

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: July 19, 2012

RE: CIENEGA WATER COMPANY INC. – APPLICATIONS FOR A PERMANENT RATE INCREASE AND FINANCING APPROVAL (DOCKET NOS. W-02034A-11-0194 AND W-02034A-11-0195)

Attached is the Staff Report for Cienega Water Co., Inc.'s applications for a permanent rate increase and financing approval. Staff recommends approval of a rate increase in accordance with Staff's recommendations. Staff recommends approval of the requested financing and the associated surcharge mechanism with conditions.

Any party who wishes may file comments to the Staff Report with the Arizona Corporation Commission's Docket Control by 4:00 p.m. on or before July 31, 2012.

SMO:CSB:red

Originator: Crystal Brown

Attachment: Original and sixteen copies

Arizona Corporation Commission
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Service List for: Staff Report for Cienega Water Co., Inc.
Docket Nos. W-02034A-11-0194 and W-02034A-11-0195

Ms. Debra Kilgore, Vice President
Cienega Water Company, Inc.
PO Box 3518
Parker, Arizona 85344

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**CIENEGA WATER COMPANY
DOCKET NOS. W-02034A-11-0194 & W-02034A-11-0195**

**APPLICATIONS
FOR A
PERMANENT RATE INCREASE
AND FINANCING APPROVAL**

JULY 19, 2012

STAFF ACKNOWLEDGMENT

The Staff Report for Cienega Water Company (Docket Nos. W-02034A-11-0194 and W-02034A-11-0195) was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's applications for a permanent rate increase and financing approval. Del Smith was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.


Crystal Brown
Public Utilities Analyst V


Del Smith
Utilities Engineering Manager


Carmen Madrid
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY OF
CIENEGA WATER COMPANY
DOCKET NOS. W-02034A-11-0194 And W-02034A-11-0195**

On May 9, 2011, the Cienega Water Company, Inc. (“Cienega” or “Company”) filed an application for a permanent rate increase with the Arizona Corporation Commission (“Commission”). Also, on May 9, 2011, Cienega filed an application for approval of a financing for a Water Infrastructure Finance Authority of Arizona (“WIFA”) loan. A Procedural Order, dated December 14, 2011, granted Staff’s request to consolidate the permanent rate increase and financing applications. By that same Procedural Order the Company’s request to suspend the time clock indefinitely was also granted.

Cienega is a class E for-profit Arizona public service corporation that provides potable water service to approximately 57¹ customers: 56 residential customers in the Cienega Springs subdivision and one RV Park in the community of Cienega Springs. The Company’s service area is located approximately four miles northeast of the town of Parker on Highway 95 in La Paz County, Arizona.

Cienega proposed a \$12,900 or a 42.13 percent revenue increase from test year revenue of \$30,620 to \$43,520. The proposed revenue increase would produce an operating income of \$21,600, for a 10.84 percent return on an original cost rate base (“OCRB”) of \$199,279. The Company’s requested rates would increase the typical residential bill with a median usage of 1,777 gallons from \$28.66 to \$38.88, for an increase of \$10.22, or 35.7 percent.

Staff recommends total base rates revenue of \$35,890, as shown on Schedule CSB-1. Staff’s recommendation is an increase of \$9,749 or 37.29 percent over the Staff adjusted test year revenue of \$26,141. Staff’s recommended base rates revenue increase would produce an operating income of \$10,780 for an 8.00 percent rate of return on a Staff-adjusted OCRB of \$134,752. In addition, Staff is recommending a WIFA loan surcharge that would generate estimated revenue of \$4,800, for total revenue of approximately \$40,691, as shown on Schedule CSB-1. The base rates revenue is intended to support all operations. The debt service of the loan (i.e., principal and interest payments) will be made with revenues generated from the WIFA loan surcharge.

Staff’s recommended rates (excluding the WIFA loan surcharge) would increase the typical residential bill with a median usage of 1,777 gallons from \$28.66 to \$35.33, for an increase of \$6.67, or 23.3 percent as shown on Schedule CSB-5. Once the WIFA loan surcharge is implemented, the typical 5/8 x 3/4-inch meter residential bill of \$35.33 would increase by the amount of the surcharge, \$7.27, to \$42.60. The combined base rate and surcharge revenue components would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 1,777 gallons from \$28.66 to \$42.60, an increase of \$13.94, or 48.6 percent as shown on Schedule CSB-5.

¹ Per the Company’s bill count

STAFF RECOMMENDATIONS

Staff recommends:

1. That the Commission approve the Staff-recommended rates and charges as shown on Schedule CSB-4.
2. That the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
3. That the Commission approve the Staff-recommended \$50,000 financing and the associated surcharge mechanism that may result in a surcharge of \$7.27 per month per customer.
4. That the actual amount of the WIFA loan surcharge be calculated based upon the actual terms of the WIFA loan and actual number of customers at the time of loan closing.
5. That the Company file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorization herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.
6. That the Company provide to Staff, upon request, a copy of any loan documents executed pursuant to the authorizations granted herein.
7. That upon filing of the loan closing notice the Company may file in this Docket an application requesting implementation of the associated surcharge.
8. That within 30 days of the filing of a surcharge implementation request, Staff shall calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration.
9. That approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
10. That, upon approval of the WIFA surcharge, the Company shall open a separate interest-bearing account in which all surcharge monies collected from customers will be deposited.
11. That the only disbursement of funds from the above account will be to make debt service payments to WIFA.

12. That the Company shall file, by April 15 of each year, as a compliance item in this Docket, a report reconciling all surcharge monies billed and collected, along with copies of the prior year's monthly bank statements for the surcharge account.
13. That Cienega implement a program as soon as practicable to physically inspect and test all in-service water meters on a regular basis, including Company production meters, in its water service area to ensure their proper operation, any under-registering meters shall be repaired or replaced. Staff further recommends that the Company ensure that properly functioning meters of the appropriate size have been installed on all connections to the Company's water system. Staff further recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 ("Annual Report").² Staff further recommends if the reported water loss in the Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.
14. That the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners account presented in Table B of the attached Engineering Report on a going forward basis.
15. 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>.
16. That a maximum of two Best Management Practices ("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.
17. That the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, documentation showing the slab and well head at Well No. 2 has been sealed to prevent contaminants from entering the well.

² The Company shall collect the data needed to accurately complete the water use data sheets contained in the Annual Report form.

18. That the Commission approve Cienega's Point of Use ("POU") Tariff as attached in Exhibit POU. Staff further recommends that Cienega shall file with Docket Control, as a compliance item in this docket, the POU Tariff authorized herein within 60 days of the effective date of this Decision. Staff further recommends that Cienega provide a copy of the approved POU Tariff to all its customers served by Cienega water system PWS ID No. 15-002. See Section I of the report for a discussion of the details.
19. That the Company file with Docket Control, as a compliance item in this docket by June 30, 2013, a copy of the Arizona Department of Environmental Quality Approval of Installation of the POU treatment devices.

TABLE OF CONTENTS

	<u>PAGE</u>
FACT SHEET.....	1
SUMMARY OF RATE FILING.....	3
BACKGROUND.....	3
CONSUMER SERVICES.....	4
COMPLIANCE.....	4
ENGINEERING ANALYSIS AND RECOMMENDATIONS.....	5
RATE BASE.....	5
<i>Plant in Service</i>	5
<i>Accumulated Depreciation</i>	6
<i>Working Capital</i>	6
OPERATING INCOME STATEMENT.....	6
<i>Operating Revenue</i>	6
<i>Operating Expenses</i>	6
REVENUE REQUIREMENT.....	8
RATE DESIGN.....	8
MISCELLANEOUS SERVICE CHARGES.....	9
SERVICE LINE AND METER INSTALLATION CHARGES.....	10
FINANCING APPLICATION AND SURCHARGE MECHANISM.....	10
<i>Purpose and Terms of the Proposed Financing and Surcharge Mechanism</i>	10
CONCLUSION:.....	11
STAFF’S RECOMMENDATIONS.....	12

SCHEDULES

Summary of Filing.....	Schedule CSB-1
Rate Base.....	Schedule CSB-2
Statement of Operating Income.....	Schedule CSB-3

Rate Design..... Schedule CSB-4
Typical Bill Analysis Schedule CSB-5
Financial and Cash Flow Analysis..... Schedule CSB-6
Calculation of Surcharge Schedule CSB-7

ATTACHMENT

Engineering Report for Rate Case and Financing..... Attachment A

FACT SHEET

Type of Ownership: C Corporation

Location: The Company's service area is located approximately four miles northeast of the town of Parker on Highway 95 in La Paz County, Arizona.

Filing Dates for Rate and Financing Applications: Permanent rate increase application and financing application filed on May 9, 2011

Current test year ended: December 31, 2010

Prior test year ended: December 31, 1999 (Decision No. 63751)

Rates

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charges:			
5/8 x 3/4-inch meter	\$22.00	\$30.00	\$30.00
3/4-inch meter	\$33.00	\$35.00	\$45.00
1-inch meter	\$50.00	\$60.00	\$75.00
1 1/2-inch meter	\$100.00	\$150.00	\$150.00
2-inch meter	\$250.00	\$300.00	\$240.00
3-inch meter	\$375.00	\$400.00	\$450.00
4-inch meter	\$500.00	\$525.00	\$750.00
6-inch meter	\$750.00	\$800.00	\$1,500.00
Gallons In Minimum	0	0	0
Commodity Charges:			
Per 1,000 gallons:			
0 to 10,000 gallons	\$3.75	N/A	N/A
10,001 to 25,000 gallons	\$4.50	N/A	N/A
Over 25,000 gallons	\$6.90	N/A	N/A
0 to 3,000 gallons	N/A	\$5.00	N/A
3,001 to 10,000 gallons	N/A	\$5.25	N/A
Over 10,000 gallons	N/A	\$8.00	N/A

0 to 2,000 gallons	N/A	N/A	\$3.00
2,001 to 7,000 gallons	N/A	N/A	\$6.80
Over 7,000 gallons	N/A	N/A	\$10.60

Customers:

Number of customers in prior test year (12/31/99) 57

Average number of customers in the current test year (12/31/10) 57³

Current Test Year customers by meter size:

5/8 X 3/4-inch	56
3/4-inch	0
1-inch	0
1 1/2-inch	0
2-inch	1
4-inch	0
6-inch	0

Seasonal customers: 0

Customer notification for rate application filed: May 9, 2011

Number of customer complaints concerning rate application filed: 0

³ Per the Company's bill count

SUMMARY OF RATE FILING

The test year results as adjusted by Utilities Division Staff (“Staff”), for Cienega Water Company, Inc. (“Cienega” or “Company”) show total operating revenue of \$26,141, operating income of \$3,071, for a 2.28 percent rate of return on an original cost rate base (“OCRB”) of \$134,752⁴ as shown on Schedule CSB-1.

Cienega’s proposed rates, as filed, would produce total operating revenue of \$43,520⁵ and operating income of \$21,600, for a 10.84 percent rate of return on an OCRB of \$199,279. The Company’s proposed rates would increase the typical 5/8 x 3/4–inch meter residential bill, with a median usage of 1,777 gallons, from \$28.66 to \$38.88 for an increase of \$10.22, or 35.7 percent, as shown on Schedule CSB-5.

Staff recommends a \$9,749 or 37.29 percent revenue increase from a Staff adjusted test year revenue of \$26,141 to \$35,890. Staff’s recommended revenue increase would produce an operating income of \$10,780 for an 8.00 percent rate of return on a Staff-adjusted OCRB of \$134,752. Staff’s recommended rates would increase the typical residential bill with a median usage of 1,777 gallons from \$28.66 to \$35.33, for an increase of \$6.67, or 23.3 percent, as shown on Schedule CSB-5.

According to the application, the Company requests a rate increase due to increases in the cost of operations, the anticipated loss of its only 2-inch customer, an RV park, and to service the proposed long-term debt. It also indicates that it has not had a rate increase in approximately 10 years.

BACKGROUND

Cienega is a class E utility and organized as an Arizona “C” Corporation and obtained its Certificate of Convenience and Necessity (“CC&N”) per Arizona Corporation Commission (“Commission”) Decision No. 38852, dated March 8, 1967. Cienega is located approximately four miles northeast of the town of Parker, on Old Highway 95 in La Paz County, Arizona. The current rates and charges were authorized in Decision No. 63751, dated June 6, 2001.

During the test year ended December 31, 2010, Cienega provided water service to an average of 57 metered customers, 56 of which are served by 5/8 x 3/4 -inch meters. One customer is served by a 2-inch meter.

⁴ The Company did not propose a fair value rate base that differs from the OCRB.

⁵ The Company requested an increase in total operating revenue of \$12,900 as shown on page 6 of its application. This increase would result in total revenue of \$43,520. However, Cienega’s proposed rates would actually produce total revenues of \$35,336. The difference of \$8,184 appears to be due to the Company’s inexperience in preparing rate applications. Since the Company’s proposed rates did not cover its operating expenses, Staff reflected the \$43,520 as the Company proposed total revenue rather than the \$35,336.

On May 9, 2011, Cienega filed applications for a permanent rate increase and for a financing approval. On June 8, 2011, Staff filed a Letter of Deficiency. On November 7, 2011, Staff issued a Letter of Sufficiency.

CONSUMER SERVICES

Staff reviewed the Commission's records for the period beginning January 1, 2008, to June 27, 2012, and found no complaints filed against Cienega; and zero opinions were filed opposing the rate increase. A notarized affidavit of mailing for the rate and financing applications was filed on May 9, 2011.

COMPLIANCE

A check of the Utilities Division Compliance Section database showed that there are two delinquent Commission compliance items for Cienega as of April 17, 2012.

- Failure to file Arizona Department of Environmental Quality ("ADEQ") Approval of Construction documentation for various system improvements (Decision No. 63751 Original Compliance Due Date December 31, 2002)
- Failure to file ADEQ Approval of Construction documentation for various system improvements authorized in Decision No. 63751 (Decision No. 70697 Amended Compliance Due Date March 31, 2009)
- Failure to file ADEQ Compliance Status Report indicating that Cienega water system is in full compliance with ADEQ requirements (Decision No. 70697 Compliance Due Date 12/31/2009)

Decision No. 63751 ordered Cienega to complete construction of the plant items (system improvements) listed below and provide evidence of such by submitting to Staff a copy of the ADEQ Approval of Construction ("AOC") for each item on or before December 31, 2002. The Commission in Decision No. 70697 extended the compliance date and ordered that Cienega file with Docket Control a copy of the AOC for each plant item authorized in Decision No. 63751 on or before March 31, 2009.

System Improvements

- Replace existing water lines
- Add 10,000 gallons of additional storage capacity
- Replace electrical service to the well sites
- Provide programmable controls to the storage tanks

According to ADEQ records, an Approval to Construct ("ATC") for the plant improvements was issued and construction has been completed; however, ADEQ has indicated it

will not issue the corresponding AOC until the Company addresses its fluoride issue. See Section J of the attached Engineering Report for a discussion of the Company's plan to address its fluoride issue so that full compliance with ADEQ requirements can be met.

Cienega has obtained Arizona Department of Revenue Certificate of Compliance Letter of Good Standing which is dated May 21, 2012.

On December 2, 2011, the Corporations Division found that the Company's Corporate Life expired effective July 7, 1995. Cienega has contacted the Corporations Division and will file the necessary paper work to resolve the matter.

ENGINEERING ANALYSIS AND RECOMMENDATIONS

Staff Engineer, Del Smith, inspected Cienega's plant facilities on October 5, 2011, accompanied by the owner of Cienega, Ms. Debra Kilgore. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

RATE BASE

Staff's adjustments decreased the Company's proposed rate base by \$64,527, from \$199,279 to \$134,752, as shown on Schedule CSB-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Adjustment A decreases plant in service by \$3,847, from \$199,279 to \$195,432, as shown on Schedule CSB-2, pages 1 and 2.

Structures and Improvements – Adjustment "a" decreases this account by \$11,265, from \$18,445 to \$7,180, as shown on Schedule CSB-2 pages 2 and 3. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting no plant retirements, and plant additions totaling \$7,180.

Distribution Reservoirs and Standpipes – Adjustment "b" increases this account by \$7,536, from \$42,793 to \$50,329, as shown on Schedule CSB-2 pages 2 and 3. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting no plant retirements, and plant additions totaling \$41,204.

Office Furniture and Equipment – Adjustment "c" decreases this account by \$118, from \$1,275 to \$1,157, as shown on Schedule CSB-2 pages 2 and 3. Staff calculated the ending balance of this account by starting with the correct ending balance in the last rate case and reflecting plant additions of \$4,218 and plant retirements of \$4,120.

