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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

Arizona Corporation Commission
DOCKETED
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IN THE MATTER OF THE APPLICATION OF
BERMUDA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FROUTILITY
SERVICE BASED THEREON.

DOCKET NO. W-01812A-10-0521

STAFF'S NOTICE OF FILING
DIRECT TESTIMONY

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"), hereby files the Direct testimony of Staff Witnesses Jeffrey M. Michlik and Marlin Scott, Jr., in the above-referenced matter.

RESPECTFULLY SUBMITTED this 26th day of August, 2011.

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Chairman
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Commissioner
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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01812A-10-0521
BERMUDA WATER COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANTS AND PROPERTY AND)
FOR INCREASES IN ITS WATER RATES AND)
CHARGES FOR UTILITY SERVICE BASED)
THEREON.)

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 26, 2011

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**EXECUTIVE SUMMARY
BERMUDA WATER COMPANY, INC.
DOCKET NO. W-01812A-10-0521**

Bermuda Water Company, Inc. ("Company") is a certificated Arizona public service corporation providing water service in Mohave County, Arizona. The Company served approximately 7,219 residential customers and 413 commercial and industrial customers during the test year.

On February 11, 2011, the Company filed amended applications for a permanent rate increase with a test year ending June 30, 2010.

Rate Application:

The Company proposes rates that would increase operating revenue by \$922,419, or a 32.26 percent increase over test year revenue of \$2,858,966. This produces operating revenue of \$3,781,384 resulting in operating income of \$910,083. The Company also proposes a fair value rate base ("FVRB") of \$10,323,080, which is its original cost rate base ("OCRB"), and an 8.82 percent rate of return on the FVRB.

Staff recommends rates that would increase operating revenue by \$954,433 to produce operating revenue of \$3,813,399, a 33.38 percent increase over adjusted test year revenue of \$2,858,966. This produces operating income of \$855,298. Staff recommends a FVRB of \$9,701,659, which is the OCRB, and an 8.82 percent rate of return on the FVRB.

Under the Company's proposed rates, the typical 5/8 x 3/4-inch meter residential customer with a median usage of 5,000 gallons would experience a \$5.86, or a 34.17 percent, increase in his/her monthly bill, from \$17.15 to \$23.01. Under Staff's recommended rates, the typical 5/8 x 3/4-inch meter residential customer with a median usage of 5,000 gallons would experience a \$3.60 or a 20.99 percent increase in his/her monthly bill, from \$17.15 to \$20.75.

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the
4 Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division
5 (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting,
9 financial, statistical and other information and prepare reports based on my analyses that
10 present Staff’s recommendations to the Commission on utility revenue requirements, rate
11 design and other financial regulatory matters.
12

13 **Q. Please describe your educational background and professional experience.**

14 A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business
15 Administration Degree in Accounting and Finance, and I am a Certified Public
16 Accountant registered with the Arizona State Board of Accountancy. I have attended the
17 National Association of Regulatory Utility Commissioners’ (“NARUC”) Utility Rate
18 School, which presents general regulatory and business issues.
19

20 I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to
21 employment with the Commission, I worked four years for the Arizona Office of the
22 Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.
23

24 **Q. What is the scope of your testimony in this case?**

25 A. I am presenting Staff’s analysis and recommendations regarding the Bermuda Water
26 Company, Inc. (“Company”) application for a permanent rate increase. I am presenting

1 testimony and schedules addressing rate base, operating revenues and expenses, revenue
2 requirement, rate of return and rate design. Mr. Marlin Scott, Jr. is presenting Staff's
3 engineering analysis and related recommendations.

4
5 **Q. What is the basis of your testimony in this case?**

6 A. I performed a regulatory audit of the Company's application and records. The regulatory
7 audit consisted of examining and testing financial information, accounting records, and
8 other supporting documentation and verifying that the accounting principles applied were
9 in accordance with the Commission-adopted NARUC Uniform System of Accounts
10 ("USOA").

11
12 **Q. How is your testimony organized?**

13 A. My testimony is presented in nine sections. Section I is this introduction. Section II
14 provides a background of the Company. Section III is a summary of consumer service
15 issues. Section IV presents compliance status. Section V is a summary of the Company's
16 filing and Staff's rate base and operating income adjustments. Section VI presents Staff's
17 rate base recommendations. Section VII presents Staff's operating income
18 recommendations. Section VIII presents Staff's cost of capital recommendations. Section
19 IX discusses rate design.

20
21 **II. BACKGROUND**

22 **Q. Please review the background of this application.**

23 A. The Company is engaged in the business of providing water utility services in Mohave
24 County, Arizona. The Company served approximately 7,219 residential customers and
25 413 commercial and industrial customers during the test year.

1 The Company's current rates were authorized in Decision No. 61854, dated July 21, 1999.

2

3 Staff found the Company's application sufficient on February 28, 2011.

4

5 **III. CONSUMER SERVICES**

6 **Q. Please provide a brief history of customer complaints received by the Commission**
7 **regarding the Company, including customer responses to the Company's proposed**
8 **rate increase.**

9 A. A review of the Commission's Consumer Services database for the Company from
10 January 1, 2008, to August 18, 2011, revealed the following:

11

12 **2011** – Four complaints (three billing, quality of service), two opinions opposed to the rate
13 case.

14 **2010** – Eleven complaints (five billing, five quality of service, one
15 disconnect/termination), zero opinions.

16 **2009** – Two complaints (two quality of service).

17 **2008** – Eight complaints (seven billing, one quality of service).

18

19 All complaints have been resolved and closed.

20

21 **IV. COMPLIANCE**

22 **Q. Please provide a summary of the compliance status of the Company.**

23 A. A check of the ACC's Compliance database indicates that there are currently no
24 delinquencies for the Company.

1 **V. SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS**

2 **Q. What test year did the Company use in this filing?**

3 A. The Company's rate filing is based on the twelve months ended June 30, 2010 ("test
4 year").

5
6 **Q. Please summarize the Company's proposals in this filing.**

7 A. The Company proposes rates that would increase operating revenue by \$922,419, or a
8 32.26 percent increase over test year revenue of \$2,858,966. This produces operating
9 revenue of \$3,781,384 resulting in operating income of \$910,083. The Company also
10 proposes a fair value rate base ("FVRB") of \$10,323,080, which is its original cost rate
11 base ("OCRB"), and an 8.82 percent rate of return on the FVRB.

12
13 **Q. Please summarize Staff's recommendations.**

14 A. Staff recommends rates that would increase operating revenue by \$954,433 to produce
15 operating revenue of \$3,813,399, a 33.38 percent increase over adjusted test year revenue
16 of \$2,858,966. This produces operating income of \$855,298. Staff recommends a FVRB
17 of \$9,701,659, which is the OCRB, and an 8.82 percent rate of return on the FVRB.

18
19 **Q. Please summarize the rate base adjustments addressed in your testimony.**

20 A. My testimony addresses the following issues:

21
22 Plant not used and useful – This adjustment reduces plant-in-service by \$132,065, to
23 remove plant items that were not used and useful in this rate proceeding.

24 Accumulated Depreciation – This adjustment, decreases accumulated depreciation by
25 \$69,990, based upon the adjustments Staff made to Plant-in-Service.

1 Customer Deposits – This adjustment increases customer deposits by \$241,940, and
2 recognizes customer deposits as a deduction in the rate base calculation.

3 Accumulated Deferred Income Taxes – This adjustment increases deferred income taxes
4 by \$317,406, and recognizes deferred income taxes as a deduction in the rate base
5 calculation.

6
7 **Q. Please summarize the operating revenue and expense adjustments addressed in your**
8 **testimony.**

9 A. My testimony addresses the following issues:

10

11 Bad Debt Expense – This adjustment decreases bad debt expenses by \$19,070 to reflect
12 Staff's normalization of bad debt expense.

13 Water Testing Expense – This adjustment increases water testing expense by \$2,694 to
14 reflect Staff's recommended water testing expense.

15 Deposit Interest Expense – This adjustment increases miscellaneous expense by \$14,516
16 to recognize deposit interest on customer deposits.

17 Depreciation Expense – This adjustment increases depreciation expense by \$121,337 to
18 adjust depreciation based on Staff's recommended depreciation rates.

19 Property Tax Expense – This adjustment decreases property tax expense by \$9,945 to
20 adjust property taxes to Staff's adjusted test year amount.

21 Income Tax Expense – This adjustment decreases income tax expense by \$42,278 to
22 adjust income taxes to Staff's adjusted test year amount.

1 **VI. RATE BASE**

2 **Fair Value Rate Base**

3 **Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost**
4 **New Rate Base?**

5 A. No, the Company did not. The Company's filing treats the OCRB as the FVRB.

6
7 **Rate Base Summary**

8 **Q. Please summarize Staff's adjustments to the Company's rate base shown on**
9 **Schedules JMM-3 and JMM-4.**

10 A. Staff's adjustments to the Company's rate base resulted in a net decrease of \$621,421,
11 from \$10,323,080 to a \$9,701,659.

12
13 The net decrease is primarily due to: (1) the removal of plant not used and useful, (2)
14 adjustments to accumulated depreciation, (3) adjustments to customer deposits, and (4)
15 adjustments to accumulated deferred income taxes.

16
17 **Rate Base Adjustment No. 1 – Plant-in-Service not used and useful.**

18 **Q. Did Staff make an adjustment for plant or plant items that were not used and useful?**

19 A. Yes.

20
21 **Q. What adjustment did Staff make?**

22 A. Staff identified \$132,065 in plant that was not used and useful. Staff also made an
23 adjustment for the associated accumulated depreciation, as shown on Schedule JMM-5.

1 **Q. Why did Staff make this adjustment?**

2 A. Staff inspected the entire system and identified certain individual plant items that were not
3 serving customers during the test year (see testimony of Marlin Scott, Jr.).

4
5 **Q. What is Staff's recommendation?**

6 A. Staff recommends decreasing plant in service by \$132,065 to remove all plant from rate
7 base that was not used and useful, and the associated depreciation of \$69,990, as shown on
8 Schedules JMM-3 and JMM-4.

9
10 **Rate Base Adjustment No. 2 – Customer Deposits.**

11 **Q. Is the Company proposing to include customer deposits in its rate base calculation?**

12 A. No, it is not.

13
14 **Q. Are customer deposits normally treated as a reduction from rate base?**

15 A. Yes. Customer deposits are a deduction in the calculation of rate base in order to
16 recognize capital provided by non-investors. The Commission, in Decision Nos. 72026
17 (Litchfield Park Service Company SW-01428A-09-0103, et al.) and 72251 (Bella Vista
18 Water Company, Inc.), has supported Staff's position that all customer deposits are a
19 deduction from rate base and the associated interest on these deposits should be included
20 in operating expenses.

