0000108047

ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
for Director
Utilities Division

DATE: February 25, 2010

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

Attached is the Amended Staff Report for F. Wayne and Dorothy Thompson dba West Village Water Company's applications for financing approval and a permanent rate increase. Staff recommends approval of the financing application subject to Staff's recommendations. Staff recommends approval of the rate 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 8, 2010.

SMO:DWC:red

Originator: Darron W. Carlson

Attachment: Original and thirteen copies

Arizona Corporation Commission
DOCKETED
FEB 25 2010
DOCKETED BY

RECEIVED
2010 FEB 25 P 4:49
AZ CORP COMMISSION
DOCKET CONTROL

(W-03211-08-0621 & 0622)

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

Mr. Steve Wene
Moyes Sellers and Sims
1850 North Central Avenue, Suite 1100
Phoenix, Arizona 85004

Ms. Janice Alward, Esq.
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer, Esq.
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

AMENDED STAFF REPORT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

F. WAYNE AND DOROTHY THOMPSON
DBA WEST VILLAGE WATER COMPANY

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

APPLICATIONS FOR
FINANCING APPROVAL AND
A PERMANENT RATE INCREASE

FEBRUARY 25, 2010

(W-03211-08-0621 & 0622)

STAFF ACKNOWLEDGMENT

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

Darron W. Carlson
Public Utilities Analyst Manager

Marlin Scott Jr.
Utilities Engineer

Guadalupe Ortiz
Public Utilities Consumer Analyst I

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

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

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

The Company's rate application requested an increase in revenue of $99,273 or a 310.86 percent increase over test year revenue of $31,935. The Company's proposed revenues of $131,208 result in an operating income of $78,888, or a 272.33 percent rate of return on the Company's proposed fair value rate base ("FVRB") of $28,968, which is the same as its original cost rate base ("OCRB"). This same operating income also results in an operating margin of 60.12 percent. The Company's proposed rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from $38.80 to $167.80, for an increase of $129.00 or 332.5 percent.

Staff is recommending an increase over adjusted test year revenue of $5,380 or a 16.85 percent increase over test year revenue of $31,935. Staff's recommended revenues of $37,315 result in an operating income of $5,598, or a 17.15 percent rate of return on Staff's recommended FVRB of $32,642, which is the same as its OCRB. This same operating income also results in an operating margin of 15.00 percent. Staff's recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from $38.80 to $39.94, for an increase of $1.14 or 2.9 percent.

For comparative purposes, when including Staff's recommended surcharge for the financing approval, Staff's recommended increase in revenue is $56,457 or a 176.79 percent increase over test year revenue of $31,935. Staff's recommended revenue of $88,392 results in operating income of $56,675, or a 173.63 percent rate of return on Staff's recommended FVRB of $32,642. This same operating income also results in an operating margin of 64.12 percent. Staff's recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from $38.80 to $120.25, for an increase of $81.45 or 209.9 percent.

The Company also requested approval of a $525,000 20-year amortizing loan from the Water Infrastructure Finance Authority of Arizona ("WIFA") for construction of a new deep well and the replacement of deteriorated service line taps and meters. Staff recommends approval of the financing application with its recommendations. The debt service payments on a $525,000 20-year amortizing loan at a 6.0 percent interest rate are estimated to be $3,814 per month, or $45,772 annually. Staff recommends approval of a WIFA loan surcharge mechanism, as discussed in the financing section of this Staff Report.

Pursuant to a Procedural Conference held on January 21, 2010, Staff was directed by the Administrative Law Judge ("ALJ") presiding in this case, to file a response to the Company's "Response to Staff Report" ("Response") that was filed on December 15, 2009. Additionally, the ALJ requested that Staff review the "timeline" for loans negotiated with WIFA and consider altering the Staff recommendations regarding the time constraints placed on the financing approval that Staff recommended in its original Staff Report filed on November 25, 2009. Further, the ALJ noted a number of errors in the original Staff Report and requested that Staff issue the appropriate corrections. After a review of the original Staff Report, Staff believes that the issues raised by the ALJ at the Procedural Conference held on January 21, 2010, should be addressed in this Amended Staff Report.

Staff recommends:

- That the Commission authorize Staff's rates and charges as shown on Amended Schedule DWC-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule R14-2-409.D.5.

- That the Company be ordered to docket with the Commission a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

- That the Company be ordered to contact the City of Flagstaff ("City") to explore all available alternatives to the capital improvements proposed in this financing request, including the possibility of the Company becoming a master meter customer of the City. Additionally, Staff recommends that, within 30 days of any discussions with the City, the Company be required to file documents in this docket: (1) affirming that the Company has explored with the City all available alternatives, including becoming a master meter customer of the City; (2) listing the alternatives investigated; (3) describing and explaining all actions taken by the Company in investigating each alternative, including the names of persons contacted at the City; and (4) describing and explaining the Company's rationale in choosing or not choosing a particular alternative. Staff further recommends that the Company be ordered to comply with this filing requirement before securing or closing on the WIFA loan(s).

- That the Commission authorize the Company to obtain a 20-year amortizing loan in an amount not to exceed $351,944 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed (presently estimated at 6.00 percent) to finance a capital improvement of a new deep well. This authorization should become effective only after the Company completes the items outlined above dealing with the City and demonstrates to the Commission that becoming a master meter customer of the City is not a viable alternative to a new well.

- That the Commission authorize the Company to obtain a 20-year amortizing loan in an amount not to exceed \$173,056 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed (presently estimated at 6.00 percent) to finance locating and mapping the distribution system, installing gate valves on the system to isolate portions of the distribution system, and replacing service taps and meters.

- That the Commission authorize the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

- That the Company be ordered to file copies of the fully-executed loan documents, as a compliance item in this docket, within 60 days of the execution of any transactions.

- That any authorization to incur debt granted in this proceeding terminate eighteen months from the date a Decision is issued in this matter, unless the financing is obtained within those eighteen months.

- That the Commission approve a financing surcharge mechanism to enable the Company to meet its principal and interest obligation on the proposed WIFA loan.

- That the Company be ordered to file with the Commission a WIFA loan surcharge tariff application within 60 days of the loan closing. Staff further recommends that the Company be required to follow the same methodology presented in this report to calculate the additional revenue needed to meet its loan obligations, using the actual loan terms and the actual number of customers at the time of loan closing, and using the result of that calculation to develop its surcharge tariff application. The increase in revenue calculation should be included in the surcharge tariff application.

- That any surcharge be implemented only after Commission approval of the loan surcharge tariff.

- That approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within eighteen months of the date of the Decision in this matter.

- That the Company be ordered to file a new rate case within five years of a decision in this proceeding. Staff further recommends that the financing surcharge cease automatically, if the Company fails to file the required rate case within five years.

- That the Company be ordered to maintain its records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts. Staff further recommends that the Company be ordered to file with Docket Control, a document stating it is in compliance within 6 months of a Decision in this matter.

- That the Company be ordered to monitor its water loss in its system for a 12-month period to prepare for a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall submit the water loss reduction report containing a detailed analysis and plan to reduce the 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 that 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be filed as a compliance item in this docket, within 13 months of the effective date of an Order issued in this proceeding.

- That the Company be ordered to file with Docket Control, as a compliance item in this docket, within one year of closing the WIFA loan on the well project, a copy of the Arizona Department of Environmental Quality Certificate for Approval to Construct for the new deep well project.

- That the Company be ordered to file, as a compliance item in this docket, within 45 days of the effective date of an Order in this proceeding, a curtailment tariff for review and certification by Staff that is in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc.

