

ORIGINAL



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MEMORANDUM

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

EA for SMD

DATE: August 24, 2010

RE: STAFF REPORT FOR CASA GRANDE WEST WATER COMPANY'S
APPLICATION FOR A PERMANENT RATE INCREASE AND FOR
AUTHORITY TO INCUR LONG-TERM DEBT
(DOCKET NO. W-01990A-09-0573, ~~W-01990A-09-0573~~) W-01990A-09-0572

Attached is the Staff Report for Casa Grande West Water Company's application for a permanent rate increase and for authority to incur long-term debt. Staff recommends approval of its proposed 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 September 3, 2010.

SMO:All:tdp

Originator: Alexander Ibhade Igwe, CPA

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Arizona Corporation Commission
DOCKETED
AUG 24 2010

DOCKETED BY *ROB*

Service List for: Casa Grande West Water Company.
Docket No. W-01990A-09-0573, et al

Mr. Jere Hansen
Authorized Representative
Casa Grande West Water Company
109 West Second Street
Casa Grande, Arizona 85122

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**CASA GRANDE WEST WATER COMPANY
DOCKET NO. W-01990A-09-0573, ET AL**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

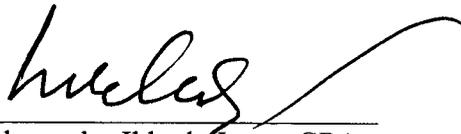
AND

FOR AUTHORITY TO INCUR LONG-TERM DEBT

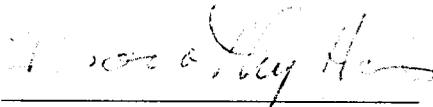
AUGUST 24, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Casa Grande West Water Company, Docket No. W-01990A-09-0573, et al was the responsibility of the Staff members listed below. Alexander Ihhade Igwe was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, rate design, and financing. Dorothy Hains was responsible for the engineering and technical analysis. Bradley Morton was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company and reviewing customer complaints filed with the Commission.



Alexander Ihhade Igwe, CPA
Executive Consultant III



Dorothy Hains, P. E.
Utilities Engineer



Bradley G. Morton
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
CASA GRANDE WEST WATER COMPANY
DOCKET NOS. W-01990A-09-0573, ET AL

Casa Grande West Water Company's ("Casa Grande" or "Company") is a C Corporation, certificated to provide water service, pursuant to Decision No. 47665, dated February 15, 1977. The Company is located west of the City of Casa Grande, Pinal County, Arizona. It currently serves approximately 294 customers, based on rates and charges approved in Decision No. 55350, dated December 17, 1986.

Casa Grande states that its application for a rate increase is necessitated by rising cost of service. The Company contends that because it has not had a rate increase over the last twenty-four (24) years, its current rates and charges are inadequate to cover cost of service. Also, the Company is seeking Commission authority to incur \$250,000 of long-term debt to construct an arsenic remediation plant and a storage facility. Casa Grande states that because it is currently under an Arizona Department of Environmental Quality's ("ADEQ") Consent Order to remediate its arsenic contamination levels, Commission approval of its requested debt financing is pivotal to its operations.

Casa Grande reports test year operating revenue of \$124,898, and an operating loss of \$8,444. The Company seeks Commission approval to increase its revenues by \$58,980 or approximately 47 percent over test year operating revenues, for a total of \$183,878. The Company's proposed rate increase will result in an operating income of \$50,536 or 35.65 percent rate of return on its reported Original Cost Rate Base ("OCRB") of \$141,765.

Staff recommends a rate increase of \$16,617 or 13 percent over test year revenues, for total operating revenue of \$141,515. Staff's recommended revenue requirement yields an operating income of \$21,227 or a 18.25 percent rate of return on Staff adjusted OCRB of \$116,298. Staff's recommended operating income was derived based on a 15.00 percent operating margin, for the reasons discussed in the revenue requirement section of this report. 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 5,992-gallons, by \$7.32 or 34.9 percent, from \$20.98 to \$28.30.

Staff has reviewed the Company's proposed debt financing and related projects. Staff concludes that the Company's proposed arsenic remediation plant is necessary for it to be in compliance with ADEQ requirements. Also, the Company proposed storage facility project is required to insure it has adequate storage capacity to serve its customers. Accordingly, Staff recommends Commission approval of the Company's application for authority to incur long-term debt, in an amount not to exceed \$259,335. Also, Staff recommends that the Commission authorize the Company to file for an ARSM under this docket. An ARSM will insure the Company has adequate cash flow to service the debt service obligation related to its proposed arsenic remediation facility. Also, Staff's analysis indicates that the Company will generate sufficient cash flow from Staff recommended revenue requirement to meet the debt service obligation related to its proposed storage facility.

Staff recommends 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 Exhibit 6 of Engineering Report, no later than 30 days from the effective date of Commission order in this proceeding.

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

Staff recommends Commission approval of the Company's application for authority to incur long-term debt, in an amount not to exceed \$259,335.

Staff recommends that the Commission authorize the Company to file for an ARSM under this docket.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by December 31, 2011, an ADEQ Water Quality Compliance Status Report showing that water system PWS No. 11-024 is in compliance with ADEQ requirements and that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Company revise its filed curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this docket, for Staff's review and certification.

On May 27, 2010, the Company filed a Cross Connection or Backflow Prevention tariff under the rate case docket. Staff has reviewed the Company's Cross Connection or Backflow Prevention tariff and recommends approval.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by March 31, 2011, a copy of the ADEQ Approval of Construction ("AOC") for the arsenic treatment plant (See §K for discussion and details.)

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by May 31, 2011, a copy of the AOC for 100,000 gallons of additional storage capacity.

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FACT SHEET

Company:

Current Rates: Decision No. 55350, dated December 17, 1986

Type of Ownership: C Corporation

Location: The Company is located within the Pinal Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: December 21, 2009

Current test year ended: June 30, 2009

Prior test year ended: December 31, 1985

Rates:

	Current ¹ <u>Rates</u>	Company <u>Proposed</u>	Staff <u>Recommended</u>
Monthly Minimum Charge: (For 5/8 x 3/4-Inch Meter)	\$9.00	\$30.00	\$12.00
Commodity Rates:			
0-3,000-gallons	\$2.40	\$4.50	
3,001-10,000-gallon	\$2.40	\$4.50	
Over 10,000-gallons	\$2.40	\$4.50	
0-3,000-gallons			\$2.52
3,001- 9,000-gallons			\$2.92
Over 9,000-gallons			\$3.32
Typical Residential Bill: (Based on a median usage of 5,992-gallons)	\$20.98	\$56.96	\$28.30

¹ Current Monthly Minimum Charges include 1,000-gallons

Customers:

Average number of metered customers in the current test year (06/30/09): 294

Current test year customers by meter size:

5/8 X 3/4-inch	59
3/4-inch	233
1-inch	2
1 1/2-inch	0
2-inch	0
4-inch	0
6-inch	0

Seasonal customers: N/A

Customer notifications for rate application filed: December 18, 2009.

Number of customer complaints and/or opinions concerning rate application filed: 0

Percentage of complaints to customer base: 0.00 percent.

SUMMARY OF FILING

On December 21, 2009, Casa Grande West Water Company, ("Casa Grande" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"), under Docket No. W-01990A-09-0573. Concurrent with its rate filing, the Company submitted a separate application for Commission authority to incur long-term debt, in Docket No. W-01990A-09-0572. On January 20, 2010, the Commission Staff ("Staff") notified that Company that its application for a rate increase did not meet the sufficiency requirements of the Arizona Administrative Code, Section R14-2-103. On April 21, 2010, the Company filed a revised rate application. On May 20, 2010, Staff determined that the Company's revised rate application has met sufficiency requirements. On June 17, 2010, Staff filed a motion to consolidate the Company's financing application with its rate case, for ease of administration. On July 1, 2010, the Administrative Law Judge ("ALJ") granted Staff's request to consolidate the Company's rate filing and financing application. Casa Grande is classified as a Class D water Company.

Casa Grande reports test year total operating revenue of \$124,898, and an operating loss of \$8,444. The Company seeks Commission approval to increase its revenues by \$58,980 or approximately 47 percent over test year operating revenues, for a total of \$183,878. The Company's proposed rate increase will result in an operating income of \$50,536 or 35.65 percent rate of return on its reported Original Cost Rate Base ("OCRB") of \$141,765.

As shown on schedule AII-3, page 1 of 5, Staff recommends adoption of the Company's reported test year operating revenues in this proceeding. However, Staff has determined that the Company's test year operating income was \$8,281, due to Staff's adjustments to operating expenses. Staff recommends a rate increase of \$16,617 or 13 percent over test year revenues, for total operating revenue of \$141,515. Staff's recommended revenue requirement yields an operating income of \$21,227 or a 18.25 percent rate of return on Staff adjusted OCRB of \$116,298. Staff recommended operating income was derived based on a 15.00 percent operating margin, for the reasons discussed in the revenue requirement section of this report. 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 5,992-gallons, by \$7.32 or 34.9 percent, from \$20.98 to \$28.30.

BACKGROUND

Casa Grande is a C Corporation, certificated to provide water service, pursuant to Decision No. 47665, dated February 15, 1977. The Company is located west of the City of Casa Grande in Pinal County. It currently serves approximately 294 customers, based on rates and charges approved in Decision No. 55350, dated December 17, 1986.

Casa Grande states that its application for a rate increase is necessitated by rising cost of service. The Company contends that because it has not had a rate increase over the last twenty-four (24) years, its current rates and charges are inadequate to cover cost of service. Also, the Company is seeking Commission authority to incur \$250,000 of long-term debt to construct an arsenic remediation plant and a storage facility. Casa Grande states that because it is under the Arizona Department of Environmental Quality's ("ADEQ") Consent Order to remediate arsenic contamination levels, Commission approval of its requested debt financing is pivotal to its operations.

PUBLIC NOTICE

The Company filed an *Affidavit of Mailing* indicating that its customers of record were noticed of this application on December 18, 2009.

CONSUMER SERVICES

Staff reviewed the Commission's records and found zero complaints or opinions from 2007 through 2009. Since 2010, the Company has had one complaint and one inquiry. All complaints have been fully resolved and closed.

Staff's search of the Corporation Division's records indicated that Casa Grande is in good standing.

ENGINEERING ANALYSIS

Staff Engineer, Dorothy Hains conducted a field inspection of the Company's plant facilities on June 22, 2010, in the accompaniment of the Company's representative, Bobby Gordon - Manager/Operator, and Jere Hansen, CPA. 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.

Casa Grande's water system is comprised of one active well with a production capacity of 100 Gallons-Per-Minute ("GPM"), three storage tanks with a combined capacity of 27,000 gallons, one 2,500-gallon pressure tank, a booster pump station and a distribution system. The Company has no fire hydrants and fire flow requirements in the service area. Because there is no wastewater service in the certificated area, its customers rely on the use of septic tank for wastewater disposal.

The Company's active well ("Well No. 3" or "South Well") and an inactive well ("Well No. 2" or "North Well") have arsenic contamination in excess of the allowable Maximum Contaminant Level ("MCL") of 10 parts-per-billion ("PPB" or " $\mu\text{g}/\text{l}$ "). Well No. 3 has 19 $\mu\text{g}/\text{l}$. Casa Grande has disconnected Well No. 2 from its system, because of its excessive level of arsenic contamination. Casa Grande is requesting Commission approval to incur long-term debt, for the primary purpose of installing a centralized arsenic treatment plant on its system. In

compliance with ADEQ requirements, the Company currently provides an alternative source of drinking water to its customers. Casa Grande will continue to furnish its customers with portable drinking water, until the proposed arsenic treatment plant becomes operational, and its water system is capable of delivering water that meets the arsenic MCL. The Company's arsenic treatment plant is fully discussed on page 7, Section K of Staff Engineering Report.

