

ORIGINAL

MEMORANDUM



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

EA for SMO

DATE: May 3, 2010

RE: STAFF REPORT FOR CHAPARRAL WATER COMPANY'S APPLICATION FOR A PERMANENT RATE INCREASE. (DOCKET NO. W-02393A-09-0539)

Attached is the Staff Report for Chaparral Water Company's application for a permanent rate increase. Staff recommends approval of its 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 May 13, 2010.

SMO:All:kdh

Originator: Alexander Ibhade Igwe, CPA

Arizona Corporation Commission
DOCKETED
MAY - 3 2010

DOCKETED BY	<i>MM</i>
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Service List for: Chaparral Water Company.
Docket No. W-02393A-09-0539

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**CHAPARRAL WATER COMPANY
DOCKET NO. W-02393A-09-0539**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

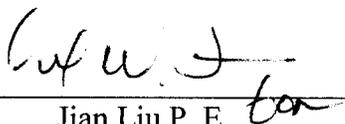
MAY 3, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Chaparral Water Company, Docket No. W-02393A-09-0539 was the responsibility of the Staff members listed below. Alexander Ihade Igwe was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design. Jian Liu was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company and reviewing customer complaints filed with the Commission.



Alexander Ihade Igwe, CPA
Executive Consultant III



Jian Liu P. E.
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
CHAPARRAL WATER COMPANY
DOCKET NO. W-02393A-09-0539**

Chaparral Water Company ("CWC" or "Company") is located approximately one mile west of Grand Avenue, near Patton Road and 203rd Avenue, in the Phoenix metropolitan area. It currently serves approximate 326 customers, based on rates and charges approved by the Arizona Corporation Commission ("Commission") in Decision No. 66392, dated October 6, 2003.

On November 23, 2009, CWC filed an application for Commission approval to increase its revenues from \$148,972 to \$185,855, an increase of \$38,913 or 24.78 percent. The Company's requested revenue requirement results in an operating income of \$24,563 or 13.95 percent rate of return on its Original Cost Rate Base ("OCRB") of \$176,108. Also, its requested revenue requirement yields a 13.21 percent operating margin. CWC's proposed rates will increase the monthly bill of a typical residential customer with a median usage of 8,516-gallons, by \$8.98 or 31.9 percent, from \$28.18 to \$37.18.

Staff recommends \$176,003 of revenue requirement, an increase of \$27,031 or 18.15 percent over test year level. Staff's recommended revenue requirement yields an operating income of \$17,600 or a 12.41 percent rate of return on Staff adjusted OCRB of \$141,845. Staff utilized an operating margin instead of rate of return on OCRB to determine its recommended revenue requirement. Staff finds that a 10.00 percent operating margin provides the Company with adequate funds to manage operating expenses and contingencies. Staff's recommended rates will increase the monthly bill of a typical residential customer with a median usage, from \$28.18 to \$30.26, an increase of \$2.08 or 7.40 percent.

Staff recommends Commission approval of its recommended rates and charges shown on Schedule AII-4.

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FACT SHEET

Company:

Current Rates: Decision No. 66395, dated October 06, 2003
Type of Ownership: C Corporation

Location: The Company is located within an Active Management Area ("AMA") in Maricopa County, Arizona.

Rates:

Permanent rate increase application filed: November 23, 2009
Current test year ended: June 30, 2009
Prior test year ended: December 31, 2002

Rates:

	<u>Current Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
Monthly Minimum Charge: (For 5/8 x 3/4-Inch Meter)	\$12.85	\$18.00	\$13.25
Commodity Rates:			
0-9,000-gallons	\$1.80	\$2.25	
9,001-25,000-gallon	\$2.00		
Over 25,000-gallons	\$2.46		
9,001-50,000-gallons		\$2.50	
Over 50,000-gallons		\$3.00	
0-7,000-gallons			\$1.91
7,001-15,000-gallons			\$2.40
Over 15,000-gallons			\$3.00
Typical Residential Bill: (Based on a median usage of 8,516-gallons)	\$28.16	\$37.16	\$30.26

Customers:

Average number of customers in the current test year (06/30/09): 326

Current test year customers by meter size:

5/8 X 3/4-inch	324
3/4-inch	0
1-inch	2
1 1/2-inch	0
2-inch	2
4-inch	0
6-inch	0

Seasonal customers: N/A

Customer notifications for rate application filed: November 19, 2009 and December 31, 2009

Number of customer complaints and/or opinions concerning rate application filed: 2

Percentage of complaints to customer base: 0.62 percent.

SUMMARY OF FILING

On November 23, Chaparral Water Company, ("CWC" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On February 17, 2010, the Commission Staff ("Staff") determined that the Company's application has met sufficiency requirements of the Arizona Administrative Code, Section R14-2-103. CWC is classified as a Class D water utility based on its revenues.

The Company reports test year total operating revenue of \$148,972, and an operating loss of \$12,350. In this proceeding, the Company seeks a rate increase of \$36,913 or 24.78 percent over test year operating revenues, for a total of \$185,885. The Company's proposed rate increase will result in an operating income of \$24,563 or a 13.95 percent rate of return on its reported Original Cost Rate Base ("OCRB") of \$176,108.

As shown on schedule AII-3, page 1 of 5, Staff has adopted the Company's reported test year operating revenues. However, Staff has determined that the Company's test year operating loss was \$3,591, due to its adjustments to test year operating expenses. Staff recommends revenue requirement of \$176,003, an increase of \$27,031 or 18.15 percent over test year revenues. Staff's recommended revenue requirement yields an operating income of \$17,600 or a 12.41 percent rate of return on Staff adjusted OCRB of \$141,845. Staff's recommended revenue requirement is based on a 10.00 percent operating margin. As shown on Schedule AII-5, Staff's recommended rates would increase the monthly bill of a typical residential customer on a 5/8 x 3/4 inch meter, with a median usage of 8,516-gallons, by \$2.08 or 7.4 percent, from \$28.18 to \$30.26.

BACKGROUND

CWC is a C Corporation, certificated by the Commission to provide water service in Arizona, pursuant to Decision No. 52362, dated August 1, 1981. The Company is a wholly owned subsidiary of the Carioca Company. It is located approximately one mile west of Grand Avenue, near Patton Road and 203rd Avenue, in the Phoenix metropolitan area. At test year end, CWC served approximately 326 residential customers within its certificated area.

