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MEMORANDUM
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TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

2010 FEB 18 P 4:39

AZ CORP COMMISSION
DOCKET CONTROL

DATE: February 18, 2010

RE: STAFF REPORT FOR LITTLE PARK WATER COMPANY'S APPLICATION
FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02192A-09-0531)

Attached is the Staff Report for Little Park Water Company's application for a permanent rate increase. Staff recommends approval of the rate increase application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before March 1, 2010.

EGJ:DRE:kdh

Originator: Darak R. Eaddy

Arizona Corporation Commission
DOCKETED
FEB 18 2010

DOCKETED BY
[Signature]

Service List for: Little Park Water Company
Docket No. W-02192A-09-0531

Mr. Steve Gudovic
Little Park Water Company
45 Castle Rock Road, No. 4
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

LITTLE PARK WATER COMPANY

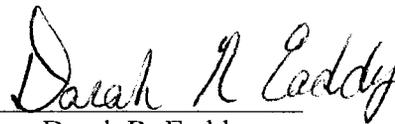
DOCKET NO. W-02192A-09-0531

**APPLICATION FOR A
PERMANENT RATE INCREASE**

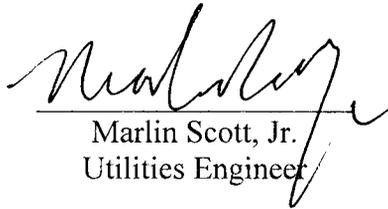
February 18, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Little Park Water Company, Docket No. W-02192A-09-0531 was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Guadalupe Ortiz was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy
Public Utility Analyst II



Marlin Scott, Jr.
Utilities Engineer



Guadalupe Ortiz
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
LITTLE PARK WATER COMPANY
APPLICATION FOR A PERMANENT RATE INCREASE
DOCKET NO. W-02192A-09-0531**

Little Park Water Company ("Little Park" or "Company") is an Arizona "C" Corporation engaged in the business of providing potable water service to approximately 71 customers between Sedona and the Village of Oak Creek, in Yavapai County, Arizona. The Company's current rates were effective February 01, 1991, per Decision No. 57212.

The Company proposes total operating revenue of \$112,236, an increase of \$47,672, or 73.84 percent over test year revenue of \$64,564, resulting in a return on rate base of 11.26 percent and an operating margin of 16.37 percent. Staff recommends total operating revenue of \$80,273, an increase of \$15,573, or 24.07 percent over the Staff-adjusted test year revenue of \$64,700, resulting in a return on rate base of 9.87 percent and an operating margin of 15.87 percent. The Company's proposed revenues result in an operating income of \$18,377. Staff's recommended revenues result in an operating income of \$12,739.

The Company has proposed an original cost rate base ("OCRB") of \$163,263. The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 9,167 gallons from \$31.33 to \$69.30, an increase of \$37.97 or 121.2 percent.

Staff has recommended an OCRB of \$129,054. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 9,167 gallons from \$31.33 to \$36.13, for an increase of \$4.80 or 15.3 percent.

Staff Recommendations:

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule DRE-4, pages 1 and 2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company adopt the typical and customary depreciation rates as delineated on Table H-1 in Section H of the attached Engineering Report.

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

TABLE OF CONTENTS

	<u>PAGE</u>
FACT SHEET	1
TYPE OF OWNERSHIP	1
LOCATION	1
RATES	1
TYPICAL 5/8 X 3/4-INCH RESIDENTIAL BILL	3
CUSTOMERS	3
NOTIFICATIONS	3
SUMMARY OF FILING	4
COMPANY BACKGROUND	4
CONSUMER SERVICES	5
COMPLIANCE	5
ENGINEERING	5
RATE BASE	6
PLANT IN SERVICE	6
OTHER RATE BASE ITEMS	7
ACCUMULATED DEPRECIATION	7
WORKING CAPITAL	7
OPERATING INCOME STATEMENT	8
OPERATING REVENUE	8
OPERATING EXPENSES	8
RETURN ON RATE BASE	9
REVENUE REQUIREMENT	9
RATE DESIGN	9
MISCELLANEOUS SERVICE CHARGES	9
SERVICE LINE AND METER INSTALLATION CHARGES	10
STAFF RECOMMENDATIONS	10

SCHEDULES

Summary of FilingSchedule DRE-1
Rate BaseSchedule DRE-2
Statement of Operating IncomeSchedule DRE-3
Rate Design.....Schedule DRE-4
Typical Bill AnalysisSchedule DRE-5

ATTACHMENT

Engineering ReportA

Fact sheet

Type of Ownership Arizona C Corporation.

Location The Company provides potable water service to an area located between Sedona and the Village of Oak Creek, in Yavapai County, Arizona.

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

Rates Permanent rate increase application filed: November 18, 2009. The application became sufficient on December 18, 2009.

Current Rates Decision No. 57212, dated January 16, 1991.

Prior Test Year May 31, 1990.

Current Test Year Ended June 30, 2009.

Monthly Minimum Rates

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge			
5/8 x 3/4 – inch meter	\$ 15.00	\$ 20.85	\$ 15.00
3/4 – inch meter	\$ 22.50	\$ 31.28	\$ 22.50
1 – inch meter	\$ 37.50	\$ 52.13	\$ 37.50
1 - 1/2 – inch meter	\$ 75.00	\$ 104.25	\$ 75.00
2 – inch meter	\$ 100.00	\$ 166.80	\$ 120.00
3 – inch meter	\$ 200.00	\$ 333.60	\$ 240.00
4 – inch meter	\$ 400.00	\$ 521.25	\$ 375.00
6 – inch meter	\$ 600.00	\$1,042.50	\$ 750.00
8 – inch meter	N/A	N/A	\$1,200.00
Gallons in Minimum	1,000	0	0

Commodity Rates

<u>All Meter Sizes</u>	\$ 2.00	N/A	N/A
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Fact Sheet (Continued)

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
<u>1 Inch Meter and Smaller</u>			
0 to 6,000 gallons	N/A	\$ 2.78	N/A
6,001 to 15,000 gallons	N/A	\$ 3.53	N/A
Over 15,000 gallons	N/A	\$ 4.28	N/A
<u>1 - ½ Inch Meter and Larger</u>			
0 to 200,000 gallons	N/A	\$ 3.53	N/A
Over 200,000 gallons	N/A	\$ 4.28	N/A
<u>1 Inch Meter and Smaller, Residential</u>			
0 to 3,000 gallons	N/A	N/A	\$ 1.70
3,001 to 10,000 gallons	N/A	N/A	\$ 2.60
Over 10,000 gallons	N/A	N/A	\$ 3.10
<u>1 Inch Meter, Non-Residential</u>			
0 to 32,000 gallons	N/A	N/A	\$ 2.60
Over 32,000 gallons	N/A	N/A	\$ 3.10
<u>1 - ½ Inch Meter</u>			
0 to 106,000 gallons	N/A	N/A	\$ 2.60
Over 106,000 gallons	N/A	N/A	\$ 3.10
<u>2 Inch Meter</u>			
0 to 195,000 gallons	N/A	N/A	\$ 2.60
Over 195,000 gallons	N/A	N/A	\$ 3.10
<u>3 Inch Meter</u>			
0 to 434,000 gallons	N/A	N/A	\$ 2.60
Over 434,000 gallons	N/A	N/A	\$ 3.10
<u>4 Inch Meter</u>			
0 to 545,000 gallons	N/A	N/A	\$ 2.60
Over 545,000 gallons	N/A	N/A	\$ 3.10
<u>6 Inch Meter</u>			
0 to 755,000 gallons	N/A	N/A	\$ 2.60
Over 755,000 gallons	N/A	N/A	\$ 3.10

Fact Sheet (Continued)

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
<u>8 Inch Meter</u>			
0 to 910,000 gallons	N/A	N/A	\$ 2.60
Over 910,000 gallons	N/A	N/A	\$ 3.10
Standpipe, Bulk Water	N/A	\$ 4.28	\$ 3.10

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

Average use (15,850 gallons)	\$44.70	\$72.94	\$56.44
Median use (9,167gallons)	\$31.33	\$69.30	\$36.13

Customers

Average number of customers in prior test year (12/31/03): 20

Average Number of customers in the current test year (12/31/07): 71

Current test year customers by meter size:

5/8 X 3/4 – inch	33
3/4 – inch	10
1 – inch	27
1 1/2 – inch	0
2 – inch	0
3 – inch	0
4 – inch	0 ¹
6 – inch	0
8 – inch	0

Notifications

An affidavit of mailing of the customer notification was filed on December 23, 2009.