21
22 **Q. How did Staff determine the value for the customer deposit balance?**

23 A. Staff calculated the 13-month average of customer deposit balances over the test year.
24 That 13-month average balance totaled \$241,940.

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends deducting \$241,940 of customer deposits in the calculation of rate base,
3 as shown in Schedules JMM-3 and JMM-6.
4

5 **Rate Base Adjustment No. 3 – Accumulated Deferred Income Taxes.**

6 **Q. What are Accumulated Deferred Income Taxes (“ADITs”)?**

7 A. ADITs reflect the timing difference between when income taxes are calculated for
8 ratemaking purposes and when the actual federal and state income taxes are paid by the
9 Company. ADITs are the accumulated computed tax differences between income taxes
10 calculated for book purposes and the actual income taxes that a company pays to the
11 United States Treasury and the State of Arizona. The primary cause of the income tax
12 difference is the straight line depreciation method used for rate-making purposes and
13 accelerated depreciation method used for Federal and State income tax reporting purposes.
14

15 The NARUC USOA requires utilities to use straight line depreciation. Straight line
16 depreciation, in the early years of an asset's life, typically results in a lower depreciation
17 expense which, in turn, results in a higher income tax. Conversely, the Internal Revenue
18 Service allows companies to use accelerated depreciation. Accelerated depreciation, in
19 the early years of an asset's life, typically results in a higher depreciation expense which,
20 in turn, results in lower income taxes. In the later years of an asset's life, these positions,
21 as well as the temporary differences, begin to reverse. Eventually, the ADIT balance
22 reduces to zero when the asset is fully depreciated under straight line depreciation.
23

24 **Q. What is the impact of ADITs on rate base?**

25 A. A credit balance is a reduction to rate base, and a debit balance is an addition to rate base.

1 **Q. Are ADITs normally a reduction to rate base?**

2 A. Yes. ADITs are normally a reduction to rate base to reflect that in the early years of an
3 asset's life, customers are providing more in cash for income taxes than the Company
4 actually has to pay. While the Company has this additional cash, it represents cost-free
5 capital provided by the ratepayers.

6
7 **Q. Is the Company proposing to include ADIT in its rate base calculation?**

8 A. No, it is not.

9
10 **Q. What was the Company's ADIT balance at the end of the test year?**

11 A. The ADIT balance at the end of the test year totaled \$317,406.

12
13 **Q. What is Staff's recommendation?**

14 A. Staff recommends a reduction to rate base of \$317,406 for the ADIT balance, as shown in
15 Schedules JMM-3 and JMM-7.

16
17 **VII. OPERATING INCOME**

18 **Operating Income Summary**

19 **Q. What are the results of Staff's analysis of test year revenues, expenses, and operating
20 income?**

21 A. As shown on Schedules JMM-8 and JMM-9, Staff's analysis resulted in test year revenues
22 of \$2,858,966, expenses of \$2,582,511 and operating income of \$276,454.

23
24 **Operating Income Adjustment No. 1 – Bad Debt Expense.**

25 **Q. Did Staff make an adjustment to bad debt expense?**

26 A. Yes.

1 **Q. Why did Staff make this adjustment?**

2 A. Bad debt expense was abnormally high in the test year as compared to the prior two years.
3 As a result Staff normalized this amount over a three-year period.

4
5 **Q. What is Staff's recommendation?**

6 A. Staff recommends decreasing bad debt expense by \$19,070, as shown in Schedules JMM-
7 9 and JMM-10.

8
9 **Operating Income Adjustment No. 2 – Water Testing Expense.**

10 **Q. What did the Company propose for water testing expense?**

11 A. The Company proposed \$8,227 for testing expense.

12
13 **Q. What adjustment did Staff make?**

14 A. Staff adjusted the water testing upward by \$2,694 to account for water tests that are not
15 done every year, but every three years.

16
17 **Q. What is Staff's recommendation?**

18 A. Staff recommends increasing water testing expense by \$2,694, as shown on Schedules
19 JMM-9 and JMM-11.

20
21 **Operating Income Adjustment No. 3 – Deposit Interest Expense.**

22 **Q. Did Staff make an adjustment to miscellaneous expense to account for interest on
23 customer deposits?**

24 A. Yes.

1 **Q. Why did Staff make this recommendation?**

2 A. As previously noted, the Commission in Decision Nos. 72026 and 72251 supported Staff's
3 position that security as well as all customer deposits are a deduction from rate base and
4 the associated interest on these deposits should be included in operating expenses.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends increasing miscellaneous expense by \$14,516, as shown on Schedules
8 JMM-9 and JMM-12.

9
10 **Operating Income Adjustment No. 4 – Depreciation Expense.**

11 **Q. Did Staff make an adjustment to depreciation expense?**

12 A. Yes.

13
14 **Q. Why did Staff make this adjustment?**

15 A. As shown on schedule JMM-13, Staff recalculated depreciation expense on a going-
16 forward basis by applying Staff's recommended depreciation rates to Staff's
17 recommended plant accounts.

18 **Q. What is Staff's recommendation?**

19 A. Staff recommends increasing depreciation expense by \$121,337, as shown in Staff
20 schedules JMM-13.

21
22 **Operating Income Adjustment No. 5 – Property Tax Expense.**

23 **Q. What method has the Commission typically adopted to determine property tax
24 expense for ratemaking purposes of Class C and above water utilities?**

25 A. The Commission's practice in recent years has been to use a modification of the Arizona
26 Department of Revenue ("ADOR") methodology for water and wastewater utilities.

1 **Q. Did the Company use the modified ADOR methodology to calculate its proposed**
2 **property taxes?**

3 A. No.

4
5 **Q. Did Staff calculate property taxes using the modified ADOR method?**

6 A. Yes. As shown in Schedule JMM-14, Staff calculated property tax expense using the
7 modified ADOR method to test year and Staff-recommended revenues. Since the
8 modified ADOR method is revenue-dependent, the property tax is different for test year
9 and recommended revenues. Staff has included a factor for property taxes in the gross
10 revenue conversion factor that automatically adjusts the revenue requirement for changes
11 in revenue in the same way that income taxes are adjusted for changes in operating
12 income.

13
14 **Q. What does Staff recommend for test year property tax expense?**

15 A. Staff recommends decreasing test year property tax expense by \$9,945, as shown in
16 Schedules JMM-9 and JMM-14.

17 **Operating Income Adjustment No. 6 – Income Tax Expense.**

18 **Q. Did Staff make an adjustment to Income Tax Expense?**

19 A. Yes, based on Staff's recommended revenue requirement.

20
21 **Q. How did Staff calculate income tax expense for the Company?**

22 A. Staff applied the statutory state and federal income tax rates to Staff's taxable income.

1 **Q. What adjustment does Staff recommend for test year income tax expense for the**
2 **Company?**

3 A. Staff recommends decreasing test year income tax expense by \$42,278, as shown in
4 Schedules JMM-9 and JMM-15.

5
6 **VIII. COST OF CAPITAL**

7 **Q. How did the Company perform its Cost of Capital analysis?**

8 A. The Company's application stated that, in an effort to keep rate case expenses reasonable,
9 the Company utilized a leverage formula, based on the Florida Public Service
10 Commission's formula. The Company calculated an 8.82 percent return on common
11 equity, based on the following formula: Return on Common Equity = 7.46% +
12 1.356/Equity Ratio. Since the Company has no debt, the equity ratio is 100 percent;
13 therefore, the formula will also result in an 8.82 percent rate of return ("ROR") on rate
14 base.

15
16 **Q. What is Staff's recommended ROR in this case?**

17 A. Staff finds the Company's 8.82 percent rate of return on rate base a reasonable
18 recommendation.

19
20 **Q. Does Staff accept the Florida Public Service Commission's methodology?**

21 A. Staff neither accepts, denies, nor recommends the Florida Public Service Commission's
22 methodology. Staff finds the Company's proposal, in this case, to be reasonable and, in an
23 effort to efficiently utilize its resources, Staff also will not be providing a comprehensive
24 cost of capital analysis.

1 **IX. RATE DESIGN**

2 **Q. Did Staff prepare a summary of the Company's present rates, the Company's**
3 **proposed rates, and Staff's recommended rates?**

4 A. Yes. See Schedule JMM-16.

5
6 **Q. Did Staff prepare a typical bill analysis for a 5/8" x 3/4" residential customer?**

7 A. Yes. See Schedule JMM-17.

8
9 **Q. Does Staff have any recommendations concerning "Other Service Charges"?**

10 A. Yes. Staff recommends the modification or addition for three separate services charges.
11 First, Staff recommends the approval of a flat after-hours service charge of \$30.00;
12 second, Staff recommends the approval of a meter re-read charge of \$10.00; third, Staff
13 recommends the approval of a late payment charge of 1.5% of the delinquent bill or
14 delinquent portion of the bill, per month. Staff's recommendations are presented in
15 Schedule JMM-16.

16
17 Staff believes a flat after-hours service charge of \$30.00 is appropriate to accommodate
18 customers who request services outside of the Company's normal business hours. Staff
19 believes that this one, flat charge of \$30.00 for performing services outside normal
20 business hours is preferable to having separate tariff amounts for each specific after-hours
21 service. The after-hours charge would be in addition to any and all applicable charges for
22 performing the service during normal business hours. The after-hours charge would only
23 be applicable when the customer requests that the service be performed outside of the
24 Company's normal business hours.

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Arizona Administrative Code R14-2-408(C) requires a company to reread a customer's meter within ten working days after a request is made by the customer. The rule also allows a company to charge the customer a rate to read the meter, if it is on file and approved by the Commission. Staff believes that \$10.00 is a reasonable charge for rereading a meter. If the reading is found to be in error, the reread shall be at no charge to the customer, per the Arizona Administrative Code.

Currently, the Company's tariff allows the Company to charge a flat \$5.00 fee for all late payments. Staff recommends that the late payment charge be 1.5 percent of the customer's delinquent bill, or portion of the bill, per month. This methodology has been adopted by the Commission for most other companies.