- That the Company be ordered to adopt and use Staff's recommended depreciation rates as delineated in Table B of the Engineering Report.

TABLE OF CONTENTS

AMENDED SCHEDULES

ATTACHMENTS

FACT SHEET

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

Type of Ownership: Sole Proprietorship.

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

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

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

Current Test Year Ended: December 31, 2007.

	Company Present Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	$26.00	$155.00	$26.00
Gallons in Minimum	0	0	0
Commodity Charge Excess of minimum, per 1,000 gallons	5.05		
0 gallons to 3,000 gallons		5.05	
3,001 gallons to 10,000 gallons		6.50	
All gallons over 10,000 gallons		8.50	
0 gallons to 3,000 gallons			5.50
3,001 gallons to 7000 gallons			8.60
All gallons over 7,000 gallons			9.95
Typical residential bill (Based on median usage of 2,534 gallons)	$38.80	$167.80	$39.94
With surcharge			$120.25

Customers

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

Notification

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

Complaints

1/1/06 – 12/31/08: No complaints.

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

INTRODUCTION

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

SUMMARY OF FILING

Based on test year results, as adjusted by Utilities Division Staff ("Staff") of the Commission, the Company had an operating income of $218, for a 0.67 percent rate of return on an adjusted fair value rate base ("FVRB") of $32,642, which is the same as the adjusted original cost rate base ("OCRB"). This same operating income also results in a 0.68 percent operating margin as shown on Amended Schedules DWC-1A and 1B.

The Company's proposed rates produce operating revenue of $131,208 and an operating income of $78,888, or a 272.33 percent rate of return on the Company's proposed FVRB of $28,968, which is the same as its OCRB. This same operating income also results in an operating margin of 60.12 percent. The Company's proposed rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from $38.80 to $167.80, for an increase of $129.00 or 332.5 percent. See Amended Schedules DWC-5A and 5B.

Staff's recommended rates produce operating revenue of $37,315 and an operating income of $5,598, or a 17.15 percent rate of return on Staff's recommended FVRB of $32,642, which is the same as its OCRB. This same operating income also results in an operating margin of 15.00 percent. Staff's recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from $38.80 to $39.94, for an increase of $1.14 or 2.9 percent. See Amended Schedule DWC-5A.

For comparative purposes, if you include Staff's recommended surcharge for the financing, Staff's recommended increase in revenue is $56,457 or a 176.79 percent increase over test year revenue of $31,935. Staff's recommended revenue of $88,392 results in operating income of $56,675, or a 173.63 percent rate of return on Staff's recommended FVRB of $32,642. This same operating income also results in an operating margin of 64.12 percent. Staff-recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from $38.80 to $120.25, for an increase of $81.45 or 209.9 percent. See Amended Schedules DWC-1B and DWC-5B.

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

COMPANY BACKGROUND

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

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

CONSUMER SERVICES

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

COMPLIANCE

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

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

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

According to an updated Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report, dated February 11, 2010, ADEQ has determined that the Company's system PWS # 03-021, has no deficiencies and is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

The Company is not located within any Active Management Area and is not subject to conservation and monitoring requirements. According to the Arizona Department of Water Resources ("ADWR") this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

ENGINEERING ANALYSIS

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

RATE BASE

The Company's FVRB as proposed in the rate application is $28,968, which does not differ from the OCRB. Staff made adjustments to increase the Company's rate base by $3,674 from $28,968 to $32,642. These adjustments decreased plant in service by $6,614, decreased accumulated depreciation by $6,884, and increased cash working capital by $3,404. The Company claimed no cash working capital. See Amended Schedule DWC-2, page 1.

Plant-in-Service

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

Accumulated Depreciation

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

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

Advances–in-Aid-of-Construction

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

Contributions-in-Aid-of-Construction

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

Working Capital

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

OPERATING REVENUE

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

OPERATING EXPENSES

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

Adjustment 1: Staff decreased purchased water expense by $18,765 from $18,765 to $0. This expense was incurred in the test year because of a pump failure. This is a non-recurring expense that did not occur in 2008 or years prior to the test year. Therefore, it is unknown when, or if, the expense may occur in future years. Additionally, the new water source financing approvals associated with this case should eliminate any need for purchased water in the future. See Amended Schedule DWC-3, pages 1 and 2.

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

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

STAFF'S RESPONSE

On December 15, 2009, the Company filed its "Response to Staff Report" ("Response"). A Procedural Conference was held on January 21, 2010, at which time the Administrative Law Judge ("ALJ") presiding in this case directed Staff to file a response to the Company's Response. Staff's response is as follows:

Normalization of Purchased Water Expense

Staff's position to remove test year purchased water expense indicates Staff's belief that, due to the changes sought in the Company's financing request, it will not be necessary for the Company to purchase water in the future. Staff believes that the recognition of this expense in the new rates for the Company will unfairly burden ratepayers with a non-existent cost that disappeared due to the results of the financing request for a new water source in this case. Additionally, this new water source's cost (debt cost) is reflected in the very large financing surcharge recommended in this case and that will be reflected in ratepayers' bills, if Staff's financing recommendations are adopted by the Commission.

The Company's Response includes a schedule (Schedule SSR-3, Page 2 of 2) that indicates that the Company purchased water in only two of the last five years. While the Company contends that this is a routine expense, Staff believes that, due to the lack of consistent activity/need, using a five-year average would not be the most appropriate method to adjust this expense account. Staff continues to believe that its adjustment to remove the purchased water expense is the most appropriate treatment of this expense item, in this case.

Normalization of Repairs Expense

Staff's position is to NOT adjust this account and to recommend recognition of the Company's claimed test year expense of $3,817. Notably, the Company's Response Schedule SSR-3, Page 2 of 2, indicates that the expense is, according to its Annual Report, $2,317. Staff continues to support (and confirmed) the higher number of $3,817. The Company did not request or propose averaging/normalization of this account in its rate increase application. Staff found the test year expense to be reasonable and appropriate.

The Company's Response introduces the proposal to average/normalize the repairs expense. The Company proposal to average repairs expenses over the last five years would increase the revenue requirement, but Staff believes that the averaged and normalized expense level would not reflect a reasonable and appropriate level of expense. Three of the last five years had expense levels below the test year level. The other two years had levels much higher than normal. Further, Staff is not confident that the numbers reflected on the Company's Response Schedules are accurate, based on the variance in test year repairs expense. Further, Staff believes that, on a going-forward basis, the expense levels should be reduced, based on the financing requested and the investment planned for the system. The Company also discussed unrecovered expenses from prior years with large expenses. Staff cannot consider those expenses and must consider what is reasonable and appropriate for the test year and on a going-forward basis.

Staff continues to believe that its recommended level of repairs expense of $3,817 is the most appropriate and continues to recommend it, in this case.

RATE OF RETURN

Traditionally, the Company's revenue requirement is calculated utilizing a rate of return on FVRB. However, when the FVRB is very low or negative, Staff, in the alternative, utilizes an operating margin to determine the adequate level of revenue necessary to cover operating expenses and other contingencies. In this case, the Company's FVRB is much too low to produce an appropriate level of revenue requirement.

OPERATING MARGIN

Staff, as an alternative to rate of return, may utilize an appropriate operating margin to derive a reasonable level of revenue requirement. Staff utilized an operating margin in this case.

The Company's proposed revenue gives the Company an operating margin of 60.12 percent.

Staff's recommended revenue gives the Company an operating margin of 15.00 percent. See Amended Schedule DWC-1A.

REVENUE REQUIREMENT

Staff recommends total operating revenue of $37,315, an increase of $5,380, over test year revenue of $31,935. Staff's recommendation provides operating income of $5,598. See Amended Schedule DWC-1A.

