - Adjustment "c" increases the meters and meter installations account by \$3,402 from \$33,817 to \$37,219 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$33,399 balance established in Decision No. 68084 and a \$3,802 increase in meters and meter installations supported by documentation.

Other Plant & Equipment - Adjustment "d" decreases the other plant and equipment account by \$1,655 from \$1,655 to \$0 as shown on Schedule DRE-2, pages 2 and 4. Staff allocated \$1,655 from other plant and equipment to account 304 structures and improvements.

Transportation Equipment - Adjustment "e" decreases the transportation equipment account by \$100, from \$11,387 to \$11,287 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjustment was made to correct a calculation error by the Company.

Other Rate Base Items

Accumulated Depreciation

Staff decreased accumulated depreciation by \$13,044 from \$394,439 to \$381,395 as shown on Schedule DRE-2, pages 1 and 5. The decrease is based upon several Staff adjustments made to plant in service account balances and the addition of depreciation expense to

accumulated depreciation since the last rate case.

Working Capital

Staff's adjustments to working capital resulted in a net increase of \$20,352, from \$0 to \$20,352 as shown on Schedule DRE-2, pages 1 and 6, as a result of increasing cash working capital.

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

Operating Income Statement

Operating Revenue

Staff's adjustment to operating revenue resulted in an increase of \$500 from \$179,305 to \$179,805, as shown on Schedule DRE-3, pages 1 and 2.

Adjustment 1 reflects total operating revenues based on the Company's submitted bill counts.

Operating Expenses

Staff's adjustments to operating expenses resulted in a decrease of \$4,137 from \$205,868 to \$201,731 as shown on Schedule DRE-3, page 1. The adjustments are explained below.

Purchased Power - Adjustment 2 decreases purchased power expense by \$1,374 from \$9,949 to \$8,575 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of purchased power expense based on the documentation submitted by the Company.

Repairs and Maintenance - Adjustment 3 decreases repairs and maintenance by \$146, from \$12,734 to \$12,588 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of repairs and maintenance based on the documentation submitted by the Company and the removal of submitted costs outside the 2008 test year.

Office Supplies and Expense - Adjustment 4 decreases office supplies and expense by \$174, from \$15,842 to \$15,668 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of office supplies and expense based on the documentation submitted by the Company.

Outside Services - Adjustment 5 increases outside services expense by \$2,366, from \$5,563 to \$7,929 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects

Staff's calculation of outside services expense based on the documentation submitted by the Company.

Transportation Expenses - Adjustment 6 decreases transportation expenses by \$1,494, from \$10,823 to \$9,329 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's removal of claimed expenses that the Company failed to support with proper documentation.

Miscellaneous Expense - Adjustment 7 increases miscellaneous expense by \$1,537, from \$4,512 to \$6,049 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of miscellaneous expense based on the documentation submitted by the Company.

Depreciation Expense - Adjustment 8 increases depreciation expense by \$5,942, from \$17,072 to \$23,014 as shown on Schedule DRE-3, pages 1 and 3. This adjustment reflects Staff's calculation of depreciation expense applying Staff's recommended depreciation rates to Staff's recommended plant balances for Lagoon Estates.

Taxes other than Income - Staff's adjustment 9 decreases taxes other than income by \$11,076, from \$15,012 to \$3,936 as shown on Schedule DRE-3, pages 1 and 4. This adjustment reflects Staff's removal of sales taxes collected by the Company and included in operating expenses. These sales taxes were paid to the Arizona Department of Revenue and should be removed from expenses, since the corresponding collected taxes were removed from revenue.

Property Taxes - Staff's adjustment 10 increases property taxes by \$282, from \$5,967 to \$6,249 as shown on Schedule DRE-3, pages 1 and 4. This adjustment reflects Staff's calculation of property taxes based on the documentation submitted by the Company.

Operating Margin

The Company's proposed rates and charges would provide an operating income of \$23,741^c for an operating margin of 10.34 percent.

Staff's recommended rates and charges would provide an operating income of \$23,575 for an operating margin of 10.46 percent.

Staff utilized an operating margin to determine revenue requirement due to Lagoon Estates' low rate base not producing sufficient revenues for the Company's operating needs when applying a rate of return on rate base.

^c The Company's requested rates would produce an extra \$4,506 in revenues. Consequently, operating income would be \$28,247 for an operating margin of 12.30 percent.

Revenue Requirement

Staff recommends total operating revenue of \$225,304, a \$25,195 or 12.59 percent increase over the Staff adjusted test year operating revenue of \$200,109. Staff's recommended revenue provides an operating income of \$23,573, and an operating margin of 10.46 percent as shown in Schedule DRE-1.

In determining the revenue requirement, Staff endeavored to provide the Company sufficient funds to manage contingencies, operating expenses, below the line expenses, etc. Staff believes that a 10.46 percent operating margin provides ample funds to accomplish this goal.

Rate Design

Schedule DRE-4, pages 1 and 2 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,586 gallons from \$25.04 to \$31.19, an increase of \$6.15 or 24.6 percent, as shown on Schedule DRE-5.

Staff's recommended rates would increase the 5/8 x 3/4-inch meter residential bill with a median usage of 4,586 gallons from \$25.04 to \$26.68, for an increase of \$1.64 or 6.5 percent.

Miscellaneous Service Charges

The Company has proposed only to change the late fee to \$5.00. The Company has experienced a significant increase in the amount of customers who are paying late and Lagoon Estates seeks to deter this behavior. The Company feels that a \$5.00 late fee is not excessive and would be appropriate to deter further late payments.

Staff finds 1.50 percent per month as a reasonable and normal charge and recommends it. Staff notes that the Company currently does not have a late fee tariff charge. Staff believes it would be inappropriate imposing a \$5.00 late fee without first examining if the reasonable and normal 1.50 percent per month charge would deter late payments by customers.

Service Line and Meter Installation Charges

The Company has not requested changes to its service line and meter installation charges which were less than Staff's customary range of charges. However, after discussions with Staff, the Company requests to increase these charges to the lower end of Staff's customary range of charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff.

Staff recommends approval of Staff's Service Line and Meter Installation Charges as shown on Tables I-1 in Section I of the attached Engineering Report.

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule DRE-4, pages 1 and 2. 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 be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company adopt the typical and customary depreciation rates as delineated on Table H in Section H of the attached Engineering Report.

Staff further recommends approval of separate installation charges for the service line and meter installation charges as delineated in Tables I-1 in Section I of the attached Engineering Report.