Accumulated Depreciation

Adjustment B increases accumulated depreciation by \$61,500, from \$0 to \$61,500, as shown on Schedule CSB-2, pages 1, 4, and 4.11.

Staff calculated the ending balance of accumulated depreciation by utilizing the ending plant balances and accumulated depreciation by plant account in the last rate case (Docket No. W-2034A-97-0473), reflecting plant additions and retirements as identified by Staff and the Company and applying the Commission-approved depreciation rates.

Working Capital

Cienega did not claim any working capital allowance. Staff's adjustments C and D resulted in a net increase to working capital of \$820, from \$0 to \$820, as shown on Schedule CSB-2, pages 1 and 6.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

OPERATING INCOME STATEMENT

Operating Revenue

Staff's adjustments to total operating revenue resulted in a net decrease of \$4,479 from \$30,620 to \$26,141, as shown on Schedule CSB-3, page 1. Details of Staff's adjustments are discussed below.

Metered Water Revenue – Adjustment A decreases metered water revenue by \$4,479, from \$29,120 to \$24,641, as shown on Schedule CSB-3 pages 1 and 2. Staff's adjustment reflects the anticipated loss in revenue from Cienega's largest customer, an RV Park.⁶

According to the Company's application, the Arizona Department of Environmental Quality has indicated that Cienega's drinking water exceeds the maximum level for fluoride. To resolve the problem, Cienega has applied for a loan to install point of use ("POU") filters in the homes of all of its customers except the RV Park. The RV Park will be disconnected from the system and has applied for its own public water system number as a transient water system. The RV Park's source of water is a well.

Operating Expenses

⁶ Staff concludes that the removal of the RV park as a customer does not necessitate any alteration to Cienega's CC&N nor does it require the owner of the RV park to be adjudicated not a public service corporation so long as the RV park continues to rent spaces rather than sell lots.

Staff's adjustments to operating expenses resulted in a net increase of \$1,150, from \$21,920 to \$23,070, as shown on Schedule CSB-3, page 1. Details of Staff's adjustments are presented below.

Repairs and Maintenance Expense – Adjustment B increases repairs and maintenance expense by \$2,750, from \$1,173 to \$3,923 to reflect the known and measurable cost to replace the filters for the POU water treatment units on an annual basis as shown on Schedule CSB-3, pages 1 and 2.

Contractual Services Expense – Adjustment C increases outside services expense by \$6,200, from \$803 to \$7,003, as shown on Schedule CSB-3 pages 1 and 2. The Company is currently providing management, bookkeeping, customer service, and meter reading services at little or no cost to its customers. The Company indicated that it cannot continue operating without recovery of these costs.

Staff calculated the annual contractual services expense by adding \$6,000 for meter reading, bookkeeping, customer service, and management services. Staff also added \$200 for tax preparation services. The details of Staff's calculation of the outside services expense is shown on Schedule CSB-3, pages 1 and 2.

Water Testing – Adjustment D decreases water testing expense by \$60, from \$1,184 to \$1,124, as shown on Schedule CSB-3, pages 1 and 2 to reflect Staff's calculation of water testing expense.

Rate Case Expense – Adjustment E increases rate case expense by \$167, from \$0 to \$167, as shown on Schedule CSB-3 pages 1 and 2. Staff normalized \$500 in rate case expense using three years (the number of years Staff expects the Company to file another rate case), allowing one-third, or \$167, of the \$500.

Depreciation Expense – Adjustment F decreases depreciation expense by \$4,327, from \$10,199 to \$5,872, as shown on Schedule CSB-3 pages 1 and 5. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Taxes Other Than Income – Adjustment G decreases taxes other than income expense by \$1,896, from \$1,896 to \$0, as the Company could not provide invoices to support the amount. Staff's adjustment is shown on Schedule CSB-3 pages 1 and 4.

Income Tax Expense – Adjustment H decreases income tax expense by \$1,683, from \$0 to a negative \$1,683, to reflect Staff's calculation of the income tax obligation on Staff's adjusted test year taxable income. Staff's calculation is shown on Schedule CSB-3 pages 1 and 4.

REVENUE REQUIREMENT

Staff recommends total base rates revenue of \$35,890, an increase of \$9,749, or 37.30 percent, over Staff-adjusted test year revenue of \$26,141. Staff's recommended revenue provides an 8.00 percent rate of return on the Staff recommended OCRB of \$134,752 as shown on Schedule CSB-1. Staff's recommended rates and surcharges yield a cash flow of \$3,580, as shown on Schedule CSB-6, column C, line 46.

Staff's total revenue requirement of \$40,691, including estimated surcharges, provides the Company with sufficient cash flow to pay operating expenses, contingencies, principal and interest on its existing \$146,533 loan and its proposed \$50,000 loan, and to meet the minimum 1.2 debt service coverage ("DSC") ratio required by Water Infrastructure Financing Authority ("WIFA") for both loans. Cash flow needs and DSC requirements determined the revenue requirement.

RATE DESIGN

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

Staff typically designs rates with a goal of gradually increasing the amount of revenue that is generated from the commodity charges such that, over time, the revenue generated from the commodity charges is more than the revenues generated from the monthly customer charge. This approach allows captive customers to gain greater control over the amount they will pay for their water bills. This approach, however, is not appropriate for all small water companies such as Cienega.

Cienega is a small water company with only 57 customers, some of which are seasonal. It is losing its largest customer, an RV park. Cienega has an existing \$146,533 WIFA loan. Additionally, it has requested approval of a new \$50,000 WIFA loan and Staff has recommended approval. The Company does not have access to significant amounts of cash should a cash shortage occur. Consequently, Staff has included more of the increase in the monthly customer charge to help provide the revenue stability needed for the payment of the Company's existing and proposed loans. Under Staff's recommended rates, approximately 60 percent of the revenue is generated from the monthly customer charge and 40 percent from the commodity charge.

The Company's proposed rates would increase the typical residential bill,⁷ with a median usage of 1,777 gallons, from \$28.66 to \$38.88 for an increase of \$10.22, or 35.7 percent as shown on Schedule CSB-5.

⁷ 5/8 x 3/4 –inch meter.

Staff's recommended rates would increase the typical residential bill with a median usage of 1,777 gallons from \$28.66 to \$35.33, for an increase of \$6.67, or 23.3 percent, as shown on Schedule CSB-5.

MISCELLANEOUS SERVICE CHARGES

Establishment Charge – The Company proposes to increase the establishment service charge from \$25 to \$50. The current \$25 charge is within the range of establishment charges for similar companies. Further, the Company did not provide any sufficient reason to justify the increase. Therefore, Staff recommends denial.

Reconnection (Delinquent) Charge – The Company proposes to increase the reconnection (delinquent) service charge from \$40 to \$50. The current \$40 charge is within the range of establishment charges for similar companies. Further, the Company did not provide any sufficient reason to justify the increase. Therefore, Staff recommends denial.

Meter Test Charge – The Company proposes to increase the meter test service charge from \$25 to \$35. The Company's cost to mail items related to the meter test charge has increased; however it is less than \$10. Staff recommends a meter test charge of \$30 as it more closely reflects the increase in cost.

Deposit – Staff recommends adding “per year” to the deposit interest charge description.

NSF Check Charge – The Company proposes to increase the NSF check charge from \$15 to \$25. The Company proposed \$25 exceeds the amount charged by the Company's bank. Therefore, Staff recommends denial.

Deferred Payment – Staff recommends adding “per month” to the deferred payment charge description.

Meter Re-read – The Company proposes to increase the meter re-read charge from \$15 to \$20. The current \$15 charge is within the range of meter re-read charges for similar companies. Further, the Company did not provide any sufficient reason to justify the increase. Therefore, Staff recommends denial.

Late Fee – Staff recommends adding “per month” to the late fee charge description.

Establishment (After Hours), Re-establishment (After Hours), and After Hours Service Charges – The Company has proposed to increase its current Establishment (After Hours), and Re-establishment (After Hours) as shown on Schedule CSB-4. Staff agrees that an additional fee for service provided after normal business hours is appropriate when such service is at the

customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service.

Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request or for the customer's convenience. Therefore, Staff recommends elimination of the Company's current Establishment (After Hours), Re-establishment (After Hours), and Reconnection (Delinquent) After Hours charges. Instead of these charges, Staff recommends the creation of a separate \$40 after-hours service charge. For example, under Staff's proposal, a customer would be subject to a \$25 Establishment fee if it is done during normal business hours, but would pay an additional \$40 after-hours fee if the customer requested that the establishment be done after normal business hours.

SERVICE LINE AND METER INSTALLATION CHARGES

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

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

FINANCING APPLICATION AND SURCHARGE MECHANISM

Purpose and Terms of the Proposed Financing and Surcharge Mechanism

According to the application, the purpose of the \$50,000 loan is to fund the purchase and installation of 55 POU Fluoride Removal Water Treatment System devices in the kitchens of its residential customers. The POU's devices are needed to reduce the amount of fluoride in the drinking water so that it does not exceed the ADEQ Maximum Contaminate Level. ("MCL") for fluoride. Staff examined the construction plans and estimated costs for Cienega's project and found it to be reasonable and appropriate. A complete discussion of Staff's findings and recommendations concerning the financing application can be found in the attached Engineering Report.

The proposed \$50,000 financing is a 20-year amortizing loan at a 4.5 percent interest rate. The payments are estimated to be \$316 per month, or \$3,796 annually, as shown on Schedule CSB-7, page 2.

Based upon Staff's review of the application and the Company's unaudited 2010 financial statements, the Company lacks sufficient earnings and operating cash flow to meet its

proposed long-term debt obligation. Therefore, a surcharge that provides funds for the debt service on the WIFA loan is appropriate. Because the final details of the WIFA loan will not be known until after the Company has closed on the loan; Staff is recommending a surcharge mechanism.

Schedule CSB-7 (page 1, lines 11 and 46) presents a calculation of the additional annual revenue needed by the Company to service a \$50,000 loan over 20 years at 4.5 percent interest rate for the loan. Based on Staff's calculation, \$50,000 of WIFA debt will require the Company to generate an annual cash flow of \$4,800 through the surcharge. Staff's calculation shows that a residential customer on a 5/8 x 3/4-inch meter will be required to pay a monthly surcharge of \$7.27.

The surcharge mechanism establishes the methodology for calculating the surcharge amounts to be applied to the rates established in this rate application. Once the Company has closed on the loan, it would submit an application in this Docket requesting implementation of the surcharge. Staff would then calculate the appropriate surcharge and prepare and file a recommended order for Commission consideration.

CONCLUSION:

1. ADEQ regulates the Cienega Water Company, Inc. water system under ADEQ Public Water System Identification ("PWS ID") No. 15-002. According to the ADEQ Compliance Status Report included with the Application the Cienega system has major deficiencies and ADEQ cannot determine if this system is currently delivering water delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4 (per Compliance Status Report dated March 7, 2011). The system has a major deficiency for exceeding the MCL for fluoride. See Section J of the attached Engineering report for a discussion of the Company's plan to address its fluoride issue so that full compliance with ADEQ requirements can be met.
2. Staff concludes that the Cienega water system has adequate production and storage capacity to serve the present customer base and reasonable growth.
3. Customer growth in Cienega's service area is expected to be minimal at least through 2013.
4. The Cienega service area is not located within any Active Management Area. Arizona Department of Water Resources has determined that Cienega is currently compliant with departmental requirements governing water providers and/or community water systems.

5. The Utilities Division Compliance Section database showed that there are three delinquent Commission compliance items for Cienega. See Section G of the report for a discussion of the details.
6. Cienega has an approved Curtailment Tariff on file with the Commission. Cienega also has an approved Backflow Prevention Tariff on file with the Commission.
7. Staff concludes that Cienega's proposal to install 55 POU Devices to reduce fluoride concentrations in its water is appropriate and the cost estimates as adjusted by Staff and listed in the Table E. are reasonable.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. That the Commission approve the Staff-recommended rates and charges as shown on Schedule CSB-4.
2. That the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
3. That the Commission approve the Staff-recommended \$50,000 financing and the associated surcharge mechanism that may result in a surcharge of \$7.27 per month per customer.
4. That the actual amount of the WIFA loan surcharges be calculated based upon the actual terms of the WIFA loan and actual number of customers at the time of loan closing.
5. That the Company file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorization herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.
6. That the Company provide to Staff, upon request, a copy of any loan documents executed pursuant to the authorizations granted herein.
7. That upon filing of the loan closing notice the Company may file in this Docket an application requesting implementation of the associated surcharge.

8. That within 30 days of the filing of a surcharge implementation request, Staff shall calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration.
9. That approval of the loan and surcharge be rescinded if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding.
10. That, upon approval of the WIFA surcharge, the Company shall open a separate interest-bearing account in which all surcharge monies collected from customers will be deposited.
11. That the only disbursement of funds from the above account will be to make debt service payments to WIFA.
12. That the Company shall file, by April 15 of each year, as a compliance item in this Docket, a report reconciling all surcharge monies billed and collected, along with copies of the prior year's monthly bank statements for the surcharge account.
13. That Cienega implement a program as soon as practicable to physically inspect and test all in-service water meters on a regular basis, including Company production meters, in its water service area to ensure their proper operation, any under-registering meters shall be repaired or replaced. Staff further recommends that the Company ensure that properly functioning meters of the appropriate size have been installed on all connections to the Company's water system. Staff further recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 ("Annual Report").⁸ Staff further recommends if the reported water loss in the Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.
14. That the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners account presented in Table B on a going forward basis.

⁸ The Company shall collect the data needed to accurately complete the water use data sheets contained in the Annual Report form.

15. 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>.
16. 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.
17. That the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, documentation showing the slab and well head at Well No. 2 has been sealed to prevent contaminants from entering the well.
18. That the Commission approve Cienega's POU Tariff as attached in Exhibit POU. Staff further recommends that Cienega shall file with Docket Control, as a compliance item in this docket, the POU Tariff authorized herein within 60 days of the effective date of this Decision. Staff further recommends that Cienega provide a copy of the approved POU Tariff to all its customers served by Cienega water system PWS ID No. 15-002. See Section I of the report for a discussion of the details.
19. That the Company file with Docket Control, as a compliance item in this docket by June 30, 2013, a copy of the ADEQ Approval of Installation of the POU treatment devices.

