

ORIGINAL



0000107369

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: February 16, 2010

RE: STAFF REPORT FOR TIMBER KNOLL HOMEOWNERS ASSOCIATION, INC. DBA T.K. WATER SERVICE'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-01902A-09-0293)

Attached is the Staff Report for Timber Knoll Homeowners Association, Inc., dba T.K. Water Service's application for a permanent rate increase. Staff recommends approval of Staff's 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 26, 2010.

SMO:BCA:red

Originator: Brendan C. Aladi

Arizona Corporation Commission
DOCKETED
FEB 17 2010

DOCKETED BY *[Signature]*

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

2010 FEB 17 P 3:10

RECEIVED

Service List for: Timber Knoll Homeowners Association, Inc.
Docket No. W-01902A-09-0293

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**TIMBER KNOLL HOMEOWNERS ASSOCIATION, INC.,
DBA T.K. WATER SERVICE
DOCKET NO. W-01902A-09-0293**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

FEBRUARY 16, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Timber Knoll Homeowners Association, Inc. dba T.K. Water Service ("T.K. Water" or "Company"), Docket No. W-01902A-09-0293 was the responsibility of the Staff members listed below. Brendan Aladi was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design. Del Smith was responsible for the engineering and technical analysis. Trish Meeter was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company and reviewing customer complaints filed with the Commission.



Brendan C. Aladi
Public Utilities Analyst III



Delbert Smith
Utilities Engineering Supervisor



Trish Meeter
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
TIMBER KNOLL HOMEOWNERS ASSOCIATION, INC.
DBA T.K. WATER SERVICE
DOCKET NO. W-01902A-09-0293

Timber Knoll Homeowners Association, Inc., dba T.K. Water Service ("T.K. Water" or "Company") is located approximately 17 miles east of Show Low on US Highway 60 in Apache County, Arizona. The Company provides water service to approximately 51 customers, and it is not located in an Active Management Area.

The Company proposes total operating revenue of \$19,204, an increase of \$3,200, or 20.00 percent above the Company's test year revenue of \$16,004. The Company's proposed revenues would result in an operating income of \$2,478 for an operating margin of 12.90 percent. Staff recommends total operating revenue of \$17,478, an increase of \$1,474, or 9.21 percent above the test year revenue of \$16,004. Staff's recommended revenues would result in an operating income of \$2,177 for an operating margin of 12.46 percent.

The Company's proposed rates would increase the typical residential bill with a median usage of 1,683 gallons, from \$19.80 to \$23.76 for an increase of \$3.96 or 20.0 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 1,683 gallons, from \$19.80 to \$20.52 for an increase of \$0.72 or 3.6 percent.

STAFF RECOMMENDATIONS

Staff recommends:

- That the Commission approve Staff's recommended rates and charges as shown on Schedule BCA-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).
- That the Company be ordered to file with Docket Control, as a compliance item in this docket, within 30 days after the Decision in this matter is issued, a schedule of its approved rates and charges.
- That the Company be ordered to adopt and use the depreciation rates as shown in Table B of the Engineering Report.
- That the Company be ordered to maintain its records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts.
- That if the reported water loss in the Company's 2009 Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is

not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. Non-account water for T.K. Water was calculated to be 11.8 percent in 2008 which exceeds acceptable limits. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the order issued in this proceeding.

- That T.K. Water file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc>.
- That T.K. Water update its well site sign to comply with Arizona Department of Environmental Quality ("ADEQ") requirements and include the following information: system name, system PWS ID and emergency contact phone number(s). Staff further recommends that the Company file documentation with Docket Control demonstrating compliance within forty-five (45) days after the effective date of the Commission Decision in this matter.
- That the Company install a minimum of 10,000 gallons of additional storage capacity. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, no later than August 31, 2010, a Certificate of Approval to Construct ("ATC") for the additional 10,000 gallons of storage capacity and that the Company file no later than May 31, 2011, a Certificate of Approval of Construction ("AOC") for the additional 10,000 gallons of storage capacity.

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ATTACHMENT

Engineering Report.....	Attachment A
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FACT SHEET

Company:

Current Rates: Decision No. 59067, dated May 3, 1995

Type of Ownership: Arizona Non-Profit Corporation

Location: The Company is located in Apache County, Arizona. The Company is not located in an Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: June 4, 2009

Current test year ended: December 31, 2008

Prior test year ended: December 31, 1993

Monthly Charges:

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charges:			
5/8 x 3/4-inch meter	\$18.50	\$22.20	\$18.00
3/4-inch meter	\$18.50	\$18.50	\$27.00
Gallons in Minimum	1,000	1,000	0
Commodity Charges:			
All Gallons in Excess of 1,000 gallons (Per 1,000 Gallons)	\$ 1.90	\$ 2.28	N/A
0 to 3,000 gallons (per 1,000 gallons)	N/A	N/A	\$ 1.50
3,001 to 8,000 gallons (per 1,000 gallons)	N/A	N/A	\$ 2.15
8,001 and over gallons (per 1,000 gallons)	N/A	N/A	\$ 3.50

Typical residential bill:

Average use (4,244 gallons)	\$24.66	\$29.60	\$25.17
Median use (1,683 gallons)	\$19.80	\$23.76	\$20.52

N/A = Not Applicable

Customers:

Average number of customers in the current test year (12/31/08): 53

Current test year customers by meter size:

5/8 X 3/4-inch	51
3/4-inch	0
1-inch	0
1 1/2-inch	0
2-inch	0
4-inch	0
6-inch	0

Seasonal customers: N/A

Customer notification for rate application filed: June 10, 2009

Number of customer complaints and/or opinions concerning rate application filed: 1

Percentage of complaints to customer base: 1.89 percent.

SUMMARY OF FILING

On June 4, 2009, Timber Knoll Homeowners Association, Inc., dba T.K. Water Service ("T.K. Water" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On December 16, 2009, the application was deemed sufficient.

The test year results as adjusted by the Commission Utilities Division Staff ("Staff") show total operating revenue of \$16,004 and an operating income of \$703 on an Original Cost Rate Base ("OCRB") of \$9,678 for a rate of return of 7.27 percent and an operating margin of 4.39 percent, as shown on Schedule BCA-1. The Company proposed OCRB is \$28,283.¹

The Company's proposed rates, as filed, would produce total operating revenue of \$19,204 resulting in an operating income of \$2,478 for a rate of return of 8.76 percent or a 12.90 percent operating margin, as shown on Schedule BCA-1. The Company's proposed rates, as filed, would increase the typical residential 5/8 x 3/4 inch meter bill, with a median usage of 1,683 gallons by \$3.96 or 20.00 percent from \$19.80 to \$23.76, as shown on Schedule BCA-5.

Staff's recommended rates would produce total operating revenue of \$17,478 resulting in an operating income of \$2,177 for a rate of return of 22.49 percent or a 12.46 percent operating margin, as shown on Schedule BCA-1. Staff's recommended rates would increase the typical residential 5/8 x 3/4 inch meter bill, with a median usage of 4,244 gallons by \$.72 or 3.6 percent from \$19.80 to \$20.52, as shown on Schedule BCA-5.

BACKGROUND

T.K. Water is an Arizona non-profit corporation engaged in the business of providing water services in areas located approximately 17 miles east of Show Low on US Highway 60 in Apache County, Arizona. The Company provides water service to approximately 51 customers, and it is not located in an Active Management Area.

T.K. Water received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 52527, dated October 9, 1981.

T.K. Water's current rates were established in Decision No. 59067, dated May 3, 1995. On June 4, 2009 the Company filed an application for a permanent rate increase.