Q. Does this conclude your direct testimony?

A. Yes, it does

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 10,323,080	\$ 9,701,659
2	Adjusted Operating Income (Loss)	\$ 343,707	\$ 276,454
3	Current Rate of Return (L2 / L1)	3.33%	2.85%
4	Required Rate of Return	8.82%	8.82%
5	Required Operating Income (L4 * L1)	\$ 910,083	\$ 855,298
6	Operating Income Deficiency (L5 - L2)	\$ 566,375	\$ 578,844
7	Gross Revenue Conversion Factor	1.6286	1.6489
8	Required Revenue Increase (L7 * L6)	\$ 922,419	\$ 954,433
9	Adjusted Test Year Revenue	\$ 2,858,966	\$ 2,858,966
10	Proposed Annual Revenue (L8 + L9)	\$ 3,781,384	\$ 3,813,399
11	Required Increase in Revenue (%)	32.26%	33.38%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-W3 and JMM-W13

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
<i>Calculation of Gross Revenue Conversion Factor:</i>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 11)	0.0000%		
3	Revenues (L1 - L2)	100.0000%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.3521%		
5	Subtotal (L3 - L4)	60.6479%		
6	Revenue Conversion Factor (L1 / L5)	1.648861		
<i>Calculation of Uncollectible Factor:</i>				
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 23)	38.5989%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%		
10	Uncollectible Rate	0.0000%		
11	Uncollectible Factor (L9 * L10)	0.0000%		
<i>Calculation of Effective Tax Rate:</i>				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
13	Arizona State Income Tax Rate	6.9680%		
14	Federal Taxable Income (L12 - L13)	93.0320%		
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%	
<i>Calculation of Effective Property Tax Factor</i>				
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	38.5989%		
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%		
21	Property Tax Factor (JMM-W18, L27)	1.2267%		
22	Effective Property Tax Factor (L20*L21)		0.7532%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.3521%
24	Required Operating Income (Schedule JMM-1, Line 5)	\$ 855,298		
25	Adjusted Test Year Operating Income (Loss)	276,454		
26	Required Increase in Operating Income (L24 - L25)		\$ 578,844	
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 537,670		
28	Income Taxes on Test Year Revenue (Col. [B], L52)	173,789		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		363,881	
30	Recommended Revenue Requirement (Schedule JMM-W1, Line 10)	\$ 3,813,399		
31	Uncollectible Rate (Line 10)	0.0000%		
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -		
33	Adjusted Test Year Uncollectible Expense	\$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)			-
35	Property Tax with Recommended Revenue (JMM-W11, Col B, L31)	\$ 115,189		
36	Property Tax on Test Year Revenue (JMM-W18, Col A, L17)	103,481		
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		11,708	
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 954,433	
<i>Calculation of Income Tax:</i>				
39	Revenue (Schedule JMM-W11, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	\$ 2,858,966	\$ 954,433	\$ 3,813,399
40	Operating Expenses Excluding Income Taxes	\$ 2,408,723		\$ 2,420,431
41	Synchronized Interest (L56)	\$ -		\$ -
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 450,243		\$ 1,392,968
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	\$ 31,373		\$ 97,062
45	Federal Taxable Income (L42 - L44)	\$ 418,870		\$ 1,295,906
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250		\$ 6,250
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650		\$ 91,650
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 28,516		\$ 326,708
51	Total Federal Income Tax	\$ 142,416		\$ 440,608
52	Combined Federal and State Income Tax (L44 + L51)	\$ 173,789		\$ 537,670
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%
<i>Calculation of Interest Synchronization:</i>				
54	Rate Base (Schedule JMM-W3, Col. (C), Line 17)	\$ 9,701,659		
55	Weighted Average Cost of Debt (Schedule JMM-W19)	0.0000%		
56	Synchronized Interest (L45 X L46)	\$ -		

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 21,761,200	1	\$ 21,629,135
2	Less: Accumulated Depreciation	5,803,833	1	5,733,843
3	Net Plant in Service	<u>\$ 15,957,367</u>		<u>\$ 15,895,292</u>
<i>LESS:</i>				
4	Contributions in Aid of Construction (CIAC)	\$ 4,620,322		\$ 4,620,322
5	Less: Accumulated Amortization	2,313,121		2,313,121
6	Net CIAC	<u>2,307,201</u>		<u>\$ 2,307,201</u>
7	Advances in Aid of Construction (AIAC)	3,327,086		3,327,086
8	Customer Deposits	-	2	241,940
9	Accumulated Deferred ncome Taxes	-	3	317,406
<i>ADD:</i>				
9	Unamortized Debt Issuance Costs	-		-
10	Deferred Regulatory Assets	-		-
11	Original Cost Rate Base	<u>\$ 10,323,080</u>		<u>\$ 9,701,659</u>

References:

Column [A]: Company as Filed
Column [B]: Schedule JMM-W4
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Plant Not Used And Useful Ref. Sch JMM-5	[C] ADJ #2 Customer Deposits Ref. Sch JMM-6	[D] ADJ #3 Deferred Income Taxes Ref. Sch JMM-7	[E] STAFF ADJUSTED
1		PLANT IN SERVICE:					
2	301.0	Organization Cost	\$ 348,545	-	-	-	\$ 348,545
3	302.0	Franchise Cost	37,834	-	-	-	37,834
4	303.0	Land and Land Rights	157,532	-	-	-	157,532
5	304.0	Structures and Improvements	784,340	-	-	-	784,340
6	305.0	Collecting and Impounding Res.	-	-	-	-	-
7	306.0	Lake River and Other Intakes	-	-	-	-	-
8	307.0	Wells and Springs	1,779,255	(64,251)	-	-	1,715,004
9	308.0	Infiltration Galleries and Tunnels	-	-	-	-	-
10	309.0	Supply Mains	197,949	-	-	-	197,949
11	310.0	Power Generation Equipment	-	-	-	-	-
12	311.0	Electric Pumping Equipment	1,665,505	(56,103)	-	-	1,609,402
13	320.0	Water Treatment Equipment	298,786	(5,792)	-	-	292,994
14	320.1	Water Treatment Plant	-	-	-	-	-
15	330.0	Distribution Reservoirs & Standpipe	1,366,478	(5,412)	-	-	1,361,066
16	331.0	Transmission and Distribution Mains	8,696,655	-	-	-	8,696,655
17	333.0	Services	3,269,694	-	-	-	3,269,694
18	334.0	Meters	936,152	(507)	-	-	935,645
19	335.0	Hydrants	836,859	-	-	-	836,859
20	336.0	Backflow Prevention Devices	-	-	-	-	-
21	339.0	Other Plant and Miscellaneous Equipment	-	-	-	-	-
22	340.0	Office Furniture and Fixtures	215,689	-	-	-	215,689
23	340.1	Computer Equipment	824,594	-	-	-	824,594
24	341.0	Transportation Equipment	208,042	-	-	-	208,042
25	342.0	Stores Equipment	-	-	-	-	-
26	343.0	Tools and Work Equipment	90,011	-	-	-	90,011
27	344.0	Laboratory Equipment	2,540	-	-	-	2,540
28	345.0	Power Operated Equipment	-	-	-	-	-
29	346.0	Communications Equipment	39,584	-	-	-	39,584
30	347.0	Miscellaneous Equipment	5,154	-	-	-	5,154
31	348.0	Other Tangible Plant	-	-	-	-	-
32		Total Plant in Service - Actual	21,761,200	-	-	-	21,629,135
33		Post Test-Year Plant	-	-	-	-	-
34		Total Plant in Service	\$ 21,761,200	(132,066)	-	-	\$ 21,629,135
35		Less: Accumulated Depreciation	5,803,833	(69,990)	-	-	5,733,843
36		Net Plant in Service	\$ 15,957,367	(62,075)	-	-	\$ 15,895,292
37							
38							
39		LESS:					
40		Contributions in Aid of Construction (CIAC)	\$ 4,620,322	-	-	-	\$ 4,620,322
41		Less: Accumulated Amortization	2,313,121	-	-	-	2,313,121
42		Net CIAC (L25 - L26)	2,307,201	-	-	-	2,307,201
43		Advances in Aid of Construction (AIAC)	3,327,086	-	-	-	3,327,086
44		Customer Deposits	-	241,940	-	-	241,940
45		Deferred Income Taxes	-	-	-	317,406	317,406
46							
47							
48		ADD:					
49		Unamortized Debt Issuance Costs	-	-	-	-	-
50		Deferred Regulatory Assets	-	-	-	-	-
51							
52		Original Cost Rate Base	\$ 10,323,079	(62,075)	(241,940)	(317,406)	\$ 9,701,659

RATE BASE ADJUSTMENT NO. 1 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	307	Wells and Springs	\$ 1,779,255	\$ (64,251)	\$ 1,715,004
2	311	Electric Pumping Equipment	1,665,505	(56,103)	1,609,402
3	320	Water Treatment Equipment	298,786	(5,792)	292,994
4	330	Distribution Reservoirs and Standpipes	1,366,478	(5,412)	1,361,066
5	334	Meters	936,152	(507)	935,645
6			<u>\$ 6,046,177</u>	<u>\$ (132,065)</u>	<u>5,914,112</u>

7

8 Based on Staff Engineering Report Table E-1.

9

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DESCRIPTION	[A]	[B]	[C]
	COMPANY AIAC & CIAC AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
Accumulated Depreciation	\$ 5,803,833	\$ (69,990)	\$ 5,733,843

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Direct Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - CUSTOMER DEPOSITS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Customer Deposits	\$ -	\$ 241,940	\$ 241,940

	Customer Deposits		Meter Deposits	Total Deposits
<u>Jun-09</u>	\$ (93,296)	\$ (160,864)		(254,160)
<u>Jul-09</u>	\$ (89,750)	\$ (160,864)		(250,614)
<u>Aug-09</u>	\$ (82,869)	\$ (160,864)		(243,732)
<u>Sep-09</u>	\$ (72,920)	\$ (160,864)		(233,784)
<u>Oct-09</u>	\$ (73,215)	\$ (160,864)		(234,079)
<u>Nov-09</u>	\$ (81,807)	\$ (160,864)		(242,671)
<u>Dec-09</u>	\$ (78,456)	\$ (160,864)		(239,320)
<u>Jan-10</u>	\$ (75,816)	\$ (160,864)		(236,680)
<u>Feb-10</u>	\$ (76,977)	\$ (160,864)		(237,841)
<u>Mar-10</u>	\$ (78,486)	\$ (160,864)		(239,350)
<u>Apr-10</u>	\$ (80,448)	\$ (160,864)		(241,312)
<u>May-10</u>	\$ (83,517)	\$ (160,864)		(244,381)
<u>Jun-10</u>	\$ (86,431)	\$ (160,864)		(247,295)
Average	(81,076)	(160,864)		(241,940)

Bermuda Water Company
Docket No. W-01812A-10-0521
Test Year ended June 30, 2010

Schedule JMM-7

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Accumulated Deferred Income Taxes	\$ -	\$ 317,406	\$ 317,406