The Company states that its requested rate relief is necessary to mitigate rising cost of service and the negative impact of lack of rate increase over the last six years. Its current rates and charges were approved in Decision No. 66395, dated October 6, 2003.

PUBLIC NOTICE

The Company has filed an *Affidavit of Mailing* indicating that on November 19, 2009 and December 31, 2009, its customers of record as of September 1, 2009, were noticed of its application for a permanent rate increase.

CONSUMER SERVICES

Staff reviewed the Commission's records and found zero complaints in 2007, one billing complaint in 2008; zero complaints in 2009; and two opinions in 2010, in opposition to this filing for a rate increase.

Staff has determined that the Company is in good standing with the Corporation Division of the Commission.

ENGINEERING ANALYSIS

Staff conducted a field inspection of the Company's plant facilities on April 9, 2010 in the accompaniment of the Company's Manager, Larry Pruett. A complete description of the Company's water system, Staff's technical findings and recommendations are contained in Engineering Report, attached herewith as Attachment A.

The Company's water system is comprised of four wells with total production capacity of 370 Gallons-Per-Minute ("GPM"), six storage tanks and a distribution system. Staff's analysis indicates that the Company has adequate capacity to serve its current customer base as well as any reasonable growth. Also, Staff found that CWC has 7.85 percent non-account water, less than its recommended maximum loss level of 10 percent.

The Company participates in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program ("MAP"). Although the Company reported total water testing expense of \$13,975, Staff found that \$7,207 is an appropriate expense level for water testing. The Company's test year costs included \$6,550 for materials and equipment cost, which Staff has reclassified to Laboratory Equipment. Based on these findings, Staff recommends disallowance of \$218 of test year water testing expense. Please see page 4 of Engineering Report for detailed analysis.

Staff recommends that the Company adopt its recommended depreciation rates depicted on Table H-1 of Engineering Report.

COMPLIANCE

ADEQ or its delegated agent, Maricopa County Environmental Services Department ("MCESD") reports in an MCESD report dated November 13, 2009, that the Company's water system is in compliance with the regulatory agency requirements; and that it is currently delivering water that meets State and Federal drinking water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

CWC is located with an Arizona Department of Water Resources ("ADWR") Phoenix AMA. Staff received a compliance status report from ADWR, issued in April 2010, indicating

that the Company is in compliance with the departmental requirement governing providers and/or community water systems.

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

A search of the Utilities Division Compliance Section's database indicates that the Company has no outstanding compliance issues.

RATE BASE

CWC proposes an OCRB of \$176,108 in this proceeding. Because the Company did not provide a Reconstructed Cost New less Depreciation ("RCND") study, its OCRB is assumed to be equal Fair Value Rate Base ("FVRB").

As shown on Schedule AII-2, page 1 of 4, Staff recommends an OCRB of \$141,845, a decrease of \$34,263 to the Company's proposal. Staff's recommended decrease is attributable to its adjustments to Plant-in-Service, Accumulated Depreciation and Working Capital, as discussed below.

Plant in Service

As shown on Schedule AII-2, page 1 of 4, Adjustment A, increases Plant-in-Service by \$6,550. This adjustment relates primarily to Staff's recommendation to reclassify \$6,550 of water testing material and equipment from test year water testing expense, to Laboratory Equipment.

As shown on Schedule AII-2, page 2 of 4, Staff also reclassified \$12,079 from Miscellaneous Equipment to Computer and Software plant account. This reclassification relates to the Company's cost of implementing new accounting software, erroneously recorded as an addition to Miscellaneous Equipment in 2004. Staff has determined that addition of accounting software should have been classified to Computer and Software plant account. Because this reclassification involves transfer of an identical cost, from Miscellaneous Equipment to Computer and Software plant account, it has no impact on test year Plant-in-Service.

Accumulated Depreciation

As shown on Schedule AII-2, page 1 of 4, Staff recommends accumulated depreciation of \$324,183, an increase of \$40,534 (Adjustment B) over the Company's reported accumulated depreciation of \$283,649. Adjustment B reflects the impact of Staff's recalculation of accumulated depreciation based on Staff adjusted Plant-in-Service and Commission approved rates.

Working Capital

Adjustment C shown on Schedule AII-2, page 1 of 4 reflects the impact of Staff's adjustment to operating expenses on working capital. This adjustment results in a decrease of \$279 to working capital.

OPERATING INCOME STATEMENT

Operating Revenue

Staff accepts the Company's reported test year operating revenue of \$148,972, shown on Schedule AII-3, page 1.

Operating Expenses

Staff has established that the Company's test year total operating expenses was \$152,563, \$8,759 less than the Company's reported costs of \$161,322. Staff's adjustments to operating expenses are shown on Schedule AII-3, page 1, and explained below.

Office Supplies & Expense – As shown on Schedule AII-3, page 2, Adjustment A reclassifies a total of \$1,472 from miscellaneous expense to office supplies and expense. This adjustment relates to reclassification of \$40 of telephone and \$1,432 of postage costs, recorded as miscellaneous expense.

Water Testing Expense – Adjustment B shown on Schedule AII-3, pages 1 and 2, reduces water testing expense from \$13,975 to \$7,207, to reflect an appropriate level of test year cost. Staff's adjustment of \$6,768 results from reclassifying \$6,550 to Laboratory Equipment and a disallowance of \$218. (See page 4 of Engineering Report).

Regulatory Expense – Adjustment C increases regulatory expense by \$10,445 to reflect rate case expense as well as regulatory costs reclassified from miscellaneous expense. This adjustment is comprised of \$6,667 of rate case expense and \$3,778 of other regulatory expenses.

The Company claims to have incurred \$39,205.56 for preparing, filing, and amending this rate filing. In addition, the Company projects that it will incur \$11,000 for the remainder of this proceeding. Thus the Company anticipates that it will incur total rate case expense of \$50,205.56 for this rate filing. Staff finds that the Company's incurred and projected costs exceed an appropriate amount for a company with approximately 326 customers. Staff recommends allowance of \$20,000 as a reasonable rate case expense, normalized over three years. Accordingly, Staff has recommended allowing the Company to recover \$6,667 of rate case expense in cost of service, over the next three years.

In addition to rate case expense discussed above, Staff has reclassified \$3,778 of other regulatory cost from miscellaneous expense to regulatory expense.