¹ Only 4 Inch customer was not a test year customer. The customer did not begin receiving service until after the current test year.

Number of opinions filed against the rate increase application: 7.

Number of customer complaints filed against the Company from January 1, 2007 to February 17, 2010: 0.

All complaints have been resolved and closed.

Percentage of opinions to customer base: 9.86 percent (7 / 71).

Summary of Filing

The test year results as adjusted by Utilities Division Staff ("Staff") for Little Park Water Company ("Little Park" or "Company") reflect total operating revenue of \$64,700 and operating income of \$481 for a return on rate base of 0.37 percent as shown on Schedule DRE-1. The original cost rate base ("OCRB") as adjusted by Staff is \$129,054.

Little Park's proposed rates would produce total operating revenue of \$112,236 and operating income of \$18,377, or an 11.26 percent return on rate base. The Company proposes a fair value rate base of \$163,263, which does not differ from its original cost rate base ("OCRB"). The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 9,167 gallons from \$31.33 to \$69.30, an increase of \$37.97 or 121.2 percent, as shown on Schedule DRE-5.

Staff's recommended rates would produce total operating revenue of \$80,273 and operating income of \$12,739, or a 9.87 percent return on rate base. Staff recommends an OCRB of \$129,054. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 9,167 gallons from \$31.33 to \$36.13, for an increase of \$4.80 or 15.3 percent.

The Company reports that its proposed rate increase is necessary at this time due to customer growth on the system. Additionally, the Company has made significant investments since the last rate case, including arsenic treatment facilities. The rate application would allow the Company to receive a fair return on the investment that the Company has made since the last rate case.

During the test year ended June 30, 2009, Little Park provided potable water service to approximately 71 customers.

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

Company Background

Little Park is an Arizona "C" corporation that provides potable water service to

customers in a community between Sedona and the Village of Oak Creek, in Yavapai County, Arizona. The Company's service territory encompasses approximately 0.5 square miles.

On November 18, 2009, Little Park filed an application for a permanent rate increase. On December 18, 2009, Staff issued a Letter of Sufficiency. The Company filed with Docket Control on January 5, 2010, a copy of its affidavit of service notifying customers of its pending rate increase application.

The Company provides water services mostly to small residential customers with one large 4-inch meter customer, a local school.

Consumer Services

A review of the Consumer Services Section database from January 1, 2007, through February 17, 2010, revealed that there were 7 opinions filed opposing the rate increase request. The review revealed that during the same time period there had been one complaint filed against the Company. The complaint has been resolved and closed.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

Little Park is current on its property and sales tax payments.

Little Park is in good standing with the Corporations Division of the Commission.

Engineering

The water system was field inspected on January 15, 2010, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Steve and Nick Gudovic, President and Associate for the Company. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

The Company has been using a depreciation rate of 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. Staff recommends that the Company adopt the typical and customary depreciation rates as delineated on Table H-1 in Section H of the attached Engineering Report.

Rate Base

Staff's adjustments decreased Little Park's proposed rate base by \$34,209 from \$163,263 to \$129,054 as shown on Schedule DRE-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Staff's adjustments to plant in service resulted in a net decrease of \$28,190, from \$1,236,840 to \$1,208,650 as shown on Schedule DRE-2, page 2. A significant portion of Staff's decrease to plant in service was the result of Staff's adjustments to remove unsupported plant additions.

Structures and Improvements - Adjustment "a" decreases the structures and improvements account by \$3,116, from \$29,816 to \$26,700 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$7,995 balance established by Decision No. 57212, and \$18,705 increase in structures and improvements supported by documentation.

Wells & Springs - Adjustment "b" decreases the wells & springs account by \$897, from \$28,514 to \$27,617 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$20,365 balance established in Decision No. 57212 and a \$7,252 increase for wells & springs supported by documentation submitted by the Company.

Pumping Equipment - Adjustment "c" decreases the pumping equipment account by \$2,837, from \$39,896 to \$37,059 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$9,505 balance established in Decision No. 57212 and a \$27,554 increase for pumping equipment supported by documentation submitted by the Company.

Water Treatment Plants - Adjustment "d" decreases the water treatment plants account by \$304, from \$264,559 to \$264,255 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the plant additions for water treatment plants supported by documentation submitted by the Company.

Storage Tanks - Adjustment "e" decreases the storage tanks account by \$6,883, from \$20,896 to \$14,013 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$14,013 balance established in Decision No. 57212 and Staff's allocation of \$6,309 to the pressure tanks account from the Company's storage tanks submitted account balance.

Pressure Tanks - Adjustment "f" increases the pressure tanks account by \$6,309, from \$0 to \$6,309 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects Staff's allocation of \$6,309 to the pressure tanks account from the Company's storage tanks submitted account balance.

Transmission and Distribution Mains - Adjustment "g" decreases the transmission and

distribution mains account by \$5,050, from \$659,651 to \$654,601 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$1,095 balance established in Decision No. 57212 and a \$653,503 increase for transmission and distribution mains supported by documentation submitted by the Company.

Services - Adjustment "h" decreases the services account by \$126 from \$98,454 to \$98,328 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$621 balance established in Decision No. 57212 and a \$97,707 increase in services supported by documentation.

Meters and Meter Installations - Adjustment "i" decreases the meters and meter installations account by \$11,170 from \$32,908 to \$21,738 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the \$543 balance established in Decision No. 57212 and a \$21,195 increase in meters and meter installations supported by documentation.

Hydrants - Adjustment "j" decreases the hydrants account by \$451 from \$52,388 to \$51,937 as shown on Schedule DRE-2, pages 2 and 5. Staff's adjusted amount reflects the \$2,994 balance established in Decision No. 57212 and a \$48,943 increase in hydrants supported by documentation.

Other Plant & Miscellaneous Equipment - Adjustment "k" decreases the other plant and miscellaneous equipment account by \$1,581 from \$1,581 to \$0 as shown on Schedule DRE-2, pages 2 and 5. The adjustment reflects Staff's categorization of the costs as expenses rather than capitalized plant.

Other Tangible Plant - Adjustment "l" decreases the other tangible plant account by \$2,083 from \$2,083 to \$0 as shown on Schedule DRE-2, pages 2 and 5. The adjustment reflects Staff's categorization of the costs as expenses rather than capitalized plant. This is supported by the same cost being categorized as an expense by the Company in the test year operations.

Other Rate Base Items

Accumulated Depreciation

Staff increased accumulated depreciation by \$8,845 from \$262,090 to \$270,935 as shown on Schedule DRE-2, pages 1 and 6. The increase is based upon several Staff adjustments made to plant in service account balances and the addition of depreciation expense to accumulated depreciation since the last rate case.

Working Capital

Staff's adjustments to working capital resulted in a net increase of \$2,826, from \$0 to \$2,826 as shown on Schedule DRE-2, pages 1 and 7, as a result of increasing cash working capital.

