

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

*EA for SMD*

DATE: February 22, 2012

RE: STAFF REPORT FOR EAGLETAIL WATER COMPANY, L.L.C.'s  
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-  
03936A-11-0418)

Attached is the Staff Report for Eagletail Water Company, L.L.C.'s application for a permanent rate increase. Staff recommends approval of an increase in revenue less than proposed in the application and approval of Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before March 2, 2012.

SMO:DRE:kdh

Originator: Darak R. Eaddy

Arizona Corporation Commission

DOCKETED

FEB 22 2012

DOCKETED BY	<i>[Signature]</i>
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AZ CORP COMMISSION  
DOCKET CONTROL

2012 FEB 22 P 3:42

RECEIVED

Service List for: Eagletail Water Company, L.L.C.  
Docket No. W-03936A-11-0418

Ms. Susan Haas  
Eagletail Water Company, L.L.C.  
Post Office Box 157  
Tonopah, Arizona 85354

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**EAGLETAIL WATER COMPANY, L.L.C.**

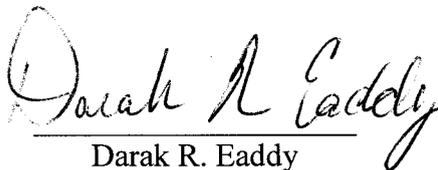
**DOCKET NO. W-03936A-11-0418**

**APPLICATION FOR A  
PERMANENT RATE INCREASE**

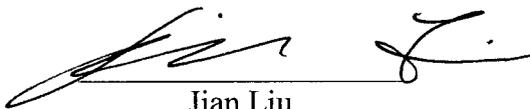
**February 22, 2012**

## STAFF ACKNOWLEDGMENT

The Staff Report for Eagletail Water Company, L.L.C., Docket No. W-03936A-11-0418 is the responsibility of the Staff members listed below. Darak R. Eaddy is responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Jian Liu is responsible for the engineering and technical analysis. Guadalupe Ortiz is responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy  
Public Utility Analyst IV



Jian Liu  
Utilities Engineer



Guadalupe Ortiz  
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY  
EAGLETAIL WATER COMPANY, L.L.C.  
APPLICATION FOR A PERMANENT RATE INCREASE  
DOCKET NO. W-03936A-11-0418**

Eagletail Water Company, L.L.C. ("Eagletail" or "Company") is an Arizona public service corporation providing potable water service to approximately 57 customers. The Company's service area is located approximately 64 miles west of Phoenix and 15 miles south of Interstate 10 in the Harquahala Valley in the western part of Maricopa County. The Company's current rates became effective August 1, 2005, per Arizona Corporation Commission ("Commission") Decision No. 67982. The Company has been classified as a class E utility.

On November 22, 2011, the Company filed an application for a permanent rate increase. The Company proposes total operating revenue of \$49,921, an increase of \$15,000, or 42.95 percent over test year revenue of \$34,921, to provide an operating income of \$16,153 and a 14.75 percent rate of return on its proposed \$109,533 original cost rate base ("OCRB"). The Company did not propose a fair value rate base that differs from its OCRB.

Staff recommends total operating revenue of \$40,863, an increase of \$5,942, or 17.02 percent over the Staff-adjusted test year revenue of \$34,921, to provide an operating income of \$7,429 and a 12.00 percent rate of return on the \$61,922 Staff-adjusted OCRB. Staff's recommended rates would generate \$4,660 of cash flow from operations.

The Company's proposed rates would increase the typical 3/4-inch meter residential bill with a median usage of 3,088 gallons by \$9.99, or 25.0 percent, from \$39.97 to \$49.96.

Staff's recommended rates would increase the typical 3/4-inch meter residential bill with a median usage of 3,088 gallons by \$2.24, or 5.6 percent, from \$39.97 to \$42.21.

**Staff Recommends:**

- Approval of the Staff-recommended rates and charges as shown in Schedule DRE-4, pages 1 and 2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).
- Directing Eagletail to file with Docket Control, as a compliance item in this docket, within 30 days after the effective date of the Decision in this proceeding, a tariff schedule of its new rates and charges.
- Directing Eagletail to apply with ADEQ and WIFA for the technical system evaluation and grant program funding and to file with Docket Control, as a compliance item in this docket within 180 days of the effective date of a Decision in this proceeding, documentation demonstrating that the Company made the appropriate application(s) with ADEQ and WIFA for the technical system evaluation and grant program funding.

- Directing Eagletail to file with Docket Control, as a compliance item in this docket within 90 days of the effective date of a decision in this proceeding, at least three Best Management Practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff for Commission’s review and consideration.
- Directing that a maximum of two BMPs may come from the “Public Awareness/Public Relations” or “Education and Training” categories.
- Adoption of the typical and customary depreciation rates as delineated on Table B in Section H of the attached Engineering Report for Eagletail.
- Approval of separate installation charges for the service line and meter installation charges as delineated in Table C in Section I of the attached Engineering Report.

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**SCHEDULES**

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Engineering Report .....A  
Consumer Services Report.....B

**Fact sheet**

**Company Statistics:**

Company Name: Eagletail Water Company, L.L.C.

Type of Ownership: Arizona Limited Liability Company ("L.L.C.").

Location: The Company is located in the Harquahala Valley which is approximately 64 miles west of downtown Phoenix and 15 miles south of Interstate 10, in the western part of Maricopa County. The well and storage tank site are located near the intersection of 539th Avenue and Baseline Road.

Active Management Area: The Company is not located in any Arizona Department of Water Resources Active Management Area.

Certificate of Convenience and Necessity ("CC&N"): Decision No. 63684, dated March 22, 2001, transferred the CC&N to Eagletail. The initial CC&N was granted in Decision No. 40272, dated October 1 1969.

Current Rates: Decision No. 67982, dated August 1, 2005, test year ended December 31, 2003.

**Rates:**

Current permanent rate increase application docketed: November 22, 2011.

Current Test Year Ended: December 31, 2010.

Application Determined Sufficient: December 22, 2011.

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge (5/8 x 3/4-inch and 3/4-inch meters)			
5/8 x 3/4-inch meter	\$ 27.00	\$ 39.98	\$ 27.00
3/4-inch meter	\$ 30.00	\$ 60.02	\$ 30.00

**Fact Sheet (Continued)**

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Charge per 1,000 gallons In Excess of Minimum Charge (5/8 x 3/4-inch and 3/4-inch meters)			
0 to 3,000 gallons	\$ 3.20	\$ 4.80	N/A
3,001 to 25,000 gallons	\$ 4.25	\$ 6.38	N/A
Over 25,000 gallons	\$ 4.85	\$ 7.28	N/A
0 to 3,000 gallons	N/A	N/A	\$ 3.90
3,001 to 15,000 gallons	N/A	N/A	\$ 5.85
Over 15,000 gallons	N/A	N/A	\$ 7.10
<u>1 Inch Meter Size, Commercial</u>			
0 to 15,000 gallons	N/A	N/A	\$ 5.85
Over 15,000 gallons	N/A	N/A	\$ 7.10
Bulk Water	N/A	N/A	\$ 7.10

**Typical 3/4-inch residential bill**

Average use (5,721 gallons)	\$51.17	\$66.76	\$57.62
Median use (3,088 gallons)	\$39.97	\$49.96	\$42.21

**Customers**

Average Number of customers in the current test year (12/31/10): 57

Current test year customers by meter size:

5/8 X 3/4 – inch	8
3/4 – inch	45
1 – inch	4

**Notifications**

An affidavit of mailing of the customer notification was filed on December 29, 2011.

Eagletail Water Company, L.L.C.

Docket No. W-03936A-11-0418

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Number of opinions filed against the rate increase application: 1.

Number of customer complaints filed against the Company from January 9, 2009, to February 10, 2012: 2.

All complaints have been resolved and closed.

Percentage of opinions to customer base: 3.5 percent (2 / 57).