Staff's recommendation will allow the Company sufficient revenue to pay operating expenses and for contingencies. These rates do not cover the debt service. That information will be provided in the financing section of this Report.

RATE DESIGN

Amended Schedule DWC-4 reflects a complete list of the Company's present, proposed, and Staff's recommended rates and charges without the financing surcharge. The recommended financing surcharge is listed separately, as a flat monthly charge on Amended Schedule DWC-4.

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

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

test year revenue of $31,935. Staff's recommended revenue of $88,392 results in operating income of $56,675, or a 173.63 percent rate of return on Staff's recommended FVRB of $32,642. This same operating income also results in an operating margin of 64.12 percent. Staff-recommended rates would increase the typical 5/8 inch meter residential bill with a median usage of 2,534 gallons from $38.80 to $120.25 for an increase of $81.45 or 209.9 percent. See Amended Schedules DWC-1B and DWC-5B.

Since 3/4 inch meter customers comprise about 1/3 of the Company's customer base, Staff believes it is appropriate to include Amended Schedules DWC-6A and 6B, which reflect the typical bill analysis for the 3/4 inch meter customers.

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

Staff recommends a tariff of $9.95 per 1,000 gallons for construction/bulk water.

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

The Company proposed increases to service charges as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCING APPLICATION AND SURCHARGE MECHANISM

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

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

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

FINANCIAL ANALYSIS

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

CAPITAL STRUCTURE

At December 31, 2007, the Company's capital structure consisted of 0 percent short-term debt, 0 percent long term debt, and 100 percent equity. A pro-forma capital structure recognizing issuance of a $525,000 20-year amortizing loan is composed of 2.9 percent short-term debt, 102.2 percent long-term debt and negative 5.2 percent equity. See Amended Schedule DWC-7.

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

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

CALCULATION OF SURCHARGE

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

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

INSTRUCTIONS TO CALCULATE THE SURCHARGE ON THE LOAN

Example - For Illustrative Purposes Only

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

Instruction for Step 1

Step 1. <u>Find the Annual Revenue Required from the Loan Surcharge</u>

When the Company closes on the loan(s), WIFA will advise the Company of its debt service levels. The Company will be given an interest component as well as a principal component. That will give the Company its annual debt service obligation.

Assuming the entire $525,000 loan authorization was closed on one date, the sample interest rate of 6 percent would create an annual debt service of:

Interest = $31,101
Principal = 14,671

Annual debt service = $45,772
Annual debt service = $45,772

DSC ratio 1.25	X 1.25	Target Debt Service Coverage ("DSC") ratio
	$57,215	Revenue necessary to maintain a 1.25 DSC ratio
Less:	5,598	Operating Income from regular rates
	539	Depreciation expense in regular rates
	$51,078	Annual revenue needed from surcharge

Instruction for Step 2

Step 2. Find the equivalent bills.

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

Result

Col A	Col B	Col C	Col D	Col E
Meter Size	**AWWA Meter Capacity Multiplier**	**Number of Customers**	**Number of Months In Year**	**Equivalent Bills Col B x C x D**
5/8" Meter	1	35	12	420
3/4" Meter	1	18	12	216
1" Meter	2.5	0	12	0
1½" Meter	5	0	12	0
2" Meter	8	0	12	0
3" Meter	16	0	12	0
4" Meter	25	0	12	0
6" Meter	50	0	12	0
			Total	**636**

Instruction for Step 3

Step 3. <u>Find the monthly surcharge for 5/8 inch and 3/4 inch meter customers.</u>

Divide the result obtained in step 1 by the number of equivalent bills calculated in step 2 to obtain the monthly surcharge for 5/8 inch and 3/4 inch customers.

Result

$51,078	Total annual revenue needed (Step 1)
÷ 636	Number of equivalent bills (Step 2)
$80.31	Total monthly surcharge for residential customers

CONCLUSIONS - FINANCING

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

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

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

Staff estimates the surcharge to be a maximum of approximately $80.31 per customer per month. The actual surcharge that the Commission approves is intended to be temporary and affords the Company full coverage of its debt service while negotiating and building its capital projects. It is expected that the Company will file a full rate case within five years so that the new capital projects can be included in the Company's rate base (if appropriate), the financing surcharge can be eliminated, and an appropriate rate of return (that appropriately covers debt service) can be included in the Company's permanent rates. Staff recommends that the Company be ordered to file a new rate case within five years of a decision in this proceeding. Staff further recommends that the financing surcharge cease automatically, if the Company fails to file the required rate case within five years.

STAFF'S RECOMMENDATIONS

Staff recommends:

- That the Commission authorize Staff's rates and charges as shown on Amended Schedule DWC-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule R14-2-409.D.5.

- That the Company be ordered to docket with the Commission a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

- That the Company be ordered to contact the City of Flagstaff ("City") to explore all available alternatives to the capital improvements proposed in this financing request, including the possibility of the Company becoming a master meter customer of the City. Additionally, Staff recommends that, within 30 days of any discussions with the City, the Company be required to file documents in this docket: (1) affirming that the Company has explored with the City all available alternatives, including becoming a master meter customer of the City; (2) listing the alternatives investigated; (3) describing and explaining all actions taken by the Company in investigating each alternative, including the names of persons contacted at the City; and (4) describing and explaining the Company's rationale in choosing or not choosing a particular alternative. Staff further recommends that the Company be ordered to comply with this filing requirement before securing or closing on the WIFA loan(s).

- That the Commission authorize the Company to obtain a 20-year amortizing loan in an amount not to exceed $351,944 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed (presently estimated at 6.00 percent) to finance a capital improvement of a new deep well. This authorization should become effective only after the Company completes the items outlined above dealing with the City and demonstrates to the Commission that becoming a master meter customer of the City is not a viable alternative to a new well.

- That the Commission authorize the Company to obtain a 20-year amortizing loan in an amount not to exceed $173,056 and at an interest rate not to exceed the current WIFA subsidized rate at the time the loan is executed (presently estimated at 6.00 percent) to finance locating and mapping the distribution system, installing gate valves on the system to isolate portions of the distribution system, and replacing service taps and meters.

- That the Commission authorize the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

- That the Company be ordered to file copies of the fully-executed loan documents, as a compliance item in this docket, within 60 days of the execution of any transactions.

- That any authorization to incur debt granted in this proceeding terminate eighteen months from the date a Decision is issued in this matter, unless the financing is obtained within those eighteen months.

- That the Commission approve a financing surcharge mechanism to enable the Company to meet its principal and interest obligation on the proposed WIFA loan.

- That the Company be ordered to file with the Commission a WIFA loan surcharge tariff application within 60 days of the loan closing. Staff further recommends that the Company be required to follow the same methodology presented in this report to calculate the additional revenue needed to meet its loan obligations, using the actual loan terms and the actual number of customers at the time of loan closing, and using the result of that calculation to develop its surcharge tariff application. The increase in revenue calculation should be included in the surcharge tariff application.

- That any surcharge be implemented only after Commission approval of the loan surcharge tariff.

- That approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within eighteen months of the date of the Decision in this matter.

- That the Company be ordered to file a new rate case within five years of a decision in this proceeding. Staff further recommends that the financing surcharge cease automatically, if the Company fails to file the required rate case within five years.

- That the Company be ordered to maintain its records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts. Staff further recommends that the Company be ordered to file with Docket Control, a document stating it is in compliance within 6 months of a Decision in this matter.