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

Operating Income Statement

Operating Revenue

Staff's adjustment to operating revenue resulted in an increase of \$136 from \$64,564 to \$64,700, as shown on Schedule DRE-3, pages 1 and 2.

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

Operating Expenses

Staff's adjustments to operating expenses resulted in a decrease of \$19,665 from \$83,884 to \$64,219 as shown on Schedule DRE-3, page 1. The adjustments are explained below.

Water Testing - Adjustment 2 decreases water testing expense by \$97 from \$918 to \$821 as shown on Schedule DRE-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined by Staff and reported in the attached Engineering Report

Regulatory Commission Expense – Rate Case - Adjustment 3 decreases the regulatory commission expense – rate case by \$1,500, from \$2,500 to \$1,000 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's estimate of reasonable regulatory commission expense – rate case expenses in the instant case given two main factors. The Company is a small utility with only approximately 71 customers in the test year. The Company's rate application did not contain complex or complicated financial information that would require significant rate case expenses. Staff's estimate of reasonable rate case expenses is \$5,000.

Staff also utilized a 5 year normalization period for the expense given the Company's history of processing rate cases. The Company's last rate case was for a 1990 test year. It is Staff's belief that the maximum traditional normalization period, 5 years, be utilized until the Company demonstrates a different behavior towards processing rate cases.

Depreciation Expense - Adjustment 4 decreases depreciation expense by \$23,232, from \$53,673 to \$30,441 as shown on Schedule DRE-3, pages 1 and 3. This adjustment reflects Staff's calculation of depreciation expense applying Staff's recommended depreciation rates to Staff's recommended plant balances for Little Park.

Income Taxes - Staff's adjustment 5 increases income taxes by \$5,162, from a negative \$5,112 to \$50 as shown on Schedule DRE-3, pages 1 and 4. This adjustment reflects Staff's calculation of income taxes given Staff's adjustments to operating revenues and expenses.

Return on Rate Base

The Company's proposed rates and charges would provide an operating income of \$18,377 for a return on rate base of 11.26 percent.

Staff's recommended rates and charges would provide an operating income of \$12,739 for a return on rate base of 9.82 percent.

Revenue Requirement

Staff recommends total operating revenue of \$80,273, a \$15,573 or 24.07 percent increase over the Staff adjusted test year operating revenue of \$64,700. Staff's recommended revenue provides an operating income of \$12,739, and a return on rate base of 9.82 percent as shown in Schedule DRE-1.

In determining the revenue requirement, Staff endeavored to provide the Company sufficient funds to manage contingencies, operating expenses, below the line expenses, etc. Staff believes that a 9.82 percent return on rate base provides ample funds to accomplish this goal. A 9.82 return on rate base is also comparable to the return on rate base granted to other Arizona water utilities. Finally, a significant portion of the Company's operating expenses is depreciation expense. Based on Staff's adjusted test year operating expenses, depreciation comprises 47.4 percent of test year operating expenses. Depreciation expense is a non-cash expense therefore the Company's cash position is unchanged by its charges. Staff's adjusted test year depreciation expense of \$30,441 represents a significant amount of funds the Company can reinvest in the Company, purchase replacement plant, and address operating needs.

Rate Design

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

The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 9,167 gallons from \$31.33 to \$69.30, an increase of \$37.97 or 121.2 percent, as shown on Schedule DRE-5.

Staff's recommended rates would increase the 5/8 x 3/4-inch meter residential bill with a median usage of 9,167 gallons from \$31.33 to \$36.13, for an increase of \$4.80 or 15.3 percent.

Miscellaneous Service Charges

The Company has not proposed any changes to its current service charges. Staff agrees with the Company's proposed service charges.

Service Line and Meter Installation Charges

The Company has requested changes to its service line and meter installation charges which are similar to Staff's customary range of charges for the two smallest meter sizes. For meters 1-inch and larger, the Company is requesting to charge these installation charges "at cost". According to the Company, the main reason for the "at cost" request is for the cost recovery of rock excavation in the Sedona area. As for the break-point of the "at cost" request between the smaller meters and the 1-inch meter, the Company stated that due to the local fire department requirement, a 1-inch service line and meter is required to support the design/operation of a sprinkler system for single family homes. Only application for smaller size meters could be for irrigation purposes as required by homeowner associations to irrigate common areas.

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

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule DRE-4, pages 1 and 2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company adopt the typical and customary depreciation rates as delineated on Table H-1 in Section H of the attached Engineering Report.

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

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$64,564	\$64,700	\$112,236	\$80,273
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$64,564	\$64,700	\$112,236	\$80,273
Operating Expenses:				
Operation and Maintenance	\$33,053	\$31,458	\$33,053	\$31,458
Depreciation	53,673	30,441	53,673	30,441
Property & Other Taxes	2,270	2,270	2,270	2,270
Income Tax	(5,112)	50	4,863	3,365
Total Operating Expense	\$83,884	\$64,219	\$93,859	\$67,534
Operating Income/(Loss)	(\$19,320)	\$481	\$18,377	\$12,739
Rate Base O.C.L.D.	\$163,263	\$129,054	\$163,263	\$129,054
Rate of Return - O.C.L.D.	N/M	0.37%	11.26%	9.87%
Operating Margin	N/M	0.74%	16.37%	15.87%

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

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$1,236,840	(\$28,190)	A	\$1,208,650
Less:				
Accum. Depreciation	262,090	8,845	B	270,935
Net Plant	\$974,750	(\$37,034)		\$937,716
Less:				
Plant Advances	\$670,997	\$0		\$670,997
Customer Deposits	7,413	0		7,413
Total	\$678,410	\$0		\$678,410
Contributions Gross	\$157,283	\$0		\$157,283
Less:				
Amortization of CIAC	24,206	0		24,206
Net CIAC	\$133,077	\$0		\$133,077
Total Deductions	\$811,487	\$0		\$811,487
Plus:				
1/24 Power	\$0	\$553	C	\$553
1/8 Operation & Maint.	0	2,272	D	2,272
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$2,826		\$2,826
Rate Base	\$163,263	(\$34,209)		\$129,054

Explanation of Adjustment:

- A - See Schedule 2, Page 2, 3, 4, and 5
- B - See Schedule 2, Page 6
- C - See Schedule 2, Page 7
- D - See Schedule 2, Page 7

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	6,094	(0)	6,094
304 Structures & Improvements	29,816	(3,116) a	26,700
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	28,514	(897) b	27,617
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	39,896	(2,837) c	37,059
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	264,559	(304) d	264,255
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	20,896	(6,883) e	14,013
330.2 Pressure Tanks	0	6,309 f	6,309
331 Transmission & Distribution Mains	659,651	(5,050) g	654,601
333 Services	98,454	(126) h	98,328
334 Meters & Meter Installations	32,908	(11,170) i	21,738
335 Hydrants	52,388	(451) j	51,937
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	1,581	(1,581) k	0
340 Office Furniture & Equipment	0	0	0
340.1 Computers & Software	0	0	0
341 Transportation Equipment	0	0	0
342 Stores Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	2,083	(2,083) l	0
105 C.W.I.P.	0	0	0
TOTALS	\$1,236,840	(\$28,190) A	\$1,208,650

Explanation of Adjustment:

- a - See Schedule 2, Page 4
- b - See Schedule 2, Page 4
- c - See Schedule 2, Page 4
- d - See Schedule 2, Page 4
- e - See Schedule 2, Page 4
- f - See Schedule 2, Page 4
- g - See Schedule 2, Page 4
- h - See Schedule 2, Page 4
- i - See Schedule 2, Page 4
- j - See Schedule 2, Page 5
- k - See Schedule 2, Page 5
- l - See Schedule 2, Page 5