SUMMARY OF FILING

	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$179,305	\$179,805	\$209,305	\$205,000
Unmetered Water Revenue	3,043	3,043	3,043	3,043
Other Water Revenues	17,261	17,261	17,261	17,261
Total Operating Revenue	\$199,609	\$200,109	\$229,609	\$225,304
Operating Expenses:				
Operation and Maintenance	\$167,817	\$168,532	\$167,817	\$168,532
Depreciation	17,072	23,014	17,072	23,014
Property & Other Taxes	20,979	10,185	20,979	10,185
Income Tax	0	0	0	0
Total Operating Expense	\$205,868	\$201,731	\$205,868	\$201,731
Operating Income/(Loss)	(\$6,259)	(\$1,622)	\$23,741	\$23,573
Rate Base O.C.L.D.	\$76,273	\$107,302	\$76,273	\$107,302
Rate of Return - O.C.L.D.	N/M	N/M	31.13%	21.97%
Operating Margin	N/M	N/M	10.34%	10.46%

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

RATE BASE

	Company	Adjustment		Staff
Plant in Service	\$557,271	(\$2,367)	A	\$554,904
Less:				
Accum. Depreciation	394,439	(13,044)	B	381,395
Net Plant	\$162,832	\$10,677		\$173,509
Less:				
Plant Advances	\$35,894	\$0		\$35,894
Customer Deposits	50,665	0		50,665
Total	\$86,559	\$0		\$86,559
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$86,559	\$0		\$86,559
Plus:				
1/24 Power	\$0	\$357	C	\$357
1/8 Operation & Maint.	0	19,994	D	19,994
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$20,352		\$20,352
Rate Base	\$76,273	\$31,029		\$107,302

Explanation of Adjustment:

- A - See Schedule 2, Page 2, 3, and 4
- B - See Schedule 2, Page 5
- C - See Schedule 2, Page 6
- D - See Schedule 2, Page 6

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	28,262	0	28,262
304 Structures & Improvements	43,779	1,655 a	45,434
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	76,079	0	76,079
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	62,111	0	62,111
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	15,467	0	15,467
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	0	0	0
330.2 Pressure Tanks	54,868	0	54,868
331 Transmission & Distribution Mains	220,674	(5,669) b	215,005
333 Services	0	0	0
334 Meters & Meter Installations	33,817	3,402 c	37,219
335 Hydrants	448	0	448
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	1,655	(1,655) d	0
340 Office Furniture & Equipment	8,724	0	8,724
340.1 Computers & Software	0	0	0
341 Transportation Equipment	11,387	(100) e	11,287
342 Stores Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$557,271	(\$2,367) A	\$554,904

Explanation of Adjustment:

- a - See Schedule 2, Page 4
- b - See Schedule 2, Page 4
- c - See Schedule 2, Page 4
- d - See Schedule 2, Page 4
- e - See Schedule 2, Page 4

UTILITY PLANT IN SERVICE

	Staff Adjusted Plant	Staff Adjusted Accum. Depr.	Staff Adjusted OCLD
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	28,262	0	28,262
304 Structures & Improvements	45,434	27,959	17,475
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	76,079	47,918	28,161
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	62,111	56,853	5,258
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	15,467	7,411	8,056
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	0	0	0
330.2 Pressure Tanks	54,868	47,749	7,119
331 Transmission & Distribution Mains	215,005	161,879	53,126
333 Services	0	0	0
334 Meters & Meter Installations	37,219	26,953	10,266
335 Hydrants	448	448	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	8,724	7,996	728
340.1 Computers & Software	0	0	0
341 Transportation Equipment	11,287	(3,771)	15,058
342 Stores Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$554,904	\$381,395	\$173,509

STAFF PLANT ADJUSTMENTS

a -	STRUCTURES & IMPROVEMENTS - Per Company	\$43,779	
	Per Staff	45,434	\$1,655
	To properly reflect account balance per Decision No. 68084 and supported plant additions		
b -	TRANSMISSION & DISTRIBUTION MAINS - Per Company	\$220,674	
	Per Staff	215,005	(\$5,669)
	To properly reflect account balance per Decision No. 68084 and removal of unsupported plant additions		
c -	METERS & METER INSTALLATIONS - Per Company	\$33,817	
	Per Staff	37,219	\$3,402
	To properly reflect account balance per Decision No. 68084 and supported plant additions		
d -	OTHER PLANT AND MISCELLANEOUS EQUIPMENT - Per Company	\$1,655	
	Per Staff	0	(\$1,655)
	To properly reflect the allocation of cost to the correct account		
e -	TRANSPORTATION EQUIPMENT - Per Company	\$11,387	
	Per Staff	11,287	(\$100)
	To properly reflect account balance per Decision No. 68084 and correction of Company error in recording correct cost		

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$394,439
Accumulated Depreciation - Per Staff	<u>381,395</u>
Total Adjustment	<u><u>(\$13,044)</u></u> B

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

Accumulated Depreciation per Decision No. 59852		\$317,446
2004 Credit to Accumulated Depreciation	\$14,430	
2005 Credit to Accumulated Depreciation	\$13,239	
2006 Credit to Accumulated Depreciation	\$13,736	
2007 Credit to Accumulated Depreciation	\$14,169	
2008 Credit to Accumulated Depreciation	<u>\$14,806</u>	
		\$70,378
2007 Plant Retirement	(\$100)	(\$6,429)
Accumulated Depreciation 12/31/2007 Staff Balance		\$381,395
Less: Company Balance		<u>\$394,439</u>
Staff Adjustment		(\$13,044)

STAFF RATE BASE ADJUSTMENTS

C	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff	\$	-	
				357	<u>\$357</u>
		To reflect Staff's calculation of cash working capital based upon Staff's recommendations for purchased power and purchased water			
D	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff	\$	-	
				19,994	<u>\$19,994</u>
		To reflect Staff's calculation of cash working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses)			

STATEMENT OF OPERATING INCOME

	Company	Staff	Staff
Revenues:			
461 Metered Water Revenue	\$179,305	\$500 1	\$179,805
460 Unmetered Water Revenue	3,043	0	3,043
474 Other Water Revenues	17,261	0	17,261
Total Operating Revenue	\$199,609	\$500	\$200,109
Operating Expenses:			
601 Salaries and Wages	\$92,505	\$0	\$92,505
610 Purchased Water	0	0	0
615 Purchased Power	9,949	(1,374) 2	8,575
618 Chemicals	973	0	973
620 Repairs and Maintenance	12,734	(146) 3	12,588
621 Office Supplies & Expense	15,842	(174) 4	15,668
630 Outside Services	5,563	2,366 5	7,929
635 Water Testing	3,920	0	3,920
641 Rents	0	0	0
650 Transportation Expenses	10,823	(1,494) 6	9,329
657 Insurance - General Liability	6,338	(0)	6,338
659 Insurance - Health and Life	4,658	0	4,658
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	4,512	1,537 7	6,049
403 Depreciation Expense	17,072	5,942 8	23,014
408 Taxes Other Than Income	15,012	(11,076) 9	3,936
408.11 Property Taxes	5,967	282 10	6,249
409 Income Tax	0	0	0
Total Operating Expenses	\$205,868	(\$4,137)	\$201,731

