

ORIGINAL



0000124354

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

DATE: April 6, 2011

RE: BRADSHAW WATER COMPANY – APPLICATION FOR A PERMANENT RATE INCREASE, DOCKET NO. W-02476A-10-0495

Attached is the Staff Report for Bradshaw Water Company's application for a permanent rate increase. Staff recommends approval of its 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 18, 2011.

SMO:CSB:kdh

Originator: Crystal Brown

Attachment: Original and sixteen copies

Arizona Corporation Commission
DOCKETED

APR - 6 2011

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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Service List for: Staff Report for Bradshaw Water Company
Docket No. W-02476A-10-0495

Mr. Don Bohler
Bradshaw Water Company
Post Office Box 12758
Prescott, Arizona 86304

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

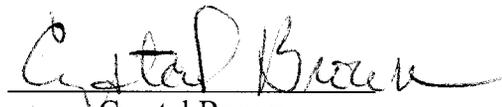
**BRADSHAW WATER COMPANY
DOCKET NO. W-02476A-10-0495**

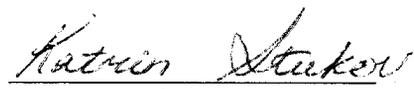
**APPLICATION
FOR A
PERMANENT RATE INCREASE**

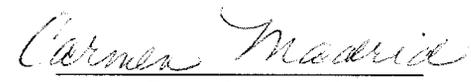
APRIL 6, 2011

STAFF ACKNOWLEDGMENT

The Staff Report for Bradshaw Water Company (Docket No. W-02476A-10-0495) was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's application for a permanent rate increase, Staff's revenue requirement, rate base, and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.


Crystal Brown
Public Utilities Analyst V


Katrin Stukov
Utilities Engineer


Carmen Madrid
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY OF
BRADSHAW WATER COMPANY
DOCKET NO. W-02476A-10-0495**

Bradshaw Water Company, Inc. ("Bradshaw" or "Company") is a class D for-profit Arizona public service corporation that provides potable water service to approximately 167 metered customers. The Company's service area is located near the Town of Prescott Valley, in Yavapai County.

Bradshaw proposed a \$21,783¹ or a 16.53 percent revenue increase from test year revenue of \$131,813 to \$153,596. The proposed revenue increase would produce an operating loss of \$43,844, for no rate of return on an original cost rate base ("OCRB") of \$480,468. The Company's requested rates would increase the typical residential bill with a median usage of 4,415 gallons from \$53.38 to \$60.98, for an increase of \$7.60, or 14.2 percent.

Staff recommends a \$51,808 or 38.95 percent revenue increase from a Staff-adjusted test year revenue of \$133,026 to \$184,834. Staff's recommended revenue increase would produce an operating income of \$25,110 for an 8.00 percent rate of return on an OCRB of \$313,874. Staff's recommended rates would increase the typical residential bill with a median usage of 4,415 gallons from \$53.38 to \$65.73, for an increase of \$12.35, or 23.1 percent.

The Company requests to pass-through purchased water costs (page 4 of application) and also requests a \$1,650 impact fee.

STAFF RECOMMENDATIONS

Staff recommends approval of the Staff-recommended rates and charges as shown in Schedule CSB-4.

Staff further recommends that the Company be required to re-notice its customers, within 30 days of the filing of this Staff Report, regarding the potential rate increase being recommended by Staff.

Staff further recommends that the Company be ordered to file with Docket Control, 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, on a going-forward basis, the Company maintain its books and records in accordance with the National Association of Regulatory Commissioners

¹ The Company requested an increase in total operating revenue of \$11,251 as shown on page 6 of its application. This increase would result in total revenue of \$143,064. However, Staff determined that Bradshaw's proposed rates would actually produce total revenues of \$153,596. After Staff discussed with the Company the costs that are generally considered in developing the total revenue requirement, the Company further realized that even the total revenue of \$153,596 generated by its proposed rates was too low because it did not cover the Company's operating expenses. Based on these discussions, Staff has reflected the \$153,596 that would be generated by the proposed rates as the Company-proposed total revenue, rather than the \$143,064.

("NARUC") Uniform System of Accounts ("USOA"), which includes recording structures and improvements in account no. 304, meters in account no. 334 and pumps in account no. 311. Staff further recommends that the Company file, within 90 days of a Decision in this proceeding, a plan identifying the actions it will take to keep its books and records in accordance with the NARUC USOA.

Staff further recommends that the Company utilize the NARUC Guidelines for Cost Allocations and Affiliate Transactions to develop written cost allocation procedures.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of its written allocation procedures within 90 days of the signed Commission Decision resulting from this proceeding. At a minimum the procedures should:

- a. Identify each expense to be allocated, i.e., provide a descriptive name.
- b. Identify the basis of the allocation (e.g. customers, rate base, revenue, expenses, four factor, etc.)
- c. Show the actual calculation used to make the allocation.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the listing of customers to be refunded service line and meter advances in aid of construction and to begin refunding these customers in accordance with Commission rule (A.A.C. R14-2-405.B.2).

Staff further recommends that the Company be ordered to use the depreciation rates delineated in Table B of the attached Engineering Report.

Staff further recommends that the Company monitor its water system for a 12-month period and prepare a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall evaluate its water system and submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The Company shall file the water loss reduction report or the detailed analysis, whichever is submitted, with Docket Control, as a compliance item in this docket, within 13 months of the effective date of the decision in this case.

Staff further recommends that the Commission approve the Company's implementation of Staff's recommended purchased water cost recovery adjustor mechanism as described in Exhibit A.

Staff further recommends that the Company make a filing with the Utilities Division of the Arizona Corporation Commission ("Staff") showing the calculation of the surcharge using the same methodology presented on Exhibit A on or before February 15th. Staff would review the filing by March 15th. If the filing is acceptable to Staff, the surcharge would be implemented

by April 1st. Staff further recommends that a filing be made even if there is no change to the surcharge.

Staff further recommends that the surcharge shall appear on each customer's bill as a separate charge.

Staff further recommends that the Company notify its customers of any changes in the surcharge within 30 calendar days of notification to Bradshaw by Prescott Valley Water District of any change in its water charges.

Staff further recommends approval of the \$100 non-refundable purchased water contract connection charge. Staff further recommends that the charge cease and that Bradshaw make a filing to amend its tariff within 60 days in the event that Bradshaw is no longer under any contractual obligation to pay the charge to Prescott Valley.

Staff further recommends denial of Bradshaw's request to collect the \$1,650 impact fee.

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SCHEDULES

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Statement of Operating Income	Schedule CSB-3

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Typical Bill Analysis Schedule CSB-5

EXHIBIT

Purchased Water Cost Recovery Adjustor Mechanism Tariff..... Exhibit A

ATTACHMENT

Engineering Report Attachment A

Fact Sheet

Company:

Type of Ownership: C Corporation

Bradshaw Water Company, Inc. (“Bradshaw” or “Company”) is a class D for-profit Arizona public service corporation that provides potable water service to approximately 167 metered customers. The Company’s service area is located near the Town of Prescott Valley, in Yavapai County. The Company is located in the Prescott Active Management Area (“AMA”).

Rates:

Permanent rate increase application filed: December 15, 2010

Current test year ended: December 31, 2009

Prior test year ended: December 31, 2000 (Decision No. 64286, rate decrease)

Rates

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charges:			
5/8 x 3/4-inch meter	\$33.00	\$37.00	\$38.00
3/4-inch meter	\$33.00	\$37.00	\$38.00
1-inch meter with fire sprinkler	\$33.00	\$33.00	\$38.00
1-inch meter	\$82.50	\$82.50	\$100.00
1 1/2-inch meter	\$165.00	\$165.00	\$200.00
2-inch meter	\$264.00	\$264.00	\$320.00
3-inch meter	\$495.00	\$495.00	\$640.00
4-inch meter	\$825.00	\$825.00	\$1000.00
6-inch meter	\$1,650.00	\$1,650.00	\$2000.00
Commodity Charges:			
Commodity Charge -			
0 to 4,000 gallons	\$4.50	\$5.30	\$6.00
4,001 to 8,000 gallons	\$5.75	\$6.71	\$9.00
Over 8,000 gallons	\$6.75	\$8.00	\$15.55

Customers:

Number of customers in prior test year (12/31/00) 87

Average number of customers in the current test year (12/31/09): 167²

Current Test Year customers by meter size:

5/8 X 3/4-inch	163
3/4-inch	0
1-inch	4
1 1/2-inch	0
2-inch	0
4-inch	0
6-inch	0
Seasonal customers:	0

Customer notification for rate application filed: January 18, 2011

Number of customer complaints concerning rate application filed: 0

Summary of Filing

The test year results as adjusted by Utilities Division Staff ("Staff"), for Bradshaw show total operating revenue of \$133,026, an operating loss of \$20,104, and no rate of return as shown on Schedule CSB-1. The Original Cost Rate Base ("OCRB") as adjusted by Staff is \$313,874.³

Bradshaw's proposed rates, as filed, would produce total operating revenue of \$153,596⁴ and an operating loss of \$43,844, for no rate of return on an OCRB of \$480,468. The Company's proposed rates would increase the typical residential bill,⁵ with a median usage of 4,415 gallons, from \$53.38 to \$60.98 for an increase of \$7.60, or 14.2 percent, as shown on Schedule CSB-5.

Staff recommends a \$51,808 or 38.95 percent revenue increase from a Staff adjusted test year revenue of \$133,026 to \$184,834. Staff's recommended revenue increase would produce an

² Per the billcount provided by the Company.

³ The Company did not propose a fair value rate base that differs from its OCRB.

⁴ The Company requested an increase in total operating revenue of \$11,251 as shown on page 6 of its application. This increase would result in total revenue of \$143,064. However, Staff determined that Bradshaw's proposed rates would actually produce total revenues of \$153,596. After Staff discussed with the Company the costs that are generally considered in developing the total revenue requirement, the Company further realized that even the total revenue of \$153,596 generated by its proposed rates was too low because it did not cover the Company's operating expenses. Based on these discussions, Staff has reflected the \$153,596 that would be generated by the proposed rates as the Company-proposed total revenue, rather than the \$143,064.

⁵ 5/8 x 3/4 -inch meter.

operating income of \$25,110 for an 8.00 percent rate of return on an OCRB of \$313,874. Staff's recommended rates would increase the typical residential bill with a median usage of 4,415 gallons from \$53.38 to \$65.73, for an increase of \$12.35, or 23.1 percent, as shown on Schedule CSB-5.

According to the application, the Company requests a rate increase due to increases in the cost of operations and the cost of purchased water. It states that it has not had a rate increase in over nine years. The Company also states that it has suffered several water main breaks and needs to set up a reserve account.

Background

During the test year ended December 31, 2009, Bradshaw provided water service to an average of 167 metered customers, 163 of which are served by 5/8 x 3/4 -inch meters. Four customers are served by 1-inch meters.

Bradshaw is an Arizona "C" corporation that provides water service to Arizona customers and is located near the Town of Prescott Valley, in Yavapai County. Bradshaw's last rate case resulted in a rate decrease (Decision No. 64286, dated December 28, 2001). Its last permanent rate increase was authorized in Decision No. 60708, dated February 27, 1996. The tariff approved in Decision No. 60708 was later amended to reduce the monthly usage charge for 1-inch customers with fire sprinklers (Decision No. 67824, dated May 5, 2005).

On December 15, 2010, Bradshaw filed an application for a permanent rate increase. On January 14, 2011, Staff filed a Letter of Deficiency. On January 21, 2011, Staff issued a Letter of Sufficiency. On March 9, 2011, the Company filed a request for a \$1,650 impact fee.

Consumer Services

Staff reviewed the Commission's records for the period beginning January 1, 2007, to March 8, 2011, and found no complaints filed against Bradshaw. A notarized affidavit of mailing "Customer Notification" was filed on January 13, 2011.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

Bradshaw is current on its property and sales tax payments.

Bradshaw is in good standing with the Corporations Division of the Commission.

Compliance with the National Association of Regulatory Utility Commissioners (“NARUC”) Uniform System of Accounts (“USOA”)

Commission rules require water companies to maintain their books and records in accordance to the NARUC USOA. Arizona Administrative Code R14-2-411.D.2 states the following: “Each utility shall maintain its books and records in conformity with the NARUC Uniform System of Accounts for Class A, B, C, and D Water Utilities.”

Bradshaw, while under management of the prior owner, Mr. Lovell, was cited in prior Staff Reports for poor record keeping. Mr. Don Bohler purchased Bradshaw from Mr. Don Lovell in 2002. However, Mr. Lovell continued doing the bookkeeping for Bradshaw after the purchase until 2006. This arrangement has caused problems for Bradshaw as the Company has indicated that it does not know the additions or retirements for certain plant accounts for 2006 and prior years. Further, although Mr. Bohler is an experienced certified water operator, he is in the process of learning the regulatory requirements of keeping his books and records.