SUMMARY OF FILING

	-- Present Rates --		Proposed	Recommended	Recommended
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted Without Surcharge & \$50,000 Loan	Staff as Adjusted With Surcharge & \$50,000 Loan*
Revenues:					
Metered Water Revenue	\$ 29,120	\$ 24,641	\$ 42,020	\$ 34,390	\$ 34,390
Unmetered Water Revenue	0	0	0	0	0
Other Water Revenues	1,500	1,500	1,500	1,500	1,500
Estimated Surcharge Revenue	0	0	0	0	4,800
Total Operating Revenue	\$30,620	\$26,141	\$43,520	\$35,890	\$40,691
Operating Expenses:					
Operation and Maintenance	\$ 9,005	\$ 18,062	\$ 9,005	\$ 18,062	\$18,062
Depreciation	10,199	5,872	10,199	5,872	5,872
Property & Other Taxes	2,716	820	2,716	820	820
Income Tax	0	(1,683)	0	357	1,361
Total Operating Expense	\$21,920	\$23,070	\$21,920	\$25,110	\$26,115
Operating Income/(Loss)	\$8,700	\$3,071	\$21,600	\$10,780	\$14,576
Rate Base O.C.L.D.	\$199,279	\$134,752	\$199,279	\$134,752	\$134,752
Rate of Return - O.C.L.D.**	4.37%	2.28%	10.84%	8.00%	10.82%
Operating Margin	28.41%	11.75%	49.63%	30.04%	35.82%

* See Sch CSB-7, Page 1 of 3, L11

RATE BASE			
	----- Original Cost -----		
	Company	Adjustment Ref	Staff
Plant in Service	\$199,279	(\$3,847) A	\$195,432
Less:			
Accum. Depreciation	0	61,500 B	61,500
Net Plant	\$199,279	(\$65,347)	\$133,932
Less:			
Line Extension Advances	\$0	\$0	\$0
Service Line and Meter Advances	0	0	0
Total Advances	\$0	\$0	\$0
Contributions Gross	\$0	\$0	\$0
Less:			
Accumulated Amortization of CIAC	0	0	0
Net CIAC	\$0	\$0	\$0
Total Deductions	\$0	\$0	\$0
Plus:			
1/24 Purchased Power & Water	\$0	\$67 C \$	67
1/8 Operation & Maint.	0	753 D	753
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$0	\$820	\$820
Rate Base	\$199,279	(\$64,527)	\$134,752

A - For Rate Base adjustment A, see Sch CSB-2, page 2
B - For Rate Base adjustment B, see Sch CSB-2, page 4
C - For Rate Base adjustment C, see Sch CSB-2, page 6
D - For Rate Base adjustment D, see Sch CSB-2, page 6

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization Cost	\$0	\$0		\$0
302 Franchise Cost	0	0		\$0
303 Land & Land Rights	0	0		\$0
304 Structures & Improv	18,445	(11,265)	a	\$7,180
305 Collecting & Impounding Res.	0	0		\$0
307 Wells & Springs	10,565	0		\$10,565
310 Power Generation Equip	0	0		\$0
311 Electric Pumping Equip	0	0		\$0
320 Water Treatment Equip, Plants	0	0		\$0
320.1 Water Treatmnt Equip, Solution Feeders	0	0		\$0
330 Dist. Resrvr & Stndpipe	42,793	7,536	b	\$50,329
331 Trans. & Distr. Mains	61,812	0		\$61,812
333 Services	20,637	0		\$20,637
334 Meters	17,880	0		\$17,880
335 Hydrants	0	0		\$0
336 Backflow Prevention Devices	0	0		\$0
339 Other Plant and Misc Equip	3,545	0		\$3,545
340 Office Furniture & Fixt	1,275	(118)	c	\$1,157
340.1 Computers and Software	4,219	0		\$4,219
341 Transportation Equip	0	0		\$0
343 Tools & Work Equip	2,408	0		\$2,408
345 Power Operated Equip	12,155	0		\$12,155
346 Communications Equip	0	0		\$0
347 Miscellaneous Equipment	3,545	0		\$3,545
348 Other Tangible Equipment	0	0		\$0
TOTALS	\$199,279	(\$3,847)	A	\$195,432

For Explanations of Adjustments, see Schedule CSB-2 page 3

STAFF PLANT ADJUSTMENTS

a	- STRUCTURES & IMPROVEMENTS - Per Company	\$18,445	
	Per Staff	7,180	<u>(\$11,265)</u>

To reflect the December 31, 1999, ending plant balance adopted in Dec. No. 63751, no plant retirements and plant additions as follows:

12/31/1999, Ending Plant Balance	\$	-	
2004 Addition	\$	7,180	Fence for new tanks
Ending Balance per Staff	\$	<u>7,180</u>	

b	- DISTR RESERVIORS & STANDPIPES - Per Company	\$42,793	
	Per Staff	50,329	<u>\$7,536</u>

To reflect the December 31, 1999, ending plant balance adopted in Dec. No. 63751, no plant retirements and plant additions as follows:

12/31/1999, Ending Plant Balance	\$	9,125	
2004 Addition	\$	39,204	New tanks
2004 Addition	\$	2,000	Painting new tanks
Ending Balance per Staff	\$	<u>50,329</u>	

c	- OFFICE FURNITURE & EQUIPMENT - Per Company	\$1,275	
	Per Staff	1,157	<u>(\$118)</u>

To reflect the December 31, 1999, ending plant balance adopted in Dec. No. 63751 and plant retirements and additions as follows:

12/31/1999, Ending Plant Balance	\$	1,059	
2000 Addition	\$	2,239	
2004 Retirement	\$	(2,239)	
2009 Addition	\$	1,979	
2008 Retirement	\$	(1,881)	
	\$	<u>-</u>	
Ending Balance per Staff	\$	<u>1,157</u>	

ACCUMULATED DEPRECIATION ADJUSTMENT
--

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$0
Accumulated Depreciation - Per Staff	<u>61,500</u>
Total Adjustment	<u><u>\$61,500</u></u> B

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

See pages 4.1 to 4.11 for Staff's calculation.

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

Plant	31-Dec-99 Original Cost (Dec. No. 63751)	31-Dec-99 Accumulated Depreciation* (Dec. No. 63751)	Prior Depreciation Rates (Dec. No. 60565)	Depr. Rates Effective on 6-Jun-01 (Dec. No. 63751)	2000		2000		2000	
					Additions	2000 Retirements Cost Removal	2000 Depr. Expense	Total Cost	2000 Accumulated Depreciation	
301 Organization Cost	\$0	\$0	0.00%	0.00%	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	\$0	0.00%	0.00%	0	0	\$0	0	0	0
303 Land & Land Rights	0	\$0	0.00%	0.00%	0	0	\$0	0	0	0
304 Structures & Improv	0	\$0	5.00%	3.33%	0	0	\$0	0	0	0
305 Collecting & Impounding Res.	0	\$0	5.00%	2.50%	0	0	\$0	0	0	0
307 Wells & Springs	10,565	\$6,097	5.00%	3.33%	0	0	\$528	10,565	6,625	0
310 Power Generation Equip	0	\$0	5.00%	5.00%	0	0	\$0	0	0	0
311 Electric Pumping Equip	0	\$0	5.00%	12.50%	0	0	\$0	0	0	0
320 Water Treatment Equip, Plants	0	\$0	5.00%	3.33%	0	0	\$0	0	0	0
320.1 Water Treatmnt Equip, Solution Fe	0	\$0	5.00%	20.00%	0	0	\$0	0	0	0
330 Dist. Resrvr & Stndpipe	9,125	\$5,266	5.00%	2.22%	0	0	\$456	9,125	5,722	0
331 Trans. & Distr. Mains	0	\$0	5.00%	2.00%	0	0	\$0	0	0	0
333 Services	0	\$0	5.00%	3.33%	0	0	\$0	0	0	0
334 Meters	17,880	\$10,318	5.00%	8.33%	0	0	\$894	17,880	11,212	0
335 Hydrants	0	\$0	5.00%	2.00%	0	0	\$0	0	0	0
336 Backflow Prevention Devices	0	\$0	5.00%	6.67%	0	0	\$0	0	0	0
339 Other Plant and Misc Equip	0	\$0	5.00%	6.67%	1,292	0	\$155	1,292	155	0
340 Office Furniture & Fixt	1,059	\$611	5.00%	6.67%	2,239	0	\$322	3,298	933	0
340.1 Computers and Software	0	\$0	5.00%	20.00%	0	0	\$0	0	0	0
341 Transportation Equip	0	\$0	5.00%	20.00%	0	0	\$0	0	0	0
343 Tools & Work Equip	0	\$0	5.00%	5.00%	0	0	\$0	0	0	0
345 Power Operated Equip	0	\$0	5.00%	5.00%	0	0	\$0	0	0	0
346 Communications Equip	0	\$0	5.00%	10.00%	0	0	\$0	0	0	0
347 Miscellaneous Equipment	0	\$0	5.00%	10.00%	0	0	\$0	0	0	0
348 Other Tangible Equipment	0	\$0	5.00%	10.00%	0	0	\$0	0	0	0
1999/2000 Totals	\$38,629	\$22,293			\$3,531	\$0	\$2,355	\$42,160	\$24,648	

*See Schedule CSB-2, Page 5 for Calculation

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2001 Additions		2001 Retirements		2001 Fully Depreciated		2001 Depr. Expense		2001 Total Cost		2001 Accumulated Depreciation		2001 Net Book Value	
	Cost	Cost	Cost Removal	Depreciation	Depreciated	Depreciated	Depr. Expense	Depr. Expense	Total Cost	Total Cost	Depreciation	Depreciation	Book Value	Book Value
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	0	0	0	0	0	0	0	0	0
304 Structures & Improv	0	0	0	0	0	0	0	0	0	0	0	0	0	0
305 Collecting & Impounding Res.	0	0	0	0	0	0	0	0	0	0	0	0	0	0
307 Wells & Springs	0	0	0	0	0	0	\$352	\$352	10,565	10,565	6,977	6,977	3,588	3,588
310 Power Generation Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	0
311 Electric Pumping Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	0
320 Water Treatment Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	0
320.1 Water Treatment Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	0	0	0	\$203	\$203	9,125	9,125	5,925	5,925	3,200	3,200
331 Trans. & Distr. Mains	0	0	0	0	0	0	0	0	0	0	0	0	0	0
333 Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
334 Meters	0	0	0	0	0	0	\$1,489	\$1,489	17,880	17,880	12,702	12,702	5,178	5,178
335 Hydrants	0	0	0	0	0	0	0	0	0	0	0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0	0	0	0	0	0
339 Other Plant and Misc Equip	1,116	0	0	0	0	0	\$123	\$123	2,408	2,408	278	278	2,130	2,130
340 Office Furniture & Fixt	0	0	0	0	0	0	\$220	\$220	3,298	3,298	1,153	1,153	2,145	2,145
340.1 Computers and Software	0	0	0	0	0	0	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	0
345 Power Operated Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	0
346 Communications Equip	0	0	0	0	0	0	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2001 Totals	\$1,116	\$0	\$0	\$0	\$0	\$0	\$2,387	\$2,387	\$43,276	\$43,276	\$27,035	\$27,035	\$16,241	\$16,241

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2002 Additions		2002 Retirements		2002 Fully Depreciated		2002 Depreciation		2002 Total Cost		2002 Accumulated Depreciation		2002 Net Book Value	
	Cost		Cost Removal	Depreciation	Depreciated	Depreciation	Depr. Expense	Total Cost	Depreciation	Depreciation	Depreciation	Book Value		
301 Organization Cost	\$0		\$0		\$0		0	\$0	0	\$0	0	\$0	0	\$0
302 Franchise Cost	0		0		0		0	0	0	0	0	0	0	0
303 Land & Land Rights	0		0		0		0	0	0	0	0	0	0	0
304 Structures & Improv	0		0		0		0	0	0	0	0	0	0	0
305 Collecting & Impounding Res.	0		0		0		0	0	0	0	0	0	0	0
307 Wells & Springs	0		0		0		352	10,565	7,329	3,236	0	0	0	0
310 Power Generation Equip	0		0		0		0	0	0	0	0	0	0	0
311 Electric Pumping Equip	0		0		0		0	0	0	0	0	0	0	0
320 Water Treatment Equip	0		0		0		0	0	0	0	0	0	0	0
320.1 Water Treatment Equip	0		0		0		0	0	0	0	0	0	0	0
330 Dist. Resrvr & Sndpipe	0		0		0		203	9,125	6,128	2,997	0	0	0	0
331 Trans. & Distr. Mains	0		0		0		0	0	0	0	0	0	0	0
333 Services	0		0		0		0	0	0	0	0	0	0	0
334 Meters	0		0		0		1,489	17,880	14,191	3,689	0	0	0	0
335 Hydrants	0		0		0		0	0	0	0	0	0	0	0
336 Backflow Prevention Devices	0		0		0		0	0	0	0	0	0	0	0
339 Other Plant and Misc Equip	0		0		0		161	2,408	439	1,969	0	0	0	0
340 Office Furniture & Fixt	0		0		0		220	3,298	1,373	1,925	0	0	0	0
340.1 Computers and Software	0		0		0		0	0	0	0	0	0	0	0
341 Transportation Equip	0		0		0		0	0	0	0	0	0	0	0
343 Tools & Work Equip	0		0		0		0	0	0	0	0	0	0	0
345 Power Operated Equip	0		0		0		0	0	0	0	0	0	0	0
346 Communications Equip	0		0		0		0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0		0		0		0	0	0	0	0	0	0	0
348 Other Tangible Equipment	0		0		0		0	0	0	0	0	0	0	0
2002 Totals	\$0		\$0		\$0		\$2,424	\$43,276	\$29,460	\$13,816				

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2003 Additions		2003 Retirements		Fully Depreciated	2003 Depr. Expense	2003 Total Cost	2003 Accumulated Depreciation	2003 Net Book Value
	Cost	Cost	Cost Removal	Depreciation					
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	\$0	0	0	0
303 Land & Land Rights	0	0	0	0	0	\$0	0	0	0
304 Structures & Improv	0	0	0	0	0	\$0	0	0	0
305 Collecting & Impounding Res.	0	0	0	0	0	\$0	0	0	0
307 Wells & Springs	0	0	0	0	0	\$352	10,565	7,681	2,884
310 Power Generation Equip	0	0	0	0	0	\$0	0	0	0
311 Electric Pumping Equip	0	0	0	0	0	\$0	0	0	0
320 Water Treatment Equip	0	0	0	0	0	\$0	0	0	0
320.1 Water Treatment Equip	0	0	0	0	0	\$0	0	0	0
330 Dist. Resrvr & Sndpipe	0	0	0	0	0	\$203	9,125	6,330	2,795
331 Trans. & Distr. Mains	0	0	0	0	0	\$0	0	0	0
333 Services	0	0	0	0	0	\$0	0	0	0
334 Meters	0	0	0	0	0	\$1,489	17,880	15,681	2,199
335 Hydrants	0	0	0	0	0	\$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	0	\$0	0	0	0
339 Other Plant and Misc Equip	0	0	0	0	0	\$161	2,408	600	1,808
340 Office Furniture & Fixt	0	0	0	0	0	\$220	3,298	1,593	1,705
340.1 Computers and Software	0	0	0	0	0	\$0	0	0	0
341 Transportation Equip	0	0	0	0	0	\$0	0	0	0
343 Tools & Work Equip	0	0	0	0	0	\$0	0	0	0
345 Power Operated Equip	0	0	0	0	0	\$0	0	0	0
346 Communications Equip	0	0	0	0	0	\$0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	0	\$0	0	0	0
348 Other Tangible Equipment	0	0	0	0	0	\$0	0	0	0
2003 Totals	\$0	\$0	\$0	\$0	\$0	\$2,424	\$43,276	\$31,884	\$11,392

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

2004 Additions Cost	2004 Retirements		Fully Depreciated	2004		2004 Total Cost	2004 Accumulated Depreciation	2004 Net Book Value
	Cost Removal	Depreciation		Depr. Expense	Depreciation			
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	0	0	0
304 Structures & Improv	7,180	0	0	\$120	7,180	120	7,060	7,060
305 Collecting & Impounding Res.	0	0	0	\$0	0	0	0	0
307 Wells & Springs	0	0	0	\$352	10,565	8,033	2,532	2,532
310 Power Generation Equip	0	0	0	\$0	0	0	0	0
311 Electric Pumping Equip	0	0	0	\$0	0	0	0	0
320 Water Treatment Equip	0	0	0	\$0	0	0	0	0
320.1 Water Treatment Equip	0	0	0	\$0	0	0	0	0
330 Dist. Resrvr & Sndpipe	41,204	0	0	\$660	50,329	6,990	43,339	43,339
331 Trans. & Distr. Mains	61,812	0	0	\$618	61,812	618	61,194	61,194
333 Services	20,637	0	0	\$344	20,637	344	20,293	20,293
334 Meters	0	0	0	\$1,489	17,880	17,170	710	710
335 Hydrants	0	0	0	\$0	0	0	0	0
336 Backflow Prevention Devices	0	0	0	\$0	0	0	0	0
339 Other Plant and Misc Equip	1,137	0	0	\$199	3,545	798	2,747	2,747
340 Office Furniture & Fixt	0	2,239	0	\$145	1,059	(501)	1,560	1,560
340.1 Computers and Software	0	0	0	\$0	0	0	0	0
341 Transportation Equip	0	0	0	\$0	0	0	0	0
343 Tools & Work Equip	2,408	0	0	\$60	2,408	60	2,348	2,348
345 Power Operated Equip	12,155	0	0	\$304	12,155	304	11,851	11,851
346 Communications Equip	0	0	0	\$0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	\$0	0	0	0	0
348 Other Tangible Equipment	0	0	0	\$0	0	0	0	0
2004 Totals	\$146,533	\$2,239	\$0	\$4,290	\$187,570	\$33,935	\$153,635	\$153,635

