

ORIGINAL



0000124298

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: April 4, 2011

RE: STAFF REPORT FOR BACA FLOAT WATER COMPANY, INC. - SEWER DIVISION'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. WS-01678A-10-0504)

Attached is the Staff Report for Baca Float Water Company, Inc. – Sewer Division'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 April 14, 2011.

SMO:DRE:red

Originator: Darak R. Eaddy

Arizona Corporation Commission
DOCKETED
APR - 4 2011

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AZ CORP COMMISSION
DOCKET CONTROL

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Docket No. WS-01678A-10-0504

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

BACA FLOAT WATER COMPANY, INC. – SEWER DIVISION

DOCKET NO. WS-01678A-10-0504

**APPLICATION FOR
A PERMANENT RATE INCREASE**

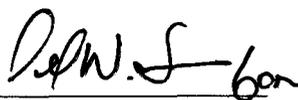
APRIL 4, 2011

STAFF ACKNOWLEDGMENT

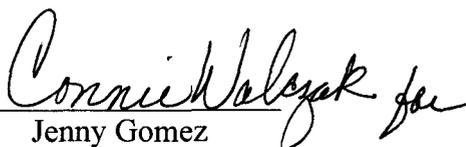
The Staff Report for Baca Float Water Company, Inc. – Sewer Division Docket No. WS-01678A-10-0504 was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Jenny Gomez 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



Jenny Gomez
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
BACA FLOAT WATER COMPANY, INC. – SEWER DIVISION
DOCKET NO. WS-01678A-10-0504

Baca Float Water Company, Inc. – Sewer Division (“Baca Float” or “Company”) is an Arizona “C” Corporation engaged in the business of providing wastewater service to approximately 333 customers in the community of Tubac, in Santa Cruz County, Arizona. The Company provides both water and wastewater services; however, this rate application is only for its sewer division. The Company’s sewer division has been classified as a class D utility.

The Company proposes total operating revenue of \$232,920, an increase of \$93,199, or 66.70 percent over test year revenue of \$139,721, which would result in an operating loss of 139,140. 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 \$221,269, an increase of \$79,989, or 56.62 percent over the Staff-adjusted test year revenue of \$141,280, which results in no return or operating loss and provides the Company \$22,882 in cash flow from depreciation expense.

The Company has proposed an original cost rate base (“OCRB”) of \$1,077,566. The Company did not propose a fair value rate base that differs from its OCRB. The Company’s proposed rates would increase residential bills from \$35.00 to \$55.00, an increase of \$20.00 or 57.1 percent.

Staff has recommended an OCRB of \$168,536. Staff’s recommended rates would increase residential bills from \$35.00 to \$54.00, for an increase of \$19.00 or 54.3 percent.

According to the Arizona Department of Environmental Quality (“ADEQ”), the Company is not in compliance with ADEQ regulations. The Company’s wetlands were not complying with the Aquifer Protection Permit. This “potential deficiency” was due to a monitoring and reporting violation.

Staff Recommendations:

Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule DRE-4.

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 file with Docket Control, as a compliance item in this docket, a copy of an updated ADEQ Compliance Status Report indicating that the noted ADEQ deficiency has been corrected and is in compliance. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company’s filing of the updated ADEQ Compliance Status

Report indicating that the Company has resolved the noted deficiency and the sewer system is in compliance.

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.

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ATTACHMENT

Engineering ReportA

FACT SHEET

Type of Ownership: Arizona “C” Corporation.

Location: Baca Float Water Company, Inc. – Sewer Division provides sewer service to the community of Tubac, which is located approximately 30 miles north of Nogales along Interstate Highway 19, in Santa Cruz County, Arizona.

Rates: Permanent rate increase application filed: December 17, 2010. The application became sufficient on January 18, 2011.

Prior Test Year NA

Current Test Year Ended December 31, 2009.

| Rates | Company Current Rates | Company Proposed Rates | Staff Recommended Rates |
|---------------------------|----------------------------------|-----------------------------------|------------------------------------|
| Monthly Flat Rates | | | |
| Residential | \$ 35.00 | \$ 55.00 | \$ 54.00 |
| Commercial | \$ 35.00 | \$ 105.00 | \$ 90.00 |
| Sale of Effluent | | | |
| 0 to 5,000 gallons | \$ 0.90 | \$ 3.00 | N/A |
| Over 5,000 gallons | \$ 1.15 | \$ 3.85 | N/A |
| All gallons | N/A | N/A | \$ 3.27 |

Customers

Average Number of customers in the current test year (12/31/09): 333

Notifications

An affidavit of mailing of the customer notification was filed on January 18, 2011.

Number of opinions filed against the rate increase application: 23.

Percentage of opinions to customer base: 6.91 percent (23/333)

Number of customer complaints filed against the Company from January 1, 2008, to March 14, 2011: 0

SUMMARY OF FILING

The test year results as adjusted by Utilities Division Staff (“Staff”) for Baca Float Water Company, Inc. – Sewer Division (“Baca Float” or “Company”) reflect total operating revenue of \$141,280 and an operating loss of \$79,989 as shown on Schedule DRE-1. The original cost rate base (“OCRB”) as adjusted by Staff is \$168,536.

Baca Float’s proposed rates would produce total operating revenue of \$232,920 and an operating loss of \$139,140. The Company’s proposed rates as filed would yield no cash flow for the Company. The Company has stated that with this application it is seeking rates to cover its operating expenses but no return on investment. The Company proposes a fair value rate base of \$1,077,566, which does not differ from its OCRB. The Company’s proposed rates would increase residential bills from \$35.00 to \$55.00, an increase of \$20.00 or 57.1 percent, as shown on Schedule DRE-5.

Staff’s recommended rates would produce total operating revenue of \$221,269 against Staff’s adjusted operating expenses of \$221,269, producing no operating income or loss. Staff’s recommended rates would yield a cash flow of \$22,882 from depreciation expense. Staff’s recommended rates would increase residential bills from \$35.00 to \$54.00, for an increase of \$19.00 or 54.1 percent.

During the test year ended December 31, 2009, Baca Float provided wastewater service to approximately 333 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 wastewater service to customers in the community of Tubac, in Santa Cruz County, Arizona. The Company’s service territory encompasses approximately 2.3 square miles.

On December 17, 2010, Baca Float filed an application for a permanent rate increase. On January 18, 2011, Staff issued a Letter of Sufficiency. The Company filed with Docket Control on January 18, 2011, a copy of its affidavit of service notifying customers of its pending rate increase application.

The Company provides water services mostly to small residential customers with approximately 10 commercial customers. 97 percent of the Company’s customers are residential. The Company has been classified as a class D utility.

CONSUMER SERVICES

A review of the Consumer Services section database from January 1, 2008, through March 14, 2011, revealed that there were 23 opinions filed opposing the rate increase request. The review revealed that during the same time period there had been no complaints filed against the Company.

COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

Baca Float is current on its property tax payments.

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

The Company is not in compliance with Arizona Department of Environmental Quality (“ADEQ”) monitoring and reporting regulations for Aquifer Protection Permit.

ENGINEERING

The water system was field-inspected on January 28, 2011, by Mr. 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 wastewater system are provided in the attached Engineering Report (Attachment A).

The Company’s existing 100,000 gallons per day (“GPD”) wetland capacity is excessive. The wetlands are constructed with four 25,000 gallon treatment cells that have two parallel trains, so each wetland train consists of two cells. One cell of each pair can be by-passed for maintenance, but both cells are not required for provision of service. Therefore, Staff considers half of the 100,000 GPD wetlands plant as excess capacity and recommends the disallowance of this amount. Through the field inspection and data requests, Staff also considers two portions of the sewer system as not used and useful which total \$374,374. Please refer to the attached Engineering Report for a more extensive explanation of Staff’s finding.

In an ADEQ report, dated October 6, 2010, that was submitted with the rate application, ADEQ reported the Company’s wetlands, Inventory No. 102959, was not complying with the Aquifer Protection Permit (“APP”). This “potential deficiency” was due to a monitoring and reporting violation for Volatile Organic Compound (“VOC”) concentrations in a consultant’s report that appeared to be incorrect compared to a lab report showing the VOC concentrations meeting the APP requirements.

According to the Company, the correct data for the above deficiency has been submitted to ADEQ for review.

RATE BASE

Staff's adjustments decreased Baca Float's proposed rate base by \$909,030, from \$1,077,566 to \$168,536 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 \$1,052,495, from \$3,453,380 to \$2,400,885 as shown on Schedule DRE-2, page 2. Staff's decrease to plant in service was the result of Staff's removal of plant determined not to be used and useful, the removal of excess capacity plant, and the removal of unsupported plant additions.