- That the Company be ordered to monitor its water loss in its system for a 12-month period to prepare for a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall submit the water loss reduction report containing a detailed analysis and plan to reduce the 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 that 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be filed as a compliance item in this docket, within 13 months of the effective date of an Order issued in this proceeding.

- That the Company be ordered to file with Docket Control, as a compliance item in this docket, within one year of closing the WIFA loan on the well project, a copy of the ADEQ Certificate for Approval to Construct for the new deep well project.

- That the Company be ordered to file, as a compliance item in this docket, within 45 days of the effective date of an Order in this proceeding, a curtailment tariff for review and certification by Staff that is in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc.

- That the Company be ordered to adopt and use Staff's recommended depreciation rates as delineated in Table B of the Engineering Report.

F. Wayne & Dorothy Thompson dba West Village Water Company
Docket No. W-03211-08-0622 — Amended Schedule DWC-1A
Test Year Ended December 31, 2007

SUMMARY OF FILING
WITHOUT RECOMMENDED SURCHARGE REVENUE

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	$31,935	$31,935	$131,208	$37,315
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	$31,935	**$31,935**	$131,208	**$37,315**
Operating Expenses:				
Operation and Maintenance	$50,758	$30,155	$50,758	$30,155
Depreciation	539	539	539	539
Property & Other Taxes	1,023	1,023	1,023	1,023
Income Tax	0	0	0	0
Total Operating Expense	$52,320	**$31,717**	$52,320	**$31,717**
Operating Income/(Loss)	($20,385)	**$218**	$78,888	**$5,598**
Rate Base O.C.L.D.	$28,968	$32,642	$28,968	$32,642
Rate of Return - O.C.L.D.	-70.37%	0.67%	272.33%	17.15%
Times Interest Earned Ratio (Pre-Tax)	N/A	0.01	N/A	0.18
Debt Service Coverage Ratio (Pre-Tax)	N/A	0.02	N/A	0.13
Operating Margin	-63.83%	0.68%	60.12%	15.00%

NOTES:

1 The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

2 Debt service coverage ratio (DSC) represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt.

3 Operating margin is the percentage of operating income to operating revenue.

F. Wayne & Dorothy Thompson dba West Village Water Company
Docket No. W-03211-08-0622 Amended Schedule DWC-1B
Test Year Ended December 31, 2007

SUMMARY OF FILING
WITH RECOMMENDED SURCHARGE REVENUE

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	$31,935	$31,935	$131,208	$88,392
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	$31,935	**$31,935**	$131,208	**$88,392**
Operating Expenses:				
Operation and Maintenance	$50,758	$30,155	$50,758	$30,155
Depreciation	539	539	539	539
Property & Other Taxes	1,023	1,023	1,023	1,023
Income Tax	0	0	0	0
Total Operating Expense	$52,320	**$31,717**	$52,320	**$31,717**
Operating Income/(Loss)	($20,385)	**$218**	$78,888	**$56,675**
Rate Base O.C.L.D.	$28,968	$32,642	$28,968	$32,642
Rate of Return - O.C.L.D.	-70.37%	0.67%	272.33%	173.63%
Times Interest Earned Ratio (Pre-Tax)	N/A	0.02	2.54	1.80
Debt Service Coverage Ratio (Pre-Tax)	N/A	0.02	1.75	1.25
Operating Margin	-63.83%	0.68%	60.12%	64.12%

NOTES:

1 The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

2 Debt service coverage ratio (DSC) represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt.

3 Operating margin is the percentage of operating income to operating revenue.

RATE BASE

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

Explanation of Adjustment:

Adjustment No. 1.
Staff decreased plant in service by the cost of $6,614 for the old pump that was retired in 2007.

Adjustment No. 2.
Staff decreased accumulated depreciation by the cost of $6,614 for the old pump that was retired in 2007.

Staff also decreased accumulated depreciation by $270 to reduce the depreciation expense on the new pump placed in service during the test year. The Company took a full year's depreciation expense instead of using the half-year convention method.

Adjustment No. 3.
The company did not claim cash working capital.
Staff computed cash working capital using the formula method.

PLANT IN SERVICE

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	$0	$0		$0
302 Franchises	0	0		0
303 Land & Land Rights	18,460	0		18,460
304 Structures & Improvements	1,198	0		1,198
307 Wells & Springs	12,638	0		12,638
311 Pumping Equipment	29,873	(6,614)	1	23,259
320 Water Treatment Equipment	0	0		0
330 Distribution Reservoirs & Standpipes	0	0		0
330.1 Storage Tanks	5,257	0		5,257
331 Transmission & Distribution Mains	35,270	0		35,270
333 Services	0	0		0
334 Meters & Meter Installations	3,490	0		3,490
335 Hydrants	0	0		0
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	0	0		0
340 Office Furniture & Equipment	0	0		0
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipment	0	0		0
344 Laboratory Equipment	0	0		0
345 Power Operated Equipment	0	0		0
346 Communication Equipment	0	0		0
347 Miscellaneous Equipment	0	0		0
348 Other Tangible Plant	0	0		0
105 C.W.I.P.	0	0		0
TOTALS	$106,186	($6,614)		**$99,572**

Adjustment No. 1
Staff removed the old pump that was replaced in 2007.

ACCUMULATED DEPRECIATION

		Amount
Accumulated Depreciation - Per Company		$77,218
Accumulated Depreciation - Per Staff		70,334
Total Adjustment	2	**($6,884)**

Explanation of Adjustment:

Adjustment No. 2.
Staff decreased accumulated depreciation by $6,614 the cost of the old pump replaced in 2007 and also by $270 the excess of accumulated depreciation that was taken on the new pump installed in 2007, for a total of $6,884.

F. Wayne & Dorothy Thompson dba West Village Water Company
Docket No. W-03211-08-0622
Test Year Ended December 31, 2007

STATEMENT OF OPERATING INCOME

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

STAFF ADJUSTMENTS

1	PURCHASED WATER - Per Company	$18,765	
	Per Staff	0	($18,765)

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

2	WATER TESTING - Per Company	$982	
	Per Staff	1,144	$162

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

3	REGULATORY COMMISSION EXPENSE - RATE CASE - Per Company	$5,000	
	Per Staff	3,000	($2,000)

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

RATE DESIGN

Monthly Minimum Charge	Present Rates	Company Proposed	Staff Recommended
5/8" x 3/4" Meter	26.00	155.00	26.00
3/4" Meter	39.00	232.50	39.00
1" Meter	65.00	387.50	65.00
1½" Meter	130.00	775.00	130.00
2" Meter	208.00	1,240.00	208.00
3" Meter	390.00	2,480.00	416.00
4" Meter	650.00	3,875.00	650.00
6" Meter	1,300.00	7,750.00	1,300.00
Financial Surcharge for all meter sizes	n/a	n/a	80.31
Excess of Minimum - per 1,000 Gallons	5.05	0	0
Gallons included in minimum	0	0	0
5/8 inch and 3/4 inch meters			
0 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
5/8 inch and 3/4 inch meters			
0 gallon to 3,000 gallons	n/a	n/a	5.50
3,001 to 7,000 gallons	n/a	n/a	8.60
all gallons over 7,000 gallons	n/a	n/a	9.95
one inch meter			
0 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallons to 10,000 gallons	n/a	n/a	8.60
all gallons over 10,000 gallons	n/a	n/a	9.95
one and one-half inch meter			
0 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallons to 20,000 gallons	n/a	5.05	8.60
all gallons over 20,000 gallons	n/a	6.50	9.95
two inch meter			
one gallon to 3,000 gallons		5.05	
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallon to 40,000 gallons	n/a	n/a	8.60
all gallons over 40,000 gallons	n/a	n/a	9.95
three inch meter			
1 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallon to 144,000 gallons	n/a	n/a	8.60
all gallons over 144,000 gallons	n/a	n/a	9.95
four inch meter			
1 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallon to 225,000 gallons	n/a	n/a	8.60
all gallons over 225,000 gallons	n/a	n/a	9.95
six inch meter			
1 gallon to 3,000 gallons	n/a	5.05	n/a
3,001 to 10,000 gallons	n/a	6.50	n/a
all gallons over 10,000 gallons	n/a	8.50	n/a
0 gallon to 450,000 gallons	n/a	n/a	8.60
all gallons over 450,000 gallons	n/a	n/a	9.95
Standpipe rate	5.05	6.50	9.95