Casa Grande is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP") because it serves less than 10,000 persons (approximately 3,300 service connections). The Company incurred \$2,320 for water testing expense during the test year. As fully discussed on page 6, Section I of Engineering Report, Staff estimates that the Company will incur an average annual water testing expense is \$2,406.

The Commission approved a 5 percent composite depreciation rate for the Company in its last rate case. Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. Staff's recommended depreciation rates are presented in Exhibit 6 of Engineering Report. Staff recommends that the Company adopts its recommended depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category.

COMPLIANCE

ADEQ compliance status reports dated February 11, 2010 indicates that the Company PWS No. 11-024 had major deficiencies due to: (1) on-going arsenic levels which exceed the MCL; (2) failure to collect disinfection by products ("DBP") at the appropriate sampling location; (3) inappropriate sampling times during the year; (4) failure to report DBP from 2004 through 2008; and (5) failure to report lead and copper testing results from 2002 to 2007. Based on these findings, ADEQ has reported that the Company's system is not in compliance with ADEQ requirements, and that ADEQ cannot determine if the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

On March 20, 2010, ADEQ issued a Consent Order ("CO") against the Company due to elevated arsenic levels in the source. ADEQ has ordered the Company to complete an arsenic treatment plant by December 2010.

On June 9, 2010, ADEQ issued a Certificate of Approval to Construct for the Company to install an arsenic treatment plant.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by March 31, 2011, an ADEQ Water Quality Compliance Status Report showing that water system PWS No. 11-024 is in compliance with ADEQ requirements and that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Casa Grande is located within the Pinal AMA. The Arizona Department of Water Resources ("ADWR") issued a compliance status report, emailed on May 6, 2010, indicating that the Company is in compliance with the departmental requirement governing providers and/or community water systems.

On May 27, 2010, the Company filed curtailment tariff under the rate case docket. Staff observed that the Company's filing is inconsistent with the Commission prescribed format. Therefore, Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. Please see page 10 of Engineering Report for a detailed discussion.

On May 27, 2010, the Company filed a Cross Connection or Backflow Prevention tariff under the rate case docket. Staff has reviewed the Company's Cross Connection or Backflow Prevention tariff and recommends approval.

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

RATE BASE

The Company's OCRB was \$141,765 at test year end. The Company has not provided a Reconstructed Cost New less Depreciation ("RCND") study, or a Fair Value Rate Base ("FVRB") in this proceeding. Accordingly, Staff assumes that the Company's reported OCRB is equal FVRB.

As shown on Schedule AII-2, page 1 of 4, Staff recommends an OCRB of \$116,298, a decrease of \$25,467 to the Company's proposal. Staff 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, pages 1 of 4, Adjustment A, decreases gross utility plant-in-service by \$30,860. This adjustment primarily restates \$74,961 of plant balances approved in the prior rate case, eliminates \$42,098 related to Company's acquisition cost, and reflects a decrease of \$2,000 for a retired well. Detailed explanation of Staff's adjustment to each plant account is shown on Schedule AII-2, page 2, and discussed on Schedule AII-2, page 3.

Accumulated Depreciation

As shown on Schedule AII-2, page 1, Staff recommends \$125,979 for accumulated depreciation. Adjustment B reflects an increase of \$55,071 over the Company's reported accumulated depreciation of \$70,908. Staff's adjustment results from its recalculation of accumulated depreciation since last rate case through test year end, and eliminates \$2,000 related

to retired well. Schedule AII-2, page 4 of 4, depicts Staff's recalculation of accumulated depreciation.

Working Capital

Adjustment C, shown on Schedule AII-2, reflects the impact of Staff's adjustment to operating expenses on working capital. This adjustment results in a net decrease of \$1,256 to the Company's proposed OCRB.

OPERATING INCOME STATEMENT

Operating Revenue

As shown on Schedule AII-3, page 1, Staff accepts the Company's reported test year operating revenue of \$124,898.

Operating Expenses

Staff recommends test year total operating expenses of \$116,617, a decrease of \$16,725 to the Company's reported costs of \$133,342. Staff's adjustments to test year operating expenses are shown on Schedule AII-3, page 1, and explained below.

Salaries and Wages – Adjustment A reduces the Company proposed salaries and wages from \$33,688 to \$24,960, a decrease of \$8,728. This adjustment shown on Schedule AII-3, page 2, recognizes an annualized salary for the Company's only employee.

Office Supplies & Expense - As shown on Schedule AII-3, page 2, Adjustment B reduces the Company's proposal to recorded test year cost of \$12,362.

Outside Services - Adjustment C annualizes the Company reported consulting fees and reflects accounting fees incurred during the test year. The Company engaged the services of Pure Water Consulting, an engineering firm, to oversee the operations of its water systems. Because Pure Water Consulting was engaged from November 2009, at a monthly rate of \$1,667, Staff has annualized the test year cost. Staff recommends an increase of \$5,628 to outside services expense, to reflect annualization of consulting fees, and a negligible disallowance related to accounting fees.

Water Testing Expense – Adjustment D reflects an increase of \$86 to water testing expense per Engineering analysis. Please see page 6 of Engineering Report.

Rent Expense – Adjustment E reduces the Company's proposal to actual test year cost of \$2,400 recorded on its general ledger.

Transportation Expense – Adjustment F reduces transportation expense by \$2,000 to eliminate unsupported travel expenses.

Miscellaneous Expense – Adjustment G reduces miscellaneous expense by \$270 to reflect recorded test year cost.

Depreciation Expense – Adjustment H reflects Staff's recalculation of depreciation expense, based on Staff's recommended depreciation rates (Exhibit 6 of Engineering Report). Staff's recalculation of depreciation expense is shown on Schedule AII-3, page 3 of 6.

Tax Other Than Income – Adjustment I reduces taxes other than income by \$8,145 to reflect Staff's recalculated payroll taxes. Staff's calculation of taxes other than income is depicted on Schedule AII-3, page 4 of 6.

Property Tax Expense – Adjustment J decreases the Company's test year property tax expense by \$853, from \$6,380 to \$5,527. This adjustment reflects Staff's recalculation of property tax based on the ADOR methodology. Staff's calculation of property tax expense is depicted on Schedule AII-3, page 5 of 6.

Income Tax Expense – Adjustment I increases test year income tax expense by \$2,141, to reflect Staff's recalculation of income taxes, shown on Schedule AII-3, page 6 of 6.

REVENUE REQUIREMENT

Casa Grande seeks the Commission approval to increase its revenue requirement from \$102,674 to \$133,476, an increase of \$58,980 or 35.65 percent over test year revenues. It proposal would result in an operating income of \$50,536 or a 27.48 percent rate of return on its OCRB of \$141,765.

Staff recommends revenue requirement of \$141,151, an increase of \$16,617 or 13.30 percent. Staff's recommended revenue requirement results in an operating income of \$21,227 or a rate of return of 18.25 percent on Staff adjusted OCRB of \$116,298. Staff's recommended operating income was derived based on a 15.00 percent Operating Margin because of the Company's negligible rate base.

Revenue requirement is a combination of cost of service and operating income. Typically, operating income is established by multiplying OCRB by a rate of return, derived through a cost of capital analysis. Because most small utilities lack adequate capital structure and sizeable rate base, operating margin or cash flow requirement is commonly employed in the determination of their operating income in rate proceedings. This method yields adequate cash flow that enables small utilities to effectively cover operating expenses and manage contingencies. The primary purpose of such recommendation is to keep small utilities viable, on a going forward. Because Casa Grande is a Class D utility with a negligible rate base, Staff has employed operating margin in deriving its recommended operating income.

RATE DESIGN

Casa Grande's current rate structure is comprised of a single-tier, with 1,000-gallons included in its monthly minimum. The Company proposes to retain the same rate structure in this proceeding.

Staff is recommending a three tiered rate structure, with a first tier break-over of 3,000-gallons; 9,000-gallons for the second-tier; and over 9,000-gallons for the third-tier. For a typical residential customer on a 5/8 x 3/4-inch meter, Staff recommended first tier break-over is lower than the Company's median usage of 5,992-gallons, and provides for non-discretionary consumption. Staff's recommended second-tier break-over is higher than the Company's median usage and average usage 8,320-gallons. Staff's recommended rate structure will encourage a more efficient use of water within the Company's certificated territory.

The Company's proposed rates for a typical residential customer, on a 5/8 x 3/4-inch meter, with a median usage of 5,992-gallonss, result in a monthly increase of \$35.98 or 171.5 percent. As shown on Schedule AII-5, Staff's recommended rates result in an increase of \$7.32 or 34.9 percent for a residential customer with the same level of consumption.

Staff recommends adoption of its proposed Service Line and Meter Installation Charges, shown on page 9, Section L of Engineering Report and Schedule AII-4.

FINANCING

Casa Grande seeks Commission authority to obtain a \$250,000 of long-term debt from the Water Infrastructure Finance Authority ("WIFA"). The Company states that the proceeds of its proposed debt financing will be utilized to funds a centralized arsenic remediation facility and to construct a needed storage facility, with related appurtenances. Staff observes that the Company's estimated total cost of system improvement is \$297,835, whereas its loan application is for \$250,000.

Purpose of the Proposed Financing

The Company proposes to invest \$142,835 of its requested debt financing for the installation of a centralized arsenic remediation facility. The Company's proposed arsenic remediation facility is required to enable it brings its water quality in compliance with ADEQ's MCL for arsenic. Casa Grande proposes to expend \$155,000 on the installation of a 50,000-gallon storage facility, with related appurtenances.

Engineering Analysis

Staff has separately evaluated the Company's proposed arsenic treatment plant and storage facility. Staff's analysis confirms that the arsenic remediation project is necessary to bring the Company in compliance with ADEQ requirements. Also, Staff found that the Company's

projected cost of \$142,835, is reasonable for its proposed arsenic remediation plant, and recommends approval. As it relates to Casa Grande's proposed storage facility, Staff has determined that the project is warranted due to the Company's current inadequate storage capacity. However, Staff has determined that it is more appropriate to install a 100,000-gallon storage tank, in place of the Company's proposed 50,000-gallon. Staff's recommendation to install a 100,000-gallon storage tank will insure that the Company has adequate storage capacity to serve its current customers upon completion of this project. Further, Staff's analysis indicates that a total cost of \$116,500 is adequate to complete the storage facility project. Based on these findings, Staff recommends that the Commission approve no more than \$259,335 for construction of the Company's proposed arsenic treatment plant and storage facility. Detailed analysis of these projects is fully discussed on page 7, Section K of Engineering Report.