Structures & Improvements - Adjustment "a" decreases the structures and improvements account by \$2,357, from \$45,295 to \$42,938, as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the removal of \$2,357 not supported by documentation.

Collections Sewers - Gravity - Adjustment "b" increases the collections sewers - gravity account by \$1,807,390, from \$0 to \$1,807,390, as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the reclassification of costs previously improperly recorded as treatment and disposal equipment.

Receiving Wells - Adjustment "c" decreases the receiving wells account by \$478,106, from \$478,106 to \$0, as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the reclassification of costs from receiving wells to plant sewers.

Treatment & Disposal Equipment - Adjustment "d" decreases the treatment and disposal equipment account by \$2,478,215, from \$2,895,347 to \$417,133 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the reclassification of \$1,807,390 from treatment and disposal equipment to collection sewers – gravity; the removal of \$374,374 representing plant that Staff has determined to not be used and useful; and the removal of costs not supported by documentation.

Plant Sewers - Adjustment "e" increases the plant sewers account by \$103,147, from \$0 to \$103,147 as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the reclassification of \$478,106 from receiving wells to plant sewers; the removal of a \$250,182 addition that the Company failed to support and that Staff was unable to verify; the removal of 50 percent of the verified cost representing plant that Staff determined to be excess capacity; and the removal of other costs not supported by documentation.

Other Plant & Miscellaneous Equipment - Adjustment "f" decreases the other plant and miscellaneous account by \$2,065, from \$29,660 to \$27,595, as shown on Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the removal of cost not supported by documentation

and the capitalization of \$2,111 for a major improvement that extended the life of equipment that the Company had previously expensed.

Office Furniture & Equipment - Adjustment “g” decreases the office furniture and equipment account by \$933, from \$1,914 to \$981, as shown on Schedule DRE-2, pages 2 and 4. Staff’s adjusted amount reflects the removal of \$933 not supported by documentation.

Tools Shop & Garage Equipment - Adjustment “h” decreases the tools shop and garage equipment account by \$997, from \$1,321 to \$324, as shown on Schedule DRE-2, pages 2 and 5. Staff’s adjusted amount reflects the removal of \$997 not supported by documentation.

Power Operated Equipment - Adjustment “i” decreases the power operated equipment account by \$360, from \$360 to \$0, as shown on Schedule DRE-2, pages 2 and 5. Staff’s adjusted amount reflects the removal of \$360 not supported by documentation.

OTHER RATE BASE ITEMS

Accumulated Depreciation

Staff increased accumulated depreciation by \$1,175,498, from \$172,402 to \$1,347,900, as shown on Schedule DRE-2, pages 1 and 6. The increase results from adjustments made to plant in service account balances, the addition of depreciation expense to accumulated depreciation, and the removal of \$215,265 and \$6,219 of accumulated depreciation associated with plant determined to be not used and useful and excess capacity respectively. Additionally, the Company failed to properly record annual depreciation expense to accumulated depreciation for most of the years that the plant has been in service.

Contributions

Staff decreased contributions in aid of construction (“CIAC”) by \$69,753, from \$2,202,765 to \$2,133,012, as shown on Schedule DRE-2, pages 1 and 7. The decrease is based upon Staff’s calculation of contributions of \$2,518,203, the removal of contributed plant determined to not be used and useful of \$374,374, and the removal of contributed plant determined to be excess capacity of \$10,816.

Amortization of Contributions

Staff increased amortization of CIAC by \$1,226,483, from \$0 to \$1,226,483, as shown on Schedule DRE-2, pages 1 and 8. The increase results from adjustments made to CIAC account balance, the addition of amortization of CIAC annually, and the removal of \$215,265 and \$6,219 of accumulated amortization associated with plant determined to be not used and useful and excess capacity respectively.

Working Capital

Staff's adjustments to working capital resulted in a net increase of \$22,728, from \$0 to \$22,728, as shown on Schedule DRE-2, pages 1 and 9.

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 \$1,559, from \$139,721 to \$141,280, 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 \$150,791, from \$372,060 to \$221,269, as shown on Schedule DRE-3, page 1. The adjustments are explained below.

Materials and Supplies - Adjustment 2 decreases materials and supplies by \$7,822, from \$17,587 to \$9,765, as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of materials and supplies based on the documentation submitted by the Company and the capitalization of a major improvement and purchase of equipment of \$2,111 as other plant and miscellaneous equipment.

Contractual Services - Professional - Adjustment 3 decreases contractual services - professional by \$5,709, from \$33,975 to \$28,266, as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of contractual services - professional based on the documentation submitted by the Company.

Contractual Services - Testing - Adjustment 4 decreases contractual services - testing by \$15,986, from \$25,539 to \$9,553, as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of contractual services - testing based on the documentation submitted by the Company.

Contractual Services - Other - Adjustment 5 decreases contractual services - other by \$2,387, from \$2,387 to \$0, as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment

reflects Staff's calculation of contractual services - other based on the Company failing to provide any documentation.

Insurance Expense - Adjustment 6 decreases insurance expense by \$3,492, from \$6,655 to \$3,163, as shown on Schedule DRE-3, pages 1 and 2. This adjustment reflects Staff's allocation of 50 percent of the Company's annual insurance expense to the Company's water division based on the Company's allocation method.

Regulatory Commission Expense – Rate Case - Adjustment 7 increases regulatory commission expense – rate case by \$159, from \$91 to \$250, as shown on Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects Staff's computation of annual rate case expense, normalized over five years.

Depreciation Expense - Adjustment 8 decreases depreciation expense by \$115,080, from \$137,962 to \$22,882, 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.

Taxes Other Than Income - Staff's adjustment 9 decreases taxes other than income by \$523, from \$5,089 to \$4,566, as shown on Schedule DRE-3, pages 1 and 4. This adjustment reflects Staff's removal of a sales tax adjustment by the Company. This sales tax adjustment item may represent a refund of sales taxes previously collected by the Company, as in Arizona wastewater services are not taxable.

Income Taxes - Staff's adjustment 10 increases income taxes by \$50, from \$0 to \$50, as shown on Schedule DRE-3, pages 1 and 4. This adjustment reflects the minimum income tax requirement based on the Company's operating loss in the test year.

Cash Flow and Operating Margin

The Company's proposed rates and charges would provide an operating loss of \$139,140 and would yield no positive cash flow based on the Company's operating expenses as filed.

Staff's recommended rates and charges would provide the Company with operating revenues that cover Staff's adjusted operating expenses. Staff's recommended rates would yield a cash flow of \$22,882 from depreciation expense.

REVENUE REQUIREMENT

Staff recommends total operating revenue of \$221,269, a \$79,989 or 56.62 percent increase over the Staff adjusted test year operating revenue of \$141,280 as shown in Schedule DRE-1. Staff's recommended rates would yield \$22,882 of positive cash flow for the Company.

In determining the revenue requirement, Staff endeavored to provide the Company sufficient funds to manage contingencies, operating expenses, etc. 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, it was seeking only to recover operation expense outlays at this time. Staff believes that its recommended cash flow provides sufficient funds to meet the Company's operating needs.

RATE DESIGN

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

The Company's proposed rates would increase residential bills \$35.00 to \$55.00, an increase of \$20.00 or 57.1 percent, as shown on Schedule DRE-5.

Staff's recommended rates would increase residential bills from \$35.00 to \$54.00, for an increase of \$19.00 or 54.1 percent.

MISCELLANEOUS SERVICE CHARGES

The Company has proposed an establishment after-hours charge of \$50. Staff agrees that an additional fee for service provided after normal business hours is appropriate when such service is at the customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service. Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request or for the customer's convenience. Therefore, Staff recommends denial of the Company's requested establishment after hours charge and, instead, Staff recommends the creation of a separate \$50 after-hours service charge. For example, under Staff's proposal, a customer would be subject to a \$20 establishment fee if it is done during normal business hours, but would pay an additional \$50 after-hours fee if the customer requested that the establishment be done after normal working hours.

The Company proposes to change the insufficient funds charge from \$12 to \$25. Staff concurs with the Company that this is a reasonable charge for the service and recommends approval of the charge.

STAFF RECOMMENDATIONS

Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule DRE-4.

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 file with Docket Control, as a compliance item in this docket, a copy of an updated ADEQ Compliance Status Report indicating that the noted ADEQ deficiency has been corrected and is in compliance. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated ADEQ Compliance Status Report indicating that the Company has resolved the noted deficiency and the sewer system is in compliance.

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.