UTILITY PLANT IN SERVICE

	Staff Adjusted Plant	Staff Adjusted Accum. Depr.	Staff Adjusted OCLD
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	6,094	0	6,094
304 Structures & Improvements	26,700	18,116	8,584
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	27,617	26,710	907
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	37,059	16,780	20,279
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	264,255	6,606	257,649
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	14,013	14,013	0
330.2 Pressure Tanks	6,309	5,183	1,126
331 Transmission & Distribution Mains	654,601	145,962	508,639
333 Services	98,328	22,359	75,969
334 Meters & Meter Installations	21,738	3,076	18,662
335 Hydrants	51,937	12,129	39,808
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
340.1 Computers & Software	0	0	0
341 Transportation Equipment	0	0	0
342 Stores Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$1,208,650	\$270,935	\$937,716

STAFF PLANT ADJUSTMENTS

a -	STRUCTURES & IMPROVEMENTS - Per Company Per Staff	\$29,816 26,700	<u>(\$3,116)</u>
	To properly reflect account balance per Decision No. 57212 and supported plant additions		
b -	WELLS & SPRINGS - Per Company Per Staff	\$28,514 27,617	<u>(\$897)</u>
	To properly reflect account balance per Decision No. 57212, supported plant additions, and the removal of duplicate costs		
c -	PUMPING EQUIPMENT - Per Company Per Staff	\$39,896 37,059	<u>(\$2,837)</u>
	To properly reflect account balance per Decision No. 57212 and removal of unsupported plant additions		
d -	WATER TREATMENT PLANTS - Per Company Per Staff	\$264,559 264,255	<u>(\$304)</u>
	To properly reflect account balance per Decision No. 57212 and removal of unsupported plant additions		
e -	STORAGE TANKS - Per Company Per Staff	\$20,896 14,013	<u>(\$6,883)</u>
	To properly reflect account balance per Decision No. 57212 and allocation of costs to account 330.2 Pressure Tanks		
f -	PRESSURE TANKS - Per Company Per Staff	\$0 6,309	<u>\$6,309</u>
	To properly reflect account balance per Decision No. 57212 and allocation of costs from account 330.1 Storage Tanks		
g -	TRANSMISSION & DISTRIBUTION MAINS - Per Company Per Staff	\$659,651 654,601	<u>(\$5,050)</u>
	To properly reflect account balance per Decision No. 57212 and removal of unsupported plant additions		
h -	SERVICES - Per Company Per Staff	\$98,454 98,328	<u>(\$126)</u>
	To properly reflect account balance per Decision No. 57212 and removal of unsupported plant additions		
i -	METERS & METER INSTALLATIONS - Per Company Per Staff	\$32,908 21,738	<u>(\$11,170)</u>
	To properly reflect account balance per Decision No. 57212 and removal of unsupported plant additions		

STAFF ADJUSTMENTS (Cont.)

j -	HYDRANTS - Per Company	\$52,388	
	Per Staff	51,937	<u>(\$451)</u>
	To properly reflect account balance per Decision No. 57212 and removal of unsupported plant additions		
k -	OTHER PLANT & MISC. EQUIPMENT - Per Company	\$1,581	
	Per Staff	0	<u>(\$1,581)</u>
	To remove items incorrectly recorded as plant		
e -	OTHER TANGIBLE PLANT - Per Company	\$2,083	
	Per Staff	0	<u>(\$2,083)</u>
	To remove items incorrectly recorded as plant		

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$262,090
Accumulated Depreciation - Per Staff	<u>270,935</u>
Total Adjustment	<u><u>\$8,845</u></u> B

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

Accumulated Depreciation per Decision No. 7212	\$33,304
1991 Credit to Accumulated Depreciation	\$2,936
1992 Credit to Accumulated Depreciation	\$3,454
1993 Credit to Accumulated Depreciation	\$3,388
1994 Credit to Accumulated Depreciation	\$3,594
1995 Credit to Accumulated Depreciation	\$3,765
1996 Credit to Accumulated Depreciation	\$3,905
1997 Credit to Accumulated Depreciation	\$3,904
1998 Credit to Accumulated Depreciation	\$3,362
1999 Credit to Accumulated Depreciation	\$3,429
2000 Credit to Accumulated Depreciation	\$3,474
2001 Credit to Accumulated Depreciation	\$2,501
2002 Credit to Accumulated Depreciation	\$9,262
2003 Credit to Accumulated Depreciation	\$19,104
2004 Credit to Accumulated Depreciation	\$21,880
2005 Credit to Accumulated Depreciation	\$22,435
2006 Credit to Accumulated Depreciation	\$25,866
2007 Credit to Accumulated Depreciation	\$28,782
2008 Credit to Accumulated Depreciation	\$29,134
2009 Credit to Accumulated Depreciation	<u>\$43,454</u>
	\$237,631
Accumulated Depreciation 12/31/2007 Staff Balance	\$270,935
Less: Company Balance	<u>\$262,090</u>
Staff Adjustment	\$8,845

STAFF RATE BASE ADJUSTMENTS

C	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff	\$	-	
				<u>553</u>	<u>\$553</u>
		To reflect Staff's calculation of cash working capital based upon Staff's recommendations for purchased power and purchased water			
D	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff	\$	-	
				<u>2,272</u>	<u>\$2,272</u>
		To reflect Staff's calculation of cash working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses)			

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$64,564	\$136 1	\$64,700
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$64,564	\$136	\$64,700
Operating Expenses:			
601 Salaries and Wages	\$6,191	\$0	\$6,191
610 Purchased Water	5,162	0	5,162
615 Purchased Power	8,116	0	8,116
618 Chemicals	0	0	0
620 Repairs and Maintenance	7,942	0	7,942
621 Office Supplies & Expense	1,636	0	1,636
630 Outside Services	(189)	0	(189)
635 Water Testing	918	(97) 2	821
641 Rents	0	0	0
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	604	0	604
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	2,500	(1,500) 3	1,000
675 Miscellaneous Expense	173	0	173
403 Depreciation Expense	53,673	(23,232) 4	30,441
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	2,270	0	2,270
409 Income Tax	(5,112)	5,162 5	50
Total Operating Expenses	\$83,884	(\$19,665)	\$64,219
OPERATING INCOME/(LOSS)	(\$19,320)	\$19,801	\$481
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	21	0	21
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	(\$21)	\$0	(\$21)
NET INCOME/(LOSS)	(\$19,341)	\$19,801	\$460

STAFF ADJUSTMENTS

1 -	METERED WATER REVENUE - Per Company	\$64,564	
	Per Staff	<u>64,700</u>	<u>\$136</u>
	To reflect the metered water revenue per the Company's submitted bill count		
2 -	WATER TESTING - Per Company	\$918	
	Per Staff	<u>821</u>	<u>(\$97)</u>
	To reflect Staff's annual water testing expense		
3 -	REGULATORY COMMISSION EXPENSE - Per Company	\$2,500	
	Per Staff	<u>1,000</u>	<u>(\$1,500)</u>
	To reflect Staff's computation of Regulatory Commission Expense based on Staff's estimate of reasonable expense and Staff's recommended 5 year normalization period		

STAFF ADJUSTMENTS (Cont.)