Financial Analysis

Staff's financial analysis is bifurcated because a special recovery mechanism is warranted for the Company's proposed arsenic remediation facility. Due to its size and limited cash flow, Staff finds that an Arsenic Remediation Surcharge Mechanism ("ARSM") would be an appropriate recovery mechanism for the costs of Casa Grande's proposed arsenic remediation project. An ARSM provides a method for determining an appropriate arsenic surcharge amount necessary to pay debt service obligations on any authorized financing and the related income taxes arising from the surcharge revenue. An ARSM does not authorize the collection of surcharge revenue. As a result, Commission authority is required for the Company to file a ARSM under this docket. Staff recommends that the Commission order Casa Grande to file a ARSM showing an appropriate amount of arsenic surcharge required for its debt service obligation that is related to arsenic remediation, once it has secured its proposed loan from WIFA.²

Schedule AII-6 presents a calculation of the additional annual revenue needed by the Company to service a \$142,835 WIFA debt financing, required for the proposed arsenic remediation project. According to the Company, its requested WIFA loan will be amortized over 30 years at an interest rate of 5.50 percent per annum. Based on Staff's calculation, \$142,835 of WIFA debt will require the Company to generate an annual cash flow of \$10,241 through ARSM. Staff's calculation shows that a residential customer on a 5/8 x 3/4-inch meter will be required to pay a monthly arsenic surcharge of \$2.06.³ Staff recommends that the Company files for Commission approval of an appropriate ARSM based on the methodology depicted on Schedule AII-6.

Staff has also analyzed the Company's ability to meet its debt obligation related to \$116,500 required to construct its proposed storage facility. As indicated on Schedule AII-7, Staff's recommended revenue requirement provides the Company with a Times Interest Earned Ratio ("TIER") of 4.22 and a Debt Service Coverage Ratio ("DSC") of 4.28. These financial

² Schedule AII-6 provides directions for the Company to follow to estimate the ARSM surcharges in its filing.

³ The surcharges increase for larger meters.

indices indicate the Company would generate sufficient cash flow from its operations to meet the debt service obligation related to its proposed storage facility project.

A DSC represents the number of times internally generated cash flow covers debt service (principal and interest) on debt financing. A DSC greater than 1.0 indicates that operating cash flow is adequate to make interest and principal payments on long-term debt. A DSC less than 1.0 indicates that cash flow generated from operations may not be adequate to fulfill debt obligations, and that funds from other sources may be required to avoid default.

TIER represents the number of times operating income will cover interest expense on long-term debt. A TIER greater than 1.0 means that operating income is sufficient to make interest payment on debt.

Staff concludes that the Company's proposed arsenic remediation plant and storage facility projects, are necessary for it to be in compliance with ADEQ requirements, and insure it has adequate storage capacity serve its customers. Accordingly, Staff recommends Commission approval of the Company's application for authority to incur long-term debt, in an amount not to exceed \$259,335. Also, Staff recommends that the Commission authorize the Company to file for an ARSM under this docket.

STAFF RECOMMENDATIONS

Staff recommends 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 Exhibit 6 of Engineering Report, no later than 30 days from the effective date of Commission order in this proceeding.

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

Staff recommends Commission approval of the Company's application for authority to incur long-term debt, in an amount not to exceed \$259,335.

Staff recommends that the Commission authorize the Company to file for an ARSM under this docket.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by March 31, 2011, an ADEQ Water Quality Compliance Status Report showing that water system PWS No. 11-024 is in compliance with ADEQ requirements and that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this docket, for Staff's review and certification.

Staff recommends approval of the Company's Cross Connection or Backflow Prevention tariff, in this docket.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by March 31, 2011, a copy of the ADEQ Approval of Construction ("AOC") for the arsenic treatment plant (See §K for discussion and details.)

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by May 31, 2011, a copy of the AOC for 100,000 gallons of additional storage capacity.

Casa Grande West Water Company, Inc.

Docket No. W-01990A-09-0573

Test Year Ended June 30, 2009

Schedule All-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$124,898	\$124,898	\$183,878	\$141,515
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$124,898	\$124,898	\$183,878	\$141,515
Operating Expenses:				
Operation and Maintenance	\$106,237	\$99,302	\$106,237	\$99,302
Depreciation	10,047	7,114	10,047	7,114
Taxes Other Than Income	10,628	2,483	10,628	2,483
Property Tax	6,380	5,527	6,380	5,772
Income Tax	50	2,191	50	5,616
Total Operating Expense	\$133,342	\$116,617	\$133,342	\$120,288
Operating Income/(Loss)	(\$8,444)	\$8,281	\$50,536	\$21,227
Rate Base O.C.L.D.	\$141,765	\$116,298	\$141,765	\$116,298
Rate of Return	N/M	7.12%	35.65%	18.25%
Operating Margin	N/M	6.63%	27.48%	15.00%
Percent Increase	N/M	N/M	47%	13%

N/M = Not meaningful

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$200,941	\$30,860	A	\$231,801
Less:				
Accum. Depreciation	70,908	55,071	B	125,979
Net Plant	\$130,033	(\$24,211)		\$105,822
Less:				
Plant Advances	\$0	\$0		\$0
Customer Deposit	1,500	0		1,500
Total Advances	\$1,500	\$0		\$1,500
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$1,500	\$0		\$1,500
Plus:				
1/24 Power	\$652	\$0	C	\$652
1/8 Operation & Maint.	12,580	(1,256)	C	11,324
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$13,232	(\$1,256)		\$11,976
Rate Base	\$141,765	(\$25,467)		\$116,298

Explanation of Adjustment:

A - Refer to Schedule 2, Page 3.

B - Refer to Schedule 2, Page 4.

C - To provide cash working capital allowance based on the formula method.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$0	\$0		\$0
302 Franchises	0	0		0
303 Land & Land Rights	0	1,720	a	1,720
304 Structures & Improvements	31,001	1,320	b	32,321
307 Wells & Springs	55,448	9,462	c	64,910
311 Pumping Equipment	0	11,785	d	11,785
320 Water Treatment Equipment	2,285	0	e	2,285
330.1 Distrib. Res. & Standpipes(Storage)	32,531	9,143	f	41,674
330.2 Distrib. Res. & Standpipes(Pressure)	0	32,655	g	32,655
331 Transmission & Distribution Mains	75,658	(38,634)	h	37,024
333 Services	0	4,964	i	4,964
334 Meters & Meter Installations	2,493	(2,000)	j	493
335 Hydrant	0	0		0
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	0	0		0
340 Office Furniture & Equipment	1,525	0		1,525
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipment	0	445	k	445
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	\$200,941	\$30,860	A	\$231,801

Explanation of Adjustment:

A - Refer to Schedule 2, Page 3.

PLANT ADJUSTMENT

Explanation of Adjustment:

A - To reclassify plant in service, remove unsupported addition and disallowed cost through the end of the test year.

a - LAND AND LAND RIGHTS - Per Company	\$ -	
Per Staff	\$ 1,720	<u>1,720</u>

To restate the balance of Land and Land Rights approved in Decision No. 55350.

b - STRUCTURES & IMPROVEMENT - Per Company	\$ 31,001	
Per Staff	\$ 32,321	<u>1,320</u>

To reflect balance of Structures and Improvements approved in the last rate case.

c - WELLS AND SPRINGS - Per Company	\$ 55,448	
Per Staff	\$ 64,910	<u>9,462</u>

To reflect balance of Wells & Springs approved in the last rate case and eliminate \$2,000 related to retired well.

d - PUMPING EQUIPMENT - Per Company	\$ -	
Per Staff	\$ 11,785	<u>11,785</u>

To reflect balance of Pumping Equipment approved in the last rate case.

e - DISTRIBUTION RESERVOIR & STANDPIPE (STORAGE) - Per Company	\$ 32,531	
Per Staff	\$ 41,674	<u>9,143</u>

To reflect balance of Distribution Reservoir and Standpipe (Storage) approved in the last rate case.

f - DISTRIBUTION RESERVOIR & STANDPIPE (PRESSURE) - Per Company	\$ -	
Per Staff	\$ 32,655	<u>32,655</u>

To reflect balance of Distribution Reservoir and Standpipe (Pressure) approved in the last rate case.

g - TRANSMISSION & DISTRIBUTION MAINS - Per Company	\$ 75,658	
Per Staff	\$ 37,024	<u>(38,634)</u>

To eliminate the inclusion of \$40,098 related to the Company's acquisition and reflect balance approved in the last case.

h - SERVICES - Per Company	\$ -	
Per Staff	\$ 4,964	<u>4,964</u>

To reflect balance of Pumping Equipment approved in the last rate case.

i - METERS & METERS INSTALLATIONS - Per Company	\$ 2,493	
Per Staff	\$ 493	<u>(2,000)</u>

To eliminate the inclusion of \$2,000 related to the Company's acquisition.

j - TOOLS, SHOP & GARAGE EQUIP - Per Company	\$ -	
Per Staff	\$ 445	<u>445</u>

To reflect balance of Pumping Equipment approved in the last rate case.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>	
Accumulated Depreciation - Per Company	\$ 70,908	
Accumulated Depreciation - Per Staff	125,979	
Total Adjustment	\$55,071	B

Explanation of Adjustment:

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

<u>Accumulated Depreciation</u>	<u>Old Plant</u>	<u>New Plant 1999-2009</u>	<u>Total</u>
Per Decision No. 55350	\$ 21,590		\$ 21,590
Depreciation Expense - 1986	3,640		3,640
Depreciation Expense - 1987	3,640		3,640
Depreciation Expense - 1988	3,640		3,640
Depreciation Expense - 1989	3,640		3,640
Depreciation Expense - 1990	3,640		3,640
Depreciation Expense - 1991	3,640		3,640
Depreciation Expense - 1992	3,640		3,640
Depreciation Expense - 1993	3,341		3,341
Depreciation Expense - 1994	3,029		3,029
Depreciation Expense - 1995	2,976		2,976
Depreciation Expense - 1996	2,928		2,928
Depreciation Expense - 1997	2,928		2,928
Depreciation Expense - 1998	2,928		2,928
Depreciation Expense - 1999	2,928		2,928
Depreciation Expense - 2000	2,021	4,296	6,317
Depreciation Expense - 2001	1,141	4,924	6,064
Depreciation Expense - 2002	686	4,642	5,328
Depreciation Expense - 2003	457	4,614	5,072
Depreciation Expense - 2004	457	4,788	5,245
Depreciation Expense - 2005	356	5,830	6,186
Depreciation Expense - 2006		6,560	6,560
Depreciation Expense - 2007		7,170	7,170
Depreciation Expense - 2008		7,942	7,942
Depreciation Expense - 2009		3,971	3,971
Less Retirements		(2,000)	(2,000)
Accumulated Depreciation Per Staff	\$ 73,241	\$ 52,737	\$ 125,979

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	\$124,898	\$0		\$124,898
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	0	0		0
Total Operating Revenue	\$124,898	\$0		\$124,898
Operating Expenses:				
601 Salaries and Wages	\$33,688	(\$8,728) A		\$24,960
610 Purchased Water	0	0		0
615 Purchased Power	15,645	0		15,645
618 Chemicals	0	0		0
620 Repairs and Maintenance	10,649	0		10,649
621 Office Supplies & Expense	13,299	(937) B		12,362
630 Outside Services	17,189	5,628 C		22,817
635 Water Testing	2,320	86 D		2,406
641 Rents	3,114	(714) E		2,400
650 Transportation Expenses	7,485	(2,000) F		5,485
657 Insurance - General Liability	2,262	0		2,262
659 Insurance - Health and Life	0	0		0
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	586	(270) G		316
403 Depreciation Expense	10,047	(2,933) H		7,114
408 Taxes Other Than Income	10,628	(8,145) I		2,483
408.11 Property Taxes	6,380	(853) J		5,527
409 Income Tax	50	2,141 K		2,191
Total Operating Expenses	\$133,342	(\$16,725)		\$116,617
OPERATING INCOME/(LOSS)	(\$8,444)	\$16,725		\$8,281