CONSUMER SERVICES

Staff reviewed the Commission's records and found no complaints, no inquiries, and one opinion (recommends twice the standard reconnection delinquent charge or the maximum allowed by the Commission) for the period January 1, 2006, to January 28, 2010.

¹ The Company is not proposing a Fair Value rate base that differs from the OCRB.

ENGINEERING ANALYSIS

Staff inspected the Company's plant facilities on December 17, 2009. 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.

Staff recommends that the Company install a minimum of 10,000 gallons of additional storage capacity. Staff advised the Company of this requirement. The Company stated that it is not in agreement with Staff.

COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

T.K. Water is current on its Utilities and Corporations annual reports.

T.K. Water is also current on its sales and property tax payments.

Staff's review revealed that the Company does not maintain adequate records and could not produce some supporting documentation for its plant additions and retirements. Staff's review revealed that the Company does not maintain its recordkeeping in compliance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

RATE BASE

The Company proposes an OCRB of \$28,283. Staff's adjustments decreased the Company's proposed rate base by \$18,605, from \$28,283 to \$9,678, as shown on Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Plant in Service – Staff's adjustments to plant in service (Adjustment A) resulted in a net decrease of \$19,454, from \$97,058 to \$77,604, as shown on Schedule BCA-2, pages 1 and 2. The Company did not have sufficient records to substantiate all plant values. As a result, Staff used the plant in service amounts approved in Decision No. 59067, as a starting point, and adjusted that amount for plant additions for the period 1994 through 2008. The plant in service amounts filed by the Company (total \$97,058) appears to be estimates because the amounts are even and rounded.

Land and Land Rights – Adjustment "a" increases this account by \$150, from \$0.0 to \$150, as shown on Schedule BCA-2, pages 2 and 3. Additional research shows that the Company did not intend to retire this plant item. Staff's adjusted amount adds back the value of land recognized in Decision No. 59067 that the Company retired in error.

Structures and Improvements – Adjustment “b” decreases this account by \$265, from \$5,763 to \$5,498, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects the removal of plant costs the Company could not substantiate.

Pumping Equipment – Adjustment “c” increases this account by \$933, from \$8,522 to \$9,455, as shown on Schedule BCA-2, pages 2 and 3. Additional research shows that the Company did not intend to retire this plant item. Staff’s adjusted amount adds back plant costs the Company retired in error.

Water Treatment Equipment – Adjustment “d” decreases this account by \$494 from \$494 to \$0.0, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects a removal of plant costs the Company could not substantiate.

Distribution Reservoirs, Storage – Adjustment “e” increases this account by \$2,000, from \$6,440 to \$8,440, as shown on Schedule BCA-2, pages 2 and 3. Additional research shows that the Company did not intend to retire this plant item. Staff’s adjusted amount adds back plant costs the Company retired in error.

Transmission and Distribution Mains – Adjustment “f” decreases this account by \$20,050, from \$63,505 to \$43,455, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects the removal of plant costs the Company could not substantiate.

Services – Adjustment “g” decreases this account by \$1,125, from \$4,041 to \$2,916, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects a removal of plant costs the Company could not substantiate.

Meters and Meter Installation – Adjustment “h” decreases this account by \$683, from \$3,848 to \$3,165, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects a removal of plant costs the Company could not substantiate.

Office Furniture and Equipment – Adjustment “i” increases this account by \$80, from \$165 to \$245, as shown on Schedule BCA-2, pages 2 and 3. Additional research shows that the Company did not intend to retire this plant item. Staff’s adjusted amount adds back plant costs the Company retired in error.

Accumulated Depreciation

Staff increased accumulated depreciation (Adjustment B) by \$439 from \$68,775 to \$69,214, as shown on Schedule BCA-2, page 4. The increase is based upon the adjustments Staff made to plant in service. The current depreciation rate is 5.00 percent. Staff noted that the Company had inappropriately applied an unauthorized 150 percent declining balance depreciation method and rates to plant balances.

Working Capital

Staff's adjustment to working capital (Adjustment C) resulted in a net increase of \$1,288, from \$0.0 to \$1,288, as shown on Schedule BCA-2, page 1 as a result of calculating cash working capital via the formula method. The Company did not claim any cash working capital allowance.

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 concurs with the Company's test year operating revenue, as shown on Schedule BCA-3, page 1.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$1,425 from \$16,726 to \$15,301, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments follow.

Repairs and Maintenance Expense – Adjustment A increases this account by \$875, from \$0.0 to \$875, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects the recognition of the test year supported expenses.

Outside Services Expense – Adjustment B increases this account by \$150, from \$7,050 to \$7,200, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects the recognition of the test year expenses going forward.

Water Testing Expense – Adjustment C decreases this account by \$687, from \$1,750 to \$1,063, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the Staff water testing expense recommendation. (See Engineering Report).

Taxes Other Than Income Expense – Staff's Adjustment D decreased this account by \$1,054, from \$1,054 to \$0.0, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects Staff's removal of \$1,054 of sales tax expense included in taxes other than income. The Company does not have any employees and did not incur payroll and franchise taxes during the test year. The Company is run by volunteers.

Depreciation Expense – Adjustment E decreases this account by \$709, from \$3,650 to \$2,941, as shown on Schedule BCA-3, pages 3. The adjustment reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances for T.K. Water.

REVENUE REQUIREMENT

The Company's narrative portion of the application states that the Company needs a rate increase to replace outdated mains, and to cope with rising operating costs.

T.K. Water has a rate base of \$9,678, which is too small to earn a meaningful rate of return. The revenues needed in order to make the Company financially viable will result in an abnormally high rate of return. Consequently, Staff elects to use an operating margin in calculating the revenue requirement.

The Company proposes total operating revenue of \$19,204, an increase of \$3,200 or 20.00 percent above the Company's test year revenue of \$16,004. The Company's recommended revenue provides an operating income of \$2,478 for an operating margin of 12.90 percent and a rate of return of 8.76 percent on an OCRB of \$28,283, as shown on Schedule BCA-1.

Staff recommends total operating revenue of \$17,478, an increase of \$1,474 or 9.21 percent above the Company's test year revenue of \$16,004. Staff's recommended revenue provides an operating income of \$2,177 for an operating margin of 12.46 percent and a rate of return of 22.49 percent on an OCRB of \$9,678, as shown on Schedule BCA-1.

OPERATING MARGIN

The Company's proposed rates and charges would provide an operating income of \$2,478 for an operating margin of 12.90 percent.

Staff's recommended rates and charges would produce an operating income of \$2,177 for an operating margin of 12.46 percent.

RATE DESIGN

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

Under the Company's present rates, the monthly minimum charges vary by meter size and include 1,000 gallons. The Company is proposing a single commodity rate structure. The commodity rate is \$1.90 per thousand gallons for all usage over 1,000 gallons. The Company's proposed rates would increase the typical residential bill with a median usage of 1,683 gallons from \$19.80 to \$23.76, for an increase of \$3.96 or 20.0 percent, as shown on Schedule BCA-5.

Staff recommends a three-tier inverted commodity rate structure for all meter sizes. Currently, all customers are served by 5/8 x 3/4 inch meters. Staff further recommends breakover points at 3,000 and 8,000 gallons. Staff's recommended rates would increase the typical residential bill with a median usage of 1,683 gallons from \$19.80 to \$20.52, for an increase of \$.72 or 3.6 percent, as shown on Schedule BCA-5.

Service Line and Meter Installation Charges

The Company does not propose new service line and meter installation charges as shown on Schedule BCA-4. Staff recommends approval of the charges as shown in Table C of the Engineering Report, with separate charges for the service line and meter installations.