Miscellaneous Expense – Adjustment D decreases miscellaneous expense by \$7,381, from \$9,145 to \$1,764 for the reasons discussed above.

Property Tax Expense – Adjustment E decreases property tax expense by \$6,383, from \$9,431 to \$3,048, to reflect Staff's recalculation of property tax based on the ADOR methodology.

Income Tax Expense – Adjustment F decreases income tax expense to reflect the Company's operating loss during the test year.

REVENUE REQUIREMENT

The Company is requesting a rate increase of \$36,915 or 24.78 percent over test year revenues, for total revenue requirement of \$185,885. The Company's proposal would result in an operating income of \$24,563 or a 13.95 percent rate of return on its OCRB of \$176,108. The Company's requested operating income translates to a 13.21 percent operating margin.

Staff recommends revenue requirement of \$176,003, \$9,882 less than the Company's proposal. Because CWC is a Class D water utility, Staff utilized an operating margin instead of rate of return on OCRB to determine its recommended revenue requirement. Staff finds that a 10.00 percent operating margin provides the Company with adequate funds to manage operating expenses and contingencies. Staff's recommendation results in an operating income of \$17,600 or a 12.41 percent rate of return on Staff adjusted OCRB of \$141,845.

RATE DESIGN

The Company's current rate structure is comprised of three tiers, with a first-tier break-over of 9,000; 25,000-gallons for the second-tier; and over 25,000-gallons for the third-tier. Its current monthly minimum charges do not include any gallonage. In this proceeding, the Company proposes to retain a three tiered rate structure, with a first-tier break-over of 9,000-gallon; 50,000-gallons for the second tier; and over 50,000-gallons for the third-tier.

The Company's proposed Service Line and Meter Installation Charges as well as its proposed Service Charges are within a reasonable range of Staff's recommendations in this proceeding.

Staff recommends a three tiered rate structure, with a first tier break-over of 7,000-gallons; 15,000-gallons for the second-tier; and over 15,000-gallons for the third-tier. Staff recommended first tier break-over is slightly lower than the Company's median consumption of 8,516-gallons, while the second-tier break-over is higher than the Company's average consumption of 12,823-gallons. Staff's recommended rate structure will encourage a more efficient use of water within the Company's certificated territory.

The Company's proposed commodity rates and monthly minimum charge for a typical residential customer on a 3/4-inch by 5/8-inch meter, with an median usage of 8,516-gallons, results in a monthly increase of \$8.98 or 31.9 percent. As shown on Schedule AII-5, Staff's recommended rates result in an increase of \$2.08 or 7.4 percent for a residential customer with the same level of consumption.

STAFF RECOMMENDATIONS

Staff recommended approval of its recommended rates and charges depicted on Schedule AII-4.

Staff recommends that the Company be authorized to collect from its customers an appropriate share of any privilege, sales or use tax as provided for in AAC R14-2-409(D).

Staff recommends that the Company adopt the depreciation rates set forth on Table H-1 of Engineering Report.

Staff recommends that the Company file with the Commission a schedule of its approved rates and charges no longer than 30-days from the date of the decision in this proceeding.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Recommended
Revenues:				
Metered Water Revenue	\$146,733	\$146,733	\$183,646	\$173,764
Unmetered Water Revenue	979	979	979	979
Other Water Revenues	1,260	1,260	1,260	1,260
Total Operating Revenue	\$148,972	\$148,972	\$185,885	\$176,003
Operating Expenses:				
Operation and Maintenance	\$137,822	\$135,590	\$137,822	\$135,590
Depreciation	14,069	14,069	14,069	14,069
Property & Other Taxes	9,431	3,048	9,431	3,232
Income Tax	0	(144)	0	5,512
Total Operating Expense	\$161,322	\$152,563	\$161,322	\$158,403
Operating Income/(Loss)	(\$12,350)	(\$3,591)	\$24,563	\$17,600
Rate Base O.C.L.D.	\$176,108	\$141,845	\$176,108	\$141,845
Rate of Return - O.C.L.D.	N/M	N/M	13.95%	12.41%
Operating Margin	N/M	N/M	13.21%	10.00%
Percent Increase	N/M	N/M	24.78%	18.15%

N/M = Not meaningful

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$451,432	\$6,550	A	\$457,982
Less:				
Accum. Depreciation	283,649	40,534	B	324,183
Net Plant	\$167,783	(\$33,984)		\$133,799
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$0		\$0
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Customer Deposit	\$6,900	\$0		6,900
Total Deductions	\$6,900	\$0		\$6,900
Plus:				
1/24 Power	1002	\$0		\$1,002
1/8 Operation & Maint.	14,223	(279)	C	13,944
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$15,225	(\$279)		\$14,946
Rate Base	\$176,108	(\$34,263)		\$141,845

Explanation of Adjustment:

- A - Refer to Schedule All-2, Pages 2 & 3 .
- B - Refer to Schedule All-2, Page 4.
- C - To reflect the impact of Staff's adjustments to Operation and Maintenance expense on cash working capital.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	-	\$0
302 Franchises	0	-	0
303 Land & Land Rights	17,000	-	17,000
304 Structures & Improvements	73,989	-	73,989
307 Wells & Springs	36,106	-	36,106
311 Pumping Equipment	77,028	-	77,028
320 Water Treatment Equipment	749	-	749
330.1 Distrib. Res. & Standpipes(Storage)	116,118	-	116,118
330.2 Distrib. Res. & Standpipes(Pressure)	0	-	0
331 Transmission & Distribution Mains	55,010	-	55,010
333 Services	44,646	0	44,646
334 Meters & Meter Installations	16,728	-	16,728
309 Flowhead Meters	0	-	0
336 Backflow Prevention Devices	0	-	0
339 Other Plant and Misc. Equipment	0	-	0
340 Computer & Software	0	12,079 a	12,079
341 Transportation Equipment	1,979	-	1,979
343 Tools Shop & Garage Equipment	0	-	0
344 Laboratory Equipment	0	6,550 b	6,550
345 Power Operated Equipment	0	-	0
346 Communication Equipment	0	-	0
347 Miscellaneous Equipment	12,079	(12,079) c	0
348 Other Tangible Plant	0	-	0
105 C.W.I.P.	0	-	0
TOTALS	\$451,432	6,550 A	\$457,982

Explanation of Adjustment:

A - Refer to Schedule All-2, Page 3.