REFERENCES:

Column [A]: Company Filing

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>REVENUES:</u>						
2	Metered Water Sales	\$ 2,688,088	\$ -		\$ 2,688,088	\$ 954,433	\$ 3,642,521
3	Forfeited Discounts	97,961	-		97,961	-	97,961
4	Other Water Revenues	72,917	-		72,917	-	72,917
5	Intentionally Left Blank	-	-		-	-	-
6	Total Operating Revenues	\$ 2,858,966	\$ -		\$ 2,858,966	\$ 954,433	\$ 3,813,399
7							
8	<u>OPERATING EXPENSES:</u>						
9	Salaries and Wages	\$ 531,316	\$ -		\$ 531,316	\$ -	\$ 531,316
10	Salaries and Wages - Officers and Stockholders	41,624	-		41,624	-	41,624
11	Employee Pensions and Benefits	141,190	-		141,190	-	141,190
12	Purchased Power	355,476	-		355,476	-	355,476
13	Chemicals	24,128	-		24,128	-	24,128
14	Materials and Supplies	104,403	-		104,403	-	104,403
15	Contractual Services - Engineering	410	-		410	-	410
16	Contractual Services - Audit	7,408	-		7,408	-	7,408
17	Contractual Services - Legal	3,444	-		3,444	-	3,444
18	Outside Services - Other	82,602	-		82,602	-	82,602
19	Rental of Building/Real Property	10,646	-		10,646	-	10,646
20	Transportation Expenses	50,412	-		50,412	-	50,412
21	Insurance - Other	78,125	-		78,125	-	78,125
22	Rate Case Expense	50,673	-		50,673	-	50,673
23	Bad Debt Expense	46,641	(19,070)	1	27,571	-	27,571
24	Miscellaneous Expense	91,971	17,210	2	109,182	-	109,182
25	Depreciation Expense	614,693	121,337	3	736,030	-	736,030
26	Amortization of CIAC	(91,324)	-		(91,324)	-	(91,324)
27	Taxes Other than Income	41,924	-		41,924	-	41,924
28	Property Taxes	113,426	(9,945)	4	103,481	11,708	115,189
29	Income Taxes	216,067	(42,278)	5	173,789	363,881	537,670
30	Deferred Income Taxes	-	-		-	-	-
31	Property Taxes	-	-		-	-	-
32	Income Taxes	-	-		-	-	-
33	Intentionally Left Blank	-	-		-	-	-
34	Total Operating Expenses	\$ 2,515,257	\$ 67,254		\$ 2,582,511	\$ 375,589	\$ 2,958,101
35	Operating Income (Loss)	\$ 343,707	\$ (67,254)		\$ 276,454	\$ 578,844	\$ 855,298

References:

Column (A): Company Schedule C-1
Column (B): Schedule JMM-W14
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-W23 and JMM-W24
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Bad Debt Expense ADJ #1 Ref. Sch JMM-W15	[C] Water Testing Expense ADJ #2 Ref. Sch JMM-W16	[D] Deposit Expense ADJ #3 Ref. Sch JMM-W17	[E] Depreciation Expense ADJ #4 Ref. Sch JMM-W18	[F] Property Tax Expense ADJ #5 Ref. Sch JMM-W19	[G] Income Tax Expense ADJ #6 Ref. Sch JMM-W20	[H] STAFF
1		<u>REVENUES:</u>								
2	461	Metered Water Sales	\$ 2,688,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,688,088
3	470	Forfeited Discounts	97,961	-	-	-	-	-	-	97,961
4	474	Other Water Revenues	72,917	-	-	-	-	-	-	72,917
5		Intentionally Left Blank	-	-	-	-	-	-	-	-
6		Total Operating Revenues	\$ 2,858,966	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,858,966
7										
8		<u>OPERATING EXPENSES:</u>								
9	601	Salaries and Wages	\$ 531,316	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 531,316
10	603	Salaries and Wages - Officers and Stockholders	41,624	-	-	-	-	-	-	41,624
11	604	Employee Pensions and Benefits	141,190	-	-	-	-	-	-	141,190
12	615	Purchased Power	355,476	-	-	-	-	-	-	355,476
13	618	Chemicals	24,128	-	-	-	-	-	-	24,128
14	620	Materials and Supplies	104,403	-	-	-	-	-	-	104,403
15	631	Contractual Services - Engineering	410	-	-	-	-	-	-	410
16	632	Contractual Services - Audit	7,408	-	-	-	-	-	-	7,408
17	633	Contractual Services - Legal	3,444	-	-	-	-	-	-	3,444
18	636	Outside Services - Other	82,602	-	-	-	-	-	-	82,602
19	641	Rental of Building/Real Property	10,646	-	-	-	-	-	-	10,646
20	650	Transportation Expenses	50,412	-	-	-	-	-	-	50,412
21	659	Insurance - Other	78,125	-	-	-	-	-	-	78,125
22	666	Rate Case Expense	50,673	-	-	-	-	-	-	50,673
23	670	Bad Debt Expense	46,641	(19,070)	-	-	-	-	-	27,571
24	675	Miscellaneous Expense	91,971	-	2,694	14,516	-	-	-	109,182
25	403	Depreciation Expense	614,693	-	-	-	121,337	-	-	736,030
26	407	Amortization of CIAC	(91,324)	-	-	-	-	-	-	(91,324)
27	408	Taxes Other than Income	41,924	-	-	-	-	-	-	41,924
28	408.11	Property Taxes	113,426	-	-	-	-	(9,945)	-	103,481
29	409	Income Taxes	216,067	-	-	-	-	-	(42,278)	173,789
30	410	Deferred Income Taxes	-	-	-	-	-	-	-	-
31		Intentionally Left Blank	-	-	-	-	-	-	-	-
32		Intentionally Left Blank	-	-	-	-	-	-	-	-
33		Intentionally Left Blank	-	-	-	-	-	-	-	-
34		Total Operating Expenses	\$ 2,515,257	(19,070)	2,694	14,516	121,337	(9,945)	(42,278)	\$ 2,582,512
35		Operating Income (Loss)	\$ 343,707	\$ 19,070	(2,694)	(14,516)	(121,337)	9,945	42,278	\$ 276,453

OPERATING INCOME ADJUSTMENT NO. 1 - BAD DEBT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Bad Debt Expense	\$ 46,641	\$ (19,070)	\$ 27,571

Staff Calculation:

Test Year	\$46,640
2009	19,415
2008	16,659
	<u>\$82,714</u>
Normalized over 3 years	3
	<u>\$ 27,571</u>

References:

- Column (A), Company Schedule C-1
- Column (B): Testimony JMM
- Column (C): Column (A) + Column (B)

Bermuda Water Company
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Test Year ended June 30, 2010

Schedule JMM-11

OPERATING INCOME ADJUSTMENT NO. 2 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Miscellaneous Expense	\$ 83,744	\$ -	\$ 83,744
	Maintenance Testing	8,227	2,694	10,921
	Total	<u>\$ 91,971</u>	<u>\$ 2,694</u>	<u>\$ 94,665</u>

References:

Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Bermuda Water Company
 Docket No. W-01812A-10-0521
 Test Year ended June 30, 2010

Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 3 - DEPOSIT INTEREST

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Miscellaneous Expense	\$ 2,688,088	\$ 14,516	\$ 2,702,604

Staff Calculation

\$	241,940
Interest Rate 6%	
\$	14,516.40

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Surrebuttal Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	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)
1	301	Organization Cost	\$ 348,545	\$ -	\$ 348,545	0.00%	\$ -
2	302	Franchise Cost	\$ 37,834	\$ -	\$ 37,834	0.00%	\$ -
3	303	Land and Land Rights	\$ 157,532	\$ -	\$ 157,532	0.00%	\$ -
4	304	Structures and Improvements	\$ 784,340	\$ -	\$ 784,340	3.33%	\$ 26,119
5	305	Collecting and Impounding Res.	\$ -	\$ -	\$ -	2.50%	\$ -
6	306	Lake River and Other Intakes	\$ -	\$ -	\$ -	2.50%	\$ -
7	307	Wells and Springs	\$ 1,715,004	\$ -	\$ 1,715,004	3.33%	\$ 57,110
8	308	Infiltration Galleries and Tunnels	\$ -	\$ -	\$ -	6.67%	\$ -
9	309	Supply Mains	\$ 197,949	\$ -	\$ 197,949	2.00%	\$ 3,959
10	310	Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
11	311	Electric Pumping Equipment	\$ 1,609,402	\$ -	\$ 1,609,402	12.50%	\$ 201,175
12	320	Water Treatment Equipment	\$ 292,994	\$ -	\$ 292,994	3.33%	\$ 9,757
13	320	Water Treatment Plant	\$ -	\$ -	\$ -	3.33%	\$ -
14	330	Distribution Reservoirs & Standpipe	\$ 1,361,066	\$ -	\$ 1,361,066	2.22%	\$ 30,216
15	331	Transmission and Distribution Mains	\$ 8,696,655	\$ -	\$ 8,696,655	2.00%	\$ 173,933
16	333	Services	\$ 3,269,694	\$ -	\$ 3,269,694	3.33%	\$ 108,881
17	334	Meters	\$ 935,645	\$ -	\$ 935,645	8.33%	\$ 77,939
18	335	Hydrants	\$ 836,859	\$ -	\$ 836,859	2.00%	\$ 16,737
19	336	Backflow Prevention Devices	\$ -	\$ -	\$ -	6.67%	\$ -
20	339	Other Plant and Miscellaneous Equipment	\$ -	\$ -	\$ -	6.67%	\$ -
21	340	Office Furniture and Fixtures	\$ 215,689	\$ -	\$ 215,689	6.67%	\$ 14,386
22	340.1	Computer Equipment	\$ 824,594	\$ -	\$ 824,594	20.00%	\$ 164,919
23	341	Transportation Equipment	\$ 208,042	\$ -	\$ 208,042	20.00%	\$ 41,608
24	342	Stores Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
25	343	Tools and Work Equipment	\$ 90,011	\$ -	\$ 90,011	5.00%	\$ 4,501
26	344	Laboratory Equipment	\$ 2,540	\$ -	\$ 2,540	10.00%	\$ 254
27	345	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
28	346	Communications Equipment	\$ 39,584	\$ -	\$ 39,584	10.00%	\$ 3,958
29	347	Miscellaneous Equipment	\$ 5,154	\$ -	\$ 5,154	10.00%	\$ 515
30	348	Other Tangible Plant	\$ -	\$ -	\$ -	10.00%	\$ -
31		Total Plant	\$ 21,629,135	\$ -	\$ 21,629,135		\$ 935,967
32							
33		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.33%				
34		CIAC: \$	4,620,322				
35		Amortization of CIAC (Line 32 x Line 33): \$	199,937				
36							
37		Depreciation Expense Before Amortization of CIAC: \$	935,967				
38		Less Amortization of CIAC: \$	199,937				
39		Test Year Depreciation Expense - Staff: \$	736,030				
40		Depreciation Expense - Company: \$	614,693				
41		Staff's Total Adjustment: \$	121,337				
42							
43							