Miscellaneous Service Charges

The Company does not propose any change for Establishment, Establishment (After Hours), Reconnection (Delinquent), Meter Test (If Correct), and Meter Re-Read (If Correct) service charges. Staff concurs and does not recommend any change to these services charges.

The Company proposes to add a service charge for Reconnection (delinquent) after hours of \$35. Staff finds \$35 as a reasonable and normal charge and recommends it.

The Company does not propose any change for Deposit and Deposit Interest Service Charges. Staff concurs and does not recommend any change to these services charges.

The Company proposes a change for Re-Establishment (Within 12-Months) from "Months off system times the monthly minimum AAC R-14-2-403(D)" to "Months off system times maximum". Staff recommends "Months off system times the monthly minimum AAC R-14-2-403(D)".

The Company proposes to increase Non-Sufficient Funds charges from \$15 to \$25. Staff finds \$25 as a reasonable and normal charge and recommends it.

The Company does not propose any change for Deferred Payment (per month) of 1.00 percent. Staff finds 1.50 percent as a reasonable and normal charge and recommends it.

STAFF RECOMMENDATIONS

Staff recommends:

- That the Commission approve Staff's recommended rates and charges as shown on Schedule BCA-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).

- That the Company be ordered to file with Docket Control, as a compliance item in this docket, within 30 days after the Decision in this matter is issued, a schedule of its approved rates and charges.
- That the Company be ordered to adopt and use the depreciation rates as shown in Table B of the Engineering Report.
- That the Company be ordered to maintain its records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts.
- That if the reported water loss in the Company's 2009 Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. Non-account water for T.K. Water was calculated to be 11.8 percent in 2008 which exceeds acceptable limits. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the order issued in this proceeding.
- That T.K. Water file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc>.
- That T.K. Water update its well site sign to comply with Arizona Department of Environmental Quality ("ADEQ") requirements and include the following information: system name, system PWS ID and emergency contact phone number(s). Staff further recommends that the Company file documentation with Docket Control demonstrating compliance within forty-five (45) days after the effective date of the Commission Decision in this matter.
- That the Company install a minimum of 10,000 gallons of additional storage capacity. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, no later than August 31, 2010, a Certificate of Approval to Construct ("ATC") for the additional 10,000 gallons of storage capacity and that the Company file no later than May 31, 2011, a Certificate of

Timber Knoll Homeowners Association, Inc.

Docket No. W-01902A-09-0293

Page 10

Approval of Construction ("AOC") for the additional 10,000 gallons of storage capacity.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$16,004	\$16,004	\$19,204	\$17,478
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$16,004	\$16,004	\$19,204	\$17,478
Operating Expenses:				
Operation and Maintenance	\$11,572	\$11,910	\$11,572	\$11,910
Depreciation	3,650	2,941	3,650	2,941
Property & Other Taxes	1,504	450	1,504	450
Income Tax	0	0	0	0
Total Operating Expense	\$16,726	\$15,301	\$16,726	\$15,301
Operating Income/(Loss)	(\$722)	\$703	\$2,478	\$2,177
Rate Base O.C.L.D.	\$28,283	\$9,678	\$28,283	\$9,678
Rate of Return - O.C.L.D.	N/M	7.27%	8.76%	22.49%
Operating Margin	N/M	4.39%	12.90%	12.46%
Percent Increase	N/M	N/M	20.00%	9.21%

N/M = Not meaningful

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$97,058	(\$19,454)	A	\$77,604
Less:				
Accum. Depreciation	68,775	439	B	69,214
Net Plant	\$28,283	(\$19,893)		\$8,390
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$0		\$0
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$0		\$0
Plus:				
1/24 Power	\$0	\$102	C	\$102
1/8 Operation & Maint.	0	1,186	C	1,186
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$1,288		\$1,288
Rate Base	\$28,283	(\$18,605)		\$9,678

Explanation of Adjustment:

- A - Refer to Schedule 2, Page 2
- B - Refer to Schedule 2, Page 4
- C - To provide cash working capital allowance based on the formula method.

ADJUSTMENT - A PLANT IN SERVICE

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$0	\$0		\$0
302 Franchises	0	0		0
303 Land & Land Rights	0	150	a	150
304 Structures & Improvements	5,763	(265)	b	5,498
307 Wells & Springs	4,280	0		4,280
311 Electrical Pumping Equipment	8,522	933	c	9,455
320 Water Treatment Equipment	494	(494)	d	0
330.1 Distrib. Res. & Standpipes(Storage)	6,440	2,000	e	8,440
330.2 Distrib. Res. & Standpipes(Pressure)	0	0		0
331 Transmission & Distribution Mains	63,505	(20,050)	f	43,455
333 Services	4,041	(1,125)	g	2,916
334 Meters & Meter Installations	3,848	(683)	h	3,165
309 Flowhead Meters	0	0		0
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	0	0		0
340 Office Furniture & Equipment	165	80	i	245
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	\$97,058	(\$19,454)	A	\$77,604

Explanation of Adjustment:

a Through i - Refer to Schedule 2, Page 3

ADJUSTMENT -A PLANT IN SERVICE CON'T

Explanation of Adjustment:

A - Several adjustments to plant in service were required. The adjustments were attributed to the Company's inability to substantiate plant values. Staff reconciled the plant in service on the rate application to Decision No. 59067 and adjusted for plant additions and retirements.

a - LAND AND LAND RIGHTS - Per Company	\$	-	
Per Staff	\$	150	150
To add back the value of land the Company retired in error.			
b - STRUCTURE AND IMPROVEMENTS - Per Company	\$	5,763	
Per Staff	\$	5,498	(265)
To remove plant costs the Company could not substantiate.			
c - ELECTRICAL PUMPING EQUIPMENT - Per Company	\$	8,522	
Per Staff	\$	9,455	933
To add back plant costs the Company retired in error.			
d - WATER TREATMENT EQUIPMENT-PLANT-Per Company	\$	494	
Per Staff	\$	-	(494)
To remove plant costs the Company could not substantiate.			
e - STORAGE TANK - Per Company	\$	6,440	
Per Staff	\$	8,440	2,000
To add back plant costs the Company retired in error.			
f - TRANSMISSION & DIST. MAIN - Per Company	\$	63,505	
Per Staff	\$	43,455	(20,050)
To remove plant costs the Company could not substantiate.			
g - SERVICE - Per Company	\$	4,041	
Per Staff	\$	2,916	(1,125)
To remove plant costs the Company could not substantiate.			
h - METERS AND METER INSTALLATIONS - Per Company	\$	3,848	
Per Staff	\$	3,165	(683)
To remove plant costs the Company could not substantiate.			
i - OFFICE FURNITURE & FIXTURES - Per Company	\$	165	
Per Staff	\$	245	80
To add plant costs the Company retired in error.			