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2006 Additions		2006 Retirements		Fully Depreciated	2006		2006 Accumulated Depreciation	2006 Net Book Value
	Cost	Cost Removal	Depreciation	Depr. Expense		Total Cost	Depreciation		
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	0	0	0	0
304 Structures & Improv	0	0	0	239	0	7,180	598	6,582	6,582
305 Collecting & Impounding Res.	0	0	0	0	0	0	0	0	0
307 Wells & Springs	0	0	0	352	0	10,565	8,736	1,829	1,829
310 Power Generation Equip	0	0	0	0	0	0	0	0	0
311 Electric Pumping Equip	0	0	0	0	0	0	0	0	0
320 Water Treatment Equip	0	0	0	0	0	0	0	0	0
320.1 Water Treatment Equip	0	0	0	0	0	0	0	0	0
330 Dist. Resrvr & Sndpipe	0	0	0	1,117	0	50,329	9,225	41,104	41,104
331 Trans. & Distr. Mains	0	0	0	1,236	0	61,812	3,091	58,721	58,721
333 Services	0	0	0	687	0	20,637	1,718	18,919	18,919
334 Meters	0	0	0	0	17,880	17,880	17,880	0	0
335 Hydrants	0	0	0	0	0	0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0
339 Other Plant and Misc Equip	0	0	0	236	0	3,545	1,271	2,274	2,274
340 Office Furniture & Fixt	0	0	0	71	0	1,059	(360)	1,419	1,419
340.1 Computers and Software	0	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	120	0	2,408	301	2,107	2,107
345 Power Operated Equip	0	0	0	608	0	12,155	1,519	10,636	10,636
346 Communications Equip	0	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0	0	0	0	0	0	0
2006 Totals	\$0	\$0	\$0	\$4,667	\$17,880	\$187,570	\$43,979	\$143,591	\$143,591

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

2008 Additions Cost	2008 Retirements		Fully Depreciated	2008 Depr. Expense	2008 Total Cost	2008 Accumulated Depreciation	2008 Net Book Value
	Cost Removal	Depreciation					
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
301 Organization Cost	0	0	0	0	0	0	0
302 Franchise Cost	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	0	0
304 Structures & Improv	0	0	0	239	7,180	1,076	6,104
305 Collecting & Impounding Res.	0	0	0	0	0	0	0
307 Wells & Springs	0	0	0	352	10,565	9,440	1,125
310 Power Generation Equip	0	0	0	0	0	0	0
311 Electric Pumping Equip	0	0	0	0	0	0	0
320 Water Treatment Equip	0	0	0	0	0	0	0
320.1 Water Treatment Equip	0	0	0	0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	1,117	50,329	11,459	38,870
331 Trans. & Distr. Mains	0	0	0	1,236	61,812	5,563	56,249
333 Services	0	0	0	687	20,637	3,092	17,545
334 Meters	0	0	17,880	0	17,880	17,880	0
335 Hydrants	0	0	0	0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	0	0	0
339 Other Plant and Misc Equip	0	0	0	236	3,545	1,744	1,801
340 Office Furniture & Fixt	0	0	0	71	1,059	(218)	1,277
340.1 Computers and Software	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	120	2,408	542	1,866
345 Power Operated Equip	0	0	0	608	12,155	2,735	9,420
346 Communications Equip	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0	0	0	0	0
2008 Totals	\$0	\$0	\$17,880	\$4,667	\$187,570	\$53,313	\$134,257

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2009 Additions		2009 Retirements		Fully Depreciated	2009		2009 Total Cost	2009 Accumulated Depreciation	2009 Net Book Value
	Cost		Cost Removal	Depreciation		Depr. Expense				
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	0	0	0	0	0
304 Structures & Improv	0	0	0	0	239	7,180	7,180	1,315	5,865	5,865
305 Collecting & Impounding Res.	0	0	0	0	0	0	0	0	0	0
307 Wells & Springs	0	0	0	0	352	10,565	10,565	9,792	773	773
310 Power Generation Equip	0	0	0	0	0	0	0	0	0	0
311 Electric Pumping Equip	0	0	0	0	0	0	0	0	0	0
320 Water Treatment Equip	0	0	0	0	0	0	0	0	0	0
320.1 Water Treatment Equip	0	0	0	0	0	0	0	0	0	0
330 Dist. Resrvr & Sndpipe	0	0	0	0	1,117	50,329	50,329	12,577	37,752	37,752
331 Trans. & Distr. Mains	0	0	0	0	1,236	61,812	61,812	6,799	55,013	55,013
333 Services	0	0	0	0	687	20,637	20,637	3,780	16,857	16,857
334 Meters	0	0	0	17,880	0	17,880	17,880	17,880	0	0
335 Hydrants	0	0	0	0	0	0	0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0	0
339 Other Plant and Misc Equip	0	0	0	0	236	3,545	3,545	1,980	1,565	1,565
340 Office Furniture & Fixt	1,979	0	0	0	137	3,038	3,038	(82)	3,120	3,120
340.1 Computers and Software	0	0	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	120	2,408	2,408	662	1,746	1,746
345 Power Operated Equip	0	0	0	0	608	12,155	12,155	3,343	8,812	8,812
346 Communications Equip	0	0	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	0	0	0	0	0	0
348 Other Tangible Equipment	0	0	0	0	0	0	0	0	0	0
2009 Totals	\$1,979	\$0	\$0	\$17,880	\$4,733	\$189,549	\$189,549	\$58,046	\$131,503	\$131,503

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2010									
	Additions Cost	2010 Retirements		Fully Depreciated	2010 Depr. Expense	2010 Total Cost	2010 Accumulated Depreciation	2010 Net Book Value		
	Cost	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value		
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	0	0	0	0	0
304 Structures & Improv	0	0	0	0	239	7,180	1,554	5,626		
305 Collecting & Impounding Res.	0	0	0	0	0	0	0	0		
307 Wells & Springs	0	0	0	0	352	10,565	10,144	421		
310 Power Generation Equip	0	0	0	0	0	0	0	0		
311 Electric Pumping Equip	0	0	0	0	0	0	0	0		
320 Water Treatment Equip	0	0	0	0	0	0	0	0		
320.1 Water Treatment Equip	0	0	0	0	0	0	0	0		
330 Dist. Resvnr & Sndpipe	0	0	0	0	1,117	50,329	13,694	36,635		
331 Trans. & Distr. Mains	0	0	0	0	1,236	61,812	8,036	53,776		
333 Services	0	0	0	0	687	20,637	4,467	16,170		
334 Meters	0	0	0	17,880	0	17,880	17,880	0		
335 Hydrants	0	0	0	0	0	0	0	0		
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0		
339 Other Plant and Misc Equip	0	0	0	0	236	3,545	2,217	1,328		
340 Office Furniture & Fixt	0	1,881	1,881	0	140	1,157	(1,823)	2,980		
340.1 Computers and Software	4,219	0	0	0	422	4,219	422	3,797		
341 Transportation Equip	0	0	0	0	0	0	0	0		
343 Tools & Work Equip	0	0	0	0	120	2,408	783	1,625		
345 Power Operated Equip	0	0	0	0	608	12,155	3,950	8,205		
346 Communications Equip	0	0	0	0	0	0	0	0		
347 Miscellaneous Equipment	3,545	0	0	0	177	3,545	177	3,368		
348 Other Tangible Equipment	0	0	0	0	0	0	0	0		
2010 Totals	\$7,764	\$1,881	\$1,881	\$17,880	\$5,335	\$195,432	\$61,500	\$133,932		

CALCULATION OF 1999 ENDING ACCUMULATED DEPRECIATION BALANCE						
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	Plant 31-Dec-99 Original Cost (Dec. No. 63751)	Percent to Total	1997 and Prior Accumulated Depreciation (Dec. No. 63751)	Allocated Prior Years Accumulated Depreciation	Accumulated Depreciation for 1998 & 1999	1999 Ending Accumulated Depreciation Balance*
301 Organization Cost	\$0					
302 Franchise Cost	0					
303 Land & Land Rights	0					
304 Structures & Improv	0					
305 Collecting & Impounding Res.	0					
307 Wells & Springs	10,565	27.35% x	\$16,498	\$4,512.19 +	\$1,585.00	\$6,097.19
310 Power Generation Equip	0					
311 Electric Pumping Equip	0					
320 Water Treatment Equip, Plants	0					
320.1 Water Treatmnt Equip, Solution Feeders	0					
330 Dist. Resrvr & Stndpipe	9,125	23.62% x	\$16,498	\$3,897.18 +	\$1,369.00	\$5,266.18
331 Trans. & Distr. Mains	0					
333 Services	0					
334 Meters	17,880	46.29% x	\$16,498	\$7,636.34 +	\$2,682.00	\$10,318.34
335 Hydrants	0					
336 Backflow Prevention Devices	0					
339 Other Plant and Misc Equip	0					
340 Office Furniture & Fixt	1,059	2.74% x	\$16,498	\$452.29 +	\$159.00	\$611.29
340.1 Computers and Software	0					
341 Transportation Equip	0					
343 Tools & Work Equip	0					
345 Power Operated Equip	0					
346 Communications Equip	0					
347 Miscellaneous Equipment	0					
348 Other Tangible Equipment	0					
1999 Total	\$38,629	100.00%		\$16,498.00	\$5,795.00	\$22,293.00

* See Sch CSB-2, P. 4.1

STAFF RATE BASE ADJUSTMENTS

C	- WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff	\$0 <u>67</u>	<u>\$67</u>
	To reflect Staff's calculation of working capital based upon Staff's recommendations for purchased power and purchased water.		
D	- WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff	\$ - <u>753</u>	<u>\$753</u>
	To reflect Staff's calculation of working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).		

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted		Staff Recommended
Revenues:						
461 Metered Water Revenue	\$ 29,120	\$ (4,479) A	\$	24,641	\$ 9,749	\$ 34,390
460 Unmetered Water Revenue	\$ -	\$ -	\$	-	\$ -	\$ -
474 Other Water Revenues	\$ 1,500	\$ -	\$	1,500	\$ -	\$ 1,500
Total Operating Revenue	\$ 30,620	\$ (4,479)	\$	26,141	\$ 9,749	\$ 35,890
Operating Expenses:						
601 Salaries and Wages	\$ -	\$ -	\$	-	\$ -	\$ -
610 Purchased Water	\$ -	\$ -	\$	-	\$ -	\$ -
615 Purchased Power	\$ 1,613	\$ -	\$	1,613	\$ -	\$ 1,613
618 Chemicals	\$ 1,500	\$ -	\$	1,500	\$ -	\$ 1,500
620 Repairs and Maintenance	\$ 1,173	\$ 2,750 B	\$	3,923	\$ -	\$ 3,923
621 Office Supplies & Expense	\$ 332	\$ -	\$	332	\$ -	\$ 332
630 Contractual Services	\$ 803	\$ 6,200 C	\$	7,003	\$ -	\$ 7,003
635 Water Testing	\$ 1,184	\$ (60) D	\$	1,124	\$ -	\$ 1,124
641 Rents	\$ -	\$ -	\$	-	\$ -	\$ -
650 Transportation Expenses	\$ 1,527	\$ -	\$	1,527	\$ -	\$ 1,527
657 Insurance - General Liability	\$ -	\$ -	\$	-	\$ -	\$ -
659 Insurance - Health and Life	\$ -	\$ -	\$	-	\$ -	\$ -
666 Regulatory Commission Expense - Rate Case	\$ -	\$ 167 E	\$	167	\$ -	\$ 167
675 Miscellaneous Expense	\$ 873	\$ -	\$	873	\$ -	\$ 873
403 Depreciation Expense	\$ 10,199	\$ (4,327) F	\$	5,872	\$ -	\$ 5,872
408 Taxes Other Than Income	\$ 1,896	\$ (1,896) G	\$	-	\$ -	\$ -
408.11 Property Taxes	\$ 820	\$ -	\$	820	\$ -	\$ 820
409 Income Tax	\$ -	\$ (1,683) H	\$	(1,683)	\$ 2,040	\$ 357
Total Operating Expenses	\$ 21,920	\$ 1,150	\$	23,070	\$ 2,040	\$ 25,110
OPERATING INCOME/(LOSS)	\$ 8,700	\$ (5,629)	\$	3,071	\$ 7,710	\$ 10,780

STAFF ADJUSTMENTS

A	- METERED WATER REVENUES - Per Company Per Staff	\$ 29,120		24,641	(\$4,479)
	To remove revenues from the Company's 2-inch customer, an RV park. Cienega is in the process of disconnecting the RV park from the system as part of the resolution of the flouride problem. The RV park has its own water source.				
B	- REPAIRS & MAINTENANCE - Per Company Per Staff	\$ 1,173		3,923	\$2,750
	To reflect the known and measurable cost to replace the filters for the point of use water treatment units.				
C	- CONTRACTUAL SERVICES - Per Company Per Staff	\$ 803		7,003	\$6,200
	To reflect Staff's adjustments to the contractual services account:				
	\$ 803	2010 ending balance			
	\$ 6,000	For bookkeeping, meter reading, cust serv, billing, management, report preparation			
	\$ 200	For tax preparation			
	\$ 7,003				
D	- WATER TESTING EXPENSE - Per Company Per Staff	\$ 1,184		1,124	(\$60)
	To reflect Staff's calculation of water testing expense.				
E	- RATE CASE EXPENSE - Per Company Per Staff	\$ -		167	\$167
	To reflect a normalized amount of rate case expense based on three years between rate cases.				
	\$ 500.00	Rate Case Expense			
	3	Divided by 3 years			
	\$ 166.67				

STAFF ADJUSTMENTS (Cont.)

F - DEPRECIATION - Per Company \$ 10,199
Per Staff 5,872 (\$4,327)

To reflect Staff's calculation of depreciation expense.

Acct No.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$0	\$ -	\$ -	0.00%	\$ -
302	Franchises	\$0	\$ -	\$ -	0.00%	\$ -
303	Land & Land Rights	\$0	\$ -	\$ -	0.00%	\$ -
304	Structures & Improvements	\$7,180	\$ -	\$ 7,180	3.33%	\$ 239
307	Wells & Springs	\$10,565	\$ -	\$ 10,565	3.33%	\$ 352
311	Pumping Equipment	\$0	\$ -	\$ -	12.50%	\$ -
320	Water Treatment Equipment	\$0	\$ -	\$ -	3.33%	\$ -
330.1	Distribution Reservoirs - Storage	\$50,329	\$ -	\$ 50,329	2.22%	\$ 1,117
330.2	Distribution Reservoirs - Pressure	\$0	\$ -	\$ -	5.00%	\$ -
331	Transmission & Distribution Mains	\$61,812	\$ -	\$ 61,812	2.00%	\$ 1,236
333	Services	\$20,637	\$ -	\$ 20,637	3.33%	\$ 687
334	Meters & Meter Installations	\$17,880	\$ 17,880	\$ -	8.33%	\$ -
335	Hydrants	\$0	\$ -	\$ -	2.00%	\$ -
336	Backflow Prevention Devices	\$0	\$ -	\$ -	6.67%	\$ -
339	Other Plant and Misc. Equipment	\$3,545	\$ -	\$ 3,545	6.67%	\$ 236
340	Office Furniture & Equipment	\$1,157	\$ -	\$ 1,157	6.67%	\$ 77
340.1	Computers and Software	\$4,219	\$ -	\$ 4,219	20.00%	\$ 844
341	Transportation Equipment	\$0	\$ -	\$ -	20.00%	\$ -
343	Tools Shop & Garage Equipment	\$2,408	\$ -	\$ 2,408	5.00%	\$ 120
345	Power Operated Equip	\$12,155	\$ -	\$ 12,155	5.00%	\$ 608
347	Miscellaneous Equipment	\$3,545	\$ -	\$ 3,545	10.00%	\$ 355
Total Plant		\$ 195,432	\$ 17,880	\$ 177,552		\$ 5,872

Depreciation Expense Before Amortization of CIAC:	\$ 5,872
Less Amortization of CIAC*:	\$ -
Test Year Depreciation Expense - Staff:	\$ 5,872
Depreciation Expense - Company:	\$ 10,199
Staff's Total Adjustment:	\$ (4,327)

*** Amortization of CIAC Calculation:**

Contribution(s) in Aid of Construction (Gross)	\$0
Less: Non Amortizable Contribution(s)	0
Less: Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$ -
Times: Staff Proposed Amortization Rate	0.00%
Amortization of CIAC	\$ -

STAFF ADJUSTMENTS (Cont.)

G	- TAXES OTHER THAN INCOME - Per Company	\$	1,896	
	Per Staff		0	<u>(\$1,896)</u>
	To remove costs for which the Company had no documentation.			
H	- INCOME TAX EXPENSE (On test year revenue) - Per Company	\$	-	
	Per Staff		(1,683)	<u>(\$1,683)</u>
	To reflect Staff's calculation of income tax as shown on Schedule CSB-3, page 5.			