STAFF ADJUSTMENTS

A - SALARIES & WAGES - Per Company	\$33,688	
Per Staff	24,960	<u>(\$8,728)</u>
To reflect salaries and wages for the company's sole employee.		
B - OFFICE SUPPLIES EXPENSE - Per Company	\$13,299	
Per Staff	12,362	<u>(\$937)</u>
To recognize test year supported expenses.		
C - OUTSIDE SERVICES - Per Company	\$13,299	
Per Staff	12,362	<u>(\$937)</u>
To reflect an annualized test year cost of outside services		
D - WATER TESTING - Per Company	\$2,320	
Per Staff	2,406	<u>\$86</u>
To recognize Staff Engineer's recommended water testing expense.		
E - RENT - Per Company	\$3,114	
Per Staff	2,400	<u>(\$714)</u>
To reflect the amount recorded on the Company's general ledger.		
F - TRANSPORTATION EXPENSE - Per Company	\$7,485	
Per Staff	5,485	<u>(\$2,000)</u>
To reflect the amount supported by the Company's general ledger.		
G - MISCELLANEOUS EXPENSE - Per Company	\$586	
Per Staff	316	<u>(\$270)</u>
To reflect the amount recorded on the Company's general ledger.		
H - DEPRECIATION EXPENSE - Per Company	\$10,047	
Per Staff	7,114	<u>(\$2,933)</u>
To reflect Staff's recalculation of depreciation expense based on its recommended depreciation rates.		
I - TAXES OTHER THAN INCOME - Per Company	\$10,628	
Per Staff	2,483	<u>(\$8,145)</u>
To reflect Staff's recalculation of payroll taxes.		
J - PROPERTY TAX EXPENSE - Per Company	\$6,380	
Per Staff	5,527	<u>(\$853)</u>
To reflect Staff's recalculation of payroll taxes.		
K - INCOME TAX EXPENSE - Per Company	\$50	
Per Staff	2,191	<u>\$2,141</u>
To reflect Staff's recalculation of income tax expense.		

STAFF ADJUSTMENTS (Cont.)

H - DEPRECIATION - Per Company	\$10,047	
Per Staff	7,114	(\$2,933)

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

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment G - Test Year Depreciation Expense

1 <u>Depreciation Expense</u>		<u>Plant in</u>	<u>Proposed</u>	<u>Depreciation</u>
2		<u>Service</u>	<u>Rate</u>	<u>Expense</u>
3 <u>Account</u>		<u>Staff</u>		
4 <u>No.</u> <u>Description</u>				
5 301	Organization Cost	-	0.00%	-
6 302	Franchise Cost	-	0.00%	-
7 303	Land and Land Rights	-	0.00%	-
8 304	Structures and Improvements	31,001	3.33%	1,032
9 305	Collecting and Impounding Res.	-	2.50%	-
10 307	Wells and Springs	55,448	3.33%	1,846
11 310	Power Generation Equipment	2,285	5.00%	114
12 311	Electric Pumping Equipment	32,528	12.50%	4,066
13 320.1	Water Treatment Equipment - Plants	-	3.33%	-
14 330	Distribution Reservoirs & Standpipe	35,560	0.00%	-
15 330.1	Storage Tanks	-	2.22%	-
16 330.2	Pressure Tanks	493	5.00%	25
17 331	Transmission and Distribution Mains	-	2.00%	-
18 333	Services	-	3.33%	-
19 334	Meters	-	8.33%	-
20 335	Hydrants	1,525	2.00%	31
21 339	Other Plant and Miscellaneous Equipment	-	6.67%	-
22 340	Office Furniture and Fixtures	-	6.67%	-
23 341	Transportation Equipment	-	20.00%	-
24 343	Tools and Work Equipment	-	5.00%	-
25 345	Power Operated Equipment	-	5.00%	-
26 347	Miscellaneous Equipment	-	10.00%	-
27 348	Other Tangible Plant	-	0.00%	-
28	Total Plant	\$158,840		\$ 7,114
29	Less: Non Depreciable Plant	-		
30	Total Depreciable Plant	158,840		
31				
32	Less: Amort. of Contributions - Adjusted Balance End c	\$ -	4.48%	\$ -
33	Total Depreciation Expense			\$ 7,114

**OPERATING INCOME ADJUSTMENT # I - TO REFLECT STAFF CALCULATION OF THE
TEST YEAR TAXES OTHER THAN INCOME**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Taxes Other Than Income	\$ 10,628	\$ (8,145)	\$ 2,483
	Salaries and Wages	\$ 24,960		
	FICA & Medicare	7.65%	\$ 1,909	
	No. of Employees	1		
	Salary Subject to Unemployment Tax	\$ 7,000		
	Total Taxable Unemployment Salaries	\$ 7,000		
	Combined SUTA & FUTA Rate	8.20%	\$ 574	
	SUTA Rate	0.02		
	FUTA Rate	0.062		
	Combined SUTA & FUTA Rate	0.082	574	
	Franchise Tax		\$ -	
	Other Taxes and Fees		\$ -	
	Total Taxes Other Than Income			\$ 2,483

References:

Col [A]: Company Application
Col [B]: Col [C] - Col [A]
Col [C]: Per Staff

OPERATING INCOME ADJUSTMENT # J - 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	\$ 124,898	\$ 124,898
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 249,796	\$ 249,796
4	Staff Recommended Revenue	124,898	\$ 141,515
5	Subtotal (Line 4 + Line 5)	\$ 374,694	\$ 391,311
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 124,898	\$ 130,437
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 249,796	\$ 260,874
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 249,796	\$ 260,874
13	Assessment Ratio	21.00%	21.00%
14	Assessment Value (Line 12 * Line 13)	\$ 52,457	\$ 54,784
15	Composite Property Tax Rate - Obtained from ADOR	10.5360%	10.5360%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 5,527	
17	Company Proposed Property Tax	6,380	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ (853)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 5,772
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 5,527
21	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement		\$ 245
22	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 245
23	Increase (Decrease) in Revenue Requirement		\$ 16,617
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.47504%

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

Test Year Ended

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
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			
<u>Calculation of Effective Tax Rate:</u>					
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%		
<u>Calculation of Effective Property Tax Rate:</u>					
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)	\$ 21,227			
14	Adjusted Test Year Operating Income (Loss) (Schedule All-8, Line 16)	\$ 8,281			
15	Required Increase in Operating Income (L13 - L14)	\$ 12,946	\$ 12,946		
16	Income Taxes on Recommended Revenue (Col. (D), L33)	\$ 5,616			
17	Income Taxes on Test Year Revenue (Col. (B), L33)	\$ 2,191			
18	Required Increase in Revenue to Provide for Income Taxes (L16 -L17)		\$ 3,425		\$ 16,371.89
	Property Tax with Recommended Revenue (All-16, Col B, L16)	\$ 5,772			
	Property Tax on Test Year Revenue (All-16, Col A, L16)	5,527	\$ 245	\$ 245.11	
	Increase in Property Tax Due to Increase in Revenue (L35-L36)			\$ 16,617	
<u>Calculation of Income Tax:</u>					
		Test Year		Staff Proposed	
20	Revenue (Schedule All-7, Columns C and E)	\$ 124,898		\$141,515	
21	Less: Operating Expenses Excluding Income Taxes	\$ 114,426		\$114,672	
22	Less: Synchronized Interest (L37)	\$ -		-	
23	Arizona Taxable Income (L20 - L21 - L22)	\$ 10,472		26,843	
24	Arizona State Income Tax Rate	6.968%		6.968%	
25	Arizona Income Tax (L23 x L24)		\$ 730		\$ 1,870
26	Federal Taxable Income (L23 - L25)	\$ 9,742		\$ 24,973	
27	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 1,461		\$ 3,746	
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		\$ 1,461		3,746
33	Combined Federal and State Income Tax (L25 + L32)		\$ 2,191		5,616
34	Applicable Federal Income Tax Rate [Col. (D), L32 - Col. (B), L32] / [Col. (C), L26 - Col. (A), L26]				15.0000%
<u>Calculation of Interest Synchronization:</u>					
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	\$9.00	\$30.00	12.00
3/4" Meter	22.00	30.00	18.00
1" Meter	28.00	36.00	30.00
1½" Meter	40.00	48.00	60.00
2" Meter	60.00	75.00	96.00
3" Meter	100.00	125.00	192.00
4" Meter	175.00	205.00	300.00
5" Meter	250.00	310.00	450.00
6" Meter	300.00	385.00	600.00
Commodity Rates			
Tier One Rate - (0 - 4,000 gallons)	2.45	3.18	2.52
Tier Two Rate - (4,001 - 9,000 gallons)	3.83	4.98	2.92
Tier Three Rate - (Over 9,000 gallons)	5.20	6.76	3.32
Standpipe (Per 1000 Gallons)	3.00	5.65	3.32

Service Line and Meter Installation Charges	Present Rates	Company Proposed	-Staff Recommended-		
			Service Line Charge	Meter Installation	Total
5/8" x 3/4" Meter	\$160.00	\$415.00	\$331.00	\$84.00	\$415.00
3/4" Meter	\$175.00	\$415.00	331.00	107.00	438.00
1" Meter	\$200.00	\$465.00	340.00	125.00	465.00
1½" Meter	\$350.00	\$520.00	360.00	160.00	520.00
2" Meter Turbo	\$450.00	\$800.00	400.00	400.00	800.00
2" Meter Compound	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
3" Meter Turbo	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
3" Meter Compound	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
4" Meter Turbo	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
4" Meter Compound	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
6" Meter Turbo	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
6" Meter Compound	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
Over 6-inch	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

Service Charges	Present Rates	Company Proposed	Staff Recommended
	Establishment	\$20.00	\$50.00
Establishment (After Hours)	\$25.00	\$75.00	\$40.00
Reconnection (Delinquent)	\$25.00	\$50.00	\$40.00
Reconnection (Delinquent) After Hours	-	\$75.00	\$50.00
Meter Test (If Correct)	\$25.00	\$50.00	\$40.00
Deposit	*	\$75.00	*
Deposit Interest	**	**	**
Re-Establishment (Within 12 Months)	***	\$50.00	***
NSF Check	\$10.00	\$25.00	\$25.00
Deferred Payment	N/A	N/A	****
Meter Re-Read (If Correct)	\$5.00	\$25.00	\$25.00
Late Payment Charge-Per Month	N/A	\$15.00	****

RATE DESIGN

Monthly Service Charge for Fire Sprinkler	Present Rates	Company Proposed	Staff Recommended
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)
- **** 1.50% of unpaid monthly balance
- ***** 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 WITH NO SURCHARGE

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

Average Number of Customers:

<u>Company Proposed</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	8,320	\$67.44	\$40.87	153.8%
Median Usage	5,992	\$56.96	\$35.98	171.5%

<u>Staff Proposed Without Surcharge</u>				
Average Usage	8,320	\$35.10	\$8.53	32.1%
Median Usage	5,992	\$28.30	\$7.32	34.9%

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	\$9.00	\$30.00	233.3%	\$12.00	33.3%
1,000	9.00	34.50	283.3%	14.52	61.3%
2,000	11.40	39.00	242.1%	17.04	49.5%
3,000	13.80	43.50	215.2%	19.56	41.7%
4,000	16.20	48.00	196.3%	22.48	38.8%
5,000	18.60	52.50	182.3%	25.40	36.6%
6,000	21.00	57.00	171.4%	28.32	34.9%
7,000	23.40	61.50	162.8%	31.24	33.5%
8,000	25.80	66.00	155.8%	34.16	32.4%
9,000	28.20	70.50	150.0%	37.08	31.5%
10,000	30.60	75.00	145.1%	40.40	32.0%
15,000	42.60	97.50	128.9%	57.00	33.8%
20,000	54.60	120.00	119.8%	73.60	34.8%
25,000	66.60	142.50	114.0%	90.20	35.4%
50,000	126.60	255.00	101.4%	173.20	36.8%
75,000	186.60	367.50	96.9%	256.20	37.3%
100,000	246.60	480.00	94.6%	339.20	37.6%
125,000	306.60	592.50	93.2%	422.20	37.7%
150,000	366.60	705.00	92.3%	505.20	37.8%
175,000	426.60	817.50	91.6%	588.20	37.9%
200,000	486.60	930.00	91.1%	671.20	37.9%

TYPICAL BILL ANALYSIS WITH POSSIBLE SURCHARGE

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

Average Number of Customers: 59

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,320	\$26.57	\$67.44	\$40.87	153.8%
Median Usage	5,992	\$20.98	\$56.96	\$35.98	171.5%
Staff Proposed With Possible Surcharge					
Average Usage	8,320	\$26.57	\$37.16	\$10.59	39.9%
Median Usage	5,992	\$20.98	\$30.36	\$9.38	44.7%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase	Staff Proposed Rates & Surcharge	% Increase With Surcharge
0	\$9.00	\$30.00	233.3%	\$12.00	33.3%	\$14.06	56.2%
1,000	9.00	34.50	283.3%	14.52	61.3%	\$16.58	84.2%
2,000	11.40	39.00	242.1%	17.04	49.5%	\$19.10	67.5%
3,000	13.80	43.50	215.2%	19.56	41.7%	\$21.62	56.7%
4,000	16.20	48.00	196.3%	22.48	38.8%	\$24.54	51.5%
5,000	18.60	52.50	182.3%	25.40	36.6%	\$27.46	47.6%
6,000	21.00	57.00	171.4%	28.32	34.9%	\$30.38	44.7%
7,000	23.40	61.50	162.8%	31.24	33.5%	\$33.30	42.3%
8,000	25.80	66.00	155.8%	34.16	32.4%	\$36.22	40.4%
9,000	28.20	70.50	150.0%	37.08	31.5%	\$39.14	38.8%
10,000	30.60	75.00	145.1%	40.40	32.0%	\$42.46	38.8%
15,000	42.60	97.50	128.9%	57.00	33.8%	\$59.06	38.6%
20,000	54.60	120.00	119.8%	73.60	34.8%	\$75.66	38.6%
25,000	66.60	142.50	114.0%	90.20	35.4%	\$92.26	38.5%
50,000	126.60	255.00	101.4%	173.20	36.8%	\$175.26	38.4%
75,000	186.60	367.50	96.9%	256.20	37.3%	\$258.26	38.4%
100,000	246.60	480.00	94.6%	339.20	37.6%	\$341.26	38.4%
125,000	306.60	592.50	93.2%	422.20	37.7%	\$424.26	38.4%
150,000	366.60	705.00	92.3%	505.20	37.8%	\$507.26	38.4%
175,000	426.60	817.50	91.6%	588.20	37.9%	\$590.26	38.4%
200,000	486.60	930.00	91.1%	671.20	37.9%	\$673.26	38.4%

CALCULATION OF SURCHARGE ON PROPOSED ARSENIC PLANT

Arsenic Surcharge - as determined by Arsenic Remediation Surcharge Mechanism

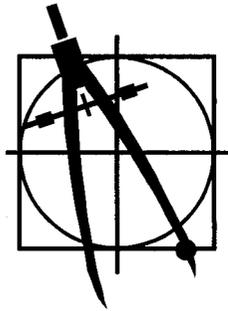
Arsenic Remedial Plant Loan Amount		\$	142,835
Total Yearly Interest and Principal Payments Based on a 30-year WIFA Loan and a 5.50% Interest Rate.		\$	9,732
Annual Income Tax Component of the Surcharge Revenue		\$	509
Total Annual Surcharge Revenue Requirement for the Loan		\$	10,241
Total Equivalent Annual Bills			4,962
5/8"x 3/4" Meter Surcharge Amount	(\$10,241/4,962)	\$	2.06
3/4" Meter Surcharge Amount	\$2.06 * 1.5	\$	3.10
1" Meter Surcharge Amount	\$2.06 * 2.5	\$	5.16
1 1/2" Meter Surcharge Amount	\$2.06 * 5	\$	10.32
2" Meter Surcharge Amount	\$2.06 * 8	\$	16.51
3" Meter Surcharge Amount	\$2.06 * 16	\$	33.02
4" Meter Surcharge Amount	\$2.06 * 25	\$	51.60
6" Meter Surcharge Amount	\$2.06 * 50	\$	103.20

Meter Size	Number of Customers	Customer Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	59	1	59	708	\$ 2.06	24.77	\$ 1,461.25
3/4" Meter	233	1.5	350	4,194	3.10	37.15	8,656.03
1" Meter	2	2.5	5	60	5.16	61.92	123.83
1 1/2" Meter	-	5	-	-	10.32	-	-
2" Meter	-	8	-	-	16.51	-	-
3" Meter	-	16	-	-	33.02	-	-
4" Meter	-	25	-	-	51.60	-	-
6" Meter	-	50	-	-	103.20	-	-
TOTAL	294		414	4,962			\$ 10,241.11

FINANCIAL ANALYSIS

CALCULATION OF FINANCIAL INDICES

	<u>[A]</u>
1 Operating Income	\$ 21,227
2 Depreciation & Amort.	7,114
3 Income Tax Expense	5,616
4	
5 Interest Expense	6,368
6 Repayment of Principal	1,569
7	
8	
9 TIER	
10 [1+3] ÷ [5]	4.22
11 DSC	
12 [1+2+3] ÷ [5+6]	4.28
13	
14	
15	
16	
17	
18 Short-term Debt	\$0
19	
20 Long-term Debt	\$259,335
21	
22 Common Equity	\$132,408
23	
24 Total Capital	\$391,743



Engineering Report
Casa Grande West Water
Company, Inc.
Prepared By
Dorothy Hains, P. E.
Docket Nos. W-01990A-09-0573
(Rates) & W-01990A-09-0572
(Financing)

August 24, 2010

EXECUTIVE SUMMARY

Recommendations:

1. Arizona Corporation Commission Utilities Division Staff ("Staff") recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6. (See §J and Exhibit 6 for a discussion and a tabulation of the recommended rates.)
2. Staff recommends approval of the meter and service line installation charges listed under the columns labeled "Staff Recommendation" in Table 5. Staff further recommends that Casa Grande West Water Company ("Casa Grande West" or "Company") charge "actual cost" for service meters larger than 2-inch. (See §L of report for discussion and details.)
3. Water testing expenses should be adjusted to Staff's annual expense amount of **\$2,406** shown in Table 4. (See §I and Table 4 for discussion and details.)
4. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by December 31, 2011, an Arizona Department of Environmental Quality ("ADEQ") Water Quality Compliance Status Report showing that water system PWS No. 11-024 is in compliance with ADEQ requirements and that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See §F for discussion and details.)
5. Staff concludes that Casa Grande West PWS No. 11-024 does not have adequate storage capacity to serve its existing customers. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by May 31, 2011, a copy of the Approval of Construction ("AOC") for 100,000 gallons of additional storage capacity. (See §K for discussion and details.)
6. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. (See §L for discussion and details.)

7. On May 27, 2010, the Company filed a Cross Connection or Backflow Prevention tariff under the rate case docket. Staff has reviewed the Company's Cross Connection or Backflow Prevention Tariff and recommends approval. (See §L for discussion and details.)
8. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by March 31, 2011, a copy of the ADEQ Approval of Construction ("AOC") for the arsenic treatment plant (See §K for discussion and details.)

Conclusions:

1. A check of the Commission's Compliance Section database dated June 24, 2010, indicated that Casa Grande West has no delinquent compliance items. (See §H of report for discussion and details.)
2. The calculated water loss for Casa Grande West PWS No. 11-024 was 6.6 percent, which is within acceptable limits. (See §D for discussion and details.)
3. Casa Grande West is located in the Pinal Active Management Area ("AMA") and the Arizona Department of Water Resources has determined that Casa Grande West is currently in compliance with departmental requirements governing water providers and/or community water systems. (See §G of report for discussion and details.)
4. Staff concludes that the proposed projects in the Financing Application for arsenic treatment plant and storage facility projects are appropriate and the cost estimates as adjusted by Staff and listed in the table labeled "Finance Related Capital Costs" are reasonable. (See §K of report for discussion and details.)

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A. PURPOSE OF REPORT

This report was prepared in response to the applications filed by Casa Grande West Water Company, Inc. ("Casa Grande West" or "Company") with the Arizona Corporation Commission ("ACC" or "the Commission") to increase its water rates and for authority to incur long term debt to finance water system improvements including the purchase of a centralized arsenic treatment plant and a storage facility.

An inspection of the Company's water system was conducted by Dorothy Hains, Staff Engineer, accompanied by Bobby Gordon, Company's Manager/Operator and Jere Hansen, Accountant, on June 22, 2010.

B. LOCATION OF SYSTEM

The Company is located west of the City of Casa Grande ("City") in Pinal County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission regulated companies in Pinal County and in the immediate area. The Company serves an area approximately one and one-quarter square miles in size that includes Section 29 and portions of Section 32 in Township 6 South, Range 5 East.

C. DESCRIPTION OF SYSTEM

I. System Description

The Company owns and operates a water system under Public Water System ("PWS") No. 11-024 consisting of one active well that has 100 gallons per minute ("GPM") capacity, three storage tanks of 27,000 gallons combined capacity, one 2,500 gallon pressure tank, a booster pump station and a distribution system serving approximately 300 metered customers. There are no fire hydrants in the system and no fire flow requirement in the area serviced. Wastewater service is not available, Customers use septic systems to dispose of their wastewater.

Arsenic levels in the Company's Well No. 3 (active well) and Well No. 2 (inactive well) exceed the arsenic maximum contaminant level ("MCL"). Due to its high arsenic level, the Company disconnected Well No. 2 from the system in March 2010.¹ The Company seeks financing approval from the Commission to install a centralized arsenic treatment plant and other plant improvements (See Section K for further discussion). In compliance with Arizona Department of Environmental Quality ("ADEQ") requirements the Company will continue to provide an alternative source of drinking water to its customers until the arsenic treatment plant is operating and the water system is capable of delivering water that meets the arsenic MCL.

¹ Well No. 2 had been connected to the water system and had been used as a backup well to Well No. 3.

Exhibit 3 is a schematic drawing of the water systems. A detailed listing of the Company's water system facilities are as follows:

Table 1 Plant Data (PWS Nos. 11-024)

Active Drinking Water Wells

Well #	ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)
Well #3 ¹ (located at Saddle Rock Rd/ Alamo Rd)	55-625198	Prior 1982	16	900	4	40	100

Inactive Wells

Well #	ADWR No.	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Year Drilled	Year out of service
Well 2 ² (located at Guinn Rd)	55-625197	10	600	3	15	60	Prior 1982	2010
Well #1 ³	55-625199	16	N/A	N/A	N/A	N/A	Prior 1982	N/A

- Notes: 1. Well #3 is also known as the South Well.
2. Well #2 is also known as the North Well.
3. This well is not connected to the water system and has been capped.