OPERATING INCOME/(LOSS)	(\$6,259)	\$4,637	(\$1,622)
--------------------------------	------------------	----------------	------------------

Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	21	0	21
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	(\$21)	\$0	(\$21)

NET INCOME/(LOSS)	(\$6,280)	\$4,637	(\$1,643)
--------------------------	------------------	----------------	------------------

STAFF ADJUSTMENTS

1 -	METERED WATER REVENUE - Per Company Per Staff	\$179,305 <u>179,805</u>	<u>\$500</u>
	To reflect the metered water revenue per the Company's submitted bill count		
2 -	PURCHASED POWER - Per Company Per Staff	\$9,949 <u>8,575</u>	<u>(\$1,374)</u>
	To reflect Staff's computation of Purchased Power based on submitted invoices		
3 -	REPAIRS & MAINTENANCE - Per Company Per Staff	\$12,734 <u>12,588</u>	<u>(\$146)</u>
	To reflect Staff's computation of Repairs & Maintenance based on Staff's removal of unsupported claimed expenses		
4 -	OFFICE SUPPLIES & EXPENSE - Per Company Per Staff	\$15,842 <u>15,668</u>	<u>(\$174)</u>
	To reflect Staff's computation of Office Supplies & Expense based on Staff's removal of unsupported claimed expenses		
5 -	OUTSIDE SERVICES - Per Company Per Staff	\$5,563 <u>7,929</u>	<u>\$2,366</u>
	To reflect Staff's computation of Outside Services based on documentation provided by the Company		
6 -	TRANSPORTATION EXPENSES - Per Company Per Staff	\$10,823 <u>9,329</u>	<u>(\$1,494)</u>
	To reflect Staff's computation of Transportation Expense based on Staff's removal of unsupported claimed expenses		
7 -	MISCELLANEOUS EXPENSE - Per Company Per Staff	\$4,512 <u>6,049</u>	<u>\$1,537</u>
	To reflect Staff's computation of Miscellaneous Expense based on documentation provided by the Company		

STAFF ADJUSTMENTS (Cont.)

8 - DEPRECIATION - Per Company \$17,072
Per Staff 23,014 \$5,942

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

DESCRIPTION	PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
Organization	\$ -	\$ -	\$ -	0.00%	\$ -
Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
Land & Land Rights	\$ 28,262	\$ 28,262	\$ -	0.00%	\$ -
Structures & improvem	\$ 45,434	\$ -	\$ 45,434	3.33%	\$ 1,513
Collecting & Impoundir	\$ -	\$ -	\$ -	2.50%	\$ -
Lake, River, Canal Inta	\$ -	\$ -	\$ -	2.50%	\$ -
Wells & Springs	\$ 76,079	\$ -	\$ 76,079	3.33%	\$ 2,533
Infiltration Galleries	\$ -	\$ -	\$ -	6.67%	\$ -
Raw Water Supply Mai	\$ -	\$ -	\$ -	2.00%	\$ -
Power Generated Equi	\$ -	\$ -	\$ -	5.00%	\$ -
Pumping Equipment	\$ 62,111	\$ -	\$ 62,111	12.50%	\$ 7,764
Water Treatment Equip	\$ -	\$ -	\$ -	0.00%	\$ -
Water Treatment Pla	\$ 15,467	\$ -	\$ 15,467	3.33%	\$ 516
Solution Chemical Fe	\$ -	\$ -	\$ -	20.00%	\$ -
Distribution Reservoirs	\$ -	\$ -	\$ -	0.00%	\$ -
Storage Tanks	\$ -	\$ -	\$ -	2.22%	\$ -
Pressure Tanks	\$ 54,868	\$ 45,933	\$ 8,935	5.00%	\$ 447
Transmission & Distrib	\$ 215,005	\$ -	\$ 215,005	2.00%	\$ 4,300
Services	\$ -	\$ -	\$ -	3.33%	\$ -
Meters & Meter Install	\$ 37,219	\$ -	\$ 37,219	8.33%	\$ 3,102
Hydrants	\$ 448	\$ 448	\$ -	2.00%	\$ -
Backflow Prevention D	\$ -	\$ -	\$ -	6.67%	\$ -
Other Plant and Misc. I	\$ -	\$ -	\$ -	6.67%	\$ -
Office Furniture & Equi	\$ 8,724	\$ -	\$ 8,724	6.67%	\$ 582
Computers & Softwa	\$ -	\$ -	\$ -	20.00%	\$ -
Transportation Equipm	\$ 11,287	\$ -	\$ 11,287	20.00%	\$ 2,257
Tools Shop & Garage I	\$ -	\$ -	\$ -	5.00%	\$ -
Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
Power Operated Equip	\$ -	\$ -	\$ -	5.00%	\$ -
Communication Equipr	\$ -	\$ -	\$ -	10.00%	\$ -
Miscellaneous Equipm	\$ -	\$ -	\$ -	10.00%	\$ -
Other Tangible Plant	\$ -	\$ -	\$ -	0.00%	\$ -
Total	\$ 554,904	\$ 74,643	\$ 480,261		\$ 23,014

Depreciation Expense Before Amortization of CIAC: \$ 23,014
Amortization of CIAC \$ -
Test Year Depreciation Expense - Staff: \$ 23,014
Depreciation Expense - Company: \$17,072
Staff's Total Adjustment: \$ 5,942

Pro Forma Annual Depreciation Expense:

Plant in Service	\$554,904
Less: Non Depreciable Plant	28,262
Fully Depreciated Plant	<u>46,381</u>
Depreciable Plant	\$480,261
Times: Staff Proposed Depreciation Rate	4.79%
Full Year Credit to Accumulated Depreciation	<u>\$23,014</u>
Less: Amort. of CIAC* @ 4.79%	<u>0</u>
Pro Forma Annual Depreciation Expense	<u>\$23,014</u>

STAFF ADJUSTMENTS (Cont.)