Staff noted during the course of its audit in this proceeding, that the Company did not consistently follow the NARUC USOA as mandated by the Commission. Staff found that the Company did not record the cost of a well house, meters and pumps in its plant accounts.

Staff recommends that, on a going-forward basis, the Company maintain its books and records in accordance with the NARUC USOA, which includes recording structures and improvements in account no. 304, meters in account no. 334 and pumps in account no. 311. Further, Staff recommends that the Company file, within 90 days of a Decision in this proceeding, a plan identifying the actions it will take to keep its books and records in accordance with the NARUC USOA.

Engineering Analysis and Recommendations

Staff Engineer, Katrin Stukov, inspected Bradshaw’s plant facilities on February 10, 2011, accompanied by the owner of Bradshaw, Don Bohler. A complete discussion of Staff’s technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

Rate Base

Staff’s adjustments decreased the Company’s proposed rate base by \$166,594, from \$480,468 to \$313,874, as shown on Schedule CSB-2, page 1. Details of Staff’s adjustments are discussed below.

Plant in Service

Adjustment A decreases plant in service by \$561,442, from \$1,390,191⁶ to \$828,749, as shown on Schedule CSB-2, pages 1 and 2.

Structures and Improvements - Adjustment "a" increases this account by \$18,333, from \$0 to \$18,333, as shown on Schedule CSB-2 pages 2 and 3. Staff increased this account by \$18,237 to reflect the correct ending balance in the last rate case, removed \$484 to reflect the retirement of a well house, and added \$580 to reflect the addition of a new well house.

Wells and Springs - Adjustment "b" decreases this account by \$26,879, from \$58,234 to \$31,355, as shown on Schedule CSB-2 pages 2 and 3. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting no plant additions and a \$14,229 plant retirement as identified by the Company and Staff. The retirement is a well that is no longer in service.

Pumping Equipment - Adjustment "c" decreases this account by \$59,469, from \$84,243 to \$24,774, as shown on Schedule CSB-2 pages 2 and 3. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting \$1,982 in plant additions and \$21,585 in plant retirements as identified by the Company and Staff.

Water Treatment Equipment - Adjustment "d" increases this account by \$6,825, from \$0 to \$6,825, as shown on Schedule CSB-2 pages 2 and 4. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting no plant additions and no plant retirements as identified by the Company and Staff.

Distribution Reservoirs and Standpipes - Adjustment "e" decreases this account by \$117,966, from \$204,825 to \$86,859, as shown on Schedule CSB-2 pages 2 and 4. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting no plant additions and no plant retirements as identified by the Company and Staff.

Transmission and Distribution Mains - Adjustment "f" decreases this account by \$336,909, from \$949,252 to \$612,343, as shown on Schedule CSB-2 pages 2 and 4. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting no plant additions and no plant retirements as identified by the Company and Staff.

Services - Adjustment "g" decreases this account by \$34,637, from \$56,372 to \$21,735, as shown on Schedule CSB-2 pages 2 and 4. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting no plant additions

⁶ The beginning balances of the Company's plant in service were established using a reconstruct cost new developed in the Company's prior rate case.

and no plant retirements as identified by the Company and Staff. Mr. Bohler, the owner of Bradshaw, explained that none of the Company's new customer hook-ups resulted in additions to the service lines plant account because the service lines had been previously installed.

Meters and Meter Installation - Adjustment "h" decreases this account by \$2,957, from \$10,575 to \$7,618, as shown on Schedule CSB-2 pages 2 and 5. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting \$4,703 in plant additions and \$550 in plant retirements as identified by the Company and Staff.

Hydrants - Adjustment "i" decreases this account by \$7,783, from \$26,690 to \$18,907, as shown on Schedule CSB-2 pages 2 and 5. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting no plant additions and no plant retirements as identified by the Company and Staff.

Accumulated Depreciation

Adjustment B decreases accumulated depreciation by \$501,644, from \$909,723 to \$408,079, as shown on Schedule CSB-2, pages 1, 6, and 6.9.

Staff calculated the ending balance of accumulated depreciation by utilizing the ending plant balances and accumulated depreciation by plant account in the last rate case (Docket No. W-02476A-01-0502), reflecting plant additions and retirements as identified by Staff and the Company and applying the Commission-approved depreciation rates. Staff identified fully-depreciated plant by utilizing the detail of plant cost by year and useful lives reported in the Reconstruction Cost New Less Depreciation Study that was performed in Docket No. W-02476A-97-0634 for Bradshaw.

Advances In Aid of Construction ("AIAC")

Adjustment C increases AIAC by \$9,100, from \$0 to \$9,100, as shown on Schedule CSB-2, pages 1 and 7. Staff's adjustment reflects \$9,100⁷ for meter installations for the period 2005 to 2009.

Refunds of Service Line and Meter Installations Charges

Arizona Administrative Code R14-2-405.B.2 states that refunds on meters or services are to be refunded as follows:

[A] service line or meter shall be repaid by the utility by an annual credit of 1/10 of the amount received, said credit to be applied upon the water bill rendered in November of each year until fully paid

⁷ The Company reported 26 service line and meter installations at \$350 per customer: $\$350 \times 26 = \$9,100$.

The Company was not aware of the Commission's rule regarding the refunding of meters and service line AIAC.

In response to a data request, the Company provided a list of customers from which it has collected the \$350 service line and meter installation charges during the years from 2005 to 2009. Staff recommends that the Company file the listing of customers to be refunded and to begin refunding these customers in accordance with Commission rules.

Contributions In Aid of Construction ("CIAC")

Adjustment D increases CIAC by \$121,319, from \$0 to \$121,319, as shown on Schedule CSB-2, pages 1, 4, and 7. Staff's adjusted amount reflects the \$121,319 Line Extension Advance balance that was reported in the prior rate case Staff Report and adopted by the Commission. Staff reviewed the related main extension contracts and found that the remaining unpaid balance of the AIAC would be converted to CIAC after 10 years. Since none of the AIAC had been refunded, Staff recorded the entire \$121,319 as CIAC.

Accumulated Amortization of CIAC

Adjustment E increases accumulated amortization of CIAC by \$3,965, from \$0 to \$3,965, as shown on Schedule CSB-2, pages 1 and 7. Staff calculated the ending balance of the accumulated amortization of CIAC by calculating the amortization on the CIAC from the year it converted to CIAC to the end of the test year.

Working Capital

Bradshaw did not claim any working capital allowance. Staff's adjustments F and G resulted in a net increase to working capital of \$19,659, from \$0 to \$19,659, as shown on Schedule CSB-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 adjustments to total operating revenue resulted in a net increase of \$1,213, from \$131,813 to \$133,026, as shown on Schedule CSB-3, page 1. Details of Staff's adjustments are discussed below.

Metered Water Revenue – Adjustment A increases metered water revenue by \$2,286, from \$129,037 to \$131,323, as shown on Schedule CSB-3 pages 1 and 2. Staff's adjustment

reflects Staff's calculation of the metered water revenue using the billing determinants provided by the Company.

The Company reported \$129,037 for metered water revenue. Staff calculated \$131,323, a difference of \$2,286. Staff discussed the difference with the Company. The Company stated that during the test year some adjustments were posted backwards. The Company further stated that the erroneous postings were corrected in a subsequent year. Because the Company's financial statements have not been audited by an independent certified public accountant ("CPA") and because Staff found other incorrectly recorded transactions, Staff did not rely on the operating revenue recorded in the Company's general ledger. Rather, Staff reflected Staff's calculation of the metered revenue which utilizes the billing determinants provided by the Company.

Other Water Revenue – Adjustment B decreases other metered water revenue by \$1,073, from \$2,776 to \$1,703, as shown on Schedule CSB-3 pages 1 and 2. The Company provided Staff with the various amounts that composed the \$2,776. Staff removed \$700 for amounts collected for meter and service line installations. Staff also removed \$372.51 for a billing correction credit memo adjustment. Staff's adjustment is shown on Schedule CSB-3 pages 1 and 2.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$44,310, from \$197,440 to \$153,130, as shown on Schedule CSB-3, page 1. Details of Staff's adjustments are presented below.

Repairs and Maintenance Expense – Adjustment C decreases repairs and maintenance expense by \$16,711, from \$29,829 to \$13,118, as shown on Schedule CSB-3 pages 1 and 2. Staff reviewed the invoices provided in support of the repair and maintenance expenses and found that \$2,108 in costs were incurred for installing a new well house, pumps, and meters. Therefore, Staff removed the cost from operating expenses and included it in the appropriate plant accounts. Staff also reclassified \$13,718.48 in costs incurred for certified operator services to the contractual services account. The detail to Staff's adjustment is shown on Schedule CSB-3, page 2.

Office Supplies and Expense – Adjustment D decreases this account by \$188, from \$3,418 to \$3,230, as shown on Schedule CSB-3 pages 1 and 2. Staff reclassified \$188 incurred for accounting services to the contractual services account.

Contractual Services Expense – Adjustment E increases outside services expense by \$11,570, from \$18,120 to \$29,690, as shown on Schedule CSB-3 pages 1 and 3. Staff calculated the annual contractual services expense by adding \$13,940 for certified operator services, \$15,973 for secretarial services, \$1,845 for meter reading services, and \$188 for accounting services. Staff also removed \$420 for a new service/meter and \$1,835 for cost that were incurred

in 2008 but recorded in 2009. The details of Staff's calculation of the outside services expense is shown on Schedule CSB-3, page 3.

Rate Case Expense – Adjustment F decreases rate case expense by \$1,575, from \$2,362 to \$787, as shown on Schedule CSB-3 pages 1 and 3. Staff normalized the \$2,362 using three years (the number of years Staff expects the Company to file another rate case), allowing only one-third, or \$787, of the \$2,362.

Miscellaneous Expense – Adjustment G decreases miscellaneous expense by \$652, from \$2,826 to \$2,174, as shown on Schedule CSB-3 pages 1 and 3. Staff reviewed the invoices and other documentation to support the miscellaneous expense account. Staff removed \$1,750 for a water development fee that Bradshaw collected from a developer and paid to the Town of Prescott Valley.⁸ Staff had a teleconference with Mr. Bohlier and informed him that Bradshaw does not have a tariff for such a charge. On March 9, 2011, the Company filed an application for the inclusion of this charge on its tariff.

Staff also added to the miscellaneous expense account \$975 for cell phone, telephone alarm, and blue staking costs. The detail of Staff's adjustments is shown on CSB-3, page 3.

Depreciation Expense – Adjustment H decreases depreciation expense by \$36,754, from \$53,523 to \$16,769, as shown on Schedule CSB-3 pages 1 and 4. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Affiliated Companies and Allocations

Mr. Bohlier manages and operates Bradshaw from office space rented from his personal residence. Mr. Bohlier also manages and operates other regulated and unregulated businesses from his home. Those businesses are Sabrosa Water Company, New River Water Company, Creekside Sanitary District, and Granite Springs/Everwet, LLC (an unregulated entity that provides staffing for the aforementioned regulated utilities and other contracting/rental services).

The owner uses shared services to manage and operate the five companies. The shared services may include, but are not limited to, employees, transportation, office space, office supplies, utilities, computers, computer software, telephone, and other miscellaneous services.

Staff noted that the Company did not have written procedures to explain how it allocated common costs. Staff recommends that the Company utilize the NARUC Guidelines for Cost Allocations and Affiliate Transactions to develop written cost allocation procedures.

⁸ Staff did not make a corresponding adjustment to revenues as Staff calculated revenue based solely on the billing determinants.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of its written allocation procedures within 90 days of the signed Commission Decision resulting from this proceeding. At a minimum the procedures should:

- a. Identify each expense to be allocated, i.e., provide a descriptive name.
- b. Identify the basis of the allocation (e.g. customers, rate base, revenue, expenses, four factor, etc.)
- c. Show the actual calculation used to make the allocation.

Revenue Requirement

Staff recommends total operating revenue of \$184,834, an increase of \$51,808, or 38.94 percent above the Staff adjusted test year revenue of \$133,026. Staff's recommended revenue provides an 8.00 percent rate of return on the Staff recommended OCRB of \$313,874 as shown on Schedule CSB-1. Staff concluded that an eight percent rate of return was justified given the size of Staff's recommended revenue increase.

Staff's recommended increase provides the Company with adequate cash flow to meet its normal operating expenses make payments on the Commission-approved Water Infrastructure Financing Authority loan and fund contingencies.

