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ORIGINAL

MEMORANDUM

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

EA for SMD

DATE: July 14, 2010

RE: STAFF REPORT FOR BACA FLOAT WATER COMPANY'S APPLICATION
FOR A PERMANENT RATE INCREASE (DOCKET NO. ~~W~~-01678A-09-0376)
WS

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

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 26, 2010.

SMO:DRE:kdh

Originator: Darak R. Eaddy

Arizona Corporation Commission

DOCKETED

JUL 14 2010

DOCKETED BY	<i>MM</i>
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 DOCKET CONTROL

Service List for: Baca Float Water Company
Docket No. W-01678A-09-0376

Mr. Richard Lockwood
Baca Float Water Company
Post Office Box 1536
Tubac, Arizona 85646

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

BACA FLOAT WATER COMPANY

DOCKET NO. W-01678A-09-0376

**APPLICATION FOR A
PERMANENT RATE INCREASE**

July 14, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Baca Float Water Company, Docket No. W-01678A-09-0376 was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Guadalupe Ortiz was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy
Public Utility Analyst II



Marlin Scott, Jr.
Utilities Engineer



Guadalupe Ortiz
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
BACA FLOAT WATER COMPANY
APPLICATION FOR A PERMANENT RATE INCREASE
DOCKET NO. W-01678A-09-0376**

Baca Float Water Company ("Baca Float" or "Company") is an Arizona "C" Corporation engaged in the business of providing potable water service to approximately 401 customers in the community of Tubac, in Santa Cruz County, Arizona. The Company provides both water and sewer services, however this rate application is only for its water division. The Company's water division has been classified as a class D utility.

The Company proposes total operating revenue of \$209,061, an increase of \$100,000, or 91.69 percent over test year revenue of \$109,061, which would result in an operating loss of 30,682. Due to the size of its requested increase and the hardships it will place on its customers, the Company is not requesting a return on its investment. Staff recommends total operating revenue of \$199,932, an increase of \$86,320, or 75.98 percent over the Staff-adjusted test year revenue of \$113,612, which results in an operating income of \$9,875 or a 3.55 percent rate of return on Staff's adjusted original cost rate base ("OCRB").

The Company has proposed an OCRB of \$189,563. The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 2,464 gallons from \$19.31 to \$35.40, an increase of \$16.09 or 83.3 percent.

Staff has recommended an OCRB of \$277,972. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 2,464 gallons from \$19.31 to \$23.01, for an increase of \$3.70 or 19.2 percent.

Staff Recommendations:

Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule DRE-4, pages 1, 2, and 3. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

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

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

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

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ATTACHMENT

Engineering ReportA

Fact sheet

Type of Ownership: Arizona C Corporation.

Location: Baca Float Water Company (“Baca Float” or “Company”) provides potable water service to the community of Tubac, which is located approximately 30 miles north of Nogales along Interstate Highway 19, in Santa Cruz County, Arizona.

Active Management Area: The Company is located in the Santa Cruz 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.

Rates: Permanent rate increase application filed: July 30, 2009. The application became sufficient on April 12, 2010.

Prior Test Year: NA

Current Test Year Ended: December 30, 2008.

Monthly Minimum Rates

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Residential Monthly Minimum Charge			
5/8 x 3/4 – inch meter	\$ 15.00	\$ 30.00	\$ 15.00
3/4 – inch meter	\$ 15.00	\$ 32.00	\$ 22.50

Commodity Rates

All Meter Sizes

0 to 5,000 gallons	\$ 1.75	N/A	N/A
Over 5,000 gallons	\$ 2.30	N/A	N/A

Residential

0 to 3,000 gallons	N/A	\$ 2.19	\$ 3.25
3,001 to 10,000 gallons	N/A	\$ 2.73	\$ 4.90
Over 10,000 gallons	N/A	\$ 3.42	\$ 5.85

Bulk Water	N/A	N/A	\$ 5.85
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Fact Sheet (Continued)

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
<u>Typical 5/8 x 3/4-inch residential bill</u>			
Average use (3,700 gallons)	\$21.47	\$38.48	\$28.18
Median use (2,464 gallons)	\$19.31	\$35.40	\$23.01

Customers

Average Number of customers in the current test year (12/31/08): 401

Current test year customers by meter size:

5/8 X 3/4 – inch	252
3/4 – inch	108
1 – inch	21
2 – inch	20

Notifications

An affidavit of mailing of the customer notification was filed on July 30, 2009.

Number of opinions filed against the rate increase application: 5.

Number of customer complaints filed against the Company from January 1, 2007, to June 3, 2010: 2.

All complaints have been resolved and closed.

Percentage of opinions to customer base: 1.25 percent (5 / 401).

Summary of Filing

The test year results as adjusted by Utilities Division Staff (“Staff”) for Baca Float reflect total operating revenue of \$113,612 and an operating loss of \$73,882 as shown on Schedule DRE-1. The original cost rate base (“OCRB”) as adjusted by Staff is \$277,972.

Baca Float's proposed rates would produce total operating revenue of \$209,061 and an operating loss of \$30,682. The Company proposes a fair value rate base of \$189,563, which does not differ from its original cost rate base ("OCRB"). The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 2,464 gallons from \$19.31 to \$35.40, an increase of \$16.09 or 83.3 percent, as shown on Schedule DRE-5.

Staff's recommended rates would produce total operating revenue of \$199,932 and operating income of \$9,875 or a 3.55 percent rate of return on Staff's adjusted OCRB of \$277,972. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 2,464 gallons from \$19.31 to \$23.01, for an increase of \$3.70 or 19.2 percent.

The Company reports that its proposed rate increase is necessary at this time due to increasing costs to operate and maintain its system. Additionally, the Company has made significant investments, including arsenic treatment facilities. The rate application would allow the Company to cover operational costs and to receive a portion of the return on its investments.

During the test year ended June 30, 2009, Baca Float provided potable water service to approximately 401 customers.

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

Company Background

Baca Float is an Arizona "C" corporation that provides potable water service to customers in the community of Tubac, in Santa Cruz County, Arizona. The Company's service territory encompasses approximately 3.5 square miles.

On July 30, 2009, Baca Float filed an application for a permanent rate increase. On August 31, 2010, Staff issued a letter of Deficiency and on April 12, 2010, Staff issued a Letter of Sufficiency. The Company filed with Docket Control on July 30, 2010, a copy of its affidavit of service notifying customers of its pending rate increase application.

The Company provides water services approximately to 401 customers, with most being small residential customers and of those, 20 are commercial and irrigation customers. The Company has been classified as a class D utility.

Consumer Services

A review of the Consumer Services Section database from January 1, 2007, through June 3, 2010, revealed that there were five opinions filed opposing the rate increase request. The review revealed that during the same time period there had been two billing complaints filed against the Company. All complaints have been resolved and closed.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

Baca Float is current on its property and sales tax payments.

Baca Float is in good standing with the Corporations Division of the Commission.

Engineering

The water system was field-inspected on April 22, 2010, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Richard Lockwood, Lino Vega, and Raul Amezcua, representing the Company. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

Rate Base

Staff's adjustments increased Baca Float's proposed rate base by \$88,409, from \$189,563 to \$277,972 as shown on Schedule DRE-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Staff's adjustments to plant in service resulted in a net decrease of \$84,954, from \$1,538,264 to \$1,453,310 as shown on Schedule DRE-2, page 2. A significant portion of Staff's decrease to plant in service was the result of Staff's adjustments to remove unsupported plant additions and to remove plant that was not used and useful.

Structures and Improvements - Adjustment "a" increases the structures and improvements account by \$2,124, from \$59,355 to \$61,479 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the capitalization of a \$2,124 repairs and maintenance expense to structures and improvements supported by documentation.