9 - TAXES OTHER THAN INCOME - Per Company	\$15,012	
Per Staff	<u>3,936</u>	<u>(\$11,076)</u>
To reflect Staff's adjustment for the removal of sales taxes incorrectly recorded to the account		
10 - PROPERTY TAXES - Per Company	\$5,967	
Per Staff	<u>6,249</u>	<u>\$282</u>
To properly reflect Property Taxes based on information submitted by the Company		

RATE DESIGN

		Present	-Proposed Rates-	
<u>5/8" x 3/4" Meter</u>		\$15.00	\$20.00	\$15.00
3/4" Meter		20.25	25.25	22.50
1" Meter		35.00	40.00	37.50
1½" Meter		65.00	70.00	75.00
2" Meter		108.00	113.00	120.00
3" Meter		190.00	195.00	240.00
4" Meter		325.00	330.00	375.00
6" Meter		625.00	630.00	750.00
8" Meter		825.00	830.00	1,200.00
Gallons Included in Minimum				
For all Meter Sizes		0	0	0
Commodity Rates (Per 1,000 Gallons)				
5/8 x 3/4-Inch Meter	0000 - 3,000	\$2.00	\$2.25	\$2.15
	3,001 - 10,000	\$2.55	\$2.80	\$3.30
	Over 10,000	\$3.25	\$3.50	\$3.90
1-Inch Meter	0000 - 10,000	\$2.55	\$2.80	\$3.30
	Over 10,000	\$3.25	\$3.50	\$3.90
2 to 8-Inch Meters	0000 - 30,000	\$2.55	\$2.95	\$3.30
	Over 30,000	\$3.25	\$3.75	\$3.90
Construction - for all usage		N/A	\$3.00	\$3.90

RATE DESIGN (Cont.)

Service Line and Meter Installation Charges

Meter Size	Company	Company	Staff's Recommendation		
	Current Tariff	Proposed Tariff	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$455	\$455	\$415	\$105	\$520
3/4-inch	\$500	\$500	\$415	\$205	\$620
1-inch	\$585	\$585	\$465	\$265	\$730
1½-inch	\$890	\$890	\$520	\$475	\$995
2-inch Turbo	\$1,430	\$1,430	\$800	\$995	\$1,795
2-inch Compound	N/A	N/A	\$800	\$1,840	\$2,640
3-inch Turbo	\$1,930	\$1,930	\$1,015	\$1,620	\$2,635
3-inch Compound	N/A	N/A	\$1,135	\$2,495	\$3,630
4-inch Turbo	\$3,120	\$3,120	\$1,430	\$2,570	\$4,000
4-inch Compound	N/A	N/A	\$1,610	\$3,545	\$5,155
6-inch Turbo	\$5,600	\$5,600	\$2,150	\$4,925	\$7,075
6-inch Compound	N/A	N/A	\$2,270	\$6,820	\$9,090
8-inch Turbo	\$8,580	\$8,580	\$3,080	\$7,055	\$10,135
8-inch Compound	N/A	N/A	\$3,200	\$12,585	\$15,785

Service Charges

Service Charges	Present Rates	-Proposed Rates-	
		Company	Staff
Establishment	\$30.00	\$30.00	\$30.00
Establishment (After Hours)	40.00	40.00	40.00
Reconnection (Delinquent)	30.00	30.00	30.00
Meter Test (if correct)	30.00	30.00	30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	25.00	25.00	25.00
Deferred Payment (per month)	***	***	***
Meter Re-Read (If Correct)	23.00	23.00	23.00
Late Fee	N/A	5.00	1.50%

Monthly Service Charge for Fire Sprinkler

4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

- * Per Commission Rules R14-2-403(B)
- ** Months off system times the monthly minimum (R14-2-403.D)
- *** Per Commission Rule A.A.C. R-14-2-409 (G)
- **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary

TYPICAL BILL ANALYSIS

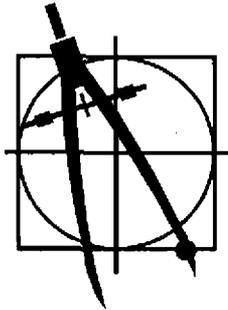
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 366

<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	5,972	\$28.58	\$35.07	\$6.49	22.7%
Median Usage	4,586	\$25.04	\$31.19	\$6.15	24.6%
<u>Staff Recommend</u>					
Average Usage	5,972	\$28.58	\$31.26	\$2.68	9.4%
Median Usage	4,586	\$25.04	\$26.68	\$1.64	6.5%

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	\$15.00	\$20.00	33.3%	\$15.00	0.0%
1,000	17.00	22.25	30.9%	17.15	0.9%
2,000	19.00	24.50	28.9%	19.30	1.6%
3,000	21.00	26.75	27.4%	21.45	2.1%
4,000	23.55	29.55	25.5%	24.75	5.1%
5,000	26.10	32.35	23.9%	28.05	7.5%
6,000	28.65	35.15	22.7%	31.35	9.4%
7,000	31.20	37.95	21.6%	34.65	11.1%
8,000	33.75	40.75	20.7%	37.95	12.4%
9,000	36.30	43.55	20.0%	41.25	13.6%
10,000	38.85	46.35	19.3%	44.55	14.7%
15,000	55.10	63.85	15.9%	64.05	16.2%
20,000	71.35	81.35	14.0%	83.55	17.1%
25,000	87.60	98.85	12.8%	103.05	17.6%
50,000	168.85	186.35	10.4%	200.55	18.8%
75,000	250.10	273.85	9.5%	298.05	19.2%
100,000	331.35	361.35	9.1%	395.55	19.4%
125,000	412.60	448.85	8.8%	493.05	19.5%
150,000	493.85	536.35	8.6%	590.55	19.6%
175,000	575.10	623.85	8.5%	688.05	19.6%
200,000	656.35	711.35	8.4%	785.55	19.7%



**Engineering Report for
Lagoon Estates Water Company**

Docket No. W-01825A-09-0345 (Rates)

By Marlin Scott, Jr. 

November 4, 2009

CONCLUSIONS

- A. Lagoon Estates Water Company ("Company") operates two independent water systems and each system's water loss is within the allowable limits.
- B. Each of the Company's water systems has adequate well and storage capacity to serve their present customer base and reasonable growth.
- C. The Arizona Department of Environmental Quality has reported that the Company's two water systems are currently delivering water that meets the water quality standards.
- D. The Company is not located in any Active Management Area. According to the Arizona Department of Water Resources ("ADWR"), this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.
- E. A check of the Utilities Division Compliance database showed that the Company had no delinquent Commission compliance items.
- F. The Company has an approved curtailment tariff with an effective date of September 1, 2005.
- G. The Company has an approved backflow prevention tariff with an effective date of February 7, 1996.

RECOMMENDATIONS

- 1. Staff recommends the adoption of the Company's annual water testing expense of \$3,920 be used for purposes of this application.
- 2. Staff recommends that the Company adopt Staff's typical and customary depreciation rates and further recommends that the Company use these depreciation rates delineated in Table H.