F. Wayne & Dorothy Thompson dba West Village Water Company
Docket No. W-03211A-08-0622
Test Year Ended December 31, 2007

Service Line and Meter Installation Charges

		Company Proposed			Staff Recommended		
	Current Charges	Service Line Charges	Meter Charges	Total Charges	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	330.00	430.00	130.00	560.00	430.00	130.00	560.00
3/4" Meter	375.00	430.00	230.00	660.00	430.00	230.00	660.00
1" Meter	440.00	480.00	290.00	770.00	480.00	290.00	770.00
1½" Meter	660.00	535.00	500.00	1035.00	535.00	500.00	1,035.00
2" Turbine	1155.00	815.00	1020.00	1835.00	815.00	1020.00	1,835.00
2" Compound	n/a	815.00	1865.00	2680.00	815.00	1865.00	2,680.00
3' Turbine	1625.00	1030.00	1645.00	2675.00	1030.00	1645.00	2,675.00
3" Compound	n/a	1150.00	2520.00	3670.00	1150.00	2520.00	3,670.00
4' Turbine	2540.00	1460.00	2620.00	4080.00	1460.00	2620.00	4,080.00
4' Compound	n/a	1640.00	3595.00	5235.00	1640.00	3595.00	5,235.00
6" Turbine	4875.00	2180.00	4975.00	7155.00	2180.00	4975.00	7,155.00
6" Compound	n/a	2300.00	6870.00	9170.00	2300.00	6870.00	9,170.00

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

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.50 percent on the unpaid balnce per month.

**** Main Extensions are addressed separately in the Arizona Administrative Code are not part of this tariff and should be removed from this tariff.

F. Wayne and Dorothy Thompson dba West Village Water Company
Docket No. W-03211A-08-0622
Test Year Ended December 31, 2007

Amended Schedule DWC-5A

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

Average Number of Customers: 35

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	3,248	$42.40	$171.76	$129.36	305.1%
Median Usage	2,534	$38.80	$167.80	$129.00	332.5%
Staff Recommended					
Average Usage	3,248	$42.40	$44.63	$2.23	5.3%
Median Usage	2,534	$38.80	$39.94	$1.14	2.9%

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

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

F. Wayne and Dorothy Thompson dba West Village Water Company
Docket No. W-03211A-08-0622
Test Year Ended December 31, 2007

Amended Schedule DWC-5B

TYPICAL BILL ANALYSIS
General Service 5/8 - Inch Meter
With Financing Surcharge

Average Number of Customers: 35

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	3,248	$42.40	$171.76	$129.36	305.1%
Median Usage	2,534	$38.80	$167.80	$129.00	332.5%
Staff Recommended					
Average Usage	3,248	$42.40	$124.94	$82.54	194.7%
Median Usage	2,534	$38.80	$120.25	$81.45	209.9%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
0	$26.00	$155.00	496.2%	$106.31	308.9%
1,000	31.05	160.05	415.5%	111.81	260.1%
2,000	36.10	165.10	357.3%	117.31	225.0%
3,000	41.15	170.15	313.5%	122.81	198.4%
4,000	46.20	176.65	282.4%	131.41	184.4%
5,000	51.25	183.15	257.4%	140.01	173.2%
6,000	56.30	189.65	236.9%	148.61	164.0%
7,000	61.35	196.15	219.7%	157.21	156.3%
8,000	66.40	202.65	205.2%	167.16	151.7%
9,000	71.45	209.15	192.7%	177.11	147.9%
10,000	76.50	215.65	181.9%	187.06	144.5%
15,000	101.75	258.15	153.7%	236.81	132.7%
20,000	127.00	300.65	136.7%	286.56	125.6%
25,000	152.25	343.15	125.4%	336.31	120.9%
50,000	278.50	555.65	99.5%	585.06	110.1%
75,000	404.75	768.15	89.8%	833.81	106.0%
100,000	531.00	980.65	84.7%	1,082.56	103.9%
125,000	657.25	1,193.15	81.5%	1,331.31	102.6%
150,000	783.50	1,405.65	79.4%	1,580.06	101.7%
175,000	909.75	1,618.15	77.9%	1,828.81	101.0%
200,000	1,036.00	1,830.65	76.7%	2,077.56	100.5%

F. Wayne and Dorthy Thompson dba West Village Water Company
Docket No. W-03211A-08-0622
Test Year Ended December 31, 2007

Amended Schedule DWC-6A

TYPICAL BILL ANALYSIS

General Service 3/4 - Inch Meter

Without Financing Surcharge

Average Number of Customers: 18

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,134	$64.93	$261.52	$196.59	302.8%
Median Usage	2,476	$51.50	$245.00	$193.50	375.7%
Staff Proposed					
Average Usage	5,134	$64.93	$73.85	$8.92	13.7%
Median Usage	2,476	$51.50	$52.62	$1.12	2.2%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$39.00	$232.50	496.2%	$39.00	0.0%
1,000	44.05	237.55	439.3%	44.50	1.0%
2,000	49.10	242.60	394.1%	50.00	1.8%
3,000	54.15	247.65	357.3%	55.50	2.5%
4,000	59.20	254.15	329.3%	64.10	8.3%
5,000	64.25	260.65	305.7%	72.70	13.2%
6,000	69.30	267.15	285.5%	81.30	17.3%
7,000	74.35	273.65	268.1%	89.90	20.9%
8,000	79.40	280.15	252.8%	99.85	25.8%
9,000	84.45	286.65	239.4%	109.80	30.0%
10,000	89.50	293.15	227.5%	119.75	33.8%
15,000	114.75	335.65	192.5%	169.50	47.7%
20,000	140.00	378.15	170.1%	219.25	56.6%
25,000	165.25	420.65	154.6%	269.00	62.8%
50,000	291.50	633.15	117.2%	517.75	77.6%
75,000	417.75	845.65	102.4%	766.50	83.5%
100,000	544.00	1,058.15	94.5%	1,015.25	86.6%
125,000	670.25	1,270.65	89.6%	1,264.00	88.6%
150,000	796.50	1,483.15	86.2%	1,512.75	89.9%
175,000	922.75	1,695.65	83.8%	1,761.50	90.9%
200,000	1,049.00	1,908.15	81.9%	2,010.25	91.6%

F. Wayne and Dorthy Thompson dba West Village Water Company
Docket No. W-03211A-08-0622
Test Year Ended December 31, 2007