GROSS REVENUE CONVERSION FACTOR AND INCOME TAX CALCULATION FOR RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<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)	20.9228%			
5	Subtotal (L3 - L4)	79.0772%			
6	Revenue Conversion Factor (L1 / L5)	1.264587			
<i>Calculation of Uncollectible Factor:</i>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	20.9228%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.0772%			
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 53)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	13.9548%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.9228%		
<i>Calculation of Effective Property Tax Factor</i>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.9228%			
20	One Minus Combined Income Tax Rate (L18-L19)	0.0000%			
21	Property Tax Factor	0.0000%			
22	Effective Property Tax Factor (L20*L21)		0.0000%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			20.9228%	
24	Required Operating Income	\$ 10,780			
25	Adjusted Test Year Operating Income (Loss)	3,071			
26	Required Increase in Operating Income (L24 - L25)		\$ 7,710		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 357			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	(1,683)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		2,040		
30	Recommended Revenue Requirement	\$ 35,890			
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	\$ 820			
36	Property Tax on Test Year Revenue	820			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		-		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 9,749		
<i>Calculation of Income Tax:</i>					
39	Revenue	\$ 26,141	\$ 9,749	\$ 35,890	
40	Operating Expenses Excluding Income Taxes	\$ 24,754	\$ -	\$ 24,754	
41	Synchronized Interest (L56)	\$ 9,433		\$ 9,433	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (8,045)		\$ 1,704	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (561)		\$ 119	
45	Federal Taxable Income (L42 - L44)	\$ (7,485)		\$ 1,585	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (1,123)		\$ 238	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ (1,123)		\$ 238	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (1,683)		\$ 357	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]				15.0000%
<i>Calculation of Interest Synchronization:</i>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14)	\$ 134,752			
55	Weighted Average Cost of Debt	7.0000%			
56	Synchronized Interest (L45 X L46)	\$ 9,433			

RATE DESIGN

Monthly Customer Charge:	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$22.00	\$30.00	30.00
3/4" Meter	33.00	35.00	45.00
1" Meter	50.00	60.00	75.00
1½" Meter	100.00	150.00	150.00
2" Meter	250.00	300.00	240.00
3" Meter	375.00	400.00	450.00
4" Meter	500.00	525.00	750.00
6" Meter	750.00	800.00	1,500.00

Gallons Included in Monthly Customer Charge:	0	0	0
Per 1,000 Gallons for 0 to 10,000 Gallons	\$3.75	N/A	N/A
Per 1,000 Gallons for 10,001 to 25,000 Gallons	\$4.50	N/A	N/A
Per 1,000 Gallons for Gallons in Excess of 25,000	\$6.90	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	N/A	\$5.00	N/A
Per 1,000 Gallons for 3,001 to 10,000 Gallons	N/A	\$5.25	N/A
Per 1,000 Gallons for Gallons in Excess of 10,000	N/A	\$8.00	N/A
Per 1,000 Gallons for 0 to 2,000 Gallons	N/A	N/A	\$3.00
Per 1,000 Gallons for 2,001 to 7,000 Gallons	N/A	N/A	\$6.80
Per 1,000 Gallons for Gallons in Excess of 7,000	N/A	N/A	\$10.60

Service Line and Meter Installation Charges	Present	Company	Staff Recommended		
	Rates	Proposed	Services	Meters	Total
5/8" x 3/4" Meter	\$350	\$400	\$297	\$103	\$400
3/4" Meter	\$400	\$450	\$286	\$164	\$450
1" Meter	\$500	\$550	\$336	\$214	\$550
1 1/2" Meter	\$700	\$750	\$384	\$366	\$750
2" Meter	\$1,200	\$1,300	\$575	\$725	\$1,300
3" Meter	\$1,700	\$1,800	\$693	\$1,107	\$1,800
4" Meter	\$2,600	\$2,700	\$967	\$1,733	\$2,700
6" Meter	\$5,000	\$5,000	\$1,527	\$3,473	\$5,000

Service Charges	Present	Company	Staff Recommended
Establishment	\$25.00	\$50.00	\$25.00
Establishment (After Hours)	35.00	75.00	Discontinue
Reconnection (Delinquent)	40.00	50.00	40.00
Reconnection (Delinquent) After Hours	50.00	60.00	Discontinue
After Hours Service Charge	N/A	N/A	40.00
Meter Test (If Correct)	25.00	35.00	30.00
Deposit	*	*	*
Deposit Interest (Per Year)	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	25.00	15.00
Deferred Payment (Per Month)	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	15.00	20.00	15.00
Late Fee (Per Month)	1.50%	1.50%	1.50%

* Per Commission rule AAC R14-2-403.B

** Number of months off system times the monthly minimum per Commission rule AAC R14-2-403(D).

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 57

	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Company Proposed Without \$7.27 WIFA Loan Surcharge					
Average Usage	3,286	\$34.32	\$46.50	\$12.18	35.5%
Median Usage	1,777	\$ 28.66	\$ 38.88	\$10.22	35.7%
Staff Recommended Without \$7.27 WIFA Loan Surcharge					
Average Usage	3,286	\$34.32	\$44.75	\$10.43	30.4%
Median Usage	1,777	\$28.66	\$35.33	\$6.67	23.3%
Staff Recommended With \$7.27 WIFA Loan Surcharge					
Average Usage	3,286	\$34.32	\$52.02	\$17.70	51.6%
Median Usage	1,777	\$28.66	\$42.60	\$13.94	48.6%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
0	\$22.00	\$30.00	36.4%	\$30.00	36.4%
1,000	25.75	35.00	35.9%	33.00	28.2%
2,000	29.50	40.00	35.6%	36.00	22.0%
3,000	33.25	45.00	35.3%	42.80	28.7%
4,000	37.00	50.25	35.8%	49.60	34.1%
5,000	40.75	55.50	36.2%	56.40	38.4%
6,000	44.50	60.75	36.5%	63.20	42.0%
7,000	48.25	66.00	36.8%	70.00	45.1%
8,000	52.00	71.25	37.0%	80.60	55.0%
9,000	55.75	76.50	37.2%	91.20	63.6%
10,000	59.50	81.75	37.4%	101.80	71.1%
15,000	82.00	121.75	48.5%	154.80	88.8%
20,000	104.50	161.75	54.8%	207.80	98.9%
25,000	127.00	201.75	58.9%	260.80	105.4%
50,000	299.50	401.75	34.1%	525.80	75.6%
75,000	472.00	601.75	27.5%	790.80	67.5%
100,000	644.50	801.75	24.4%	1,055.80	63.8%
125,000	817.00	1,001.75	22.6%	1,320.80	61.7%
150,000	989.50	1,201.75	21.5%	1,585.80	60.3%
175,000	1,162.00	1,401.75	20.6%	1,850.80	59.3%
200,000	1,334.50	1,601.75	20.0%	2,115.80	58.5%

FINANCIAL AND CASH FLOW ANALYSIS

Selected Financial Data
Including Immediate Effects of the Proposed Debt & WIFA Loan Surcharge

Line No.	[A] Staff Recommended Rates without Surcharge, Loan Principal & Interest	[B] Adjustments	REF	[C] Staff Recommended Rates with Surcharge, Loan Principal & Interest	
1	INCOME STATEMENT				
2					
3	Operating Revenue				
4	Metered Water Revenue	\$ 34,390	\$ -	\$	\$ 34,390
5	Surcharge Rev for POU Wtr Trmnt Units	\$ -	\$ 4,800	A	\$ 4,800
6	Other Water Revenues	\$ 1,500	\$ -		\$ 1,500
7	Total Operating Rev:	\$ 35,890	\$ 4,800		\$ 40,691
8					
9	Operating Expenses				
10	601 Salaries and Wages	\$ -	\$ -	\$	\$ -
11	610 Purchased Water	\$ -	\$ -	\$	\$ -
12	615 Purchased Power	\$ 1,613	\$ -	\$	\$ 1,613
13	618 Chemicals	\$ 1,500	\$ -	\$	\$ 1,500
14	620 Repairs and Maintenance	\$ 3,923	\$ -	\$	\$ 3,923
15	621 Office Supplies & Expense	\$ 332	\$ -	\$	\$ 332
16	630 Contractual Services	\$ 7,003	\$ -	\$	\$ 7,003
17	635 Water Testing	\$ 1,124	\$ -	\$	\$ 1,124
18	641 Rents	\$ -	\$ -	\$	\$ -
19	650 Transportation Expenses	\$ 1,527	\$ -	\$	\$ 1,527
20	657 Insurance - General Liability	\$ -	\$ -	\$	\$ -
21	659 Insurance - Health and Life	\$ -	\$ -	\$	\$ -
22	666 Regulatory Comm Exp - Rate Case	\$ 167	\$ -	\$	\$ 167
23	675 Miscellaneous Expense	\$ 873	\$ -	\$	\$ 873
24	403 Depreciation Expense	\$ 5,872	\$ -	\$	\$ 5,872
25	408 Taxes Other Than Income	\$ -	\$ -	\$	\$ -
26	408.11 Property Taxes	\$ 820	\$ -	\$	\$ 820
27	409 Income Tax	\$ 357	\$ 1,004	B	\$ 1,361
28	Total Operating Expense	\$ 25,110	\$ 1,004		\$ 26,115
29					
30	Operating Income	\$ 10,780	\$ 3,796		\$ 14,576
31					
32	Interest Income	\$ -	\$ -	\$	\$ -
33	Interest Expense on Long-term debt	\$ 10,165	\$ 2,218	C	\$ 12,383
34	Total Other Interest Expense	\$ (10,165)	\$ (2,218)		\$ (12,383)
35					
36	Net Income	\$ 615	\$ 1,578		\$ 2,193
37					
38	Rate Base	\$ 134,752			\$ 134,752
39					
40	Rate of Return (Line 30 / Line 38)	8.00%			10.82%
41					
42	Operating Margin (Line 30 / Line 7)	30.04%			35.82%
43					
44	Principal Repayment	\$ 2,907	\$ 1,578	D	\$ 4,485
45					
46	Cash Flow (L 24 + L36 - L44)	\$ 3,580	\$ -		\$ 3,580
47					
48	TIER				
49	Before Tax: [L 27 + L 30] + L 33	1.10			1.29
50	After Tax: L30 + L 33	1.06			1.18
51	DSC				
52	Before Tax: [L 24 + L27+ L 30] + [L 33 + L 44]	1.30			1.29
53	After Tax : [L 24 + L 30] + [L 33 + L 44] (WIFA)	1.27			1.21
54					
55					
56	Short-term Debt	\$ 5,081	4%	\$	\$ 6,659 3.9%
57	Long-term Debt	\$ 115,643	96%	\$	\$ 164,065 96.1%
58	Common Equity	\$ -	0%	\$	\$ - 0.0%
59	Total Capital	\$ 120,724	100%	\$	\$ 170,724 100.0%
60					
61					
62					
63					
64					

A - See Sch CSB-7, page 1, Line 11
B - See Sch CSB-7, page 1, Line 9
C - See Sch CSB-7, page 2, column 6, "Annual Interest"
D - See Sch CSB-7, page 2, column 7, "Annual Principal"

CALCULATION OF SURCHARGE
WIFA Loan for Point of Use Water Treatment Units

Line No.									
1	WIFA Loan Amount for Point of Use Water Treatment Units					\$ 50,000		From Sch CSB-7, P. 2	
2									
3	Term					20 Years		From Sch CSB-7, P. 2	
4									
5	Interest Rate*					4.50%		From Sch CSB-7, P. 2	
6									
7	Total Annual Interest and Principal Payments					\$ 3,796		From Sch CSB-7, P. 2	
8									
9	Annual Income Tax Component of the Surcharge Revenue					\$ 1,004		From Line 57	
10									
11	Total Annual Surcharge Revenue Requirement for the Loan					\$ 4,800		Line 7 + Line 9	
12									
13	Total Equivalent Annual Bills					660		From Line 37	
14									
15	5/8"x 3/4" Meter Surcharge Amount					\$ 4,800 ÷ 660 = \$ 7.27			
16									
17	3/4" Meter Surcharge Amount					\$ 7.27 x 1.5 = \$ 10.91			
18									
19	1" Meter Surcharge Amount					\$ 7.27 x 2.5 = \$ 18.18			
20									
21	1 1/2" Meter Surcharge Amount					\$ 7.27 x 5.0 = \$ 36.37			
22									
23	2" Meter Surcharge Amount					\$ 7.27 x 6.0 = \$ 58.18			
24									
25	3" Meter Surcharge Amount					\$ 7.27 x 16.0 = \$ 116.37			
26									
27	4" Meter Surcharge Amount					\$ 7.27 x 25.0 = \$ 181.83			
28									
29	6" Meter Surcharge Amount					\$ 7.27 x 50.0 = \$ 363.65			
30									
31									
32									
33									
34									
35	Meter Size	Number of Customers	Customer Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount	
36									
37	5/8" x 3/4" Meter	55	1	55	660	\$ 7.27	\$ 87.28	\$ 4,800.24	
38	3/4" Meter	-	1.5	-	-	10.91	-	-	
39	1" Meter	-	2.5	-	-	18.18	-	-	
40	1 1/2" Meter	-	5	-	-	36.37	-	-	
41	2" Meter	-	8	-	-	58.18	-	-	
42	3" Meter	-	16	-	-	116.37	-	-	
43	4" Meter	-	25	-	-	181.83	-	-	
44	6" Meter	-	50	-	-	363.65	-	-	
45	TOTAL	55		55	660			\$ 4,800.24	
46									
47									
48									
49	* Staff notes that, although the Company proposed a range of interest rates from 2% to 5.25%,								
50	as of April 11, 2012, the interest on a WIFA loan for Cienega would be 4.0 percent.								
51	Therefore, Staff has used a conservative 4.5 percent interest rate in its calculations.								
52									
53	Annual Income Tax Component of the Surcharge Revenue calculated as follows:								
54									
55									
56	x	0.26459	From Sch CSB-7, Page 3						
57		\$ 3,796	Multiplied by: Annual Principal Payment on Loan (Line 7)						
		\$1,004.34	Annual Income Tax Component of the Annual Surcharge Revenue						

Loan Amount Requested	\$50,000		
Down Payment:	\$0		
Amount Financed:	\$50,000		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	4.50%	APR:	4.59%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning-of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$316.32	\$50,000.00	\$187.50	\$128.82	\$49,871.18			
2	316.32	49,871.18	187.02	129.31	49,741.87			
3	316.32	49,741.87	186.53	129.79	49,612.07			
4	316.32	49,612.07	186.05	130.28	49,481.80			
5	316.32	49,481.80	185.56	130.77	49,351.03			
6	316.32	49,351.03	185.07	131.26	49,219.77			
7	316.32	49,219.77	184.57	131.75	49,088.02			
8	316.32	49,088.02	184.08	132.24	48,955.77			
9	316.32	48,955.77	183.58	132.74	48,823.03			
10	316.32	48,823.03	183.09	133.24	48,689.80			
11	316.32	48,689.80	182.59	133.74	48,556.06			
12	316.32	48,556.06	182.09	134.24	48,421.82	2,217.71	1,578.18	3,795.90

$$\text{GRCF} = \frac{1}{1 - \text{Effective incremental income tax rate}}$$

$$\text{GRCF} = 1.264587 \quad \text{From Schedule 3, P.5, Line 6}$$

$$\text{Incremental Income Tax Factor} = \text{GRCF} - 1$$

$$= 0.26459$$

7. Staff concludes that Cienega's proposal to install 55 POU Devices to reduce fluoride concentrations in its water is appropriate and the cost estimates as adjusted by Staff and listed in the Table E. are reasonable.

RECOMMENDATIONS

1. Staff recommends an annual water testing expense of \$1,124 be used for purposes of this application.
2. Staff recommends that Cienega implement a program as soon as practicable to physically inspect and test all in-service water meters on a regular basis, including Company production meters, in its water service area to ensure their proper operation, any under-registering meters shall be repaired or replaced. Staff further recommends that the Company ensure that properly functioning meters of the appropriate size have been installed on all connections to the Company's water system. Staff further recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 ("Annual Report").¹ Staff further recommends if the reported water loss in the Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.
3. Staff recommends that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners account presented in Table B on a going forward basis.
4. Staff recommends that the separate service line and meter charges listed under "Staff's Recommendation" in Table C be adopted.
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 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>.
6. 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

¹ The Company shall collect the data needed to accurately complete the water use data sheets contained in the Annual Report form.

request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

7. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, documentation showing the slab and well head at Well No. 2 has been sealed to prevent contaminants from entering the well.
8. Staff recommends approval of Cienega's POU Tariff as attached in Exhibit POU. Staff further recommends that Cienega shall file with Docket Control, as a compliance item in this docket, the POU Tariff authorized herein within 60 days of the effective date of this Decision. Staff further recommends that Cienega provide a copy of the approved POU Tariff to all its customers served by Cienega water system PWS ID No. 15-002. See Section I of the report for a discussion of the details.
9. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by June 30, 2013, a copy of the ADEQ Approval of Installation of the POU treatment devices.