References:

- Column [A]: Schedule JMM-4
- Column [B]: From Column [A]
- Column [C]: Column [A] - Column [B]
- Column [D]: Engineering Staff Report
- Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 2,858,966	\$ 2,858,966
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	5,717,931	\$ 5,717,931
4	Staff Recommended Revenue, Per Schedule JMM-1	2,858,966	\$ 3,813,399
5	Subtotal (Line 4 + Line 5)	8,576,897	9,531,330
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,858,966	\$ 3,177,110
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	5,717,931	\$ 6,354,220
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	94,101	\$ 94,101
12	Full Cash Value (Line 9 + Line 10 - Line 11)	5,623,830	\$ 6,260,119
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	1,152,885	\$ 1,283,324
15	Composite Property Tax Rate (Per Company Schedule)	<u>8.9758%</u>	<u>8.9758%</u>
16			\$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 103,481	
18	Company Proposed Property Tax	<u>113,426</u>	
19			
20	Staff Test Year Adjustment (Line 16-Line 17)	<u>\$ (9,945)</u>	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 115,189
22	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 103,481
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		<u>\$ 11,708</u>
24			
25	Increase to Property Tax Expense		\$ 11,708
26	Increase in Revenue Requirement		954,433
27	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.226693%

OPERATING INCOME ADJUSTMENT NO. 6 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Income Tax Expense	\$ 216,067	\$ (42,278)	\$ 173,789

References:

- Column (A), Company Schedule C-1
- Column (B): Column [C] - Column [A]
- Column (C): Schedule JMM-2

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	\$ 11.00	\$ 14.77	\$ 13.00
3/4 Inch	11.00	14.77	13.00
1 Inch	16.00	21.49	35.00
1 1/2 Inch	25.00	33.58	70.00
2 Inch	37.00	49.70	112.00
3 Inch	56.00	75.22	224.00
4 Inch	N/A	N/A	350.00
6 Inch	N/A	1,237.60	700.00
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter and 3/4" Meter (Residential)			
First 4,000 gallons	\$ 1.1500	\$ 1.5400	N/A
4,001 to 8,000 gallons	1.5500	2.0800	N/A
8,001 to 12,000 gallons	2.2000	2.9500	N/A
First 3,000 gallons	N/A	N/A	\$ 1.2500
3,001 to 9,000 gallons	N/A	N/A	2.0000
Over 9,000 gallons	N/A	N/A	3.1200
5/8" x 3/4" Meter and 3/4" Meter (Commercial)			
First 4,000 gallons	1.1500	1.5400	N/A
4,001 to 8,000 gallons	1.5500	2.0800	N/A
8,001 to 12,000 gallons	2.2000	2.9500	N/A
First 9,000 gallons	N/A	N/A	2.0000
Over 9,000 gallons	N/A	N/A	3.1200
1" Meter (Residential/Commercial)			
First 4,000 gallons	1.1500	1.5400	N/A
4,001 to 8,000 gallons	1.5500	2.0800	N/A
8,001 to 12,000 gallons	2.2000	2.9500	N/A
First 25,000 gallons	N/A	N/A	2.0000
Over 25,000 gallons	N/A	N/A	3.1200
1 1/2" Meter (Residential/Commercial)			
First 4,000 gallons	1.1500	1.5400	N/A
4,001 to 8,000 gallons	1.5500	2.0800	N/A
8,001 to 12,000 gallons	2.2000	2.9500	N/A
First 50,000 gallons	N/A	N/A	2.0000
Over 50,000 gallons	N/A	N/A	3.1200
2" Meter (Residential/Commercial)			
First 4,000 gallons	1.1500	1.5400	N/A
4,001 to 8,000 gallons	1.5500	2.0800	N/A
8,001 to 12,000 gallons	2.2000	2.9500	N/A
First 80,000 gallons	N/A	N/A	2.0000
Over 80,000 gallons	N/A	N/A	3.1200
3" Meter (Residential/Commercial)			
First 4,000 gallons	1.1500	1.5400	N/A
4,001 to 8,000 gallons	1.5500	2.0800	N/A
8,001 to 12,000 gallons	2.2000	2.9500	N/A
First 165,000 gallons	N/A	N/A	2.0000
Over 165,000 gallons	N/A	N/A	3.1200
4" Meter (Residential/Commercial)			
First 4,000 gallons	1.1500	1.5400	N/A
4,001 to 8,000 gallons	1.5500	2.0800	N/A
8,001 to 12,000 gallons	2.2000	2.9500	N/A
First 250,000 gallons	N/A	N/A	2.0000
Over 250,000 gallons	N/A	N/A	3.1200
6" Meter (Residential/Commercial)			
First 4,000 gallons	1.1500	1.5400	N/A
4,001 to 8,000 gallons	1.5500	2.0800	N/A
8,001 to 12,000 gallons	2.2000	2.9500	N/A
First 500,000 gallons	N/A	N/A	2.0000
Over 500,000 gallons	N/A	N/A	3.1200
Construction/Irrigation All Usage	1.2200	1.6400	1.6400
Schools/Wholesale All Usage	1.3200	1.7700	1.7700

Other Service Charges

Broken Meter Lock	\$ 15.00	\$ 15.00	\$ 15.00
Deferred Payment Interest	1.50%*	1.50%*	1.50%*
Deposit	**	**	**
Deposit (Interest)	**	**	**
Establishment Fee	\$ 35.00	\$ 35.00	\$ 35.00
Late Payment	\$5.00***	\$5.00***	1.50%
Meter Test Performed by Company (If Correct)	\$20.00****	\$20.00****	\$20.00****
Meter Test Performed by Outside Vendor (If Correct)	\$25.00****	\$25.00****	\$25.00****
NSF Check (Returned Check)	\$ 15.00	\$ 15.00	\$ 15.00
Reconnection (Delinquent)	\$ 50.00	\$ 50.00	\$ 50.00
After Hours Service Charge	N/A	N/A	\$ 30.00
Meter Re-read Charge	N/A	N/A	\$ 5.00

* 1.50% of unpaid balance each month for a maximum of 6 months with signed agreement.

** Per Commission Rule A.A.C. R-14-2-403(B)

*** If payment is not received within 15 days from date bill is rendered.

**** Only if Correct.

Service and Meter Installation Charges

	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
Service Size 5/8"	\$ 185.00	\$ 125.00	\$ 60.00	\$ 185.00	\$ 125.00	\$ 60.00	\$ 185.00
3/4"	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1"	\$ 265.00	\$ 180.00	\$ 85.00	\$ 265.00	\$ 180.00	\$ 85.00	\$ 265.00
2"	\$ 837.00	\$ 520.00	\$ 317.00	\$ 837.00	\$ 520.00	\$ 317.00	\$ 837.00
3" or larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Refunds of the installation charges shall be pursuant to A.A.C. R-14-3-405 except the refunds will occur in the billing month of September
At Cost = Actual costs of materials and labor.

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,061	\$ 23.44	\$ 31.46	\$ 8.01	34.18%
Median Usage	5,000	17.15	23.01	\$ 5.86	34.17%
Staff Recommended					
Average Usage	9,061	\$ 23.44	\$ 28.94	\$ 5.50	23.44%
Median Usage	5,000	17.15	20.75	\$ 3.60	20.99%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 11.00	\$ 14.77	34.27%	\$ 13.00	18.18%
1,000	12.15	16.31	34.24%	14.25	17.28%
2,000	13.30	17.85	34.21%	15.50	16.54%
3,000	14.45	19.39	34.19%	16.75	15.92%
4,000	15.60	20.93	34.17%	18.75	20.19%
5,000	17.15	23.01	34.17%	20.75	20.99%
6,000	18.70	25.09	34.17%	22.75	21.66%
7,000	20.25	27.17	34.17%	24.75	22.22%
8,000	21.80	29.25	34.17%	26.75	22.71%
9,000	23.35	31.33	34.18%	28.75	23.13%
10,000	24.90	33.41	34.18%	31.87	27.99%
11,000	26.45	35.49	34.18%	34.99	32.29%
12,000	28.00	37.57	34.18%	38.11	36.11%
13,000	30.20	40.52	34.17%	41.23	36.52%
14,000	32.40	43.47	34.17%	44.35	36.88%
15,000	34.60	46.42	34.16%	47.47	37.20%
16,000	36.80	49.37	34.16%	50.59	37.47%
17,000	39.00	52.32	34.15%	53.71	37.72%
18,000	41.20	55.27	34.15%	56.83	37.94%
19,000	43.40	58.22	34.15%	59.95	38.13%
20,000	45.60	61.17	34.14%	63.07	38.31%
25,000	56.60	75.92	34.13%	78.67	38.99%
30,000	67.60	90.67	34.13%	94.27	39.45%
35,000	78.60	105.42	34.12%	109.87	39.78%
40,000	89.60	120.17	34.12%	125.47	40.03%
45,000	100.60	134.92	34.12%	141.07	40.23%
50,000	111.60	149.67	34.11%	156.67	40.39%
75,000	166.60	223.42	34.11%	234.67	40.86%
100,000	221.60	297.17	34.10%	312.67	41.10%

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman

BOB STUMP
Commissioner

SANDRA D. KENNEDY
Commissioner

PAUL NEWMAN
Commissioner

BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF)
BERMUDA WATER COMPANY, AN ARIZONA)
CORPORATION, FOR A DETERMINATION OF)
THE FAIR VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
WATER RATES AND CHARGES FOR UTILITY)
SERVICE BASED THEREON.)
_____)

DOCKET NO. W-01812A-10-0521

DIRECT

TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 26, 2011

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EXHIBIT

Engineering Report for Bermuda Water Company	MSJ
--	-----

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since November 1987.

9
10 **Q. Please list your duties and responsibilities.**

11 A. As a Utilities Engineer, specializing in water and wastewater engineering, my
12 responsibilities include: the inspection, investigation, and evaluation of water and
13 wastewater systems; preparing reconstruction cost new and/or original cost studies,
14 reviewing cost of service studies and preparing investigative reports; providing technical
15 recommendations and suggesting corrective action for water and wastewater systems; and
16 providing written and oral testimony on rate applications and other cases before the
17 Commission.