Amended Schedule DWC-6B

TYPICAL BILL ANALYSIS

General Service 3/4 - Inch Meter

With Financing Surcharge

Average Number of Customers: 18

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,134	$64.93	$261.52	$196.59	302.8%
Median Usage	2,476	$51.50	$245.00	$193.50	375.7%
Staff Proposed					
Average Usage	5,134	$64.93	$154.16	$89.23	137.4%
Median Usage	2,476	$51.50	$132.93	$81.43	158.1%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$39.00	$232.50	496.2%	$119.31	205.9%
1,000	44.05	237.55	439.3%	124.81	183.3%
2,000	49.10	242.60	394.1%	130.31	165.4%
3,000	54.15	247.65	357.3%	135.81	150.8%
4,000	59.20	254.15	329.3%	144.41	143.9%
5,000	64.25	260.65	305.7%	153.01	138.1%
6,000	69.30	267.15	285.5%	161.61	133.2%
7,000	74.35	273.65	268.1%	170.21	128.9%
8,000	79.40	280.15	252.8%	180.16	126.9%
9,000	84.45	286.65	239.4%	190.11	125.1%
10,000	89.50	293.15	227.5%	200.06	123.5%
15,000	114.75	335.65	192.5%	249.81	117.7%
20,000	140.00	378.15	170.1%	299.56	114.0%
25,000	165.25	420.65	154.6%	349.31	111.4%
50,000	291.50	633.15	117.2%	598.06	105.2%
75,000	417.75	845.65	102.4%	846.81	102.7%
100,000	544.00	1,058.15	94.5%	1,095.56	101.4%
125,000	670.25	1,270.65	89.6%	1,344.31	100.6%
150,000	796.50	1,483.15	86.2%	1,593.06	100.0%
175,000	922.75	1,695.65	83.8%	1,841.81	99.6%
200,000	1,049.00	1,908.15	81.9%	2,090.56	99.3%

F. Wayne and Dorothy Thompson dba West Village Water Company
Docket No. W-0-3211A-08-0621 and 0622
Application For Financing

Amended Schedule DWC-7

FINANCIAL ANALYSIS

Selected Financial Information

Line			[A][1] *Recommended*			[B][2] *Pro Forma*	
1	Operating Income	$	56,675		$	56,675	
2	Depreciation & Amort.		539			539	
3	Income Tax Expense		0			0	
4							
5	Interest Expense		0			31,101	
6	Repayment of Principal		0			14,671	
7							
8							
9	**TIER**						
10	[1+3] ÷ [5]		N/M [3]			1.82	
11	**DSC**						
12	[1+2+3] ÷ [5+6]		N/M			1.25	
13							
14							
15							
16							
17	**Capital Structure**						
18							
19	Short-term Debt		0	0.0%		14,671	2.9% [4]
20							
21	Long-term Debt		0	0.0%		510,329	102.2%
22							
23	Common Equity		(25,858)	100.0%		(25,858)	-5.2%
24							
25	Total Capital	$	(25,858)	100.0%	$	499,142	100.0%
26							
27							
28	**Capital Structure (inclusive of AIAC and Net CIAC)**						
29							
30	Short-term Debt		0	0.0%		14,671	2.8%
31							
32	Long-term Debt		0	0.0%		510,329	98.1%
33							
34	Common Equity		(25,858)	520.1%		(25,858)	-5.0%
35							
36	Advances in Aid of Construction ("AIAC")		0	0.0%		0	0.0%
37							
38	Contributions in Aid of Construction ("CIAC") [5]		20,886	-420.1%		20,886	4.0%
39							
40	Total Capital (Inclusive of AIAC and CIAC)	$	(4,972)	100.0%	$	520,028	100.0%
41							
42							
43	**AIAC and CIAC Funding Ratio** [6]		-420.1%			4.0%	
44	(36+38)/(40)						
45							
46							

47 [1] Column [A] is based on Staff's recommended revenue requirement including the financing surcharge.
48 [2] Column [B] is Column [A] modified to reflect a $525,000 loan, at an interest rate of 6 percent, for 20 years.
49 [3] Not Meaningful
50 [4] Pro Forma Short-term Debt represents the annual principal portion of the proposed loan.
51 [5] Net CIAC balance (i.e. less: amortization of contributions).
52 [6] Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

ATACHMENT A

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

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

By Marlin Scott, Jr.

February 11, 2010

CONCLUSIONS

A. F. Wayne Thompson and Dorothy Thompson DBA West Village Water Company's ("Company") has adequate well and storage capacity to serve the present customer base and reasonable growth.

B. According to an updated ADEQ Compliance Status Report, dated February 11, 2010, ADEQ has determined that the Company's system, PWS #03-021, has no deficiencies and is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

C. 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.

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

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

RECOMMENDATIONS

1. The Company has a 25.1 percent water loss. Staff recommends that the Company monitor its water system for a 12-month period to prepare for a water loss reduction report. If the reported water loss is greater than 10%, the Company shall submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10% or less. If the Company believes it is not cost effective to reduce the water loss to less than 10%, it should submit a detailed cost benefit analysis to support it opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months from the effective date of an order issued in this proceeding.

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

3. Staff recommends that the Company adopt Staff's typical and customary depreciation rates and further recommends that the Company use these depreciation rates delineated in Table B.

4. Staff recommends the adoption of the Company's proposed Service Line and Meter Installation Charges as delineated in Table C.

5. Staff recommends that the Company file a curtailment tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc. This tariff shall be docketed as a compliance item in this docket within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