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$68,775
Accumulated Depreciation - Per Staff	<u>69,214</u>
Total Adjustment	<u>\$439</u> B

Explanation of Adjustment:

B -	Accumulated depreciation per Decision No. 59067	\$ 26,198
	Plus: Depreciation Expense from year 1992 through year 2008.	<u>\$ 43,016</u>
	Total	<u>\$ 69,214</u>

ACCT NO.	DESCRIPTION	Company Application	Staff Adjustment	Staff Adjusted
354	Structures and Improvements	\$ 5,498	\$ 2,560	\$ 8,058
307	Wells and Springs	4,280	\$ 1,993	\$ 6,273
311	Electric Pumping Equipment	5,466	\$ 3,111	\$ 8,577
320	Water Treatment Equipment	373	\$ (373)	\$ -
330	Distribution Reservoirs & Standpipes	-	\$ -	\$ -
330.1	Storage Tanks	6,440	\$ 5,930	\$ 12,370
330.2	Pressure Tanks	-	\$ -	\$ -
331	Transmission and Distribution Mains	40,267	\$ (13,167)	\$ 27,100
333	Services	3,838	\$ 120	\$ 3,958
334	Meters and Meter Installation	2,448	\$ 71	\$ 2,519
340	Office Furniture and Fixtures	165	\$ 194	\$ 359
	Total Adjustment	<u>\$ 68,775</u>	<u>\$ 439</u>	<u>\$ 69,214</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$16,004	\$0	\$16,004
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$16,004	\$0	\$16,004
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	2,422	0	2,422
618 Chemicals	0	0	0
620 Repairs and Maintenance	0	875 A	875
621 Office Supplies & Expense	350	0	350
630 Outside Services	7,050	150 B	7,200
635 Water Testing	1,750	(687) C	1,063
641 Rents	0	0	0
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	3,650	(709) E	2,941
408 Taxes Other Than Income	1,054	(1,054) D	0
408.11 Property Taxes	450	0	450
409 Income Tax	0	0	0
Total Operating Expenses	\$16,726	(\$1,425)	\$15,301
OPERATING INCOME/(LOSS)	(\$722)	\$1,425	\$703

Timber Knoll Homeowner's Association

Docket No. W-01902A-09-0293

Test Year Ended December 31, 2008

Schedule BCA-3

Page 2 of 3

STAFF ADJUSTMENTS

A - REPAIRS AND MAINTENANCE - Per Company	\$0	
Per Staff	875	<u>\$875</u>

To recognize the total of the test year supported expenses.

B - OUTSIDE SERVICES EXPENSE - Per Company	\$7,050	
Per Staff	7,200	<u>\$150</u>

To recognize the total of the test year expenses going forward.

C - WATER TESTING - Per Company	\$1,750	
Per Staff	1,063	<u>(\$687)</u>

To recognize Staff Engineer's water testing expense recommendation.

D - TAXES OTHER THAN INCOME - Per Company	\$1,054	
Per Staff	0	<u>(\$1,054)</u>

To remove sales tax expense included in taxes other than income.

STAFF ADJUSTMENTS (Cont.)

E - DEPRECIATION - Per Company
Per Staff

\$3,650
2,941 (\$709)

To reflect application of Staff's recommended depreciation rates to Staff's recommended plant, by account.

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment E - Test Year Depreciation Expense

1	<u>Depreciation Expense</u>			
2				
3	Account	Plant in Service	Proposed Rate	Depreciation Expense
4	No. Description	Staff		
5	301 Organization Cost	-	0.00%	-
6	302 Franchise Cost	-	0.00%	-
7	303 Land and Land Rights	150	0.00%	-
8	304 Structures and Improvements	5,498	3.33%	183
9	305 Collecting and Impounding Res.	-	2.50%	-
10	306 Lake, River, Canal Intakes	-	2.50%	-
11	307 Wells and Springs	4,280	3.33%	143
12	308 Infiltration Galleries	-	6.67%	-
13	309 Raw Water Supply Main	-	2.00%	-
14	310 Power Generation Equipment	-	5.00%	-
15	311 Electric Pumping Equipment	9,455	12.50%	1,182
16	320.1 Water Treatment Equipment - Plants	-	3.33%	-
17	320.2 Solution Chemical Feeder	-	20.00%	-
18	330 Distribution Reservoirs & Standpipe	-	0.00%	-
19	330.1 Storage Tanks	8,440	2.22%	187
20	330.2 Pressure Tanks	-	5.00%	-
21	331 Transmission and Distribution Mains	43,455	2.00%	869
22	333 Services	2,916	3.33%	97
23	334 Meters	3,165	8.33%	264
24	335 Hydrants	-	2.00%	-
25	339 Other Plant and Miscellaneous Equipment	-	6.67%	-
26	340 Office Furniture and Fixtures	245	6.67%	16
27	340.1 Computer & Software	-	20.00%	-
28	341 Transportation Equipment	-	20.00%	-
29	342 Store Equipment	-	4.00%	-
30	343 Tools, Shop & Garage Equipment	-	5.00%	-
31	344 Laboratory Equipment	-	10.00%	-
32	345 Power Operated Equipment	-	5.00%	-
33	346 Communication Equipment	-	10.00%	-
34	347 Miscellaneous Equipment	-	10.00%	-
35	348 Other Tangible Plant	-	0.00%	-
36	Total Plant	<u>\$ 77,604</u>		<u>\$ 2,941</u>
37	Less: Non Depreciable Plant	<u>150</u>		
38	Total Depreciable Plant	<u>77,454</u>		
39				
40	Less: Amort. of Contributions - Adjusted Balance End o	\$ -	3.80%	\$ -
41	Total Depreciation Expense			\$ 2,941
42	Test Year Depreciation Expense			<u>3,650</u>
43	Increase (decrease) in Depreciation Expense			<u>(709)</u>
44				
45	Adjustment to Revenues and/or Expenses			<u>\$ (709)</u>

RATE DESIGN

Monthly Usage Charge	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$18.50	\$22.20	\$ 18.00
3/4" Meter	18.50	18.50	27.00
1" Meter	22.00	22.50	45.00
1½" Meter	28.00	28.50	90.00
2" Meter	37.00	37.00	144.00
3" Meter	193.00	193.00	288.00
4" Meter	321.00	321.00	450.00
6" Meter	643.00	643.00	900.00
Gallons in the Minimum	1,000	1,000	0
All Gallons in Excess of 1,000 gallons (Per 1,000 Gallons)	1.90	2.28	
<u>Staff Recommended - All Sizes</u>			
Tier One Rate - 0 - 3,000 gallons			1.50
Tier Two Rate - 3,001 - 8,000 gallons			2.15
Tier Three Rate - Over 8,000 gallons			3.50

Service Line and Meter Installation Charges	Present Rates	Company Proposed	-Staff Recommended-		Total
			Service Line Charge	Meter Installation	
5/8" x 3/4" Meter	\$338.00	\$338.00	\$251.00	\$87.00	\$338.00
3/4" Meter	378.00	378.00	240.00	138.00	378.00
1" Meter	428.00	428.00	262.00	166.00	428.00
1½" Meter	638.00	638.00	326.00	312.00	638.00
2" Meter Turbine	1,553.00	1,553.00	687.00	866.00	1,553.00
3" Meter Turbine	2,003.00	2,003.00	782.00	1,251.00	2,033.00
4" Meter Turbine	2,930.00	2,930.00	1,049.00	1,881.00	2,930.00
6" Meter Turbine	5,728.00	5,728.00	1,750.00	3,978.00	5,728.00

Service Charges	Present	Company	Staff
	Rates	Proposed	Recommended
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	37.50	37.50	37.50
Reconnection (Delinquent)	25.00	25.00	25.00
Reconnection (Delinquent) After Hours	NT	35.00	35.00
Meter Test (If Correct)	30.00	30.00	30.00
Deposit	*	Per Rule	*
Deposit Interest	*	Per Rule	**
Re-Establishment (Within 12 Months)	**	Months off system times maximum	***
NSF Check	15.00	25.00	25.00
Deferred Payment	1%	1%	1.50%
Meter Re-Read (If Correct)	15.00	15.00	15.00

NT: No Tariff

RATE DESIGN

	Present Rates	Company Proposed	Staff Recommended
<u>Monthly Service Charge for Fire Sprinkler</u>			
4" or Smaller	NT	NT	****
6"	NT	NT	****
8"	NT	NT	****
10"	NT	NT	****
Larger than 10"	NT	NT	****

- * Per Commission Rule ACC R14-2-403(B)(7)
- ** Per Commission Rule ACC R14-2-403(B)(3)
- *** Months off system times the monthly minimum AAC R14-2-403(D)
- **** 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 water service line.