4 - DEPRECIATION - Per Company \$53,673
Per Staff 30,441 (\$23,232)

Explanation of Adjustment:
Pro Forma Annual Depreciation Expense:

DESCRIPTION	PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
Organization	\$ -	\$ -	\$ -	0.00%	\$ -
Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
Land & Land Rights	\$ 6,094	\$ 6,094	\$ -	0.00%	\$ -
Structures & Improvem	\$ 26,700	\$ -	\$ 26,700	3.33%	\$ 889
Collecting & Impoundir	\$ -	\$ -	\$ -	2.50%	\$ -
Lake, River, Canal Inta	\$ -	\$ -	\$ -	2.50%	\$ -
Wells & Springs	\$ 27,617	\$ -	\$ 27,617	3.33%	\$ 920
Infiltration Galleries	\$ -	\$ -	\$ -	6.67%	\$ -
Raw Water Supply Mai	\$ -	\$ -	\$ -	2.00%	\$ -
Power Generated Equi	\$ -	\$ -	\$ -	5.00%	\$ -
Pumping Equipment	\$ 37,059	\$ -	\$ 37,059	12.50%	\$ 4,632
Water Treatment Equip	\$ -	\$ -	\$ -	0.00%	\$ -
Water Treatment Pla	\$ 264,255	\$ -	\$ 264,255	3.33%	\$ 8,809
Solution Chemical Fe	\$ -	\$ -	\$ -	20.00%	\$ -
Distribution Reservoirs	\$ -	\$ -	\$ -	0.00%	\$ -
Storage Tanks	\$ 14,013	\$ -	\$ 14,013	2.22%	\$ 311
Pressure Tanks	\$ 6,309	\$ -	\$ 6,309	5.00%	\$ 315
Transmission & Distrib	\$ 654,601	\$ 1,095	\$ 653,506	2.00%	\$ 13,070
Services	\$ 98,328	\$ -	\$ 98,328	3.33%	\$ 3,278
Meters & Meter Install	\$ 21,738	\$ 543	\$ 21,195	8.33%	\$ 1,766
Hydrants	\$ 51,937	\$ -	\$ 51,937	2.00%	\$ 1,039
Backflow Prevention D	\$ -	\$ -	\$ -	6.67%	\$ -
Other Plant and Misc. I	\$ -	\$ -	\$ -	6.67%	\$ -
Office Furniture & Equi	\$ -	\$ -	\$ -	6.67%	\$ -
Computers & Softwa	\$ -	\$ -	\$ -	20.00%	\$ -
Transportation Equipm	\$ -	\$ -	\$ -	20.00%	\$ -
Tools Shop & Garage I	\$ -	\$ -	\$ -	5.00%	\$ -
Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
Power Operated Equip	\$ -	\$ -	\$ -	5.00%	\$ -
Communication Equipr	\$ -	\$ -	\$ -	10.00%	\$ -
Miscellaneous Equipm	\$ -	\$ -	\$ -	10.00%	\$ -
Other Tangible Plant	\$ -	\$ -	\$ -	0.00%	\$ -
Total	\$ 1,208,650	\$ 7,732	\$ 1,200,919		\$ 35,029

Depreciation Expense Before Amortization of CIAC: \$ 35,029
Amortization of CIAC \$ 4,588
Test Year Depreciation Expense - Staff: \$ 30,441
Depreciation Expense - Company: \$53,673
Staff's Total Adjustment: \$ (23,232)

Pro Forma Annual Depreciation Expense:

Plant in Service \$1,208,650
Less: Non Depreciable Plant 6,094
Fully Depreciated Plant 1,638
Depreciable Plant \$1,200,919
Times: Staff Proposed Depreciation Rate 2.92%
Full Year Credit to Accumulated Depreciation \$35,029 *
Less: Amort. of CIAC* @ 2.92% 4,588
Pro Forma Annual Depreciation Expense \$30,441

STAFF ADJUSTMENTS (Cont.)

5 -	INCOME TAXES - Per Company	(\$5,112)	
	Per Staff	50	<u>\$5,162</u>

To reflect the minimum tax requirement based on operating loss in test year

RATE DESIGN

Monthly Usage Charge		Present	-Proposed Rates-	
		Rates	Company	Staff
5/8" x 3/4" Meter		\$15.00	\$20.85	\$15.00
3/4" Meter		22.50	31.28	22.50
1" Meter		37.50	52.13	37.50
1 1/2" Meter		75.00	104.25	75.00
2" Meter		100.00	166.80	120.00
3" Meter		200.00	333.60	240.00
4" Meter		400.00	521.25	375.00
6" Meter		600.00	1,042.50	750.00
8" Meter		N/A	N/A	1,200.00
Standpipe (Construction, Bulk)		N/A	(a)	N/A
Gallons included in Minimum				
For all Meter Sizes		1,000	0	0
Commodity Rates (Per 1,000 Gallons)				
All Meter Sizes		\$2.00	N/A	N/A
1 Inch Meter and Smaller	0000 - 6,000	N/A	\$2.78	N/A
	6,001 - 15,000	N/A	\$3.53	N/A
	Over 15,000	N/A	\$4.28	N/A
1 1/2 Inch Meter and Larger	0000 - 200,000	N/A	\$3.53	N/A
	Over 200,000	N/A	\$4.28	N/A
1 Inch Meter and Smaller, Residential	0000 - 3,000	N/A	N/A	\$1.70
	3,001 - 10,000	N/A	N/A	\$2.60
	Over 10,000			\$3.10
1 Inch Meter, Non-residential	0000 - 32,000	N/A	N/A	\$2.60
	Over 32,000	N/A	N/A	\$3.10
1 1/2 Inch Meter	0000 - 106,000	N/A	N/A	\$2.60
	Over 106,000	N/A	N/A	\$3.10
2 Inch Meter	0000 - 195,000	N/A	N/A	\$2.60
	Over 195,000	N/A	N/A	\$3.10
3 Inch Meter	0000 - 434,000	N/A	N/A	\$2.60
	Over 434,000	N/A	N/A	\$3.10
4 Inch Meter	0000 - 545,000	N/A	N/A	\$2.60
	Over 545,000	N/A	N/A	\$3.10
6 Inch Meter	0000 - 755,000	N/A	N/A	\$2.60
	Over 755,000	N/A	N/A	\$3.10
8 Inch Meter	0000 - 910,000	N/A	N/A	\$2.60
	Over 910,000	N/A	N/A	\$3.10
Standpipe, Bulk Water		N/A	\$4.28	\$3.10

(a) Based on meter size

RATE DESIGN (Cont.)

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	\$300	\$155	\$445	\$600	\$415	\$105	\$520
3/4-inch	\$325	\$255	\$445	\$700	\$415	\$205	\$620
1-inch	\$350	Cost	Cost	Cost	\$465	\$265	\$730
1½-inch	\$500	Cost	Cost	Cost	\$520	\$475	\$995
2-inch Turbo	\$675	Cost	Cost	Cost	\$800	\$995	\$1,795
2-inch Compound	\$675	Cost	Cost	Cost	\$800	\$1,840	\$2,640
3-inch Turbo	\$875	Cost	Cost	Cost	\$1,015	\$1,620	\$2,635
3-inch Compound	\$875	Cost	Cost	Cost	\$1,135	\$2,495	\$3,630
4-inch Turbo	\$1,500	Cost	Cost	Cost	\$1,430	\$2,570	\$4,000
4-inch Compound	\$1,500	Cost	Cost	Cost	\$1,610	\$3,545	\$5,155
6-inch Turbo	\$3,200	Cost	Cost	Cost	\$2,150	\$4,925	\$7,075
6-inch Compound	\$3,200	Cost	Cost	Cost	\$2,270	\$6,820	\$9,090
8-inch Turbo	N/A	Cost	Cost	Cost	\$3,080	\$7,055	\$10,135
8-inch Compound	N/A	Cost	Cost	Cost	\$3,200	\$12,585	\$15,785

Service Charges

Service Charges	Present	-Proposed Rates-	
	Rates	Company	Staff
Establishment	\$20.00	\$20.00	\$20.00
	40.00	40.00	40.00
Reconnection (Delinquent)	20.00	20.00	20.00
Meter Test (if correct)	30.00	30.00	30.00
Deposit	65.00	*	*
Deposit Interest	6.00%	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	15.00	15.00
Meter Re-Read (If Correct)	15.00	15.00	15.00
Late Payment Penalty	5.00	1.50%	1.50%
After Hours Service Charge (Rule 14-2-403.D)	50.00	50.00	50.00