Wells & Springs - Adjustment "b" decreases the wells & springs account by \$3,930, from \$121,345 to \$117,415 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects Staff's calculation for the wells & springs account balance supported by documentation submitted by the Company.

Pumping Equipment - Adjustment "c" decreases the pumping equipment account by \$8,764, from \$45,594 to \$36,830 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects Staff's calculation for the pumping equipment account balance supported by documentation submitted by the Company.

Water Treatment Plants - Adjustment "d" decreases the water treatment plants account by \$7,287, from \$155,204 to \$147,917 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects Staff's calculation of the water treatment plants account balance supported by documentation submitted by the Company and the removal of a \$454.70 expense that had been incorrectly capitalized. This expense was outside the test year; therefore there was no corresponding adjustment to any expense account.

Transmission and Distribution Mains - Adjustment "e" decreases the transmission and distribution mains account by \$73,086, from \$596,460 to \$523,374 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects Staff's calculation for the transmission and distribution mains account balance supported by documentation submitted by the Company and the removal of \$60,934 in plant determined to not be used and useful.

Meters and Meter Installations - Adjustment "f" increases the meters and meter installations account by \$6,349, from \$43,595 to \$49,944 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects Staff's calculation of the meters and meter installations account balance supported by documentation submitted by the Company.

Power Operated Equipment - Adjustment "g" decreases the power operated equipment account by \$360, from \$360 to \$0 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects Staff's calculation of the power operated equipment account balance supported by documentation submitted by the Company.

Other Rate Base Items

Accumulated Depreciation

Staff decreased accumulated depreciation by \$11,049, from \$149,017 to \$137,968 as shown on Schedule DRE-2, pages 1 and 5. The decrease is based upon several Staff adjustments made to plant in service account balances and the addition of depreciation expense to accumulated depreciation since the last rate case.

Advances in Aid of Construction

Staff decreased advances in aid of construction ("AIAC") by \$1,222,596, from \$1,222,596 to \$0 as shown on Schedule DRE-2, pages 1 and 6. The decrease is based upon several Staff adjustments to reclassify the AIAC balance to contributions as the Company is no longer refunding on these advances and therefore the advances have converted to contributions.

Contributions in Aid of Construction

Staff increased contributions in aid of construction ("CIAC") by \$1,171,089, from \$0 to \$1,171,089 as shown on Schedule DRE-2, pages 1 and 6. The increase is based upon several of Staff's reclassifications of AIAC to contributions and Staff's calculation of total contributions

based on the documentation submitted by the Company.

Amortization of CIAC

Staff increased amortization of CIAC by \$113,058, from \$0 to \$113,058 as shown on Schedule DRE-2, pages 1 and 6. The increase is based upon several of Staff's calculations of total contributions and the amortization of the contributions balance.

Working Capital

Staff's adjustments to working capital resulted in a net decrease of \$2,251, from \$23,065 to \$20,814 as shown on Schedule DRE-2, pages 1 and 6.

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

Operating Income Statement

Operating Revenue

Staff's adjustment to operating revenue resulted in an increase of \$4,551, from \$109,061 to \$113,612, as shown on Schedule DRE-3, pages 1 and 2.

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

Operating Expenses

Staff's adjustments to operating expenses resulted in a decrease of \$52,199, from \$239,693 to \$187,494 as shown on Schedule DRE-3, page 1. The adjustments are explained below.

Repairs and Maintenance - Adjustment 2 decreases repairs and maintenance expense by \$9,431, from \$20,510 to \$11,079 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of repairs and maintenance based on the documentation submitted by the Company and the capitalization of \$2,124 in expenses recorded as repairs and maintenance.

Outside Services - Adjustment 3 decreases outside services expense by \$9,851, from \$37,427 to \$27,576 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of outside services expense based on the documentation submitted by the Company.

Water Testing - Adjustment 4 increases water testing expense by \$1,801, from \$6,267 to \$8,068 as shown on Schedule DRE-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined by Staff and reported in the attached Engineering Report.

Regulatory Commission Expense – Rate Case - Adjustment 5 increases regulatory commission expense – rate case by \$1000, from \$0 to \$1000 as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's computation of the normalized level of annual rate case expense. The Company did not request rate case expense in its application.

Depreciation Expense - Adjustment 6 decreases depreciation expense by \$35,770, from \$48,064 to \$12,294 as shown on Schedule DRE-3, pages 1 and 3. This adjustment reflects Staff's calculation of depreciation expense applying Staff's recommended depreciation rates to Staff's recommended plant balances for Baca Float.

Income Taxes - Staff's adjustment 5 increases income taxes by \$50, from \$0 to \$50 as shown on Schedule DRE-3, pages 1 and 4. This adjustment reflects Staff's calculation of income taxes given Staff's adjustments to operating revenues and expenses.

Return on Rate Base

The Company's proposed rates and charges would provide an operating loss of \$30,682.

Staff's recommended rates and charges would provide an operating income of \$9,875, and a 3.55 percent rate of return on OCRB.

Revenue Requirement

Staff recommends total operating revenue of \$199,932, an \$86,320 or 75.98 percent increase over the Staff adjusted test year operating revenue of \$113,612. Staff's recommended revenue provides an operating income of \$9,875 as shown in Schedule DRE-1.

In determining the revenue requirement, Staff endeavored to provide the Company sufficient funds to manage contingencies, operating expenses, etc. In its application the Company stated that due to the size of the rate increase that would be required to provide a full return on its investment and the hardship it would place on its customers that it was seeking only to recover operation expense outlays and a portion of the return on its investments at this time. Staff believes that its recommended rates will allow the Company to cover its operating expenses as well as return a portion of its investment. Staff notes that a significant portion of the Company's operating expense is depreciation which is a non-cash expense.

Rate Design

Schedule DRE-4, pages 1, 2, and 3 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 2,464 gallons from \$19.31 to \$35.40, an increase of \$16.09 or 83.3 percent, as shown on Schedule DRE-5.

Staff's recommended rates would increase the 5/8 x 3/4-inch meter residential bill with a median usage of 2,464 gallons from \$19.31 to \$23.01, for an increase of \$3.70 or 19.2 percent.

Miscellaneous Service Charges

The Company has proposed a reconnection (delinquent) after hours charge of \$50. Staff concurs with the Company that this is a reasonable charge for the service and recommends approval of the charge.

The Company proposes to change the deposit service charge from \$30 to \$100. Staff finds that Commission Rule R14-2-403.B is a reasonable and normal charge and recommends it.

The Company proposes to change the deposit interest service charge from 6.00 percent to 1.75 percent annual percentage return. Staff finds that Commission Rule R14-2-403.B is a reasonable and normal charge and recommends it.

The Company proposes to change the NSF check service charge from \$12.00 to \$25.00. Staff concurs with the Company that this is a reasonable charge for the service and recommends approval of the charge.

Service Line and Meter Installation Charges

The Company has requested changes to its service line and meter installation charges which are lower than Staff's customary range of charges. Staff will accept the Company's proposed 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 Staff's Service Line and Meter Installation Charges as shown on Table I-1 in Section I of the attached Engineering Report.