TYPICAL BILL ANALYSIS

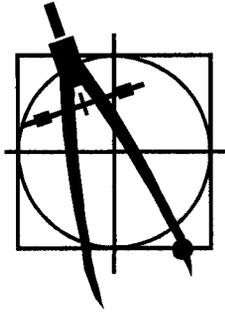
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 53

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,244	\$24.66	\$29.60	\$4.94	20.0%
Median Usage	1,683	\$19.80	\$23.76	\$3.96	20.0%
Staff Recommend					
Average Usage	4,244	\$24.66	\$25.17	\$0.51	2.1%
Median Usage	1,683	\$19.80	\$20.52	\$0.72	3.6%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	\$18.50	\$22.20	20.0%	\$18.00	-2.7%
1,000	18.50	22.20	20.0%	19.50	5.4%
2,000	20.40	24.48	20.0%	21.00	2.9%
3,000	22.30	26.76	20.0%	22.50	0.9%
4,000	24.20	29.04	20.0%	24.65	1.9%
5,000	26.10	31.32	20.0%	26.80	2.7%
6,000	28.00	33.60	20.0%	28.95	3.4%
7,000	29.90	35.88	20.0%	31.10	4.0%
8,000	31.80	38.16	20.0%	33.25	4.6%
9,000	33.70	40.44	20.0%	36.20	7.4%
10,000	35.60	42.72	20.0%	39.15	10.0%
15,000	45.10	54.12	20.0%	53.90	19.5%
20,000	54.60	65.52	20.0%	68.65	25.7%
25,000	64.10	76.92	20.0%	83.40	30.1%
50,000	111.60	133.92	20.0%	157.15	40.8%
75,000	159.10	190.92	20.0%	230.90	45.1%
100,000	206.60	247.92	20.0%	304.65	47.5%
125,000	254.10	304.92	20.0%	378.40	48.9%
150,000	301.60	361.92	20.0%	452.15	49.9%
175,000	349.10	418.92	20.0%	525.90	50.6%
200,000	396.60	475.92	20.0%	599.65	51.2%



**ENGINEERING REPORT FOR
Timber Knoll Homeowners Association,
Inc. dba T.K. Water Service**

Docket No. W-01902A-09-0293 (Rates)

By Del Smith

January 25, 2010

CONCLUSIONS

1. The Arizona Department of Environmental Quality (“ADEQ”) reported that Timber Knoll Homeowners Association, Inc., dba T.K. Water Service (“T.K. Water” or “Company”) has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
2. T.K. Water added five customers during the period between 2003 and 2007. Subsequently the Company lost two customers in 2008 and two more customers in 2009. The Company expects growth to be minimal over the next five-year period.
3. The Arizona Department of Water Resources (“ADWR”) reported that T.K. Water is currently in compliance with departmental requirements governing water providers and/or community water systems.
4. The Arizona Corporation Commission (“Commission”) Utilities Division Compliance Section database showed that T.K. Water had no delinquent compliance items.
5. T.K. Water has an approved Backflow Prevention Tariff on file with the Commission.

RECOMMENDATIONS

1. Non-account water for T.K. Water was calculated to be 11.8 percent in 2008 which exceeds acceptable limits. Staff recommends if the reported water loss in the Company’s 2009 Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the order issued in this proceeding.

2. The water system needs additional storage capacity to serve the present customer base, Staff therefore recommends that the Company install a minimum of 10,000 gallons of additional storage capacity. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, no later than August 31, 2010, a Certificate of Approval to Construct ("ATC") for the additional 10,000 gallons of storage capacity and that the Company file no later than May 31, 2011, a Certificate of Approval of Construction ("AOC") for the additional 10,000 gallons of storage capacity.
3. Staff recommends annual water testing expense of \$1,063 and certified operator expense of \$3,600 be used for purposes of this application.
4. Staff recommends that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") plant category presented in Table B.
5. Staff recommends that the separate service line and meter charges listed under "Staff's Recommendation" in Table C be adopted.
6. Staff recommends that T.K. Water file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc>.
7. Staff recommends that T.K. Water update its well site sign to comply with Arizona Department of Environmental Quality ("ADEQ") requirements and include the following information: system name, system PWS ID and emergency contact phone number(s). Staff further recommends that the Company file documentation with Docket Control demonstrating compliance within forty-five (45) days after the effective date of the Commission Decision in this matter.

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A. INTRODUCTION AND LOCATION OF COMPANY

On June 4, 2009, Timber Knoll Homeowners Association, Inc., dba T.K. Water Service (“T.K. Water” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) to increase its rates. Per the rate application, based on a 2008 test year, revenues have not kept pace with increases in operating expenses. The Company’s current rates were approved in Commission Decision No. 59067, dated May 3, 1995. The ACC Utilities Division Staff (“Utilities Staff”) engineering review and analysis of the application are presented in this report.

T.K. Water provides water utility service to the Timber Knoll Acres Subdivision located approximately 17 miles east of Show Low on US Highway 60 in Apache County, Arizona.¹ Figure 1 shows the location of the Company within Apache County and Figure 2 shows the Certificate of Convenience and Necessity (“CC&N”) covering approximately 160 acres (or approximately one-quarter of a square mile).

B. DESCRIPTION OF THE WATER SYSTEM

The T.K. Water system was visited on December 17, 2009, by Del Smith, of Utilities Division Staff, in the accompaniment of Max Nelson, the Company’s President.²

The water system consists of one well (with a yield of 20 Gallons per Minute (“GPM”)), one storage tank (10,000 gallon capacity), booster pumps and a distribution system serving 45 metered connections.³ The well pump is level controlled by the storage tank. Two pressure controlled booster pumps take suction from the storage tank and pressurize the water distribution mains. Two captive air pressure tanks provide a “starting” buffer for the booster pumps. A water system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing.

¹ The mailing address for T.K. Water Service is Post Office Box 200 Vernon, Arizona 85940.

² Mr. Thomas V. Lord the Company’s certified operator was not available to attend. Mr. Lord is a Certified Grade 2D Water Distribution System Operator, Arizona Department of Environmental Quality Operator Identification No.OP001304.

³ Active meter connections test year ending 12-31-08.

Table A. Plant Facilities Summary⁴

Well Data

ADWR ID No.	55-646115
Casing Size	8 inches
Depth of Well	640 feet
Pump Size in Horsepower (Hp)	5 Hp (submersible)
Pump Yield	20 GPM
Meter Size	1 1/2 inches
Year Drilled	Unknown

Notes:

- 1) Arizona Department of Water Resources record has this well registered to Timber Knoll Homeowners Association, Inc.
- 2) The well is located on Lot No. 42 in the Timber Knoll Acres Subdivision, Lot 42 is owned by the Timber Knoll Homeowners Association, Inc.

Water Storage, Structures & Generators

Structure or Equipment	Location	Quantity – Capacity, Size
Storage tank	Well Site (Note 1)	1 - 10,000 gallon
Pump House (Note 2)	Well Site	1 – 5' x 7.7' (wood frame construction)
Well House (Note 3)	Well Site	1 – 8' x 15' (cement block & wood frame construction)
Emergency Generator (Note 4)	Well Site	1 – small portable

Notes:

- 1) The storage tank and pump house are located adjacent to one another approximately 75 feet from the well and well house at the well site.
- 2) The Pump House houses the booster pumps and bladder tanks.
- 3) The Well House houses power control and an automatic chlorination devices in addition to the Company's Well.
- 4) A small gasoline generator is used to provide emergency power to run the pumps in the event of a commercial power failure.