18
19 **Q. How many cases have you analyzed for the Utilities Division?**

20 A. I have analyzed approximately 560 cases covering various responsibilities for the Utilities
21 Division.

22
23 **Q. Have you previously testified before this Commission?**

24 A. Yes, I have testified in 87 proceedings before this Commission.

1 **Q. What is your educational background?**

2 A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree
3 in Civil Engineering Technology.

4
5 **Q. Briefly describe your pertinent work experience.**

6 A. Prior to my employment with the Commission, I was Assistant Engineer for the City of
7 Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering
8 Technician with the U.S. Public Health Service in Winslow for approximately six years.

9
10 **Q. Please state your professional membership, registrations, and licenses.**

11 A. I am a member of the National Association of Regulatory Utility Commissioners
12 (“NARUC”) Staff Subcommittee on Water.

13
14 **PURPOSE OF TESTIMONY**

15 **Q. What was your assignment in this proceeding?**

16 A. My assignment was to provide Staff’s engineering evaluation for Bermuda Water
17 Company (“Company”) in this rate proceeding.

18
19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. To present the findings of Staff’s engineering evaluation of the operation of the Company.
21 The findings are contained in the Engineering Report that I have prepared for this
22 proceeding and is included as Exhibit MSJ attached to this Direct Testimony.

1 **ENGINEERING REPORT**

2 **Q. Would you briefly describe what was involved in preparing your Engineering Report**
3 **for this rate proceeding?**

4 A. After reviewing the application for the Company, I physically inspected the water system
5 to evaluate its operation and to determine if any plant items were not used and useful. I
6 obtained information from the Company regarding plant facilities, water testing expense,
7 and I analyzed that information. Based on all the above, I prepared the attached
8 Engineering Report.

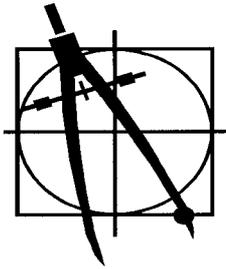
9
10 **Q. Do you provide a summary of the water company operation contained in your**
11 **Engineering Report?**

12 A. Yes, the summary containing Staff's engineering conclusions and recommendations are
13 located at the beginning of my Exhibit MSJ.

14
15 **Q. Does this conclude your Direct Testimony?**

16 A. Yes, it does.

EXHIBIT MSJ



**Engineering Report
For
Bermuda Water Company
Docket No. W-01812A-10-0521 (Rates)**

August 10, 2011

SUMMARY

CONCLUSIONS

- A. Bermuda Water Company (“Company”) had a water loss of 3.4% during the test year which is within the acceptable limit of 10% recommended by Staff.
- B. The Company’s current well and storage capacities are adequate to serve the test year customer base and reasonable growth.
- C. According to an Arizona Department of Environmental Quality (“ADEQ”) Compliance Status Report, dated October 5, 2010, ADEQ has determined that the Company’s system, Public Water System No. 08-063, is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
- D. The Company is not located in any Arizona Department of Water Resources’ (“ADWR”) Active Management Area. ADWR has reported that the Company is in compliance with ADWR’s requirements governing water providers and/or community water systems.
- E. According to the Utilities Division Compliance Section, the Company has no delinquent Arizona Corporation Commission compliance items.
- F. On July 29, 2011, the Company filed a curtailment tariff under Docket No. 11-0303 and this tariff will become effective on August 28, 2011.
- G. Under the Arizona Administrative Code’s old Section R18-4-115, the Company has an approved Backflow Prevention Tariff (“BPT”) with an effective date of April 27, 1992. This old Section R18-4-115 was renumbered to Section R18-4-215, effective August 30, 2008. On July 29, 2011, the Company filed a new application under Docket No. 11-0302 in order to update its BPT using the renumbered Section R18-4-215. This updated BPT will become effective on August 28, 2011.

RECOMMENDATIONS

1. Staff recommends the removal of certain identified plant facilities at a total cost of \$132,065 from plant-in-service because these plant facilities are not used and useful.
2. Staff recommends an annual water testing expense of \$10,921 be used for this proceeding.
3. Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category as presented in Table I-1.
4. Staff recommends that the Company's continue to use its existing service line and meter installation charges as presented in Table J-1.
5. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least seven BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. These BMP templates are available on the Commission's website. A maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

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A. INTRODUCTION

On December 30, 2010, Bermuda Water Company (“Company”) filed a rate application. This Engineering Report constitutes Staff’s engineering evaluation relative to the Company’s rate application.

The Company serves the southern portion of Bullhead City. Figure A-1 shows the location of the Company within Mohave County and Figure A-2 shows the approximate 15.5 square-miles of certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on April 15, 2011, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Jack Meister, representing the Company.

The operation of the water system consisted of eight wells, six storage tanks, two booster stations and a distribution system with two pressure zones serving approximately 8,100 customers at the end of test year ending June 2010. A system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1. Well Data

Well site	#6	#3	#2	#4
ADWR ID No.	55-806426	55-600336	55-600335	55-600337
Casing Size	20”	20”	18”	8”
Casing Depth	180 feet	148 feet	169 feet	148 feet
Well Pump	60-Hp	60-Hp	75-Hp	30-Hp
Pump Production	450 GPM	300 GPM	575 GPM	220 GPM
Meter Size	6-inch	6-inch	8-inch	4-inch
Chlorination Treatment	None	Liquid	Liquid	None
Year Drilled	1959	1960	1965	1968

Well site	#1	#9	#7	#8
ADWR ID No.	55-527191	55-215355	55-532342	55-565030
Casing Size	20/16”	16”	12”	12”
Casing Depth	168 feet	160 feet	160 feet	160 feet
Well Pump	75-Hp	60-Hp	60-Hp	60-Hp
Pump Production	575 GPM	460 GPM	450 GPM	450 GPM
Meter Size	8-inch	8-inch	6-inch	6-inch
Treatment	Liquid	Liquid	Liquid	Liquid
Year Drilled	1990	2007	1995	1998

Table 2. Storage Tanks

Location	Capacity (Gallons)	Quantity (Each)
El Rodeo	500,000	4
Arroyo Vista	372,000	2

Table 3. Booster Stations

Location of Booster Station	Pumps	Other Facilities
Arroyo Vista	Three 60-Hp booster pumps	6" x 4" PRV
Camino Real	Four 25-Hp and two 10-Hp boosters	

Table 4. Water Mains

Diameter	Material	Length, feet
2-inch	PVC	1,300
3-inch	PVC	10,200
4-inch	PVC	78,075
6-inch	PVC	463,368
6-inch	DIP	205
8-inch	PVC	223,484
8-inch	DIP	124
10-inch	PVC	38,066
10-inch	DIP	4,821
12-inch	PVC	54,919
12-inch	DIP	232
16-inch	PVC	17,300
	Total:	892,094 feet or 168.96 miles

Table 5. Customer Meters

Size	Quantity
5/8 x 3/4-inch	7,769
3/4-inch	-
1- inch	231
1-1/2-inch	2
2-inch	54
3-inch	36
4-inch compound	1
4-inch turbine	3
6-inch compound	5
6-inch turbine	6
Total:	8,107

Table 6. Fire Hydrants

Standard, Quantity	Jones-heads, Quantity
678	25

Table 7. Structures & Treatment Equipment

Structures & Treatment Equipment
Liquid chlorination units and sheds at 7 well sites.
All pumping sites have block wall or chain link fencing.
150 kW natural gas generator at Camino Real Booster Station, one 75 kW portable generator, 80 kW diesel generator at Well 9, and two 200 kW diesel generators at Well 1 and Arroyo Vista Booster Station.

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the test year ending June 2010 is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 455 gallons per day (“GPD”) per connection in September 2009 and a low monthly average water use of 291 GPD per connection in March 2010 for an average annual use of 372 GPD per connection.

Non-Account Water

Non-account water should be 10% or less. For the test year, the Company reported 1,138,389,000 gallons pumped and 1,099,530,000 gallons sold, resulting in a water loss of 3.4%. This 3.4% is within acceptable limits.

System Analysis

The current total well capacity of 3,480 GPM and total storage tank capacity of 2,744,000 gallons are adequate to serve the test year customer base and reasonable growth.

D. GROWTH

Figure D-1 depicts the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year ending June 2010, the Company had approximately 8,100 customers and it is projected that the Company could have approximately 9,150 customers within a 5-year period ending December 2015.

E. PLANT-IN-SERVICE ADJUSTMENTS

Plant Not Used and Useful

Staff noted during its field inspection there were certain plant facilities that were not in operation and/or removed from operation since the last rate case. Using Staff's prior Engineering Report related the Company's Reproduction Cost New ("RCN") values, Staff determined the Original Cost ("OC") values by using the Handy-Whitman ("HW") factors for those identified plant items that are not used and useful for this rate proceeding. As a result of this review and evaluation, a summary of the plant facilities that are considered not used and useful are as follows:

Table E-1. Plant-in-Service Adjustments

Acct. No.	Plant Facilities	RCN 1997	HW Factors	OC	Total OC
307	Wells & Springs Well 5 (El Camino) – constructed in 1991 and taken out-of-service (“OOS”) in 2008.	\$78,000	243 / 295	\$64,251	\$64,251
311	Pumping Equipment Well 5 – 50-Hp sub. pump – installed in 1997 and taken OOS in 2008. Arroyo Vista Booster Station: 10-Hp booster w/ pitless – installed in 1992 and taken OOS in 2007. 20-Hp booster w/ pitless – installed in 1992 and taken OOS in 2007. 25-Hp booster w/ pitless – installed in 1993 and taken OOS in 2007.	\$47,000 \$6,250 \$9,375 \$10,625	355 / 473 368 / 473 368 / 473 386 / 473	\$35,275 \$4,863 \$7,294 \$8,671	\$56,103
320	Water Treatment Equipment Well 5 – chlorinator – installed in 1993 and taken OOS in 2008.	\$6,300	331 / 360	\$5,792	\$5,792
330	Distribution Reservoirs Arroyo Vista Booster Station: 5,000 gallon surge tank – installed in 1984 and taken OOS in 2007.	\$7,500	184 / 255	\$5,412	\$5,412
334	Meters Well 5 – 4-inch – installed in 1993 and taken OOS in 2008.	\$550	297 / 322	\$507	\$507
				\$132,065	\$132,065

Staff recommends the removal of above identified plant facilities totaling to \$132,065, from plant-in-service because these plant items are not used and useful in this rate proceeding.