Monthly Service Charge for Fire Sprinkler

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

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

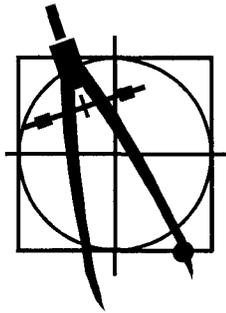
TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 33

<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	15,850	\$44.70	\$72.94	\$28.24	63.2%
Median Usage	9,167	\$31.33	\$69.30	\$37.97	121.2%
<u>Staff Recommend</u>					
Average Usage	15,850	\$44.70	\$56.44	\$11.74	26.3%
Median Usage	9,167	\$31.33	\$36.13	\$4.80	15.3%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$15.00	\$20.85	39.0%	\$15.00	0.0%
1,000	15.00	23.63	57.5%	16.70	11.3%
2,000	17.00	26.41	55.4%	18.40	8.2%
3,000	19.00	29.19	53.6%	20.10	5.8%
4,000	21.00	31.97	52.2%	22.70	8.1%
5,000	23.00	34.75	51.1%	25.30	10.0%
6,000	25.00	37.53	50.1%	27.90	11.6%
7,000	27.00	41.06	52.1%	30.50	13.0%
8,000	29.00	44.59	53.8%	33.10	14.1%
9,000	31.00	48.12	55.2%	35.70	15.2%
10,000	33.00	51.65	56.5%	38.30	16.1%
15,000	43.00	69.30	61.2%	53.80	25.1%
20,000	53.00	90.70	71.1%	69.30	30.8%
25,000	63.00	112.10	77.9%	84.80	34.6%
50,000	113.00	219.10	93.9%	162.30	43.6%
75,000	163.00	326.10	100.1%	239.80	47.1%
100,000	213.00	433.10	103.3%	317.30	49.0%
125,000	263.00	540.10	105.4%	394.80	50.1%
150,000	313.00	647.10	106.7%	472.30	50.9%
175,000	363.00	754.10	107.7%	549.80	51.5%
200,000	413.00	861.10	108.5%	627.30	51.9%



**Engineering Report for
Little Park Water Company, Inc.**

Docket No. W-02192A-09-0531 (Rates)

By Marlin Scott, Jr. *MSJ*

January 22, 2010

CONCLUSIONS

- A. Little Park Water Company, Inc.'s ("Company") water loss is within the allowable limits.
- B. The Company's water system has adequate well and storage capacity to serve its present customer base and reasonable growth.
- C. The Arizona Department of Environmental Quality has reported that the Company's water system is currently delivering water that meets the water quality standards.
- D. The Company is not located in any Active Management Area. According to the Arizona Department of Water Resources ("ADWR"), this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.
- E. A check of the Utilities Division Compliance database showed that the Company had no delinquent Commission compliance items.
- F. The Company has an approved curtailment tariff with an effective date of November 19, 2007.
- G. The Company has an approved backflow prevention tariff with an effective date of July 8, 1992.

RECOMMENDATIONS

- 1. Staff recommends the adoption of its annual water testing expense of \$821 be used for purposes of this application.
- 2. Staff recommends that the Company adopt Staff's typical and customary depreciation rates and further recommends that the Company use these depreciation rates delineated in Table H-1.
- 3. Staff recommends the approval of the proposed Service Line and Meter Installation Charges as delineated in Table I-1.

TABLE OF CONTENTS

	<u>PAGE</u>
A. LOCATION OF COMPANY	1
B. DESCRIPTION OF THE WATER SYSTEM.....	1
FIGURE 1. COUNTY MAP	4
FIGURE 2. CERTIFICATED AREA	5
FIGURE 3. SYSTEM SCHEMATIC.....	6
C. WATER USE.....	7
<u>WATER SOLD</u>	7
FIGURE 4. WATER USE.....	7
<u>NON-ACCOUNT WATER</u>	7
<u>SYSTEM ANALYSIS</u>	7
D. GROWTH.....	8
FIGURE 5. GROWTH PROJECTION	8
E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE.....	8
<u>COMPLIANCE</u>	8
<u>WATER TESTING EXPENSE</u>	9
TABLE E-1. WATER TESTING EXPENSE.....	9
F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE	9
G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE.....	9
H. DEPRECIATION RATES	9
TABLE H-1. DEPRECIATION RATES	10
I. OTHER ISSUES	10
1. <u>SERVICE LINE AND METER INSTALLATION CHARGES</u>	10
TABLE I-1. SERVICE LINE AND METER INSTALLATION CHARGES	11
2. <u>CURTAILMENT TARIFF</u>	11
3. <u>BACKFLOW PREVENTION TARIFF</u>	11

A. LOCATION OF COMPANY

Little Park Water Company, Inc. (“Company”) serves a community between Sedona and Village of Oak Creek. Figure 1 shows the location of the Company within Yavapai County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 0.5 square-miles.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on January 15, 2010, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Steve and Nick Gudovic, President and Associate for the Company.

The current operation of the water system consists of two wells, two arsenic treatment systems, three storage tanks, two booster systems and a distribution system serving approximately 70 customers. This system is also interconnected with Big Park Water Company with an 8-inch x 2-inch master-meter. 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	Well #2	Well #3
ADWR ID No.	55-606482	55-606483	55-530588
Casing Size	8-inch	8-inch	6-inch
Casing Depth	550 feet	650 feet	650 feet
Pump Size	10-Hp	20-Hp	
Pump Type	Submersible	Submersible	
Pump Yield	47 GPM	81 GPM	(Capped)
Wellhead Meter	2-inch	2-inch	
Treatment	Arsenic	Arsenic	
Arsenic levels	Untreated at 23 ppb Treated to 0 ppb Blended to 8 ppb	Untreated at 23 ppb Treated to 0 ppb Blended to 8 ppb	

Table 2. Tanks and Booster System Facilities

Location	Facilities
Well #1	10,000 gallon storage tank Two 7-1/2-Hp booster pumps 1,500 gallon pressure tank
Well #2	Two 8,800 gallon storage tanks Two 7-1/2-Hp booster pumps 2,000 gallon pressure tank

Table 3. Water Mains

Diameter	Material	Length
2-inch	PVC	680 ft.
4-inch	PVC	910 ft.
6-inch	PVC/DIP	13,041 ft.
8-inch	PVC/DIP	13,386 ft.
	Total:	28,017 ft.

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	33
3/4-inch	10
1-inch	27
2-inch	-
3-inch	-
4-inch compound	1
Total:	71

Table 5. Hydrants

Type	Quantity
Standard	29

Table 6. Treatment, Equipment & Structures

Treatment, Equipment & Structures
Arsenic Treatment Systems – Well #6 at 80 GPM, Well #2 at 80 GPM
Metal buildings – for arsenic and booster systems, 20 feet by 20 feet, 2 each
Fencing – surrounding Well #1 and Well #2