Staff Recommendations

Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule DRE-4, pages 1, 2, and 3. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

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

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

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

Baca Float Water Company

Docket No. WS-01678A-09-0376

Test Year Ended: December 31, 2008

Schedule DRE-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$104,864	\$109,415	\$204,864	\$195,735
Unmetered Water Revenue	3,909	3,909	3,909	3,909
Other Water Revenues	288	288	288	288
Total Operating Revenue	\$109,061	\$113,612	\$209,061	\$199,932
Operating Expenses:				
Operation and Maintenance	\$185,582	\$169,103	\$185,582	\$169,103
Depreciation	48,064	12,294	48,064	12,294
Property & Other Taxes	6,047	6,047	6,047	6,047
Income Tax	0	50	50	2,613
Total Operating Expense	\$239,693	\$187,494	\$239,743	\$190,057
Operating Income/(Loss)	(\$130,632)	(\$73,882)	(\$30,682)	\$9,875
Rate Base O.C.L.D.	\$189,563	\$277,972	\$189,563	\$277,972
Rate of Return - O.C.L.D.	N/M	N/M	N/M	3.55%
Operating Margin	N/M	N/M	N/M	4.94%

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

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$1,538,264	(\$84,954)	A	\$1,453,310
Less:				
Accum. Depreciation	149,017	(11,049)	B	137,968
Net Plant	\$1,389,247	(\$73,905)		\$1,315,342
Less:				
Plant Advances	\$1,222,596	(\$1,222,596)	C	\$0
Customer Deposits	153	0		153
Total	\$1,222,749	(\$1,222,596)		\$153
Contributions Gross	\$0	\$1,171,089	D	\$1,171,089
Less:				
Amortization of CIAC	0	113,058	E	113,058
Net CIAC	\$0	\$1,058,031		\$1,058,031
Total Deductions	\$1,222,749	(\$164,565)		\$1,058,184
Plus:				
1/24 Power	\$0	\$162	F	\$162
1/8 Operation & Maint.	23,065	(2,413)	G	20,652
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$23,065	(\$2,251)		\$20,814
Rate Base	\$189,563	\$88,409		\$277,972

Explanation of Adjustment:

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

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	1,084	0	1,084
304 Structures & Improvements	59,355	2,124 a	61,479
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	121,345	(3,930) b	117,415
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	68,107	0	68,107
311 Pumping Equipment	45,594	(8,764) c	36,830
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	155,204	(7,287) d	147,917
320.2 Solution Chemical Feeders	2,147	0	2,147
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	259,785	0	259,785
330.2 Pressure Tanks	0	0	0
331 Transmission & Distribution Mains	596,460	(73,086) e	523,374
333 Services	76,400	0	76,400
334 Meters & Meter Installations	43,595	6,349 f	49,944
335 Hydrants	81,000	0	81,000
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	24,594	0	24,594
340 Office Furniture & Equipment	1,913	0	1,913
340.1 Computers & Software	0	0	0
341 Transportation Equipment	0	0	0
342 Stores Equipment	0	0	0
343 Tools Shop & Garage Equipment	1,321	0	1,321
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	360	(360) g	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$1,538,264	(\$84,954) A	\$1,453,310

Explanation of Adjustment:
a - See Schedule 2, Page 4
b - See Schedule 2, Page 4
c - See Schedule 2, Page 4
d - See Schedule 2, Page 4
e - See Schedule 2, Page 4
f - See Schedule 2, Page 4
g - See Schedule 2, Page 4

UTILITY PLANT IN SERVICE

	Staff Adjusted Plant	Staff Adjusted Accum. Depr.	Staff Adjusted OCLD
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	1,084	0	1,084
304 Structures & Improvements	61,479	10,655	50,824
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	117,415	27,092	90,323
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	68,107	5,108	62,999
311 Pumping Equipment	36,830	6,490	30,340
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	147,917	11,812	136,105
320.2 Solution Chemical Feeders	2,147	2,147	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	259,785	15,670	244,115
330.2 Pressure Tanks	0	0	0
331 Transmission & Distribution Mains	523,374	36,059	487,315
333 Services	76,400	3,820	72,580
334 Meters & Meter Installations	49,944	14,954	34,990
335 Hydrants	81,000	2,430	78,570
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	24,594	820	23,774
340 Office Furniture & Equipment	1,913	639	1,274
340.1 Computers & Software	0	0	0
341 Transportation Equipment	0	0	0
342 Stores Equipment	0	0	0
343 Tools Shop & Garage Equipment	1,321	272	1,049
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$1,453,310	\$137,968	\$1,315,342

STAFF PLANT ADJUSTMENTS

a -	STRUCTURES & IMPROVEMENTS - Per Company Per Staff	\$59,355 <u>61,479</u>	<u>\$2,124</u>
	To properly reflect account balance supported by documentation and proper capitalization of \$2,124 repairs and maintenance expense		
b -	WELLS & SPRINGS - Per Company Per Staff	\$121,345 <u>117,415</u>	<u>(\$3,930)</u>
	To properly reflect account balance supported by documentation		
c -	PUMPING EQUIPMENT - Per Company Per Staff	\$45,594 <u>36,830</u>	<u>(\$8,764)</u>
	To properly reflect account balance supported by documentation		
d -	WATER TREATMENT PLANTS - Per Company Per Staff	\$155,204 <u>147,917</u>	<u>(\$7,287)</u>
	To properly reflect account balance supported by documentation and removal of \$454.70 expense		
e -	TRANSMISSION & DISTRIBUTION MAINS - Per Company Per Staff	\$596,460 <u>523,374</u>	<u>(\$73,086)</u>
	To properly reflect account balance supported by documentation and removal of \$60,934 in not used and useful plant		
f -	METERS & METER INSTALLATIONS - Per Company Per Staff	\$43,595 <u>49,944</u>	<u>\$6,349</u>
	To properly reflect account balance supported by documentation		
g -	POWER OPERATED EQUIPMENT - Per Company Per Staff	\$360 <u>0</u>	<u>(\$360)</u>
	To properly reflect account balance supported by documentation		

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$149,017
Accumulated Depreciation - Per Staff	<u>137,968</u>
Total Adjustment	<u><u>(\$11,049)</u></u> B

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

1999 Credit to Accumulated Depreciation	\$97
2000 Credit to Accumulated Depreciation	\$194
2001 Credit to Accumulated Depreciation	\$4,168
2002 Credit to Accumulated Depreciation	\$8,214
2003 Credit to Accumulated Depreciation	\$8,750
2004 Credit to Accumulated Depreciation	\$9,600
2005 Credit to Accumulated Depreciation	\$12,152
2006 Credit to Accumulated Depreciation	\$19,003
2007 Credit to Accumulated Depreciation	\$32,491
2008 Credit to Accumulated Depreciation	<u>\$43,299</u>

Accumulated Depreciation 12/31/2007 Staff Balance	\$137,968
Less: Company Balance	<u>\$149,017</u>
Staff Adjustment	(\$11,049)

STAFF RATE BASE ADJUSTMENTS

C	- PLANT ADVANCES - Per Company Per Staff	\$ 1,222,596 <u>0</u> <u>(\$1,222,596)</u>
	To reflect advances in aid of construction that have converted to contributions in aid of construction	
D	- CONTRIBUTIONS - Per Company Per Staff	\$0 <u>1,171,089</u> <u>\$1,171,089</u>
	To reflect Staff's calculation of contributions in aid of construction	
E	- AMORTIZATION OF CIAC - Per Company Per Staff	\$ - <u>113,058</u> <u>\$113,058</u>
	To reflect Staff's calculation of amortization of CIAC based on Staff's calculation of CIAC	
F	- WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff	\$ - <u>162</u> <u>\$162</u>
	To reflect Staff's calculation of cash working capital based upon Staff's recommendations for purchased power and purchased water	
G	- WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff	\$ 23,065 <u>20,652</u> <u>(\$2,413)</u>
	To reflect Staff's calculation of cash working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses)	