Baca Float Water Co. Inc. Sewer Division

Docket No. WS-01678A-10-0504

Test Year Ended: December 31, 2009

Schedule DRE-1

SUMMARY OF FILING

| | -- Present Rates -- | | -- Proposed Rates -- | |
|--------------------------------|------------------------|-------------------------|------------------------|-------------------------|
| | Company as Filed | Staff as Adjusted | Company as Filed | Staff as Adjusted |
| Revenues: | | | | |
| Flat Rate Revenues | \$137,426 | \$138,985 | \$230,625 | \$218,659 |
| Measured Revenues | 0 | 0 | 0 | 0 |
| Other Wastewater Revenues | 2,295 | 2,295 | 2,295 | 2,610 |
| Total Operating Revenue | \$139,721 | \$141,280 | \$232,920 | \$221,269 |
| Operating Expenses: | | | | |
| Operation and Maintenance | \$224,325 | \$189,087 | \$224,325 | \$189,087 |
| Depreciation | 137,962 | 22,882 | 137,962 | 22,882 |
| Property & Other Taxes | 9,773 | 9,250 | 9,773 | 9,250 |
| Income Tax | 0 | 50 | 0 | 50 |
| Total Operating Expense | \$372,060 | \$221,269 | \$372,060 | \$221,269 |
| Operating Income/(Loss) | (\$232,339) | (\$79,989) | (\$139,140) | \$0 |
| Rate Base O.C.L.D. | \$1,077,566 | \$168,536 | \$1,077,566 | \$168,536 |
| Rate of Return - O.C.L.D. | N/M | N/M | N/M | 0.00% |
| Operating Margin | N/M | N/M | N/M | 0.00% |

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

RATE BASE

| | ----- Original Cost ----- | | | |
|-------------------------|---------------------------|----------------------|---|--------------------|
| | Company | Adjustment | | Staff |
| Plant in Service | \$3,453,380 | (\$1,052,495) | A | \$2,400,885 |
| Less: | | | | |
| Accum. Depreciation | 172,402 | 1,175,498 | B | 1,347,900 |
| Net Plant | \$3,280,978 | (\$2,227,993) | | \$1,052,985 |
| Less: | | | | |
| Plant Advances | \$0 | \$0 | | \$0 |
| Customer Deposits | 647 | 0 | | 647 |
| Total | \$647 | \$0 | | \$647 |
| Contributions Gross | \$2,202,765 | (\$69,753) | C | \$2,133,012 |
| Less: | | | | |
| Amortization of CIAC | 0 | 1,226,483 | D | 1,226,483 |
| Net CIAC | \$2,202,765 | (\$1,296,235) | | \$906,530 |
| Total Deductions | \$2,203,412 | (\$1,296,235) | | \$907,177 |
| Plus: | | | | |
| 1/24 Power | \$0 | \$454 | E | \$454 |
| 1/8 Operation & Maint. | 0 | 22,274 | F | 22,274 |
| Inventory | 0 | 0 | | 0 |
| Prepayments | 0 | 0 | | 0 |
| Total Additions | \$0 | \$22,728 | | \$22,728 |
| Rate Base | \$1,077,566 | (\$909,030) | | \$168,536 |

Explanation of Adjustment:

- A - See Schedule 2, Page 2, 3, 4, and 5
- B - See Schedule 2, Page 6
- C - See Schedule 2, Page 7
- D - See Schedule 2, Page 8
- E - See Schedule 2, Page 9

PLANT ADJUSTMENT

| | Company Exhibit | Adjustment | Staff Adjusted |
|---|--------------------|------------------------|--------------------|
| 351 Organization | \$0 | \$0 | \$0 |
| 352 Franchises | 0 | 0 | 0 |
| 353 Land & Land Rights | 1,084 | 0 | 1,084 |
| 354 Structures & Improvements | 45,295 | (2,357) a | 42,938 |
| 355 Power Generation Equipment | 0 | 0 | 0 |
| 360 Collection Sewers - Force | 0 | 0 | 0 |
| 361 Collection Sewers - Gravity | 0 | 1,807,390 b | 1,807,390 |
| 362 Special Collecting Structures | 0 | 0 | 0 |
| 363 Services to Customers | 0 | 0 | 0 |
| 364 Flow Measuring Devices | 293 | 0 | 293 |
| 365 Flow Measuring Installations | 0 | 0 | 0 |
| 366 Reuse Services | 0 | 0 | 0 |
| 367 Reuse Meters & Meter Installations | 0 | 0 | 0 |
| 370 Receiving Wells | 478,106 | (478,106) c | 0 |
| 371 Pumping Equipment | 0 | 0 | 0 |
| 374 Reuse Distribution Reservoirs | 0 | 0 | 0 |
| 375 Reuse Transmission & Distribution Sy: | 0 | 0 | 0 |
| 380 Treatment & Disposal Equipment | 2,895,347 | (2,478,215) d | 417,133 |
| 381 Plant Sewers | 0 | 103,147 e | 103,147 |
| 382 Outfall Sewer Lines | 0 | 0 | 0 |
| 389 Other Plant & Miscellaneous Equipme | 29,660 | (2,065) f | 27,595 |
| 390 Office Furniture & Equipment | 1,914 | (933) g | 981 |
| 390.1 Computers & Software | 0 | 0 | 0 |
| 391 Transportation Equipment | 0 | 0 | 0 |
| 392 Stores Equipment | 0 | 0 | 0 |
| 393 Tools Shop & Garage Equipment | 1,321 | (997) h | 324 |
| 394 Laboratory Equipment | 0 | 0 | 0 |
| 395 Power Operated Equipment | 360 | (360) i | 0 |
| 396 Communication Equipment | 0 | 0 | 0 |
| 397 Miscellaneous Equipment | 0 | 0 | 0 |
| 398 Other Tangible Plant | 0 | 0 | 0 |
| TOTALS | \$3,453,380 | (\$1,052,495) A | \$2,400,885 |

Explanation of Adjustment:

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

UTILITY PLANT IN SERVICE

| | Staff Adjusted Plant | Staff Adjusted Accum. Depr. | Staff Adjusted OCLD |
|--|----------------------------|-----------------------------------|---------------------------|
| 351 Organization | \$0 | \$0 | \$0 |
| 352 Franchises | 0 | 0 | 0 |
| 353 Land & Land Rights | 1,084 | 0 | 1,084 |
| 354 Structures & Improvements | 42,938 | 21,330 | 21,608 |
| 355 Power Generation Equipment | 0 | 0 | 0 |
| 360 Collection Sewers - Force | 0 | 0 | 0 |
| 361 Collection Sewers - Gravity | 1,807,390 | 1,039,249 | 768,141 |
| 362 Special Collecting Structures | 0 | 0 | 0 |
| 363 Services to Customers | 0 | 0 | 0 |
| 364 Flow Measuring Devices | 293 | 22 | 271 |
| 365 Flow Measuring Installations | 0 | 0 | 0 |
| 366 Reuse Services | 0 | 0 | 0 |
| 367 Reuse Meters & Meter Installations | 0 | 0 | 0 |
| 370 Receiving Wells | 0 | 0 | 0 |
| 371 Pumping Equipment | 0 | 0 | 0 |
| 374 Reuse Distribution Reservoirs | 0 | 0 | 0 |
| 375 Reuse Transmission & Distribution Sy | 0 | 0 | 0 |
| 380 Treatment & Disposal Equipment | 417,133 | 253,454 | 163,678 |
| 381 Plant Sewers | 103,147 | 31,682 | 71,465 |
| 382 Outfall Sewer Lines | 0 | 0 | 0 |
| 389 Other Plant & Miscellaneous Equipme | 27,595 | 1,755 | 25,841 |
| 390 Office Furniture & Equipment | 981 | 319 | 662 |
| 390.1 Computers & Software | 0 | 0 | 0 |
| 391 Transportation Equipment | 0 | 0 | 0 |
| 392 Stores Equipment | 0 | 0 | 0 |
| 393 Tools Shop & Garage Equipment | 324 | 89 | 235 |
| 394 Laboratory Equipment | 0 | 0 | 0 |
| 395 Power Operated Equipment | 0 | 0 | 0 |
| 396 Communication Equipment | 0 | 0 | 0 |
| 397 Miscellaneous Equipment | 0 | 0 | 0 |
| 398 Other Tangible Plant | 0 | 0 | 0 |
| TOTALS | \$2,400,885 | \$1,347,900 | \$1,052,985 |