3. Staff recommends the approval of the proposed Service Line and Meter Installation Charges as delineated in Table I-1.

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A. LOCATION OF COMPANY

Lagoon Estates Water Company ("Company") serves two communities in the south Mohave Valley area and is located approximately 20 miles south of Bullhead City. Figure 1 shows the location of the Company within Mohave County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 3.7 square-miles.

B. DESCRIPTION OF THE WATER SYSTEMS

The water systems were field inspected on September 4, 2009, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Karen Brereton, Operator for the Company.

The Company consists of two separate water systems approximately one mile apart. The operation of the Larger System, System No. 08-021, consists of two well sites, designated as "Unit 4" and "Unit 7". The Unit 4 well site has two submersible pumps (one on stand-by), which are installed in the same well casing. The Unit 7 well site has a vertical turbine pump. Both wells, totaling to 1,950 gallon per minute ("GPM"), pump directly into the distribution system through pressure tanks. This Larger System serves 336 customers.

The operation of the Smaller System, System No. 08-046, consists of two wells at one site, designated as "Unit 2". Both wells, totaling to 300 GPM, pump directly into the distribution system through a pressure tank. This Smaller System serves 36 customers.

The system schematics are shown as Figures 3 and 4, with detailed plant facility listings as follows:

Table 1. Well Data

PWS ID	System No. 08-021			System No. 08-046	
ADWR ID No.	55-618835 (2 pumps in one well casing)		55-536722	55-618836	55-618837
Horsepower (Hp)	4-Hp	# 3-1/2-Hp	50-Hp	7-1/2-Hp	* 7-1/2-HP
Flow rate, GPM	150	90	1,800	150	150
Pump Type	submersible	submersible	vertical turbine	submersible	submersible
Chlorination	No	No	Gas	No	No
Well meter	4-inch	3-inch	8-inch	3-inch	3-inch
Storage	none, multiple sources			none, multiple sources	
Pressure tanks	5,000 gallon		two, 5,000 gallon tanks	5,000 gallon	
Arsenic level	5 ppb		5 ppb	8.8 ppb	
No. of Customers	336			36	

Notes: #This well pump is on stand-by.

*On May 28, 2009, Well No. 55-618837's old 5-Hp submersible pump was replaced with a new 7-1/2-Hp submersible pump.

Table 2. Water Mains

Diameter	Material	Length
4-inch	PVC	178,680 ft.
6-inch	PVC	10,870 ft.
8-inch	ACP	342 ft.
8-inch	PVC	1,827 ft.
10-inch	PVC	1,833 ft.
	Total:	193,552 ft.

Table 3. Customer Meters

Size	Quantity
5/8 x 3/4-inch	374
3/4-inch	2
1-inch	3
2-inch	1
3-inch	2
8-inch	1
Total:	383

Table 4. Hydrants

Type	Quantity
Standard	7
Joneshead	6

Table 5. Equipment & Structures

Equipment & Structures
Shop building – 18 feet by 30 feet concrete block
Utility shed – 8 feet by 8 feet, 2 each
Fencing – 50 feet x 60 feet, 150 feet by 200 feet, & 50 feet by 30 feet
Generator – 75 kW natural gas

Arsenic

In prior rates and financing cases, the Company reported the arsenic levels for its Larger and Smaller System at 5 ppb and 14 ppb, respectively. For the Smaller System, the 14 ppb exceeded the arsenic standard of 10 ppb. In recent arsenic sampling, the arsenic level for the Smaller System has declined to 8.8 ppb, which is now in compliance with the new arsenic standard.