Attachment A

TABLE OF CONTENTS

Page

A. LOCATION OF COMPANY

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

B. DESCRIPTION OF THE WATER SYSTEM

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

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

Table 1. Well Data

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

Table 2. Tanks & Pumping Facilities

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

Table 3. Water Mains

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

Table 4. Customer Meters

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

Table 5. Equipment & Structures

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

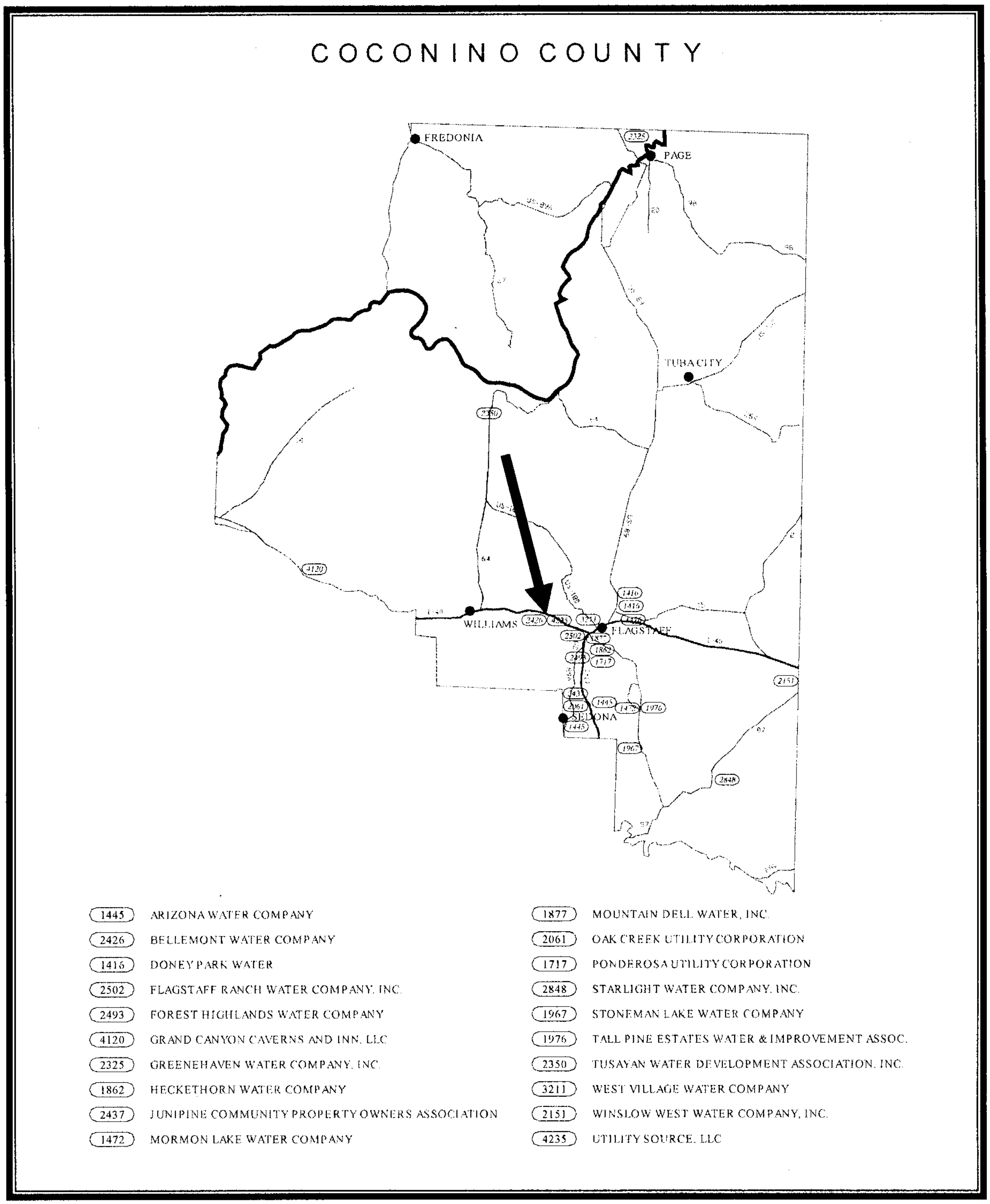

Figure 1. County Map

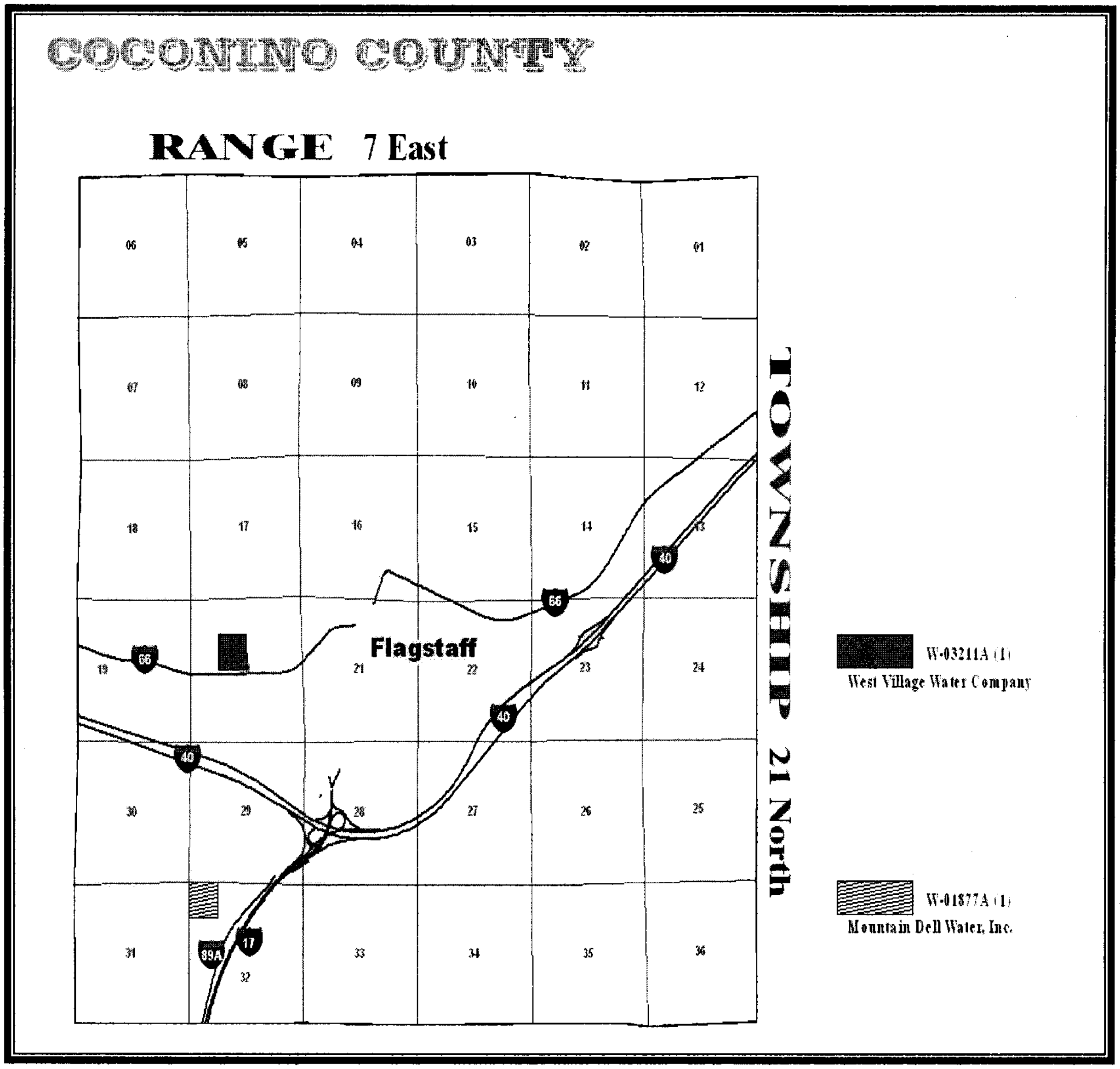

Figure 2. Certificated Area

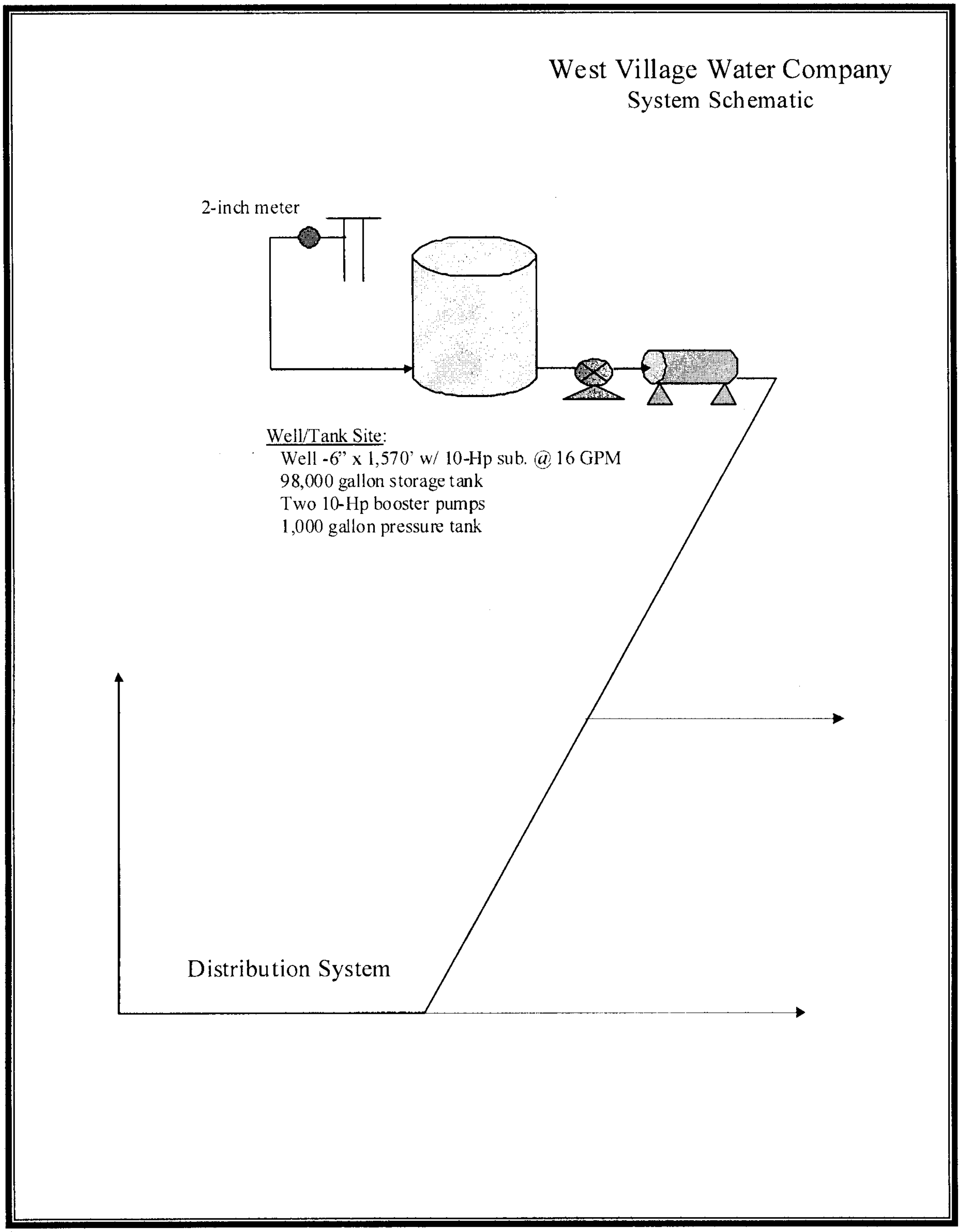

Figure 3. System Schematic

C. WATER USE

Water Sold

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

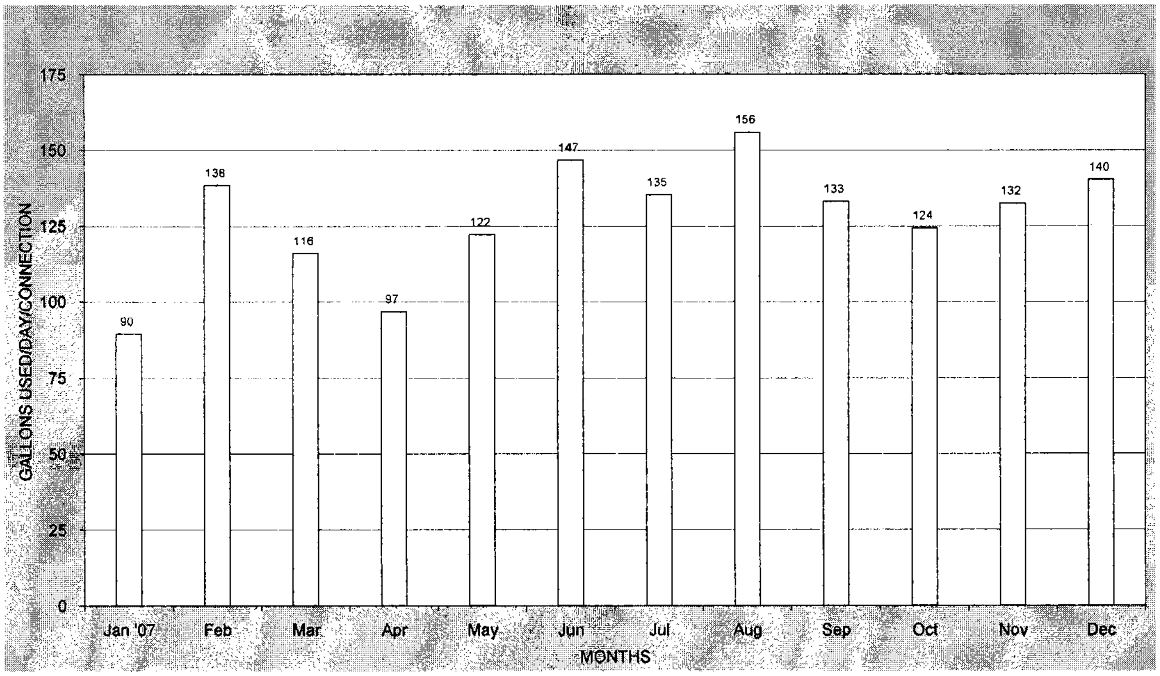

Figure 4. Water Use

Non-Account Water

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

For this reason, Staff recommends that the Company monitor its water system for a 12-month period to prepare for a water loss reduction report. If the reported water loss is greater than 10%, the Company shall submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10% or less. If the Company believes it is not cost effective to reduce the water loss to less than 10%, it should submit a detailed cost benefit analysis to support it opinion. In no case shall the Company allow water loss to be greater than

15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months from the effective date of an order issued in this proceeding. The Company's requested financing should solve a portion of this problem.

System Analysis

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

D. GROWTH

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

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

Compliance

According to an updated ADEQ Compliance Status Report, dated February 11, 2010, ADEQ has determined that the Company's system, PWS #03-021, has no deficiencies 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 $982 during the test year. Staff has reviewed these expenses and has recalculated the annual expense by adding the omitted monitoring requirements for lead & copper and Disinfection/Disinfection By-Product ("D/DBP"). Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. The Company chlorinates its well and therefore, is required to monitor for D/DBP. Table A shows Staff's adjusted annual monitoring expense estimate of $1,144 with participation in the MAP.

Table A. Water Testing Cost

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

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

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

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

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

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

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

H. DEPRECIATION RATES