STAFF PLANT ADJUSTMENTS

| | | | |
|-----|---|------------------------|----------------------|
| a - | STRUCTURES & IMPROVEMENTS - Per Company Per Staff | \$45,295 42,938 | <u>(\$2,357)</u> |
| | To properly reflect account balance supported by proper documentation | | |
| b - | COLLECTION SEWERS - GRAVITY - Per Company Per Staff | \$0 1,807,390 | <u>\$1,807,390</u> |
| | To reflect reclassification of costs improperly recorded as Treatment and Disposal Equipment | | |
| c - | RECEIVING WELLS - Per Company Per Staff | \$478,106 0 | <u>(\$478,106)</u> |
| | To properly reflect reclassification of costs to Plant Sewers | | |
| d - | TREATMENT & DISPOSAL EQUIPMENT - Per Company Per Staff | \$2,895,347 417,133 | <u>(\$2,478,215)</u> |
| | To properly reflect reclassification of cost to Collections Sewer - Gravity and the removal of cost not supported by documentation | | |
| e - | PLANT SEWERS - Per Company Per Staff | \$0 103,147 | <u>\$103,147</u> |
| | To properly reflect reclassification of cost from Receiving Wells and the removal of excess capacity and costs not supported by documentation | | |
| f - | OTHER PLANT & MISCELLANEOUS EQUIPMENT - Per Company Per Staff | \$29,660 27,595 | <u>(\$2,065)</u> |
| | To properly reflect account balance supported by proper documentation | | |
| g - | OFFICE FURNITURE & EQUIPMENT - Per Company Per Staff | \$1,914 981 | <u>(\$933)</u> |
| | To properly reflect account balance supported by proper documentation | | |

STAFF PLANT ADJUSTMENTS

| | | | |
|-----|---|---------|----------------|
| h - | TOOLS SHOP & GARAGE EQUIPMENT - Per Company | \$1,321 | |
| | Per Staff | 324 | <u>(\$997)</u> |
| | To properly reflect account balance supported by proper documentation | | |
| i - | POWER OPERATED EQUIPMENT - Per Company | \$360 | |
| | Per Staff | 0 | <u>(\$360)</u> |
| | To properly reflect account balance supported by proper documentation | | |

ACCUMULATED DEPRECIATION ADJUSTMENT

| | <u>Amount</u> |
|--------------------------------------|------------------------------------|
| Contributions - Per Company | \$172,402 |
| Accumulated Depreciation - Per Staff | <u>1,347,900</u> |
| Total Adjustment | <u><u>\$1,175,498</u></u> B |

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

Contributions to Plant

| | | |
|--|------------------|--------------------|
| 1998 Credit to Accumulated Depreciation | \$62,955 | |
| 1999 Credit to Accumulated Depreciation | \$125,938 | |
| 2000 Credit to Accumulated Depreciation | \$125,966 | |
| 2001 Credit to Accumulated Depreciation | \$126,453 | |
| 2002 Credit to Accumulated Depreciation | \$126,997 | |
| 2003 Credit to Accumulated Depreciation | \$127,133 | |
| 2004 Credit to Accumulated Depreciation | \$133,308 | |
| 2005 Credit to Accumulated Depreciation | \$143,099 | |
| 2006 Credit to Accumulated Depreciation | \$147,004 | |
| 2007 Credit to Accumulated Depreciation | \$151,431 | |
| 2008 Credit to Accumulated Depreciation | \$156,081 | |
| 2009 Credit to Accumulated Depreciation | <u>\$143,019</u> | |
| | | \$1,569,384 |
| Removal of accumulated depreciation associated with plant determined to not be used and useful | | (\$215,265) |
| Removal of accumulated depreciation associated with plant determined to be excess capacity | | (\$6,219) |
| Accumulated depreciation 12/31/2009 Staff Balance | | \$1,347,900 |
| Less: Company Balance | | <u>\$172,402</u> |
| Staff Adjustment | | <u>\$1,175,498</u> |

CONTRIBUTIONS ADJUSTMENT

| | <u>Amount</u> |
|-----------------------------|-----------------------------------|
| Contributions - Per Company | \$2,202,765 |
| Contributions - Per Staff | <u>2,133,012</u> |
| Total Adjustment | <u><u>(\$69,753) C</u></u> |

C - To reflect Staff's calculation of contributions based upon Staff's adjustments to plant.

Contributions to Plant

| | | |
|---------------------------------------|-----------------|--------------------|
| 1997 Contribution | \$35,000 | |
| 1997 Contribution | \$21,633 | |
| 1997 Contribution | \$279,806 | |
| 1997 Contribution | \$199,071 | |
| 1997 Contribution | \$1,469,675 | |
| 1997 Contribution | \$15,265 | |
| 1997 Contribution | \$115,081 | |
| 1997 Contribution | \$135,440 | |
| 1997 Contribution | \$216,063 | |
| 1997 Contribution | <u>\$31,169</u> | |
| | | \$2,518,203 |
| Removal of not used and useful plant | | (\$374,374) |
| Removal of excess capacity plant | | (\$10,816) |
| Contribution 12/31/2009 Staff Balance | | \$2,133,012 |
| Less: Company Balance | | <u>\$2,202,765</u> |
| Staff Adjustment | | (\$69,753) |

AMORTIZATION OF CIAC ADJUSTMENT

| | <u>Amount</u> |
|------------------------------------|------------------------------------|
| Amortization of CIAC - Per Company | \$0 |
| Amortization of CIAC - Per Staff | <u>1,226,483</u> |
| Total Adjustment | <u><u>\$1,226,483</u></u> D |

D - To reflect Staff's calculation of accumulated amortization of CIAC based upon Staff's adjustments to plant.

| | | |
|--|------------------|--------------------|
| 1998 Credit to Amortization of CIAC | \$62,955 | |
| 1999 Credit to Amortization of CIAC | \$125,910 | |
| 2000 Credit to Amortization of CIAC | \$125,910 | |
| 2001 Credit to Amortization of CIAC | \$125,910 | |
| 2002 Credit to Amortization of CIAC | \$125,910 | |
| 2003 Credit to Amortization of CIAC | \$125,910 | |
| 2004 Credit to Amortization of CIAC | \$125,910 | |
| 2005 Credit to Amortization of CIAC | \$125,910 | |
| 2006 Credit to Amortization of CIAC | \$125,910 | |
| 2007 Credit to Amortization of CIAC | \$125,910 | |
| 2008 Credit to Amortization of CIAC | \$125,910 | |
| 2009 Credit to Amortization of CIAC | <u>\$125,910</u> | |
| | | \$1,447,967 |
| Removal of accum. amortization of CIAC associated with not used and useful plant | | (\$215,265) |
| Removal of accum. amortization of CIAC associated with excess capacity plant | | (\$6,219) |
| Accumulated amortization of CIAC 12/31/2009 Staff Balance | | \$1,226,483 |
| Less: Company Balance | | <u>\$0</u> |
| Staff Adjustment | | <u>\$1,226,483</u> |

STAFF RATE BASE ADJUSTMENTS

| | | | | | |
|---|---|--|----|---------------|-----------------|
| E | - | WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff | \$ | - | |
| | | | | <u>454</u> | <u>\$454</u> |
| | | To reflect Staff's calculation of cash working capital based upon Staff's recommendations for purchased power and purchased water | | | |
| F | - | WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff | \$ | - | |
| | | | | <u>22,274</u> | <u>\$22,274</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: | | | |
| 521 Flat Rate Revenues | \$137,426 | \$1,559 1 | \$138,985 |
| 522 Measured Revenues | 0 | 0 | 0 |
| 536 Other Wastewater Revenues | 2,295 | 0 | 2,295 |
| Total Operating Revenue | \$139,721 | \$1,559 | \$141,280 |
| Operating Expenses: | | | |
| 701 Salaries and Wages | \$94,000 | \$0 | \$94,000 |
| 710 Purchased Wastewater Treatment | 0 | 0 | 0 |
| 715 Purchased Power | 10,893 | 0 | 10,893 |
| 718 Chemicals | 25,498 | 0 | 25,498 |
| 720 Materials and Supplies | 17,587 | (7,822) 2 | 9,765 |
| 731 Contractual Services - Professional | 33,975 | (5,709) 3 | 28,266 |
| 735 Contractual Services - Testing | 25,539 | (15,986) 4 | 9,553 |
| 736 Contractual Services - Other | 2,387 | (2,387) 5 | 0 |
| 740 Rents | 6,510 | 0 | 6,510 |
| 750 Transportation Expenses | 1,190 | 0 | 1,190 |
| 755 Insurance Expense | 6,655 | (3,492) 6 | 3,163 |
| 765 Regulatory Commission Expense | 91 | 159 7 | 250 |
| 775 Miscellaneous Expense | 0 | 0 | 0 |
| 403 Depreciation Expense | 137,962 | (115,080) 8 | 22,882 |
| 408 Taxes Other Than Income | 5,089 | (523) 9 | 4,566 |
| 408.11 Property Taxes | 4,684 | 0 | 4,684 |
| 409 Income Tax | 0 | 50 10 | 50 |
| Total Operating Expenses | \$372,060 | (\$150,791) | \$221,269 |

| | | | |
|--------------------------------|--------------------|------------------|-------------------|
| OPERATING INCOME/(LOSS) | (\$232,339) | \$152,350 | (\$79,989) |
|--------------------------------|--------------------|------------------|-------------------|

| | | | |
|---------------------------------------|------------|------------|------------|
| 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) | (\$232,339) | \$152,350 | (\$79,989) |
|--------------------------|--------------------|------------------|-------------------|