Active Storage, Pumping

Location	Structure or equipment	Capacity
Well #2 Site	Storage Tank	Two 10,000 gallon tanks One 8,000 gallon tank
	Booster pumps	Two 10-HP pumps
	Pressure Tank	One 2,500 gal

Distribution Mains

Diameter (inches)	Material	Length (feet)
6	polyvinyl chloride ("PVC")	14,498
4	PVC	32,900

Meters

Size (inches)	Quantity
5/8 x 3/4	55
3/4	236
1	2
1 1/2	0
2	0
3	0
4	0
6	0
8	0

II. *System Analysis*

Currently, the water system does not have adequate storage capacity. The Company has proposed to install 50,000 gallons of additional storage capacity in its financing application. However Staff believes based on Staff's calculations using recent water use data provided by the Company, that 100,000 gallons of additional storage capacity is needed. The 50,000 gallons proposed by the Company is not adequate to serve existing customers.

D. WATER USAGE

Table 2 summarizes water usage in the Company's CC&N area during the test year (July 2008 to June 2009). Exhibit 4 includes a graph that shows water consumption data in gallons per day ("GPD") per connection during the test year.

Table 2 Water Usage

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (GPD/customer)
Jul 08	293	2,910,000	3,318,000	0	320
Aug 08	294	2,847,000	3,175,000	0	312
Sep 08	294	2,587,000	3,069,000	0	293
Oct 08	295	2,267,000	2,733,000	0	248
Nov 08	297	1,902,000	2,407,000	0	213
Dec 08	297	1,617,000	2,053,000	0	176
Jan 09	291	1,708,000	1,631,000	0	189
Feb 09	292	1,534,000	1,809,000	0	188
Mar 09	293	2,442,000	1,638,000	0	269
Apr 09	292	2,766,000	2,529,000	0	316
May 09	298	3,063,000	3,151,000	0	332
Jun 09	298	3,002,000	3,152,000	0	336
Total		28,645,000	30,665,000	0	
Average					266

I. Water Sold

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 266 GPD per customer, a high use of 336 GPD per customer, and a low use of 176 GPD per customer. The highest total monthly use occurred in May, when a total of 3,063,000 gallons were sold to 298 customers. The lowest total monthly use occurred in February, when 1,534,000 gallons were sold to 292 customers.

II. Non-account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between the 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, etc. The calculated water loss in the Company's water system was 6.6 percent, which is within Staff's recommended 10 percent threshold.

E. GROWTH PROJECTION

Based on the service meter data contained in the Company's annual reports, the number of customers increased from 192 at the end of 1992 to 294 at the end of 2009, which results in an average growth rate of 3.3 customers per year for the period. Based on the linear regression analysis, the Company could serve approximately 314 customers by end of 2014. The following table summarizes both actual and projected growth in the Company's certificated service area.

Table 3 Actual and Projected Growth

Year	Nos. of Customers	
1999	192	Reported
2000	215	Reported
2001	121	Reported
2002	243	Reported
2003	260	Reported
2004	271	Reported
2005	272	Reported
2006	283	Reported
2007	296	Reported
2008	296	Reported
2009	294	Reported
2010	301	Estimated
2011	304	Estimated
2012	307	Estimated
2013	310	Estimated
2014	314	Estimated

F. ADEQ COMPLIANCE

Staff received compliance status reports from ADEQ dated February 11, 2010 in which ADEQ stated that PWS No. 11-024 had major deficiencies due to (1) on-going arsenic levels which exceed the MCL; (2) failure to collect disinfection by products ("DBP") at the appropriate sampling location; 3) in appropriate sampling times during the year; 4) failure to report DBP from 2004 through 2008; and (5) failure to report lead and copper testing results from 2002 to 2007. Therefore, ADEQ reported that the system is not in compliance with ADEQ requirements and ADEQ cannot determine if the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

On March 20, 2010, ADEQ issued a Consent Order ("CO") against the Company due to elevated arsenic levels in the source, ADEQ ordered the Company to complete an arsenic treatment plant by December 2010.

On June 9, 2010, ADEQ issued a Certificate of Approval to Construct for the Company to install an arsenic treatment plant.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by March 31, 2011, an ADEQ Water Quality Compliance Status Report showing that water system PWS No. 11-024 is in compliance with ADEQ requirements and that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4..

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

Casa Grande West is located in the Pinal Active Management Area ("AMA") as designated by ADWR, and is subject to AMA reporting and conservation rules. Staff received a compliance status report from ADWR dated May 6, 2010, in which ADWR has determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

H. ACC COMPLIANCE

A check of the Commission's Compliance Section database dated June 24, 2010, indicated that Casa Grande West has no delinquent compliance items.

I. WATER TESTING EXPENSES

Casa Grande West is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.
2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented on an annualized basis.
3. MAP fees were calculated from the ADEQ MAP invoice for calendar year 2009.
4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and one point of entry.
5. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs could dramatically increase.

Table 4 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to Staff's annual expense amount of **\$2,406** shown in Table 4.

Table 4 Water Testing Cost

Monitoring –1 well (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological – monthly	\$20	36	\$720	\$240
Inorganics – Priority Pollutants	\$300	MAP	MAP	MAP
Radiochemical – (1/ 4 yr)	\$60	MAP	MAP	MAP
Phase II and V:				
IOC's, SOC's, VOC's	\$2,805	MAP	MAP	MAP
Nitrites	\$25	MAP	MAP	MAP
Nitrates – annual	\$25	MAP	MAP	MAP
Additional Nitrites/Nitrates	\$25	6	\$150	\$50
Asbestos – per 9 years	\$180	MAP	MAP	MAP
Lead & Copper – annual*	\$45	30	\$1,350	\$450
TTHM/HHAs	\$360	3	\$1,080	\$360
Maximum chlorine residual levels	\$20	36	\$720	\$240
Arsenic (additional)	\$15	9	\$135	\$45
MAP fees (annual)				\$1,021
Total				\$2,406

J. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Exhibit 6, and should be used to calculate the annual depreciation expense for the Company. Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category, as delineated in Exhibit 6.

K. FINANCING APPLICATION (DOCKET NO. W-01990A-09-0572)

The Company filed with the Commission a financing application requesting authority to incur long term debt in the amount of \$250,000 to finance water system improvements including the construction of an arsenic treatment plant and additional storage capacity. The Company seeks a fund of \$297,835 to complete the proposed plant additions. Staff's adjusted cost estimate for these plant additions totals \$259,335 (See Table labeled Finance Related Capital Costs below).

I. Arsenic Treatment Plant

Well No. 3 contains arsenic of 19 µg/l which exceeds the MCL. ADEQ issued a Consent Order requiring the Company to install arsenic treatment within 180 days after ADEQ issues the associated Certificate of Approval To Construct ("ATC"). On June 9, 2010, ADEQ issued an ATC to the Company for a 0.216 MGD (150 GPM) arsenic treatment plant.

The Company proposes to install a pair of two 5-ft diameter 6-ft height vessels filled with iron media adsorption material to remove the arsenic. The proposed treatment plant has a 150 GPM treatment capacity that is adequate to treat the water system well production of 100 GPM.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by March 31, 2011, a copy of the ADEQ Approval of Construction ("AOC") for the arsenic treatment plant (See §K for discussion and details.)

II. Storage Facility

Currently, the water system does not have adequate storage capacity. The Company has proposed to install 50,000 gallons of additional storage capacity in its financing application. However Staff believes based on Staff's calculations using recent water use data provided by the Company, that 100,000 gallons of additional storage capacity is needed. The 50,000 gallons proposed by the Company is not adequate to serve existing.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by May 31, 2011, a copy of the AOC for 100,000 gallons of additional storage capacity.

III. Cost

A general description and breakdown of the funding required is as follows:

Finance Related Capital Costs

Project Description	Co.' proposed costs (\$)	Staff Adjustment (\$)	Staff Recommended Cost (\$)
Arsenic Treatment Facility			
a. 150 GPM Arsenic Treatment Plant			
A filter	5,000		5,000
Two vessels (5'-Di, 6'-Height) with media	40,000		40,000
Above ground piping, valves, flow meter, chemical injection nozzles, backflow preventor, etc.	20,000		20,000
Concrete pad under the vessels	5,000		5,000
One 5,000 gallon fiberglass backwash water holding tank	5,000		5,000
Backwash decant pipes, valves	5,000		5,000
Underground piping, valves installation	5,000		5,000
Electric, control panel, installation	20,000		20,000
Site grading, earthwork	2,500		2,500
Labor	15,000		15,000
subtotal	122,500		122,500
10% contingencies	12,250		12,250
total	134,750		134,750
Estimated tax (6%)	8,085		8,085
Total (arsenic treatment facility)	142,835		142,835
b. Storage Facility			
Electrical Panel @ well site	20,000	(20,000) ¹	0
Hydropneumatic tank	30,000	(13,500) ²	16,500
New 50,000 gallon storage tank	70,000	(70,000) ³	0
Installing one 100,000 gallon storage tank with piping		100,000 ³	100,000
Total (storage facility)	120,000		116,500
Total Cost	262,835		259,335
Engineering Design Fee, Construction Admin Support, Start up & Permit Fee	35,000	(35,000) ⁴	0
Total	297,835	(38,500)	259,335

Note:

1. This expense is included in the arsenic treatment plant construction cost estimate.
2. Based on ADEQ's Engineering Bulletin No. 10, the pressure tank for this water system should have a capacity of 6,330 gallons which should be adequate to serve 298 customers plus reasonable growth. Therefore, the Company needs to install an additional 4,000 gallons of pressure tank capacity. Staff uses The Handy-Whitman Index to estimate that a 4,000 gallon hydropneumatic tank will cost \$16,500. Therefore, Staff adjustment is \$13,500.
3. Based on the water usage data, the Company needs at least 100,000 gallons of additional storage capacity to resolve its current inadequate storage capacity condition. Staff estimates that the cost of a 100,000 gallon storage tank will be \$100,000.
4. The Water Infrastructure Finance Authority of Arizona ("WIFA") has informed Staff that the Engineering Design Cost has already been paid by WIFA through a grant.

Staff concludes that the proposed projects in the Financing Application for the arsenic treatment plant and storage facility additions are appropriate and the cost estimates as adjusted by Staff and listed in the table above are reasonable. However, no "used and useful" determination of the proposed project item was made and no particular treatment should be inferred for rate making or rate base purpose in the future.

L. OTHER ISSUES

I Service Line and Meter Installation Charges

The Company is proposing to revise its meter and service line installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's experience of what are reasonable and customary charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff recommends approval of the meter and service line installation charges listed under the columns labeled "Staff Recommendation" in Table 5. Staff's separate meter and service line installation charges were developed using the combined charge proposed by the Company. Staff further recommends that the Company charge "actual cost" for service meters larger than 2-inch.