Booster System

Equipment	Location	Quantity – Capacity, Size
Booster Pumps	Well Site	2 – 3/4 HP
Bladder Tanks	Well Site	2 – 250 gallon

⁴ The information listed was based on the Company's application, Arizona Department of Water Resources Records and Staff's site visit.

Distribution Mains

Diameter	Material	Length
2 inch	PVC	3,195 feet
3 inch	PVC	200 feet
4 inch	PVC	350 feet
6 inch	PVC	5,360 feet

Meters

Size	Quantity
5/8 x 3/4 inch	45

Fire Hydrants

Size/Description	Quantity
Standard	N/A

APACHE COUNTY

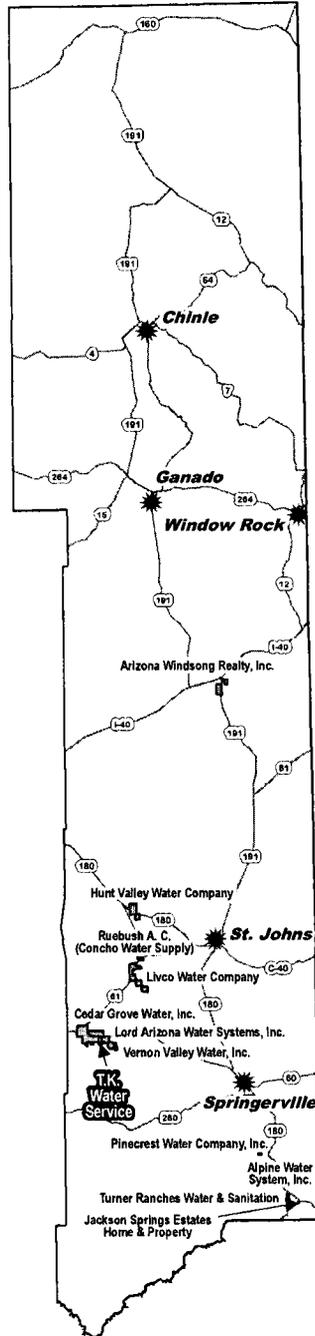
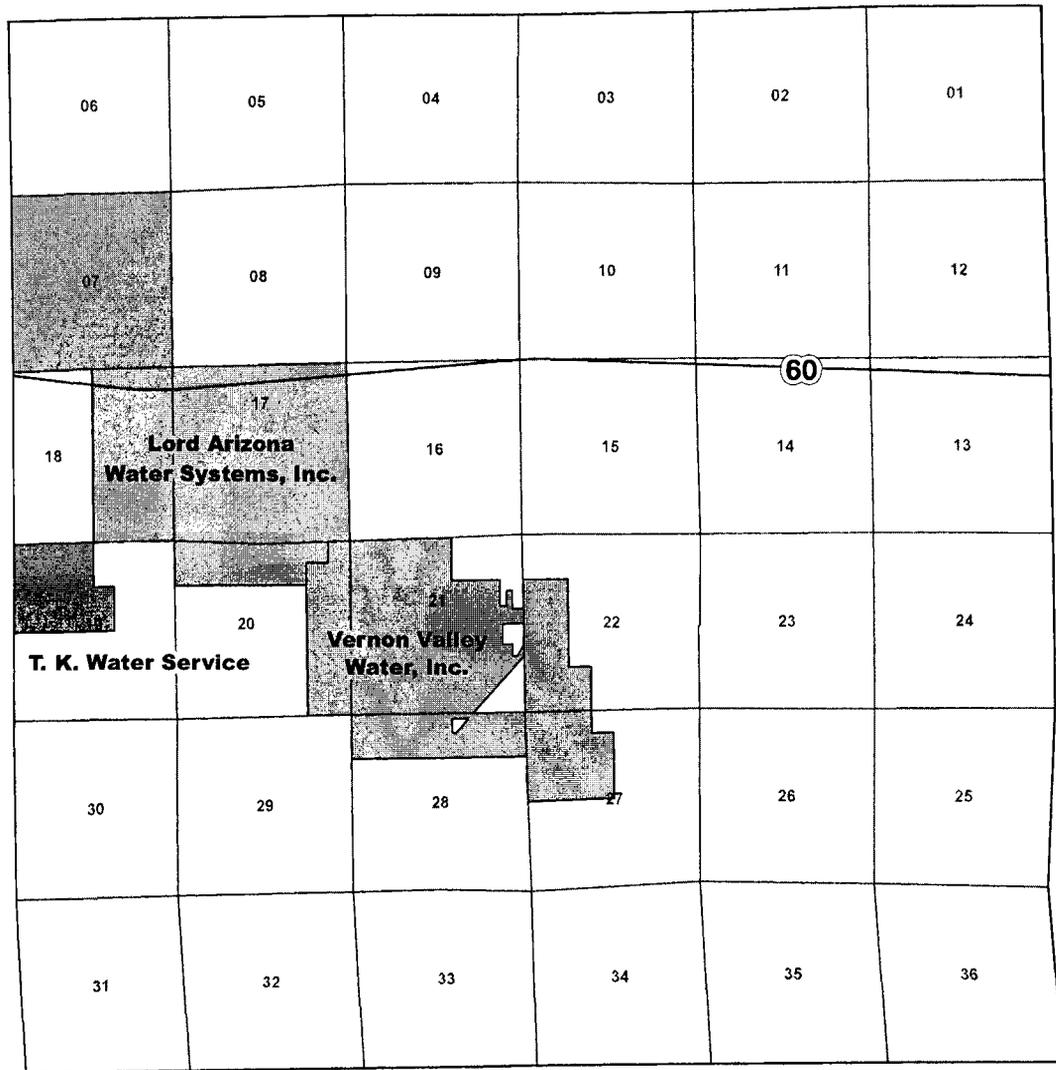