TABLE OF CONTENTS

	<u>PAGE</u>
A. INTRODUCTION AND LOCATION OF COMPANY	1
B. DESCRIPTION OF THE WATER SYSTEM.....	1
C. WATER USE	7
<i>WATER SOLD</i>	<i>7</i>
<i>NON-ACCOUNT WATER</i>	<i>7</i>
<i>SYSTEM ANALYSIS.....</i>	<i>8</i>
D. GROWTH.....	9
E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE.....	9
<i>COMPLIANCE</i>	<i>9</i>
<i>WATER TESTING EXPENSE</i>	<i>9</i>
F. ADWR COMPLIANCE	10
G. ACC COMPLIANCE.....	11
H. DEPRECIATION RATES.....	11
I. OTHER ISSUES	13
1. <i>SERVICE LINE AND METER INSTALLATION CHARGES</i>	<i>13</i>
2. <i>CURTAILMENT TARIFF</i>	<i>13</i>
3. <i>BACKFLOW PREVENTION TARIFF</i>	<i>13</i>
4. <i>BEST MANAGEMENT PRACTICES (“BMP”) TARIFF</i>	<i>14</i>
5. <i>POU TARIFF.....</i>	<i>14</i>
6. <i>POU TREATMENT DEVICE FILTER AND MEMBRANE REPLACEMENT COSTS.....</i>	<i>16</i>
J. FINANCING	17
<i>POU TREATMENT</i>	<i>17</i>
<i>PROPOSED CIENEGA SPRINGS RV PARK WATER SYSTEM</i>	<i>17</i>
<i>POU TREATMENT COST INFORMATION.....</i>	<i>18</i>

EXHIBIT

POU Tariff.....
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A. INTRODUCTION AND LOCATION OF COMPANY

On May 9, 2011, Cienega Water Company, Inc. (“Cienega” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) to increase its rates (Docket No.W-02034A-11-0194). The Company’s current rates were approved in Commission Decision No. 63751, dated June 6, 2001. Concurrent with filing its rate application the Company also filed with the Commission a financing application requesting authority to incur long term debt in the amount of \$50,000 to fund the installation of Point-of-Use (“POU”) Devices to reduce fluoride concentrations in its water (Docket No.W-02034A-11-0195). The ACC Utilities Division Staff (“Utilities Staff” or “Staff”) engineering review and analysis of these applications is presented in this report.

Cienega is a Class E water utility company that provides public utility water service to 55 residential customers in the Cienega Springs subdivision and one RV Park in the community of Cienega Springs.² The RV Park is master metered with up to 70 spaces served via a 2-inch meter. The area served is located approximately four miles northeast of the town of Parker on Highway 95 in La Paz County, Arizona. Figure 1 shows the location of the Company within La Paz County and Figure 2 shows the Certificate of Convenience and Necessity (“CC&N”) covering approximately 75 acres (or approximately one-tenth of a square mile). The CC&N was granted in Commission Decision No. 38852, dated March 8, 1967.

B. DESCRIPTION OF THE WATER SYSTEM

The Cienega water system was visited on October 5, 2011, by Del Smith, of Utilities Staff, in the accompaniment of Ms. Debra Kilgore.³ Ms. Kilgore is Cienega’s Operations Manager. Ms. Eleanor Stephens the Company’s Certified Operator was out of town and not available the day of Staff’s visit.⁴

The water is pumped by two wells that the Company owns and operates (Well No. 2; Arizona Department of Water Resources (“ADWR”) Registration No. 55-617676 and Well No. 3; Registration No. 55-617677).⁵ Each well has a pump yield of about 25 gallons per minute (“GPM”). The wells feed water to four 5,000 gallon painted steel storage tanks located on higher ground approximately 1,000 feet from the wells.⁶ Since the system is gravity fed, pumps and pressure tanks are not needed. A dilute solution of sodium hypochlorite is used to maintain residual chlorine for disinfection in the storage tanks and distribution system. The distribution system presently serves 56 active metered connections. Water level in the storage tanks is

² Active connections based on information contained in the financing application.

³ Arizona Department of Environmental Quality representatives and Company consultants were also present during Staff’s visit.

⁴ Ms. Stephan is a Certified Grade 1 Water Distribution System Operator and is a Certified Grade 1 Water Treatment Plant Operator, Arizona Department of Environmental Quality Operator Identification No.OP002069.

⁵ The Cienega water system relies solely on groundwater as its source of water.

⁶ The water system has total storage capacity of 20,000 gallons.

controlled via a radio telemetry system. A relay unit at Well No. 3 alternates well starts for either Well No. 2 or Well No. 3 pumps. A water system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing.

Table A. Plant Facilities Summary⁷

Well Data

	Well No. 2	Well No. 3
ADWR Registration No.	55-617676	55-617677
Casing Size	12 inch	12 inch
Depth of Well	100 feet	100 feet
Pump Size Horsepower (Hp)	1 hp	1 hp
Pump Yield	22 - 25 gpm	22 - 25gpm
Meter Size	1 1/2 inch	1 1/2 inch
Year Drilled	1959	1960

Notes:

1) Arizona Department of Water Resources well registration records list the Company as the well registrant and Cienega Springs Development Corporation as the land owner.

Water Storage & Structures

Structure or Equipment	Location	Quantity – Capacity, Size
Storage tanks	North of Well Site (Note 1)	4 - 5,000 gallon
Sodium hypochlorite chlorination system (Note 2)	Well Site	1 – 55 gallon drum
Security Fencing	Around Wells	five-foot wrought iron
Security Fencing	Around Storage Tanks	six-foot chain link

Notes:

1) The storage tanks are located on higher ground approximately 1,000 feet from the wells.
 2) A small metal building, or storage shed, is used to house the chlorination system and the radio telemetry unit used for well pump control.

Distribution Mains

Diameter	Material	Length
4 inch	PVC	1,625 feet (Note 1)
6 inch	PVC	5,700 feet

Notes:

1) Per the Arizona Department of Environmental Quality ATC issued March 30, 2009.

⁷ The information listed was based on one, or a combination of, the following sources: 1) Company’s Application, 2) Commission Annual Reports, 3) Arizona Department of Water Resources Records, 4) Information contained in the Company’s Response to a Staff Data Request and, 5) Information collected during Staff’s site visit.

Meters

Size	Quantity
5/8 x 3/4 inch	55
2 inch	1

Fire Hydrants

Size/Description	Quantity
Standard	N/A

LA PAZ COUNTY

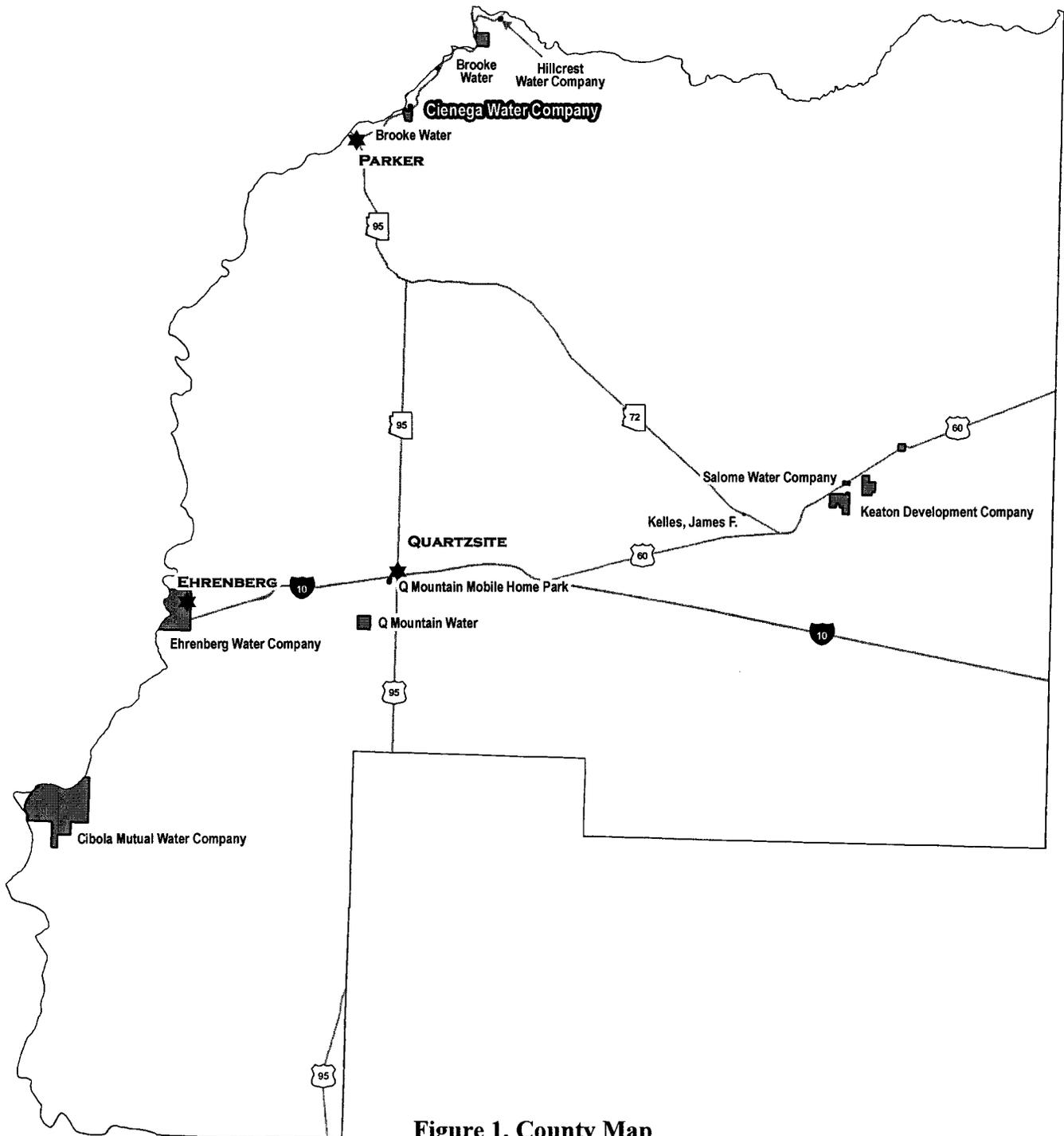


Figure 1. County Map

LA PA Z COUNTY

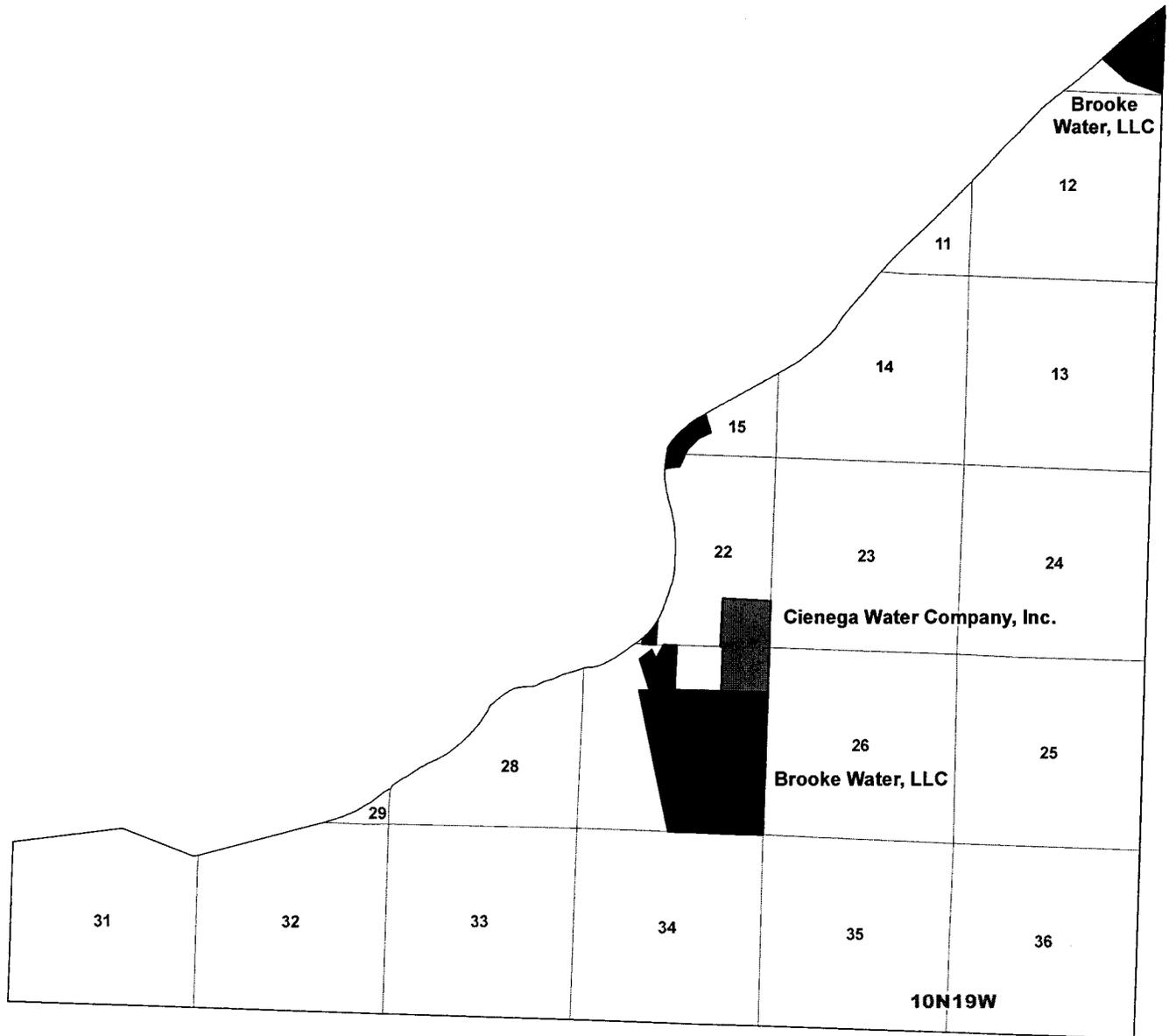


Figure 2. Certificated Area

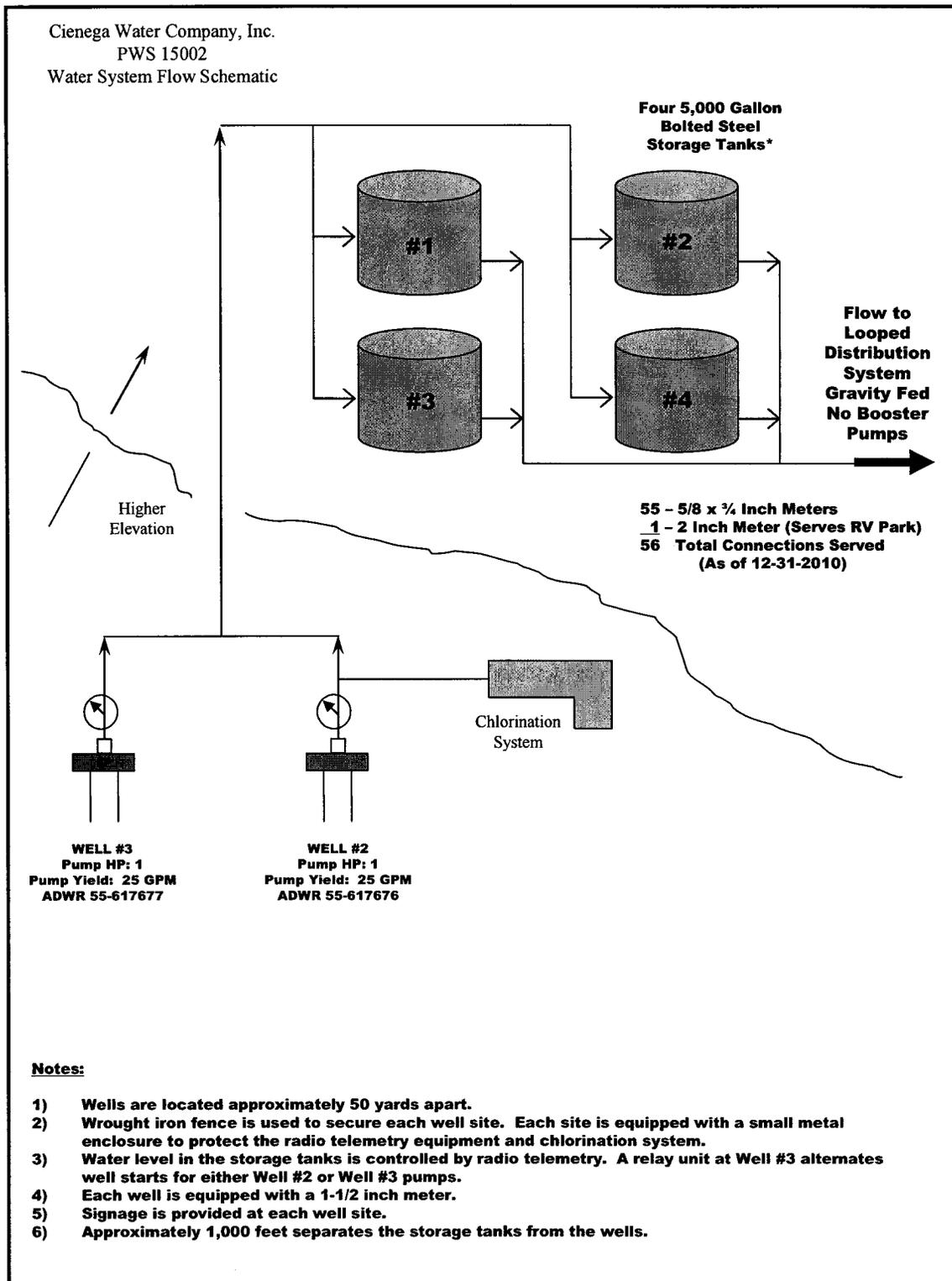


Figure 3. Water System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending December 31, 2010. Customer consumption included a high monthly water use of 173 gallons per day (“GPD”) per connection in February, and the low water use was 63 GPD per connection in January. The average annual use was 122 GPD per connection.⁸ The Company reported 2,567,800⁹ gallons of water sold during the test year.

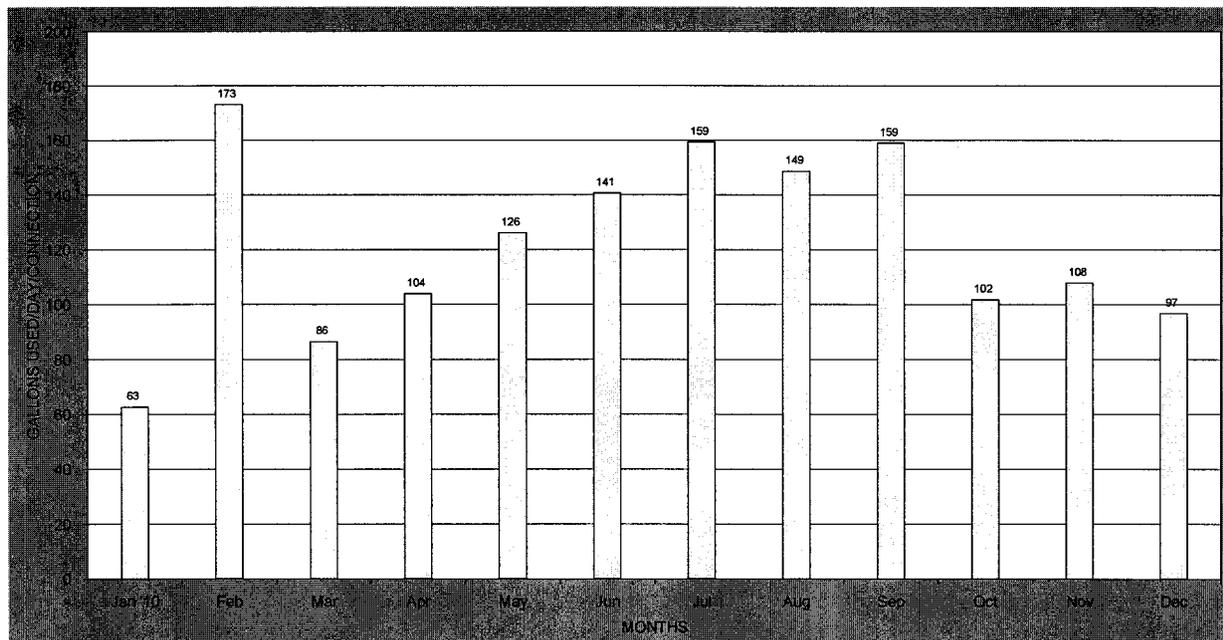


Figure 4. Water Use

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. Lost water for Cienega was calculated to be 57 percent in 2010 which far exceeds acceptable limits. The water use data reported in recent Commission annual reports indicates that the Company’s level of non-account water is increasing. In the Company’s 2008 Annual Report non-account water was 12.4 percent in 2010 the unadjusted non-account water was over 60 percent which prompted the Company to began an “intense investigation” into its water loss issue. In the application the

⁸ Lost water for Cienega was calculated to be 57 percent in 2010 which far exceeds acceptable limits and calls into question the validity of the customer consumption data presented in this section.

⁹ Total water sold during the test year based on the monthly data.

Company mentions “significant water loss issues” as influencing the Company’s revenues and expenses.¹⁰ The Company also suspects that the 2-inch meter serving the RV Park may not be functioning properly. Most of the Company’s distribution system was replaced in 2003 which gives reason to look initially at the condition and accuracy of the meters.

Staff understands that the Company has recently replaced the meter serving the RV Park. Other meters replaced included the two production (well) meters and several customer meters. On October 6, 2011 the Company submitted water use data recorded by the replacement meters. Non-Account water was calculated at 9.2 percent¹¹ which represents a significant improvement over the 12-month average of 50 percent reported for the test year.

Staff recommends that Cienega implement a program as soon as practicable to physically inspect and test all in-service water meters on a regular basis, including Company production meters, in its water service area to ensure their proper operation, any under-registering meters shall be repaired or replaced. Staff further recommends that the Company ensure that properly functioning meters of the appropriate size have been installed on all connections to the Company’s water system. Staff further recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 (“Annual Report”).¹² Staff further recommends if the reported water loss in the Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.

System Analysis

The Cienega water system well production capacity is 50 gpm (there are two wells with each well rated at 25 gpm) and the system currently has 20,000 gallons of storage capacity (four 5,000 gallon storage tanks). There are no fire hydrants in the distribution system. The system had 58 connections during the peak month of July 2010 when the Company reported 286,400 gallons sold. Staff concludes that the Cienega water system has adequate production and storage capacity to serve the present customer base and reasonable growth.

¹⁰ See rate application at Page 3.

¹¹ This non-account water level includes an adjustment by the Company for flushing lines without this adjustment the non-account water level was 10 percent.

¹² The Company shall collect the data needed to accurately complete the water use data sheets contained in the Annual Report form.

D. GROWTH

The number of customers served by Cienega has increased by two since 2003. The Company expects growth to be minimal at least through 2013.¹³ Staff's historical growth figures are based on the data reported by the Company in its annual reports submitted to the Commission. The Company reported 58 customers served in 2003 and 60 customers¹⁴ served year end 2010.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

ADEQ regulates the Cienega system under ADEQ Public Water System Identification ("PWS ID") No. 15-002. According to the ADEQ Compliance Status Report included with the Application the Cienega system has major deficiencies and ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.¹⁵ The system has a major deficiency for exceeding the Maximum Contaminate Level ("MCL") for fluoride.

ADEQ last inspected the system on March 15, 2010.¹⁶ Several minor system deficiencies that were noted in the ADEQ Inspection Report have since been corrected.¹⁷

During the site inspection ADEQ representatives identified a minor system deficiency. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, documentation showing the slab and well head at Well No. 2 has been sealed to prevent contaminants from entering the well.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP").¹⁸ The Company reported water testing expenses of \$1,184.00 (including the MAP fee) during the test year. Staff has reviewed and recalculated these expenses. Table A presents Staff's adjusted annual water testing expense.

¹³ See discussion regarding "Anticipated growth/decline in customers" on page 3 of the Application.

¹⁴ See number of customers listed under water use data on page 18 of the Application.

¹⁵ Compliance Status Report dated February 17, 2012.

¹⁶ Inspection Report dated April 26, 2011.

¹⁷ Staff was provided with copies of the supporting documentation the Company provided to ADEQ.

¹⁸ The MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

Table A. Water Testing Cost

Monitoring	Cost per test	Quantity of tests per 3 years	Annual Testing Cost
Total Coliform	\$20	36 (Note 1)	\$240
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$404 (Note 2)
Lead & Copper	\$30	5 (Note 3)	\$50
Disinfection Byproducts (TTHM & HAA5)	\$350	3	\$350
Fluoride	\$20	12	\$80
Total Testing Cost	-	-	\$1,124

- Notes: 1) Assumes one test monthly.
 2) The ADEQ MAP invoice for Calendar Year 2011 was \$404.20.
 3) Assumes lead and copper testing will remain at 5 tests triennially.

Staff recommends an annual water testing expense of \$1,124 be used for purposes of this application.

F. ADWR COMPLIANCE

The Cienega service area is not located within any Active Management Area (“AMA”). ADWR has determined that Cienega is currently compliant with departmental requirements governing water providers and/or community water systems.¹⁹

¹⁹ Per ADWR Water Provider Compliance Report dated May 16, 2011.

G. ACC COMPLIANCE

A check of the Utilities Division Compliance Section database showed that there are three delinquent Commission compliance items for Cienega.²⁰

- Failure to file ADEQ Approval of Construction documentation for various system improvements (Decision No. 63751 Original Compliance Due Date 12/31/2002)
- Failure to file ADEQ Approval of Construction documentation for various system improvements authorized in Decision No. 63751 (Decision No. 70697 Amended Compliance Due Date 3/31/2009)
- Failure to file ADEQ Compliance Status Report indicating that Cienega water system is in full compliance with ADEQ requirements (Decision No. 70697 Compliance Due Date 12/31/2009)

Decision No. 63751 ordered Cienega to complete construction of the plant items (system improvements) listed below and provide evidence of such by submitting to Staff a copy of the ADEQ Approval of Construction (“AOC”) for each item on or before December 31, 2002. The Commission in Decision No. 70697 extended the compliance date and ordered that Cienega file with Docket Control a copy of the AOC for each plant item authorized in Decision No. 63751 on or before March 31, 2009.

System Improvements

- Replace existing water lines
- Add 10,000 gallons of additional storage capacity
- Replace electrical service to the well sites
- Provide programmable controls to the storage tanks

According to ADEQ records an Approval to Construct (“ATC”)²¹ for the plant improvements was issued and construction has been completed however, ADEQ has indicated it will not issue the corresponding AOC until the Company addresses its Fluoride issue. See Section J of this report for a discussion of the Company’s plan to address its fluoride issue so that full compliance with ADEQ requirements can be met.

H. DEPRECIATION RATES

The following table shows general guidelines for annual depreciation rates by National Association of Regulatory Utility Commissioners (“NARUC”) plant category. These rates represent typical and customary values within a range of anticipated equipment life. Staff

²⁰ Per Compliance Section email dated May 17, 2011.

²¹ The ATC approves the addition as planned and is issued prior to the AOC. The AOC approves the addition as it is built and is issued after construction of the addition is completed.

recommends that the Company use the depreciation rates presented in Table B on a going forward basis.

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	20.00
320.3	Point-of-Use Treatment Devices	10	10.00
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

Cienega proposed a modest increase to its existing service line and meter installation charges.²² These charges are refundable advances and the Company’s proposed charges are below the typical range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff.²³ Staff recommends that the charges listed under “Staff’s Recommendation” in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Size	Company Current Tariff	Company Proposed			Staff’s Recommendation		
		Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$350	-	-	\$400	\$297	\$103	\$400
3/4-inch	\$400	-	-	\$450	\$286	\$164	\$450
1-inch	\$500	-	-	\$550	\$336	\$214	\$550
1-1/2-inch	\$700	-	-	\$750	\$384	\$366	\$750
2-inch Turbine	\$1,200	-	-	\$1,300	\$575	\$725	\$1,300
2-inch Comp	-	-	-	-	-	-	-
3-inch Turbine	\$1,700	-	-	\$1,800	\$693	\$1,107	\$1,800
3-inch Comp	-	-	-	-	-	-	-
4-inch Turbine	\$2,600	-	-	\$2,700	\$967	\$1,733	\$2,700
4-inch Comp	-	-	-	-	-	-	-
6-inch Turbine	\$5,000	-	-	\$5,000	\$1,527	\$3,473	\$5,000
6-inch Comp	-	-	-	-	-	-	-

2. Curtailment Tariff

Cienega has an approved Curtailment Tariff on file with the Commission.

3. Backflow Prevention Tariff

Cienega has an approved Backflow Prevention Tariff on file with the Commission.

²² The Company’s current charges were approved in Decision No. 63571.

²³ The Company’s proposed charges were used to develop the separate service line and meter installation charges Staff is recommending.

4. Best Management Practices (“BMP”) Tariff

In 2008, ADWR added a new regulatory program for the ADWR Third Management Plan for 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 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 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 the BMPs for implementation by Commission regulated small and large 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 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>.

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.

5. POU Tariff

Purpose

In its financing application the Company is requesting authority to incur long term debt to fund the installation of POU Devices to reduce fluoride concentrations in its water and thereby address the ADEQ compliance issue noted above. In its May 9, 2011 filing Cienega included a POU tariff. The purpose of this Tariff is to enable the Company to comply with the requirements of the ADEQ POU compliance program. Under the POU program the water system is required to install a POU device that will treat only the water intended for direct consumption, typically

installed at a single tap such as the kitchen sink on the customer's premises. The POU device is installed, maintained, and tested pursuant to the provision of the Arizona Administrative Code ("A.A.C.") R18-4-222 and ADEQ's Arizona Point-of-Use Compliance Program ("POU Compliance Program"). Federal law²⁴ requires that the POU device be owned, controlled, and maintained by the public water system or by a person under contract with the public water system to ensure proper operation and maintenance and compliance with the established drinking water MCL.

Requirements

The requirements to be in compliance with the Rules of the Commission and ADEQ, specifically A.A.C. R14-2-407, R14-2-410, R18-4-222 and the POU Compliance Program that governs the tariff include the following:

1. The Company shall purchase and install the POU treatment device.
2. Subject to the provisions of A.A.C. R18-4-222 and the POU Compliance Program, the installation of the POU treatment device will be a condition of service for all customers.
3. The installation of the POU treatment device will be arranged to be installed at a time convenient to the customer and the Company.
4. The customer must permit the Company or its agents to enter the home to maintain the system in good working order, including, but not limited to, periodic replacement of filters, water sampling, and replacement of the system from time to time.
5. The POU treatment device shall be the property of the Company.
6. Subject to the provisions of A.A.C. R14-2-407 and 410, and in accordance with Paragraphs 1 and 4 of the tariff, the Company may terminate service or may deny service to a customer who fails to install a POU treatment device or to permit the servicing and testing of the POU treatment device as required by the tariff.
7. The Company shall give any customer who is required to install a POU treatment device written notice of said requirement. The customer shall be given sixty (60) days from the time such written notice is received in which to comply with this notice. If A.A.C. R14-2-410.B.1. is **not** applicable and the customer can show good cause as to why the device cannot be installed within sixty (60) days, the Company may allow the customer an additional sixty (60) days to have the device installed.

²⁴ Federal law 42 U.S.C. 300G 1 (b) (4) (E) (ii) contains requirements that must be met by water systems using POU treatment devices as a means of compliance.

8. Testing of the POU treatment device shall be in conformance with the requirements of A.A.C. R18-4-222 and the POU Compliance Program.
9. Consistent with the provisions of A.A.C. R14-2-407.B.2 and 3, each customer shall be responsible for safeguarding all Company property installed on the customer's premises for the purpose of supplying clean water to that customer. Each customer shall exercise all reasonable care to prevent loss or damage to Company property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to Company property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the Company for the cost of necessary repairs or replacements.
10. Pursuant to A.C.C. R14-2-407.B.5, each customer shall be responsible for notifying the Company of any failure identified in the Company's POU treatment device and system.

Staff Recommendations

The POU Tariff filed by Cienega conforms to the POU tariff template developed by Staff. Therefore, Staff recommends approval of Cienega's POU Tariff as attached in Exhibit POU. Staff further recommends that Cienega shall file with Docket Control, as a compliance item in this docket, the POU Tariff authorized herein within 60 days of the effective date of this Decision.