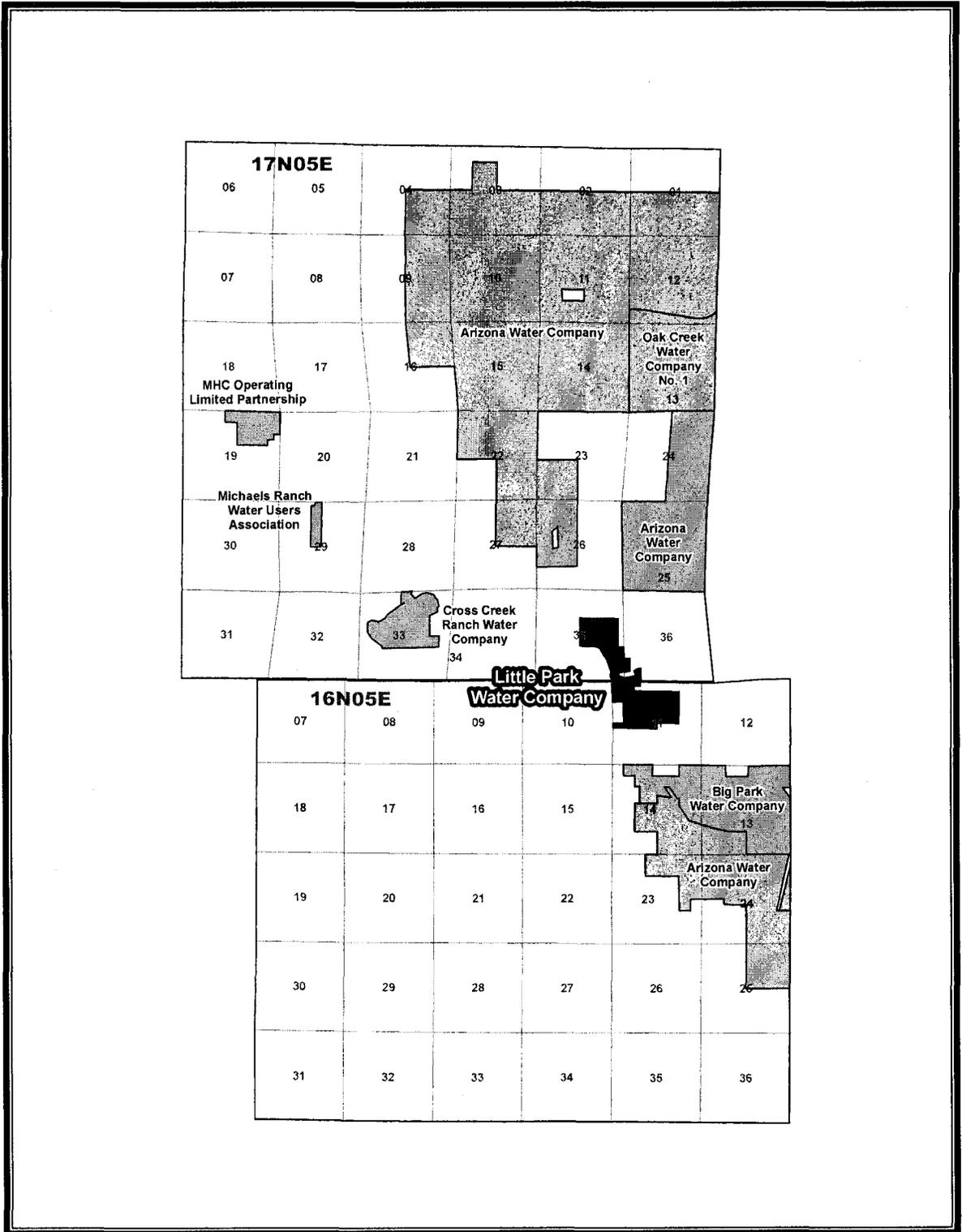


Figure 2. Certificated Area

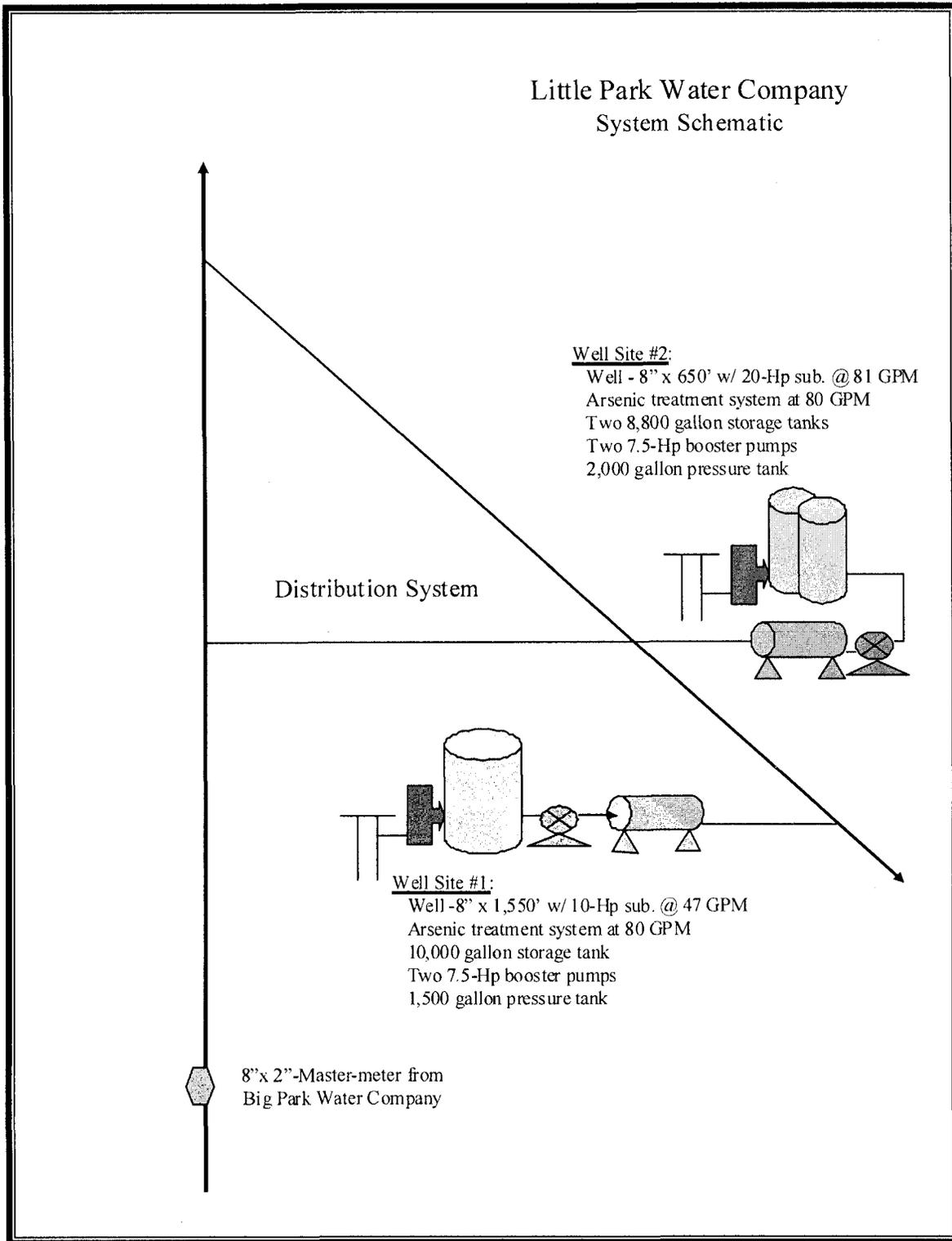


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending June 2009. The customer consumption experienced a high monthly usage of 656 gallons per day (“GPD”) per connection in August and a low monthly water use of 227 GPD per connection in February for an average monthly use of 453 GPD per connection.