### **Summary of Filing**

The test year results as adjusted by Utilities Division Staff ("Staff") for Eagletail Water Company, L.L.C.. ("Eagletail" or "Company") show total operating revenue of \$34,921 and operating expenses of \$33,434 resulting in an operating income of \$1,487 and a 2.40 percent rate of return on a \$61,922 original cost rate base ("OCRB"), as shown in Schedule DRE-1.

Eagletail's proposed rates, as filed, produce total operating revenue of \$49,921 and operating income of \$16,153 for a 14.75 percent rate of return on the \$109,533 Company-proposed OCRB. The Company-proposed fair value rate base does not differ from its OCRB. The Company's proposed rates would increase the typical 3/4-inch meter residential bill with a median usage of 3,088 gallons by \$9.99, or 25.0 percent, from \$39.97 to \$49.96, as shown in Schedule DRE-5.

Staff recommends rates that produce total operating revenue of \$40,863, an increase of \$5,942, or 17.02 percent over the Staff-adjusted test year revenue of \$34,921, to provide an operating income of \$7,429 and a 12.00 percent rate of return on the \$61,922 Staff-adjusted OCRB. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 3,088 gallons by \$2.24, or 5.6 percent, from \$39.97 to \$42.21. Staff's recommended rates would generate \$4,660 of cash flow from operations, as shown in DRE-3.1.

### **Company Background**

Eagletail is an Arizona limited liability company that provides potable water service to customers in its service territory approximately 8 square miles in area and located approximately 64 miles west of Phoenix and 15 miles south of Interstate 10 in the Harquahala Valley in the western part of Maricopa County.

Eagletail filed its application for a permanent rate increase on November 22, 2011. Staff deemed the Company's application sufficient and notified Eagletail by letter on December 22, 2011. On December 29, 2011, the Company filed with Docket Control a copy of its affidavit of service notifying customers of its pending rate increase application.

The Company provides water services to approximately 57 customers - all residential. The Company has been classified as a class E utility.

### **Consumer Services**

A review of the Consumer Services Section database for the period January 1, 2009, through February 10, 2012, revealed the following: 1 opinion opposing the rate increase request and 2 complaints. All complaints have been resolved and closed.

### **Compliance**

The Utilities Division Compliance Section shows no outstanding compliance issues.

Eagletail is current on its property and sales tax payments.

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

### **Engineering**

The water system was field-inspected on February 1, 2012, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Homer Bigbey, the Company's managing board member.

During its review of Eagletail's prior rate request in 2005, Staff found that the Company was experiencing excessive water loss of over 53 percent. During the test year for this rate case, Eagletail reported 6,385,400 gallons pumped and 3,629,264 gallons sold, resulting in a water loss of 43.16 percent. Non-account water should be 10 percent or less.

The Arizona Department of Environmental Quality ("ADEQ") and the Water Infrastructure Financing Authority of Arizona ("WIFA") have partnered to provide technical assistance to regulated public water systems ("PWSs") by providing water system evaluations ("WSEs"). These WSEs are utilized by ADEQ and WIFA to determine the priority ranking and funding needs for the PWSs and provide operational guidance to the utility. It is Staff's understanding that WIFA's Planning and Design Grant Program can provide up to thirty-five thousand dollars in grant money to help prepare water facilities for future infrastructure project construction.

To the extent that this type of technical guidance may be available to the Company, it could assist the Company in becoming more proactive in addressing its water loss issue. Staff recommends that Eagletail apply with ADEQ and WIFA for the technical system evaluation and grant program funding.

A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

### **Rate Base**

Staff's adjustments to rate base resulted in a net decrease of \$47,612, from \$109,533 to \$61,922, as shown in Schedule DRE-2, page 1. Details of Staff's adjustments are discussed below.

### **Plant in Service**

Staff's adjustments to plant in service resulted in a net increase of \$72,715, from \$175,421 to \$102,706, as shown in Schedule DRE-2, page 2. A significant portion of Staff's decrease to plant in service resulted from Staff's removal of a property tax liability incorrectly recorded as plant in service.

Structures and Improvements - Adjustment "a" increases the structures and improvements account by \$322, from \$2,766 to \$3,088, as shown in Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the balance established by Decision No. 67982 and a \$1,221.82 plant addition supported by documentation.

Wells & Springs - Adjustment "b" decreases the wells & springs account by \$24,510, from \$61,686 to \$37,176, as shown in Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the balance established by Decision No. 67982 and the removal of a property tax liability incorrectly recorded as a plant addition to the wells & springs account.

Pumping Equipment - Adjustment "c" decreases the pumping equipment account by \$8,666, from \$22,136 to \$13,470, as shown in Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the balance established by Decision No. 67982, \$1,740 in plant additions supported by documentation and the removal of a property tax liability incorrectly recorded as a plant addition to the pumping equipment account.

Water Treatment Equipment - Adjustment "d" decreases the water treatment equipment account by \$3,501, from \$8,601 to \$5,100 as shown in Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the balance established by Decision No. 67982 and the removal of a property tax liability that the Company incorrectly recorded as a plant addition to the water treatment equipment account.

Transmission & Distribution Mains - Adjustment "e" decreases the transmission & distribution mains account by \$35,015, from \$75,015 to \$40,000, as shown in Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the balance established by Decision No. 67982 and the removal of a property tax liability that the Company incorrectly recorded as a plant addition to the transmission & distribution mains account.

Meters & Meter Installations - Adjustment "f" decreases the meters & meter installations account by \$1,345, from \$5,217 to \$3,872, as shown in Schedule DRE-2, pages 2 and 4. Staff's adjusted amount reflects the balance established by Decision No. 67982 and the removal of unsupported plant additions to the meters & meter installations account.

## **Other Rate Base Items**

### **Accumulated Depreciation**

Staff decreased accumulated depreciation by \$22,071, from \$63,533 to \$41,462, as shown in Schedule DRE-2, pages 1 and 5. The adjustment reflects the cumulative effect of Staff adjustments to plant in service account balances and recalculation of depreciation expense in the intervening years since the test year in the prior rate case using the Commission-authorized depreciation rates. The Company has been applying a 5 percent depreciation rate to all accounts instead of the depreciation rates approved by the Commission in Decision No. 67982.<sup>1</sup>

### **Working Capital**

Staff's adjustments to working capital resulted in a net increase of \$3,033, from \$0 to \$3,033, as shown in Schedule DRE-2, pages 1 and 6.

Staff calculated cash working capital 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 Expenses**

Staff's adjustments to operating expenses resulted in a net decrease of \$336, from \$33,768 to \$33,432, as shown in Schedule DRE-3, page 1. The adjustments are explained below.

Salaries and Wages - Adjustment "g" increases this account by \$5,000, from \$1,860 to \$6,860, as shown in Schedule DRE-3, pages 1 and 2. Staff's adjustment reflects on-going incremental salaries and wages for a part time employee engaged in various field and operational activities.

Currently a significant portion of field and operational responsibilities are handled by volunteers and members. However, the Company asserts that many of the volunteers are of advanced age and declining health makes it difficult for the volunteers to perform such tasks as digging ditches, repairing leaks, reading meters, etc.

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<sup>1</sup> In the prior rate case, the accumulated depreciation calculated by Staff and adopted in Decision No. 67982 for Pumping Equipment was based on a depreciation rate in the intervening years from the then prior rate case at 2.5 percent versus the 12.5 percent rate authorized. In addition, the depreciation expense adopted in the prior rate case was also calculated using a 2.5 percent depreciation rate for Pumping Equipment. As a result, the Staff calculated rate base in that case was overstated and the depreciation expense was understated. The accumulated depreciation calculated by Staff for the current case reflects the authorized 12.5 percent depreciation rate for the period beginning with the test year in the second prior rate case.

In the rate application, Eagletail requested funds for a part-time worker to aid the Company's volunteer workforce. Although the Company did not make a pro forma adjustment to reflect this request, Staff agrees with the Company's request for funds to provide for a part-time employee who may help the Company address its significant water loss issue.

Water Testing - Adjustment "h" increases this account by \$308, from \$394 to \$702, as shown in Schedule DRE-3, pages 1 and 2. This adjustment reflects the on-going annual water testing costs determined by Staff and detailed in the attached Engineering Report.

Regulatory Commission Expense – Rate Case - Adjustment "i" increases this account by \$333, from \$0 to \$333, to reflect amortization of the Company's expected cost of approximately \$1,000 over three years, as shown in Schedule DRE-3, pages 1 and 2. Staff recommends that the Commission not allow the Company to recover any unamortized balance that may remain in a future rate case.

Depreciation Expense - Adjustment "j" decreases depreciation expense by \$5,977, from \$8,771 to \$2,794, as shown in Schedule DRE-3, pages 1 and 3. This adjustment reflects Staff's calculation of depreciation expense applying Staff's recommended depreciation rates to Staff's recommended plant balances for Eagletail.

#### **Other Operating Income/(Expense)**

Interest Expense - Staff's Adjustment "k" decreases interest expense by \$4,646, from \$8,030 to \$3,384, as shown in Schedule DRE-3, pages 1 and 4. This adjustment reflects Staff's removal of interest expense associated with a personal loan obtained by the Company's owners, and recognizes the test year interest expense on the Company's Commission-authorized loan. In Decision No. 72731, the Commission found that the loan was not a loan of Eagletail and that it was not in the public interest to provide coverage for this loan in Eagletail's rates.

Staff's recommended rates produce a 2.20 times interest earned ratio ("TIER") and a 1.84 debt service coverage ratio ("DSC"). TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A DSC greater than 1.0 means operating cash flow is sufficient to cover all obligations.

#### **Rate of Return and Revenue Requirement**

The Company's application, as filed, proposes rates and charges to provide an operating income of \$16,153 and a 14.75 percent return on its proposed rate base. Staff recommends total operating revenue of \$40,863, an increase of \$5,942, or 17.02 percent over the Staff-adjusted test year revenue of \$34,921, to provide an operating income of \$7,429 and a 12.00 percent rate of return on the \$61,922 Staff-adjusted OCRB, as shown in Schedule DRE-1.

Staff performed an analysis of cash flows generated by its proposed rates to assess the reasonableness of its recommended revenues, rate of return and the resulting operating income. As shown in Schedule DRE-3.1, Staff's recommended revenue provides cash flow from operations sufficient to pay all operating expenses, principal and interest on debt and \$4,660 of cash available for contingencies. Staff concludes that the cash flow generated by its recommended rates and charges is reasonable and sufficient.

### **Rate Design**

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

The Company's present rate structure has three inverted rate tiers with no gallons included in the minimum monthly charge. The breakover points between rate tiers are at 3,000 and 25,000 gallons for all meter sizes. The minimum monthly charges increase by meter size, but in ratios substantially below the capacity flow rate ratios.

The Company's proposed rate structure has minimum monthly charges for the meter sizes that have multiples of the 5/8 x 3/4-inch charge in ratios consistent with their capacity flow rates, but maintains the existing breakover points between rate tiers for all meter sizes. The Company's proposed rates would increase the typical 3/4-inch meter residential bill with a median usage of 3,088 gallons by \$9.99, or 25.0 percent, from \$39.97 to \$49.96, as shown in Schedule DRE-5.

Staff recommends a rate structure with three inverted rate tiers for 5/8 x 3/4-inch and 3/4-inch meters and two rate tiers for larger meters and breakover points that increase by meter size. Staff also proposes monthly minimum charges that more closely follow the capacity flow rate ratios than do the existing rates. Staff's recommended rates would increase the typical 3/4-inch meter residential bill with a median usage of 3,088 gallons by \$2.24, or 5.6 percent, from \$39.97 to \$42.21, as shown in Schedule DRE-5.

### **Miscellaneous Service Charges**

The Company proposes a \$40 establishment charge. Staff finds the proposed charge for this service reasonable and normal and recommends approval of the proposed charge.

The Company proposes a \$35 reconnection (delinquent) charge. Staff finds the proposed charge for this service reasonable and normal and recommends approval of the proposed charge.

The Company proposes that it not be required to pay interest on deposits. Because deposit interest is addressed in A.A.C. R14-2-103(B), Staff recommends that the Company be required to continue paying interest pursuant to the applicable rule.

The Company proposes a \$30 charge for re-establishment (within 12 months). Because re-establishment of services is addressed in A.A.C. R14-2-403(D)(1), Staff recommends that the Company be required to continue providing this service pursuant to the applicable rule.

The Company proposes to increase the NSF check service charge from \$25.00 to \$30.00. Staff finds the proposed charge for this service reasonable and normal and recommends approval of the proposed charge.

The Company proposes an increase in Establishment (after hours) and Reconnection (delinquent) after hours. 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 outside of normal business hours at the customer's request or for the customer's convenience. Therefore, Staff recommends elimination of the Company's requested Establishment (after hours) and Reconnection (delinquent) after hours charge and, instead, Staff recommends the creation of a separate \$25 after-hours service charge. For example, under Staff's proposal, a customer subject to a \$40 Establishment fee when performed during normal business hours would pay an additional \$25 after-hours fee if the customer requested that the establishment be performed after normal business hours.

The Company proposes to change the late payment penalty charge from 1.50 percent to 2 percent. Staff does not agree with the Company's proposed charge and recommends retaining the current 1.50 percent penalty.

### **Service Line and Meter Installation Charges**

The Company is not requesting any changes in its service line and meter installation charges in this proceeding. The current charges are within the range of charges typically recommended by Staff.

Since the Company may at times install meters on existing service lines, it is appropriate to charge these customers only for the meter installation. Therefore, Staff developed separate service line and meter charges. Staff recommends adoption of these separate service line and meter installation charges for the Company. The separate service line charges and meter charges recommended by Staff are listed in Table C of the Engineering Report. The combination of these two charges equal the Company's total proposed charges.

**Staff Recommendations**

Staff Recommends:

- Approval of the Staff-proposed rates and charges as shown in Schedule DRE-4, pages 1 and 2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.
- Eagletail to file with Docket Control, as a compliance item in this docket, within 30 days after the effective date of the Decision in this proceeding, a tariff schedule of its new rates and charges.
- Eagletail to apply with ADEQ and WIFA for the technical system evaluation and grant program funding and to file with Docket Control, and as a compliance item in this docket within 180 days of the effective date of a Decision in this proceeding, provide documentation demonstrating that the Company made the appropriate application(s) with ADEQ and WIFA for the technical system evaluation and grant program funding.
- Eagletail to file with Docket Control, as a compliance item in this docket within 90 days of the effective date of a decision in this proceeding, at least three Best Management Practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff for Commission’s review and consideration.
- That a maximum of two BMPs may come from the “Public Awareness/Public Relations” or “Education and Training” categories.
- Adoption of the typical and customary depreciation rates as delineated on Table B in Section H of the attached Engineering Report for Eagletail.
- Approval of separate installation charges for the service line and meter installation charges as delineated in Table C in Section I of the attached Engineering Report.

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SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$34,841	\$34,841	\$49,841	\$40,763
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	80	80	80	100
<b>Total Operating Revenue</b>	<b>\$34,921</b>	<b>\$34,921</b>	<b>\$49,921</b>	<b>\$40,863</b>
Operating Expenses:				
Operation and Maintenance	\$23,646	\$29,289	\$23,646	\$29,289
Depreciation	8,771	2,794	8,771	2,794
Property & Other Taxes	1,351	1,351	1,351	1,351
Income Tax	0	0	0	0
<b>Total Operating Expense</b>	<b>\$33,768</b>	<b>\$33,434</b>	<b>\$33,768</b>	<b>\$33,434</b>
<b>Operating Income/(Loss)</b>	<b>\$1,153</b>	<b>\$1,487</b>	<b>\$16,153</b>	<b>\$7,429</b>
Rate Base O.C.L.D.	\$109,533	\$61,922	\$109,533	\$61,922
Rate of Return - O.C.L.D.	1.05%	2.40%	14.75%	12.00%
Times Interest Earned Ratio (Pre-Tax)	0.14	0.44	4.77	2.20
Debt Service Coverage Ratio (Pre-Tax)	0.97	0.16	4.48	1.84

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$175,421	(\$72,715)	A	\$102,706
Less:				
Accum. Depreciation	63,533	(22,071)	B	41,462
<b>Net Plant</b>	<b>\$111,888</b>	<b>(\$50,644)</b>		<b>\$61,244</b>
Less:				
Plant Advances	\$0	\$0		\$0
Customer Deposits	2,355	0		2,355
<b>Total</b>	<b>\$2,355</b>	<b>\$0</b>		<b>\$2,355</b>
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
<b>Total Deductions</b>	<b>\$2,355</b>	<b>\$0</b>		<b>\$2,355</b>
Plus:				
1/24 Power	\$0	\$314	C	\$314
1/8 Operation & Maint.	0	2,719	D	2,719
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$0</b>	<b>\$3,033</b>		<b>\$3,033</b>
<b>Rate Base</b>	<b>\$109,533</b>	<b>(\$47,612)</b>		<b>\$61,922</b>

Explanation of Adjustment:

- A - See Schedule 2, Page 2
- B - See Schedule 2, Page 5
- C - See Schedule 2, Page 6
- D - See Schedule 2, Page 6

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	2,766	322 a	3,088
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	61,686	(24,510) b	37,176
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	22,136	(8,666) c	13,470
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	8,601	(3,501) d	5,100
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	0	0	0
330.2 Pressure Tanks	0	0	0
331 Transmission & Distribution Mains	75,015	(35,015) e	40,000
333 Services	0	0	0
334 Meters & Meter Installations	5,217	(1,345) f	3,872
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
340.1 Computers & Software	0	0	0
341 Transportation Equipment	0	0	0
342 Stores 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
<b>TOTALS</b>	<b>\$175,421</b>	<b>(\$72,715) A</b>	<b>\$102,706</b>

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

NET UTILITY PLANT IN SERVICE

	Staff Adjusted Plant	Staff Adjusted Accum. Depr.	Staff Adjusted OCLD
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	3,088	568	2,520
305 Collecting & Impounding Reservoirs	0	0	0
306 Lake, River, Canal Intakes	0	0	0
307 Wells & Springs	37,176	13,721	23,455
308 Infiltration Galleries	0	0	0
309 Raw Water Supply Mains	0	0	0
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	13,470	12,589	881
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	5,100	1,843	3,257
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	0	0	0
330.2 Pressure Tanks	0	0	0
331 Transmission & Distribution Mains	40,000	10,000	30,000
333 Services	0	0	0
334 Meters & Meter Installations	3,872	2,742	1,130
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
340.1 Computers & Software	0	0	0
341 Transportation Equipment	0	0	0
342 Stores 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
<b>TOTALS</b>	<b>\$102,706</b>	<b>\$41,462</b>	<b>\$61,244</b>

PLANT ADJUSTMENTS

a -	STRUCTURES & IMPROVEMENTS - Per Company Per Staff	\$2,766 <u>3,088</u>	<u>\$322</u>
	To reflect account balance per Decision No. 67982 and a plant addition of \$1,221.82 supported by documentation		
b -	WELLS & SPRINGS - Per Company Per Staff	\$61,686 <u>37,176</u>	<u>(\$24,510)</u>
	To reflect the removal of unsupported plant additions		
c -	PUMPING EQUIPMENT - Per Company Per Staff	\$22,136 <u>13,470</u>	<u>(\$8,666)</u>
	To reflect account balance per Decision No. 67982 and the addition of \$1,740 in plant additions supported by documentation		
d -	WATER TREATMENT EQUIPMENT - Per Company Per Staff	\$8,601 <u>5,100</u>	<u>(\$3,501)</u>
	To reflect the removal of unsupported plant additions		
e -	TRANSMISSION & DISTRIBUTION MAINS - Per Company Per Staff	\$75,015 <u>40,000</u>	<u>(\$35,015)</u>
	To reflect the removal of unsupported plant additions		
f -	METERS & METER INSTALLATIONS - Per Company Per Staff	\$5,217 <u>3,872</u>	<u>(\$1,345)</u>
	To reflect the removal of unsupported plant additions		

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$63,533
Accumulated Depreciation - Per Staff	<u>41,462</u>
<b>Total Adjustment</b>	<b><u><u>(\$22,071) B</u></u></b>

B - To reflect application of the authorized depreciation rates in the intervening years since the prior rate case.

Accumulated Depreciation per Decision No. 64743		4,317
2001 Credit to Accumulated Depreciation	\$3,292	
2002 Credit to Accumulated Depreciation	\$3,673	
2003 Credit to Accumulated Depreciation	\$4,085	
2004 Credit to Accumulated Depreciation	\$4,116	
2005 Credit to Accumulated Depreciation	\$4,116	
2006 Credit to Accumulated Depreciation	\$4,116	
2007 Credit to Accumulated Depreciation	\$4,116	
2008 Credit to Accumulated Depreciation	\$3,699	
2009 Credit to Accumulated Depreciation	\$3,024	
2010 Credit to Accumulated Depreciation	<u>\$2,909</u>	
		\$37,145
Accumulated Depreciation Balance at 12/31/2010 Per Staff		\$41,462
Less: Company Balance		<u>\$63,533</u>
Staff Adjustment		(\$22,071)

STAFF RATE BASE ADJUSTMENTS

C	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff	\$	-	
				314	<u>\$314</u>
		To reflect 1/24th of purchased power and water expense			
D	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff	\$	-	
				2,719	<u>\$2,719</u>
		To reflect 1/8th of operation and maintenance expenses excluding purchased power and purchased water expenses			

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$34,841	\$0	\$34,841
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	80	0	80
<b>Total Operating Revenue</b>	<b>\$34,921</b>	<b>\$0</b>	<b>\$34,921</b>
Operating Expenses:			
601 Salaries and Wages	\$1,860	\$5,000 g	\$6,860
610 Purchased Water	0	0	0
615 Purchased Power	7,536	0	7,536
618 Chemicals	322	0	322
620 Repairs and Maintenance	2,340	0	2,340
621 Office Supplies & Expense	310	0	310
630 Outside Services	6,633	0	6,633
635 Water Testing	394	308 h	702
641 Rents	0	0	0
650 Transportation Expenses	446	0	446
657 Insurance - General Liability	1,565	0	1,565
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	333 i	333
675 Miscellaneous Expense	2,240	0	2,240
403 Depreciation Expense	8,771	(5,977) j	2,794
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	1,351	0	1,351
409 Income Tax	0	0	0
<b>Total Operating Expenses</b>	<b>\$33,768</b>	<b>(\$336)</b>	<b>\$33,432</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>\$1,153</b>	<b>\$336</b>	<b>\$1,489</b>
Other Income/(Expense):			
419 Interest and Dividend Income	\$58	\$0	\$58
421 Non-Utility Income	0	0	0
427 Interest Expense	8,030	(4,646) k	3,384
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
<b>Total Other Income/(Expense)</b>	<b>(\$7,972)</b>	<b>\$4,646</b>	<b>(\$3,326)</b>
<b>NET INCOME/(LOSS)</b>	<b>(\$6,820)</b>	<b>\$4,983</b>	<b>(\$1,837)</b>

STAFF ADJUSTMENTS

g -	SALARIES AND WAGES - Per Company	\$1,860	
	Per Staff	<u>6,860</u>	<u>\$5,000</u>
	To allow compensation for field and operational assistance as an on-going expense		
h -	WATER TESTING - Per Company	\$394	
	Per Staff	<u>702</u>	<u>\$308</u>
	To reflect average on-going annual water testing expense		
i -	REGULATORY COMMISSION EXPENSE - Per Company	\$0	
	Per Staff	<u>333</u>	<u>\$333</u>
	To provide recovery of estimated rate case expense of \$1,000 amortized over 3 years		

STAFF ADJUSTMENTS (Cont.)

j - DEPRECIATION - Per Company \$8,771  
Per Staff 2,794 (\$5,977)

Calculation of Adjustment:

Pro Forma Annual Depreciation Expense:

DESCRIPTION	PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciate PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
Organization	\$ -	\$ -	\$ -	0.00%	\$ -
Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
Land & Land Rights	\$ -	\$ -	\$ -	0.00%	\$ -
Structures & Improv	\$ 3,088	\$ -	\$ 3,088	3.33%	\$ 103
Collecting & Impoundin	\$ -	\$ -	\$ -	2.50%	\$ -
Lake, River, Canal Inta	\$ -	\$ -	\$ -	2.50%	\$ -
Wells & Springs	\$ 37,176	\$ -	\$ 37,176	3.33%	\$ 1,238
Infiltration Galleries	\$ -	\$ -	\$ -	6.67%	\$ -
Raw Water Supply Mai	\$ -	\$ -	\$ -	2.00%	\$ -
Power Generated Equi	\$ -	\$ -	\$ -	5.00%	\$ -
Pumping Equipment	\$ 13,470	\$ 12,188	\$ 1,282	12.50%	\$ 160
Water Treatment Equip	\$ -	\$ -	\$ -	0.00%	\$ -
Water Treatment Pla	\$ 5,100	\$ -	\$ 5,100	3.33%	\$ 170
Solution Chemical Fe	\$ -	\$ -	\$ -	20.00%	\$ -
Distribution Reservoirs	\$ -	\$ -	\$ -	0.00%	\$ -
Storage Tanks	\$ -	\$ -	\$ -	2.22%	\$ -
Pressure Tanks	\$ -	\$ -	\$ -	5.00%	\$ -
Transmission & Distrib	\$ 40,000	\$ -	\$ 40,000	2.00%	\$ 800
Services	\$ -	\$ -	\$ -	3.33%	\$ -
Meters & Meter Install	\$ 3,872	\$ -	\$ 3,872	8.33%	\$ 323
Hydrants	\$ -	\$ -	\$ -	2.00%	\$ -
Backflow Prevention D	\$ -	\$ -	\$ -	6.67%	\$ -
Other Plant and Misc. I	\$ -	\$ -	\$ -	6.67%	\$ -
Office Furniture & Equi	\$ -	\$ -	\$ -	6.67%	\$ -
Computers & Softwa	\$ -	\$ -	\$ -	20.00%	\$ -
Transportation Equipm	\$ -	\$ -	\$ -	20.00%	\$ -
Tools Shop & Garage I	\$ -	\$ -	\$ -	5.00%	\$ -
Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
Power Operated Equip	\$ -	\$ -	\$ -	5.00%	\$ -
Communication Equipr	\$ -	\$ -	\$ -	10.00%	\$ -
Miscellaneous Equipm	\$ -	\$ -	\$ -	10.00%	\$ -
Other Tangible Plant	\$ -	\$ -	\$ -	0.00%	\$ -
<b>Total</b>	<b>\$ 102,706</b>	<b>\$ 12,188</b>	<b>\$ 90,518</b>		<b>\$ 2,794</b>

Depreciation Expense Before Amortization of CIAC: \$ 2,794  
Amortization of CIAC \$ -  
Test Year Depreciation Expense - Staff: \$ 2,794  
Depreciation Expense - Company: \$8,771  
Staff's Total Adjustment: \$ (5,977)

Pro Forma Annual Depreciation Expense:

Plant in Service \$102,706  
Less: Non Depreciable Plant 0  
Fully Depreciated Plant 12,188  
Depreciable Plant \$90,518  
Times: Staff Proposed Depreciation Rate 3.09%  
Full Year Credit to Accumulated Depreciation \$2,794  
Less: Amort. of CIAC 0  
**Pro Forma Annual Depreciation Expense** \$2,794

STAFF ADJUSTMENTS (Cont.)

k - INTEREST EXPENSE - Per Company	\$8,030	
Per Staff	<u>3,384</u>	<u>(\$4,646)</u>

To remove interest expense pertaining to a personal loan  
of the owners, i.e., to reflect only the Commission authorized loan

STAFF RECOMMENDED CASH FLOW - OPERATING

	Staff Recommended
Revenues:	
461 Metered Water Revenue	\$40,763
460 Unmetered Water Revenue	0
474 Other Water Revenues	100
	<hr/>
Total Operating Revenue	<b>\$40,863</b>
	<hr/>
Operating Expenses:	
601 Salaries and Wages	\$6,860
610 Purchased Water	0
615 Purchased Power	7,536
618 Chemicals	322
620 Repairs and Maintenance	2,340
621 Office Supplies & Expense	310
630 Outside Services	6,633
635 Water Testing	702
641 Rents	0
650 Transportation Expenses	446
657 Insurance - General Liability	1,565
659 Insurance - Health and Life	0
666 Regulatory Commission Expense - Rate Case	333
675 Miscellaneous Expense	2,240
403 Depreciation Expense	2,794
408 Taxes Other Than Income	0
408.11 Property Taxes	1,351
409 Income Tax	0
	<hr/>
Total Operating Expenses	<b>\$33,434</b>
	<hr/>
<b>OPERATING INCOME/(LOSS)</b>	<b>\$7,429</b>
Plus: Depreciation Expense	2,794
Less: Interest Expense	3,384
Principal Repayments	2,180
AIAC Refunds	0
	<hr/>
<b>Cash Flow - Operating</b>	<b>\$4,660</b>
	<hr/> <hr/>

RATE DESIGN

Monthly Usage Charge		Present	-Proposed Rates-	
		Rates	Company	Staff
5/8" x 3/4" Meter		\$27.00	\$39.98	\$27.00
3/4" Meter		30.00	60.02	30.00
1" Meter		45.00	100.00	45.00
1½" Meter		50.00	199.88	150.00
2" Meter		61.00	319.80	240.00
3" Meter		105.00	599.63	480.00
4" Meter		135.00	999.38	750.00
6" Meter		220.00	1,998.75	1,500.00
<b>Gallons Included in Minimum</b>				
For all Meter Sizes		0	0	0
<b>Commodity Rates (Per 1,000 Gallons)</b>				
All Meter Sizes	0000 - 3,000	\$3.20	\$4.80	N/A
	3,001 - 25,000	\$4.25	\$6.38	N/A
	Over 25,000	\$4.85	\$7.28	N/A
Residential, Commercial and Industrial:				
5/8" x 3/4" Meter	0000 - 3,000	N/A	N/A	\$3.90
	3,001 - 15,000	N/A	N/A	\$5.85
	Over 15,000	N/A	N/A	\$7.10
3/4" Meter	0000 - 3,000	N/A	N/A	\$3.90
	3,001 - 15,000	N/A	N/A	\$5.85
	Over 15,000	N/A	N/A	\$7.10
1-inch Meter	0000 - 14,000	N/A	N/A	\$5.85
	Over 14,000	N/A	N/A	\$7.10
1 1/2 Inch Meter	0000 - 28,000	N/A	N/A	\$5.85
	Over 28,000	N/A	N/A	\$7.10
2 Inch Meter	0000 - 56,000	N/A	N/A	\$5.85
	Over 56,000	N/A	N/A	\$7.10
3 Inch Meter	0000 - 120,000	N/A	N/A	\$5.85
	Over 120,000	N/A	N/A	\$7.10
4 Inch Meter	0000 - 285,000	N/A	N/A	\$5.85
	Over 285,000	N/A	N/A	\$7.10
6 Inch Meter	0000 - 640,000	N/A	N/A	\$5.85
	Over 640,000	N/A	N/A	\$7.10
Standpipe, Bulk Water		N/A	N/A	\$7.10

RATE DESIGN (Cont.)

Service Line and Meter Installation Charges

Meter Size	Company	Staff's Recommendation			
	Current Tariff	Proposed Charges	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$440	\$440	\$350	\$90	\$440
3/4-inch	\$510	\$510	\$350	\$160	\$510
1-inch	\$590	\$590	\$380	\$210	\$590
1½-inch	\$825	\$825	\$430	\$395	\$825
2-inch	\$1,415	\$1,415	\$630	\$785	\$1,415
3-inch	\$2,105	\$2,105	\$810	\$1,295	\$2,105
4-inch	\$3,120	\$3,120	\$1,120	\$2,000	\$3,120
6-inch	\$5,715	\$5,715	\$1,740	\$3,975	\$5,715

Service Charges

Service Charges	Present Rates	-Proposed Rates-	
		Company	Staff
Establishment	\$30.00	\$40.00	\$40.00
Establishment (After Hours)	\$45.00	\$55.00	(a)
Reconnection (Delinquent)	\$25.00	\$35.00	\$35.00
Reconnection (Delinquent) After Hours	\$45.00	\$50.00	(a)
Meter Test (if correct)	\$30.00	\$30.00	\$30.00
Deposit	*	*	*
Deposit Interest	*	\$0.00	*
Re-Establishment (Within 12 Months)	**	\$30.00	**
NSF Check	\$25.00	\$30.00	\$30.00
Deferred Payment	***	***	***
Meter Re-Read (If Correct)	\$20.00	\$20.00	\$20.00
Late Payment Penalty	1.50%	2.00%	1.50%
After Hours Service Charge	N/A	N/A	\$25.00
<u>Monthly Service Charge for Fire Sprinkler</u>			
4" or Smaller	****	****	*****
6"	****	****	*****
8"	****	****	*****
10"	****	****	*****
Larger than 10"	****	****	*****

- \* Per Commission Rules R14-2-403.B
- \*\* Months off system times the monthly minimum (R14-2-403.D.1)
- \*\*\* Per Commission Rule A.A.C. R-14-2-409.G
- \*\*\*\* 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.
- \*\*\*\*\* 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.
- (a) Staff recommends the elimination of this service charge as it is covered by Staff's recommended after hours service charge

**Eagletail Water Co. LLC**

Docket No. W-03936A-11-0418

Test Year Ended: December 31, 2010

Schedule DRE-5

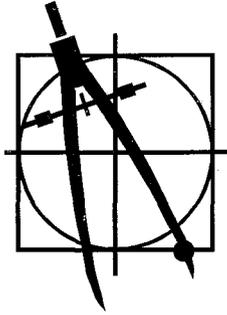
**TYPICAL BILL ANALYSIS****General Service 3/4 - Inch Meter**

Average Number of Customers: 43

<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	5,721	\$51.17	\$66.76	\$15.59	30.5%
Median Usage	3,088	\$39.97	\$49.96	\$9.99	25.0%
<u>Staff Recommend</u>					
Average Usage	5,721	\$51.17	\$57.62	\$6.45	12.6%
Median Usage	3,088	\$39.97	\$42.21	\$2.24	5.6%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$30.00	\$35.00	16.7%	\$30.00	0.0%
1,000	33.20	39.80	19.9%	33.90	2.1%
2,000	36.40	44.60	22.5%	37.80	3.8%
3,000	39.60	49.40	24.7%	41.70	5.3%
4,000	43.85	55.78	27.2%	47.55	8.4%
5,000	48.10	62.16	29.2%	53.40	11.0%
6,000	52.35	68.54	30.9%	59.25	13.2%
7,000	56.60	74.92	32.4%	65.10	15.0%
8,000	60.85	81.30	33.6%	70.95	16.6%
9,000	65.10	87.68	34.7%	76.80	18.0%
10,000	69.35	94.06	35.6%	82.65	19.2%
15,000	90.60	125.96	39.0%	111.90	23.5%
20,000	111.85	157.86	41.1%	147.40	31.8%
25,000	133.10	189.76	42.6%	182.90	37.4%
50,000	254.35	371.76	46.2%	360.40	41.7%
75,000	375.60	553.76	47.4%	537.90	43.2%
100,000	496.85	735.76	48.1%	715.40	44.0%
125,000	618.10	917.76	48.5%	892.90	44.5%
150,000	739.35	1,099.76	48.7%	1,070.40	44.8%
175,000	860.60	1,281.76	48.9%	1,247.90	45.0%
200,000	981.85	1,463.76	49.1%	1,425.40	45.2%



**ENGINEERING REPORT FOR  
Eagletail Water Company L.L.C.**

**Docket No. W-03936A-11-0418 (Rate)**

**By Jian W Liu**

A handwritten signature in black ink, appearing to read 'Jian W Liu', written over the printed name.

**February 3, 2012**

**CONCLUSIONS**

1. Arizona Department of Environmental Quality (“ADEQ”) or its formally delegated agent, the Maricopa County Environmental Services Department (“MCESD”), regulates the Eagletail water system under ADEQ Public Water System I.D. #07-032. Based on a Compliance Status Report, dated January 18, 2012, the system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
2. Eagletail’s service area is not located within any Active Management Area (“AMA”). Arizona Department of Water Resources (“ADWR”) has determined that Eagletail is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. A check of the Commission’s Utilities Division Compliance Section database showed that there were no delinquent compliance items for Eagletail as of January 19, 2012.
4. Staff concludes that the Eagletail has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.
5. Eagletail has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

**RECOMMENDATIONS**

1. Staff recommends that Eagletail apply with ADEQ and WIFA for the technical system evaluation and grant program funding. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 180 days of the effective date of a decision in this proceeding documentation demonstrating that the Company made the appropriate application(s) with ADEQ and WIFA for the technical system evaluation and grant program funding.

2. Because of Eagletail's continued high water loss, 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 three BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.
3. Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories.
4. Staff recommends the annual water testing expense of \$702 be used for purposes of this application.
5. Staff recommends that the Company use the depreciation rates delineated in Table B on a going forward basis.
6. Staff recommends that the Company charge separate service line and meter installation charges. The separate service line charges and meter charges recommended by Staff are listed in Table C.

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**A. INTRODUCTION AND LOCATION OF COMPANY**

On November 22, 2011, Eagletail Water Company L.L.C. (“Eagletail” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) to increase its rates. The Company’s current rates were approved in Commission Decision No. 67982, dated July 18, 2005. The ACC Utilities Division Staff (“Utilities Staff”) engineering review and analysis of the application are presented in this report.

Eagletail is located about 64 miles west of downtown Phoenix and 15 miles south of the I-10 Salome Road Exit 81 in the Harquahalla Valley. The Certificated area covers approximately 8 square mile. Figure 1 shows the location of the Company within Maricopa County and Figure 2 shows the Certificate of Convenience and Necessity (“CC&N”).

**B. DESCRIPTION OF THE WATER SYSTEM**

The Eagletail water system was visited on February 1, 2012 by Jian Liu, Staff Utilities Engineer, in the accompaniment of Homer Bigbey, the Company’s managing board member.

The system served approximately 56 customers in the test year 2010. The system consists of one well; one pressure tank, one storage tank, two booster pumps, chlorination equipment, and distribution system. Table A includes a detailed plant facility listing.

Table A. Plant Facilities Summary

<b>Well Data</b>	
	<b>Well No. 1</b>
<b>ADWR ID No.</b>	55-602826
<b>Casing Size</b>	8 inch
<b>Casing Depth</b>	1,200 ft.
<b>Meter Size</b>	6 inch
<b>Pump Size</b>	125 hp Turbine
<b>Pump Yield</b>	400 gpm
<b>Date Drilled</b>	1970
<b>Storage Tank</b>	1 - 500,000 gallon
<b>Pressure Tank</b>	5,000 gallons
<b>Booster Pumps</b>	2- 25 hp

<b>Mains</b>		
<b>Diameter (inches)</b>	<b>Material</b>	<b>Length (feet)</b>
4 "	PVC	91,080
6 "	PVC	52,800
8"	PVC	2,640

**Meters**

<b>Size</b>	<b>Quantity</b>
5/8 X 3/4"	8
3/4"	45
1"	4
<b>Total</b>	<b>57</b>

Eagletail Water Company  
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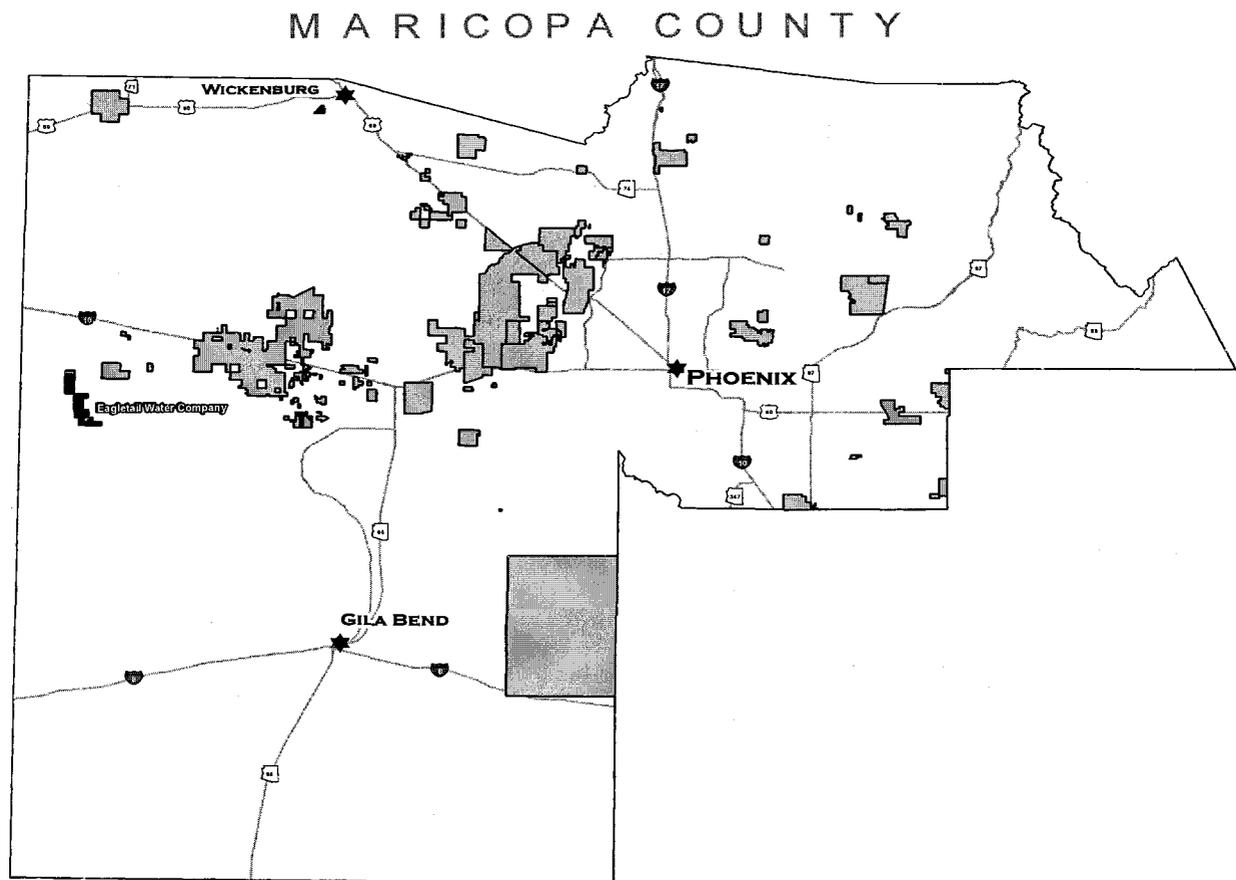


Figure 1. County Map

Eagletail Water Company  
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M A R I C O P A C O U N T Y

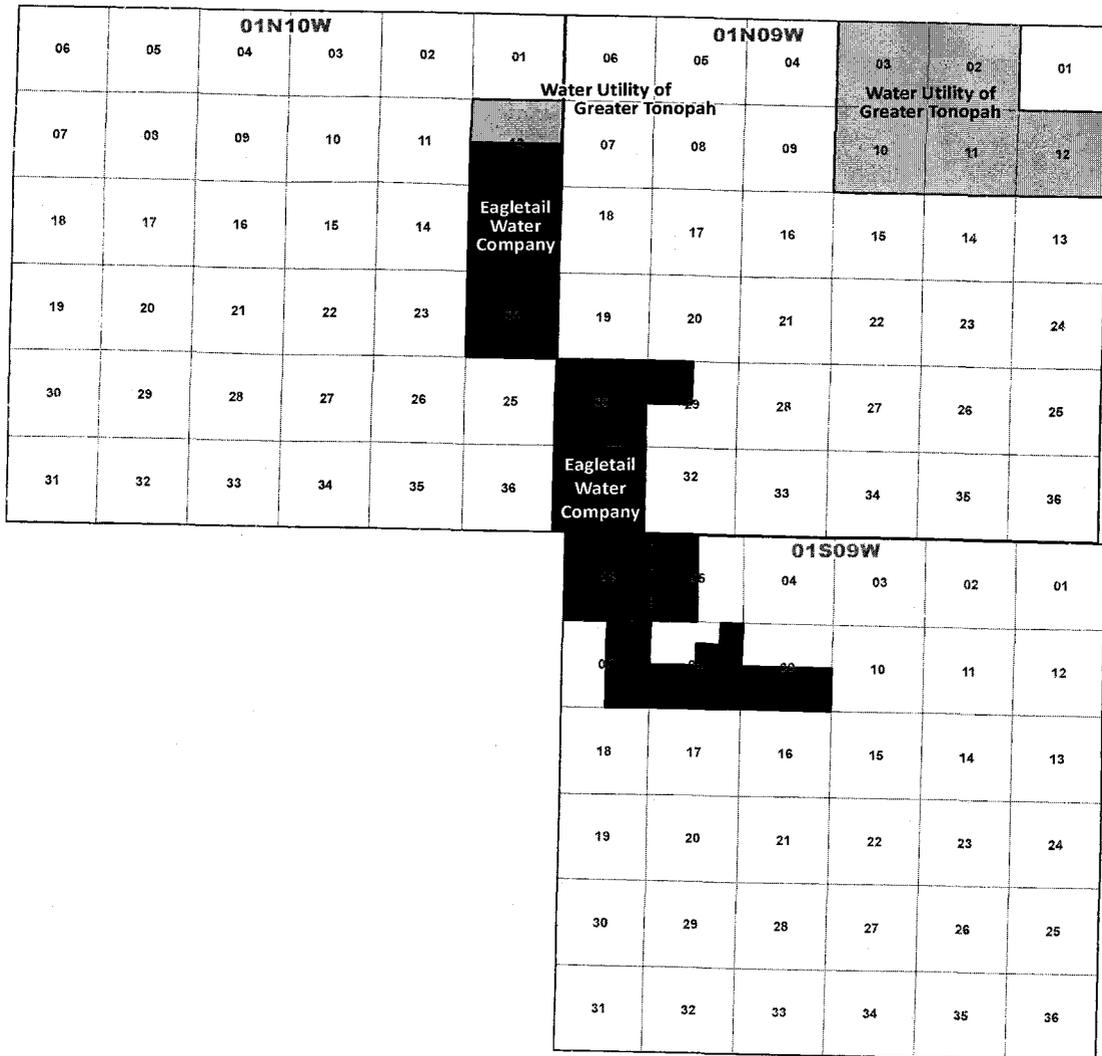


Figure 2. Certificated Area

### C. WATER USE

#### Water Sold

Figure 3 presents the water consumption data provided by the Company for the test year from January 2010 to December 2010. Customer consumption included a high monthly water use of 261 gallons per day (“GPD”) per connection in August, and the low water use was 102 GPD per connection in April. The average annual use was 183 GPD per connection.

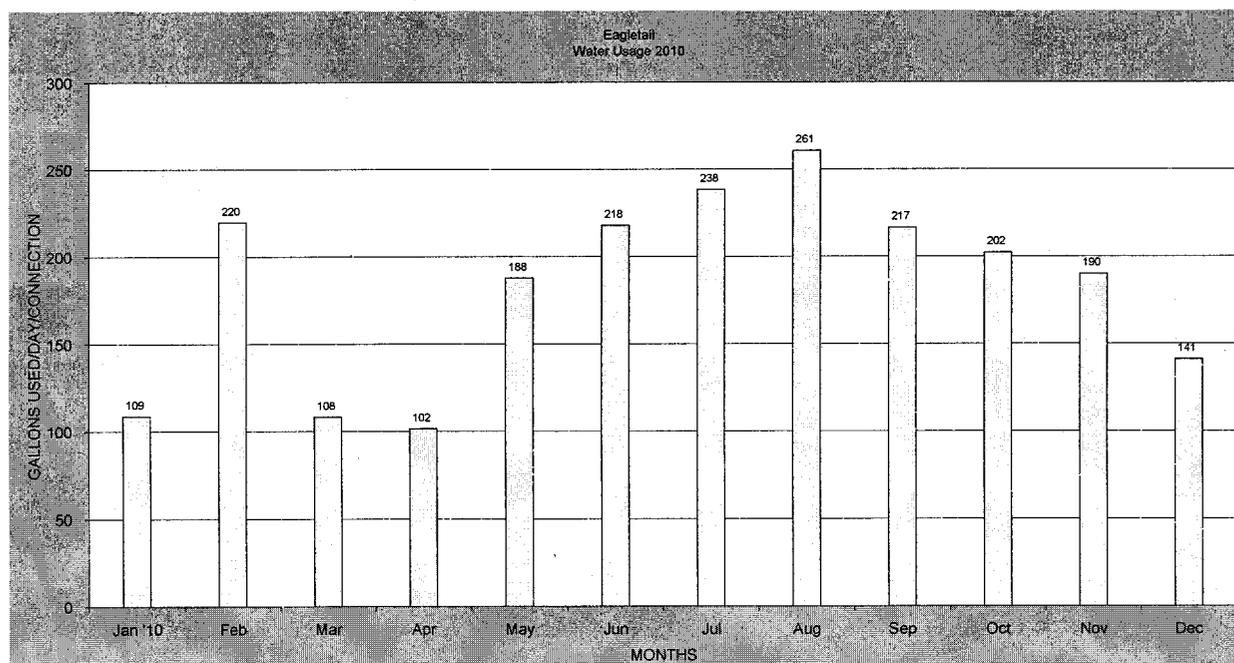


Figure 3. Water Use

#### Non-Account Water

Non-account water should be 10 percent or less. 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. Eagletail reported 6,385,400 gallons pumped and 3,629,264 gallons sold, resulting in a water loss of 43.16% for the test year.

Company wrote a letter to Staff regarding Eagletail’s water loss dated July 3, 2008. It states that “We realize our water loss is high and we strive to repair leaks in a timely manner. We have approximately 35 miles of main lines in very rural areas making leak detection difficult. We check these lines on a regular basis. Adding to our problems is the fact that the majority of our lines are thirty some years old. “.....We would also like to point out we are operated solely by volunteers as do not generate enough revenue with only fifty-five customers to hire

employees. We are operating as a self-preservation effort to keep good potable water available in our area”.

#### Staff Recommendations Water Loss Issue

Staff found during its review of Eagletail’s last rate request in 2005 that the Company was experiencing excessive water loss of over 53 percent. As a result the Commission approved a leak repair fund and ordered water loss reporting also the Company was ordered to develop a plan to reduce its water loss.

The Arizona Department of Environmental Quality (“ADEQ”) and Water Infrastructure Financing Authority (“WIFA”) have partnered to provide technical assistance to regulated public water systems (“PWSs”) by providing water system evaluations (“WSEs”). These WSEs are utilized by ADEQ and WIFA to determine the priority ranking and funding needs for the PWSs and provide operational guidance to the utility. Staff understands that the WIFA’s Planning and Design Grant Program can provide up to thirty-five thousand dollars in grant money to help prepare water facilities for future infrastructure project construction.

Staff believes that this type of technical guidance may benefit the Company so it can become more proactive in addressing its water loss issue. Staff recommends that Eagletail apply with ADEQ and WIFA for the technical system evaluation and grant program funding. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 180 days of the effective date of a decision in this proceeding documentation demonstrating that the Company made the appropriate application(s) with ADEQ and WIFA for the technical system evaluation and grant program funding.

In addition because of Eagletail’s continued high water loss, Staff further 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 three Best Management Practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff for Commission’s review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that 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.

#### **D. GROWTH**

Eagletail had 61 metered connections in 2000. It had 54 customers in 2004, and 53 customers in December 2010. Essentially historical growth has been flat for the last 11 years.

System Analysis

Staff concludes that the Eagletail has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

**E. ADEQ COMPLIANCE**

Compliance

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department (“MCESD”), regulates the Eagletail water system under ADEQ Public Water System I.D. #07-032. Based on a Compliance Status Report, dated January 18, 2012, the system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

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

The Company reported its water testing expense at \$394 during the test year. Staff has reviewed the Company’s testing expense and has recalculated the testing costs to add the omitted monitoring requirements for lead & copper.

***Table A. Water Testing Cost***

Monitoring	Cost per test	Quantity of tests per 3 years	Annual Cost
Total coliform (one sample monthly)	\$20	36	\$240
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$394
Lead & Copper	\$34	6	\$68
<b>Total</b>			<b>\$702</b>

Note: ADEQ’s MAP invoice for the 2010 Calendar Year was \$393.92

Staff recommends an annual water testing expense of \$702 be used for purposes of this application.

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

Eagletail’s service area is not located within any ADWR Active Management Area. As of January 19, 2012, Eagletail was compliant with departmental requirements governing water providers and/or community water systems.

**G. ACC COMPLIANCE**

A check of the Commission’s Utilities Division Compliance Section database showed that there were no delinquent compliance items for Eagletail as of January 19, 2012.

**H. DEPRECIATION RATES**

The depreciation rates per National Association of Regulatory Utility Commissioners (“NARUC”) plant category are presented in Table B and it is recommended that the Company use the depreciation rates below in Table B.

**Table B. Depreciation Rate Table for Water Companies**

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

**I. OTHER ISSUES**

**1. Service Line and Meter Installation Charges**

The Company has not requested any changes in its service line and meter installation charges in this rate application. The current charges are within the range of charges typically recommended by Staff. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation.

Therefore, separate service line and meter charges have been developed by Staff. Staff recommends that the Company charge separate service line and meter installation charges. The separate service line charges and meter charges recommended by Staff and listed in Table C equal the Company's total proposed charge.

Table C. Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed Charges	Staff recommended Service Line Charges	Staff recommended * Meter Charges	Staff recommended Total Charges
5/8" x 3/4"	440	440	350	90	440
3/4"	510	510	350	160	510
1"	590	590	380	210	590
1-1/2"	825	825	430	395	825
2"	1,415	1,415	630	785	1,415
3"	2,105	2,105	810	1295	2,105
4"	3,120	3,120	1,120	2,000	3,120
6"	5,715	5,715	1,740	3,975	5,715

\*Note: Meter charge includes meter box or vault.

2. Curtailment Plan and Backflow Prevention Tariffs

Eagletail has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.