The Company has been using a depreciation rate of 5.00% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been adopting Staff's typical and customary depreciation rates. These rates are presented in Table B and it is recommended that the Company use these depreciation rates by individual NARUC category.

Table B. Depreciation Rates

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

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company requested changes to its service line and meter installation charges. These requested charges are similar to Staff's customary installation charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of the charges as shown in Table C below, with separate installation charges for the service line and meter installations.

Table C. Service Line and Meter Installation Charges

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

2. Curtailment Tariff

The Company does not have an approved curtailment tariff. Staff recommends that the Company file a curtailment tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc. This tariff shall be docketed as a compliance item in this docket within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

3. Backflow Prevention Tariff

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

MEMORANDUM

DATE: February 11, 2010

TO: Darron Carlson
Public Utilities Analyst Manager
Utilities Division

FROM: Marlin Scott, Jr.
Utilities Engineer
Utilities Division

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

Introduction

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

Existing Water System

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

Proposed Capital Improvement Projects

Project Descriptions

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

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

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

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

Water System Evaluation

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

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

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

Project Cost Estimates

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

1. New deep well project:

- Drilling of a 2,000 feet well	$202,200
- Installation of a 75-Hp submersible pump, 150 gpm	$117,744

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

Subtotal:	$351,944

2. Service line tap replacement project:

- Locating & mapping of existing system	$ 15,000
- Install gate valves for sectioning system, 6 each	$ 10,000
- Replacement of service taps and meters, 53 each	$120,000
- Engineering – design and permitting	$ 10,000
- Engineering – construction inspection	$ 15,000
- Engineering – County permitting/ road crossings	$ 3,056
Subtotal:	$173,056
Total:	$525,000

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

Arizona Department of Environmental Quality ("ADEQ") Compliance

According to an updated ADEQ Compliance Status Report, dated February 11, 2010, ADEQ has determined that the Company's system, PWS #03-021, has no deficiencies and is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Conclusion/Recommendation

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

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