PLANT ADJUSTMENT

Explanation of Adjustment:

A - To reclassify plant in service from miscellaneous equipment and water testing expense.

a - COMPUTER & SOFTWARE - Per Company	\$	-	
Per Staff	\$	12,079	<u>12,079</u>

To reclassify the cost of accounting software from miscellaneous equipment.

b - LABORATORY EQUIPMENT - Per Company	\$	-	
Per Staff	\$	6,550	<u>6,550</u>

To reclassify water testing equipment from water testing expense.

c - MISCELLANEOUS EQUIPMENT - Per Company	\$	12,079	
Per Staff	\$	-	<u>(12,079)</u>

To reclassify the cost of accounting software to Computer & Software.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$283,649
Accumulated Depreciation - Per Staff	324,183
Total Adjustment	<u>\$40,534</u> B

Explanation of Adjustment:

B - Accumulated Depreciation Per Decision No. 66395	\$ 209,244
Depreciation Expense 2003	18,969
Depreciation Expense 2004	20,019
Depreciation Expense 2005	21,481
Depreciation Expense 2006	21,939
Depreciation Expense 2007	18,621
Depreciation Expense 2008	14,466
Depreciation Expense 2009	7,449
Less Plant retirement	<u>(8,006)</u>
Staff's calculated Total Accumulated Depreciation-June 30, 2009	<u>324,183</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	146,733	-	146,733
460 Unmetered Water Revenue	979	-	979
474 Other Water Revenues	1,260	-	1,260
Total Operating Revenue	148,972	-	148,972
Operating Expenses:			
601 Salaries and Wages	-	-	-
610 Purchased Water	-	-	-
615 Purchased Power	24,038	-	24,038
618 Chemicals	-	-	-
620 Repairs and Maintenance	9,723	-	9,723
621 Office Supplies & Expense	27	1,472 A	1,499
630 Outside Services	80,544	-	80,544
635 Water Testing	13,975	(6,768) B	7,207
641 Rents	-	-	-
650 Transportation Expenses	-	-	-
657 Insurance - General Liability	370	-	370
659 Insurance - Health and Life	-	-	-
666 Regulatory Expense	-	10,445 C	10,445
675 Miscellaneous Expense	9,145	(7,381) D	1,764
403 Depreciation Expense	14,069	-	14,069
408 Taxes Other Than Income	-	-	-
408.11 Property Taxes	9,431	(6,383) E	3,048
409 Income Tax	-	(144) F	(144)
Total Operating Expenses	161,322	(8,759)	152,563
OPERATING INCOME/(LOSS)	(12,350)	8,759	(3,591)

STAFF ADJUSTMENTS

A - OFFICE SUPPLIES EXPENSE - Per Company Per Staff	\$ 27 1,499	<u>\$1,472</u>
To reclassify telephone and postage costs from miscellaneous expense.		
B - WATER TESTING - Per Company Per Staff	13,975 7,207	<u>(\$6,768)</u>
To reflect Staff recommended water testing expense, reclassify \$6,550 to laboratory equipment and deny \$218 of test year cost.		
C - REGULATORY EXPENSE - Per Company Per Staff	- 10,445	<u>\$10,445</u>
To recognize Staff recommended rate case expense as well as other regulatory costs.		
D - MISCELLANEOUS EXPENSE - Per Company Per Staff	9,145 1,764	<u>(\$7,381)</u>
To reflect reclassification of pertinent costs to office expense, outside services and regulatory expense.		
E - PROPERTY TAX EXPENSE - Per Company Per Staff	9,431 3,048	<u>(\$6,383)</u>
To recognize an appropriate level of property tax expense based on ADOR methodology.		
F - INCOME TAX EXPENSE - Per Company Per Staff	- (144)	<u>(\$144)</u>
To recognize an appropriate level of income taxes.		

OPERATING INCOME ADJUSTMENT #1 - TO REFLECT STAFF'S CALCULATION OF PROPERTY TAX USING THE ARIZONA DEPARTMENT OF REVENUE METHOD. UTILIZES TWO YEARS OF ADJUSTED TEST YEAR REVENUES AND ONE YEAR OF STAFF'S RECOMMENDED REVENUES.

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 148,972	\$ 148,972
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 297,944	\$ 297,944
4	Staff Recommended Revenue	148,972	\$ 176,003
5	Subtotal (Line 4 + Line 5)	\$ 446,916	\$ 473,947
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 148,972	\$ 157,982
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 297,944	\$ 315,965
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 297,944	\$ 315,965
13	Assessment Ratio	21.00%	21.00%
14	Assessment Value (Line 12 * Line 13)	\$ 62,568	\$ 66,353
15	Composite Property Tax Rate	4.8711%	4.8711%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 3,048	
17	Company Proposed Property Tax	9,431	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ (6,383)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 3,232
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 3,048
21	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement		\$ 184
22	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 184
23	Increase (Decrease) in Revenue Requirement		\$ 27,031
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		0.68195%

REFERENCES:

- Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
- Line 17: Company's Application
- Line 21: Line 19 - Line 20
- Line 23: Line E17 - Line C17