Figure 1. County Map

A P A C H E C O U N T Y
R A N G E 2 5 E a s t



TOWNSHIP 10 North

Figure 2. Certificated Area

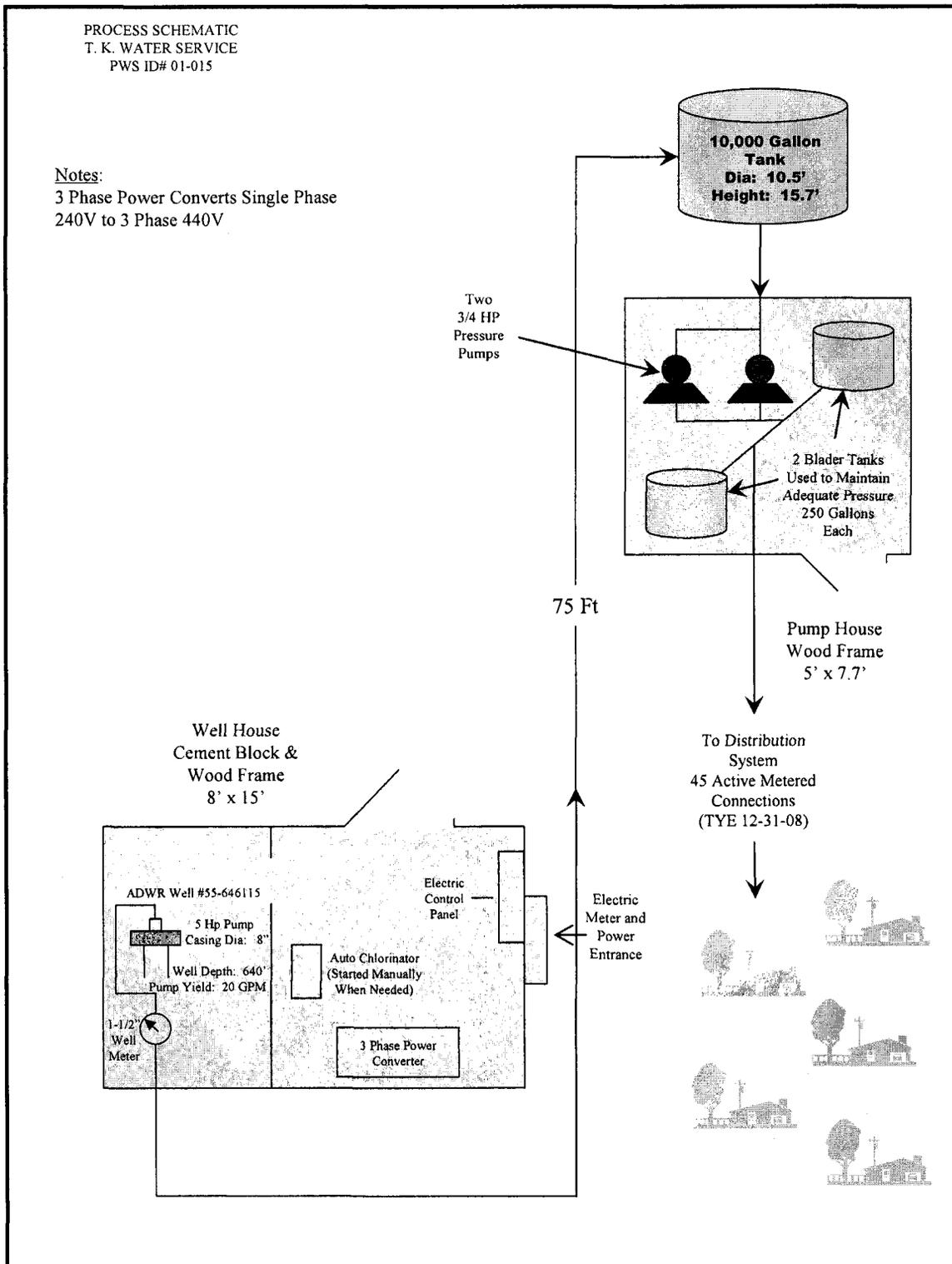


Figure 3. Water System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending December 31, 2008. Customer consumption included a high monthly water use of 301 gallons per day (“GPD”) per connection in June, and the low water use was 90 GPD per connection in March. The average annual use was 173 GPD per connection. The Company reported 2,845,000⁵ gallons of water sold during the test year.

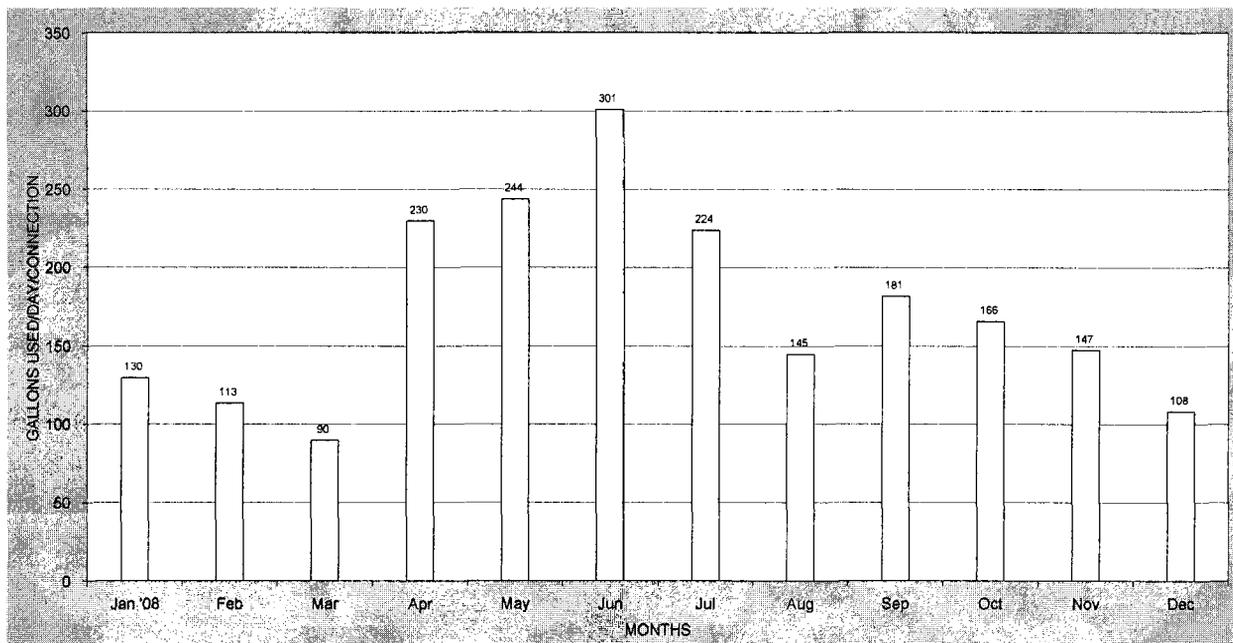


Figure 4. Water Use

Non-Account Water

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. Lost water for T.K. Water was calculated to be 11.8 percent in 2008 which exceeds acceptable limits. The water use data filed in the Company’s 2007 Commission Annual Report indicated a 3.2 percent water loss which is within acceptable limits. The Company did not provide an explanation as to why lost water increased significantly during 2008.

⁵ Total water sold during the test year based on the monthly data.

Staff recommends if the reported water loss in the Company's 2009 Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the order issued in this proceeding.

System Analysis

The T.K. Water system well production capacity is 20 GPM and the system currently has 10,000 gallons of storage capacity. There are no fire hydrants in the distribution system however the Company informed Staff during its field inspection that a fire district covering the Timber Knoll Acres Subdivision had recently been formed. The system had 45 connections during the peak month of use in June 2008. Staff concludes that the system's well production has adequate capacity to serve the present customer base and expected growth. However the system needs additional storage capacity to serve the present customer base, Staff therefore recommends that the Company install a minimum of 10,000 gallons of additional storage capacity.⁶ Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, no later than August 31, 2010, a Certificate of Approval to Construct ("ATC") for the additional 10,000 gallons of storage capacity and that the Company file no later than May 31, 2011, a Certificate of Approval of Construction ("AOC") for the additional 10,000 gallons of storage capacity.

An interconnection with Lord Arizona Water Systems, Inc. ("Lord") has been established, this interconnection allows T.K. Water to deliver water from the adjacent Lord system to its customers in the event of an emergency. T.K. Water experienced a well pump failure just prior to Staff's inspection and the interconnection was in use during Staff's inspection. The interconnection is equipped with a shut off valve and meter to measure the flow of water to T.K. Water for billing purposes.

D. GROWTH

T.K. Water added five customers during the period between 2003 and 2007. Subsequently the Company lost two customers in 2008 and two more customers in 2009. The Company expects growth to be minimal over the next five-year period. The Timber Knoll Acres Subdivision includes a total of 53 lots so no more than 53 customers are expected to be served.

⁶ Since the Company has not had a specific fire flow requirement placed on it by the serving fire district and does not have any fire hydrants installed in its distribution system, Staff did not include storage capacity to accommodate fire flow.