STAFF ADJUSTMENTS

| | | | |
|-----|---|-----------|------------|
| 1 - | METERED WATER REVENUE - Per Company | \$137,426 | |
| | Per Staff | 138,985 | \$1,559 |
| | | | |
| | To reflect the metered water revenue per the Company's submitted bill count | | |
| 2 - | MATERIALS & SUPPLIES - Per Company | \$17,587 | |
| | Per Staff | 9,765 | (\$7,822) |
| | | | |
| | To reflect Staff's computation of Materials & Supplies based on documentation submitted by the Company | | |
| 3 - | CONTRACTUAL SERVICES - PROFESSIONAL - Per Company | \$33,975 | |
| | Per Staff | 28,266 | (\$5,709) |
| | | | |
| | To reflect Staff's computation of Contractual Services - Professional based on documentation submitted by the Company | | |
| 4 - | CONTRACTUAL SERVICES - TESTING - Per Company | \$25,539 | |
| | Per Staff | 9,553 | (\$15,986) |
| | | | |
| | To reflect Staff's computation of Contractual Services - Testing based on documentation submitted by the Company | | |
| 5 - | CONTRACTUAL SERVICES - TESTING - Per Company | \$2,387 | |
| | Per Staff | 0 | (\$2,387) |
| | | | |
| | To reflect Staff's computation of Contractual Services - Other based on documentation submitted by the Company | | |
| 6 - | INSURANCE EXPENSE - Per Company | \$6,655 | |
| | Per Staff | 3,163 | (\$3,492) |
| | | | |
| | To reflect the allocation of 50 percent of Insurance expense to the Water Division | | |
| 7 - | REGULATORY COMMISSION EXPENSE - Per Company | \$91 | |
| | Per Staff | 250 | \$159 |
| | | | |
| | To reflect Staff's computation of Regulatory Commission Expense based on Staff's estimate of reasonable expense and Staff's recommended 5 year normalization period | | |

STAFF ADJUSTMENTS (Cont.)

8 - DEPRECIATION - Per Company \$137,962
 Per Staff 22,882 (\$115,080)

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 & Improvement | \$ 42,938 | \$ - | \$ 42,938 | 3.33% | \$ 1,430 |
| Power Generation Equipm | \$ - | \$ - | \$ - | 5.00% | \$ - |
| Collection Sewers - Force | \$ - | \$ - | \$ - | 2.00% | \$ - |
| Collection Sewers - Gravit | \$ 1,807,390 | \$ - | \$ 1,807,390 | 2.00% | \$ 36,148 |
| Special Collecting Structur | \$ - | \$ - | \$ - | 2.00% | \$ - |
| Services to Customers | \$ - | \$ - | \$ - | 2.00% | \$ - |
| Flow Measuring Devices | \$ 293 | \$ - | \$ 293 | 10.00% | \$ 29 |
| Flow Measuring Installatio | \$ - | \$ - | \$ - | 10.00% | \$ - |
| Reuse Services | \$ - | \$ - | \$ - | 2.00% | \$ - |
| Reuse Meters & Meter Ins | \$ - | \$ - | \$ - | 8.33% | \$ - |
| Receiving Wells | \$ - | \$ - | \$ - | 3.33% | \$ - |
| Pumping Equipment | \$ - | \$ - | \$ - | 12.50% | \$ - |
| Reuse Distribution Reserv | \$ - | \$ - | \$ - | 2.50% | \$ - |
| Reuse Transmission & Di | \$ - | \$ - | \$ - | 2.50% | \$ - |
| Treatment & Disposal Equ | \$ 417,133 | \$ - | \$ 417,133 | 5.00% | \$ 20,857 |
| Plant Sewers | \$ 103,147 | \$ - | \$ 103,147 | 5.00% | \$ 5,157 |
| Outfall Sewer Lines | \$ - | \$ - | \$ - | 3.33% | \$ - |
| Other Plant & Miscellaneo | \$ 27,595 | \$ - | \$ 27,595 | 6.67% | \$ 1,840 |
| Office Furniture & Equipm | \$ 981 | \$ - | \$ 981 | 6.67% | \$ 65 |
| Computers & Software | \$ - | \$ - | \$ - | 20.00% | \$ - |
| Transportation Equipment | \$ - | \$ - | \$ - | 20.00% | \$ - |
| Stores Equipment | \$ - | \$ - | \$ - | 4.00% | \$ - |
| Tools Shop & Garage Equ | \$ 324 | \$ - | \$ 324 | 5.00% | \$ 16 |
| Laboratory Equipment | \$ - | \$ - | \$ - | 10.00% | \$ - |
| Power Operated Equipme | \$ - | \$ - | \$ - | 5.00% | \$ - |
| Communication Equipmer | \$ - | \$ - | \$ - | 10.00% | \$ - |
| Miscellaneous Equipment | \$ - | \$ - | \$ - | 10.00% | \$ - |
| Other Tangible Plant | | | | | |
| Total Pla | \$ 2,400,885 | \$ 1,084 | \$ 2,399,801 | | \$ 65,542 |

Depreciation Expense Before Amortization of CIAC: \$ 65,542
 Amortization of CIAC \$ 42,660
 Test Year Depreciation Expense - Staff: \$ 22,882
 Depreciation Expense - Company: \$137,962
 Staff's Total Adjustment: \$ (115,080)

Pro Forma Annual Depreciation Expense:

| | |
|--|------------------------|
| Plant in Service | \$2,400,885 |
| Less: Non Depreciable Plant | 1,084 |
| Fully Depreciated Plant | 0 |
| Depreciable Plant | <u>\$2,399,801</u> |
| Times: Staff Proposed Depreciation Rate | 2.73% |
| Full Year Credit to Accumulated Depreciation | <u>\$65,542 *</u> |
| Less: Amort. of CIAC* @ 2.73% | <u>42,660</u> |
| Pro Forma Annual Depreciation Expense | <u>\$22,882</u> |

STAFF ADJUSTMENTS (Cont.)

| | | |
|---|--------------|----------------|
| 9 - TAXES OTHER THAN INCOME - Per Company | \$5,089 | |
| Per Staff | <u>4,566</u> | <u>(\$523)</u> |

To reflect the removal of sales taxes

| | | |
|---------------------------------|-----------|-------------|
| 10 - INCOME TAXES - Per Company | \$0 | |
| Per Staff | <u>50</u> | <u>\$50</u> |

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

RATE DESIGN

| Monthly Charge | Present | -Proposed Rates- | |
|---|---------|------------------|-------|
| | Rates | Company | Staff |
| Flat Rate Customers | | | |
| Residential | 35.00 | 55.00 | 54.00 |
| Commercial | 35.00 | 105.00 | 90.00 |
| Effluent Sales (Per 1,000 gallons) | | | |
| 0 to 5,000 gallons | 0.90 | 3.00 | N/A |
| 5,001 gallons and above | 1.15 | 3.85 | N/A |
| All gallons of usage | N/A | N/A | 3.27 |

Service Line and Meter Installation Charges

| Lateral Size | Company Current Tariff | Company Proposed Charges | Staff's Recommended Charge |
|-----------------|------------------------|--------------------------|----------------------------|
| 4-inch Lateral | N/A | \$1,600 | \$800 |
| 6-inch Lateral | N/A | \$2,300 | \$1,000 |
| 8-inch Lateral | N/A | \$2,700 | \$1,200 |
| 10-inch Lateral | N/A | N/A | \$1,400 |
| 12-inch Lateral | N/A | \$3,800 | \$1,600 |