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Billings	1.000000			
2	Uncollectible Factor	0.000000			
3	Revenues	1.000000			
4	Less: Combined Federal, State & Property Tax Rate (Line 12)	0.214621			
5	Subtotal (L3 - L4)	0.785379			
6	Revenue Conversion Factor (L1 / L5)	1.273270			
 <i>Calculation of Effective Tax Rate:</i>					
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 34)	15.0000%			
11	Effective Federal Income Tax Rate (L9 x L10)	13.9548%			
12	Combined Federal and State Income Tax Rate (L8 +L11)		20.9228%		
 <i>Calculation of Effective Property Tax Rate:</i>					
13	Unity	100.0000%			
14	Combined Federal & State Income Tax Rate	20.9228%			
15	One Minus Combined Income Tax Rate	79.07720%			
16	Property Tax Factor	0.68195%	0.005392709		
17	Effective Property Tax Rate				
	Combined Federal, State Income & Property Tax Rate			21.4621%	
13	Required Operating Income (Schedule All-1, Line 5)	\$ 17,600			
14	Adjusted Test Year Operating Income (Loss) (Schedule All-8, Line 16)	\$ (3,591)			
15	Required Increase in Operating Income (L13 - L14)	\$ 21,191	\$ 21,191		
16	Income Taxes on Recommended Revenue (Col. (D), L33)	\$ 5,512			
17	Income Taxes on Test Year Revenue (Col. (B), L33)	\$ (144)			
18	Required Increase in Revenue to Provide for Income Taxes (L16 -L17)		\$ 5,656		
				\$ 26,846.69	
	Property Tax with Recommended Revenue (All-16, Col B, L16)	\$ 3,232			
	Property Tax on Test Year Revenue (All-16, Col A, L16)	3,048	\$ 184	\$ 184.34	
	Increase in Property Tax Due to Increase in Revenue (L35-L36)			\$ 27,031	
 <i>Calculation of Income Tax:</i>					
		Test Year		Staff Proposed	
20	Revenue (Schedule All-7, Columns C and E)	\$ 148,972		\$176,003	
21	Less: Operating Expenses Excluding Income Taxes	\$ 149,659		\$149,659	
22	Less: Synchronized Interest (L37)	\$ -		-	
23	Arizona Taxable Income (L20 - L21 - L22)	\$ (687)		26,344	
24	Arizona State Income Tax Rate	6.968%		6.968%	
25	Arizona Income Tax (L23 x L24)		\$ (48)		\$ 1,836
26	Federal Taxable Income (L23 - L25)	\$ (639)		\$ 24,509	
27	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (96)		\$ 3,676	
28	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	
29	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
30	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
31	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
32	Total Federal Income Tax		\$ (96)		3,676
33	Combined Federal and State Income Tax (L25 + L32)		\$ (144)		5,512
34	Applicable Federal Income Tax Rate [Col. (D), L32 - Col. (B), L32] / [Col. (C), L26 - Col. (A), L26]				15.0000%
 <i>Calculation of Interest Synchronization:</i>					
35	Rate Base (Schedule All-3, Col. (C), Line 13)	\$ 141,845			
36	Weighted Average Cost of Debt	0.00%			
37	Synchronized Interest (L35 x L37)	\$ -			

RATE DESIGN

Monthly Usage Charge	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$12.85	\$18.00	\$ 13.25
3/4" Meter	19.28	25.06	19.28
1" Meter	30.70	45.00	32.50
1½" Meter	64.25	83.53	64.25
2" Meter	102.80	133.64	103.50
3" Meter	192.75	250.58	205.60
4" Meter	321.25	417.63	321.25
6" Meter	642.50	835.25	642.50
Present rates - All Sizes			
First Tier - 0 - 9,000 gallons	1.80		
Second Tier - 9,001 - 25,000 gallons	2.00		
Third Tier - Over 25,000	2.46		
Company Proposed - All Sizes			
First Tier - 0 - 9,000 gallons		2.25	
Second Tier - 9,001 - 50,000 gallons		2.50	
Third Tier - Over 50,000		3.00	
Staff Recommended - All Sizes			
Tier One Rate - 0 - 7,000 gallons			1.91
Tier Two Rate - 7,001 - 15,000 gallons			2.40
Tier Three Rate - Over 15,000 gallons			3.00
Standpipe (Per 1000 Gallons)	2.50	3.25	3.00

Service Line and Meter Installation Charges	Present	-Company Proposed-		-Staff Recommended-		Total
	Rates	Service Line Charge	Meter Installation	Service Line Charge	Meter Installation	
5/8" x 3/4" Meter	\$400.00	\$415.00	\$105.00	\$105.00	\$520.00	\$625.00
3/4" Meter	440.00	415.00	205.00	205.00	620.00	825.00
1" Meter	500.00	465.00	265.00	265.00	730.00	995.00
1½" Meter	715.00	520.00	475.00	475.00	995.00	1,470.00
2" Meter Turbo	Actual Cost	800.00	995.00	995.00	1,795.00	2,790.00
2" Meter Compound	1,170.00	800.00	1,840.00	1,840.00	2,640.00	4,480.00
3" Meter Turbo	Actual Cost	1,015.00	1,620.00	1,620.00	2,635.00	4,255.00
3" Meter Compound	1,585.00	1,135.00	2,495.00	2,495.00	3,630.00	6,125.00
4" Meter Turbo	Actual Cost	1,430.00	2,570.00	2,570.00	4,000.00	8,570.00
4" Meter Compound	2,540.00	1,610.00	3,545.00	3,545.00	5,155.00	8,700.00
6" Meter Turbo	Actual Cost	2,150.00	4,950.00	4,950.00	7,100.00	12,050.00
6" Meter Compound	4,815.00	2,270.00	6,820.00	6,820.00	9,090.00	15,910.00
Over 6-inch	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

Service Charges	Present	Company	Staff
	Rates	Proposed	Recommended
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	50.00	50.00	50.00
Reconnection (Delinquent)	50.00	50.00	50.00
Meter Test (If Correct)	25.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	**	**	**
Re-Establishment (Within 12 Months)	***	***	***
NSF Check	15.00	15.00	15.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	15.00	15.00	15.00
Late Payment Charge-Per Month	1.5% or \$3.5	1.5% or \$3.5	1.50%
	Minimum	Minimum	
Charge For Moving Meter	Cost		Cost

RATE DESIGN

	Present Rates	Company Proposed	Staff Recommended
<u>Monthly Service Charge for Fire Sprinkler</u>			
4" or Smaller	\$0.00	\$0.00	****
6"	0.00	0.00	****
8"	0.00	0.00	****
10"	0.00	0.00	****
Larger than 10"	0.00	0.00	****

- * Per Commission Rule ACC R14-2-403(B)(7)
- ** Per Commission Rule ACC R14-2-403(B)(3)
- *** Months off system times the monthly minimum AAC R14-2-403(D)
- **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS

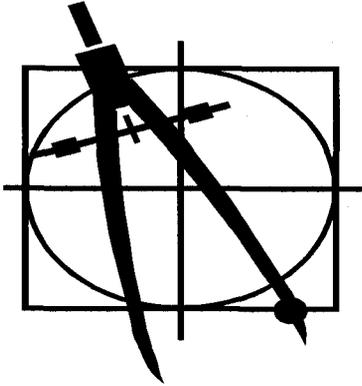
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 323