Table 5 Service Line and Meter Installation Charges

Meter Size	Current Charges	Proposed Charges	Staff Recommendation (Service Line)	Staff Recommendation (meter installation)	Staff Recommendation total charges
5/8 x 3/4-inch	\$160	\$415	\$331	\$84	\$415
3/4-inch	\$175	\$415	\$331	\$84	\$415
1-inch	\$200	\$465	\$340	\$125	\$465
1½-inch	\$350	\$520	\$360	\$160	\$520
2-inch (Turbine)	\$450	\$800	\$400	\$400	\$800
2-inch (Compound)	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
3-inch (Turbine)	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
3-inch (Compound)	N/A	N/a	Actual Cost	Actual Cost	Actual Cost
4-inch (Turbine)	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
4-inch (Compound)	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
6-inch (Turbine)	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
6-inch (Compound)	N/A	N/A	Actual Cost	Actual Cost	Actual Cost
Over 6-inch	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

II. Curtailment Tariff

Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter.² The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc>.

² The Company filed a curtailment tariff on May 27, 2010, however the proposed tariff filed by the Company was based on the curtailment tariff template designed for a consecutive water system. Staff has informed the Company that this tariff needs to be refiled using the curtailment tariff template designed for a non-consecutive water system.

III. Cross Connection or Backflow Prevention Tariff

On May 27, 2010, the Company filed a Cross Connection or Backflow Prevention tariff under the rate case docket. Staff has reviewed the Company's Cross Connection or Backflow Prevention Tariff and recommends approval.

IV. Engineer's Estimated Original Cost of Plant for Possible Plant In-service Adjustments - Well No. 2

Well No. 2 was retired in 2010, the estimated original cost of this well is \$2,500.

EXHIBIT 1

Casa Grande West Certificate Service Area

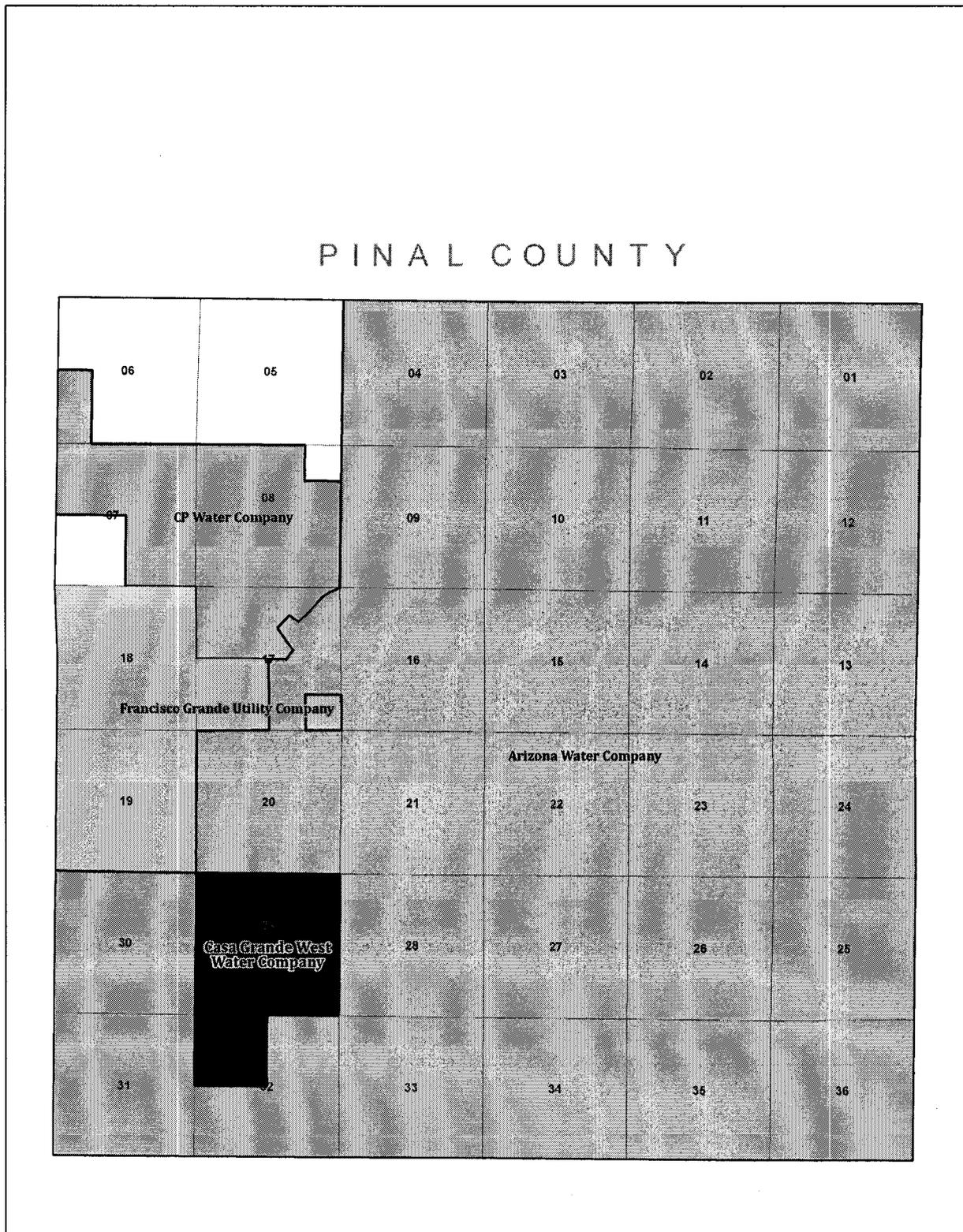


EXHIBIT 2.