Service Charges

| Service Charges | Present | -Proposed Rates- | |
|-------------------------------------|---------|------------------|---------|
| | Rates | Company | Staff |
| Establishment | \$20.00 | \$20.00 | \$20.00 |
| Establishment (After Hours) | N/A | \$50.00 | N/A |
| After Hours Service Charge | N/A | N/A | \$50.00 |
| Reconnection (Delinquent) | \$30.00 | \$30.00 | \$30.00 |
| Deposit | * | * | * |
| Deposit Interest | * | * | * |
| Re-Establishment (Within 12 Months) | ** | ** | ** |
| NSF Check | \$12.00 | \$25.00 | \$25.00 |
| Deferred Payment | N/A | 1.50% | 1.50% |
| Late Payment Penalty | 1.50% | 1.50% | 1.50% |

* Per Commission Rules R14-2-603.D

** Months off system times the monthly minimum (R14-2-603.D)

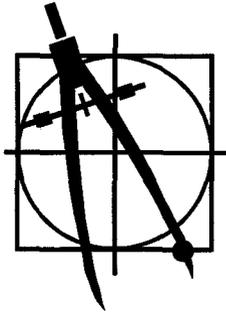
TYPICAL BILL ANALYSIS
 Residential Monthly Flat Rate

Average Number of Customers: 321

| <u>Company Proposed</u> | <u>Gallons</u> | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-------------------------|----------------|----------------------|-----------------------|------------------------|-------------------------|
| Monthly Service | 0 | \$35.00 | \$55.00 | \$20.00 | 57.1% |
| Staff Recommend | | | | | |
| Monthly Service | 0 | \$35.00 | \$54.00 | \$19.00 | 54.3% |

Present & Proposed Rates (Without Taxes)
 Residential Monthly Flat Rate

| <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 | \$35.00 | \$55.00 | 57.1% | \$54.00 | 54.3% |
| 1,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 2,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 3,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 4,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 5,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 6,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 7,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 8,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 9,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 10,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 15,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 20,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 25,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 50,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 75,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 100,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 125,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 150,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 175,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |
| 200,000 | 35.00 | 55.00 | 57.1% | 54.00 | 54.3% |



**Engineering Report for
Baca Float Water Company, Inc. – Sewer
Division**

Docket No. WS-01678A-10-0504 (Rates)

By Marlin Scott, Jr.

March 30, 2011

CONCLUSION

- A. A check of the Utilities Division Compliance database showed that Baca Float Water Company, Inc. – Sewer Division (“Company”) had no delinquent Commission compliance items.

RECOMMENDATIONS

1. Staff recommends plant-in-service adjustments reflected by, a) certain reclassification of plant, b) plant not used and useful (\$374,374), and c) excess capacity plant (\$103,147).
2. According to the Arizona Department of Environmental Quality (“ADEQ”), the Company is not in compliance with ADEQ regulations. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiency has been corrected and in compliance. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company’s filing of the updated ADEQ Compliance Status Report indicating that the Company has resolved the noted deficiency and the sewer system is in compliance.
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 Lateral Installation Charges as delineated in Table I-1.

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A. INTRODUCTION

On December 17, 2010, Baca Float Water Company, Inc. – Sewer Division (“Company”) filed a rate application. This Engineering Report constitutes Staff’s engineering evaluation relative to the Company’s rate application.

The 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 2.3 square-miles.

B. DESCRIPTION OF THE SEWER SYSTEM

The sewer system was field inspected on January 28, 2011, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Richard Lockwood, Lino Vega, and Raul Amezcua, representing the Company.

The sewer treatment system is a subsurface flow wetlands system capable of treating up to 100,000 gallons per day (“GPD”) of primary effluent wastewater that discharges from a series of septic tanks located in the Barrio de Tubac residential development. Collected primary effluent wastewater from the septic tanks flow to a 25,000 gallon pretreatment tank located at the head of the wetlands. From the pretreatment tank, the effluent goes through a flow meter, flow splitter, and through two parallel trains of constructed subsurface flow wetlands. Each wetland train consists of two wetland cells for a total of four 25,000 gallon cells. Effluent from each wetland cell flows to a dosing tank and then to two sand filters. Effluent from the filters is chlorinated to meet Class A reclaimed water standards and enters pump station #1, which acts as a temporary storage tank and also provides contact time for chlorination. From pump station #1, the effluent may be pumped back to the flow splitter located at the head of the wetlands or to a habitat pond. Effluent from the habitat pond flows to a storage pond. Effluent from the storage pond is pumped to an adjacent reuse site, consisting of turf, cottonwood and pine trees. The reuse site is also owned by the permittee and is permitted under a reclaimed water permit.

The sewer collection system consisted of 94 Septic Tank Effluent Pumping (“STEP”) systems and approximately 59,700 feet of sewer mains serving approximately 340 service laterals during the test year ending December 2009. The STEP systems have septic tanks ranging in size from 3,200 to 10,000 gallons that serve 3 to 8 homes per STEP system, respectively. A sewer system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1. Wetlands

| Name | Plant Capacity |
|----------|--|
| Wetlands | Subsurface flow wetlands to treat up to 100,000 GPD (four 25,000 gallon cells) |

Table 2. STEP Systems

| Residential Development | No. of Septic Tanks | Septic Tank Capacity | No. of Pumps | Horsepower per Pump | Capacity per Pump (GPM) |
|-------------------------|---------------------|-------------------------|--------------|---------------------|-------------------------|
| Barrio De Tubac | 94 | 3,200 to 10,000 gallons | 99 | 1/2 | 10 |

Table 3. Collection Mains

| Diameter | Material | Length (ft.) |
|-----------------|--|--------------|
| 4-inch & 6-inch | Green Sewer Pipe (PVC) for service laterals & mains before septic tanks. | 9,200 |
| 2-inch | PVC pipes for force mains from septic tanks to 6-inch collection mains. | 26,000 |
| 6-inch | Green Sewer Pipe (PVC) | 24,500 |

Table 4. Manholes

| Size | Quantity |
|----------|----------|
| Standard | 45 |

Table 5. Cleanouts

| |
|----------|
| Quantity |
| 69 each |

Table 6. Service Laterals

| Lateral Size | Quantity |
|--------------|----------|
| 4-inch | 340 |
| 6-inch | |
| 8-inch | |
| | |
| Total: | 340 |