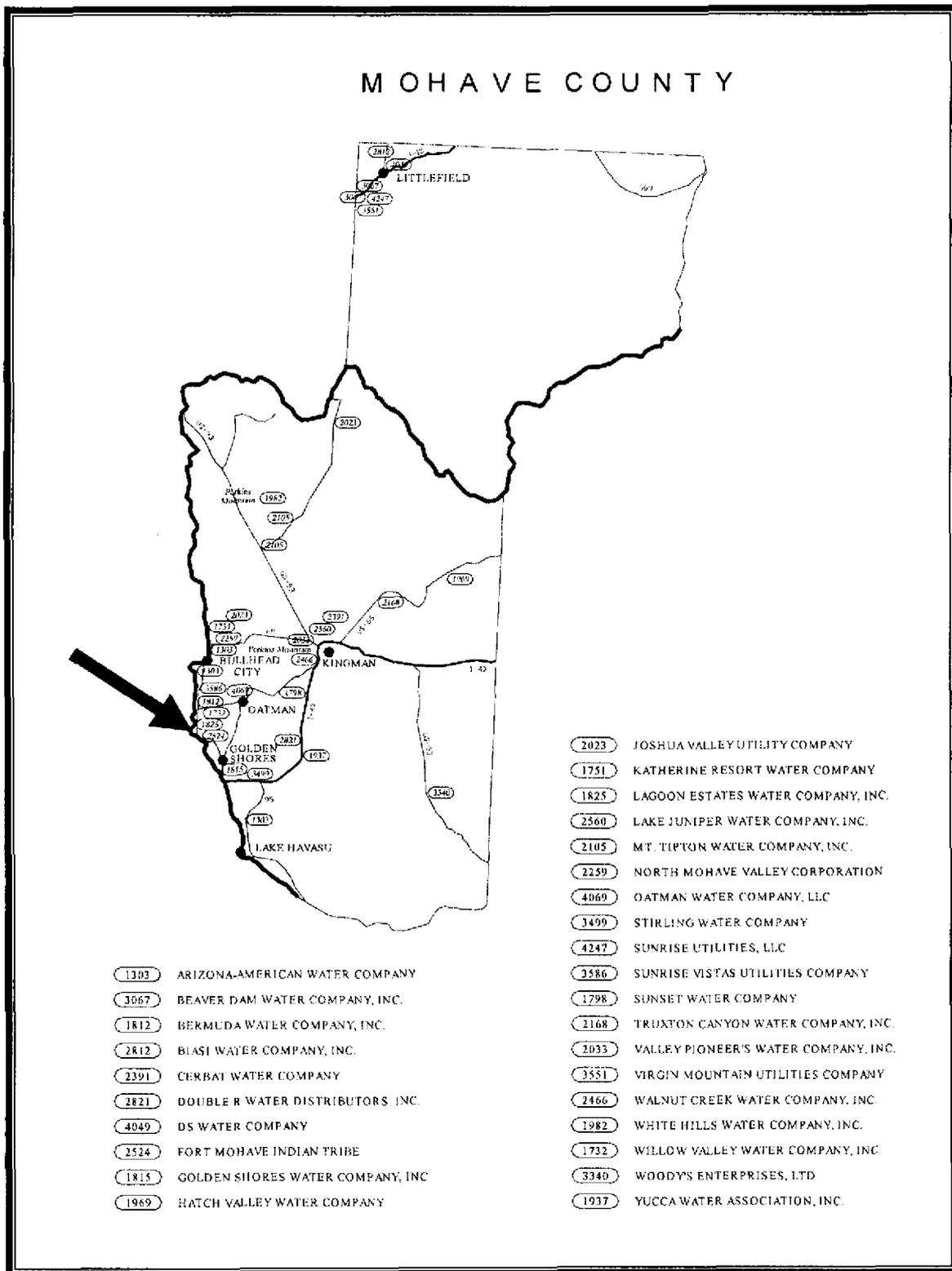


Figure 1. County Map

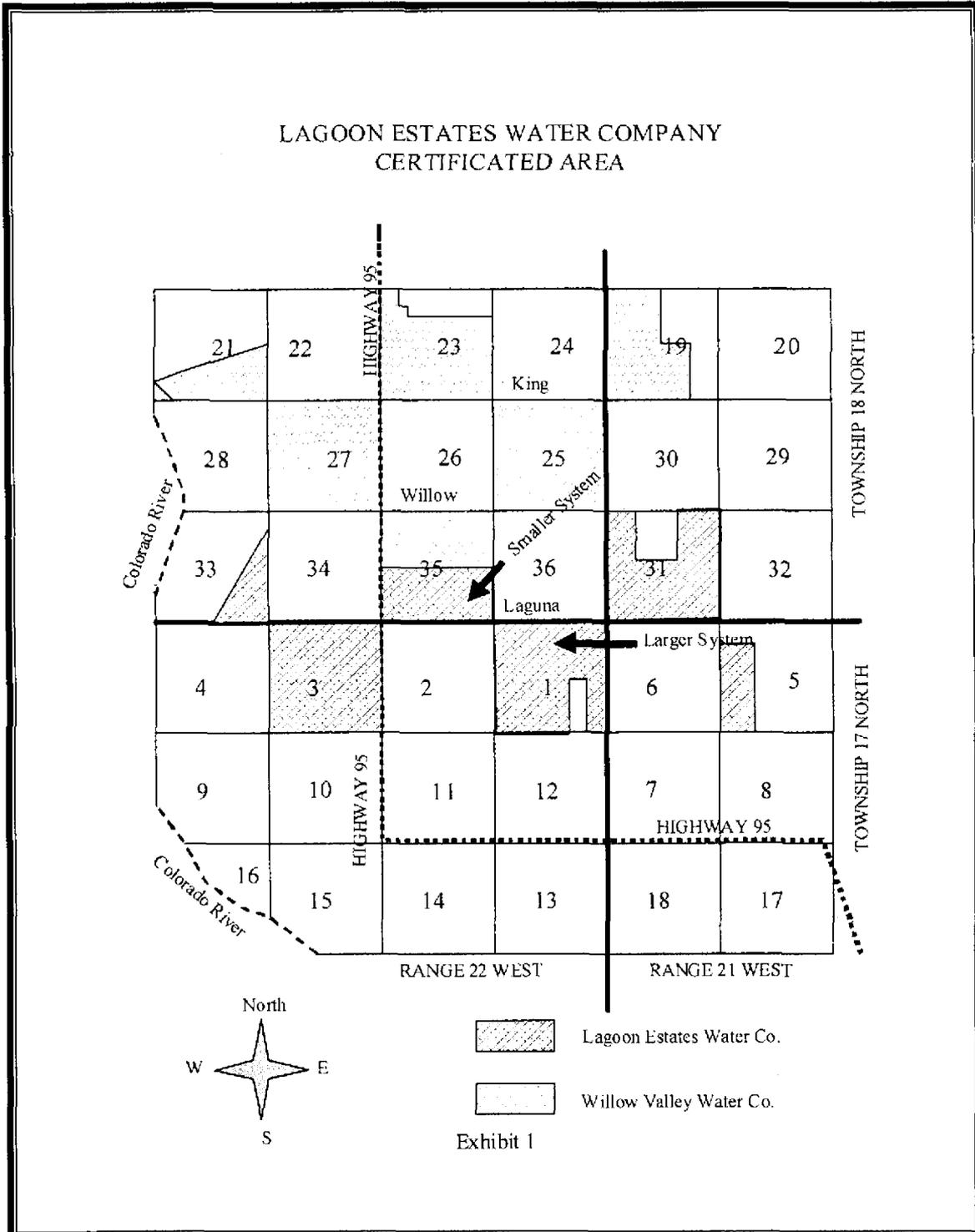


Figure 2. Certificated Areas

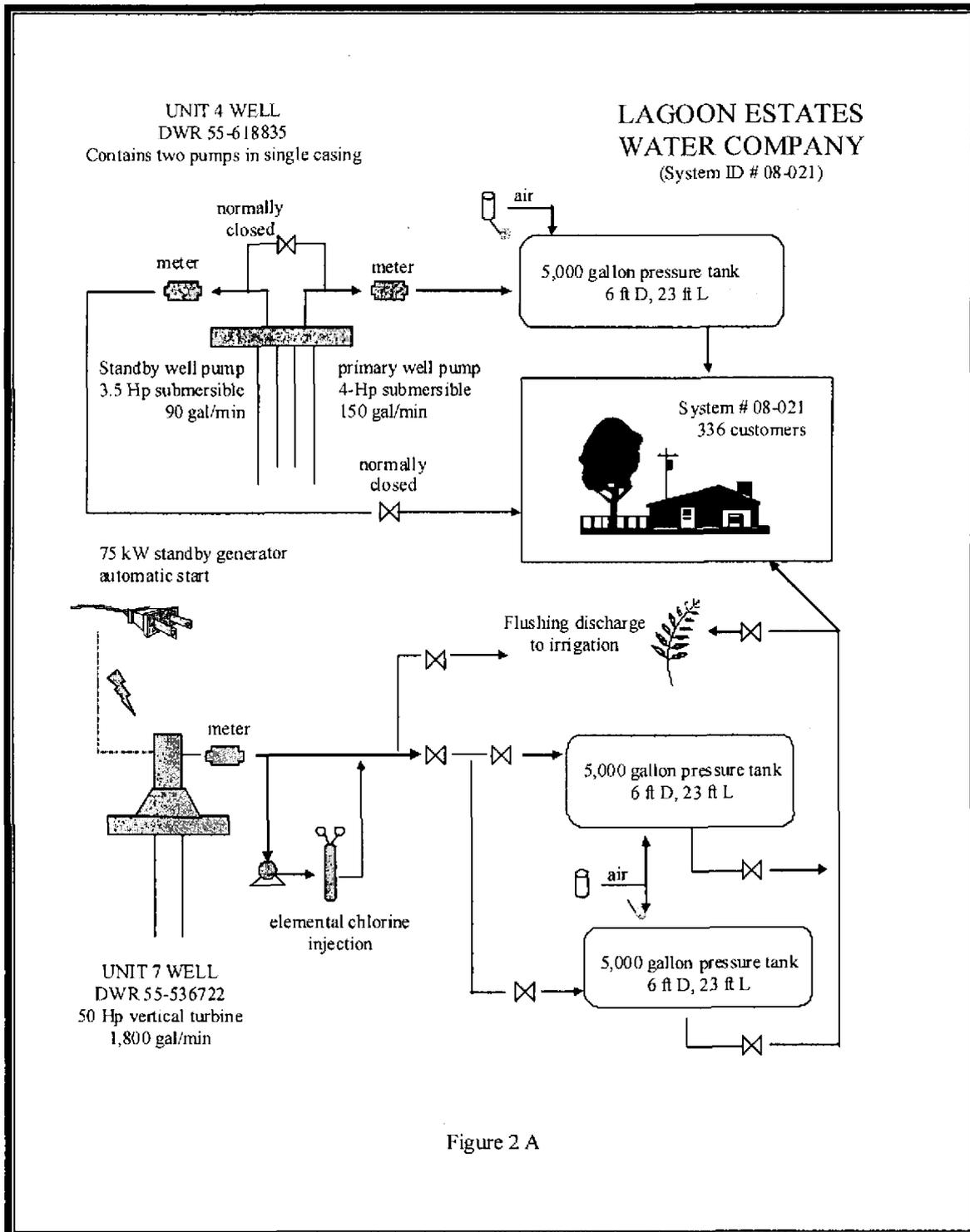


Figure 3. Larger System Schematic

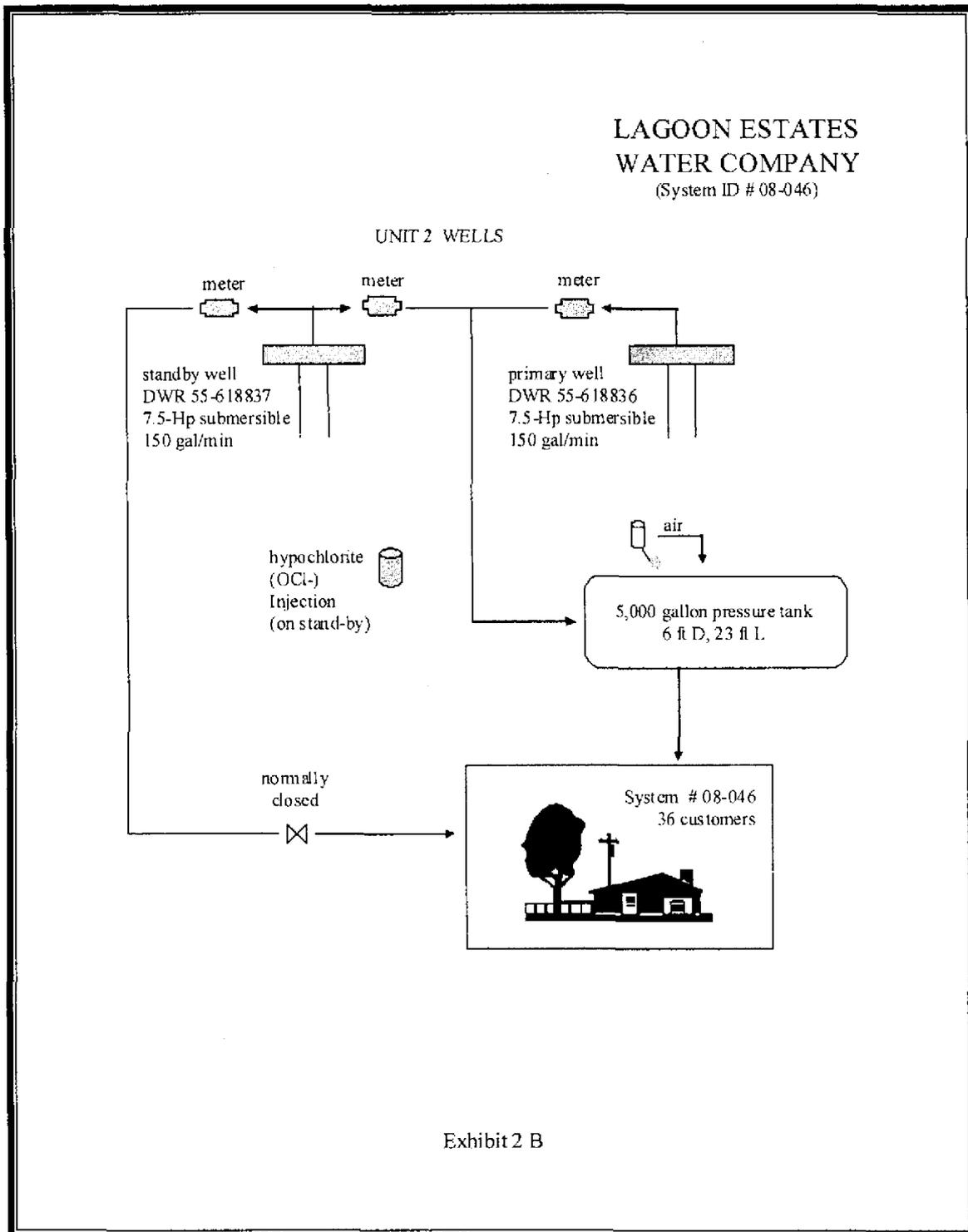


Figure 4. Smaller System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the Test Year ending 2008. For the Larger System, the figure shows the customer consumption experienced a high monthly usage of 419 gallons per day (“GPD”) per connection in July and a low monthly water use of 168 GPD per connection in December for an average monthly use of 280 GPD per connection. For the Smaller System, the figure shows the customer consumption experienced a high monthly usage of 294 GPD per connection in July and a low monthly water use of 120 GPD per connection in December for an average monthly use of 181 GPD per connection.