Figure 5 details the customer growth using linear regression analysis. Staff's historical and projected growth figures are based on the data reported by the Company in its annual reports submitted to the Commission.

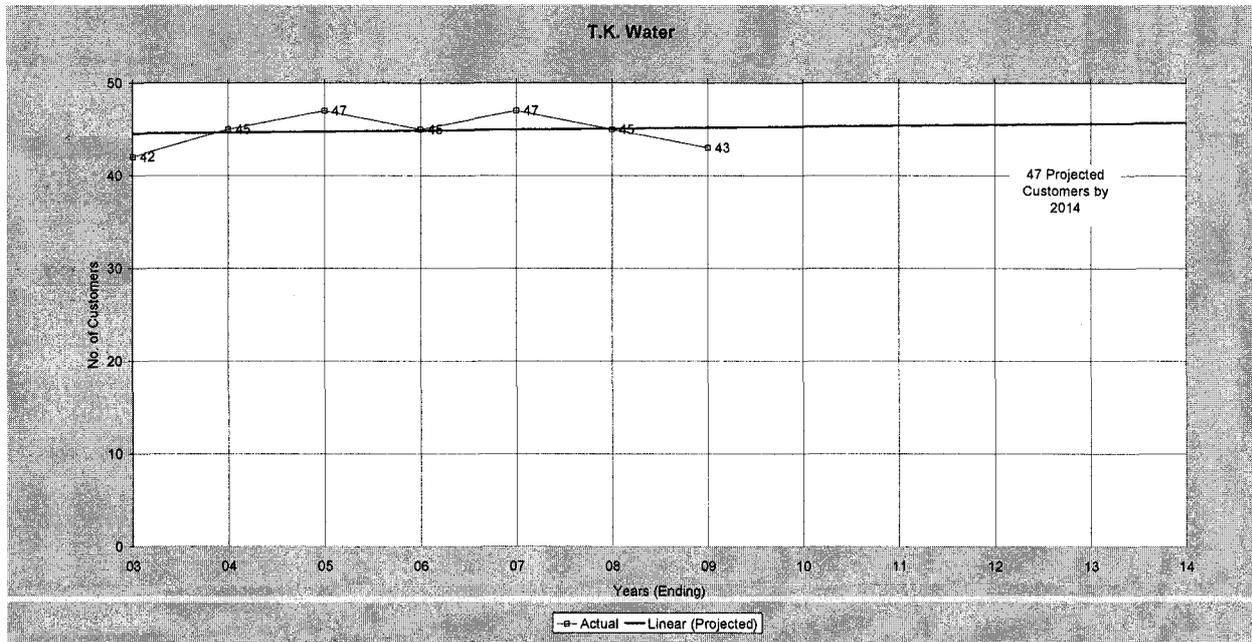


Figure 5. Growth Projection

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

Compliance

ADEQ regulates the T.K. Water system under ADEQ Public Water System I.D. No. 01-015. Based on a Compliance Status Report, dated November 16, 2009, the system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

ADEQ last inspected the system on May 12, 2009.⁷ The ADEQ inspector referenced a Monitoring and Reporting deficiency⁸ at the time of this inspection. Per the above referenced ADEQ Compliance Status Report any Monitoring and Reporting deficiency that existed has been corrected.

⁷ Date of last Sanitary Survey.

⁸ ADEQ did not have record of coliform monitoring samples for several months during 2008.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP").⁹ The Company reported water testing expenses of \$1,470.36¹⁰ (including the MAP fee) and certified operator expenses of \$3,575.00 during the test year. Invoices for these expenses combined totaled 5,045.36. Staff has reviewed and recalculated these expenses. Table A presents Staff's adjusted annual water testing and certified operator expenses.

⁹ The MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

¹⁰ Amount includes the cost of lead and copper tests for a three year period and coliform re-tests.

Table A. Water Testing Cost

Monitoring	Cost per test	Quantity of tests per 3 years	Annual Testing Cost	Certified Operator Annual Fee	Total Annual Cost
Total coliform (one test - monthly)	\$35	36	\$420	\$3,600 (Note 3)	\$4,020
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$373 (Note 1)	-	\$373
Lead & Copper (five tests triennially)	\$54	15 (Note 2)	\$270	-	\$270
Total			\$1,063	\$3,600	\$4,663

- Notes: 1) The ADEQ MAP invoice for Calendar Year 2009 was \$373.36.
 2) Assumes lead and copper testing will increase to 15 tests triennially.
 3) Company reported a monthly certified operator fee of \$300.00 (\$3,600.00 annualized).

Staff recommends an annual water testing expense of \$1,063 and certified operator expense of \$3,600 be used for purposes of this application.

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

Compliance

The T.K. Water service area is not located within any Active Management Area (“AMA”). ADWR has determined that T.K. Water is currently in compliance with departmental requirements governing water providers and/or community water systems.¹¹

G. ACC COMPLIANCE

A check of the Commission’s Utilities Division Compliance Section database showed that T.K. Water had no delinquent compliance issues.¹²

¹¹ Per ADWR Water Provider Compliance Status Report dated June 9, 2009.

H. DEPRECIATION RATES

T.K. Water has been using a depreciation rate of 5.00 percent 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 which vary by NARUC plant category. These rates are presented in Table B and it is recommended that the Company use these depreciation rates by individual NARUC plant category.

¹² Per Compliance Section email dated August 3, 2009.

Table B. Depreciation Rate Table for Water Companies

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

T.K. Water did not propose any changes to its service line and meter installation charges. These charges are refundable advances and the Company's existing charges are lower than Staff's expected range for these 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.¹³ Staff recommends that the charges listed under "Staff's Recommendation" in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Size	Company Current Tariff	Company Proposed			Staff's Recommendation		
		Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$338	-	-	\$338	\$251	\$87	\$338
3/4-inch	\$378	-	-	\$378	\$240	\$138	\$378
1-inch	\$428	-	-	\$428	\$262	\$166	\$428
1-1/2-inch	\$638	-	-	\$638	\$326	\$312	\$638
2-inch Turbine	\$1,553	-	-	\$1,553	\$687	\$866	\$1,553
2-inch Comp	-	-	-	-	-	-	-
3-inch Turbine	\$2,003	-	-	\$2,003	\$782	\$1,251	\$2,033
3-inch Comp	-	-	-	-	-	-	-
4-inch Turbine	\$2,930	-	-	\$2,930	\$1,049	\$1,881	\$2,930
4-inch Comp	-	-	-	-	-	-	-
6-inch Turbine	\$5,728	-	-	\$5,728	\$1750	\$3,978	\$5,728
6-inch Comp	-	-	-	-	-	-	-

2. Curtailment Tariff

A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not have a curtailment tariff, this application provides an opportune time to prepare and file such a tariff. Staff recommends that T.K. Water file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the

¹³ The Company's existing charges were used to develop the separate service line and meter installation charges Staff is recommending.

Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification.

Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc>. Staff recognizes that the Company may need to make minor modifications according to their specific management, operational, and design requirements as necessary and appropriate.

3. Backflow Prevention Tariff

T.K. Water has an approved Backflow Prevention Tariff on file with the Commission.

4. Posting of Sign at Facility Site

During its site inspection Staff noted that the sign listing the Company's identification information at the well and tank site did not include an emergency contact phone number. Staff recommends that T.K. Water update its sign to include this information. The sign should comply with ADEQ requirements and include the following information: system name, system PWS ID and emergency contact phone number(s). Staff further recommends that the Company file documentation with Docket Control demonstrating compliance within forty-five (45) days after the effective date of the Commission Decision in this matter.