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

Compliance

In an ADEQ compliance status report, dated October 5, 2010, ADEQ reported that the Company’s system, PWS #08-063, has no major deficiencies and is currently delivering water

that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company does not participate in the Monitoring Assistance Program ("MAP") and reported its water testing expense at \$8,227 during the test year. Staff has reviewed this expense, and with Company assistance, has recalculated the annual testing expense at \$10,921 as shown in Table F-1. Staff recommends an annual water testing expense of \$10,921 be used for the purpose of this application.

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

The Company is not located in any ADWR's Active Management Area. According to ADWR's Water Provider Compliance Status Report, dated December 9, 2010, this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

H. ACC COMPLIANCE

On June 10, 2011, the Utilities Division Compliance Section reported that the Company had no delinquent ACC compliance issues.

I. DEPRECIATION RATES

In the prior rate case, the Company submitted a depreciation rate study and was authorized to use its own depreciation rates. For this proceeding, the Company is requesting to adopt Staff's depreciation rates. These requested depreciation rates are presented in Table I-1 and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company requested no changes in its service line and meter installation charges. Staff recommends the Company continue to use its existing charges as shown in Table J-1, with separate installation charges for the service line and meter.

K. CURTAILMENT PLAN TARIFF

On July 29, 2011, the Company filed a curtailment tariff under Docket No. 11-0303 and this tariff will become effective on August 28, 2011.

L. BACKFLOW PREVENTION TARIFF

Under the Arizona Administrative Code's old Section R18-4-115, the Company has an approved Backflow Prevention Tariff ("BPT") with an effective date of April 27, 1992. This old Section R18-4-115 was renumbered to Section R18-4-215, effective August 30, 2008.

On July 29, 2011, the Company filed a new application under Docket No. 11-0302 in order to update its BPT using the renumbered Section R18-4-215. This updated BPT will become effective on August 28, 2011.

M. ADWR BEST MANAGEMENT PRACTICE TARIFFS

In 2008, the ADWR added a new regulatory program for the ADWR Third Management Plan for Active Management Areas ("AMAs"). The new program, called Modified Non-Per Capita Conservation Program ("Modified NPCCP"), addresses large municipal water providers (cities, towns and private water companies serving more than 250 acre-feet per year) and was developed in conjunction with stakeholders from all AMAs. Participation in the program is required for all large municipal water providers in AMAs that do not have a Designation of Assured Water Supply and that are not regulated as a large untreated water provider or an institutional provider.

The Modified NPCCP is a performance-based program that requires participating providers to implement water conservation measures that result in water use efficiency in their service areas. A water provider regulated under the program must implement a required Public Education Program and choose one or more additional Best Management Practices ("BMPs") based on its size, as defined by its total number of water service connections. The provider must select the additional BMPs from the list included in the Modified NPCCP Program. The BMPs are a mix of technical, policy, and information conservation efforts.

Although the implementation of the Modified NPCCP is required of large municipal water providers within an AMA, the Commission has previously adopted BMPs for implementation by Commission regulated water companies.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least seven BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. These BMP templates are available on the Commission's website. A maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

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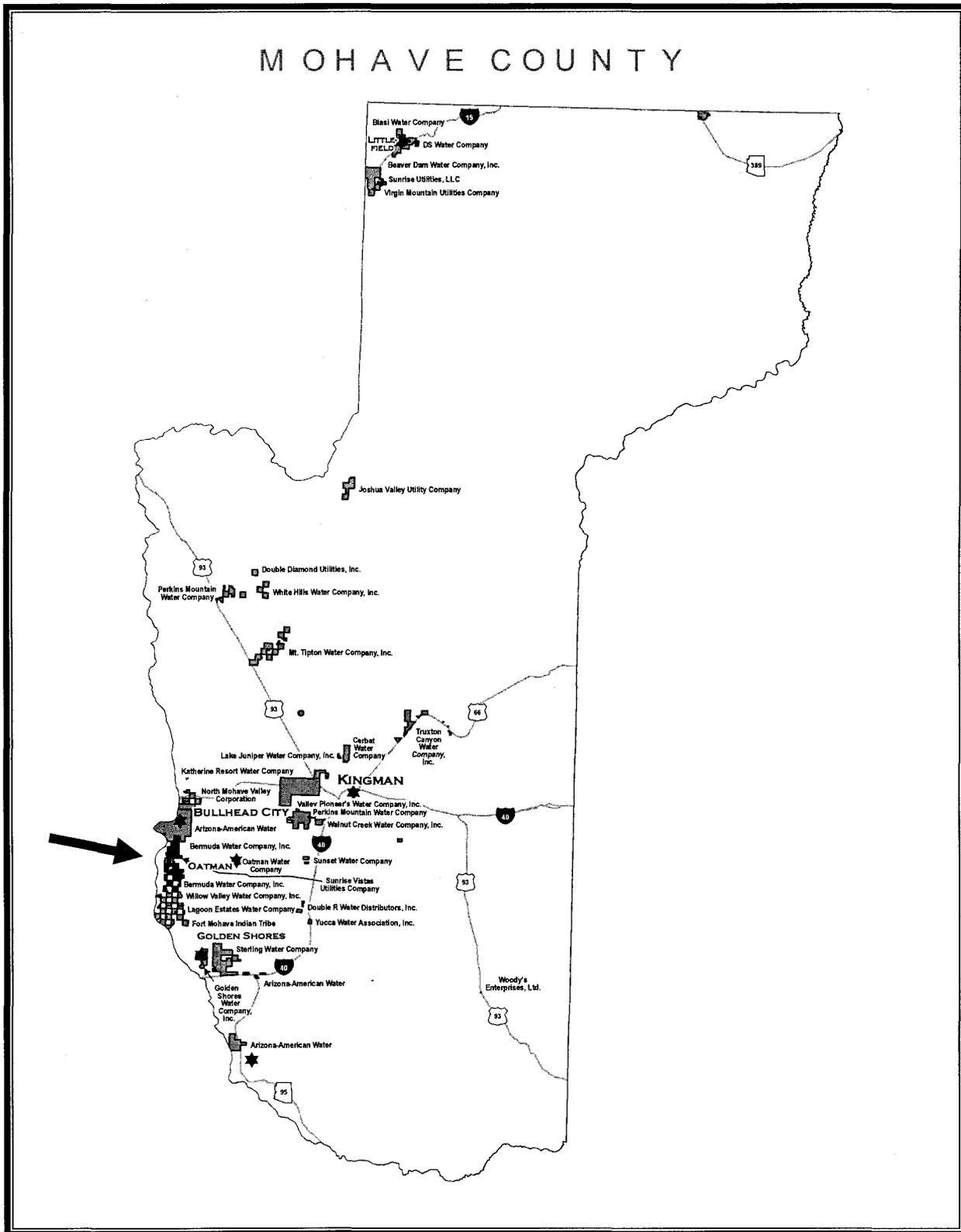