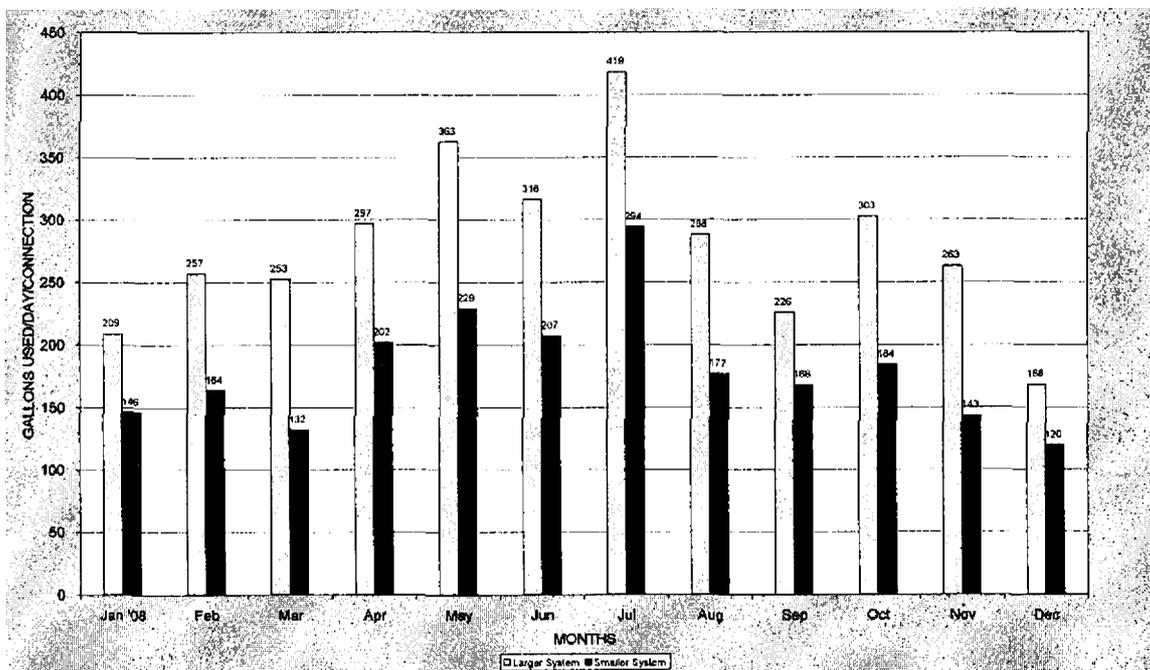


Figure 4. Water Use

Non-Account Water

For the Larger System, the Company reported 36,207,232 gallons of water pumped and 34,312,039 gallons of water sold during the test year 2008, resulting in a water loss of 5.2 percent. For the Smaller System, the Company reported 3,001,090 gallons of water pumped and 2,615,950 gallons of water sold during the test year 2008, resulting in a water loss of 12.8 percent. However, according to the Company, there were various activities during the test year that contributed to the high water loss; 1) flushing of the distribution system on both systems, 2) backflow flushing/cleaning on both systems, 3) no charge of irrigation water to local youth sport

fields on the Larger System, 4) a major water main leak in the Unit 7 sector on the Larger System, and 5) malfunction of a customer meter for several months on the Smaller System.

During the field inspection, the Company stated that the activities related to the high water loss had been corrected and/or addressed. As a follow-up to the test year water loss difference, Staff requested the Company provide data for the 2009 months from January to August to further evaluate the water loss. Based on this data, for the Larger System, the Company reported 22,508,000 gallons pumped and 21,755,260 gallons sold, resulting in a water loss of 3.3 percent. For the Smaller System, the Company reported 1,797,000 gallons pumped and 1,716,380 gallons sold, resulting in a water loss of 4.5 percent. As a result of the Company's corrective action, these 3.3 percent and 4.5 percent are now within the acceptable limits.

System Analysis

For the Larger System, the current well capacity of 1,950 GPM with multiple sources is adequate to serve the present customer base and reasonable growth. Since this system is operating with multiple wells, with the third well pump as back-up at one well site and a stand-by generator at another well site, and since customer growth is also very minimal at this time, Staff will re-evaluate the storage tank issue in the next rate case.

For the Smaller System, the current well capacity of 300 GPM with multiple sources is adequate to serve the present customer base and reasonable growth. Since this system is operating with two wells, there is a small number of customers, and since customer growth is also very minimal at this time, Staff will re-evaluate the storage tank issue in the next rate case.

D. GROWTH

According to the Company's Annual Reports, the Company's customer base shows very minimal growth. In 2004, the Company had 364 customers and in this present rate case, the Company reported 368 customers. It is reasonable to expect this same growth rate in the future.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

According to two ADEQ Compliance Status Reports, dated June 25, 2009, that were submitted with the rate application; ADEQ has reported no major deficiencies for the Company and therefore, ADEQ has determined that the Company's systems, PWS #08-021 and #08-046, are currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company reported its water testing expense at \$3,920 during the test year. Staff has reviewed these expenses and recommends the adoption of the Company's annual water testing expense of \$3,920 be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located in any ADWR Active Management Area. According to ADWR, this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check of the Utilities Division Compliance database showed that the Company had no delinquent ACC compliance items.

H. DEPRECIATION RATES

The Company has been using a depreciation rate of 3.23% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been adopting Staff's typical and customary depreciation rates. These rates are presented in Table H and it is recommended that the Company use these depreciation rates by individual NARUC category.

Table H. Depreciation Rates

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

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has not requested changes to its service line and meter installation charges which were less than Staff's customary range of charges. However, after discussions with Staff, the Company requests to increase these charges to the lower end of Staff's customary range of

charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of the charges as shown in Table I-1 below, with separate installation charges for the service line and meter installations.

Table I-1. Service Line and Meter Installation Charges

Meter Size	Company's Current Charges	Proposed Service Line Charges	Proposed Meter Installation Charges	Proposed Total Charges
5/8 x 3/4-inch	\$455	\$415	\$105	\$520
3/4-inch	\$500	\$415	\$205	\$620
1-inch	\$585	\$465	\$265	\$730
1-1/2-inch	\$890	\$520	\$475	\$995
2-inch – Turbine	\$1,430	\$800	\$995	\$1,795
2-inch – Compound	-	\$800	\$1,840	\$2,640
3-inch – Turbine	\$1,930	\$1,015	\$1,620	\$2,635
3-inch – Compound	-	\$1,135	\$2,495	\$3,630
4-inch – Turbine	\$3,120	\$1,430	\$2,570	\$4,000
4-inch – Compound	-	\$1,610	\$3,545	\$5,155
6-inch – Turbine	\$5,600	\$2,150	\$4,925	\$7,075
6-inch – Compound	-	\$2,270	\$6,820	\$9,090
8-inch – Turbine	\$8,580	\$3,080	\$7,055	\$10,135
8-inch – Compound	-	\$3,200	\$12,585	\$15,785

2. Curtailment Tariff

The Company has an approved curtailment tariff with an effective date of September 1, 2005.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff with an effective date of February 7, 1996.