Rate Design

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

The Company's requested rates would increase the typical residential bill with a median usage of 4,415 gallons from \$53.38 to \$60.98, for an increase of \$7.60 or 14.2 percent as shown on Schedule CSB-5.

Staff's recommended rates would increase the typical residential bill with a median usage of 4,415 gallons from \$53.38 to \$65.73, for an increase of \$12.35, or 23.1 percent, as shown on Schedule CSB-5.

Miscellaneous Service Charges

The Company has proposed a Reconnection (Delinquent) After Hours charge of \$75. 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 Reconnection (Delinquent) 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 \$60 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 business hours.

The Company proposes to change the customer deposit service to a flat \$66. The Company did not provide any sufficient reason that would warrant departure from Staff's practice of recommending the amount per the Commission rules which for residential customers is two times the average residential bill (R14-2-403.B. 7). Therefore, Staff recommends denial.

The Company proposes to change the deposit interest service charge from 6.00 percent to 1.00 percent annual percentage return. The Company did not provide any sufficient reason that would warrant departure from Staff's practice of recommending the 6.00 percent provided by Commission rule R14-2-403.B. Therefore, Staff recommends denial.

The Company proposes to change the re-establishment (within 12 months) service charge from months off system times the minimum (R14-2-403.D) to a flat \$35.00. The Company did not provide any sufficient reason that would warrant departure from Staff's practice of recommending the months off system times the minimum as provided by the Commission rules. Therefore, Staff recommends denial.

Service Line and Meter Installation Charges

The Company has requested changes to its service line and meter installation charges as shown on Schedule CSB-4.

Staff has recommended service line and meter installation charges based upon an analysis of costs as discussed in the attached Engineering Report. Further, since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends separate service line and meter installation charges. Staff recommends approval of Staff's service line and meter installation charges are shown on Schedule CSB-4.

Purchased Water Adjustor Mechanism

The Company requests that it be allowed to pass through increases in its purchased water costs.

Staff's Analysis

Staff generally agrees with the Company's need to address increases related to its purchased water costs. Purchased water costs represent approximately 45 percent of Bradshaw's total operating expenses. Further Bradshaw purchases approximately 90 percent of its total water sold from the Prescott Valley Water District ("Prescott Valley"). The Company has no

control over the amount or timing of potential water rate increases. Significant delay in recovering this cost could result in the Company not having enough money to pay all of its operating expenses. Moreover, filing numerous rate applications can be costly and time consuming.

Staff recommends a purchased water adjustor mechanism to recover costs from Bradshaw's customers in an amount needed to recover its actual purchased water costs. Because the Company purchases more gallons than it sells due to unaccounted for losses, the surcharge will be slightly larger than the Prescott Valley gallonage increase.

Staff recommends a base cost of purchased water of \$5.36 per 1,000 gallons calculated by dividing the test year purchased water cost of \$69,324 by the total water purchased (in thousands) as follows: $\$69,324 / (12,940,000 \text{ gallons} / 1,000 \text{ gallons}) = \5.357 per 1,000 gallons.

Staff recommends that the surcharge be determined by subtracting a base cost of water of \$5.36 per 1,000 gallons from the then current Prescott Valley per 1,000 gallonage charge. The difference between the two amounts will represent the appropriate surcharge amount to be applied to customer bills. Staff further recommends that the surcharge be adjusted once annually based on the prior year's purchased water costs. An example follows:

Calculation of the 2013 Surcharge - For Illustrative Purposes Only

2012 total annual cost of purchased water per 1,000 gallons	\$5.46 ⁹
Less: Staff recommended base cost of purchased water per 1,000 gallons	<u>\$5.36</u>
Purchased water surcharge per 1,000 gallons	<u>\$0.10</u>

Staff recommends that:

1. The surcharge appear on each customer's bill as a separate charge.
2. That the Company make a filing with the Utilities Division of the Arizona Corporation Commission ("Staff") showing the calculation of the surcharge using the same methodology presented on Exhibit A on or before February 15th. Staff would review the filing by March 15th. If the filing is acceptable to Staff, the surcharge would be implemented by April 1st. Staff further recommends that a filing be made even if there is no change to the surcharge.
3. The Company notify its customers of any changes in the surcharge within 30 calendar days of notification to Bradshaw by Prescott Valley of any change in its water charges.

Purchased Water Contract Connection Charge

The Company's system produced approximately 10 percent of water sold. The remaining 90 percent of the water sold is purchased through a purchased water contract with Prescott Valley. Among other things, the purchased water contract provides that the cost to purchase

⁹ The 2012 purchased water cost is calculated by dividing the total annual 2012 purchased water cost by the total water purchased (in thousands).

water can be increased. In addition, the contract provides that Bradshaw pay a “one time service connection charge” of \$100 for each and every new connection served by Bradshaw. The Company’s current tariff does not include a provision for the \$100 charge.

Staff’s Analysis

Staff talked to the owner of Bradshaw, Mr. Bohler, and determined that he has been taking \$100 from the Commission-authorized service line and meter installation charge to pay the \$100 to Prescott Valley.

Since the \$100 fee is part of the current purchased water contract and the \$100 is a reasonable amount for Prescott Valley to charge in addition to the commodity charge to help pay for capacity to service new customers, Staff recommends approval of a \$100 purchased water contract connection charge. Staff further recommends that the charge cease and that Bradshaw make a filing to amend its tariff within 60 days in the event that Bradshaw is no longer under any contractual obligation to pay the charge to Prescott Valley. Staff further recommends that the charge be non-refundable.

Company Requested \$1,650 Impact Fee

According to the Company, the Town of Prescott Valley (“Town”) wanted a \$1,650 impact fee from each newly developed lot. Through an unwritten agreement with the Town of Prescott and Bradshaw, Bradshaw would charge the fee to a developer/customer and pass the fee along to the Town. During the audit of the instant case, Staff found that Bradshaw had recorded the \$1,650 as miscellaneous expense. Staff removed the amount from operating expenses and informed Bradshaw that it did not have an approved tariff for such a charge. On March 9, 2011, the Company filed a request for a \$1,650 impact fee.

Staff’s Analysis

Staff discussed the matter with the owner of Bradshaw and the Town. Staff found that the impact fee is not related to Bradshaw’s operations, rather it is related solely to the operations of the Town. Bradshaw is not required to collect the impact fee for the Town nor pay the impact fee to the Town. Therefore, Staff recommends denial of Bradshaw’s request to collect the \$1,650 impact fee.

Staff Recommendations

Staff recommends approval of the Staff-recommended rates and charges as shown in Schedule CSB-4.

Staff further recommends that the Company be required to re-notice its customers, within 30 days of the filing of this Staff Report, regarding the potential rate increase being recommended by Staff.

Staff further recommends that the Company be ordered to file with Docket Control, 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, on a going-forward basis, the Company maintain its books and records in accordance with the NARUC USOA, which includes recording structures and improvements in account no. 304, meters in account no. 334 and pumps in account no. 311. Staff further recommends that the Company file, within 90 days of a Decision in this proceeding, a plan identifying the actions it will take to keep its books and records in accordance with the NARUC USOA.

Staff further recommends that the Company utilize the NARUC Guidelines for Cost Allocations and Affiliate Transactions to develop written cost allocation procedures.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of its written allocation procedures within 90 days of the signed Commission Decision resulting from this proceeding. At a minimum the procedures should:

- a. Identify each expense to be allocated, i.e., provide a descriptive name.
- b. Identify the basis of the allocation (e.g. customers, rate base, revenue, expenses, four factor, etc.)
- c. Show the actual calculation used to make the allocation.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the listing of customers to be refunded service line and meter advances in aid of construction and to begin refunding these customers in accordance with Commission rule (A.A.C. R14-2-405.B.2).

Staff further recommends that the Company be ordered to use the depreciation rates delineated in Table B of the attached Engineering Report.

Staff further recommends that the Company monitor its water system for a 12-month period and prepare a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall evaluate its water system and submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The Company shall file the water loss reduction report or the detailed analysis, whichever is submitted, with Docket Control, as a compliance item in this docket, within 13 months of the effective date of the decision in this case.

Staff further recommends that the Commission approve the Company's implementation of Staff's recommend purchased water cost recovery adjustor mechanism as described in Exhibit A.

Staff further recommends that the Company make a filing with the Utilities Division of the Arizona Corporation Commission ("Staff") showing the calculation of the surcharge using the same methodology presented on Exhibit A on or before February 15th. Staff would review the application by March 15th. If the application is acceptable to Staff, the surcharge would be implemented by April 1st. Staff further recommends that a filing be made even if there is no change to the surcharge.

Staff further recommends that the surcharge shall appear on each customer's bill as a separate charge.

Staff further recommends that the Company notify its customers of any changes in the surcharge within 30 calendar days of notification to Bradshaw by Prescott Valley Water District of any change in its water charges.

Staff further recommends approval of the \$100 non-refundable purchased water contract connection charge. Staff further recommends that the charge cease and that Bradshaw make a filing to amend its tariff within 60 days in the event that Bradshaw is no longer under any contractual obligation to pay the charge to Prescott Valley.

Staff further recommends denial of Bradshaw's request to collect the \$1,650 impact fee.

SUMMARY OF FILING

	-- Present Rates --		Proposed	Recommended
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$129,037	\$131,323	\$150,820	\$183,131
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	2,776	1,703	2,776	1,703
Total Operating Revenue	\$131,813	\$133,026	\$153,596	\$184,834
Operating Expenses:				
Operation and Maintenance	\$139,700	\$132,144	\$139,700	\$132,144
Depreciation	53,523	16,769	53,523	16,769
Property & Other Taxes	4,167	4,167	4,167	4,167
Income Tax	50	50	50	6,644
Total Operating Expense	\$197,440	\$153,130	\$197,440	\$159,724
Operating Income/(Loss)	(\$65,627)	(\$20,104)	(\$43,844)	\$25,110
Rate Base O.C.L.D.	\$480,468	\$313,874	\$480,468	\$313,874
Rate of Return - O.C.L.D.	-13.66%	-6.41%	-9.13%	8.00%

RATE BASE				
	----- Original Cost -----			
	Company	Adjustment	Reference	Staff
Plant in Service	\$1,390,191	(\$561,442)	A	\$828,749
Less:				
Accum. Depreciation	909,723	(501,644)	B	408,079
Net Plant	\$480,468	(\$59,798)		\$420,670
Less:				
Line Extension Advances	\$0	\$0		\$0
Service Line and Meter Advances	0	9,100	C	9,100
Total Advances	\$0	\$9,100		\$9,100
Contributions Gross	\$0	\$121,319	D	\$121,319
Less:				
Accumulated Amortization of CIAC	0	3,965	E	3,965
Net CIAC	\$0	\$117,354		\$117,354
Total Deductions	\$0	\$126,454		\$126,454
Plus:				
1/24 Purchased Power & Water	\$0	\$3,141	F	\$3,141
1/8 Operation & Maint.	0	16,518	G	16,518
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$19,659		\$19,659
Rate Base	\$480,468	(\$166,594)		\$313,874

- A - For Rate Base adjustment A, see Schedule 2, page 2
- B - For Rate Base adjustment B, see Schedule 2, page 6
- C - For Rate Base adjustment C, see Schedule 2, page 7
- D - For Rate Base adjustment D, see Schedule 2, page 7
- E - For Rate Base adjustment E, see Schedule 2, page 7
- F - For Rate Base adjustment F, see Schedule 2, page 9
- G - For Rate Base adjustment G, see Schedule 2, page 9

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$0	\$0		\$0
302 Franchises	0	0		0
303 Land & Land Rights	0	0		0
304 Structures & Improvements	0	18,333	a	18,333
307 Wells & Springs	58,234	(26,879)	b	31,355
311 Pumping Equipment	84,243	(59,469)	c	24,774
320 Water Treatment Equipment	0	6,825	d	6,825
330 Distribution Reservoirs & Standpipes	204,825	(117,966)	e	86,859
331 Transmission & Distribution Mains	949,252	(336,909)	f	612,343
333 Services	56,372	(34,637)	g	21,735
334 Meters & Meter Installations	10,575	(2,957)	h	7,618
335 Hydrants	26,690	(7,783)	i	18,907
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipment	0	0		0
340 Office Furniture & Equipment	0	0		0
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipment	0	0		0
344 Laboratory Equipment	0	0		0
345 Power Operated Equipment	0	0		0
346 Communication Equipment	0	0		0
347 Miscellaneous Equipment	0	0		0
348 Other Tangible Plant	0	0		0
105 C.W.I.P.	0	0		0
TOTALS	\$1,390,191	(\$561,442)	A	\$828,749

For Explanations of Adjustments, see Schedule CSB-2 pages 3 to 5.