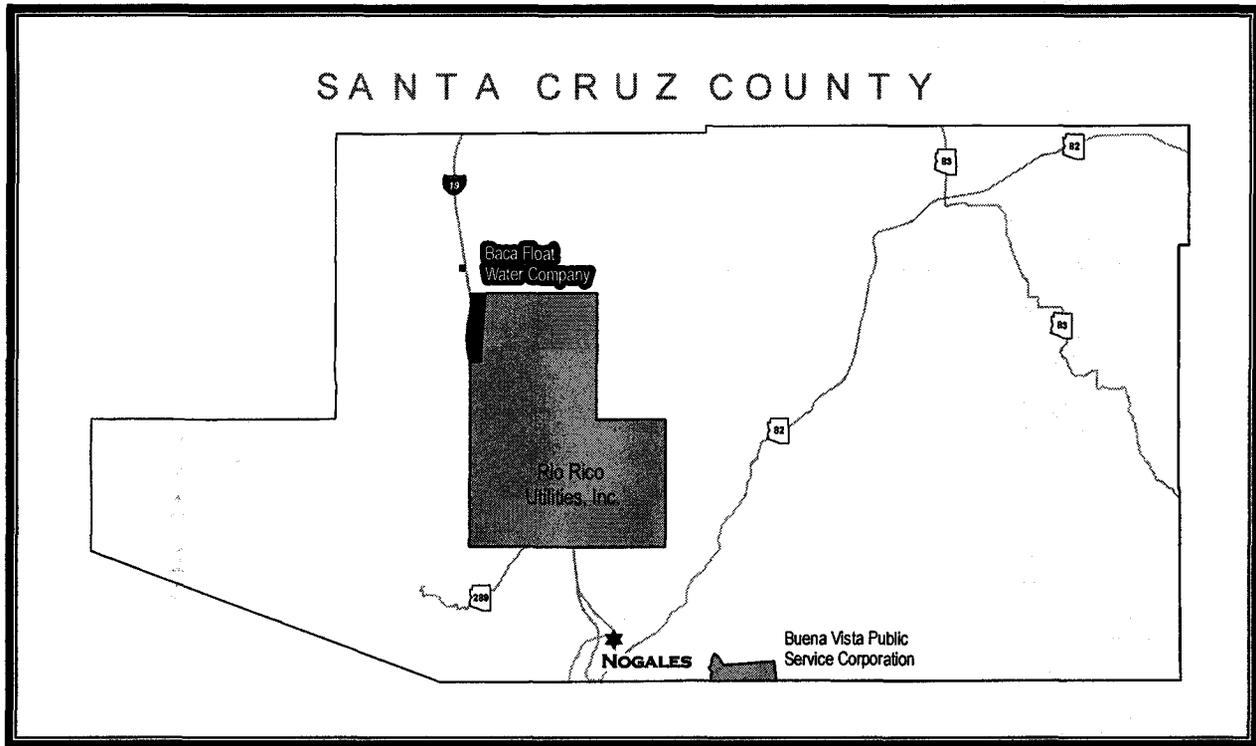


Figure 1. County Map

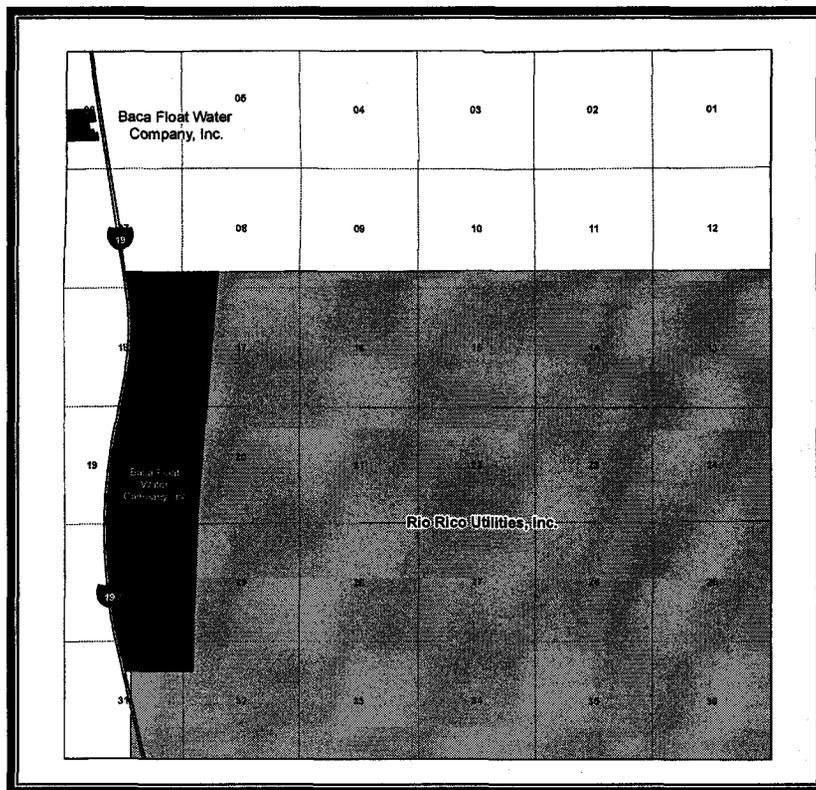


Figure 2. Certificated Area

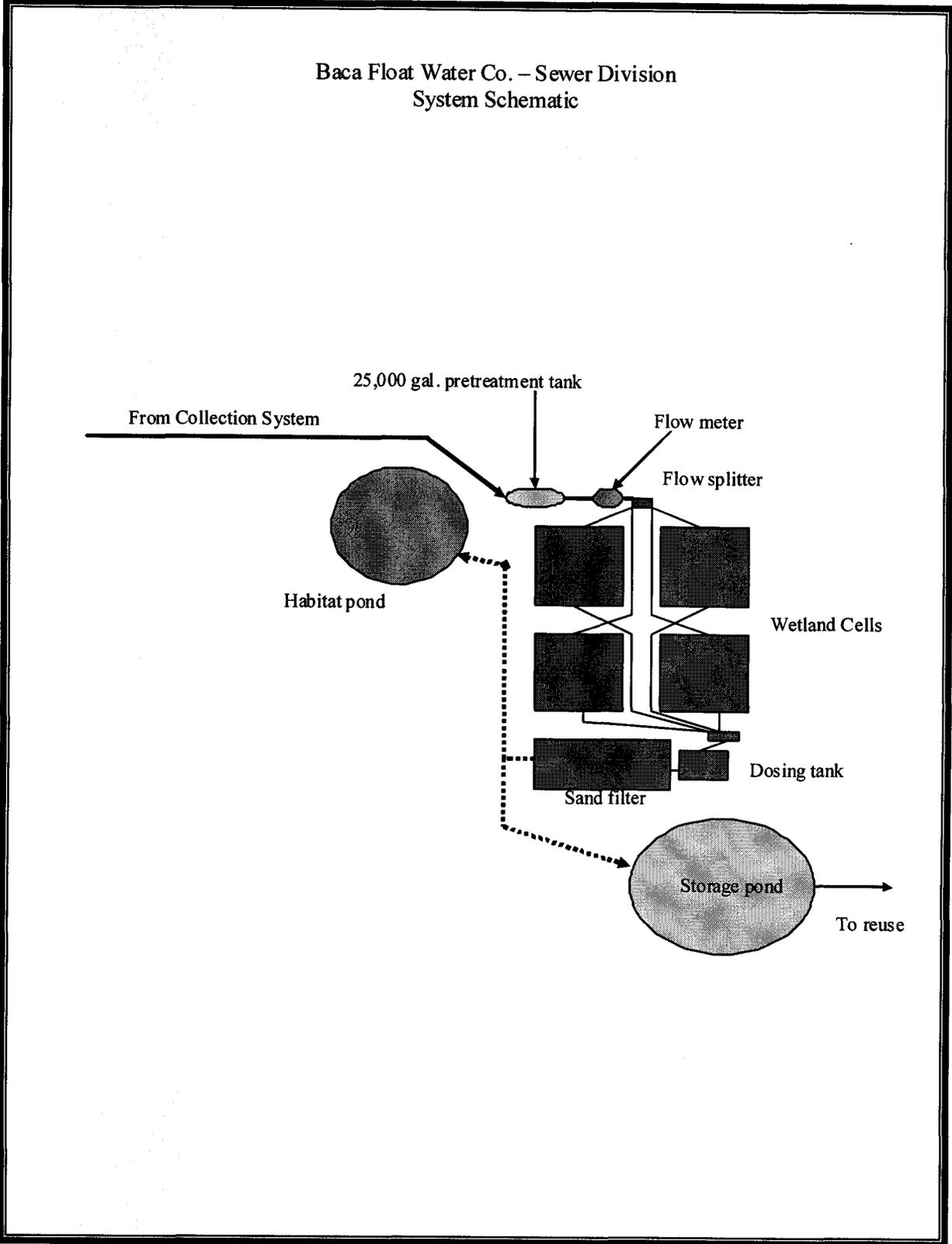


Figure 3. System Schematic

C. SEWER FLOWS

Sewer Flows

Based on the information provided by the Company, sewer flows for the test year ending December 2009 are presented in Figure C-1. For the average daily flows, January 2009 experienced the highest flow of 14,190 gallons per day (“GPD”). For the peak day flows, January 2009 also had the highest flow when 21,100 gallons were treated in one day. June 2009 had no flow to the wetlands. This occurs when not enough discharge flows from the septic tanks to the wetlands.