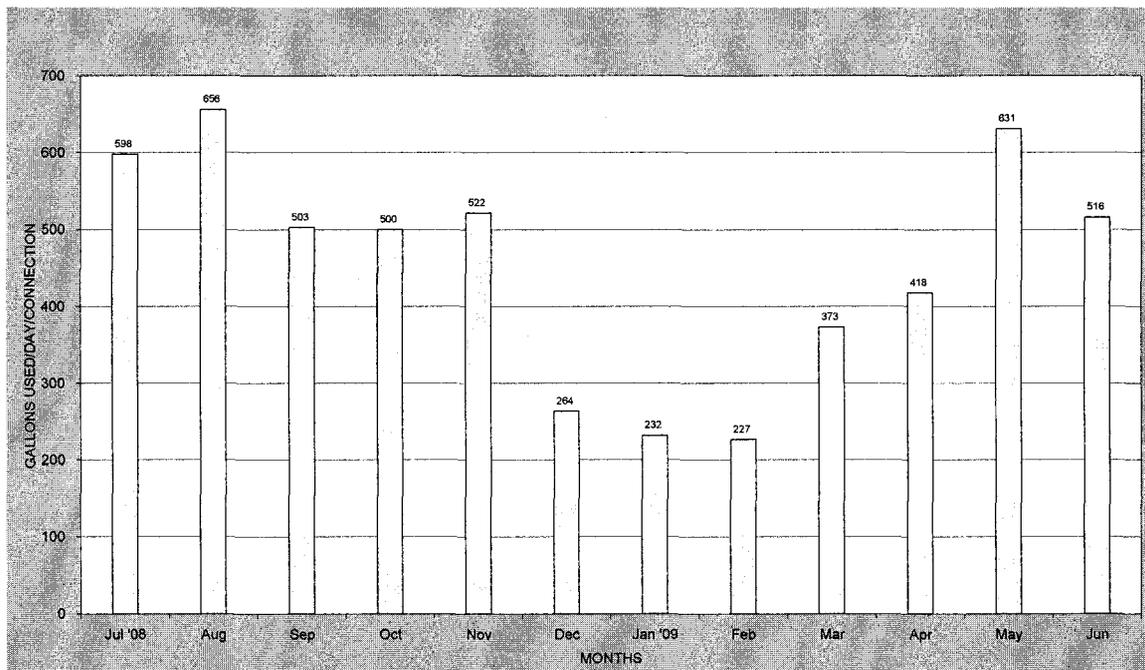


Figure 4. Water Use

Non-Account Water

The Company reported 13,516,000 gallons of water pumped/purchased and 11,617,000 gallons of water sold during the test year. In addition, the Company reported 893,000 gallons of accounted-for water due to leaks/flushing of mains and 229,200 gallons of water for discharge/flushing of sand for operation of Well #1. As a result, the water loss is calculated to be 5.7 percent and is within the allowable limit of 10 percent.

System Analysis

The current well capacity of 128 GPM, with an 8-inch x 2-inch master-meter interconnection with Big Park Water Company, and storage tank capacity of 27,600 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Figure 5 depicts the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year ending June 2009, the Company had 70 customers and it is projected that the Company could have approximately 78 customers by December 2013.

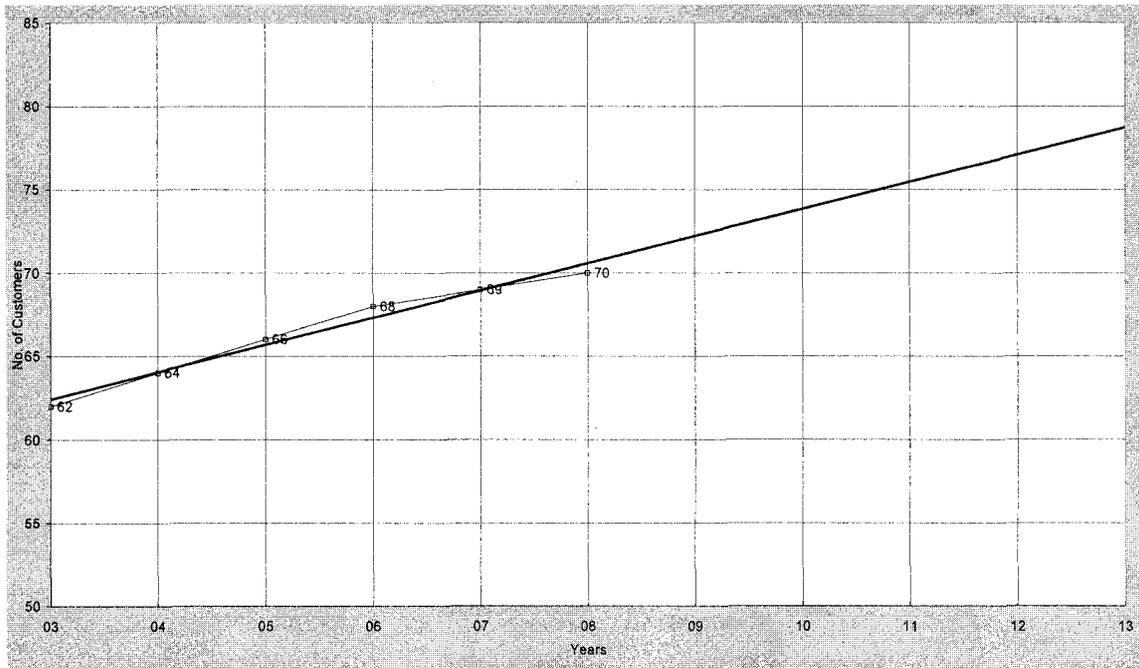


Figure 5. Growth Projection

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

Compliance

According to an ADEQ Compliance Status Report, dated October 30, 2009, that was submitted with the rate application; ADEQ has reported no major deficiencies and has determined that the Company’s system, PWS #13-075, is in compliance with ADEQ regulation and is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). The Company reported its water testing expense at \$918 during the test year. Staff has reviewed these expenses and has recalculated an annual expense of \$821 with participation in the MAP.

Table E-1. Water Testing Expense

Monitoring	Cost per test	No. of test	Annual Expense
Total coliform – monthly	\$16	12	\$192
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$427
Lead & Copper – per 3 years	\$30	5	\$50
Arsenic – quarterly per well	\$19	8	\$152
Total			\$821

Note: ADEQ’s MAP invoice for the 2009 Calendar Year was \$427.33.

Staff recommends an annual water testing expense of \$821 be used for purposes of this application.

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

The Company is not located in any ADWR Active Management Area. According to ADWR, the 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 5.0% in every National Association of Regulatory Utility Commissioners (“NARUC”) plant category. In recent orders, the Commission has been adopting Staff’s typical and customary depreciation rates. These rates are presented in Table H-1 and it is recommended that the Company use these depreciation rates by individual NARUC category.

Table H-1. Depreciation Rates

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

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested changes to its service line and meter installation charges which are similar to Staff's customary range of charges for the two smallest meter sizes. For meters 1-inch and larger, the Company is requesting to charge these

installation charges “at cost”. According to the Company, the main reason for the “at cost” request is for the cost recovery of rock excavation in the Sedona area. As for the break-point of the “at cost” request between the smaller meters and the 1-inch meter, the Company stated that due to the local fire department requirement, a 1-inch service line and meter is required to support the design/operation of a sprinkler system for single family homes. Only application for smaller size meters could be for irrigation purposes as required by homeowner associations to irrigate common areas.

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

Table I-1. Service Line and Meter Installation Charges

Meter Size	Company's Current Charges	Proposed Service Line Charges	Proposed Meter Installation Charges	Proposed Total Charges
5/8 x 3/4-inch	\$300	\$445	\$155	\$600
3/4-inch	\$325	\$445	\$255	\$700
1-inch	\$350	At Cost	At Cost	At Cost
1-1/2-inch	\$500	At Cost	At Cost	At Cost
2-inch – Turbine	\$675	At Cost	At Cost	At Cost
2-inch – Compound	-			
3-inch – Turbine	\$875	At Cost	At Cost	At Cost
3-inch – Compound	-			
4-inch – Turbine	\$1,500	At Cost	At Cost	At Cost
4-inch – Compound	-			
6-inch – Turbine	\$3,200	At Cost	At Cost	At Cost
6-inch – Compound	-			

2. Curtailment Tariff

The Company has an approved curtailment tariff with an effective date of November 19, 2007.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff with an effective date of July 8, 1992.