STAFF PLANT ADJUSTMENTS

a	- STRUCTURES & IMPROVEMENTS - Per Company	\$0	
	Per Staff	18,333	<u>\$18,333</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 and plant retirements and additions as follows:

12/31/2000, Ending Plant Balance	\$ 18,237	
2009 Retirement	\$ (484)	Old well house (CSB 1-5)
2009 Addition	\$ 580	New well house (CSB 1-4)
	<u>\$ 18,333</u>	

b	- WELLS & SPRINGS - Per Company	\$58,234	
	Per Staff	31,355	<u>(\$26,879)</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 a plant retirement and no plant additions as follows:

12/31/2000, Ending Plant Balance	\$ 45,584	
2001 Retirement	\$ (14,229)	Well No. 2 (CSB 1-6)
Additions	\$ -	
	<u>\$ 31,355</u>	

c	- PUMPING EQUIPMENT - Per Company	\$84,243	
	Per Staff	24,774	<u>(\$59,469)</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 and plant retirements and additions as follows:

12/31/2000, Ending Plant Balance	\$ 44,377	
2003 Retirement	\$ (2,250)	Radio Telemetry Equipment
2006 Retirement	\$ (2,691)	Pump CSB 1-7
2007 Retirement	\$ (993)	Pump CSB 1-7
2008 Retirement	\$ (7,201)	Radio Telemetry Equipment
2009 Retirement	\$ (8,450)	Radio Telemetry Equipment
	<u>\$ (21,585)</u>	Retirements
2006 Additions	\$ 993	CSB 1-3
2009 Additions	\$ 989	CSB 1-3
	<u>\$ 1,982</u>	Additions
Net Total	\$ 24,774	

STAFF PLANT ADJUSTMENTS (Cont.)
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d	- WATER TREATMENT EQUIPMENT - Per Company	\$0	
	Per Staff	6,825	<u>\$6,825</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 and no plant retirements or additions as follows:

12/31/2000, Ending Plant Balance	\$	6,825
Retirements	\$	-
Additions	\$	-
		<u>\$ 6,825</u>

e	- DISTR RESERVIORS & STANDPIPES - Per Company	\$204,825	
	Per Staff	86,859	<u>(\$117,966)</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 and no plant retirements or additions as follows:

12/31/2000, Ending Plant Balance	\$	86,859
Retirements	\$	-
Additions	\$	-
		<u>\$ 86,859</u>

f	- TRANSMISSION & DISTR MAINS - Per Company	\$949,252	
	Per Staff	612,343	<u>(\$336,909)</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 and no plant retirements or additions as follows:

12/31/2000, Ending Plant Balance	\$	612,343
Retirements	\$	-
Additions	\$	-
		<u>\$ 612,343</u>

g	- SERVICES - Per Company	\$56,372	
	Per Staff	21,735	<u>(\$34,637)</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 and no plant retirements or additions as follows:

12/31/2000, Ending Plant Balance	\$	21,735
Retirements	\$	-
Additions	\$	-
		<u>\$ 21,735</u>

STAFF PLANT ADJUSTMENTS (Cont.)
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h	- METERS & METER INSTALLATIONS - Per Company	\$10,575	
	Per Staff	7,618	<u>(\$2,957)</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 and plant retirements and additions as follows:

12/31/2000, Ending Plant Balance	\$	3,465	
2005 Retirement	\$	(55)	CSB 1-7 and discussion w/Staff Engineer
2006 Retirement	\$	(55)	CSB 1-7 and discussion w/Staff Engineer
2007 Retirement	\$	(275)	CSB 1-7 and discussion w/Staff Engineer
2008 Retirement	\$	(165)	CSB 1-7 and discussion w/Staff Engineer
	\$	<u>(550)</u>	Retirements
2005 Additions	\$	1,184	CSB 1-2
2006 Additions	\$	1,256	CSB 1-2
2007 Additions	\$	1,057	CSB 1-2
2008 Additions	\$	667	CSB 1-2
2009 Additions	\$	<u>539</u>	CSB 1-2
	\$	4,703	Additions
Net Total	\$	7,618	

i	- HYDRANTS - Per Company	\$26,690	
	Per Staff	18,907	<u>(\$7,783)</u>

To reflect the December 31, 2000, ending plant balance adopted in Dec. No. 64286 and no plant retirements or additions as follows:

12/31/2000, Ending Plant Balance	\$	18,907	
Retirements	\$	-	
Additions	\$	<u>-</u>	
	\$	18,907	

ACCUMULATED DEPRECIATION ADJUSTMENT
--

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$909,723
Accumulated Depreciation - Per Staff	<u>408,079</u>
Total Adjustment	<u><u>(\$501,644)</u></u> B

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

See pages 6.1 to 6.9 for Staff's calculation.

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

Plant	31-Dec-00 Original Cost	31-Dec-00 Accumulated Depreciation	Prior Depreciation Rates (Dec. No. 60708)	Depr. Rates Effective on 1-Jan-02 (Dec. No. 64286)	2001		2001		2001		2001 Total Cost	2001 Accumulated Depreciation
					Additions	2001 Retirements	Cost Removal	Depreciation	Depr. Expense			
301 Organization Cost	\$0	\$0	0.00%	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0.00%	0.00%	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0.00%	0.00%	0	0	0	0	0	0	0	0
304 Structures & Improv	18,237	7,855	3.00%	3.33%	0	0	0	\$547	18,237	8,402	18,237	8,402
305 Collecting & Impounding Res.	0	0	0.00%	2.50%	0	0	0	0	0	0	0	0
307 Wells & Springs	45,584	21,527	3.00%	3.33%	0	14,229	14,229	\$1,154	31,355	8,452	31,355	8,452
310 Power Generation Equip	0	0	0.00%	5.00%	0	0	0	0	0	0	0	0
311 Electric Pumping Equip	44,377	18,147	5.00%	12.50%	0	0	0	\$2,219	44,377	20,366	44,377	20,366
320 Water Treatment Equipment	6,825	3,347	4.30%	3.33%	0	0	0	\$293	6,825	3,640	6,825	3,640
320.1 Water Treatment Equipment	0	0	0.00%	3.33%	0	0	0	0	0	0	0	0
330 Dist. Resrvr & Stndpipe	86,859	16,723	2.00%	2.22%	0	0	0	\$1,737	86,859	18,460	86,859	18,460
331 Trans. & Distr. Mains	612,343	178,113	2.00%	2.00%	0	0	0	\$12,247	612,343	190,360	612,343	190,360
333 Services	21,735	6,861	2.50%	3.33%	0	0	0	\$543	21,735	7,404	21,735	7,404
334 Meters	3,465	1,334	4.00%	8.33%	0	0	0	\$139	3,465	1,473	3,465	1,473
335 Hydrants	18,907	6,503	2.00%	2.00%	0	0	0	\$378	18,907	6,881	18,907	6,881
336 Backflow Prevention Devices	0	0	0.00%	6.67%	0	0	0	0	0	0	0	0
339 Other Plant and Misc Equip	0	0	3.00%	6.67%	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0.00%	6.67%	0	0	0	0	0	0	0	0
340.1 Computers and Software	0	0	0.00%	20.00%	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	20.00%	20.00%	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	4.95%	5.00%	0	0	0	0	0	0	0	0
345 Power Operated Equip	0	0	6.50%	5.00%	0	0	0	0	0	0	0	0
346 Communications Equip	0	0	0.00%	10.00%	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	7.50%	10.00%	0	0	0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0.00%	10.00%	0	0	0	0	0	0	0	0
2000/2001 Totals	\$858,332	\$260,410			\$0	\$14,229	\$14,229	\$19,258	\$844,103	\$265,439		

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2002		2002		2002		2002		2002	
	Additions Cost	Retirements Cost Removal	Depreciation	Fully Depreciated	2002 Depr. Expense	Total Cost	2002 Accumulated Depreciation	2002 Net Book Value		
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	\$0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	\$0	0	0	0	0	0
304 Structures & Improv	0	0	0	0	\$607	18,237	9,009	9,228	0	9,228
305 Collecting & Impounding Res.	0	0	0	0	\$0	0	0	0	0	0
307 Wells & Springs	0	0	0	0	\$1,044	31,355	9,496	21,859	0	21,859
310 Power Generation Equip	0	0	0	0	\$0	0	0	0	0	0
311 Electric Pumping Equip	0	0	0	0	\$5,547	44,377	25,913	18,464	0	18,464
320 Water Treatment Equip	0	0	0	0	\$227	6,825	3,868	2,957	0	2,957
320.1 Water Treatment Equip	0	0	0	0	\$0	0	0	0	0	0
330 Dist. Resrvr & Strndpipe	0	0	0	0	\$1,928	86,859	20,388	66,471	0	66,471
331 Trans. & Distr. Mains	0	0	0	0	\$12,247	612,343	202,607	409,736	0	409,736
333 Services	0	0	0	0	\$724	21,735	8,128	13,607	0	13,607
334 Meters	0	0	0	0	\$289	3,465	1,761	1,704	0	1,704
335 Hydrants	0	0	0	0	\$378	18,907	7,259	11,648	0	11,648
336 Backflow Prevention Devices	0	0	0	0	\$0	0	0	0	0	0
339 Other Plant and Misc Equip	0	0	0	0	\$0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	\$0	0	0	0	0	0
340.1 Computers and Software	0	0	0	0	\$0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	\$0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	\$0	0	0	0	0	0
345 Power Operated Equip	0	0	0	0	\$0	0	0	0	0	0
346 Communications Equip	0	0	0	0	\$0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	\$0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0	0	\$0	0	0	0	0	0
2002 Totals	\$0	\$0	\$0	\$0	\$22,991	\$844,103	\$288,430	\$555,673		

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2004		2004		2004		2004		2004	
	Additions Cost	Retirements Cost Removal	Depreciation	July Depreciated	2004 Depr. Expense	Total Cost	2004 Accumulated Depreciation	2004 Net Book Value		
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	\$0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	\$0	0	0	0	0	0
304 Structures & Improv	0	0	0	0	\$607	18,237	10,224	8,013	0	0
305 Collecting & Impounding Res.	0	0	0	0	\$0	0	0	0	0	0
307 Wells & Springs	0	0	0	0	\$1,044	31,355	11,584	19,771	0	0
310 Power Generation Equip	0	0	0	0	\$0	0	0	0	0	0
311 Electric Pumping Equip	0	0	0	17,143	\$3,123	42,127	32,192	9,935	0	0
320 Water Treatment Equip	0	0	0	0	\$227	6,825	4,322	2,503	0	0
320.1 Water Treatment Equip	0	0	0	0	\$0	0	0	0	0	0
330 Dist. Resrvr & Sndpipe	0	0	0	0	\$1,928	86,859	24,245	62,614	0	0
331 Trans. & Distr. Mains	0	0	0	0	\$12,247	612,343	227,100	385,243	0	0
333 Services	0	0	0	0	\$724	21,735	9,576	12,159	0	0
334 Meters	0	0	0	0	\$289	3,465	2,339	1,126	0	0
335 Hydrants	0	0	0	0	\$378	18,907	8,016	10,891	0	0
336 Backflow Prevention Devices	0	0	0	0	\$0	0	0	0	0	0
339 Other Plant and Misc Equip	0	0	0	0	\$0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	\$0	0	0	0	0	0
340.1 Computers and Software	0	0	0	0	\$0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	\$0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	\$0	0	0	0	0	0
345 Power Operated Equip	0	0	0	0	\$0	0	0	0	0	0
346 Communications Equip	0	0	0	0	\$0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	\$0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0	0	\$0	0	0	0	0	0
2004 Totals	\$0	\$0	\$0	\$17,143	\$20,567	\$841,853	\$329,598	\$512,255		