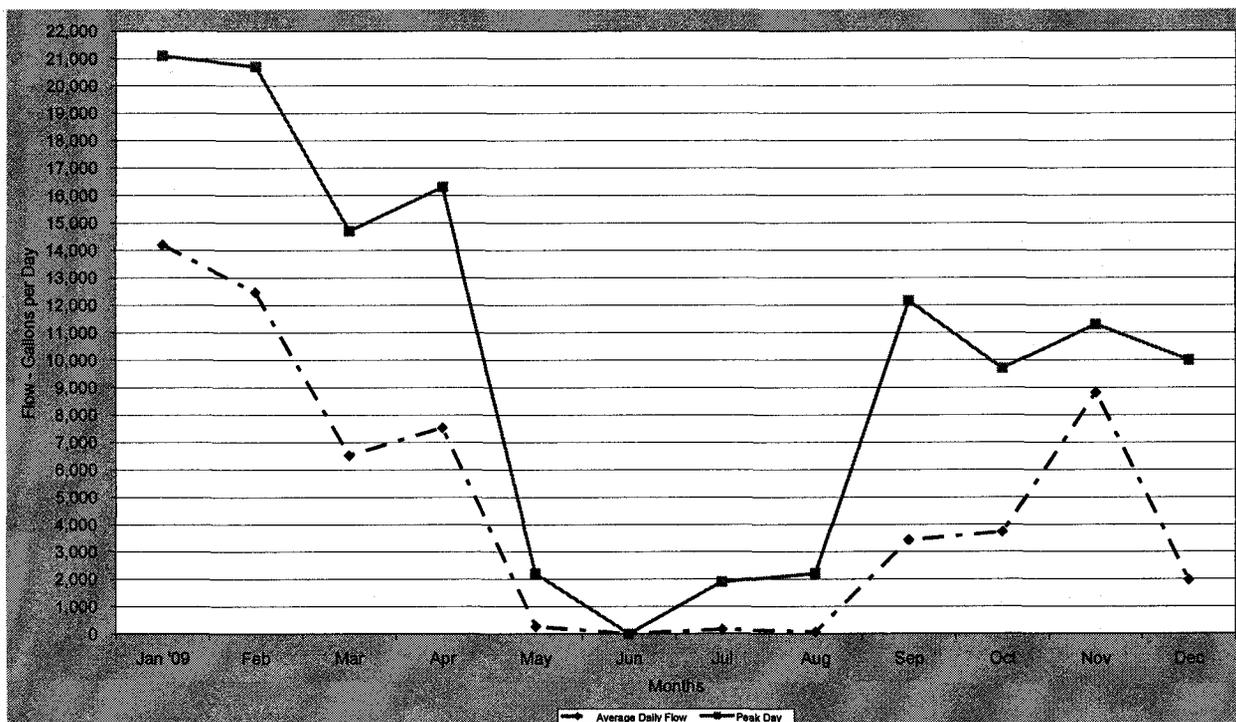


Figure C-1. Sewer Flows

System Analysis

As shown in the sewer flows above, the existing 100,000 GPD wetland capacity is excessive. Since the wetlands are constructed with four 25,000 gallon treatment cells that have two parallel trains each wetland train consists of two cells (one cell could be by-passed for maintenance), Staff considers half of the 100,000 GPD wetlands plant excess capacity and recommends the disallowance for the amount shown in Staff's Adjustment #3 in Section D.

D. PLANT-IN-SERVICE

The Company submitted its plant-in-service amount at \$3,453,380. Staff has reviewed the plant-in-service and recommends the following adjustments:

Staff's Adjustment #1 – Reclassification of Plant

After Staff's review and evaluation, Staff recommends reclassification of plant from two accounts:

Table D-1. Plant Reclassification

| Acct. No. | Plant item | Year | Amounts |
|--|---|--------------|-------------|
| 381 | From Acct. 370 (Receiving Wells) to: | | |
| | Plant Sewers All reported Company's plant | 2001 to 2009 | \$478,106 |
| 361 | From Acct. 380 (Treatment & Disposal Equipment) to: | | |
| | Collection Sewers - Gravity | | |
| | Bosque sewer costs from Tubac Homes | 2007 | \$199,071 |
| | Embarcadero sewer costs from Tubac Homes | 2007 | \$1,469,675 |
| | Santiago Phase II sewer costs from Tubac Homes | 2007 | 115,081 |
| | Santiago Phase II sewer costs from Tubac Homes | 2007 | 135,440 |
| | Trails Head 7-81 sewer costs from Tubac Homes | 2007 | 216,063 |
| | San Miguel Patio Homes sewer costs from Tubac | 2007 | 31,169 |
| Concept plan and Paseo Tumacacori Rd sewer costs | 2007 | 15,265 | |
| Total of Acct. 361: | | | \$2,181,764 |

Staff's Adjustment #2 – Used and Useful Plant

Through the field inspection and data requests, Staff considered two portions of the sewer system not used and useful. These portions have plant facilities but no homes are built on the lots. Therefore, Staff removed the following plant items:

Table D-2. Plant Not Used and Useful

| Acct. No. | Plant item | Year | Amounts |
|-----------|---|------|------------------|
| 361 | Embarcadero at Barrio de Tubac: Clusters 12, 13, 14 and 15 (1,900 feet of collection mains, 120 feet of force mains, 400 feet of service laterals, and eight 6,000 gallon septic tanks). Company estimates 20.7% of \$1,180,989 is related to these clusters. | 2007 | \$244,465 |
| 361 | Embarcadero at Barrio de Tubac: Unoccupied lots (900 feet of collection mains, 200 feet of force mains, 400 feet of service laterals, two 6,000 gallon septic tanks, and one 8,000 gallon septic tank). Company estimates 45% of \$288,686 is related to these lots. | 2007 | \$129,909 |
| | Total: | | \$374,374 |

Staff's Adjustment #3 – Excess Capacity Plant

As explained in the System Analysis Section above, Staff considered the 100,000 GPD wetlands as having excess capacity and Staff recommends removal of half of the wetlands capacity as follows:

Table D-3. Excess Capacity Plant

| Acct. No. | Plant item | Year | Amount |
|-----------|--|------|------------------|
| 381 | Plant Sewers (reclassified from Acct. 370) 100,000 GPD wetlands. (The Company reported \$478,106, which Staff FRA adjusted to \$206,294. Staff further adjusted by removing half of \$206,294, which is \$103,147.) | 2007 | \$103,147 |
| | Total: | | \$103,147 |

E. GROWTH

According to the Company, the Company projects very minimum growth of about 0.5% (approximately two new customers per year). Based on this projection, during the test year ending December 2009, the Company had 340 customers and it is projected that the Company could have approximately 350 customers by December 2014. The maximum build-out is 510 customers.

F. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE

In an ADEQ report, dated October 6, 2010, that was submitted with the rate application, ADEQ reported the Company's wetlands, Inventory No. 102959, was not complying with the Aquifer Protection Permit ("APP"). This "potential deficiency" was due to a monitoring and reporting violation for Volatile Organic Compound ("VOC") concentrations in a consultant's report that appeared to be incorrect compared to a lab report showing the VOC concentrations meeting the APP requirements.

According to the Company, the correct data for the above deficiency has been submitted to ADEQ for review. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiency has been corrected and is in compliance. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated ADEQ Compliance Status Report indicating that the Company has resolved the noted deficiency and the sewer system is in compliance.

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 (%) |
|--------------------|--|------------------------------------|-------------------------------|
| 354 | Structures & Improvements | 30 | 3.33 |
| 355 | Power Generation Equipment | 20 | 5.00 |
| 360 | Collection Sewers – Force | 50 | 2.0 |
| 361 | Collection Sewers- Gravity | 50 | 2.0 |
| 362 | Special Collecting Structures | 50 | 2.0 |
| 363 | Services to Customers | 50 | 2.0 |
| 364 | Flow Measuring Devices | 10 | 10.00 |
| 365 | Flow Measuring Installations | 10 | 10.00 |
| 366 | Reuse Services | 50 | 2.00 |
| 367 | Reuse Meters & Meter Installations | 12 | 8.33 |
| 370 | Receiving Wells | 30 | 3.33 |
| 371 | Pumping Equipment | 8 | 12.50 |
| 374 | Reuse Distribution Reservoirs | 40 | 2.50 |
| 375 | Reuse Transmission & Distribution System | 40 | 2.50 |
| 380 | Treatment & Disposal Equipment | 20 | 5.0 |
| 381 | Plant Sewers | 20 | 5.0 |
| 382 | Outfall Sewer Lines | 30 | 3.33 |
| 389 | Other Plant & Miscellaneous Equipment | 15 | 6.67 |
| 390 | Office Furniture & Equipment | 15 | 6.67 |
| 390.1 | Computers & Software | 5 | 20.0 |
| 391 | Transportation Equipment | 5 | 20.0 |
| 392 | Stores Equipment | 25 | 4.0 |
| 393 | Tools, Shop & Garage Equipment | 20 | 5.0 |
| 394 | Laboratory Equipment | 10 | 10.0 |
| 395 | Power Operated Equipment | 20 | 5.0 |
| 396 | Communication Equipment | 10 | 10.0 |
| 397 | Miscellaneous Equipment | 10 | 10.0 |
| 398 | Other Tangible Plant | ---- | ---- |

NOTE: Acct. 398 – Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

1. Service Lateral Installation Charges

The Company has requested service lateral installation charges. In Staff's Data Request MSJ-1, Staff asked the Company to justify the requested installation charges. In its response, the Company provided estimated costs which Staff considered too high for these installation charges. Typically, service laterals are constructed in streets/roads and reflected at a higher cost. However, this Company installs its service laterals on property lots before the septic tanks that should result in lower costs due to depth and length of trench. For this reason, Staff recommends its proposed charges as shown in Table I-1 below:

Table I-1. Service Lateral Installation Charges

| Meter Size | Company's Current Charges | Company's Proposed Charges | Staff's Proposed Charges |
|------------|---------------------------|----------------------------|--------------------------|
| 4-inch | None | \$1,600 | \$800 |
| 6-inch | None | \$2,300 | \$1,000 |
| 8-inch | None | \$2,700 | \$1,200 |
| 10-inch | None | - | \$1,400 |
| 12-inch | None | \$3,800 | \$1,600 |