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$104,864	\$4,551 1	\$109,415
460 Unmetered Water Revenue	3,909	0	3,909
474 Other Water Revenues	288	0	288
Total Operating Revenue	\$109,061	\$4,551	\$113,612
Operating Expenses:			
601 Salaries and Wages	\$95,400	\$0	\$95,400
610 Purchased Water	0	0	0
615 Purchased Power	3,888	0	3,888
618 Chemicals	8,983	0	8,983
620 Repairs and Maintenance	20,510	(9,431) 2	11,079
621 Office Supplies & Expense	2,738	0	2,738
630 Outside Services	37,427	(9,851) 3	27,576
635 Water Testing	6,267	1,801 4	8,068
641 Rents	5,699	0	5,699
650 Transportation Expenses	845	0	845
657 Insurance - General Liability	3,779	0	3,779
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	1,000 5	1,000
675 Miscellaneous Expense	46	0	46
403 Depreciation Expense	48,064	(35,770) 6	12,294
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	6,047	0	6,047
409 Income Tax	0	50 7	50
Total Operating Expenses	\$239,693	(\$52,199)	\$187,494
OPERATING INCOME/(LOSS)	(\$130,632)	\$56,750	(\$73,882)
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	\$0	\$0	\$0
NET INCOME/(LOSS)	(\$130,632)	\$56,750	(\$73,882)

STAFF ADJUSTMENTS

1 -	METERED WATER REVENUE - Per Company Per Staff	\$104,864 <u>109,415</u>	<u>\$4,551</u>
	To reflect the metered water revenue per the Company's submitted bill count		
2 -	REPAIRS & MAINTENANCE - Per Company Per Staff	\$20,510 <u>11,079</u>	<u>(\$9,431)</u>
	To reflect expenses supported by documentation and capitalization of \$2,124 expense		
3 -	OUTSIDE SERVICES - Per Company Per Staff	\$37,427 <u>27,576</u>	<u>(\$9,851)</u>
	To reflect expenses supported by documentation and removal of non-recurring expenses outside of the test year		
4 -	WATER TESTING - Per Company Per Staff	\$6,267 <u>8,068</u>	<u>\$1,801</u>
	To reflect Staff's annual water testing expense		
5 -	REGULATORY COMMISSION EXPENSE - Per Company Per Staff	\$0 <u>1,000</u>	<u>\$1,000</u>
	To reflect Staff's computation of Regulatory Commission Expense based on Staff's estimate of reasonable expense		

STAFF ADJUSTMENTS (Cont.)

6 - DEPRECIATION - Per Company \$48,064
Per Staff 12,294 (\$35,770)

Explanation of Adjustment:
Pro Forma Annual Depreciation Expense:

DESCRIPTION	PLANT in SERVICE Per Staff	NonDepreciable or Fully Depreciate PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
Organization	\$ -	\$ -	\$ -	0.00%	\$ -
Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
Land & Land Rights	\$ 1,084	\$ 1,084	\$ -	0.00%	\$ -
Structures & Improvem	\$ 61,479	\$ -	\$ 61,479	3.33%	\$ 2,047
Collecting & Impoundir	\$ -	\$ -	\$ -	2.50%	\$ -
Lake, River, Canal Inta	\$ -	\$ -	\$ -	2.50%	\$ -
Wells & Springs	\$ 117,415	\$ -	\$ 117,415	3.33%	\$ 3,910
Infiltration Galleries	\$ -	\$ -	\$ -	6.67%	\$ -
Raw Water Supply Mai	\$ -	\$ -	\$ -	2.00%	\$ -
Power Generated Equi	\$ 68,107	\$ -	\$ 68,107	5.00%	\$ 3,405
Pumping Equipment	\$ 36,830	\$ -	\$ 36,830	12.50%	\$ 4,604
Water Treatment Equip	\$ -	\$ -	\$ -	0.00%	\$ -
Water Treatment Pla	\$ 147,917	\$ -	\$ 147,917	3.33%	\$ 4,931
Solution Chemical Fe	\$ 2,147	\$ 2,147	\$ -	20.00%	\$ -
Distribution Reservoirs	\$ -	\$ -	\$ -	0.00%	\$ -
Storage Tanks	\$ 259,785	\$ -	\$ 259,785	2.22%	\$ 5,773
Pressure Tanks	\$ -	\$ -	\$ -	5.00%	\$ -
Transmission & Distrib	\$ 523,374	\$ -	\$ 523,374	2.00%	\$ 10,467
Services	\$ 76,400	\$ -	\$ 76,400	3.33%	\$ 2,547
Meters & Meter Install	\$ 49,944	\$ -	\$ 49,944	8.33%	\$ 4,162
Hydrants	\$ 81,000	\$ -	\$ 81,000	2.00%	\$ 1,620
Backflow Prevention D	\$ -	\$ -	\$ -	6.67%	\$ -
Other Plant and Misc. I	\$ 24,594	\$ -	\$ 24,594	6.67%	\$ 1,640
Office Furniture & Equi	\$ 1,913	\$ -	\$ 1,913	6.67%	\$ 128
Computers & Softwa	\$ -	\$ -	\$ -	20.00%	\$ -
Transportation Equipm	\$ -	\$ -	\$ -	20.00%	\$ -
Tools Shop & Garage I	\$ 1,321	\$ -	\$ 1,321	5.00%	\$ 66
Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
Power Operated Equip	\$ -	\$ -	\$ -	5.00%	\$ -
Communication Equipr	\$ -	\$ -	\$ -	10.00%	\$ -
Miscellaneous Equipm	\$ -	\$ -	\$ -	10.00%	\$ -
Other Tangible Plant	\$ -	\$ -	\$ -	0.00%	\$ -
Total	\$ 1,453,310	\$ 3,231	\$ 1,450,079		\$ 45,300

Depreciation Expense Before Amortization of CIAC: \$ 45,300
Amortization of CIAC \$ 33,006
Test Year Depreciation Expense - Staff: \$ 12,294
Depreciation Expense - Company: \$48,064
Staff's Total Adjustment: \$ (35,770)

Pro Forma Annual Depreciation Expense:

Plant in Service	\$1,453,310
Less: Non Depreciable Plant	1,084
Fully Depreciated Plant	<u>2,147</u>
Depreciable Plant	\$1,450,079
Times: Staff Proposed Depreciation Rate	<u>3.12%</u>
Full Year Credit to Accumulated Depreciation	<u>\$45,300</u>
Less: Amort. of CIAC	<u>33,006</u>
Pro Forma Annual Depreciation Expense	<u>\$12,294</u>

STAFF ADJUSTMENTS (Cont.)

7 -	INCOME TAXES - Per Company	\$0	
	Per Staff	50	\$50
		<hr/>	<hr/>

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

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
All Classes			
5/8" x 3/4" Meter	\$15.00	NA	\$15.00
3/4" Meter	\$15.00	NA	22.50
1" Meter	\$15.00	NA	37.50
1½" Meter	\$15.00	NA	75.00
2" Meter	\$15.00	NA	120.00
3" Meter	\$15.00	NA	240.00
4" Meter	\$15.00	NA	375.00
6" Meter	\$15.00	NA	750.00
Residential			
5/8" x 3/4" Meter	NA	\$30.00	NA
3/4" Meter	NA	\$32.00	NA
1" Meter	NA	\$35.00	NA
1½" Meter	NA	\$38.00	NA
2" Meter	NA	\$40.00	NA
3" Meter	NA	\$55.00	NA
4" Meter	NA	\$60.00	NA
6" Meter	NA	\$80.00	NA
Commercial/Industrial			
5/8" x 3/4" Meter	NA	\$35.00	NA
3/4" Meter	NA	\$37.00	NA
1" Meter	NA	\$40.00	NA
1½" Meter	NA	\$45.00	NA
2" Meter	NA	\$48.00	NA
3" Meter	NA	\$50.00	NA
4" Meter	NA	\$60.00	NA
6" Meter	NA	\$80.00	NA
Irrigation			
5/8" x 3/4" Meter	NA	\$45.00	NA
3/4" Meter	NA	\$48.00	NA
1" Meter	NA	\$50.00	NA
1½" Meter	NA	\$55.00	NA
2" Meter	NA	\$60.00	NA
3" Meter	NA	\$65.00	NA
4" Meter	NA	\$75.00	NA
6" Meter	NA	\$95.00	NA