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2006		2006		2006		2006		2006		2006	
	Additions Cost	Retirements Cost Removal	Depreciation	Fully Depreciated	2006 Depr. Expense	Total Cost	2006 Accumulated Depreciation	2006 Net Book Value				
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	0	0	0	0	0	0	0
304 Structures & Improv	0	0	0	0	607	18,237	11,439	6,798	0	0	0	0
305 Collecting & Impounding Res.	0	0	0	0	0	0	0	0	0	0	0	0
307 Wells & Springs	0	0	0	0	1,044	31,355	13,673	17,682	0	0	0	0
310 Power Generation Equip	0	0	0	0	0	0	0	0	0	0	0	0
311 Electric Pumping Equip	993	2,691	2,691	17,143	3,017	40,429	35,641	4,787	0	0	0	0
320 Water Treatment Equip	0	0	0	0	227	6,825	4,777	2,048	0	0	0	0
320.1 Water Treatment Equip	0	0	0	0	0	0	0	0	0	0	0	0
330 Dist. Resrvr & Shndpipe	0	0	0	0	1,928	86,859	28,102	58,757	0	0	0	0
331 Trans. & Distr. Mains	0	0	0	0	12,247	612,343	251,594	360,749	0	0	0	0
333 Services	0	0	0	0	724	21,735	11,023	10,712	0	0	0	0
334 Meters	0	0	0	0	401	5,795	2,965	2,830	0	0	0	0
335 Hydrants	1,256	55	55	385	378	18,907	8,772	10,135	0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0	0	0	0
339 Other Plant and Misc Equip	0	0	0	0	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	0	0	0	0	0	0	0	0
340.1 Computers and Software	0	0	0	0	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	0	0	0	0	0	0	0	0
345 Power Operated Equip	0	0	0	0	0	0	0	0	0	0	0	0
346 Communications Equip	0	0	0	0	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	0	0	0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0	0	0	0	0	0	0	0	0	0
2006 Totals	\$2,249	\$2,746	\$2,746	\$17,528	\$20,573	\$842,485	\$367,985	\$474,500				

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2008		2008 Retirements		Fully Depreciated		2008		2008		2008	
	Additions	Cost	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Accumulated Depreciation	Book Value			
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	0	0	0	0	0	0	0
304 Structures & Improv	0	0	0	0	0	607	18,237	12,653	5,584	0	0	0
305 Collecting & Impounding Res.	0	0	0	0	0	0	0	0	0	0	0	0
307 Wells & Springs	0	0	0	0	0	1,044	31,355	15,761	15,594	0	0	0
310 Power Generation Equip	0	0	0	0	0	0	0	0	0	0	0	0
311 Electric Pumping Equip	0	7,201	0	7,201	17,143	2,337	32,235	29,784	2,451	0	0	0
320 Water Treatment Equip	0	0	0	0	0	227	6,825	5,231	1,594	0	0	0
320.1 Water Treatment Equip	0	0	0	0	0	0	0	0	0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	0	0	1,928	86,859	31,958	54,901	0	0	0
331 Trans. & Distr. Mains	0	0	0	0	0	12,247	612,343	276,088	336,255	0	0	0
333 Services	0	0	0	0	0	724	21,735	12,471	9,264	0	0	0
334 Meters	667	165	0	165	1,155	473	7,079	3,416	3,663	0	0	0
335 Hydrants	0	0	0	0	0	378	18,907	9,528	9,379	0	0	0
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0	0	0	0
339 Other Plant and Misc Equip	0	0	0	0	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	0	0	0	0	0	0	0	0
340.1 Computers and Software	0	0	0	0	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	0	0	0	0	0	0	0	0
345 Power Operated Equip	0	0	0	0	0	0	0	0	0	0	0	0
346 Communications Equip	0	0	0	0	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	0	0	0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0	0	0	0	0	0	0	0	0	0
2008 Totals	\$667	\$7,366	\$7,366	\$7,366	\$18,298	\$19,965	\$835,575	\$396,891	\$438,684			

STAFF RATE BASE ADJUSTMENTS

C -	AIAC, SERVICE LINES & METER INSTALLS - Per Company Per Staff	\$ - 9,100	<u>\$9,100</u>
	To reflect unrecorded meter and service line advances in aid of construction. The Company reported 26 service line and meter installations from 2005 to 2009 at \$350 per customer: \$350 x 26 = \$9,100.		
D -	CONTRIBUTION IN AID OF CONSTRUCTION - Per Company Per Staff	\$ - 121,319	<u>\$121,319</u>
	To reflect \$121,319 in AIAC per Decision No. 64286 that has subsequently converted to CIAC after 10 years.		
E -	ACCUMULATED AMORTIZATION OF CIAC - Per Company Per Staff	\$ - 3,965	<u>\$3,965</u>
	Staff calculated the ending balance of the accumulated amortization of CIAC by calculating the amortization on the CIAC from the year it converted to CIAC to the end of the test year.		

		Calculation of Adjustment		
2007 CIAC Addition	\$	-	\$ 58,950	\$ 58,950
CIAC Amort Rate (Half Year Convention)		0.00%		1.11% Sch 2, P.8
2007 Ending Accu Amort of CIAC Balance		-	656	656
2008 Beginning CIAC Balance	\$	-	\$ 58,950	\$ 58,950
CIAC Amort Rate		0.00%		2.22% Sch 2, P.8
2008 Amort on Beginning Balance		-		1,311
2008 Ending Accu Amort of CIAC Balance	\$	-	1,967	1,967
2009 Beginning CIAC Balance	\$	-	\$ 58,950	\$ 58,950
CIAC Amort Rate		0.00%		2.22% Sch 2, P.8
2009 Amort on Beginning Balance		-		1,311
2009 CIAC Addition		-	\$ 62,369	\$ 62,369 See Note Below
CIAC Amort Rate (Half Year Convention)		0.00%		1.10% Sch 2, P.8
2009 Amort on CIAC Addition		-		686
2009 Ending Accu Amort of CIAC Balance	\$	-	3,965	3,965

Note: Calculation of Staff's \$62,369 AIAC Contract Balance

AIAC Authorized In Decision No. 64286 = \$ 121,319

Bradshaw AIAC Contracts

Year		
1997	North Nugget Development L.L.C. =	\$ 58,950 See Sch 2, p.8 for detail of plant
1999	North Nugget Development L.L.C. =	\$ 64,375 See Sch 2, p.8 for detail of plant
	Total Bradshaw AIAC Contracts	<u>\$ 123,325</u>
	Difference (\$121,319 - \$123,325) \$ (2,006) Reconciling Item to Dec. No. 64286 AIAC Balance	
1999	North Nugget Development L.L.C. =	\$ 64,375
	Staff Adjusted AIAC	<u>\$ 62,369</u>
1997	North Nugget Development L.L.C. =	\$ 58,950
1999	North Nugget Development L.L.C. =	\$ 62,369 Staff Adjusted AIAC
	Staff Adjusted Total AIAC	<u>\$ 121,319</u> AIAC Per Decision No. 64286

Source: 1997 North Nugget Development L.L.C. \$58,950 AIAC Contract, Exhibit A

Description	Units	Price Per Unit		Total Cost of Plant		Amortization Rate	Total Amortization Expense
8" main	1,690	\$	18 =	\$ 30,420	x	2.00%	\$ 608
6" main	50	\$	17 =	\$ 850	x	2.00%	\$ 17
4" main	560	\$	13 =	\$ 7,280	x	2.00%	\$ 146
V B & C	3	\$	475 =	\$ 1,425	x	2.00%	\$ 29
8 x 6 Reducer	1	\$	475 =	\$ 475	x	2.00%	\$ 10
8 x 6 x 4 Tee	3	\$	475 =	\$ 1,425	x	2.00%	\$ 29
Fire Hydrant	3	\$	1,550 =	\$ 4,650	x	2.00%	\$ 93
Blow Off	3	\$	475 =	\$ 1,425	x	2.00%	\$ 29
Double Services	16	\$	600 =	\$ 9,600	x	3.33%	\$ 320
Single Services	1	\$	350 =	\$ 350	x	3.33%	\$ 12
Bends	3	\$	350 =	\$ 1,050	x	2.00%	\$ 21
				<u>\$ 58,950</u>			<u>\$ 1,311</u>

Composite Amortization Rate (Amort. Exp / Amortizable Plant): **2.22%**

Source: 1999 North Nugget Development L.L.C. \$64,395 AIAC Contract, Exhibit A

Description	Units	Price Per Unit		Total Cost of Plant		Amortization Rate	Total Amortization Expense
8" main	1,265	\$	22 =	\$ 27,830	x	2.00%	\$ 557
4" main	980	\$	18 =	\$ 17,640	x	2.00%	\$ 353
8" V B & C	4	\$	600 =	\$ 2,400	x	2.00%	\$ 48
4" V B & C	2	\$	350 =	\$ 700	x	2.00%	\$ 14
Fire Hydrant	3	\$	1,600 =	\$ 4,800	x	2.00%	\$ 96
Blow Off	2	\$	425 =	\$ 850	x	2.00%	\$ 17
Double Services	13	\$	625 =	\$ 8,125	x	3.33%	\$ 271
Single Services	3	\$	525 =	\$ 1,575	x	3.33%	\$ 52
Air Release	1	\$	475 =	\$ 475	x	2.00%	\$ 10
				<u>\$ 64,395</u>			<u>\$ 1,417</u>

Composite Amortization Rate (Amort. Exp / Amortizable Plant): **2.20%**

STAFF RATE BASE ADJUSTMENTS

F	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff	\$0 3,141	\$3,141
To reflect Staff's calculation of working capital based upon Staff's recommendations for purchased power and purchased water.				
G	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff	\$ - 16,518	\$16,518
To reflect Staff's calculation of working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).				

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$ 129,037	\$ 2,286 A	\$ 131,323
460 Unmetered Water Revenue	\$ -	\$ -	\$ -
474 Other Water Revenues	\$ 2,776	\$ (1,073) B	\$ 1,703
Total Operating Revenue	\$ 131,813	\$ 1,213	\$ 133,026
Operating Expenses:			
601 Salaries and Wages	\$ -	\$ -	\$ -
610 Purchased Water	\$ 69,324	\$ -	\$ 69,324
615 Purchased Power	\$ 6,049	\$ -	\$ 6,049
618 Chemicals	\$ -	\$ -	\$ -
620 Repairs and Maintenance	\$ 29,829	\$ (16,711) C	\$ 13,118
621 Office Supplies & Expense	\$ 3,418	\$ (188) D	\$ 3,230
630 Contractual Services	\$ 18,120	\$ 11,570 E	\$ 29,690
635 Water Testing	\$ 1,382	\$ -	\$ 1,382
641 Rents	\$ 2,949	\$ -	\$ 2,949
650 Transportation Expenses	\$ -	\$ -	\$ -
657 Insurance - General Liability	\$ 3,441	\$ -	\$ 3,441
659 Insurance - Health and Life	\$ -	\$ -	\$ -
666 Regulatory Commission Expense - Rate Case	\$ 2,362	\$ (1,575) F	\$ 787
675 Miscellaneous Expense	\$ 2,826	\$ (652) G	\$ 2,174
403 Depreciation Expense	\$ 53,523	\$ (36,754) H	\$ 16,769
408 Taxes Other Than Income	\$ -	\$ -	\$ -
408.11 Property Taxes	\$ 4,167	\$ -	\$ 4,167
409 Income Tax	\$ 50	\$ -	\$ 50
Total Operating Expenses	\$ 197,440	\$ (44,310)	\$ 153,130
OPERATING INCOME/(LOSS)	\$ (65,627)	\$ 45,523	\$ (20,104)

STAFF ADJUSTMENTS

A	- METERED WATER REVENUES - Per Company Per Staff To reflect Staff's calculation of the metered revenue using the billing determinants provided by the Company	\$ 129,037 131,323	\$2,286
B	- OTHER WATER REVENUES - Per Company Per Staff To remove monies received for a meter and service line installation to advance in aid of construction and other inappropriate charges:	\$2,776 1,703	(\$1,073)
	\$ 2,776.00 \$ (700.00) Remove and record as meter and service line installations \$ (372.51) Remove billing correction and credit memo \$ 1,703.49		
C	- REPAIRS & MAINTENANCE - Per Company Per Staff To remove costs that the Company inappropriately included in test year expenses:	\$29,829 13,118	(\$16,711)
	\$ 29,829.00 Per Company's application \$ (13,718.47) Reclassified to Contractual Services for certified operator costs \$ 16,110.53 Repairs and maintenance included in application \$ (580.00) Remove and capitalize cost of new well house (CSB 1-4) \$ (989.00) Remove and capitalize cost of pump (CSB 1-3) \$ (539.00) Remove and capitalize cost of meters (CSB 1-2) \$ (2,108.00) Total plant costs removed and capitalized \$ (885.00) Incurred in 2008. Recorded in 2009 expenses. \$ 13,117.53 Staff's Adjustment		
D	- OFFICE SUPPLIES AND EXPENSE - Per Company Per Staff To reclassify \$187.50 incurred for accounting services to the contractual services account.	\$ 3,418 3,230	(\$188)

STAFF ADJUSTMENTS (Cont.)