Staff further recommends that Cienega provide a copy of the approved POU Tariff to all its customers served by Cienega water system PWS ID No. 15-002.

6. POU Treatment Device Filter and Membrane Replacement Costs

The Company is installing POU treatment to reduce fluoride concentrations in its water to meet the safe drinking water MCL for fluoride. The POU Treatment Devices being installed are distributed under the model name Watts Kwik-Change RO System. The Company will incur costs to periodically replace the filters and membrane contained in each POU Device. Staff contacted a local vendor of the Watts RO product line to determine an expected annual cost to replace the filters and membrane in each POU Device (see Table D below).

Table D. Maintenance Costs POU Devices

Item	Cost	No. of Devices	Frequency of Filter Replacement	Biennial Cost	Annual Cost
1. Filters (Note 1)	\$30	55	Every Two Years	\$1,650	\$825
2. Membranes	\$40	55	Every Two Years	\$2,200	\$1,100
3. Labor (Note 2)	\$30	55	Every Two Years	\$1,650	\$825
Total Annual Cost	-	-	-	-	\$2,750

Notes:

- 1) The following filters are included: Sediment, Carbon Block & Granular.
- 2) Labor cost assumes one hour of operator time per device to complete the filter and membrane replacement.

J. FINANCING

POU Treatment

The Company filed with the Commission a financing application requesting authority to incur long term debt in the amount of \$50,000 to fund the installation of 55 POU Devices to reduce fluoride concentrations in its water and thereby address the ADEQ compliance issue noted above.²⁵

The water produced by the Company's Well No. 3 contains naturally-occurring fluoride minerals of approximately 5.6 parts per billion which exceeds the fluoride MCL of 4 parts per billion as a result ADEQ issued a Notice of Violation to Cienega.²⁶ On March 7, 2011, ADEQ's Water Quality Division issued a letter approving the Company's POU Application for fluoride reduction in the Cienega Springs subdivision.²⁷

Staff recommends that the Company file with Docket Control, as a compliance item in this docket by June 30, 2013, a copy of the ADEQ Approval of Installation of the POU treatment devices.

Proposed Cienega Springs RV Park Water System

Cienega evaluated its options for fluoride removal and determined that a POU treatment program is the best solution. In order to make the POU treatment program work POU devices will be placed in the 55 permanent subdivision lots served by the Company while the master

²⁵ Cienega is seeking Disadvantaged Community Financial Assistance from the Water Infrastructure Finance Authority in the amount of \$50,000 with a 20-year term through the Drinking Water Revolving Fund.

²⁶ Exposure to excess level of fluoride has been demonstrated to pose human health risks.

²⁷ ADEQ's letter of Approval expired because the units were not installed within 90 days, Cienega must reapply ADEQ will re-evaluate and another letter of approval is expected to be issued.

metered RV Park customer will be served by a separate water system²⁸. The new RV Park water system would consist of a new storage tank and the use of an existing well that is currently registered to Cienega Springs Development Corp. (“Development Corp.”). The Company has access to several wells that are currently not in use. The Company selected the Development Corp. well registered under ADWR Well Registration No. 55-620745 for this application. This well has been tested and is expected to provide an adequate source of water to serve the RV Park. The Company has filed an application for a new Transient, Non-Community Water System which would include the new water storage tank and use of the existing Development Corp. well. The proposed Cienega Springs RV Park Water System will be completely separate from the existing Cienega Water Company system. Transient, Non-Community water systems are not subject to the same monitoring, reporting and clean water act requirements. Funds to cover the cost of the proposed RV Park water system are not included in the subject financing which only seeks Commission debt authorization to cover the cost of POU treatment.

POU Treatment Cost Information

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

Table E. Finance Related Capital Costs

Description	Company			Staff		
	Unit Cost (Note 1)	# of Units (Note 3)	Total	Unit Cost	# of Units (Note 4)	Total
Reverse Osmosis Systems	\$300	62	\$18,600	\$300	62	\$18,600
TDS Monitors	\$32	62	\$1,984	\$32	62	\$1,984
Booster	\$95	62	\$5,890	\$95	62	\$5,890
Installation Labor	\$90	62	\$5,580	\$90	55	\$4,950
RO Subtotal			\$32,054			\$31,424
Davis Bacon Contingency (Note 2)			\$1,116			\$990
Loan Authorization Legal Fees:						
ACC Hearing/Open Meeting Council			\$2,400			\$2,400
Bid Process			\$600			\$600
WIFA Loan Legal Opinion			\$2,000			\$2,000
Loan Authorization Consulting Fees:						
Loan Authorization Subtotal			\$3,000			\$3,000
Loan Authorization Subtotal			\$8,000			\$8,000

²⁸ The RV Park system will be a separate standalone water system with its own ADEQ PWS ID number.

Inspection/Construction Management:					
Davis Bacon Act Requirements			\$1,400		\$1,400
Engineering Fees			\$3,000		\$3,000
Construction Management Subtotal			\$4,400		\$4,400
Total			\$45,570		\$44,814

Notes:

1. Based on unit costs listed in the Tennison proposal dated May 15, 2011.
2. Contingency amount estimated at 20 percent of the RO System installation labor.
3. Includes spare units for maintenance and new connections.
4. Includes Staff adjustment to reflect the labor cost to install 55 units.

Staff concludes that Cienega’s proposal to install 55 POU Devices to reduce fluoride concentrations in its water is appropriate and the cost estimates as adjusted by Staff and listed in the table above are reasonable. However, no “used and useful” determination of the proposed project item was made and no particular treatment should be inferred for rate making or rate base purpose in the future.

EXHIBIT
POU TARIFF

Company: Cienega Water Company

Decision No.: _____

Phone: (928) 667-2590

Effective Date: _____

POINT-OF-USE TREATMENT DEVICE TARIFF

PURPOSE:

The purpose of this tariff is to enable Cienega Water Company ("Company") to ensure its compliance with the requirements of the Arizona Department of Environmental Quality ("ADEQ") for Point-of-Use ("POU") treatment. POU treatment is to be installed on the customer's premises, maintained, and tested pursuant to the provision of the Arizona Administrative Code ("A.A.C.") R18-4-222 and ADEQ's Arizona Point-of-Use Compliance Program Guidance ("Guidance"). A POU treatment device will treat only the water intended for direct consumption, typically installed at a single tap such as the kitchen sink.

REQUIREMENTS:

The requirements to be in compliance with the Rules of the Arizona Corporation Commission ("Commission") and the ADEQ, specifically A.A.C. R14-2-407, R14-2-410, R18-4-222 and the Guidance that governs this tariff are as follows:

1. The Company shall purchase and install the POU treatment device.
2. Subject to the provisions of A.A.C. R18-4-222 and the Guidance, the installation of the POU treatment device will be a condition of service.
3. The installation of the POU treatment device will be arranged to be installed at a time convenient to the customer and the Company.
4. The customer must permit the Company or its agents to enter the home to maintain the system in good working order, including, but not limited to, periodic replacement of filters, water sampling, and replacement of the system from time to time.
5. The POU treatment devices shall be the property of the Company.
6. Subject to the provisions of A.A.C. R14-2-407 and 410, and in accordance with Paragraphs 1 and 4 of this tariff, the Company may terminate service or may deny service to a customer who fails to install a POU treatment device or to permit the servicing and testing of the POU treatment device as required by this tariff.
7. The Company shall give any customer who is required to install a POU treatment device written notice of said requirement. The customer shall be given sixty (60) days from the time such written notice is received in which to comply with this notice. If A.A.C. R14-2-410.B.1. is not applicable and the customer can show good

Company: Cienega Water Company

Decision No.: _____

Phone: (928) 667-2590

Effective Date: _____

cause as to why the device cannot be installed within sixty (60) days, the Company may allow the customer an additional sixty (60) days to have the device installed.

8. Testing of the POU treatment device shall be in conformance with the requirements of A.A.C. R18-4-222 and the Guidance.
9. Consistent with the provisions of A.C.C. R14-2-407.B.2 and 3, each customer shall be responsible for safeguarding all Company property installed on the customer's premises for the purpose of supplying clean water to that customer. Each customer shall exercise all reasonable care to prevent loss or damage to Company property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to Company property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the Company for the cost of necessary repairs or replacements.
10. Pursuant to A.C.C. R14-2-407.B.5, each customer shall be responsible for notifying the Company of any failure identified in the Company's POU treatment device and system.

Attachment-AAC: Arizona Administrative Codes (4 pages)

Arizona Administrative Codes

R14-2-407. Provision of service

- A. Utility responsibility.** Each utility shall be responsible for providing potable water to the customer's point of delivery.
- B. Customer responsibility**
1. Each customer shall be responsible for maintaining all facilities on the customer's side of the point of delivery in a safe and efficient manner and in accordance with the rules of the state Department of Health.
 2. Each customer shall be responsible for safeguarding all utility property installed in or on the customer's premises for the purpose of supplying water to that customer.
 3. Each customer shall exercise all reasonable care to prevent loss or damage to utility property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to utility property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the utility for the cost of necessary repairs or replacements.
 4. Each customer shall be responsible for payment for any equipment damage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter.
 5. Each customer shall be responsible for notifying the utility of any failure identified in the utility's equipment.
 6. Water furnished by the utility shall be used only on the customer's premises and shall not be resold to any other person. During critical water conditions, as determined by the Commission, the customer shall use water only for those purposes specified by the Commission. Disregard for this rule shall be sufficient cause for refusal or discontinuance of service.
- C. Continuity of service.** Each utility shall make reasonable efforts to supply a satisfactory and continuous level of service. However, no utility shall be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from:
1. Any cause against which the utility could not have reasonably foreseen or made provision for, i.e., force majeure
 2. Intentional service interruptions to make repairs or perform routine maintenance
 3. Curtailment.
- D. Service interruptions**
1. Each utility shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.
 2. Each utility shall make reasonable provisions to meet emergencies resulting from failure of service, and each utility shall issue instructions to its employees covering procedures to be followed in the event of emergency in order to prevent or mitigate interruption or impairment of service.
 3. In the event of a national emergency or local disaster resulting in disruption of normal service, the utility may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.
 4. When a utility plans to interrupt service for more than 4 hours to perform necessary repairs or maintenance, the utility shall attempt to inform affected customers at least 24 hours in advance of the scheduled date and estimated duration of the service interruption.

Such repairs shall be completed in the shortest possible time to minimize the inconvenience to the customers of the utility.

5. The Commission shall be notified of interruptions in service affecting the entire system or any major division thereof. The interruption of service and cause shall be reported within 4 hours after the responsible representative of the utility becomes aware of said interruption by telephone to the Commission and followed by a written report to the Commission.
- E. Minimum delivery pressure. Each utility shall maintain a minimum standard delivery pressure of 20 pounds per square inch gauge (PSIG) at the customer's meter or point of delivery.
- F. Construction standards. Each utility shall construct all facilities in accordance with the guidelines established by the state Department of Health Services.

R14-2-410. Termination of service

- A. Nonpermissible reasons to disconnect service. A utility may not disconnect service for any of the reasons stated below:
1. Delinquency in payment for services rendered to a prior customer at the premises where service is being provided, except in the instance where the prior customer continues to reside on the premises.
 2. Failure of the customer to pay for services or equipment which is not regulated by the Commission.
 3. Nonpayment of a bill related to another class of service.
 4. Failure to pay for a bill to correct a previous underbilling due to an inaccurate meter or meter failure if the customer agrees to pay over a reasonable period of time.
- B. Termination of service without notice
1. Utility service may be disconnected without advance written notice under the following conditions:
 - a. The existence of an obvious hazard to the safety or health of the consumer or the general population.
 - b. The utility has evidence of meter tampering or fraud.
 - c. Unauthorized resale or use of utility services.
 - d. Failure of a customer to comply with the curtailment procedures imposed by a utility during supply shortages.
 2. The utility shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the utility.
 3. Each utility shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of 1 year and shall be available for inspection by the Commission.
- C. Termination of service with notice
1. A utility may disconnect service to any customer for any reason stated below provided the utility has met the notice requirements established by the Commission:
 - a. Customer violation of any of the utility's tariffs filed with the Commission and/or violation of the Commission's rules and regulations.
 - b. Failure of the customer to pay a delinquent bill for utility service.
 - c. Failure to meet or maintain the utility's credit and deposit requirements.

- d. Failure of the customer to provide the utility reasonable access to its equipment and property.
 - e. Customer breach of a written contract for service between the utility and customer.
 - f. When necessary for the utility to comply with an order of any governmental agency having such jurisdiction.
2. Each utility shall maintain a record of all terminations of service with notice. This record shall be maintained for 1 year and be available for Commission inspection.

D. Termination notice requirements

1. No utility shall terminate service to any of its customers without providing advance written notice to the customer of the utility's intent to disconnect service, except under those conditions specified where advance written notice is not required.
2. Such advance written notice shall contain, at a minimum, the following information:
 - a. The name of the person whose service is to be terminated and the address where service is being rendered.
 - b. The Commission rule or regulation that was violated and explanation thereof or the amount of the bill which the customer has failed to pay in accordance with the payment policy of the utility, if applicable.
 - c. The date on or after which service may be terminated.
 - d. A statement advising the customer to contact the utility at a specific address or phone number for information regarding any deferred payment or other procedures which the utility may offer or to work out some other mutually agreeable solution to avoid termination of the customer's service.
 - e. A statement advising the customer that the utility's stated reason for the termination of services may be disputed by contacting the utility at a specific address or phone number, advising the utility of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the utility in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the utility shall retain the option to terminate service.

E. Timing of terminations with notice

1. Each utility shall be required to give at least 10 days advance written notice prior to the termination date.
2. Such notice shall be considered to be given to the customer when a copy thereof is left with the customer or posted first class in the United States mail, addressed to the customer's last known address.
3. If after the period of time allowed by the notice has elapsed and the delinquent account has not been paid nor arrangements made with the utility for the payment thereof or in the case of a violation of the utility's rules the customer has not satisfied the utility that such violation has ceased, the utility may then terminate service on or after the day specified in the notice without giving further notice.
4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the utility.
5. The utility shall have the right (but not the obligation) to remove any or all of its property installed on the customer's premises upon the termination of service.

- F. Landlord/tenant rule.** In situations where service is rendered at an address different from the mailing address of the bill or where the utility knows that a landlord/tenant relationship exists and that the landlord is the customer of the utility, and where the landlord as a customer would otherwise be subject to disconnection of service, the utility may not disconnect service until the following actions have been taken:

1. Where it is feasible to so provide service, the utility, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in his or her own name. If the occupant then declines to so subscribe, the utility may disconnect service pursuant to the rules.
2. A utility shall not attempt to recover from a tenant or condition service to a tenant with the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

R18-4-222. Use of Point-of-Entry or Point-of-Use Treatment Devices

- A. A public water system may use a point-of-use treatment device to achieve compliance with a MCL, provided that the point-of-use treatment device meets the requirements of 42 U.S.C. 300g-1(b)(4)(E)(ii) (2001), and the requirements listed under subsections (B)(1) through (B)(6).
- B. A public water system may use a point-of-entry treatment device to achieve compliance with a MCL if the public water system meets all of the following requirements:
 1. The public water system develops a monitoring plan for the treatment device and obtains the Department's written approval of the monitoring plan before a point-of-entry treatment device is installed. The monitoring plan shall provide reasonable assurance that the treatment device provides health protection equivalent to that provided by central water treatment.
 2. The design of the point-of-entry treatment device is approved, in writing, by the Department.
 3. The public water system operates and maintains the point-of-entry treatment device.
 4. The microbiological safety of water that is treated by a point-of-entry treatment device is maintained at all times. The design and application of the treatment device shall consider the tendency for increase in heterotrophic bacteria concentrations in water treated with activated carbon. The Department may require frequent backwashing, post-contactor disinfection, or HPC monitoring to ensure that the microbiological safety of water is not compromised.
 5. The public water system installs a sufficient number of point-of-entry treatment devices to buildings connected to the public water system so that every person served by the public water system is protected. Every building connected to the public water system shall be subject to treatment and monitoring.
 6. The rights and responsibilities of persons served by the public water system convey with title upon the sale of property.
- C. A public water system that uses a point-of-entry treatment device or a point-of-use treatment device as a condition for receiving a variance or an exemption shall meet the requirements listed under subsection (B).

Arizona Point-of-Use Compliance Program Guidance

<http://www.azdeq.gov/environ/water/download/pointofuse.pdf>