

ORIGINAL

MEMORANDUM



0000138573

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: August 14, 2012

RE: STAFF REPORT FOR EMPIRITA WATER COMPANY, LLC
APPLICATIONS FOR A RATE INCREASE AND FINANCING.
(DOCKET NO. W-03948A-12-0181)

Attached is the Staff Report for Empirita Water Company, LLC's application for a permanent rate increase filed pursuant to a requirement of Decision No. 70203. Staff recommends approval of the rate application using Staff's recommended rate and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before August 24, 2012.

SMO:MJR:tdp

Originator: Mary J. Rimback

Arizona Corporation Commission
DOCKETED
AUG 14 2012

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Service List for: Empirita Water Company, LLC
Docket No. W-03948A-12-0181

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

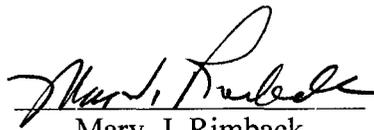
**EMPIRITA WATER COMPANY, LLC
DOCKET NO. W-03948A-12-0181**

**APPLICATION FOR A
PERMANENT RATE INCREASE**

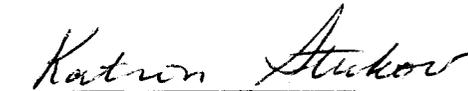
AUGUST 14, 2012

STAFF ACKNOWLEDGMENT

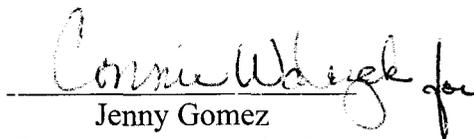
The Staff Report for Empirita Water Company, LLC Docket No. W-03948A-12-0181, is the responsibility of the Staff members listed below. Mary J. Rimback is responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, operating income and rate design. Katrin Stukov is responsible for the engineering and technical analysis. Jenny Gomez is responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Mary J. Rimback
Public Utility Analyst I



Katrin Stukov
Utilities Engineer



Jenny Gomez
Consumer Service Analyst

**EXECUTIVE SUMMARY
EMPIRITA WATER COMPANY, LLC
DOCKET NO. W-03948A-12-0181**

Empirita Water Company, LLC (“Empirita” or “Company”) is a for-profit Arizona Limited Liability Company and a Class E public service corporation serving potable water to approximately 33 customers in rural subdivisions approximately 8 miles west of the City of Benson in Cochise County, Arizona.

On May 18, 2012, the Company filed a full rate application pursuant to a requirement of Decision 70203. Current rates have been effective since April 1, 2008, based on 2006 test year. The Company is not seeking an increase in its rates for metered water sales. The Company is requesting the following changes to miscellaneous charges:

- (1) Establishment (After Hours) from \$45 to N/A;
- (2) Meter Reread (if correct) from \$20 to \$25;
- (3) After Hours Service Charge from N/A to \$30;
- (4) Meter Test (if correct) from N/A to \$25; and
- (5) Main Extension and additional facilities agreement from Cost to N/A.

The Company-proposed rates, as filed, produce total operating revenue of \$22,542 for no increase over test year revenue to provide operating loss of \$11,930 for no rate of return on the Company-proposed fair value rate base (“FVRB”) which is also its original cost rate base (“OCRB”) of \$400,179.

The Utility Division (“Staff”) recommends five rate base adjustments and three operating income adjustments. The rate base adjustments increase rate base by a net amount of \$1,872, from \$400,179 to \$402,051. The three operating adjustments decrease test year operating expenses in the net amount of 600, from \$34,472 to \$33,872.

Staff recommends rates that produce total operating revenue of \$24,917, an increase of \$2,375 or 10.54 percent, over the Staff-adjusted test year revenue of \$22,542 to provide an \$8,955 operating loss and no return on a Staff-adjusted \$402,286 FVRB which is also its OCRB.

The Company-proposed rate structure includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate with break-over points at 3,000 and 9,000 gallons for all meter sizes. Under the Company-proposed rates, the typical residential monthly bill (all test year customers had a 5/8 x 3/4-inch meters), with median use of 4,744 gallons, would remain at \$44.04. (See Schedule MJR-5).

Staff recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tiered commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters and a two-tier commodity rate for larger meters. Staff recommends break-over points that increase by meter size. Under the Staff-recommended rate design, the typical residential

monthly bill, with median use of 4,744 gallons, would increase by \$1.31, or 3.0 percent, from \$44.04 to \$45.35. (See Schedule MJR-5)

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule MJR-4. In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Authorizing the depreciation rates shown in Table C of the Engineering Report.
- Authorizing the meter and service line charges shown on Table D of the Engineering report.
- Directing the Company to enter into a main extension agreement per Arizona Administrative Code ("A.A.C.") R14-2-406 for its \$233,921 main extension to Red Hawk II in 2008 and to submit it to the Commission for Staff approval no later than December 31, 2012.
- Directing the Company to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that conform to the templates created by Staff for the 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>.
- The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

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ENGINEERING REPORT – RATES AND FINANCING.....	ATTACHMENT A
CONSUMER SERVICES REPORT.....	ATTACHMENT B

FACT SHEET

Company Statistics:

Current Rates: Decision No.70203 dated March 20, 2008.

Type of Ownership: Limited Liability Company (LLC).

Location: The Company's service area is located approximately 8 miles west of Benson in Cochise County, Arizona

Rates:

Rate Application Docketed: May 18, 2012
Current Test Year Ended: December 31, 2011
Application Found Sufficient: June 18, 2012

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge (Based on a 5/8" X 3/4" meter)	\$30.00	\$30.00	\$30.00
Gallons in Minimum	0	0	0
0 to 3,000 Gallons	\$2.50	\$2.50	\$2.50
3,001 to 9,000 Gallons	\$3.75	\$3.75	\$4.50
Over 9,000 Gallons	\$4.50	\$4.50	\$6.00
Typical residential bill based On median usage of 4,744 gallons	\$44.04	\$44.04	\$45.35

FACT SHEET (CONT'D)

Customers:

Number of customers in the prior test year:	22
Number of customers in the current test year (12/31/2011):	33
Current year customers by meter size: 5/8 X 3/4 – inches:	33
Seasonal customers:	0
Customer notification mailed:	May 1, 2012
No. of customer complaints since rate application filed:	0
Percentage of complaints to customer base:	N/A

SUMMARY OF RATE FILING

The test year results, as adjusted by the Utilities Division (“Staff”), for Empirita Water Company, LLC (“Empirita” or “Company”) show total operating revenue of \$22,542 and operating expenses of \$33,872 resulting in a \$11,330 operating loss. Due to the operating loss, calculation of a rate of return on the \$402,286 Staff-adjusted original cost rate base (“OCRB”) is not meaningful. Since the Company did not file reconstruction cost new information, Staff recommends recognizing a fair value rate base (“FVRB”) equal to the OCRB.

The Company-proposed rates, as filed, produce total operating revenue of \$22,542 for no increase over test year revenue to provide operating loss of \$11,930 for no rate of return on the Company-proposed FVRB which is also its OCRB of \$400,179. Under the Company-proposed rates, the typical residential monthly bill (all test year customers had a 5/8 x 3/4-inch meters), with median use of 4,744 gallons, would remain at \$44.04. (See Schedule MJR-5).

Staff recommends rates that produce total operating revenue of \$24,917, an increase of \$2,375 or 10.54 percent, over the Staff-adjusted test year revenue of \$22,542 to provide an \$8,955 operating loss and no return on a Staff-adjusted \$402,286 FVRB. Under the Staff-recommended rate design, the typical residential monthly bill, with median use of 4,744 gallons, would increase by \$1.31, or 3.0 percent, from \$44.04 to \$45.35. (See Schedule MJR-5).

COMPANY BACKGROUND

Empirita is a for-profit Arizona Limited Liability Company and a Class E public service corporation serving potable water to approximately 33 customers in rural subdivisions approximately 8 miles west of the City of Benson in Cochise County, Arizona. The Commission approved the original certificate of convenience and necessity (“CC&N”) for Empirita in Decision No. 63676, issued on May 24, 2001, for an initial service area of 1,880 acres. A Procedural Order issued September 11, 2002, declared a portion of the anticipated CC&N area null and void due to failure to provide information required by Decision No. 63676 within the specified time resulting in a 1,560 acre reduction in the CC&N area from 1,880 acres to 320 acres. The Company filed a second application on July 28, 2006, seeking Commission authority to add 1,651 acres to its certificated area of 320 acres, and that request was granted in Decision No. 69399 dated March 29, 2007. The extension area is adjacent to the Company’s existing CC&N area. Subdivisions currently included for Empirita Water Company LLC are:

Redhawk I 320 acres
Redhawk II 640 acres
Redhawk III 359 acres
Easter Mountain Ranch 556 acres
Easter Mountain Ranch 16 acres
Jay Six Ranch 80 acres

All subdivisions except Jay Six Ranch are in Cochise County. Jay Six Ranch is in Pima County.

Empirita currently only serves the Redhawk I and Redhawk II subdivisions.

CONSUMER SERVICES

A review of the Consumer Service records showed that for the period January 1, 2009, through July 3, 2012, no complaints were filed against the Company.

A review of the Company's billing format indicated that it is in compliance with the Arizona Administrative Code ("A.A.C.") R14-2-409(B)(2). The Company's Cross Connection / Backflow Tariff became effective on June 18, 2012.¹

COMPLIANCE ISSUES

A search of the Commission Utilities Division compliance database revealed that Empirita is in full compliance with prior Commission decisions.

The Company is current in filing both its corporate and utility annual reports. The Company is current on its property tax obligations.

ENGINEERING ANALYSIS

The Arizona Department of Environmental Quality ("ADEQ") has determined that the Company's system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Details of the Staff's review of the system are presented in the Staff Engineering Report - Attachment A.

RATE BASE

Staff's five rate base adjustments result in a net \$2,107 increase to the Company's proposed rate base from \$400,179 to \$402,286, as shown in Schedule MJR-2, page 1. Details of Staff's adjustments are explained below.

Plant Adjustment – Adjustment A reflects (1) a \$3,545 reclassification from Transmission and Distribution Mains to Services to correct an error in the recording of 2.5-inch service lines and (2) recognition of \$233,921 of 6-inch and 8-inch pipe for a main extension to Red Hawk II in 2008 installed by the developer,² as shown in Schedule MJR-2, page 2. In an e-mail to Staff, the Company suggested recognizing a pro-rata portion \$15,595 ($3/45 * \$233,921$) of the cost of the main extension in rate base for the three customers who were served in the 45 lot subdivision by the line extension during the test year. The Company's proposed treatment does not recognize that the developer funded the line extension. The Company did not propose an

¹ See Staff Memorandum dated July 31, 2012, in Docket No. W-03948A-12-0181.

² Per response to Staff data request 4.1 and an e-mail from the Company dated July 25, 2012.

offsetting contribution as Staff is recommending below.³ The Company has not entered into a main extension agreement for this line extension. Staff recommends that the Company enter into a main extension agreement per Arizona Administrative Code (“A.A.C.”) R14-2-406 and submit it to the Commission for Staff approval no later than December 31, 2012.⁴

Accumulated Depreciation – Adjustment B increases this account by \$16,343, from \$94,017 to \$110,360, as shown in Schedule MJR-2, page 3. Staff calculated accumulated depreciation by applying the authorized depreciation rates, by account, for the intervening years since the prior rate case using Staff-adjusted plant values, that reflect additions, retirements, and reclassifications and the half-year depreciation convention. Staff’s calculation reflects recognition of a \$980 addition to Services in 2010 versus the Company’s recognition of the addition in 2011.

Contributions-in-Aid-of-Construction - Adjustment C increases this account by \$233,921, from \$0 to \$233,921, as shown in Schedule MJR-2, page 1. This adjustment is a complement to Staff’s \$233,921 adjustment to increase plant discussed above to recognize the cost to the developer for the main extension contributed to the Company.

Accumulated Amortization of Contributions-in-Aid-of-Construction – Adjustment D increases this account by \$16,374, from \$0 to \$16,374, as shown in Schedule MJR-2, page 1, to reflect amortization on the \$233,921 contribution received in 2008 using the half-year amortization convention ($\$233,921 \times .02 \times 3.5 \text{ years}$) = \$16,374.

Working Capital – Adjustment C, provides a \$2,076 allowance for cash working capital based on the formula method, as shown in Schedule MJR-2 page 1. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, purchased water and purchased power expenses plus on twenty-fourth of purchase power expenses.

OPERATING INCOME

Staff’s three operating income adjustments result in a net decrease the Company’s proposed total operating expenses by \$600, from \$ 34,472 to \$33,872, as shown in Schedule MJR-3, page 1. Details of Staff’s adjustments are discussed below.

Water Testing - Adjustment F decreases water testing by \$127 to reflect the average on-going amount of \$770.

³ The Company does not have an authorized main extension agreement; therefore, an advance-in-aid-of-construction (“AIAC”) does not exist.

⁴ Staff’s treatment of the line extension has no impact on the rate base, the operating income or the revenue requirement.

Depreciation – Adjustment G increases this account by \$47, from \$14,843 to \$14,890, to reflect application of Staff’s recommended depreciation rates to Staff’s recommended depreciable plant balances and offset by the amortization of CIAC, as shown is Schedule MJR-3, page 3

Property Tax – Adjustment H decreases this account by \$520 to remove amount of property taxes paid for a tank not owned by the utility.

REVENUE REQUIREMENT

Staff’s recommended total operating revenue of \$24,917, an increase of \$2,375 or 10.54 percent, over the Staff-adjusted test year revenue of \$22,542, provides an \$8,955 operating loss and no return on a Staff-adjusted \$402,286 FVRB. Staff’s recommended revenue is \$2,375 greater than that requested by the Company. The Company recognizes that customer growth is slower than anticipated and that higher rates would pose a burden on the existing small customer base and has the potential to hinder future customer growth. In response to Staff data request MJR 3-1, the Company stated that its shareholder is willing and able to provide funding as necessary to ensure sufficient, reliable and safe service until more customers are added to the system. Nevertheless, Staff concludes that a gradual increase in rates at this time will not only reduce the Company’s on-going operating losses, but it may also mitigate the size of any future rate increase. As shown in Schedule MJR-6, the Staff-recommended revenue requirement provides for \$4,992 of uncommitted cash flow from operations, and it indicates that the Company can meet all obligations.

RATE DESIGN

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

The Company-proposed rate structure includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate with break-over points at 3,000 and 9,000 gallons for all meter sizes. Under the Company-proposed rates, the typical residential monthly bill (all test year customers had a 5/8 x 3/4-inch meters), with median use of 4,744 gallons, would remain at \$44.04. (See Schedule MJR-5).

Staff recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tiered commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters and a two-tier commodity rate for larger meters. Staff recommends break-over points that increase by meter size. Under the Staff-recommended rate design, the typical residential monthly bill, with median use of 4,744 gallons, would increase by \$1.31, or 3.0 percent, from \$44.04 to \$45.35. (See Schedule MJR-5).

The Company is requesting the following changes to miscellaneous charges:

- (1) Establishment (After Hours) from \$45 to N/A;
- (2) Meter Reread (if correct) from \$20 to \$25;
- (3) After Hours Service Charge from N/A to \$30;
- (4) Meter Test (if correct) from N/A to \$25; and
- (5) Main Extension and additional facilities agreement from Cost to N/A.

Staff finds the Company's proposed changes reasonable and recommends them. In addition, Staff recommends increasing the monthly service charge for fire sprinklers to 2.00 percent of the monthly minimum for a comparable size meter connection

STAFF RECOMMENDATIONS

Staff recommends:

- Approving Staff's rates and charges as shown in Schedule MJR-4. In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Authorizing the depreciation rates shown in Table C of the Engineering Report.
- Authorizing the meter and service line charges shown on Table D of the Engineering report.
- Directing the Company to enter into a main extension agreement per Arizona Administrative Code ("A.A.C.") R14-2-406 for its \$233,921 main extension to Red Hawk II in 2008 and to submit it to the Commission for Staff approval no later than December 31, 2012.
- Directing the Company to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that conform to the templates created by Staff for the 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>.
- Authorizing the Company to request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$22,175	\$22,175	\$22,175	\$24,550
Unmetered Water Revenue	97	97	\$97	\$97
Other Water Revenues	270	270	\$270	\$270
Total Operating Revenue	\$22,542	\$22,542	\$22,542	\$24,917
Operating Expenses:				
Operation and Maintenance	\$18,795	\$18,668	\$18,795	\$18,668
Depreciation	14,843	14,890	14,843	14,890
Property & Other Taxes	834	314	834	314
Income Tax	0	0	0	0
Total Operating Expense	\$34,472	\$33,872	\$34,472	\$33,872
Operating Income/(Loss)	(\$11,930)	(\$11,330)	(\$11,930)	(\$8,955)
Rate Base O.C.L.D.	\$400,179	\$402,286	\$400,179	\$402,286
Rate of Return - O.C.L.D.	N/M	N/M	N/M	N/M
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Operating Margin	N/M	N/M	N/M	N/M

N/M = Not Meaningful. The Company has no debt.

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$500,264	\$233,921	A	\$734,185
Less:				
Accum. Depreciation	94,017	16,343	B	110,360
Net Plant	\$406,247	\$217,578		\$623,825
Less:				
Plant Advances	\$6,068	\$0		\$6,068
Customer Security Deposits	0	0		0
Total Advances	\$6,068	\$0		\$6,068
Contributions Gross	\$0	\$233,921	C	\$233,921
Less:				
Accum. Amortization of CIAC	0	16,374	D	16,374
Net CIAC	\$0	\$217,547		\$217,547
Total Deductions	\$6,068	\$217,547		\$223,615
Plus:				
1/24 Power	\$0	\$129	E	\$129
1/8 Operation & Maint.	0	1,948	E	1,948
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$2,076		\$2,076
Rate Base	\$400,179	\$2,107		\$402,286

Explanation of Adjustment:

- A See Schedule MJR-2, Page 2.
- B See Schedule MJR-2, Page 3

C	CIAC - Per Company	\$	-	
	Per Staff	\$233,921	\$	233,921

To recognize the \$233,921 cost for 6-inch and 8-inch pipe for main extension to Thunder Ranch Estates (Red Hawk) in 2008 paid by the developer.

D	Accum. Amort. of CIAC - Per Company	\$	-	
	Per Staff	\$ 16,374	\$	16,374

To recognize the amortization since 2008 (\$233,921*1.02*3.5 years) the the Thunder Ranch main extension paid by the developer.

- E Empirita did not request a cash working capital allowance. Staff calculated a cash working capital allowance using Staff adjusted operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$21,930	\$0	\$21,930
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	868	0	868
307 Wells & Springs	111,136	0	111,136
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	29,724	0	29,724
320.1 Water Treatment Equipment	0	0	0
320.2 Solution Chemical Feeders	0	0	0
330.1 Storage Tanks	31,500	0	31,500
330.2 Pressure Tanks	15,931	0	15,931
331 Transmission & Distribution Mains	286,525	230,376 a	516,901
333 Services	980	3,545 a	4,525
334 Meters & Meter Installations	1,670	0	1,670
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
	0	0	0
TOTALS	\$500,264	\$233,921	\$734,185

PLANT IN SERVICE			
a	Transmission and Distribution Mains - Per Company	\$	286,525
	Per Staff	\$	516,901
		\$	230,376
	Services - Per Company	\$	980
	Per Staff	\$	4,525
		\$	3,545

To reclassify \$3,545 pertaining to 2.5-inch pipe initially recorded in error in Transmission & Distribution in the prior rate case to Services and to add \$233,921 for 6-inch and 8-inch pipe for a main extension to Thunder Ranch Estates (Red Hawk) in 2008.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 94,017
Accumulated Depreciation - Per Staff	<u>\$ 110,360</u>
Total Adjustment	<u><u>\$16,343</u></u>

Accumulated Depreciation Balances	Per Company	Per Staff	
301 Organization	\$ -	\$ -	
302 Franchises	-	-	
303 Land & Land Rights	-	-	
304 Structures & Improvements	14	14	
307 Wells & Springs	23,222	23,222	
310 Power Generation Equipment	-	-	
311 Pumping Equipment	23,381	23,381	
320 Water Treatment Equipment	-	-	
320.1 Water Treatment Plant	-	-	
320.2 Solution Chemical Feeders	-	-	
330 Dist. Reservoirs & Standpipes	-	-	
330.1 Storage Tanks	4,545	4,514	a
330.2 Pressure Tanks	5,178	5,178	
331 Transmission & Distribution Mains	37,014	53,388	a
333 Services	49	49	a
334 Meters & Meter Installation	614	613	
335 Hydrants	-	-	
336 Backflow Prevention Devices	-	-	
339 Other Plant & Misc Equipment	-	-	
340 Office Furniture & Equipment	-	-	
340.1 Computers & Software	-	-	
341 Transportation Equipment	-	-	
342 Stores Equipment	-	-	
343 Tools, Shop, & Garage Equipmt	-	-	
344 Laboratory Equipment	-	-	
345 Power Operated Equipment	-	-	
346 Communication Equipment	-	-	
347 Miscellaneous Equipment	-	-	
309 Flowhead Meters	-	-	
348 Other Tangible Plant	-	-	
Total Accumulated Depreciation	<u><u>\$ 94,017</u></u>	<u><u>\$ 110,360</u></u>	

Explanation of Adjustment:

- a To reflect application of the authorized depreciation rates by account for the intervening years since the prior rate case using the half-year convention and recognizing plant additions and retirements. The calculation reflects a \$233,921 addition to Transmission & Distribution Mains in 2008, reclassification of a \$3,545 addition from Transmission & Distribution Mains to Services and changing the plant-in-service date for \$980 in Service from 2011 to 2010.

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$22,175	\$0	\$22,175
460 Unmetered Water Revenue	97	0	97
474 Other Water Revenues	270	0	270
Total Operating Revenue	\$22,542	\$0	\$22,542
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	3,088	0	3,088
618 Chemicals	0	0	0
620 Repairs and Maintenance	2,511	0	2,511
621 Office Supplies & Expense	382	0	382
630 Outside Services	7,744	0	7,744
635 Water Testing	897	(127) F	770
641 Rents	0	0	0
650 Transportation Expenses	1,934	0	1,934
657 Insurance - General Liability	1,189	0	1,189
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	1,000	0	1,000
675 Miscellaneous Expense	50	0	50
403 Depreciation Expense	14,843	47 G	14,890
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	834	(520) H	314
409 Income Tax	0	0	0
Total Operating Expenses	\$34,472	(\$600)	\$33,872
OPERATING INCOME/(LOSS)	(\$11,930)	\$600	(\$11,330)
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	149	0	149
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	(\$149)	\$0	(\$149)
NET INCOME/(LOSS)	(\$12,079)	\$600	(\$11,479)

STAFF ADJUSTMENTS

Adjustments to Operating Income

F - WATER TESTING - Per Company	\$	897		
Per Staff	\$	770	\$	(127)
To recognize average on-going expenses water expenses				
G - PROPERTY TAX - Per Company	\$	834		
Per Staff	\$	314	\$	(520)
To remove property on non-utility property - tank utility from test year expenses				
H - DEPRECIATION EXPENSE-Per Company	\$	14,843		
Per Staff	\$	14,890	\$	47

See Schedule MJR 3, page 3.