E - CONTRACTUAL SERVICES - Per Company	\$18,120	
Per Staff	29,690	<u>\$11,570</u>

To reflect Staff's adjustments to the contractual services account:

\$	13,940.00	Invoices for certified operator services
\$	(420.00)	Remove and capitalize costs for installing new service/meter
<hr/>		
\$	13,520.00	
\$	15,973.36	Invoices for secretarial services
\$	(1,670.00)	Incurred in 2008. Recorded in 2009 expenses.
<hr/>		
\$	14,303.36	
\$	1,844.60	Invoices for meter reading services
\$	(165.00)	Incurred in 2008. Recorded in 2009 expenses.
<hr/>		
\$	1,679.60	
\$	187.50	Costs incurred for accounting services
\$	<u>29,690.46</u>	Total Contractual Services

F - RATE CASE EXPENSE - Per Company	\$ 2,362	
Per Staff	787	<u>(\$1,575)</u>

To reflect a normalized amount of rate case expense based on three years between rate cases.

\$	2,362.00	Rate Case Expense - Per Application
	3	Divided by 3 years
<hr/>		
\$	787.33	

G - MISCELLANEOUS EXPENSE - Per Company	\$2,826	
Per Staff	2,174	<u>(\$652)</u>

To reflect Staff's adjustments to the miscellaneous expense account:

\$	2,949.00	Miscellaneous Expense per application
\$	(1,750.00)	Remove water development fee
\$	279.15	Cell phone
\$	462.89	Telephone alarm
\$	232.87	Blue staking
<hr/>		
\$	2,173.91	

STAFF ADJUSTMENTS (Cont.)

H - DEPRECIATION - Per Company \$53,523
Per Staff 16,769 (\$36,754)
To reflect Staff's calculation of depreciation expense.

Acct No.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$ -	\$ -	\$ -	0.00%	\$ -
302	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
303	Land & Land Rights	\$ -	\$ -	\$ -	0.00%	\$ -
304	Structures & Improvements	\$ 18,333	\$ -	\$ 18,333	3.33%	\$ 610
307	Wells & Springs	\$ 31,355	\$ -	\$ 31,355	3.33%	\$ 1,044
311	Pumping Equipment	\$ 24,774	\$ 8,693	\$ 16,081	12.50%	\$ 2,010
320	Water Treatment Equipment	\$ 6,825	\$ -	\$ 6,825	0.00%	\$ -
330.1	Distribution Reservoirs - Storage	\$ 86,859	\$ -	\$ 86,859	2.22%	\$ 1,928
330.2	Distribution Reservoirs - Pressure	\$ -	\$ -	\$ -	5.00%	\$ -
331	Transmission & Distribution Mains	\$ 612,343	\$ -	\$ 612,343	2.00%	\$ 12,247
333	Services	\$ 21,735	\$ -	\$ 21,735	3.33%	\$ 724
334	Meters & Meter Installations	\$ 7,618	\$ 1,485	\$ 6,133	8.33%	\$ 511
335	Hydrants	\$ 18,907	\$ -	\$ 18,907	2.00%	\$ 378
336	Backflow Prevention Devices	\$ -	\$ -	\$ -	0.00%	\$ -
339	Other Plant and Misc. Equipment	\$ -	\$ -	\$ -	0.00%	\$ -
340	Office Furniture & Equipment	\$ -	\$ -	\$ -	0.00%	\$ -
341	Transportation Equipment	\$ -	\$ -	\$ -	0.00%	\$ -
343	Tools Shop & Garage Equipment	\$ -	\$ -	\$ -	0.00%	\$ -
Total Plant		\$ 828,749	\$ 10,178	\$ 818,571		\$ 19,453

Depreciation Expense Before Amortization of CIAC: \$ 19,453
Less Amortization of CIAC*: \$ 2,683
Test Year Depreciation Expense - Staff: \$ 16,769
Depreciation Expense - Company: \$ 53,523
Staff's Total Adjustment: \$ (36,754)

*** Amortization of CIAC Calculation:**
Contribution(s) in Aid of Construction (Gross) \$121,319
Less: Non Amortizable Contribution(s) 0
Less: Fully Amortized Contribution(s) 0
Amortizable Contribution(s) \$ 121,319
Times: Staff Proposed Amortization Rate 2.21%
Amortization of CIAC \$ 2,683

RATE DESIGN

	Present	Company	Staff
	Rates	Proposed	Recommended
Monthly Customer Charge:			
5/8" x 3/4" Meter	\$33.00	\$37.00	38.00
3/4" Meter	33.00	37.00	38.00
1" Meter with fire sprinkler	33.00	33.00	38.00
1" Meter	82.50	82.50	100.00
1 1/2" Meter	165.00	165.00	200.00
2" Meter	264.00	264.00	320.00
3" Meter	495.00	495.00	640.00
4" Meter	825.00	825.00	1,000.00
6" Meter	1,650.00	1,650.00	2,000.00

	0	0	0
Gallons Included In Monthly Customer Charge:			
Per 1,000 Gallons for 0 to 4,000 Gallons	\$4.50	\$5.30	\$6.00
Per 1,000 Gallons for 4,001 to 8,000 Gallons	\$5.75	\$6.71	\$9.00
Per 1,000 Gallons for Gallons in Excess of 8,000	\$6.75	\$8.00	\$15.55

	Present	Company	Staff Recommended		
	Rates	Proposed	Services	Meters	Total
Service Line and Meter Installation Charges					
5/8" x 3/4" Meter	\$350.00	\$2,500.00	\$445.00	\$155.00	\$600.00
3/4" Meter	400.00	2,500.00	445.00	255.00	\$700.00
1" Meter	500.00	2,500.00	495.00	315.00	\$810.00
1 1/2" Meter	750.00	2,500.00	550.00	525.00	\$1,075.00
2" Meter	1,500.00	1,500.00	830.00	1,045.00	\$1,875.00
3" Meter	1,975.00	1,975.00	1,045.00	1,670.00	\$2,715.00
4" Meter	3,040.00	3,040.00	1,490.00	2,670.00	\$4,160.00
6" Meter	7,290.00	7,290.00	2,210.00	5,025.00	\$7,235.00

Service Charges			
Establishment	\$60.00	\$60.00	\$60.00
Establishment (After Hours)	90.00	90.00	Discontinued
Reconnection (Delinquent)	60.00	60.00	60.00
Reconnection (Delinquent) After Hours	N/A	75.00	Discontinued
After Hours Charge (Flat Rate)	N/A	N/A	50.00
Meter Test (If Correct)	50.00	50.00	50.00
Deposit	*	66.00	*
Deposit Interest	*	1.00%	6.00%
Re-Establishment (Within 12 Months)	**	35.00	**
NSF Check	25.00	25.00	25.00
Deferred Payment (Per Month)	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	20.00	20.00	20.00
Late Fee (Per Month)	1.50%	1.50%	1.50%

Purchased Water Contract Connection Charge N/A N/A \$100

Impact Fee N/A 1,650.00 (a)

Monthly Service Charge for Fire Sprinkler			
4" or Smaller	***	***	***
6"	***	***	***
8"	***	***	***
10"	***	***	***
Larger than 10"	***	***	***

(a) - Staff recommends denial.

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

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

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS

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

Average Number of Customers: 163

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	6,043	\$62.79	\$71.97	\$9.18	14.6%
Median Usage	4,415	\$ 53.38	\$ 60.98	\$7.60	14.2%
<u>Staff Recommended</u>					
Average Usage	6,043	\$62.79	\$80.39	\$17.60	28.0%
Median Usage	4,415	\$53.38	\$65.73	\$12.35	23.1%

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 Recommended Rates</u>	<u>% Increase</u>
0	\$33.00	\$37.00	12.1%	\$38.00	15.2%
1,000	37.50	42.30	12.8%	44.00	17.3%
2,000	42.00	47.60	13.3%	50.00	19.0%
3,000	46.50	52.90	13.8%	56.00	20.4%
4,000	51.00	58.20	14.1%	62.00	21.6%
5,000	56.75	64.91	14.4%	71.00	25.1%
6,000	62.50	71.62	14.6%	80.00	28.0%
7,000	69.25	79.62	15.0%	89.00	28.5%
8,000	76.00	87.62	15.3%	98.00	28.9%
9,000	82.75	95.62	15.6%	113.55	37.2%
10,000	89.50	103.62	15.8%	129.10	44.2%
15,000	123.25	143.62	16.5%	206.85	67.8%
20,000	157.00	183.62	17.0%	284.60	81.3%
25,000	190.75	223.62	17.2%	362.35	90.0%
50,000	359.50	423.62	17.8%	751.10	108.9%
75,000	528.25	623.62	18.1%	1,139.85	115.8%
100,000	697.00	823.62	18.2%	1,528.60	119.3%
125,000	865.75	1,023.62	18.2%	1,917.35	121.5%
150,000	1,034.50	1,223.62	18.3%	2,306.10	122.9%
175,000	1,203.25	1,423.62	18.3%	2,694.85	124.0%
200,000	1,372.00	1,623.62	18.3%	3,083.60	124.8%

BRADSHAW WATER COMPANY
STAFF RECOMMENDED PURCHASED WATER COST RECOVERY
ADJUSTOR MECHANISM TARIFF

APPLICABILITY

Applicable to all customers of Bradshaw Water Company.

BASE COST OF PURCHASED WATER

Base Cost of Purchased Water: \$5.36 per 1,000 gallons

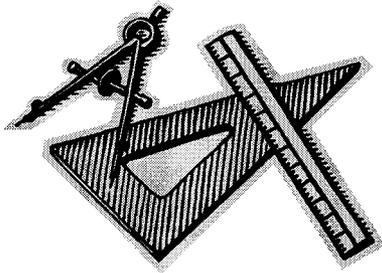
SPECIAL CONDITIONS

1. Bradshaw Water Company (“Bradshaw”) is authorized to make adjustments to its rates and charges to recover the cost incurred for changes in the per 1,000 gallonage charged by Prescott Valley Water District (“Prescott Valley”).
2. The surcharge will be determined by subtracting \$5.36 from the average cost of purchased water (per 1,000 gallons) rate being charged by Prescott Valley for any year.¹
3. The Company will make a filing with the Utilities Division of the Arizona Corporation Commission (“Staff”) showing the calculation of the surcharge using the same methodology discussed herein on or before February 15th. Staff will review the filing by March 15th. If the filing is acceptable to Staff, the surcharge would be implemented by April 1st. A filing will be made even if there is no change to the surcharge.
4. Customers shall be notified of any change in the Prescott Valley gallonage charge within 30 days of the notice provided by Prescott Valley to Bradshaw.
5. The Purchased Water Cost Recovery Adjustor Mechanism Surcharge shall appear on each customer’s bill as a separate charge.

DOCKET NO. W-02476A-10-0495

EFFECTIVE DATE – TO BE DETERMINED

¹ The average purchased water cost is calculated by dividing the total annual purchased water cost by the total water purchased (in thousands).



**Engineering Report For
Bradshaw Water Company
Docket No. W-02476A-10-0495 (Rates)**

February 14, 2011

SUMMARY

Conclusions

1. The Arizona Department of Environmental Quality (“ADEQ”) has reported that the Bradshaw water system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4, and the water system is in compliance with ADEQ requirements.
2. With the purchased water, the Company’s water system has adequate water supply production and storage capacities to serve the present customer base and a reasonable level of growth.
3. Bradshaw’s system is located in an Arizona Department of Water Resources (“ADWR”) Prescott Active Management Area.
4. ADWR has determined that the Company’s water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.
5. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Bradshaw.
6. The Company has an approved curtailment plan tariff.
7. The Company has an approved backflow prevention tariff.

Recommendations

1. The Company’s water system operates at a 19.3 percent water loss. This percentage exceeds Staff’s recommended limit of 10 percent. Staff recommends that the Company monitor its water system for a 12-month period and prepare a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall evaluate its water system and submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not

cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The Company shall file the water loss reduction report or the detailed analysis, whichever is submitted, with Docket Control, as a compliance item in this docket, within 13 months of the effective date of the decision in this case.

2. Staff recommends acceptance of the Company's annual water testing expense of \$1,382 for this proceeding.
3. Staff recommends the depreciation rates the Commission ordered in Decision No. 64286 which are listed in Table B.
4. Staff recommends that the separate service line and meter installation charges listed in Table C under the Column heading labeled "Staff's Recommendation" be adopted.

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I. INTRODUCTION AND LOCATION OF COMPANY

On December 15, 2010, Bradshaw Water Company, Inc. ("Company" or "Bradshaw") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission"). The Commission Utilities Division Staff ("Staff") engineering review and analysis of the application is presented in this report.

The Company provides water service to approximately 170 customers near Prescott in Yavapai County.

The plant facilities were visited on February 10, 2011, by Katrin Stukov, Staff Utilities Engineer, accompanied by the Company's owner Don Bohlier.

Figure 1 shows the location of the Company within Yavapai County and Figure 2 delineates the Company's certificated area which covers approximately 490 acres (less than one square mile).