<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	12,823	\$36.70	\$47.81	\$11.11	30.3%
Median Usage	8,516	\$28.18	\$37.16	\$8.98	31.9%
<u>Staff Recommend</u>					
Average Usage	12,823	\$36.70	\$40.59	\$3.89	10.6%
Median Usage	8,516	\$28.18	\$30.26	\$2.08	7.4%

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	\$12.85	\$18.00	40.1%	\$13.25	3.1%
1,000	14.65	20.25	38.2%	15.16	3.5%
2,000	16.45	22.50	36.8%	17.07	3.8%
3,000	18.25	24.75	35.6%	18.98	4.0%
4,000	20.05	27.00	34.7%	20.89	4.2%
5,000	21.85	29.25	33.9%	22.80	4.3%
6,000	23.65	31.50	33.2%	24.71	4.5%
7,000	25.45	33.75	32.6%	26.62	4.6%
8,000	27.25	36.00	32.1%	29.02	6.5%
9,000	29.05	38.25	31.7%	31.42	8.2%
10,000	31.05	40.75	31.2%	33.82	8.9%
15,000	41.05	53.25	29.7%	45.82	11.6%
20,000	51.05	65.75	28.8%	60.82	19.1%
25,000	61.05	78.25	28.2%	75.82	24.2%
50,000	122.55	140.75	14.9%	150.82	23.1%
75,000	184.05	215.75	17.2%	225.82	22.7%
100,000	245.55	290.75	18.4%	300.82	22.5%
125,000	307.05	365.75	19.1%	375.82	22.4%
150,000	368.55	440.75	19.6%	450.82	22.3%
175,000	430.05	515.75	19.9%	525.82	22.3%
200,000	491.55	590.75	20.2%	600.82	22.2%



**Engineering Report for:
Chaparral Water Company
Application for a Rate Increase
Docket No. W-02393A-09-0539**

By: Jian W Liu *WS*
Utilities Engineer

April 9, 2010

EXECUTIVE SUMMARY

CONCLUSIONS:

1. Arizona Department of Water Resources reported that Chaparral Water Company (“Chaparral” or “Company”) is currently in compliance with departmental requirements governing water providers and/or community water systems.
2. Arizona Department of Environmental Quality or its formally delegated agent, the Maricopa County Environmental Services Department (“MCESD”), reported that the Chaparral water system is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.
3. A check with the Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Compliance Section showed no delinquent compliance items for the Company.
4. The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.
5. ACC Utilities Division Staff (“Staff”) concludes that the Chaparral water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

RECOMMENDATIONS:

1. Staff recommends annual water testing expense of \$7,207 be used for purposes of this application.
2. Staff recommends that the Company use Staff’s depreciation rates by individual National Association of Regulatory Utility Commissioners category as delineated in Table H-1.
3. Staff recommends that the Service Line and Meter Installation charges listed under “Staff’s Recommendation” in Table J-1 be adopted.

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A. INTRODUCTION AND LOCATION OF THE COMPANY

On November 23, 2009, Chaparral Water Company (“Chaparral” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) for approval of a rate increase with a test year ending June 30, 2009, in Docket No. W-02393A-09-0539. The ACC Utilities Division Staff (“Staff”) engineering review and analysis of the application are presented in this report.

Chaparral is located approximately one mile west of Grand Ave, near Patton Road and 203rd Ave, in the Phoenix metropolitan area. Chaparral served 323 customers at the end of the test year. Figure A-1 shows the location of the Company within Maricopa County and Figure A-2 shows the one square mile certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on April 9, 2010, by Jian W. Liu, Staff Utilities Engineer, in the accompaniment of Larry Pruett, Manager for the Company.

The facility consists of four wells, producing approximately 370 gallons per minute (“GPM”). The system also has six storage tanks, and a distribution system serving 323 customers during the test year. Detailed plant facility descriptions follow:

Well Data

Well Number	ADWR ID No.	Pump HP	Pump GPM	Casing Size(in) & Depth(ft)	Meter Size(in)	Year Drilled
1	55-619218	15	90	8 and 825	3	1981
2	55-619219	5	50	8 and 557	3	1984
3	55-561217	15	90	8 and 600	3	1980
4	55-558536	25	140	12 and 720	3	1997

Note: HP = Horsepower

Storage Tanks, Pressure Tanks and Booster Pumps

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
15,000	1	5,000	1	5	1
35,000	2	3,000	1	10	5
10,000	2	10,000	1		
165,000	1				
Total 270,000	6				

Mains, Meters and Fire Hydrants

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
		5/8x3/4		None
4	1,800	3/4	324	
6	4,800	1	2	
		1.5		
		Total	326	

Water System Analysis

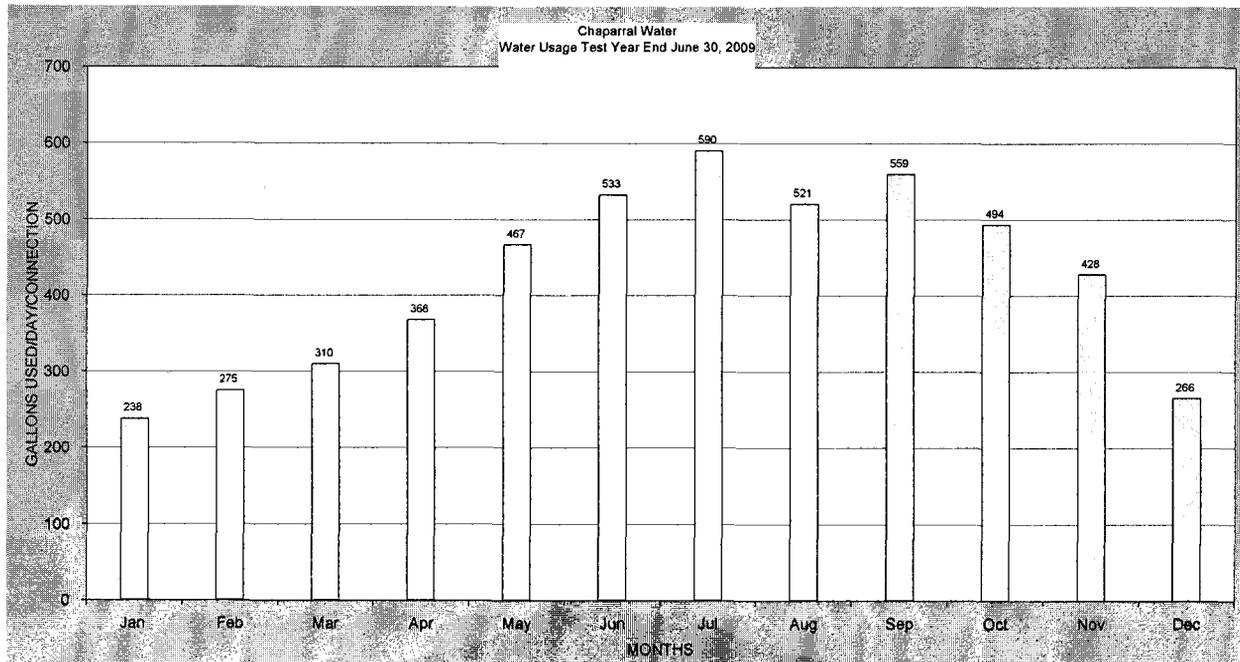
Staff concludes that the Chaparral water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

C. WATER USE

Water Sold

Based on the information provided by Chaparral, water use for the test year is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 590 gallons per day (“GPD”) per connection and a low monthly average water use of 238 GPD per connection and an average annual use of 421 GPD per connection.

Figure C-1. Water Use



Non-Account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 54,499,400 gallons pumped and 50,219,200 gallons sold, resulting in a water loss of 7.85% for the test year. Non-account water is within acceptable limits.

D. GROWTH

There were 325 service connections in 2004. Chaparral had 323 customers on June 30, 2009. The Company is projecting that there will be very little growth, if any, within the next five years as a result of the economic down-turn.

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

Compliance

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department (“MCESD”), reported that the Chaparral water system (ADEQ Public Water System Number 07-064) is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated November 13, 2009).

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program (“MAP”). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection, regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$13,975 during the test year including \$3,840 for certified operator expenses, and approximately \$6,550 for material and equipment costs. Staff recommends the material and equipment costs be reclassified as an addition to Laboratory Equipment. Staff has reviewed and recalculated these expenses. Table A shows Staff’s annual monitoring expense estimated at \$7,207 including the MAP Fee. Staff recommends annual water testing expense of \$7,207 be used for purposes of this application.

Table A Water Testing Expense

Monitoring PWS#07-064 (Tests per 3 years, unless noted.) For 4 wells	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total Coliform – monthly	\$20	36x4	720x4	\$960
Inorganics	\$90	6x4	\$540x4	\$720
Nitrates – annual	\$25	3x4	\$75x4	\$100
Lead & Copper – semi-annual	\$45	6x4	\$270x4	\$360
MAP fees (annual)				\$1,227 (rounded)
certified operator expenses				\$3,840
Total				\$7,207

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

Chaparral is located in the ADWR Phoenix Active Management Area (“AMA”) and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report in April 2010. ADWR reported that Chaparral is currently in compliance with departmental requirements governing water providers and/or community water systems.

G. ACC COMPLIANCE

A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company.¹

H. DEPRECIATION RATES

Staff recommends that the Company use Staff’s depreciation rates by individual NARUC category on a going forward bases. Individual depreciation rates by NARUC category are presented in Table H-1.

I. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS

The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company proposed to increase its service line and meter installation charges. These charges are refundable advances. For meter sizes 5/8 x 3/4 to 1-1/2 inches the Company proposed charges that exceed Staff’s expected range for these charges and Chaparral did not provide Staff with any documentation to support its proposed charges. Therefore, Staff recommends using the upper end of Staff’s expected range for the 5/8 x 3/4 inch to 1-1/2 inch meter sizes. The Company proposed charges for meter sizes 2-inch to 6-inch are within Staff’s expected range of charges for these meters. Meters larger than 6 inch would be charged “at cost”. Staff recommends acceptance of the Company proposed charges for the 2-inch and larger meter sizes. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff recommends that the charges listed under “Staff’s Recommendation” in Table J-1 be adopted.

¹ Compliance status report dated on April 5, 2010.

Table J-1. Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed Charges	Staff recommended Service Line Charges	Staff recommended *Meter Charges	Staff recommended Total Charges
5/8" x 3/4"	500	650	\$445	\$155	\$600
3/4"	575	745	\$445	\$255	\$700
1"	660	850	\$495	\$315	\$810
1-1/2"	900	1175	\$550	\$525	\$1075
2"	1525	1975	\$880	\$1095	\$1,975
3"	2165	2800	\$1100	\$1,700	\$2800
4"	3360	4350	\$1,580	\$2,770	\$4350
6"	6035	7850	\$2,410	\$5,440	\$7850
8-inch & Larger	N/A	N/A	At Cost	At Cost	At Cost

*Notes:

- 1) Meter charge includes meter box or vault.
- 2) No charge was listed in the Company's existing tariff for 8 inch and larger meters.

MARICOPA COUNTY

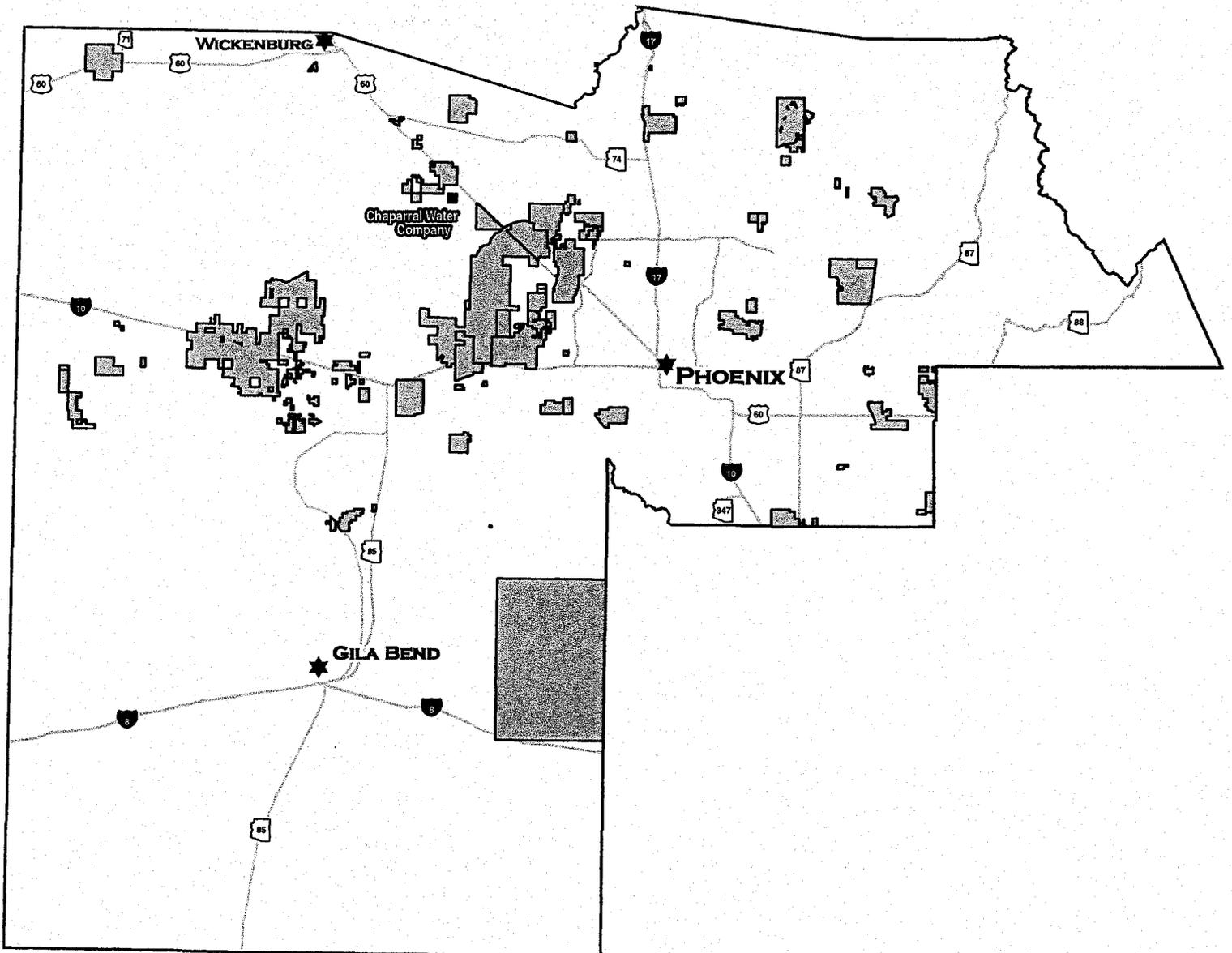


Figure A-1: County Map

MARICOPA COUNTY

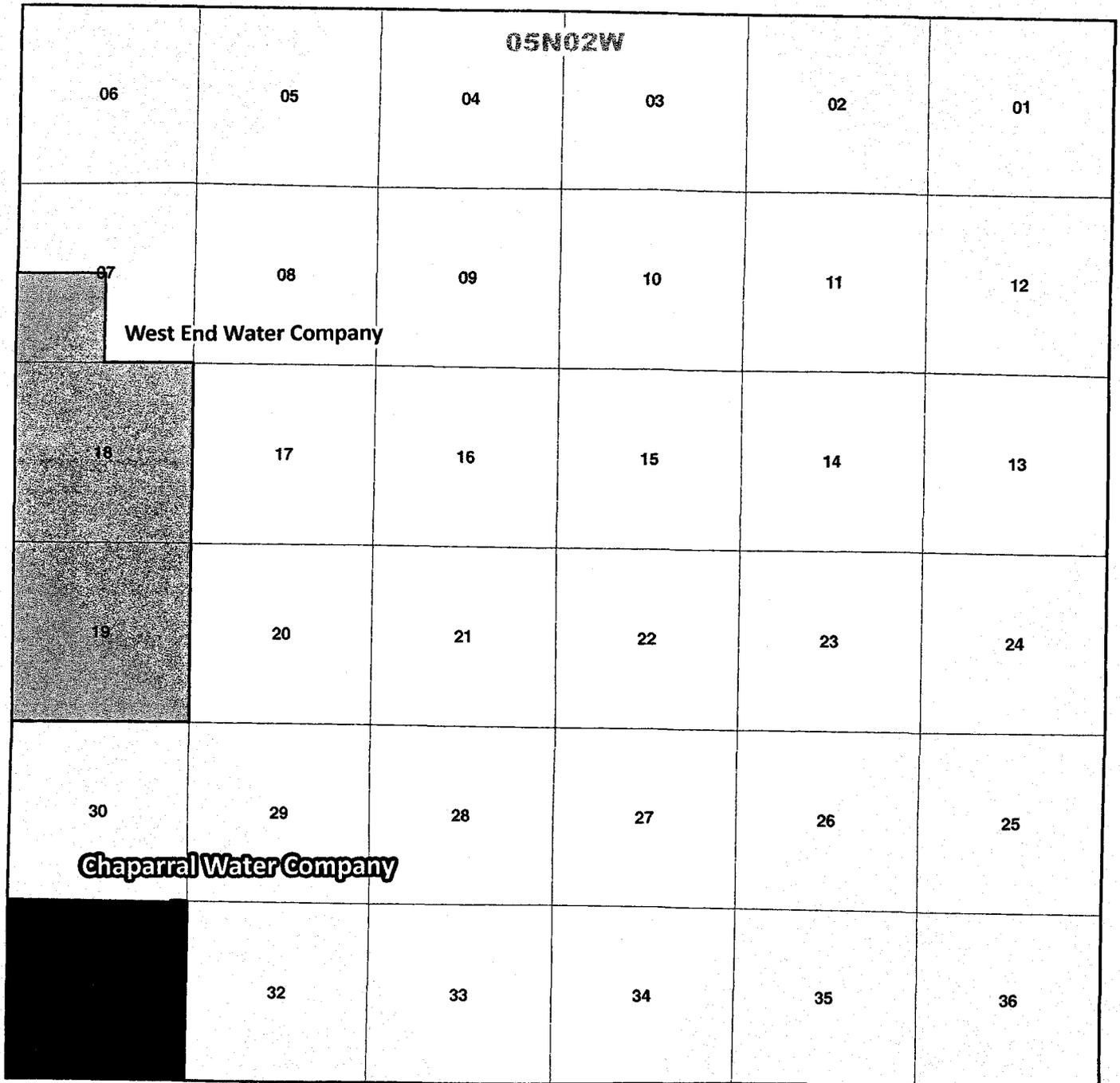


Figure A-2: Certificated Area

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
348	Other Tangible Plant	10	10.00