LOCATION OF CASA GRANDE WEST SERVICE AREA

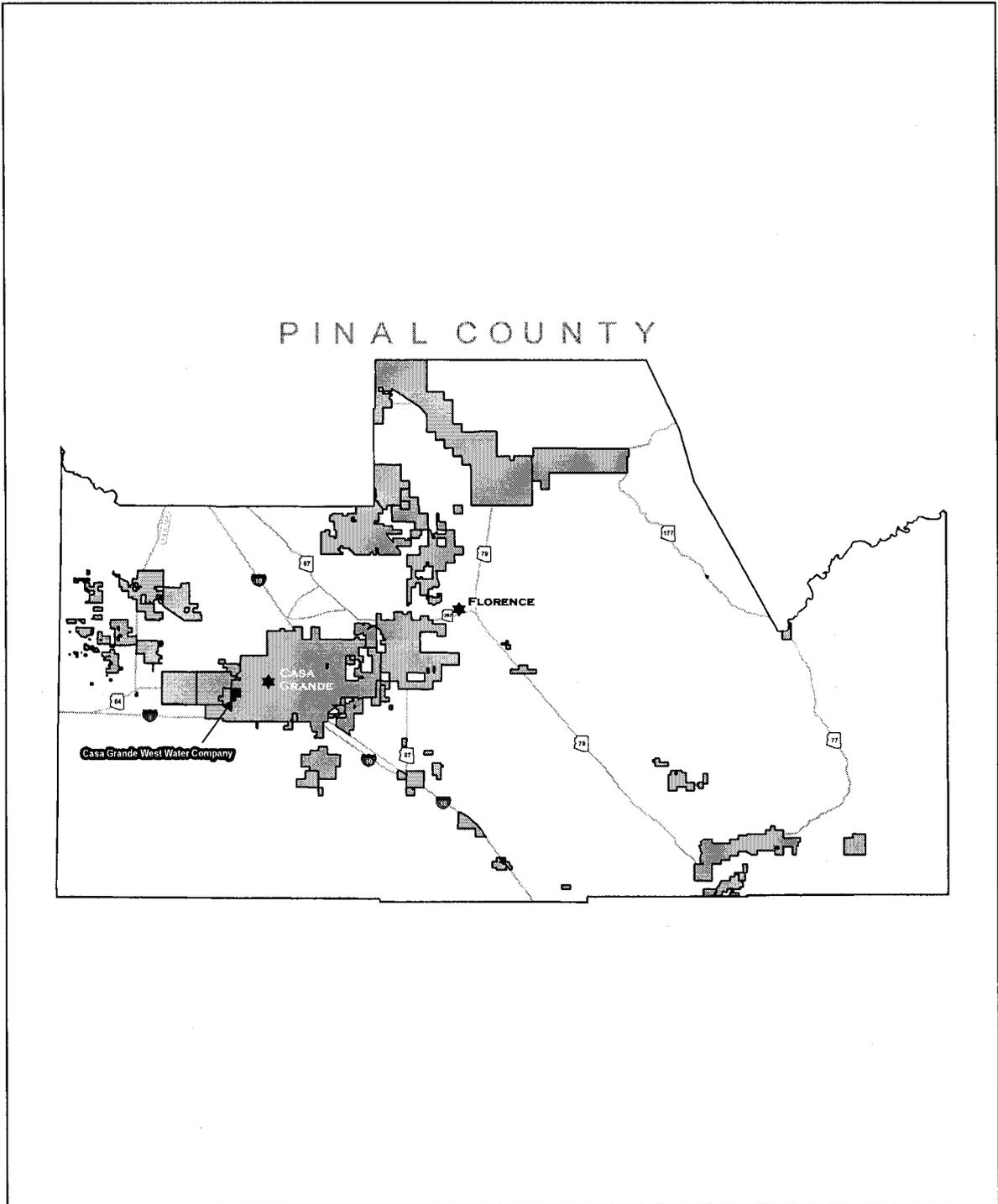


EXHIBIT 3
SYSTEMATIC DRAWING

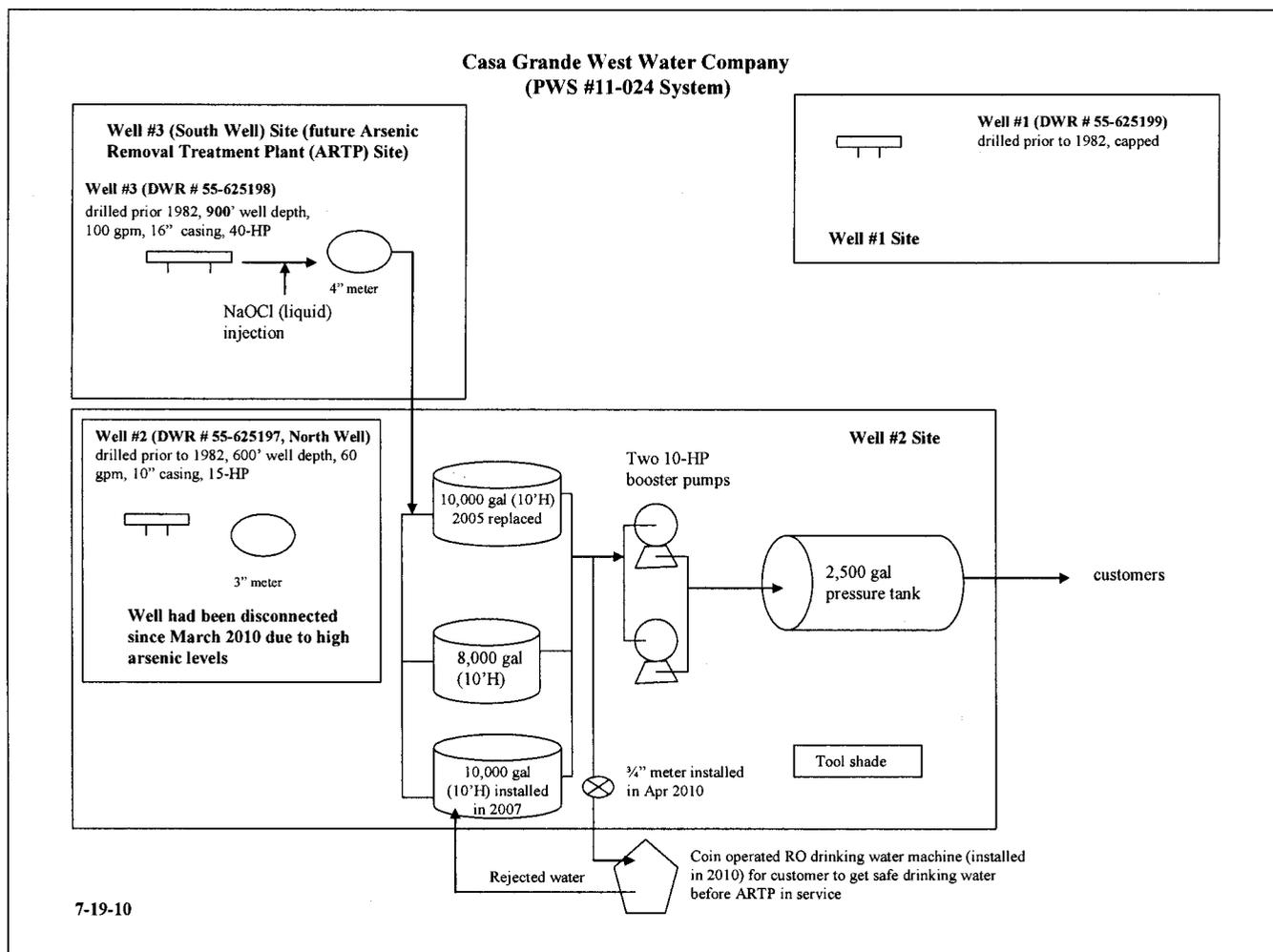


EXHIBIT 4

WATER USAGE IN THE CASA GRANDE WEST SERVICE AREA

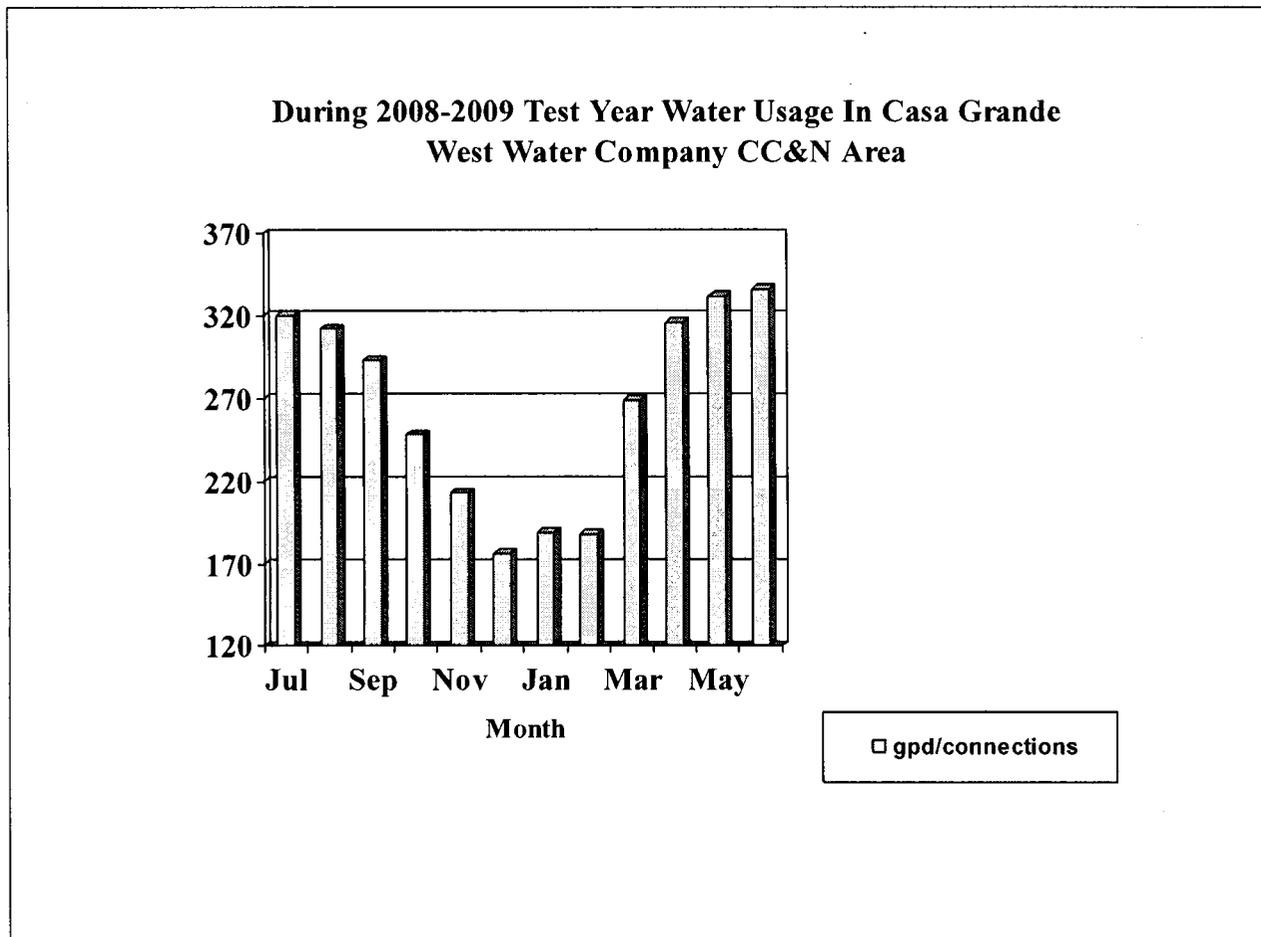


EXHIBIT 5

ACTUAL AND PROJECTED GROWTH IN CASA GRANDE WEST SERVICE AREA

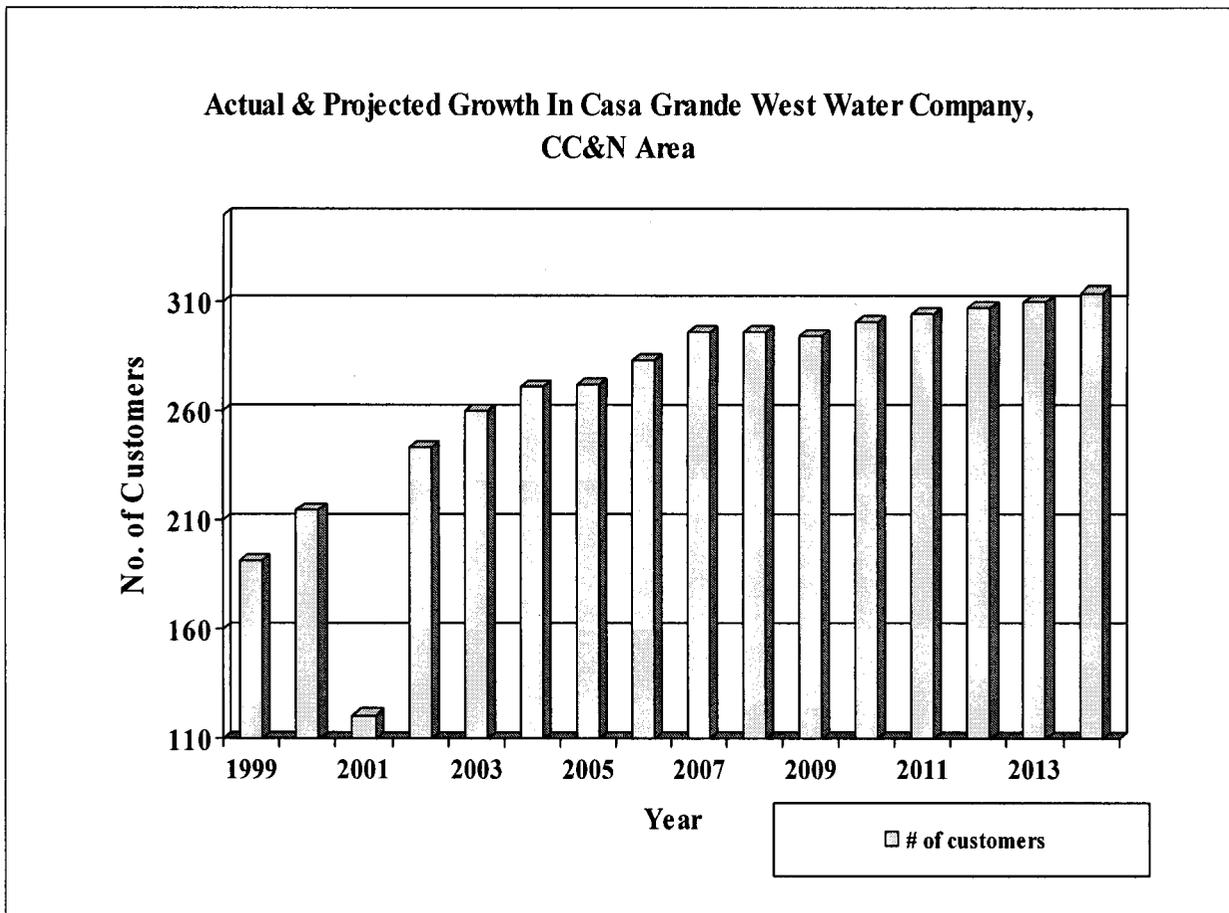


Exhibit 6

DEPRECIATION RATES FOR CASA GRANDE WEST WATER COMPANY

NARUC Acct #	Depreciable Plant	Approved Rate (Decision # 55350)	Proposed Rate (%) ¹	Staff Recommended Rate (%)
301	Organization	N/A	0	0
302	Franchises	N/A	0	0
303	Land & Land Rights	N/A	0	0
304	Structures & Improvements	N/A	5	3.33
305	Collection & Impounding reservoirs	N/A	N/A	2.50
306	Lake, River, Canal Intakes	N/A	N/A	2.50
307	Wells & Springs	N/A	5	3.33
308	Infiltration Galleries	N/A	N/A	6.67
309	Raw Water Supply Mains	N/A	N/A	2.00
310	Power Generation Equip Other	N/A	N/A	5.00
311	Pumping Equipment	N/A	5	12.5
320	Water Treatment			
320.1	Water Treatment Plants	N/A	5	3.33
320.2	Solution Chemical Feeders	N/A		20.0
330	Distribution Reservoirs & Standpipes			
330.1	Storage Tank	N/A	5	2.22
330.2	Pressure Tank	N/A	5.00	5.00
331	Transmission and Distribution Mains	N/A	5.00	2.00
333	Services	N/A	5.00	3.33
334	Meters	N/A	5.00	8.33
335	Hydrants	N/A	N/A	2.00
336	Backflow Prevention Devices	N/A	N/A	6.67
339	Other Plant & Misc Equipment	N/A	5.00	6.67
340	Office Furniture & Equipments		5.00	6.67
340.1	Computer Software	N/A	5.00	20.00
341	Transportation Equipment	N/A	5.00	20.00
342	Store Equipments	N/A	N/A	4.00
343	Tools, Shop & Garage Equipments	N/A	5.00	5.00
344	Lab equipments	N/A	N/A	10.00
345	Power operated equipments	N/A	5.00	5.00
346	Communication Equipments	N/A	N/A	10.00
347	Miscellaneous Equipment	N/A	5.00	10.00
348	Other Tangible Plant	N/A	5.00	10.00

Note: 1. Per the Company's Response.