Figure 1

YAVAPAI COUNTY

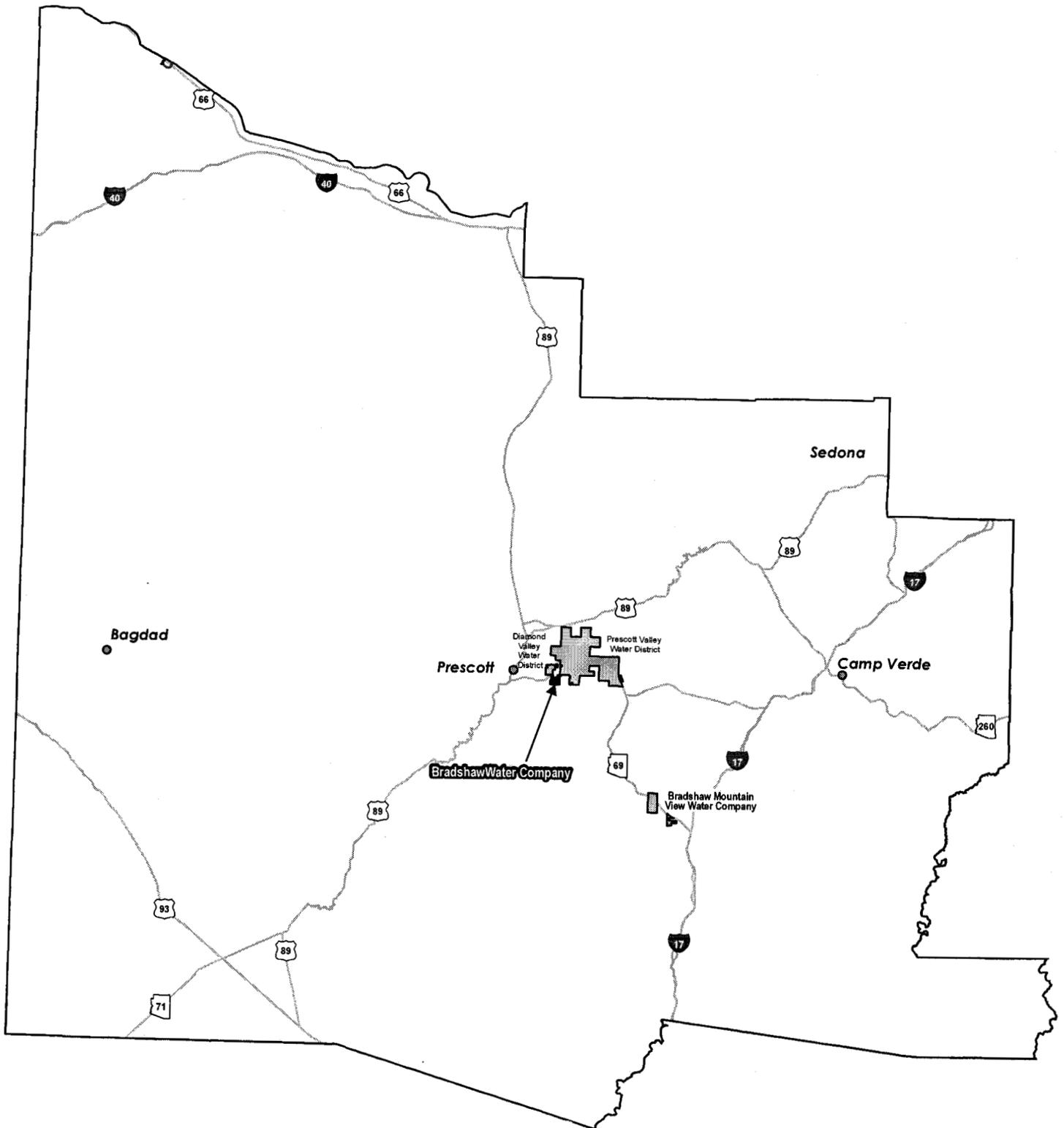
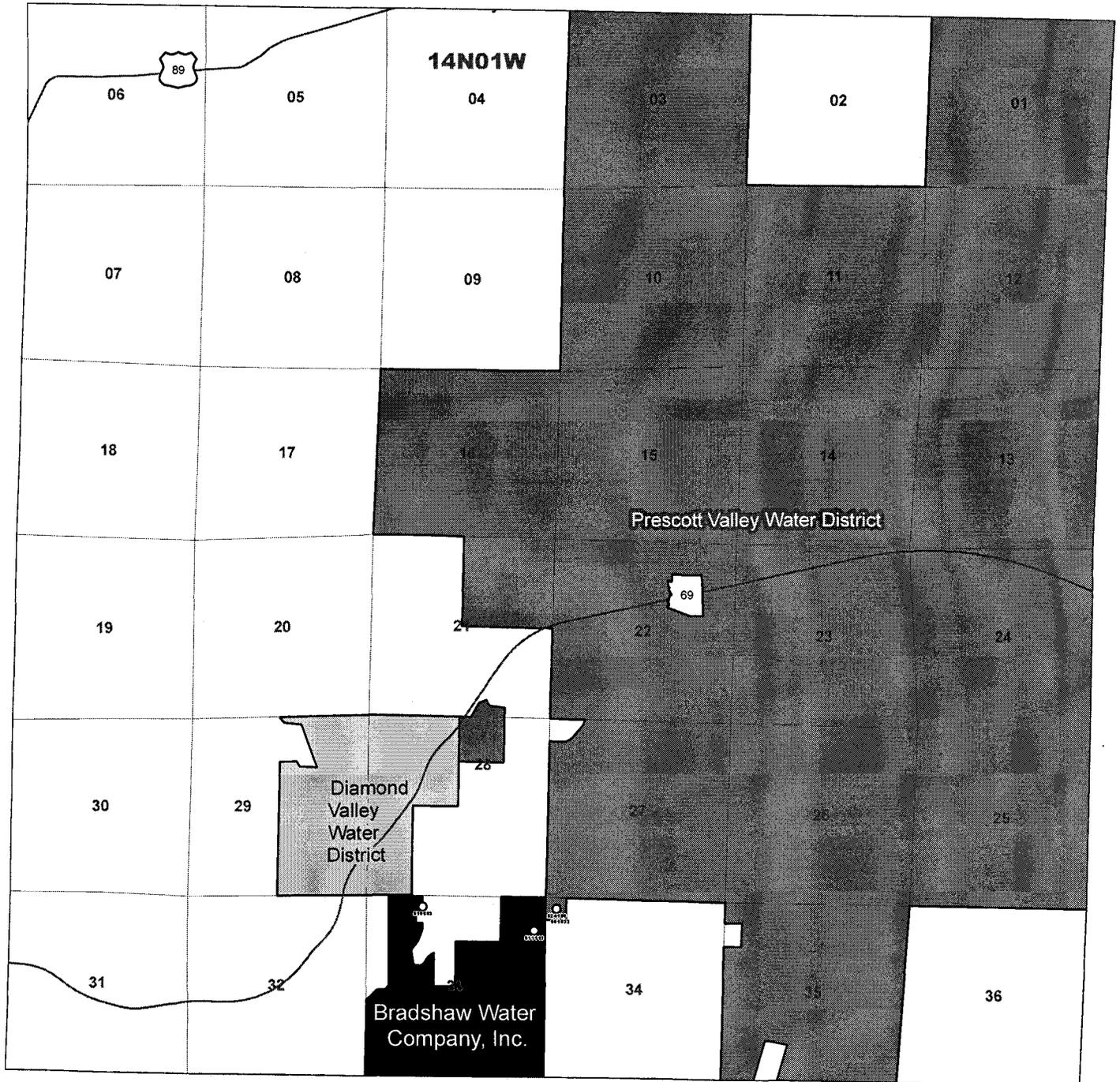


Figure 2

YAVAPAI COUNTY



II. WATER SYSTEM

1. Description of the Water System

The Bradshaw water system includes three active wells¹, three storage tanks, hydro-pneumatic systems, and a distribution system serving approximately 170 service connections. The Bradshaw system is interconnected with the Prescott Valley Water District ("PVWD")² water system. The PVWD inter-tie is the main source of water for Bradshaw and most of the water sold to Bradshaw customers is purchased water from the PVWD system.

A water system schematic is shown in Figure 3 and a plant facilities summary³ is tabulated below:

Wells							
Company Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
#1	55-501033	3	23.0	118	6	5/8x3/4	1981
#3	55-524180	3	10.0	600	6	5/8x3/4	1989
#7	55-610663	2	10.0	20	6	5/8x3/4	1966
#2 (not in service ⁴)	55-511113	1.5	-	405	6	5/8x3/4	1985

Other Water Source

Description	Meter Size (in inches)	Capacity (GPM)	Gallons Purchased
PVWD 4"-inter-tie	4"	100	12,940,000

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
22,000	1	1,000	1	1	2
33,000	1	30	2	1.5	1
47,500	1			7.5	2
				10	2

¹ The wells are shallow and the production is unreliable.

² PVWD is a water improvement district governed by the County and not regulated by this Commission.

³ Per Company's responses to Data Requests and site visit

⁴ Well # 2 was taken out of service in 2001.

Mains		
Size (inches)	Material	Length (feet)
2	PVC	3,150
4	PVC	14,459
6	PVC	22,548
8	PVC	10,744

Customer Meters	
Size (inches)	Quantity
5/8x3/4	171
1	2

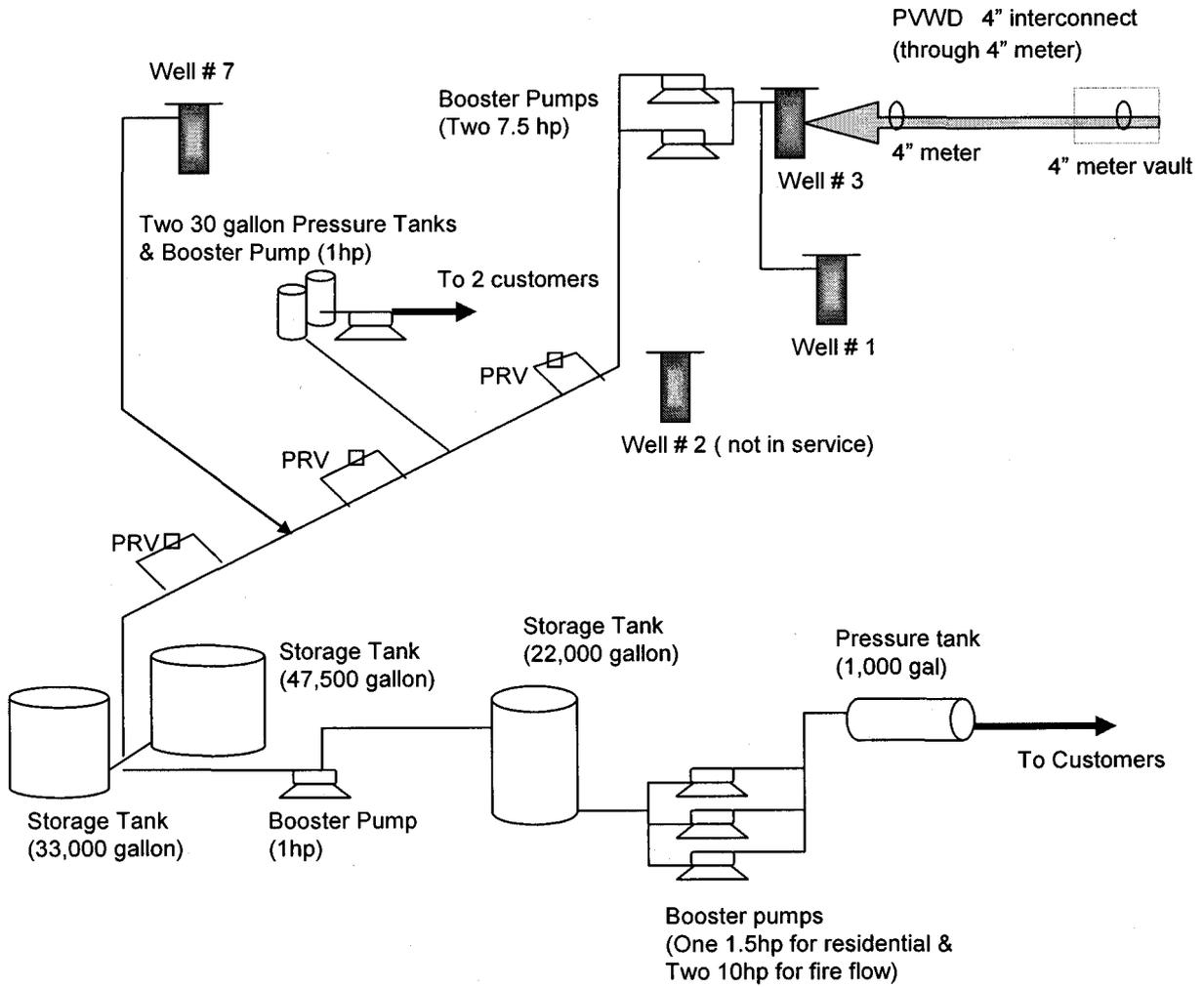
Fire Hydrants
Quantity Standard
29

Structures / Other	Quantity
Well Enclosure	4
Pump Enclosure	3
PRV Units	3

Treatment Equipment ⁵
None

⁵ The treatment equipment at the Well#2 site (filter and chlorination systems) was taken out of service in 2001.