RATE DESIGN

Commodity Rates (Per 1,000 Gallons)		Present	-Proposed Rates-	
		Rates	Company	Staff
All Meter Sizes	0000 - 5,000	\$1.75	NA	NA
	Over 5,000	\$2.30	NA	NA
Residential	0000 - 3,000	N/A	\$2.19	N/A
	3,001 - 10,000	N/A	\$2.73	N/A
	Over 10,000	N/A	\$3.42	N/A
Commercial / Industrial	0000 - 3,000	N/A	\$2.84	N/A
	3,001 - 10,000	N/A	\$3.55	N/A
	Over 10,000	N/A	\$4.44	N/A
Irrigation	0000 - 3,000	N/A	\$3.50	N/A
	3,001 - 10,000	N/A	\$4.37	N/A
	Over 10,000	N/A	\$5.47	N/A
5/8" x 3/4" Inch Meter, Residential	0000 - 3,000	N/A	N/A	\$3.25
	3,001 - 10,000	N/A	N/A	\$4.90
	Over 10,000	N/A	N/A	\$5.85
3/4" Inch Meter, Residential	0000 - 3,000	N/A	N/A	\$3.25
	3,001 - 10,000	N/A	N/A	\$4.90
	Over 10,000	N/A	N/A	\$5.85
5/8" x 3/4" Inch Meter, Non-Residential	0000 - 10,000	N/A	N/A	\$4.90
	Over 10,000	N/A	N/A	\$5.85
3/4" Inch Meter, Non-Residential	0000 - 10,000	N/A	N/A	\$4.90
	Over 10,000	N/A	N/A	\$5.85
1 Inch Meter, all classes	0000 - 16,000	N/A	N/A	\$4.90
	Over 16,000	N/A	N/A	\$5.85
1 1/2 Inch Meter, all classes	0000 - 48,000	N/A	N/A	\$4.90
	Over 48,000	N/A	N/A	\$5.85
2 Inch Meter, all classes	0000 - 90,000	N/A	N/A	\$4.90
	Over 90,000	N/A	N/A	\$5.85
3 Inch Meter, all classes	0000 - 160,000	N/A	N/A	\$4.90
	Over 160,000	N/A	N/A	\$5.85
4 Inch Meter, all classes	0000 - 285,000	N/A	N/A	\$4.90
	Over 285,000	N/A	N/A	\$5.85
6 Inch Meter, all classes	0000 - 640,000	N/A	N/A	\$4.90
	Over 640,000	N/A	N/A	\$5.85
Bulk Water		N/A	N/A	\$5.85

RATE DESIGN (Cont.)

Service Line and Meter Installation Charges

Meter Size	Company	Company	Staff's Recommendation		
	Current Tariff	Proposed Tariff	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$360	\$450	\$360	\$90	\$450
3/4-inch	\$400	\$500	\$360	\$140	\$500
1-inch	\$460	\$575	\$370	\$205	\$575
1½-inch	\$675	\$845	\$510	\$335	\$845
2-inch	\$1,100	\$1,375	\$800	\$575	\$1,375
3-inch	\$1,550	\$1,940	\$1,015	\$925	\$1,940
4-inch	\$2,450	\$3,065	\$1,430	\$1,635	\$3,065
6-inch	\$4,700	\$5,875	\$2,150	\$3,725	\$5,875

Service Charges

Service Charges	Present Rates	-Proposed Rates-	
		Company	Staff
Establishment	\$20.00	\$20.00	\$20.00
Establishment (After Hours)	30.00	30.00	30.00
Reconnection (Delinquent)	30.00	30.00	20.00
Reconnection (Delinquent) after hours	NA	50.00	50.00
Meter Test (if correct)	\$30.00	30.00	30.00
Deposit	\$30.00	100.00	*
Deposit Interest	6.00%	1.75%	*
Re-Establishment (Within 12 Months)	25.00	25.00	**
NSF Check	12.00	25.00	25.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	10.00	10.00
Late Fee	1.50%	1.50%	1.50%
Monthly Service Charge for Fire Sprinkler			
4" or Smaller	N/A	N/A	***
6"	N/A	N/A	***
8"	N/A	N/A	***
10"	N/A	N/A	***
Larger than 10"	N/A	N/A	***

* Per Commission Rules R14-2-403.B

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

*** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary

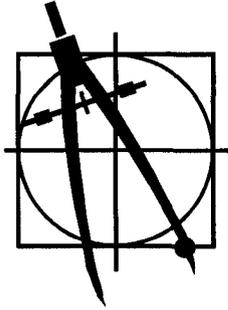
TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 252

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	3,700	\$21.47	\$38.48	\$17.01	79.2%
Median Usage	2,464	\$19.31	\$35.40	\$16.09	83.3%
<u>Staff Recommend</u>					
Average Usage	3,700	\$21.47	\$28.18	\$6.71	31.3%
Median Usage	2,464	\$19.31	\$23.01	\$3.70	19.2%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$15.00	\$30.00	100.0%	\$15.00	0.0%
1,000	16.75	32.19	92.2%	18.25	9.0%
2,000	18.50	34.38	85.8%	21.50	16.2%
3,000	20.25	36.57	80.6%	24.75	22.2%
4,000	22.00	39.30	78.6%	29.65	34.8%
5,000	23.75	42.03	77.0%	34.55	45.5%
6,000	26.05	44.76	71.8%	39.45	51.4%
7,000	28.35	47.49	67.5%	44.35	56.4%
8,000	30.65	50.22	63.8%	49.25	60.7%
9,000	32.95	52.95	60.7%	55.10	67.2%
10,000	35.25	55.68	58.0%	60.95	72.9%
15,000	46.75	72.78	55.7%	90.20	92.9%
20,000	58.25	89.88	54.3%	119.45	105.1%
25,000	69.75	106.98	53.4%	148.70	113.2%
50,000	127.25	192.48	51.3%	294.95	131.8%
75,000	184.75	277.98	50.5%	441.20	138.8%
100,000	242.25	363.48	50.0%	587.45	142.5%
125,000	299.75	448.98	49.8%	733.70	144.8%
150,000	357.25	534.48	49.6%	879.95	146.3%
175,000	414.75	619.98	49.5%	1,026.20	147.4%
200,000	472.25	705.48	49.4%	1,172.45	148.3%



**Engineering Report for
Baca Float Water Company, Inc.**

Docket No. WS-01678A-09-0376 (Rates)

By Marlin Scott, Jr. *MS*

May 25, 2010 *for*

CONCLUSIONS

- A. Baca Float Water Company, Inc.'s ("Company") water loss of 7.1 percent is within the allowable limits of 10 percent recommended by Staff.
- B. The Company's water system has adequate well and storage capacity to serve its present customer base and reasonable growth.
- C. The Arizona Department of Environmental Quality has reported that the Company's water system is currently delivering water that meets the water quality standards.
- D. The Company is located in the Santa Cruz Active Management Area. According to the Arizona Department of Water Resources ("ADWR"), this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.
- E. A check of the Utilities Division Compliance database showed that the Company had no delinquent Commission compliance items.
- F. The Company has an approved curtailment tariff with an effective date of January 1, 2008.
- G. The Company has an approved backflow prevention tariff with an effective date of January 10, 1997.

RECOMMENDATIONS

- 1. Staff recommends the removal of the unused mains in a portion of the Embarcadero at Barrio de Tubac Subdivision, totaling to \$60,934, from the plant-in-service because this plant item was not used and useful at the time of Staff's field inspection.
- 2. Staff recommends the adoption of its annual water testing and operator's expenses totaling to \$8,068 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 H-1.
4. Staff recommends the approval of the Staff's proposed Service Line and Meter Installation Charges as delineated in Table I-1.

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A. LOCATION OF COMPANY

Baca Float Water Company, Inc. (“Company”) serves the community of Tubac, which is located approximately 30 miles north of Nogales along Interstate Highway 19. Figure 1 shows the location of the Company within Santa Cruz County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 3.5 square-miles.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on April 22, 2010, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Richard Lockwood, Lino Vega, and Raul Amezcua, representing the Company.

The entire water plant pumping facilities are located at the Water Plant Site. This site consists of two wells, a 280 gallon per minute arsenic treatment system, three storage tanks, one booster system and a distribution system serving 382 customers at the end of the test year ending December 2008. A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Data

Well Information	Well #1	Well #2
ADWR ID No.	55-558318	55-558319
Casing Size	6-inch	10-inch
Casing Depth	600 feet	610 feet
Pump Size	3-Hp	15-Hp
Pump Type	Submersible	Submersible
Pump Yield	100 GPM	450 GPM, but valved back to 275 GPM
Wellhead Meter	4-inch	8-inch
Year Drilled	1997	1997
Treatments	Chlorination & Arsenic	
Arsenic levels	Untreated at 19 ppb Treated to < 0.4 ppb	

Table 2. Tanks and Booster System Facilities

Site	Storage Tanks	Booster System
Water Plant	Two 40,000 gallon storage tanks and one 80,000 gallon storage tank	Two 15-Hp & one 50-Hp booster pumps 7,000 gallon pressure tank

Table 3. Water Mains

Diameter	Material	Length
2-inch	PVC	900 ft.
4-inch	PVC	800 ft.
6-inch	PVC	9,050 ft.
8-inch	PVC	17,500 ft.
12-inch	PVC	6,000 ft.
	Total:	34,250 ft.

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	243
3/4-inch	111
1-inch	21
2-inch	20
3-inch	-
4-inch	-
Total:	395

Table 5. Hydrants

Type	Quantity
Standard	45

Table 6. Treatment, Equipment & Structures

Treatment, Equipment & Structures
Arsenic Treatment System – AdEdge pre-packaged modular system; 280 GPM capacity using Bayoxide E-33 adsorption media and a 7,000 gallon backwash tank.
Liquid chlorination system – used for pre-treatment prior to arsenic treatment.
Tuff shed – for storage, 14 feet by 20 feet
Storage shed – for pipe storage, 15 feet by 20 feet
Arsenic treatment shed – 16 feet by 24 feet
Booster system shed – 16 feet by 18 feet
Fencing – 600 lineal feet of chain link surrounding entire Water Plant
Natural gas generator – 250 kW

Plant Not Used and Useful

During Staff's field inspection, Staff noted that a portion of the Embarcadero at Barrio de Tubac Subdivision had plant facilities constructed on site, but only one lot was being served. Through this field inspection and the Company data response regarding this subdivision, Staff obtained:

1. Water system maps.
2. Cost of plant facilities per NARUC account;
 - a. Account 331 – Mains: \$294,369 was reported for approximately 4,475 lineal feet of main for the Embarcadero Clusters 12, 13, 14 and 15 constructed in 2007.
 - b. According to the Company, approximately 925 feet at a cost of \$60,934 is not in use.

As a result of the review and evaluation of the above data, Staff recommends the removal of unused mains, totaling to \$60,934, from the plant-in-service because this plant item was not used and useful at the time of Staff's field inspection.

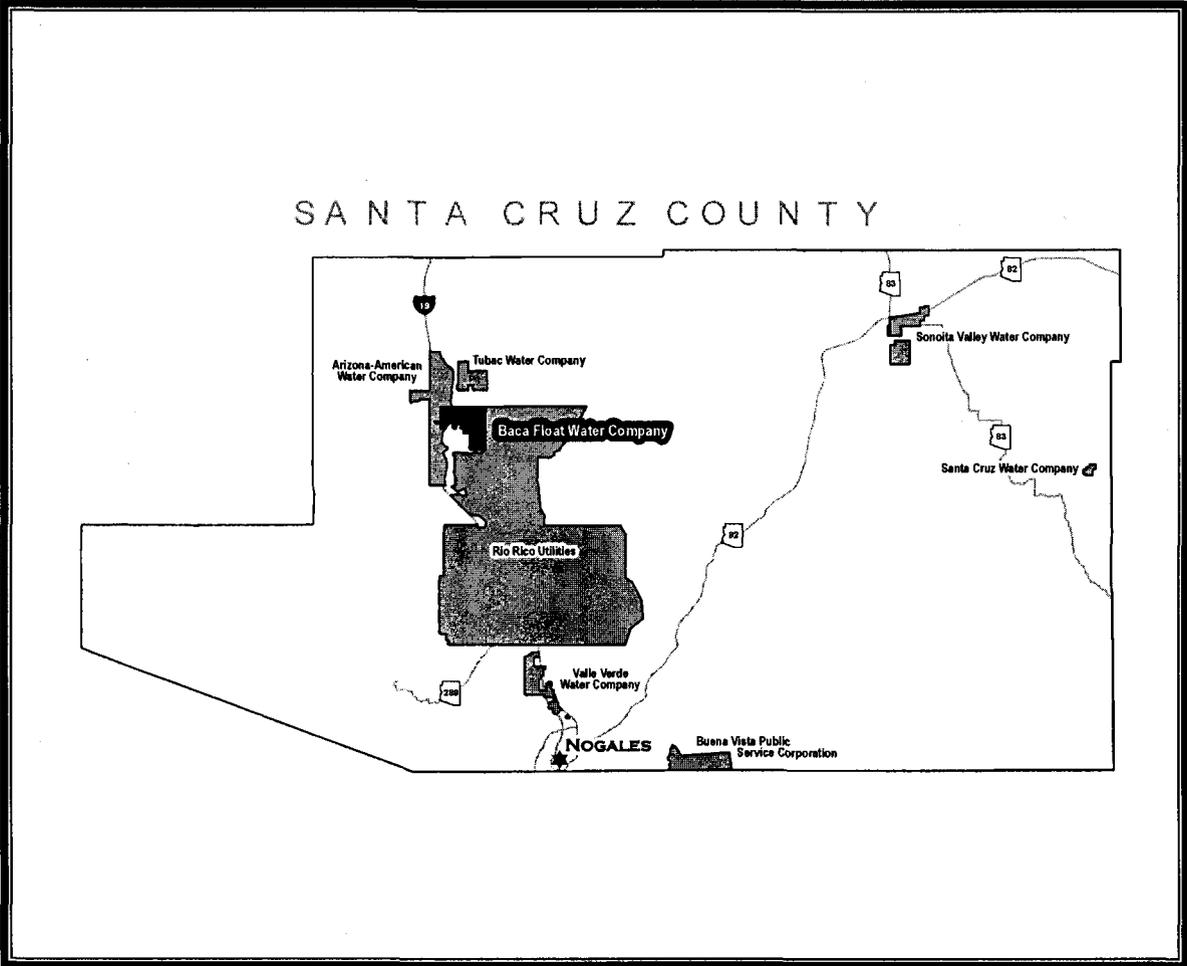


Figure 1. County Map

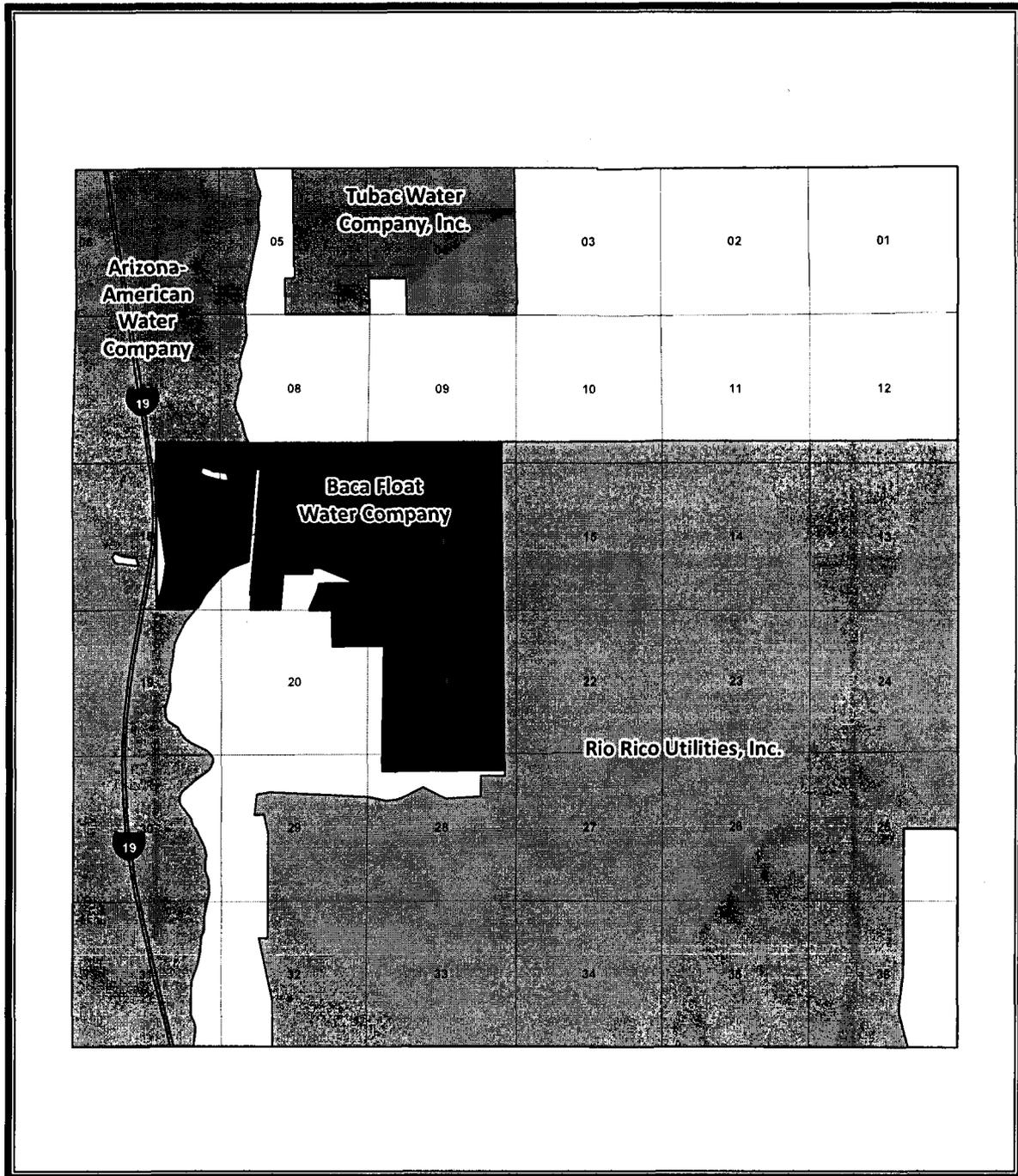


Figure 2. Certificated Area

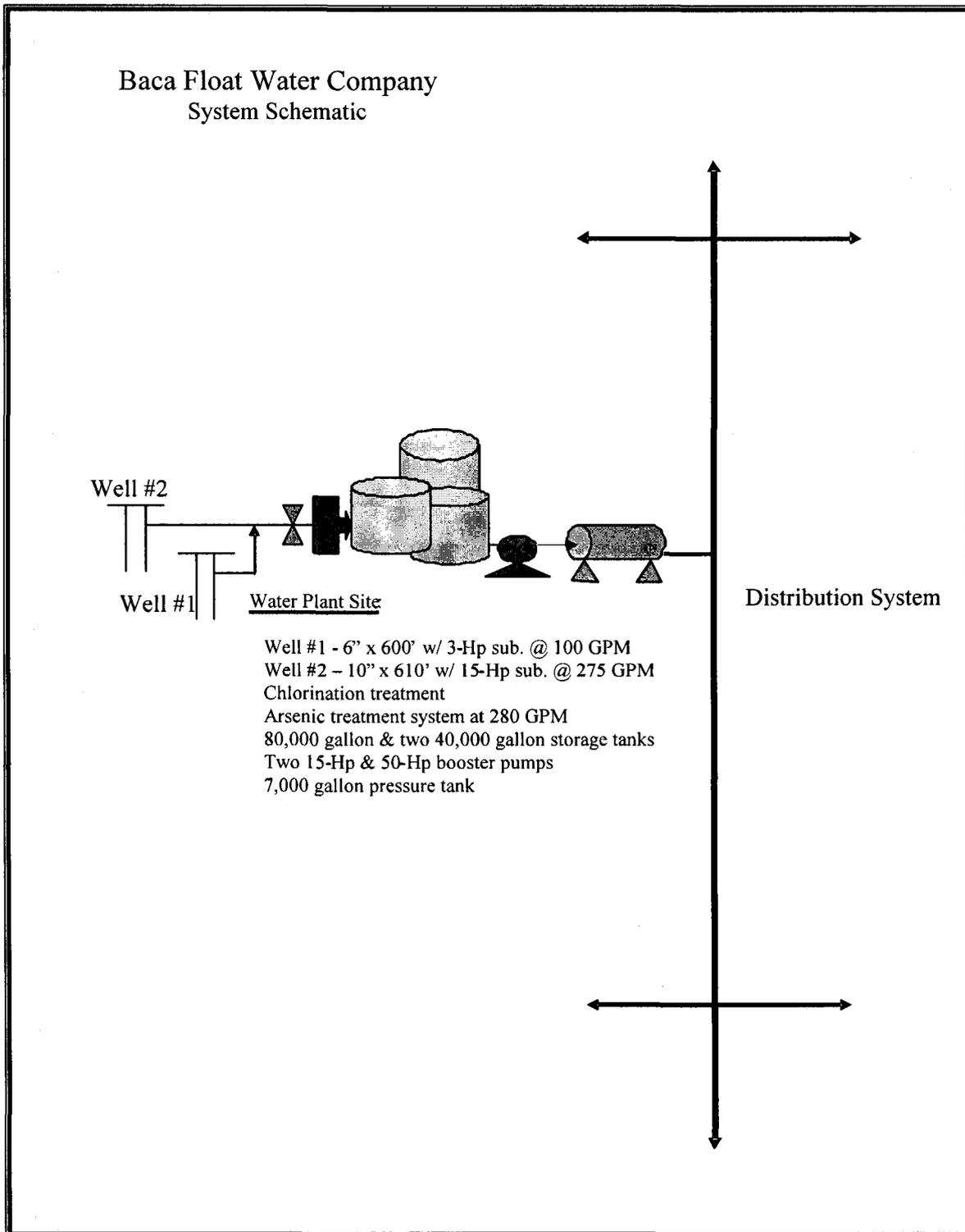


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year 2008. The customer consumption experienced a high monthly usage of 151 gallons per day (“GPD”) per connection in May and a low monthly water use of 106 GPD per connection in September for an average monthly use of 126 GPD per connection.

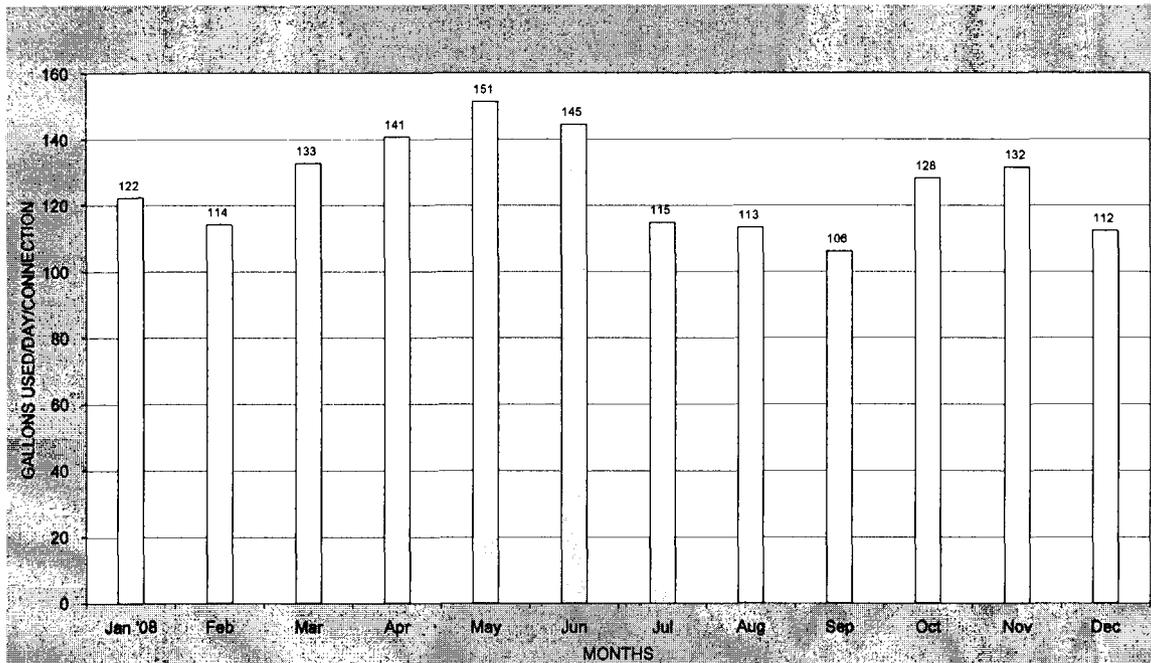


Figure 4. Water Use

Non-Account Water

The Company reported 19,012,000 gallons of water pumped and 17,655,000 gallons of water sold during the test year. As a result, the water loss is calculated to be 7.1% and is within the allowable limit of 10% recommended by Staff.

System Analysis

The current well capacity of 375 GPM and storage tank capacity of 160,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Figure 5 depicts the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year ending December 2008, the Company had 382 customers and it is projected that the Company could have approximately 440 customers by December 2013.

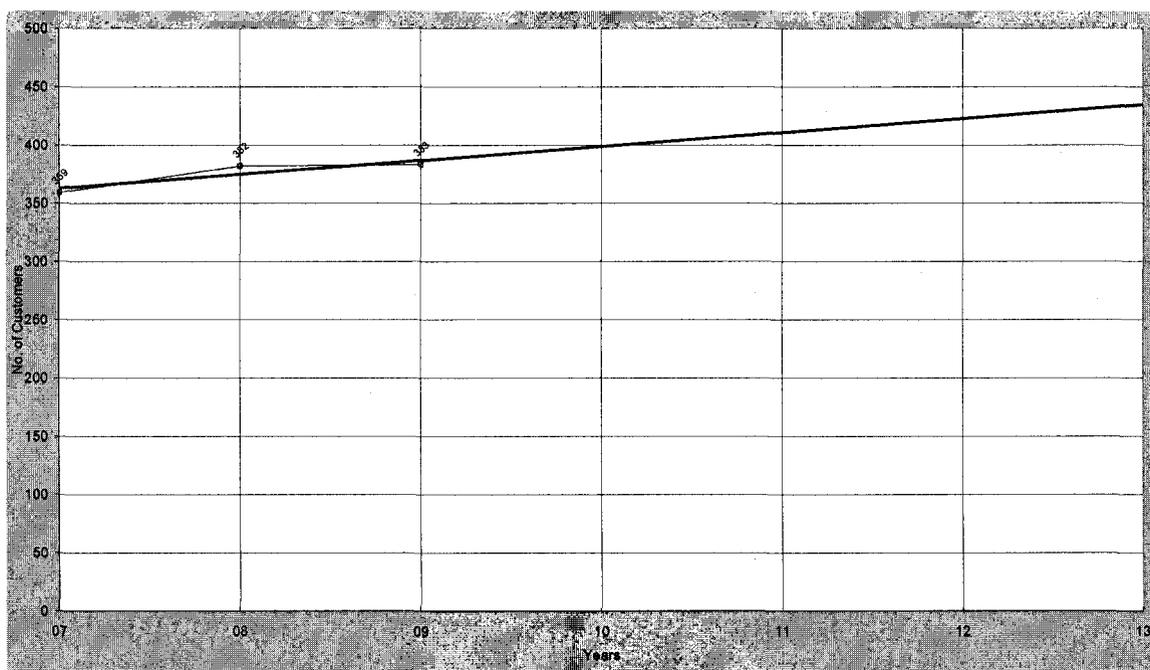


Figure 5. Growth Projection

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE

Compliance

According to an Arizona Department of Environmental Quality (“ADEQ”) Compliance Status Report, dated June 22, 2009, that was submitted with the rate application; ADEQ has reported no major deficiencies and has determined that the Company’s system, PWS #12-037, is in compliance with ADEQ regulation and is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program (“MAP”). The Company reported its water testing expense at \$6,267 during the test year by combining water testing costs, operator’s fee and backflow prevention testing costs. Staff has

reviewed these expenses and has recalculated an annual water testing expense of \$2,068 with participation in the MAP and an annual operator's expense of \$6,000.

Table E-1. Water Testing Expense

Monitoring	Cost per test	No. of test	Annual Expense
Total coliform – monthly	\$25	12	\$300
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$1,083
Arsenic – quarterly	\$25	4	\$100
Lead & Copper – annually	\$33	10	\$330
TTHMs – annually	\$100	1	\$100
HAA5 - annually	\$155	1	\$155
Subtotal:			\$2,068
Water Operator's fee – per month	\$500	12	\$6,000
Total			\$8,068

Note: ADEQ's MAP invoice for the 2009 Calendar Year was \$1,082.68.

Staff recommends an annual water testing and operator's expenses totaling to \$8,068 be used for purposes of this application.

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

The Company is located in ADWR's Santa Cruz Active Management Area. According to an ADWR compliance status report, dated March 3, 2010, the Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

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

H. DEPRECIATION RATES

In recent orders, the Commission has been adopting Staff's typical and customary depreciation rates. These rates are presented in Table H-1 and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”).

Table H-1. Depreciation Rates

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

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested changes to its service line and meter installation charges which are lower than Staff's customary range of charges. Staff will accept the Company's proposed 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 I-1 below, with separate installation charges for the service line and meter installations.

Table I-1. Service Line and Meter Installation Charges

Meter Size	Company's Current Charges	Company's Proposed Charges	Staff's Proposed Service Line Charges	Staff's Proposed Meter Installation Charges	Staff's Proposed Total Charges
5/8 x 3/4-inch	\$360	\$450	\$360	\$90	\$450
3/4-inch	\$400	\$500	\$360	\$140	\$500
1-inch	\$460	\$575	\$370	\$205	\$575
1-1/2-inch	\$675	\$845	\$510	\$335	\$845
2-inch	\$1,100	\$1,375	\$800	\$575	\$1,375
3-inch	\$1,550	\$1,940	\$1,015	\$925	\$1,940
4-inch	\$2,450	\$3,065	\$1,430	\$1,635	\$3,065
6-inch	\$4,700	\$5,875	\$2,150	\$3,725	\$5,875

2. Curtailment Tariff

The Company has an approved curtailment tariff with an effective date of January 1, 2008.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff with an effective date of January 10, 1997.