Figure A-1. Mohave County Map

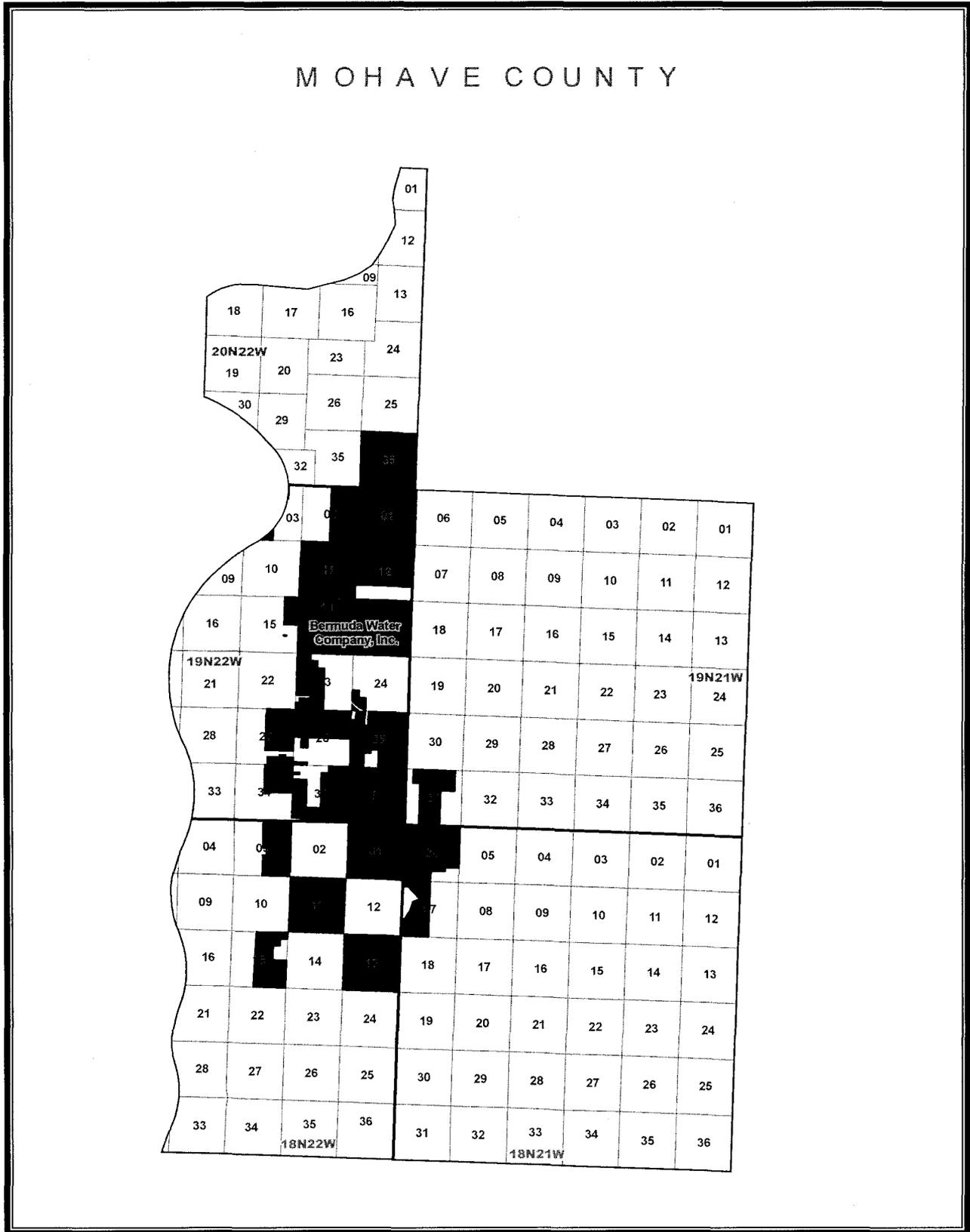


Figure A-2. Certificated Area

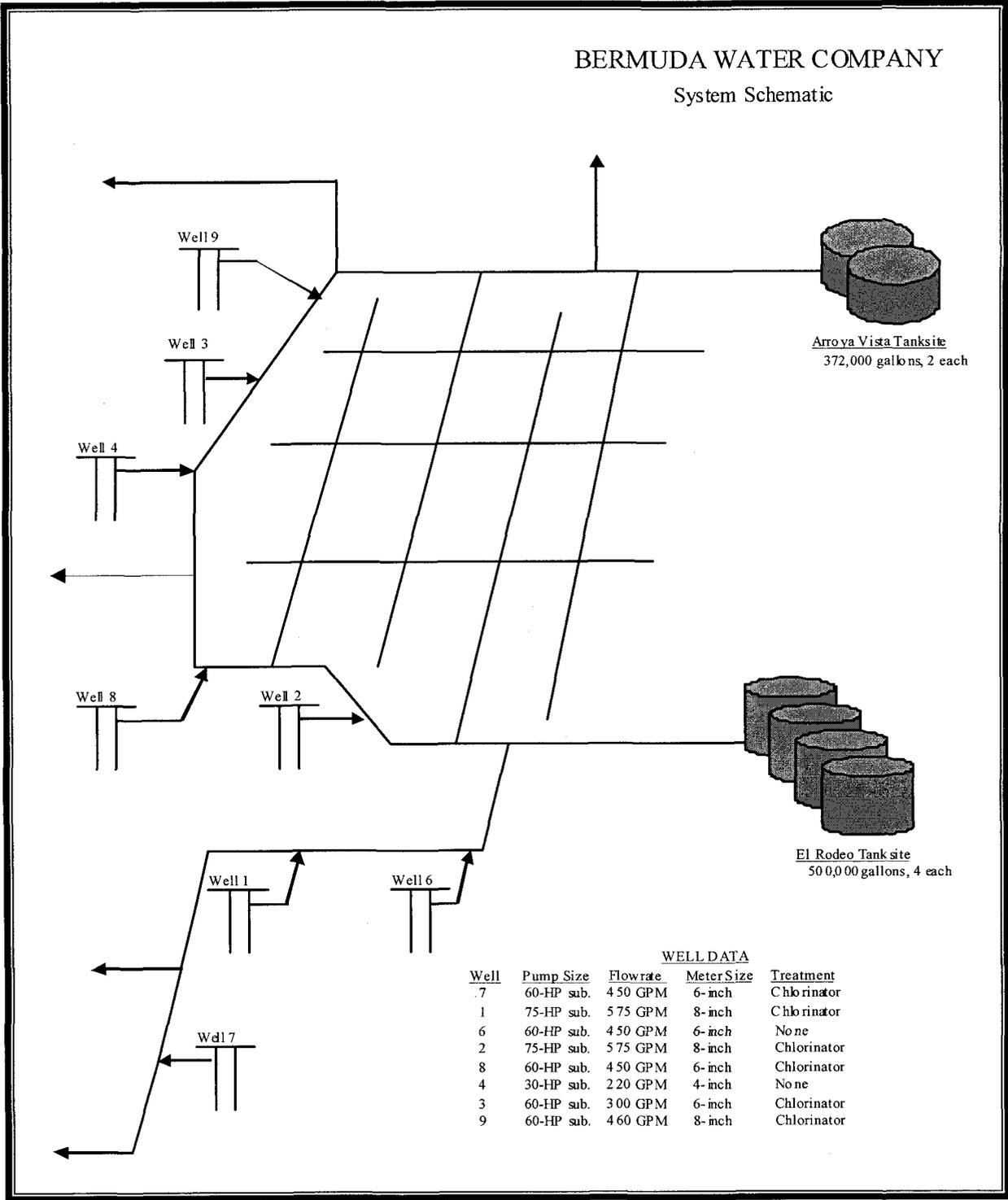


Figure B-1. System Schematic

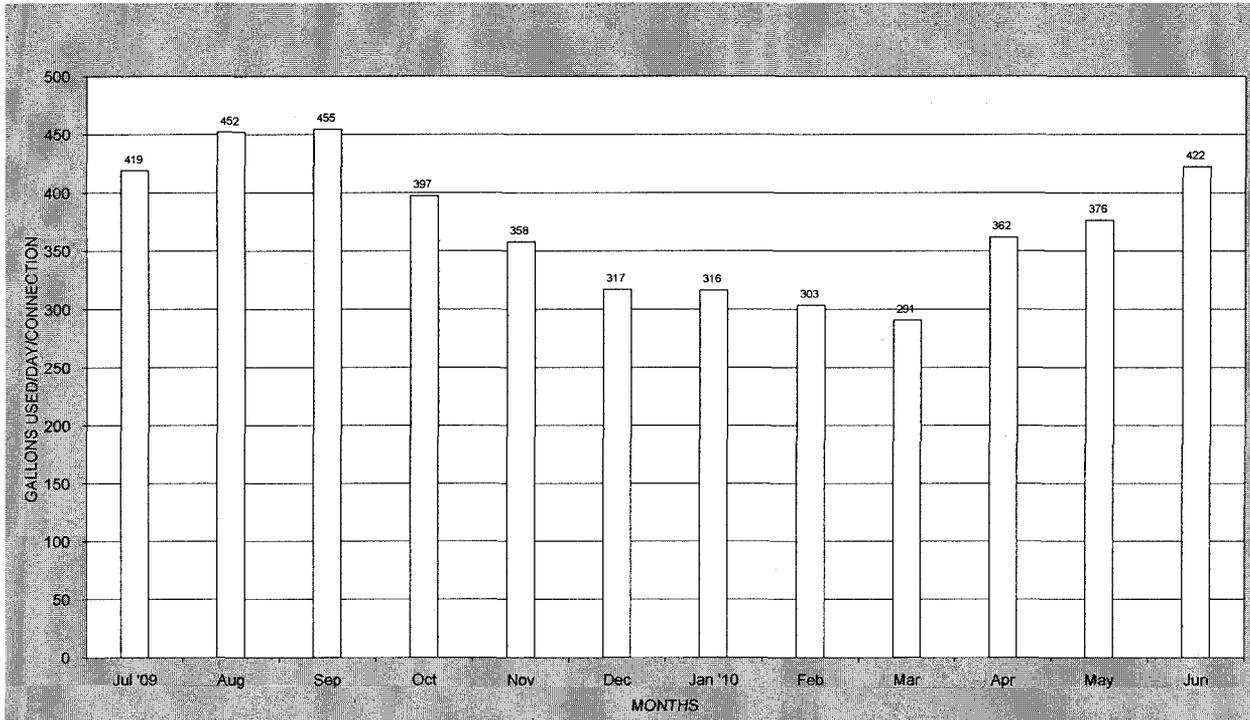


Figure C-1. Water Use

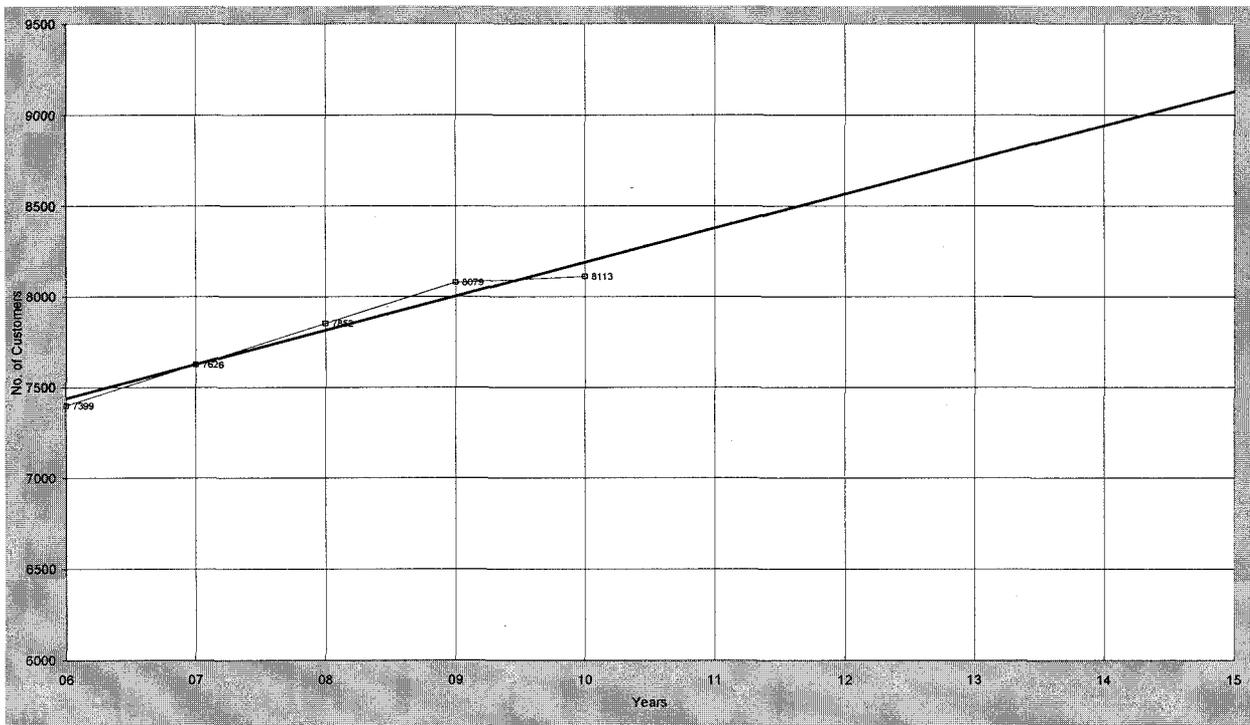


Figure D-1. Growth

Table I-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Equipment	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	----	----

- Notes: 1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Account 348, Other Tangible Plant, may vary from 5% to 5%. The depreciation rate would be set in accordance with the specific capital items in this account.

Table J-1. Service Line and Meter Installation Charges

Meter Size	Service Line Charges	Meter Charges	Total Charges
5/8 x 3/4"	\$125	\$60	\$185
3/4"	-	-	-
1"	\$180	\$85	\$265
1-1/2"	-	-	-
2"	\$520	\$317	\$837
3"	(1)	(1)	(1)

(1) Note: 3-inch or larger meters are actual costs for materials and labor.