Figure 3 Bradshaw System Schematic

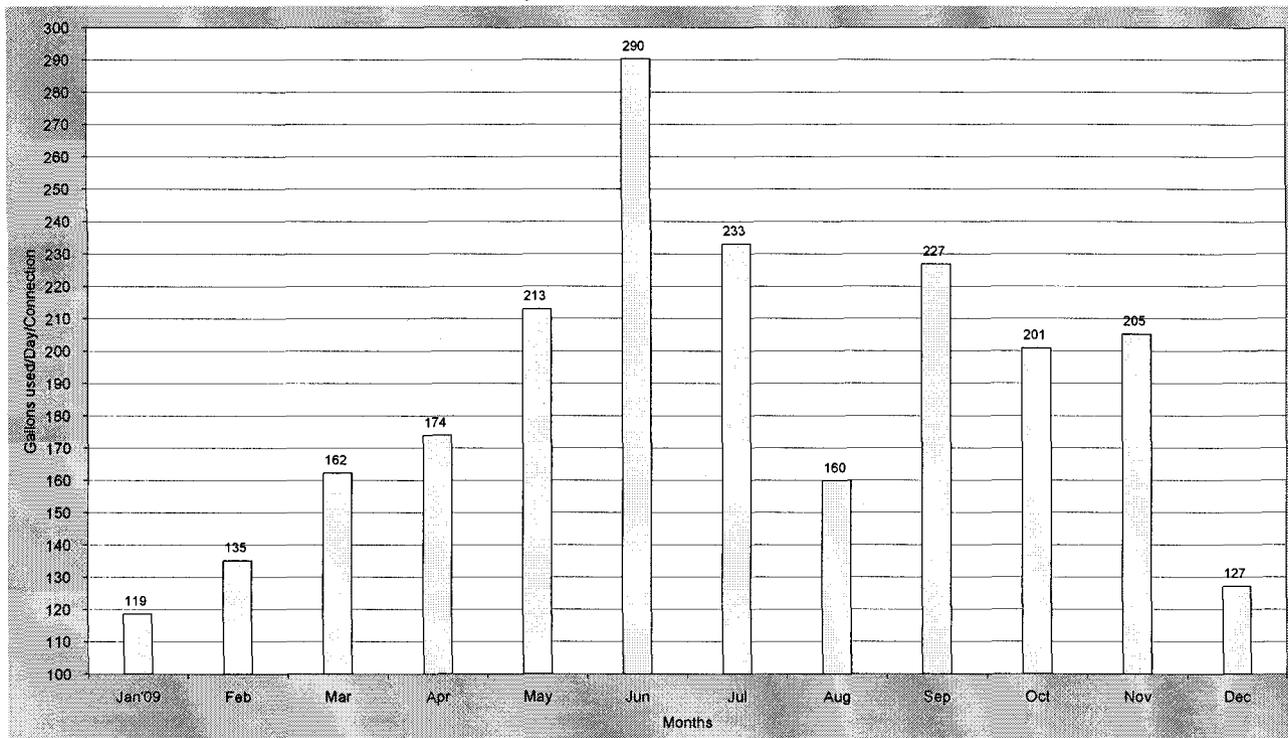


2. Water Use

Water Sold

Figure 4 represents the water consumption data provided by Bradshaw in its water use data sheet for the test year ending December 31, 2009. Customer consumption included a high monthly water use of 290 gallons per day (“GPD”) in June, and the low water use was 119 GPD per connection in January. The average annual use was 187 GPD per connection.

Figure 4 Water Use



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 water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. The Company reported 1,178,530 gallons pumped, 12,940,000 gallons purchased and 11,389,433 gallons sold for the test year, resulting in a water loss of 19.3 percent, which exceeds the recommended threshold amount of 10 percent. The Company tentatively attributed much of the water loss to several water main breaks. Staff recommends that the Company monitor its water system for a 12-month period and prepare a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall evaluate its water system and submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to

reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The Company shall file the water loss reduction report or the detailed analysis, whichever is submitted, with Docket Control, as a compliance item in this docket, within 13 months of the effective date of the decision in this case.

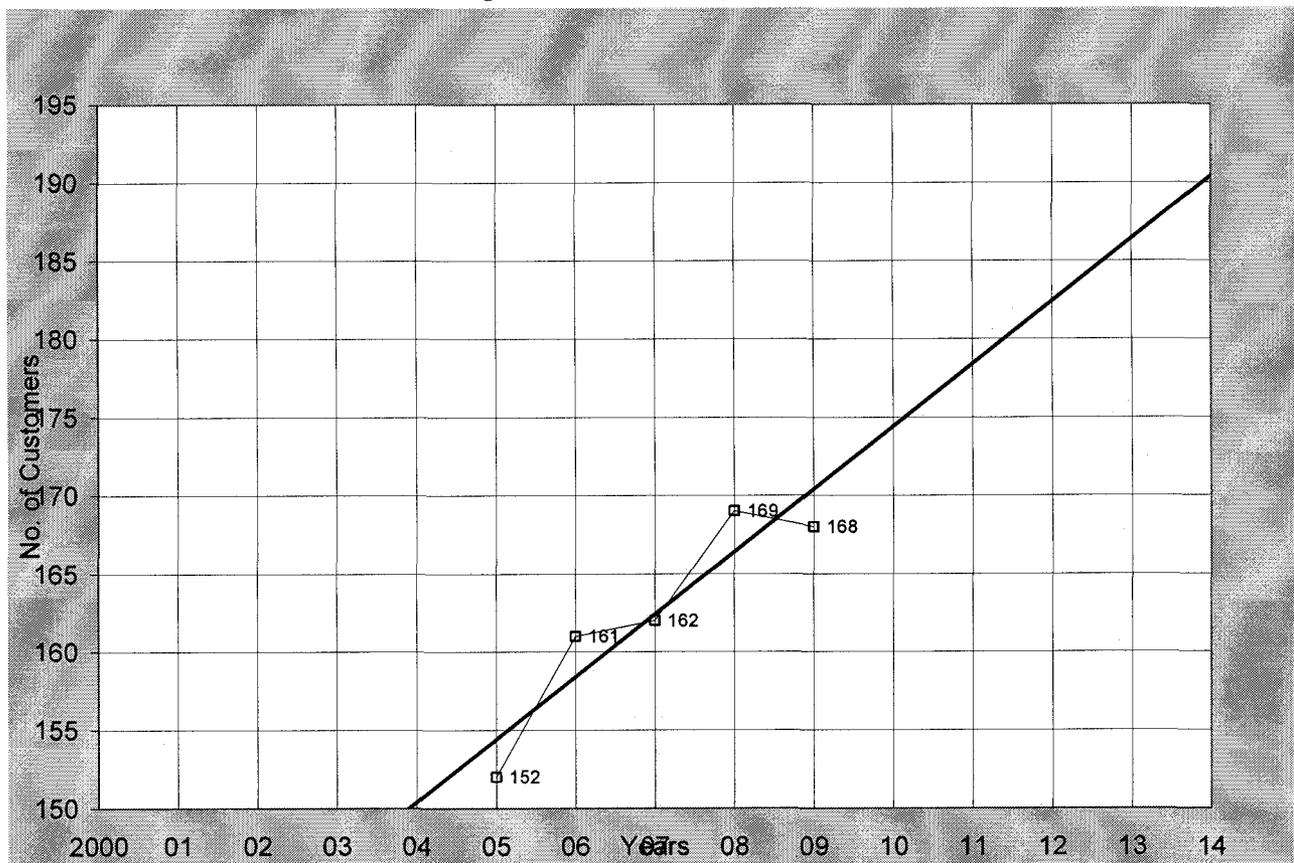
3. System Analysis

Based on the water use data provided by Bradshaw for the Test Year, Staff concludes that with the purchased water, the Company system's total available water supply capacity of 140 GPM and storage capacity of 102,500 gallons is adequate to serve the present customer base and reasonable growth.

4. Growth

Based on customer data obtained from the Company's Annual Reports, the Bradshaw system is expected to experience minimal growth. It is projected that this system could have 190 connections by 2014. Figure 5 depicts actual growth from 2005 to 2009 and projects an estimated growth for the next five years using linear regression analysis.

Figure 5 Growth Projection



III. ADEQ COMPLIANCE

1. Compliance

The Arizona Department of Environmental Quality (“ADEQ”) has reported that the Bradshaw water system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4, and the water system is in compliance with ADEQ requirements.⁶

2. Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program (“MAP”) is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

Bradshaw reported its water testing expense at \$1,382 during the test year. Based on data provided by the Company, Staff’s estimated average annual water testing expenses for the Company at \$1,389. Table A lists Staff’s annual monitoring expense estimates totaling \$1,389 with participation in the MAP⁷.

Since the Company’s reported water testing expense was only a few dollars less than Staff’s estimate, Staff recommends acceptance of the Company’s annual water testing expense of \$1,382 for this proceeding.

Table A. Water Testing Cost

Monitoring	Cost per Sample	Number of samples per year	Average Annual Cost
Total coliform – monthly	\$35	15	\$525
Lead & Copper – per 3 years	\$34	5/3-yrs	\$57
Nitrate, Nitrite (Well#2)	\$40	4	\$120
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrate, Nitrite, Asbestos- annually	MAP	MAP	\$687
Total			\$1,389

⁶ Per ADEQ Compliance Status Reports dated February 7, 2011.

⁷ The ADEQ MAP invoice for the 2009 Calendar Year was \$687, rounded.

IV. ADWR COMPLIANCE

Bradshaw's system is located in an ADWR Prescott Active Management Area.

ADWR has determined that the Company's water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.⁸

V. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Bradshaw.⁹

VI. DEPRECIATION RATES

In Decision No. 64286, dated December 28, 2001, new depreciation rates for Bradshaw were adopted. The depreciation percentage submitted by the Company with this application does not include certain plant accounts specified in Decision No. 64286. (For example, the Company deviates in National Association of Regulatory Utility Commissioners ("NARUC") plant category account No. 335, and, also, the Company has not classified its plant-in-service into the sub-accounts No. 330.1 and 330.2). The Company did not provide specific reasons for this deviation. Staff recommends the depreciation rates the Commission ordered in Decision No. 64286 which are listed in Table B.

⁸ Per ADWR Compliance Report dated January 6, 2011.

⁹ Per ACC Compliance status check dated January 6, 2011.

**TABLE B
DEPRECIATION RATE TABLE FOR WATER COMPANIES**

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

NOTE: Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

VII. OTHER ISSUES

1. Service Line and Meter Installation Charges

Bradshaw has requested changes in its service line and meter installation charges that are greatly increased over those currently authorized for the Company. These charges are refundable advances. The Company based its requested amounts to similar installation charges of the nearby unregulated Commission water system (Diamond Valley Water District). Staff has developed a customary range of service line and meter installation charges based on typical costs for service lines and meters. After Staff discussions with the Company, the Company agreed to the higher end of Staff's customary range of charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation.

Therefore, Staff recommends that the separate service line and meter installation charges listed in Table C under the Column heading labeled "Staff's Recommendation" be adopted.

TABLE C
SERVICE LINE AND METER INSTALLATION CHARGES

Meter Size	Company's Current Tariff	Company's Proposed Tariff	Staff's Recommendation		
			Service Line Installation Charges	Meter Installation Charges	Total Charges
5/8"x 3/4"	\$350	\$2,500	\$445	\$155	\$600
3/4"	\$400	\$2,500	\$445	\$255	\$700
1"	\$500	\$2,500	\$495	\$315	\$810
1-1/2"	\$750	\$2,500	\$550	\$525	\$1,075
2"	\$1,500	\$1,500	\$830	\$1,045	\$1,875
3"	\$1,975	\$1,975	\$1,045	\$1,670	\$2,715
4"	\$3,040	\$3,040	\$1,490	\$2,670	\$4,160
6"	\$7,290	\$7,290	\$2,210	\$5,025	\$7,235

2. Curtailment Plan Tariff

The Company has an approved curtailment plan tariff.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff.