

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Steve Olea
Director
Utilities Division

DATE: November 25, 2009

RE: STAFF REPORT FOR F. WAYNE AND DOROTHY THOMPSON DBA WEST VILLAGE WATER COMPANY'S APPLICATIONS FOR A PERMANENT RATE INCREASE, DOCKET NO. W-03211A-08-0622 AND FINANCING APPROVAL, DOCKET NO. W-03211A-08-0621.

Attached is the Staff Report for F. Wayne and Dorothy Thompson dba West Village Water Company, Inc.'s applications for a permanent rate increase and financing approval. Staff recommends approval of the rate application using Staff's recommended rates and charges. Staff recommends approval of the financing application subject to Staff's recommendations.

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 December 4, 2009.

SMO:CRM:kdh

Originator: Charles R. Myhlhousen

Attachment: Original and thirteen copies

Arizona Corporation Commission
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Service List for: F. Wayne and Dorothy Thompson DBA West Village Water Company
Docket Nos. W-03211A-08-0622 and W-02311A-08-0621

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

F. WAYNE AND DOROTHY THOMPSON
DBA WEST VILLAGE WATER COMPANY

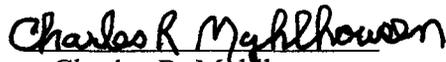
DOCKET NO. W-03211A-08-0622, RATES
AND
DOCKET NO. W-03211A-08-0621, FINANCING

APPLICATION FOR A
PERMANENT RATE INCREASE
AND FINANCING APPROVAL

NOVEMBER 25, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for F. Wayne and Dorothy Thompson DBA West Village Water Company, Docket Nos. W-03211A-08-0622 and W-03211A-08-0621, was the responsibility of the Staff members listed below. Charles R. Myhlhousen was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Marlin Scott Jr. was responsible for the engineering and technical analysis. Guadalupe Ortiz was responsible for reviewing the Commission's records on the Company and reviewing customer complaints filed with the Commission.



Charles R. Myhlhousen
Public Utility Analyst III



Marlin Scott Jr.
Utilities Engineer



Guadalupe Ortiz
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
F. WAYNE AND DOROTHY THOMPSON
DBA WEST VILLAGE WATER COMPANY
DOCKET NOS. W-03211A-08-0622 AND W-03211A-08-0621

On December 31, 2008, F. Wayne and Dorothy Thompson dba West Village Water Company ("West Village" or "Company") filed applications for a permanent rate increase and financing approval with the Arizona Corporation Commission ("Commission"). A Procedural Order, dated April 20, 2009, granted the Company's request to consolidate the permanent rate increase and financing applications.

The Company is a Class D water utility that provides water service to approximately 53 metered customers in Coconino County. The Company is located approximately two miles southwest of downtown Flagstaff along U.S. Highway 66, in Coconino County. The Company's current rates were effective June 1, 1997, in Decision No. 60182 dated May 16, 1997.

The Company's rate application requested an increase in revenue of \$99,273 or a 310.86 percent increase over test year revenue of \$31,935. The Company's proposed revenues of \$131,208 result in an operating income of \$78,889, for an operating margin of 60.13 percent. The Company's proposed rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from \$38.80 to \$167.80, for an increase of \$129.00 or 332.5 percent. The Company's proposed fair value rate base is \$28,968, which does not differ from its original cost rate base ("OCRB").

Staff is recommending an increase over adjusted test year revenue of \$5,380 or a 16.85 percent increase over test year revenue of \$31,935. Staff's recommended revenues of \$37,315 result in an operating income of \$5,598, for an operating margin of 15.00 percent. Staff's recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from \$38.80 to \$39.94, for an increase of \$1.14 or 2.9 percent. Staff's recommended OCRB is \$32,642.

For comparative purposes, by including Staff's recommended surcharge for the financing, Staff's recommended increase in revenue is \$55,838 or a 174.85 percent increase over test year revenue of \$31,935. Staff's recommended revenue of \$87,773 results in operating income of \$56,056, for an operating margin of 63.86 percent. Staff-recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from \$38.80 to \$103.08, for an increase of \$64.28 or 165.7 percent.

The Company also requested approval of a \$525,000 20-year amortizing loan from the Water Infrastructure Finance Authority of Arizona ("WIFA") for construction of a new deep well and the replacement of deteriorated service line taps and meters. Staff recommends approval of the financing application with its recommendations. The payments on a \$525,000 20-year amortizing loan at a 6.0 percent interest rate are estimated to be \$3,762 per month, or \$45,135 annually. Staff recommends approval of a WIFA loan surcharge mechanism, as discussed in the financing section of this Staff Report.

Staff recommends:

- That the Commission approve Staff's rates and charges as shown on Schedule CRM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule R14-2-409.D.5.
- That the Company be ordered to docket with the Commission a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Company be ordered to contact the City of Flagstaff ("City") to explore all available alternatives to the capital improvements proposed in this financing request, including the possibility of the Company becoming a master-meter customer of the City. Additionally, Staff recommends that, within 30 days of any discussions with the City, the Company be required to file documents in this docket: (1) affirming that the Company has explored with the City all available alternatives, including becoming a master meter customer of the City; (2) listing the alternatives investigated; (3) describing and explaining all actions taken by the Company in investigating each alternative, including the names of persons contacted at the City; and (4) describing and explaining the Company's rationale in choosing or not choosing a particular alternative. Staff further recommends that the Company be ordered to comply with this filing requirement before securing or closing on the WIFA loan.
- That the Commission authorize the Company to obtain a 20 year amortizing loan in an amount not to exceed \$351,944 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed (presently estimated at 6.00 percent) to finance capital improvement of a new deep well. This authorization should become effective only after the Company completes the items outlined above dealing with the City and demonstrates to the Commission that becoming a master-meter customer of the City is not a viable alternative to a new well.
- That the Commission authorize the Company to obtain a 20 year amortizing loan in an amount not to exceed \$173,056 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed (presently estimated at 6.00 percent) to finance locating and mapping the distribution system and installing gate valves on the system to isolate portions of the distribution system.
- That the Commission authorize the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.
- That the Company be ordered to file copies of the fully-executed loan documents, as a Compliance item in this docket, within 60 days of the execution of any transactions.

- That any authorization to incur debt granted in this proceeding terminate one year from the date a Decision is issued in this matter, unless the financing is obtained within one year.
- That the Commission approve a financing surcharge mechanism to enable the Company to meet its principal and interest obligation on the proposed WIFA loan.
- That the Company be ordered to file with the Commission a WIFA loan surcharge tariff application within 60 days of the loan closing. Staff further recommends that the Company be required to follow the same methodology presented in this report to calculate the additional revenue needed to meet its loan obligations, using the actual loan terms and the actual number of customers at the time of loan closing, and using the result of that calculation to develop its surcharge tariff application. The increase in revenue calculation should be included in the surcharge tariff application.
- That any surcharge be implemented only after Commission approval of the loan surcharge tariff.
- That approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
- That the Commission order the Company to maintain its records in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts. The Company be ordered to file with Docket Control, a document stating it is in compliance within 6 months after a Decision is issued in this matter.
- That the Company be ordered to investigate the 25.1 percent water loss in its system and to prepare a report of proposed corrective measures demonstrating how the Company will reduce water losses 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 losses to less than 10 percent is not cost effective, the Company shall submit a detailed cost analysis and explanation demonstrating why the water losses reduction to less than 10 percent is not cost effective. The Company shall file such report with Docket Control, as a compliance item for this docket, by December 31, 2009. In no case shall water loss be greater than 15 percent.
- That the Company be ordered to file, as a compliance item in this docket, a copy of an updated Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report indicating that the Disinfectant By-Product monitoring and reporting deficiencies identified by ADEQ have been resolved and that the system is in compliance with ADEQ regulations. Staff further recommends that any increase in rates and charges approved in this proceeding not become

effective until the first day of the month following the Company's filing of such updated report.

- That the Company be ordered to file, as a compliance item in this docket, (within 6 months of closing the WIFA loan on the well) a copy of the ADEQ Certificate for Approval to Construct for the new deep well project.
- That the Company be ordered to file, as a compliance item in this docket, within 45 days of the effective date of an order in this proceeding, a curtailment tariff for review and certification by Staff that is in the form found on the Commission's website at [www.azc.gov/Division/Utilities/forms/Curtailment TarriffStandard.pdf](http://www.azc.gov/Division/Utilities/forms/Curtailment%20TarriffStandard.pdf).
- That the Company be ordered to adopt and use Staff's recommended depreciation rates as delineated in Table B of the Engineering Report.

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Fact Sheet

Current Rates: Decision No. 60182, May 16, 1997, rates effective June 1, 1997.

Type of Ownership: Sole Proprietorship.

Location: The Company is located approximately two miles southwest of downtown Flagstaff along U.S. Highway 66 in Coconino County.

Rates: Permanent rate increase application filed: December 31, 2008, amended February 12, 2009, and March 24, 2009.

Finance: The financing application was filed December 31, 2008.

Current Test Year Ended: December 31, 2007.

	<u>Company Present Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	\$26.00	\$155.00	\$26.00
Gallons in Minimum	0	0	0
Commodity Charge Excess of minimum, per 1,000 gallons	5.05		
0 gallons to 3,000 gallons		5.05	
3,001 gallons to 10,000 gallons		6.50	
All gallons over 10,000 gallons		8.50	
0 gallons to 3,000 gallons			5.50
3,001 gallons to 7000 gallons			8.60
All gallons over 7,000 gallons			9.95
Typical residential bill (Based on median usage of 2,534 gallons) With surcharge	\$38.80	\$167.80	\$39.94 \$103.08

Customers

The average number of customers in prior test year 52, current test year 53.

Notification

An affidavit of mailing of the customer notification was mailed on December 31, 2008, for the rate case application and on April 18, 2009, for the financing application.

Complaints

1/1/06 – 12/31/08 – No complaints.

1/1/09 – 10/15/09: Five complaints. There were seven opinions filed against the rate increase. (7/53=13.21 percent).

Introduction

On December 31, 2008, F. Wayne and Dorothy Thompson dba West Village Water Company (“West Village” or “Company”) filed applications for a permanent rate increase and financing approval with the Arizona Corporation Commission (“Commission”). A Procedural Order, dated April 20, 2009, granted the Company’s request to consolidate the permanent rate increase and financing applications. The Company is requesting an increase in its rates because it has not had an increase in rates since June 1997. The Company is also requesting approval of a Water Infrastructure Finance Authority (“WIFA”) loan in the amount of \$525,000 for a new deep well and replacement of deteriorated service line taps and meters.

Summary of Filing

Based on test year results, as adjusted by Utilities Division Staff (“Staff”) of the Commission, the Company had an operating income of \$218, for a 0.68 percent operating margin as shown on Schedule CRM-1.

The Company proposed rates produce operating revenue of \$131,208 and an operating income of \$78,889, for an operating margin of 60.13 percent. The Company’s proposed rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from \$38.80 to \$167.80, for an increase of \$129.00 or 332.5 percent. See Schedule CRM-5.

Staff’s recommended rates produce operating revenue of \$35,240 and an operating income of \$3,523, for an operating margin of 10.00 percent. Staff’s recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from \$38.80 to \$39.94, for an increase of \$1.14 or 2.9 percent. See Schedule CRM-5.

For comparative purposes, if you include Staff’s recommended surcharge for the financing, Staff’s recommended increase in revenue is \$55,838 or a 174.85 percent increase over test year revenue of \$31,935. Staff’s recommended revenue of \$87,773 results in operating income of \$56,056, for an operating margin of 63.86 percent. Staff recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from

\$38.80 to \$103.08, for an increase of \$64.28 or 165.7 percent. See Schedules CRM-1-A and CRM-6.

The Company is a class D utility that provides water service to approximately 53 metered customers in Coconino County. The current rates were authorized in Decision No. 60182 dated May 16, 1997.

Company Background

The Company received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 30993, dated June 11, 1958. The Company's prior rate application utilized a test year ending September 30, 1996.

On December 31, 2008, the Company filed an application for a permanent rate increase with the Commission. On January 30, 2009, and March 16, 2009, the Company filing was found deficient. On February 12, 2009, and March 24, 2009, the Company submitted the deficient items. On April 1, 2009, the Company's application was deemed sufficient. The Company's current test year ending is December 31, 2007.

Consumer Services

A review of Consumer Service records reveals that from January 1, 2006, through December 31, 2008, there were no complaints. From January 1, 2009 through October 15, 2009, there were five complaints. Two complaints on billing, two on quality of service, and one on disconnect/termination. All complaints have been resolved and closed. There were seven opinions against the rate increase.

Compliance

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

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

The Company is a sole proprietorship so it is not required to be registered with the Corporations Division of the Commission.

According to an Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report, dated November 16, 2009, ADEQ reported major deficiencies for the Disinfectant By-Product monitoring and reporting requirements. Therefore, ADEQ cannot determine if the Company's system PWS # 03-021, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

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

Engineering Analysis

The plant facilities were visited on April 10, 2009, by Marlin Scott Jr., Staff Utilities Engineer in the accompaniment of Jon Zimmerman, Operator for the Company. See Staff's Engineering Report Attachment A.

Rate Base

The Company's fair value rate base as proposed in the rate application is \$28,968, which does not differ from the original cost rate base. Staff made adjustments to increase the Company's rate base by \$3,674 from \$28,968 to \$32,642. These adjustments decreased plant in service by \$6,614, decreased accumulated depreciation by \$270 and increased cash working capital from \$0 to \$3,404. The Company claimed no cash working capital. See Schedule CRM-2, page 1.

Plant-in-Service

Staff made an adjustment to plant-in-service. The plant-in-service was decreased by \$6,614 from \$106,186 to \$99,572. Staff removed an old pump that was retired in 2007 that was not removed from plant. See Schedules CRM-2, page 2.

Accumulated Depreciation

Staff decreased accumulated depreciation by \$6,884 from \$77,218 to \$70,334. Staff removed \$6,614, the cost of an old pump that was retired in 2007 and which was replaced by a new pump. Also the Company over-stated the amount of accumulated depreciation by \$270 on the new pump that was installed. See Schedule CRM-2, page 3, and Schedule CRM-5.

Staff's accumulated depreciation amount was calculated by adding allowable depreciation expense for the years from October 1, 1996, through the end of the test year of 2007, and then subtracting accumulated depreciation removed for plant retirements. This resulted in an increase in accumulated depreciation for that period of \$29,449. This was then added to the Commission-approved accumulated depreciation balance in the prior test year, which ended September 30, 1996, in the amount of \$40,885, arriving at accumulated depreciation of \$70,334. See Schedule CRM-2, page 3.

Advances-in-Aid-of-Construction

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

Contributions-in-Aid-of-Construction

The Company has no contributions-in-aid-of-construction. The Company contributions-in-aid-of-construction was amortized to zero in a prior year.

Working Capital

The Company did not claim any working capital allowance. Staff typically allows cash working capital allowance calculated by the formula method for small class D and E utilities. The formula method always produces a positive cash working capital need. Cash working capital amount is one twenty-fourth of the cost of purchased power and one-eighth of operating expenses excluding purchased power, depreciation and property taxes expenses. Staff recommends working capital allowance in the amount of \$3,404. See Schedule CRM-2 page 1.

Operating Revenue

Staff made no adjustments to the Company's test year revenue. See Schedule CRM-3 page 1.

Operating Expenses

Staff's three adjustments to operating expenses resulted in a decrease of \$20,603 from \$52,320 to \$31,717 as shown on Schedule CRM-3 pages 1 through 2. Adjustments are discussed below.

Adjustment 1: Staff decreased purchased water expense by \$18,765 from \$18,765 to \$0. This expense was incurred in the test year because of a pump failure. This is a non-recurring expense that did not occur in 2008 or years prior to the test year. Therefore, it is unknown when, or if, the expense may occur in future years. See Schedule CRM-3, page 1 and page 2.

Adjustment 2: Staff increased water testing expense by \$162 from \$982 to \$1,144. This adjustment reflects annual water testing expense determined per Staff's Engineering Report Table A. Water Testing Cost. See Schedule CRM-3, page 1 and page 2.

Adjustment 3: Staff decreased regulatory commission expense-rate case expense by \$2,000 from \$5,000 to \$3,000 to reflect Staff's recommended normalization of this expense. Staff normalized this expense over 5 years until the Company can establish a history of filing rate cases. See Schedule CRM-3, page 1 and page 2.

Operating Margin

The Company's proposed revenue gives the Company an operating margin of 60.13 percent.

Staff's recommended revenue gives the Company an operating margin of 10.00 percent. Staff recommends using an operating margin for this Company because the rate base is too small to produce a sufficient revenue requirement. See Schedule CRM-1.

Revenue Requirement

Staff recommends total operating revenue of \$35,240, an increase of \$3,305, over test year revenue of \$31,935. Staff's recommendation provides operating income of \$3,523. See Schedule CRM-1.

Staff's recommendation will allow the Company sufficient revenue to pay operating expenses and for contingencies. These rates do not cover the debt service.

Rate Design

Schedule CRM-4 reflects a complete list of the Company's present, proposed, and Staff's recommended rates and charges without the financing surcharge.

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

The Company's proposed rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from \$38.80 to 167.80, for an increase of \$129.00 or 332.5 percent. See Schedule CRM-5.

Staff's recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from \$38.80 to \$39.94, for an increase of \$1.14 or 2.9 percent. See Schedule CRM-5.

For comparative purposes, by including Staff's recommended surcharge for the financing, Staff's recommended increase in revenue is \$55,838 or a 174.85 percent increase over test year revenue of \$31,935. Staff's recommended revenue of \$87,773 results in operating income of \$56,056, for an operating margin of 63.86 percent. Staff recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from \$38.80 to \$103.08 for an increase of 64.28 or 165.7 percent. See Schedule CRM-1-A and Schedule CRM-6.

The Company currently has a one uniform rate for all meter sizes and gallons used. Staff believes that inverted tier rates encourage water conservation and Staff recommends a three-tier inverted rate design for the 5/8 x 3/4 inch and 3/4 inch meters and a two-tier inverted rate design for larger size meters. See Schedule CRM-4.

Staff recommends a tariff of \$8.65 per 1,000 gallons for construction/bulk water.

Staff recommends approval of Staff's Service Line and Meter Installation Charges. Staff's recommendation will help ensure that the Company will have enough cash to pay for the actual installation of service for any meter size.

The Company proposed increases to service charges as follows:

The Company proposes an increase to Establishment charge from \$20.00 to \$35.00. Staff concurs.

The Company proposes an increase to Establishment (after hours) from \$40.00 to \$45.00. Staff concurs.

The Company proposes an increase to Reconnection (delinquent) from \$40.00 to 45.00. Staff concurs.

The Company proposes an increase to Reconnection (delinquent) after hours from \$0 to \$50.00. Staff concurs.

The Company proposes an increase to Meter Test from \$40.00 to \$45.00. Staff concurs.

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

The Company proposes not to change Deposit Interest as per R14-2-403 (B)(3) rule. Staff concurs.

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

The Company proposes an increase to Not Sufficient Funds check from \$15.00 to \$25.00. Staff concurs.

The Company proposes not to change Deferred Payment from 1.50 percent. Staff concurs.

The Company proposed an increase to Meter Re-read (if correct) from \$12.50 to \$20.00. Staff concurs.

The Company proposed not to change Late Charge from 1.50 percent per month. Staff recommends a late charge of 1.50 percent on the unpaid balance per month.

The Company proposes to increase Main Extension from N/A to Cost. Main Extensions are not a tariff item. They are covered and discussed separately in the Arizona Administrative Code.

Financing Application and Surcharge Mechanism

On December 31, 2008, the Company filed a financing application with the Commission requesting authorization to obtain a \$525,000 amortizing loan from WIFA. The Company is requesting a 20-year amortizing loan from WIFA. The Company mailed a customer notification notice of the financing application to its customers on April 18, 2009.

The purpose of the financing is to provide funds for capital improvements to construct a new deep well and the replacement of deteriorated service lines taps and meters. In order to begin this replacement project, the Company will need to locate and map the distribution system and install gate valves on the system to isolate portions of the distribution system.

Engineering Staff concludes that the capital improvement projects are appropriate and the cost estimate totaling \$525,000 is reasonable. However, this does not imply any particular future treatment for inclusion in rate base. No "used and useful" determination of the proposed plant was made, and no conclusion should be inferred for rate making or rate base purposes. See attached Engineering Report Attachment B.

Financial Analysis

Staff's analysis is based on selected financial information from its financial statements dated December 31, 2007.

Capital Structure

At December 31, 2007, the Company's capital structure consisted of 0 percent short-term debt, 0 percent long term debt, and 100 percent equity. A pro-forma capital structure recognizing issuance of a \$525,000 20-year amortizing loan is composed of 2.8 percent short-term debt, 102.7 percent long-term debt and negative 5.5 percent equity. See Schedule CRM-7.

The Company lacks sufficient operating cash flow to meet its proposed long-term debt obligation. Therefore, a surcharge that provides funds for the debt service on the WIFA loan is appropriate. Because the final details of the WIFA loan will not be known until after the Company closes on the loan, Staff is recommending a surcharge mechanism.

The surcharge mechanism establishes the methodology for calculating the surcharge amount to be applied to the rates established in the permanent rate increase application. To collect the surcharge, the Company would submit a surcharge application to the Commission under this Docket, using the methodology Staff has defined in this Report, once the Company has closed on the loan.

Calculation of Surcharge

The following is the methodology that Staff recommends to calculate the surcharge needed to provide funds for the debt service on the loan. Also provided, as an illustration, is a sample calculation applying Staff's proposed methodology to a 20-year loan at 6.0 percent interest using the Staff-recommended loan amount of \$525,000.

Staff recommends the following steps to calculate the surcharge once the Company has closed on the loan.

Instructions to calculate the surcharge on the loan

Example - For Illustrative Purposes Only

Loan amount: \$525,000
Term: 20 years
Stated Annual Interest Rate: 6.00%

Instruction for Step 1

Step 1. Find the Annual Payment on the Loan

Refer to Table A, the Conversion Factor Table. Reading the table from top to bottom, find the interest rate in Column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

Result

0.0860
x \$525,000
\$ 45,150

Annual Payment Conversion Factor (Table A, Line 5, Column B)
Total loan amount
Annual loan payment
The difference is due to rounding.

Instruction for Step 2

Step 2. Find the equivalent bills.

Multiply the American Water Works Association meter capacity multiplier by the number of current customers and by the number of months per year. The sum of the products equals the equivalent bills.

Staff has treated the 5/8 x 3/4 inch meter and the 3/4 inch meter sizes the same for purposes of the loan surcharge in this instance.

Result

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Meter Capacity Multiplier	Number of Customers	Number of Months In Year	Equivalent Bills Col B x C x D
5/8" Meter	1	35	12	420
3/4" Meter	1	18	12	216
1" Meter	2.5	0	12	0
1½" Meter	5	0	12	0
2" Meter	8	0	12	0
3" Meter	15	0	12	0
4" Meter	25	0	12	0
6" Meter	50	0	12	0
			Total	636

Instruction for Step 3

Step 3. Find the monthly surcharge for 5/8" x 3/4 inch meter customers.

Divide the result obtained in step 1 by the number of equivalent bills calculated in step 2 to obtain the monthly surcharge for 5/8" customers.

Result

\$45,150	Total annual loan amount (Step 1)
÷ 636	Number of equivalent bills (Step 2)
<u>\$70.99</u>	Total monthly surcharge for residential customers

Instruction for Step 4

Step 4. Find the monthly surcharge for remaining meter size customers.

Multiply the Result obtained in step 3 by the NARUC meter capacity multipliers to obtain the monthly surcharges for all other meter sizes.

Staff has treated the 5/8 x 3/4 inch meter and the 3/4 inch meter sizes the same for purposes of the loan surcharge in this instance.

Col A	Col B	Col C	Col D
Meter Size	NARUC Meter Capacity Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8" Meter	1	\$70.99	\$70.99
3/4" Meter	1	\$70.99	\$70.99

TABLE A
Conversion Factor Table (Based on a 20-year Loan)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
Annual Interest	Annual Payment Conversion Factor	Annual Interest Payment Conversion Factor	Annual Principal Payment Conversion Factor
3.50%	0.0696	0.0344	0.0352
3.75%	0.0711	0.0369	0.0342
4.00%	0.0727	0.0394	0.0333
4.25%	0.0743	0.0419	0.0324
4.50%	0.0759	0.0444	0.0316
4.75%	0.0775	0.0468	0.0307
5.00%	0.0792	0.0493	0.0299
5.25%	0.0809	0.0518	0.0291
5.50%	0.0825	0.0543	0.0283
5.75%	0.0843	0.0568	0.0275
6.00%	0.0860	0.0593	0.0267
6.25%	0.0877	0.0618	0.0259
6.50%	0.0895	0.0643	0.0252
6.75%	0.0912	0.0668	0.0245
7.00%	0.0930	0.0692	0.0238
7.25%	0.0948	0.0717	0.0231
7.50%	0.0967	0.0742	0.0224
7.75%	0.0985	0.0767	0.0218
8.00%	0.1004	0.0792	0.0211

Conclusions - Financing

Staff concludes that the proposed WIFA loan is an appropriate financial instrument to finance the proposed capital improvements. Staff further concludes that issuance of a long-term amortizing loan of approximately 20 years for the \$525,000 estimated cost of the capital improvements is appropriate, is within its powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practices.

Staff recommends that the Commission authorize the Company to obtain a 20 year amortizing loan for an amount not to exceed \$525,000 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed to finance the proposed infrastructure improvements for the construction of a new deep well and the replacement of deteriorated service line taps and meters, as well as for the locating and mapping of the distribution system and installation of gate valves on the system to isolate portions of the distribution system before replacement work can begin.

Staff recommends that the Company contact the City of Flagstaff, Arizona ("City") and pursue with the city the possibility of becoming a master meter customer of the city and all other possibilities available with the City. Staff also recommends that the Company exhaust any and all remedies with the City before closure of the loan from WIFA.

Staff estimates the surcharge to be approximately of \$70.99 per customer per meter.

Staff's Recommendations

Staff recommends:

- That the Commission approve Staff's rates and charges as shown on Schedule CRM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule R14-2-409.D.5.
- That the Company be ordered to docket with the Commission a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Company be ordered to contact the City of Flagstaff ("City") to explore all available alternatives to the capital improvements proposed in this financing request, including the possibility of the Company becoming a master-meter customer of the City. Additionally, Staff recommends that, within 30 days of any discussions with the City, the Company be required to file documents in this docket: (1) affirming that the Company has explored with the City all available alternatives, including becoming a master meter customer of the City; (2) listing the alternatives investigated; (3) describing and explaining all actions taken by the Company in investigating each alternative, including the names of persons contacted at the City; and (4) describing and explaining the Company's rationale in choosing or not choosing a particular alternative. Staff further recommends that the Company be ordered to comply with this filing requirement before securing or closing on the WIFA loan.
- That the Commission authorize the Company to obtain a 20 year amortizing loan in an amount not to exceed \$351,944 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed (presently estimated at 6.00 percent) to finance capital improvement of a new deep well.
- That the Commission authorize the Company to obtain a 20 year amortizing loan in an amount not to exceed \$173,056 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed (presently estimated at 6.00 percent) to finance locating and mapping the distribution system and install gate valves on the system to isolate portions of the distribution system.

- That the Commission authorize the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.
- That the Company be ordered to file copies of the fully-executed loan documents, as a Compliance item in this docket, within 60 days of the execution of any transactions.
- That any authorization to incur debt granted in this proceeding terminate one year from the date a Decision is issued in this matter, unless the financing is obtained within one year.
- That the Commission approve a financing surcharge mechanism to enable the Company to meet its principal and interest obligation on the proposed WIFA loan and that may result in a surcharge of as much as \$70.99 per month per metered customer.
- That the Company be ordered to file with the Commission a WIFA loan surcharge tariff application within 60 days of the loan closing. Staff further recommends that the Company be required to follow the same methodology presented in this report to calculate the additional revenue needed to meet its loan obligations, using the actual loan terms and the actual number of customers at the time of loan closing, and using the result of that calculation to develop its surcharge tariff application. The increase in revenue calculation should be included in the surcharge tariff application.
- That any surcharge be implemented only after Commission approval of the loan surcharge tariff.
- That approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
- That the Commission order the Company to maintain its records in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts. The Company be ordered to file with Docket Control, a document stating it is in compliance within 6 months after a Decision is issued in this matter.
- That the Company be ordered to investigate the 25.1 percent water loss in its system and to prepare a report of proposed corrective measures demonstrating how the Company will reduce water losses 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 losses to less than 10 percent is not cost effective, the Company shall submit a detailed cost analysis and explanation demonstrating why

the water losses reduction to less than 10 percent is not cost effective. The Company shall file such report with Docket Control, as a compliance item for this docket, by December 31, 2009. In no case shall water loss be greater than 15 percent.

- That the Company be ordered to file, as a compliance item in this docket, a copy of an updated Arizona Department of Environmental Quality Compliance Status Report indicating that the Disinfectant By-Product monitoring and reporting deficiencies identified by ADEQ have been resolved and that the system is in compliance with ADEQ regulations. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of such updated report.
- That the Company be ordered to file, as a compliance item in this docket, (within 6 months of closing the Well loan on the well) a copy of the ADEQ Certificate for Approval to Construct for the new deep well project.
- That the Company be ordered to file, as a compliance item in this docket, within 45 days of the effective date of an order in this proceeding, a curtailment tariff for review and certification by Staff that is in the form found on the Commission's website at www.azc.gov/Division/Utilities/forms/Curtailment_TariffStandard.pdf.
- That the Company be ordered to adopt and use Staff's recommended depreciation rates as delineated in Table B of the Engineering Report.

SUMMARY OF FILING
WITHOUT RECOMMENDED SUR-CHARGE REVENUE

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$31,935	\$31,935	\$131,208	\$37,315
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$31,935	\$31,935	\$131,208	\$37,315
Operating Expenses:				
Operation and Maintenance	\$50,758	\$30,155	\$50,758	\$30,155
Depreciation	539	539	539	539
Property & Other Taxes	1,023	1,023	1,023	1,023
Income Tax	0	0	0	0
Total Operating Expense	\$52,320	\$31,717	\$52,320	\$31,717
Operating Income/(Loss)	(\$20,384)	\$218	\$78,889	\$5,598
Rate Base O.C.L.D.	\$28,968	\$32,642	\$28,968	\$32,642
Rate of Return - O.C.L.D.	-70.37%	0.67%	272.33%	17.15%
Times Interest Earned Ratio (Pre-Tax)	N/A	N/M	N/A	N/A
Debt Service Coverage Ratio (Pre-Tax)	N/A	N/M	N/A	N/A
Operating Margin	-63.83%	0.68%	60.13%	15.00%

NOTE: 1 Operating margin is the percentage of operating income to operating revenue.

RATE BASE

	Original Cost			Staff
	Company	Adjustment		
Plant in Service	\$106,186	(\$6,614)	1	\$99,572
Less:				
Accum. Depreciation	77,218	(6,884)	2	70,334
Net Plant	\$28,968	\$270		\$29,238
Less:				
Plant Advances	\$0	\$0		\$0
Customers Deposits	0	0		0
Total Advances	\$0	\$0		\$0
Contributions Gross	\$20,886	\$0		\$20,886
Less:				
Amortization of CIAC	20,886	\$0		20,886
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$0		\$0
Plus:				
1/24 Power	\$0	\$183	3	\$183
1/8 Operation & Maint.	0	3,221	3	3,221
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$3,404		\$3,404
Rate Base	\$28,968	\$3,674		\$32,642

Explanation of Adjustment:

Adjustment No. 1.

Staff decreased accumulated depreciation by \$6,614, the cost of the old pump that was retired in 2007. Staff decreased accumulated depreciation by \$270 for the reduction in accumulated depreciation for the new pump installed in 2007. These two adjustments total \$6,884.

Adjustment No. 2.

The company did not claim cash working capital. Staff computed cash working capital using the formula method. Cash working capital was increased from 0 to \$3,404.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	18,460	0	18,460
304 Structures & Improvements	1,198	0	1,198
307 Wells & Springs	12,638	0	12,638
311 Pumping Equipment	29,873	(6,614) 1	23,259
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	5,257	0	5,257
331 Transmission & Distribution Mains	35,270	0	35,270
333 Services	0	0	0
334 Meters & Meter Installations	3,490	0	3,490
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation 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	\$106,186	(\$6,614)	\$99,572

1 Adjustment
Staff removed the old pump that
was replaced in 2007 by a new
pump.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$77,218
Accumulated Depreciation - Per Staff	<u>70,334</u>
Total Adjustment	<u><u>(\$6,884)</u></u>

Explanation of Adjustment:

- 1 Staff decreased accumulated depreciation by \$6,614 the cost of the old pump replaced in 2007 and also by \$207 the excess of accumulated depreciation that was taken on the new pump installed in 2007, for a total of \$6,884.

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$31,935	\$0	\$31,935
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$31,935	\$0	\$31,935
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	18,765	(18,765) 1	0
615 Purchased Power	4,390	0	4,390
618 Chemicals	100	0	100
620 Repairs and Maintenance	3,817	0	3,817
621 Office Supplies & Expense	1,030	0	1,030
630 Outside Services	15,550	0	15,550
635 Water Testing	982	162 2	1,144
641 Rents	0	0	0
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	1,124	0	1,124
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	5,000	(2,000) 3	3,000
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	539	0	539
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	1,023	0	1,023
409 Income Tax	0	0	0
Total Operating Expenses	\$52,320	(\$20,603)	\$31,717
OPERATING INCOME/(LOSS)	(\$20,385)	\$20,603	\$218

STAFF ADJUSTMENTS

1	PURCHASED WATER - Per Company	\$18,765	
	Per Staff	0	(\$18,765)
		<hr/>	<hr/>

Staff decreased purchased water expense by \$18,765 from \$18,765 to zero. This expense was incurred in the test year because of a pump failure and is unknown when or if it will occur in future years. It did not occur in year 2008 or years prior to the test year.

2	WATER TESTING - Per Company	\$982	
	Per Staff	1,144	\$162
		<hr/>	<hr/>

Staff increased water testing expense by \$162 from \$982 to \$1,144. This adjustment reflects annual water testing expenses determined per Staff's Engineering Report at Table A.

3	REGULATORY COMMISSION EXPENSE - RATE CASE	\$5,000	
	- Per Company	3,000	(\$2,000)
	Per Staff		
		<hr/>	<hr/>

The Company's last rate case was filed in 1996. Staff normalized the rate case expense over 5 years until the Company can establish a history of filing rate cases.

TYPICAL BILL ANALYSIS
General Service 5/8 - Inch Meter
Without Financing surcharge

Average Number of Customers: 35

<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	3,248	\$42.40	\$171.76	\$129.36	305.1%
Median Usage	2,534	\$38.80	\$167.80	\$129.00	332.5%
<u>Staff Recommended</u>					
Average Usage	3,248	\$42.40	\$44.63	\$2.23	5.3%
Median Usage	2,534	\$38.80	\$39.94	\$1.14	2.9%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Recommended Rates</u>	<u>% Increase</u>
0	\$26.00	\$155.00	496.2%	\$26.00	0.0%
1,000	31.05	160.05	415.5%	31.50	1.4%
2,000	36.10	165.10	357.3%	37.00	2.5%
3,000	41.15	170.15	313.5%	42.50	3.3%
4,000	46.20	176.65	282.4%	51.10	10.6%
5,000	51.25	183.15	257.4%	59.70	16.5%
6,000	56.30	189.65	236.9%	68.30	21.3%
7,000	61.35	196.15	219.7%	76.90	25.3%
8,000	66.40	202.65	205.2%	86.85	30.8%
9,000	71.45	209.15	192.7%	96.80	35.5%
10,000	76.50	215.65	181.9%	106.75	39.5%
15,000	101.75	258.15	153.7%	156.50	53.8%
20,000	127.00	300.65	136.7%	206.25	62.4%
25,000	152.25	343.15	125.4%	256.00	68.1%
50,000	278.50	555.65	99.5%	504.75	81.2%
75,000	404.75	768.15	89.8%	753.50	86.2%
100,000	531.00	980.65	84.7%	1,002.25	88.7%
125,000	657.25	1,193.15	81.5%	1,251.00	90.3%
150,000	783.50	1,405.65	79.4%	1,499.75	91.4%
175,000	909.75	1,618.15	77.9%	1,748.50	92.2%
200,000	1,036.00	1,830.65	76.7%	1,997.25	92.8%

TYPICAL BILL ANALYSIS
General Service 5-8/ Inch Meter
with Financing surcharge

Average Number of Customers: 35

<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	3,248	\$42.40	\$171.76	\$129.36	305.1%
Median Usage	2,534	\$38.80	\$167.80	\$129.00	332.5%
<u>Staff Recommended</u>					
Average Usage	3,248	\$42.40	\$115.53	\$73.13	172.5%
Median Usage	2,534	\$38.80	\$103.08	\$64.28	165.7%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Recommended Rates</u>	<u>% Increase</u>
0	\$26.00	\$155.00	496.2%	\$60.00	130.8%
1,000	31.05	160.05	415.5%	77.00	148.0%
2,000	36.10	165.10	357.3%	94.00	160.4%
3,000	41.15	170.15	313.5%	111.00	169.7%
4,000	46.20	176.65	282.4%	129.25	179.8%
5,000	51.25	183.15	257.4%	147.50	187.8%
6,000	56.30	189.65	236.9%	165.75	194.4%
7,000	61.35	196.15	219.7%	184.00	199.9%
8,000	66.40	202.65	205.2%	202.25	204.6%
9,000	71.45	209.15	192.7%	220.50	208.6%
10,000	76.50	215.65	181.9%	238.75	212.1%
15,000	101.75	258.15	153.7%	337.50	231.7%
20,000	127.00	300.65	136.7%	436.25	243.5%
25,000	152.25	343.15	125.4%	535.00	251.4%
50,000	278.50	555.65	99.5%	1,028.75	269.4%
75,000	404.75	768.15	89.8%	1,522.50	276.2%
100,000	531.00	980.65	84.7%	2,016.25	279.7%
125,000	657.25	1,193.15	81.5%	2,510.00	281.9%
150,000	783.50	1,405.65	79.4%	3,003.75	283.4%
175,000	909.75	1,618.15	77.9%	3,497.50	284.4%
200,000	1,036.00	1,830.65	76.7%	3,991.25	285.3%

RATE DESIGN

<u>Monthly Minimum Charge</u>	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
5/8" x 3/4" Meter	26.00	155.00	26.00
3/4" Meter	39.00	232.50	39.00
1" Meter	65.00	387.50	65.00
1½" Meter	130.00	775.00	130.00
2" Meter	208.00	1,240.00	208.00
3" Meter	390.00	2,480.00	416.00
4" Meter	650.00	3,875.00	650.00
6" Meter	\$1,300.00	\$7,750.00	\$1,300.00
Financial Surcharge for all meter sizes	n/a	n/a	\$70.99
Excess of Minimum - per 1,000 Gallons	5.05	0	0
Gallons included in minimum	0	0	0
<u>5/8 inch x 3/4 inch meter</u>			
0 gallon to 3,000 gallons	n/a	5.05	5.50
3,001 to 10,000 gallons	n/a	6.50	8.60
all gallons over 10,000 gallons	n/a	8.50	9.95
<u>3/4 inch meter</u>			
0 gallon to 3,000 gallons	n/a	5.05	5.50
3,001 to 10,000 gallons	n/a	6.50	8.60
all gallons over 10,000 gallons	n/a	8.50	9.95
<u>one inch meter</u>			
0 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallons to 10,000 gallons	n/a	n/a	8.60
all gallons over 10,000 gallons	n/a	n/a	9.95
<u>one and one-half inch meter</u>			
0 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallons to 20,000 gallons	n/a	5.05	8.60
all gallons over 20,000 gallons	n/a	6.50	9.95
<u>two inch meter</u>			
one gallon to 3,000 gallons		5.05	
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallon to 40,000 gallons	n/a	n/a	8.60
all gallons over 40,000 gallons	n/a	n/a	9.95
<u>three inch meter</u>			
1 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallon to 144,000 gallons	n/a	n/a	8.60
all gallons over 144,000 gallons	n/a	n/a	9.95
<u>four inch meter</u>			
1 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallon to 225,000 gallons	n/a	n/a	8.60
all gallons over 225,000 gallons	n/a	n/a	9.95
<u>six inch meter</u>			
1 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallon to 450,000 gallons	n/a	n/a	8.60
all gallons over 450,000 gallons	n/a	n/a	
<u>Standpipe rate</u>	5.05	6.50	9.95

Service Line and Meter Installation Charges

	Current Charges	Company Proposed			Staff Recommended		
		Service Line Charges	Meter Charges	Total Charges	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	330.00	430.00	\$ 130.00	560.00	\$ 430.00	\$ 130.00	560.00
3/4" Meter	\$430.00	\$430.00	230.00	660.00	430.00	230.00	660.00
1" Meter	480.00	480.00	290.00	770.00	480.00	290.00	770.00
1½" Meter	660.00	535.00	500.00	1,035.00	535.00	500.00	1,035.00
2" Turbine	0.00	815.00	1,020.00	1,835.00	815.00	1,020.00	1,835.00
2" Compound	n/a	815.00	1,865.00	2,680.00	815.00	1,865.00	2,680.00
3' Turbine	1,625.00	1,030.00	1,645.00	2,675.00	1,030.00	1,645.00	2,675.00
3' Compound	n/a	1,150.00	2,520.00	3,670.00	1,150.00	2,520.00	3,670.00
4' Turbine	2,540.00	1,460.00	2,620.00	4,080.00	1,460.00	2,620.00	4,080.00
4' Compound	n/a	1,640.00	3,595.00	5,235.00	1,640.00	3,595.00	5,235.00
6" Turbine	4,875.00	2,180.00	4,975.00	7,155.00	2,180.00	4,975.00	7,155.00
6" Compound	n/a	2300.00	6,870.00	9,170.00	2,300.00	6,870.00	9,170.00

Service Charges

	Current Charges	Company Proposed	Staff Recommended
Establishment	\$20.00	\$35.00	\$35.00
Establishment (After Hours)	40.00	45.00	45.00
Reconnection (Delinquent)	40.00	45.00	45.00
Reconnection (Delinquent)	n/a	50.00	50.00
Meter Test (If Correct)	40.00	45.00	45.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	25.00	25.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	12.50	20.00	20.00
Late Charge (per Month)	1.50%	1.50%	***
Main Extension	n/a	cost	****

Staff's Recommendations

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** 1.50 percent on the unpaid balance per month.
- **** Main Extensions are addressed separately in the Arizona Administrative Code are not part of this tariff and should be removed from this tariff.

FINANCIAL ANALYSIS

Selected Financial Information

	<u>[A]¹</u>		<u>[B]²</u>	
	<u>12/31/2007</u>		<u>Pro Forma</u>	
1	Operating Income	\$ 56,055	\$ 56,055	
2	Depreciation & Amort.	539	539	
3	Income Tax Expense	0	0	
4				
5	Interest Expense	0	31,119	
6	Repayment of Principal	0	14,016	
7				
8				
9	TIER			
10	[1+3] + [5]	N/M ³	1.80	
11	DSC			
12	[1+2+3] + [5+6]	N/M	1.25	
13				
14				
15				
16				
17	Capital Structure			
18				
19	Short-term Debt	0 0.0%	14,016 2.8% ⁴	
20				
21	Long-term Debt	0 0.0%	510,984 102.7%	
22				
23	Common Equity	(27,432) 100.0%	(27,432) -5.5%	
24				
25	Total Capital	\$ (27,432) 100.0%	\$ 497,568 100.0%	
26				
27				
28	Capital Structure (inclusive of AIAC and Net CIAC)			
29				
30	Short-term Debt	0 0.0%	14,016 2.7%	
31				
32	Long-term Debt	0 0.0%	510,984 98.6%	
33				
34	Common Equity	(27,432) 419.1%	(27,432) -5.3%	
35				
36	Advances in Aid of Construction ("AIAC")	0 0.0%	0 0.0%	
37				
38	Contributions in Aid of Construction ("CIAC") ⁵	20,886 -319.1%	20,886 4.0%	
39				
40	Total Capital (Inclusive of AIAC and CIAC)	\$ (6,546) 100.0%	\$ 518,454 100.0%	
41				
42				
43	AIAC and CIAC Funding Ratio ⁶	-319.1%	4.0%	
44	(36+38)/(40)			

¹ Column [A] is based on Test year Numbers filed by the Company under Docket No. 08-0313, as modified by Staff.

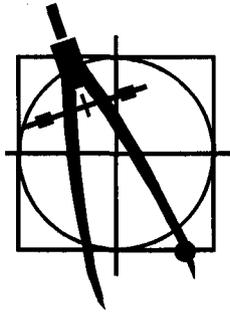
² Column [B] is Column [A] modified to reflect a \$525,000 loan, at an interest rate of 6 percent, for 20 years.

³ Not Meaningful

⁴ Pro Forma Short-term Debt represents the annual principal portion of the proposed loan.

⁵ Net CIAC balance (i.e. less: amortization of contributions).

⁶ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.



**Engineering Report for F. Wayne
Thompson and Dorothy Thompson DBA
West Village Water Company**

Docket No. W-03211A-08-0622 (Rates)

By Marlin Scott, Jr. *MSJ*

November 17, 2009

CONCLUSIONS

- A. F. Wayne Thompson and Dorothy Thompson DBA West Village Water Company's ("Company") has adequate well and storage capacity to serve the present customer base and reasonable growth.
- B. 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.
- C. A check of the Utilities Division Compliance database showed that the Company had no delinquent Commission compliance items.
- D. The Company has an approved backflow prevention tariff with an effective date of March 7, 1997.

RECOMMENDATIONS

- 1. The Company has a 25.1 percent water loss. Staff recommends that the Company evaluate the water system and prepare a report for corrective measures demonstrating how the Company will reduce water losses 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 losses to less than 10 percent is not cost effective, the Company shall submit a detailed cost analysis and explanation demonstrating why the water losses reduction to less than 10 percent is not cost effective. The Company shall file such report with Docket Control, as a compliance item for this docket, by June 30, 2010. In no case shall water loss be greater than 15 percent.
- 2. Based on the Disinfection By-Product monitoring and reporting deficiencies, Arizona Department of Environmental Quality ("ADEQ") cannot determine if the Company is currently delivering water that meets water quality standards. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of an updated ADEQ Compliance Status Report indicating that the Disinfection By-Product

monitoring and reporting deficiencies have been resolved and the system is in compliance with ADEQ regulations. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated ADEQ Compliance Status Report indicating that the noted deficiencies have been resolved.

3. Staff recommends an annual water testing expense of \$1,144 be used for purposes of this application.
4. 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 B.
5. Staff recommends the adoption of the Company's proposed Service Line and Meter Installation Charges as delineated in Table C.
6. Staff recommends that the Company file a curtailment tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/CurtailmentTariffSTANDARD.pdf. This tariff shall be docketed as a compliance item in this docket within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

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A. LOCATION OF COMPANY

West Village Water Company ("Company") serves a community located approximately two miles southwest of downtown Flagstaff along U.S. Highway 66. Figure 1 shows the location of the Company within Coconino County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 1/16 square-mile.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on April 10, 2009, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Jon Zimmermann, Operator for the Company.

The current operation of the water system consists of one well pumping at 16 gallons per minute (estimated), a 98,000 gallon storage tank, booster system, and a distribution system serving 53 customers. The Company also provides standpipe service, however, no standpipe service is being provided at this time. A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Data

Well Information	Well #1	Comments
ADWR ID No.	55-806159	
Casing Size	6-inch	
Casing Depth	1,570 ft.	
Pump Size/Type	10-Hp* Submersible * Horsepower	The old 25-Hp pump (installed in February 2005 at \$6,614) was replaced with a 10-Hp pump in March 2007. According to the pump company, the pump's Hp was reduced due to the depletion of the well yield.
Pump Yield	16 GPM	This flow is estimated.
Wellhead meter	2-inch	
Treatment	Liquid chlorinator	Located at booster pump house.

Table 2. Tanks & Pumping Facilities

Plant Facilities	Capacity
Storage tank	98,000 gallons
Booster pumps	Two 10-Hp
Pressure tank	1,000 gallon

Table 3. Water Mains

Diameter	Material	Length
2-inch	n/a	6,564 ft.

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	36
3/4-inch	18
1-inch	
2-inch	
4-inch	
Total:	54

Table 5. Equipment & Structures

Equipment & Structures
Standpipe – for water hauling
Well house – 6 ft. by 8 ft. wooden building
Control panel building – 8 ft. by 10 ft. wooden building
Booster pump house – 12 ft. by 12 ft. added to a 8 ft. by 12 ft. concrete building

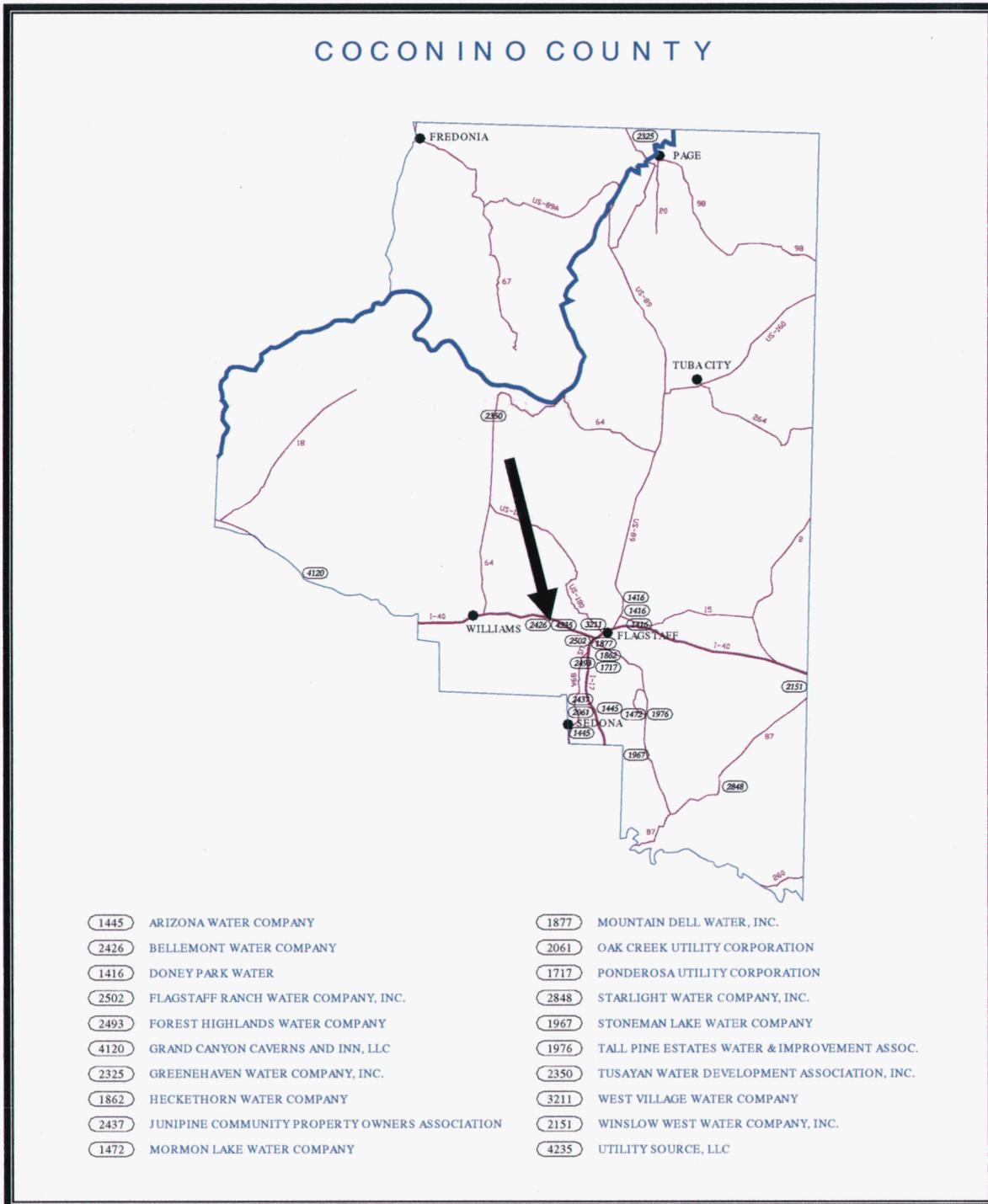


Figure 1. County Map

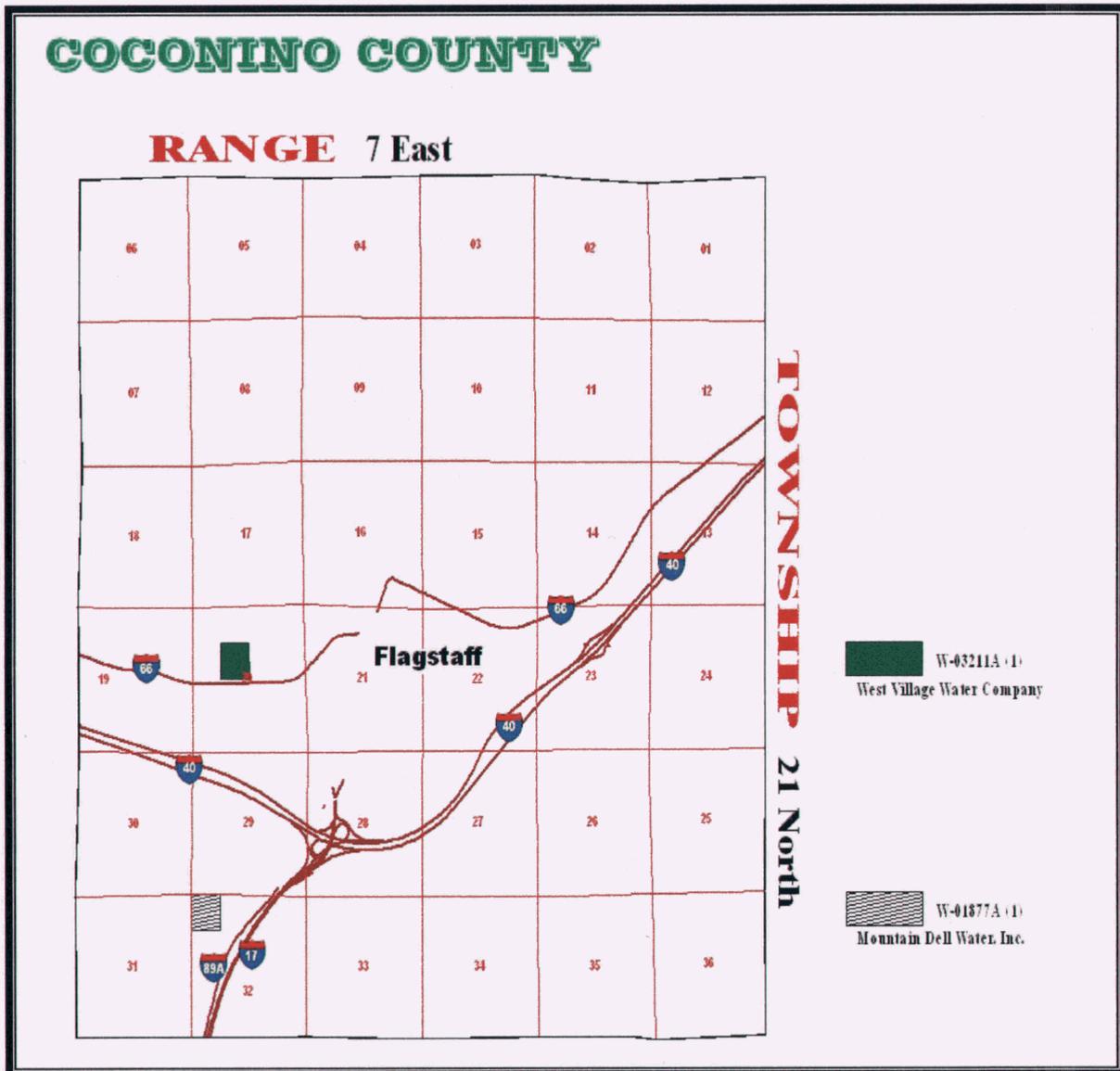


Figure 2. Certificated Area

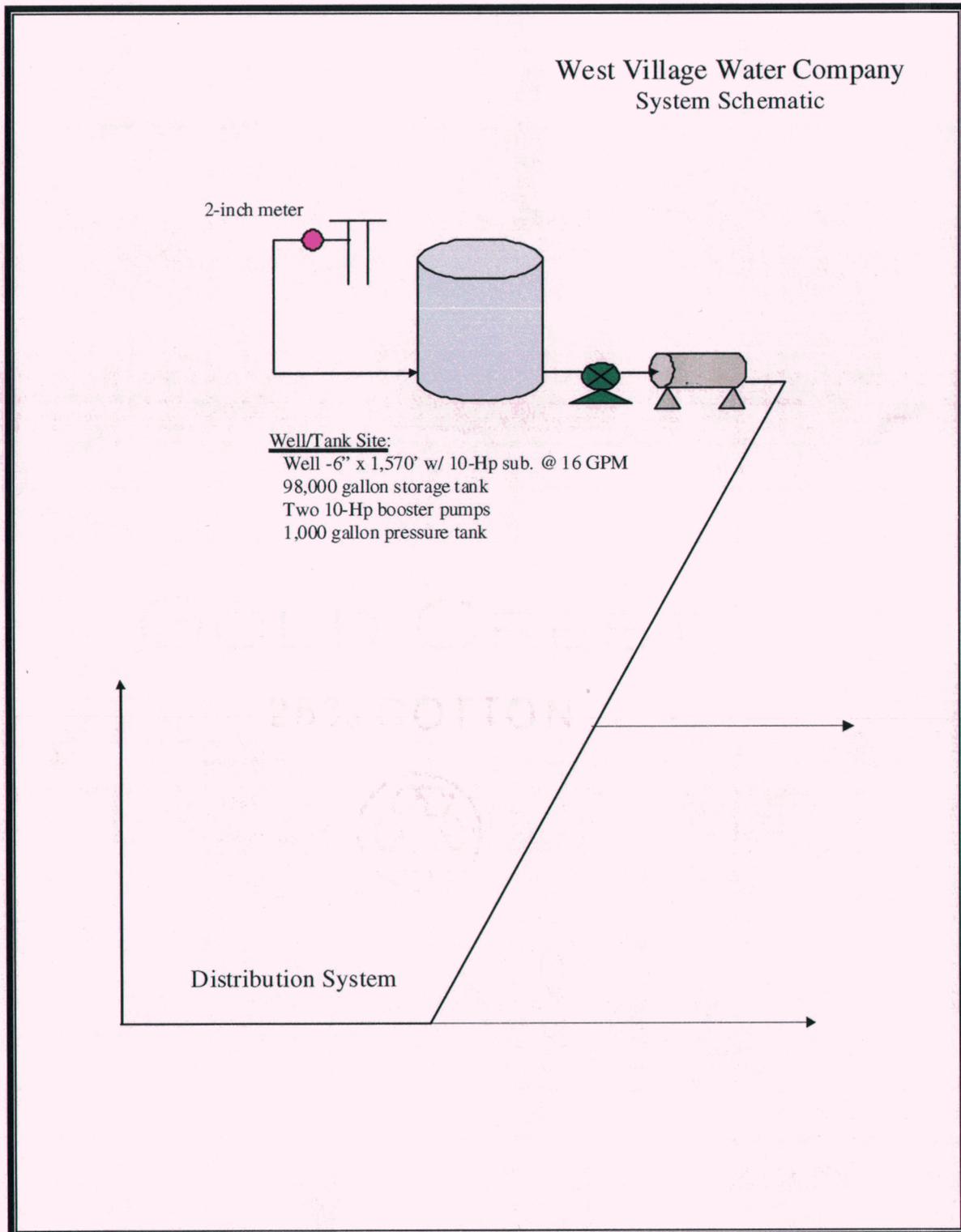


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the Test Year ending 2007. This figure shows the customer consumption experienced a high monthly usage of 156 gallons per day (“GPD”) per connection in August and a low monthly water use of 90 GPD per connection in January for an average monthly use of 128 GPD per connection.

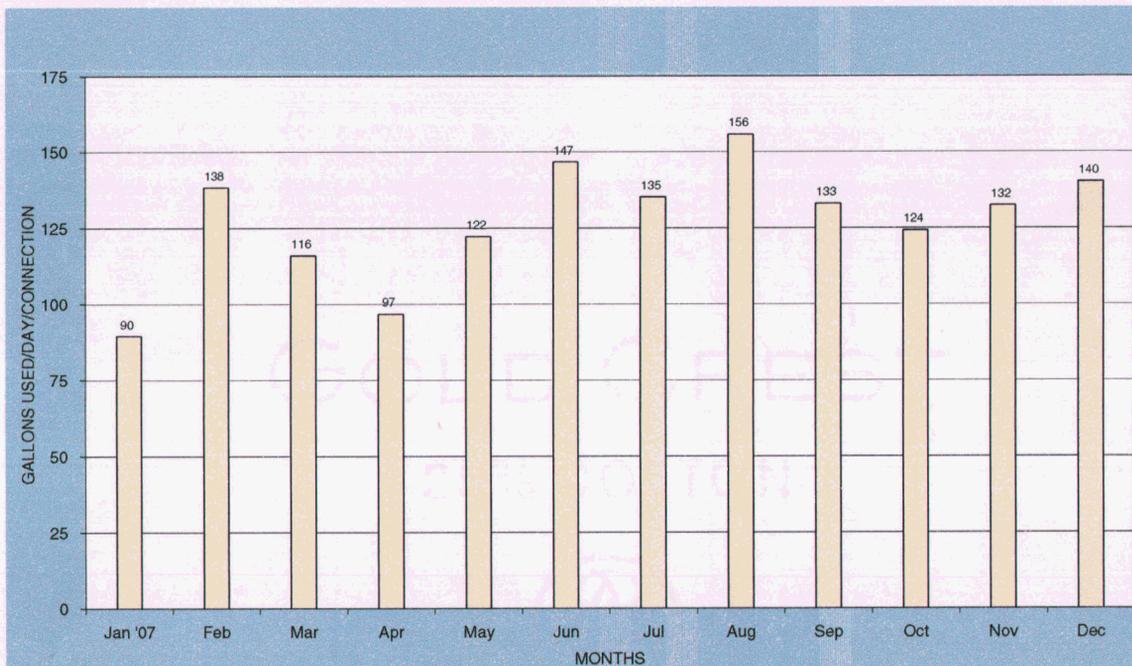


Figure 4. Water Use

Non-Account Water

The Company reported 3,316,900 gallons of water pumped and 2,484,128 gallons of water sold, resulting in a water loss of 25.1 percent. In March 2007, the well pump was replaced and the Company had to haul in water. In addition, during the test year, the Company reported four months where the gallons pumped were less than the gallons sold. This scenario should not occur.

For this reason, Staff recommends that the Company evaluate the water system and prepare a report for corrective measures demonstrating how the Company will reduce water losses 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 losses to less than 10 percent is not cost effective, the Company shall submit a detailed cost analysis and explanation demonstrating why the water losses reduction to less than 10 percent is not cost effective. The Company shall file

such report with Docket Control, as a compliance item for this docket, by June 30, 2010. In no case shall water loss be greater than 15 percent. The Company's requested financing should solve a portion of this problem.

System Analysis

The current well capacity of 16 GPM (estimated) and storage capacity of 98,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

According to the Company's Annual Reports, the Company's customer base shows very minimal growth. In the Company's last rate case in 1997, the Company had 52 service connections with 14 regular standpipe customers. In this present rate case, the Company reports 53 metered customers. It appears this Company has no customer growth.

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

Compliance

According to an ADEQ Compliance Status Report, dated November 16, 2009, ADEQ reported major deficiencies for the Disinfection By-Product monitoring and reporting requirements. Therefore, ADEQ cannot determine if the Company's system, PWS #03-021, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of an updated ADEQ Compliance Status Report indicating that the Disinfection By-Product monitoring and reporting deficiencies have been resolved and the system is in compliance with ADEQ requirements. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated ADEQ Compliance Status Report indicating that the noted deficiencies have been resolved.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). The Company reported its water testing expense at \$982 during the test year. Staff has reviewed these expenses and has recalculated the annual expense by adding the omitted monitoring requirements for lead & copper and Disinfection/Disinfection By-Product ("D/DBP"). Annual D/DBP monitoring applies to any public water system that adds a

halogenated disinfectant during the treatment process. The Company chlorinates its well and therefore, is required to monitor for D/DBP. Table A shows Staff's adjusted annual monitoring expense estimate of \$1,144 with participation in the MAP.

Table A. Water Testing Cost

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – monthly	\$17.50	12	\$210
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$404
Lead & Copper – per year	\$36	5	\$180
D/DBP – TTHM/HH5 – per year	\$350	1	\$350
Total			\$1,144

Note: ADEQ's MAP invoice for the 2008 Calendar Year was \$404.20.

Staff recommends an annual water testing expense of \$1,144 be used for purposes of this application.

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

The Company is not located in any 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 5.00% 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 B and it is recommended that the Company use these depreciation rates by individual NARUC category.

Table B. Depreciation Rates

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

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company requested changes to its service line and meter installation charges. These requested charges are similar to Staff's customary installation charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to

only be charged for the meter installation. Therefore, Staff recommends approval of the charges as shown in Table C below, with separate installation charges for the service line and meter installations.

Table C. Service Line and Meter Installation Charges

Meter Size	Company's Current Charges	Proposed Service Line Charges	Proposed Meter Installation Charges	Proposed Total Charges
5/8 x 3/4-inch	\$330	\$430	\$130	\$560
3/4-inch	\$375	\$430	\$230	\$660
1-inch	\$440	\$480	\$290	\$770
1-1/2-inch	\$660	\$535	\$500	\$1,035
2-inch – Turbine	\$1,155	\$815	\$1,020	\$1,835
2-inch – Compound	-	\$815	\$1,865	\$2,680
3-inch – Turbine	\$1,625	\$1,030	\$1,645	\$2,675
3-inch – Compound	-	\$1,150	\$2,520	\$3,670
4-inch – Turbine	\$2,540	\$1,460	\$2,620	\$4,080
4-inch – Compound	-	\$1,640	\$3,595	\$5,235
6-inch – Turbine	\$4,875	\$2,180	\$4,975	\$7,155
6-inch – Compound	-	\$2,300	\$6,870	\$9,170

2. Curtailment Tariff

The Company does not have an approved curtailment tariff. Staff recommends that the Company file a curtailment tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/CurtailmentTariffSTANDARD.pdf. This tariff shall be docketed as a compliance item in this docket within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff with an effective date of March 7, 1997.

MEMORANDUM

DATE: November 17, 2009

TO: Charles Myhlhousen
Public Utilities Analyst III
Utilities Division

FROM: Marlin Scott, Jr. 
Utilities Engineer
Utilities Division

RE: F. Wayne and Dorothy Thompson DBA West Village Water Company
Docket No. W-03211A-08-0621 (Financing)

Introduction

On December 31, 2008, F. Wayne and Dorothy Thompson DBA West Village Water Company ("Company") submitted a financing application to assist in funding of certain capital improvement projects. These projects were estimated at a cost totaling \$525,000 in which the Company is requesting approval of funding through the use of Water Infrastructure Financing Authority ("WIFA") indebtedness. The Company operates a water system in Flagstaff in Coconino County.

Existing Water System

The existing operating system consists of one well (estimated at 16 gallons per minute), a 98,000 gallon storage tank, booster system and a distribution system serving approximately 53 customers. This water system is over 50 years old with a depleting well and the distribution system is under sized with 4-inch or smaller water mains.

Proposed Capital Improvement Projects**Project Descriptions**

The Company's proposed capital improvement projects consist of the construction of a new deep well and the replacement of deteriorated service line taps and meters. A brief discussion of each project is as follows:

- 1) According to the Company, due to the age of the well, the well is depleting in its production and a new well is needed. To support this request, the Company provided Staff with a new well cost estimate of \$319,944 from Flagstaff Well & Supply Company ("FWSC") that was dated February 19, 2007. Staff contacted FWSC to determine if the

2007 estimate was still appropriate. FWSC stated that adding 10 percent to the 2007 estimate would be appropriate for an updated 2009 estimate of \$351,944.

- 2) The Company is proposing to replace deteriorated service line taps and meters on its distribution system. In order to begin this replacement project, the Company will need to locate and map the distribution system and install gate valves on the system to isolate portions of the distribution system. The estimated cost for this project is \$173,056.

Water System Evaluation

The Arizona Department of Environmental Quality ("ADEQ") and WIFA have partnered to provide technical assistance to regulated public water systems ("PWSs") by providing water system evaluations ("WSEs"). These WSEs are utilized by ADEQ and WIFA to determine the priority ranking and funding needs for the PWSs and provide operational guidance to the utility.

In support of the financing application, on August 13, 2009, the Company submitted a WSE for its water system that was completed on July 30, 2009. Within the WSE, ADEQ identified and recommended numerous improvements, in which the Company determined that out of the recommended improvements, the service line taps and meters replacement project needed immediate attention due to water leakage. To support the service line taps and meters replacement project, the WSE also concluded the following:

The water meters need to have access to properly read and maintain the water meters. Most of the water meters are four boxes deep and very hard to read if reading is possible at all. There are a lot of meters that are located in the lowest elevation of the yards or below existing ground level and for the most part they are located on property lines. Some remain full of water and others have very scratched lenses making the reading difficult if not impossible. Several meters need to be continually estimated due to the same reasons.

Project Cost Estimates

The Company is requesting WIFA financing approval in the amount of \$525,000 for the improvement projects as follows:

1. New deep well project:		
- Drilling of a 2,000 feet well		\$202,200
- Installation of a 75-Hp submersible pump, 150 gpm		\$117,744

	Subtotal:	\$319,944
	Add 10% to 2007 estimate:	\$ 32,000

	Subtotal:	\$351,944

2. Service line tap replacement project:

- Locating & mapping of existing system	\$ 15,000
- Install gate valves for sectioning system, 6 each	\$ 10,000
- Replacement of service taps and meters, 53 each	\$120,000
- Engineering – design and permitting	\$ 10,000
- Engineering – construction inspection	\$ 15,000
- Engineering – County permitting/ road crossings	\$ 3,056

Subtotal: \$173,056

Total: \$525,000

Staff concludes that the above capital improvement projects are appropriate and the cost estimate totaling \$525,000 is reasonable.

Arizona Department of Environmental Quality (“ADEQ”) Compliance

According to an ADEQ Compliance Status Report, dated November 16, 2009, ADEQ reported major deficiencies for the Disinfection By-Product monitoring and reporting requirements. Therefore, ADEQ cannot determine if the Company’s system, PWS #03-021, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

In the Company’s pending rate case under the docketed number 08-0622, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of an updated ADEQ Compliance Status Report indicating that the Disinfection By-Product monitoring and reporting deficiencies have been resolved and the system is delivering safe water that is in compliance with ADEQ requirements.

Conclusion/Recommendation

Staff concludes that the capital improvement projects are appropriate and the cost estimate totaling \$525,000 is reasonable. No “used and useful” determination of the proposed project items were made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff recommends that the Company file with Docket Control, as a compliance item in the docket, within 6 months after closing loan on well, a copy of the ADEQ Certificate for Approval to Construct for the new deep well project.