RATE DESIGN

Monthly Usage Charge	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$30.00	\$30.00	\$30.00
3/4" Meter	45.00	45.00	45.00
1" Meter	75.00	75.00	75.00
1½" Meter	150.00	150.00	150.00
2" Meter	240.00	240.00	240.00
3" Meter	480.00	480.00	480.00
4" Meter	750.00	750.00	750.00
6" Meter	1,500.00	1,500.00	1,500.00
Gallons Included in Minimum	0	0	0
Commodity Rate Charge			
<i>All Meter Sizes</i>			
Tier 1 From 0 to 3,000 gallons	2.50	2.50	N/A
Tier 2 From 3,001 to 9,000 gallons	3.75	3.75	N/A
Tier 3 Over 9,000 gallons	4.50	4.50	N/A
<i>5/8" x 3/4" Meter</i>			
Tier 1 From 0 to 3,000 gallons	N/A	N/A	2.50
Tier 2 From 3,001 to 9,000 gallons	N/A	N/A	4.50
Tier 3 Over 9,000 gallons	N/A	N/A	6.00
<i>3/4" Meter</i>			
Tier 1 From 0 to 3,000 gallons	N/A	N/A	2.50
Tier 2 From 3,001 to 9,000 gallons	N/A	N/A	4.50
Tier 3 Over 9,000 gallons	N/A	N/A	6.00
<i>1" Meter</i>			
Tier 1 From 0 to 40,000 gallons	N/A	N/A	4.50
Tier 2 Over 40,000 gallons	N/A	N/A	6.00
<i>1½" Meter</i>			
Tier 1 From 0 to 120,000 gallons	N/A	N/A	4.50
Tier 2 Over 120,000 gallons	N/A	N/A	6.00
<i>2" Meter</i>			
Tier 1 From 0 to 225,000 gallons	N/A	N/A	4.50
Tier 2 Over 225,000 gallons	N/A	N/A	6.00
<i>3" Meter</i>			
Tier 1 From 0 to 500,000 gallons	N/A	N/A	4.50
Tier 2 Over 500,000 gallons	N/A	N/A	6.00
<i>4" Meter</i>			
Tier 1 From 0 to 800,000 gallons	N/A	N/A	4.50
Tier 2 Over 800,000 gallons	N/A	N/A	6.00
<i>6" Meter</i>			
Tier 1 From 0 to 1,500,000 gallons	N/A	N/A	4.50
Tier 2 Over 1,500,000 gallons	N/A	N/A	6.00

RATE DESIGN

<u>Service Line and Meter Installation Charges</u>	Present, Company Proposed and Staff Recommended		
	Service Line	Meter Installaion	Total
5/8" x 3/4" Meter	\$365	\$85	\$450
3/4" Meter	\$360	\$170	\$530
1" Meter	\$410	\$210	\$620
1½" Meter	\$440	\$425	\$865
2" Turbo Meter	\$615	\$920	\$1,535
2" Compound Meter	\$610	\$1,650	\$2,260
3" Turbo Meter	\$775	\$1,440	\$2,215
3" Compound Meter	\$825	\$2,225	\$3,050
4" Turbo	\$1,080	\$2,300	\$3,380
4" Compound Meter	\$1,170	\$3,165	\$4,335
6" Turbo	\$1,660	\$4,490	\$6,150
6" Compound Meter	\$1,750	\$6,200	\$7,950

<u>Service Charges</u>	Present Rates	Company Proposed	Staff Recommended
Establishment	\$30.00	\$30.00	\$30.00
Establishment (After Hours)	45.00	N/A	N/A
Reconnection (Delinquent)	35.00	35.00	35.00
Reconnection (Delinquent) After Hours	N/A	N/A	N/A
Charge to Move Meter at Customer Request	***	***	***
Meter Test (If Correct)	N/A	25.00	25.00
Deposit	*	*	*
Deposit Interest	*	•	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	25.00	25.00	25.00
Deferred Payment (per month)	****	****	****
Meter Re-Read (If Correct)	20.00	25.00	25.00
Late Fee (per month)	****	****	****
Main Extension and additional facilities agreement	Cost	N/A	N/A
After Hours Service Charge	N/A	30.00	30.00

NT = No Tariff

<u>Monthly Service Charge for Fire Sprinkler</u>	Present	Company Proposed	Staff Recommended
4" or Smaller	*****	*****	*****
6"	*****	*****	*****
8"	*****	*****	*****
10"	*****	*****	*****
Larger than 10"	*****	*****	*****

- Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** Cost to include parts, labor, overhead, and all applicable taxes, including income tax, if applicable.
- **** 1.5% on the unpaid balance per month
- ***** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS

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

Average Number of Customers: 32

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	7,869	\$55.76	\$55.76	\$0.00	0.0%
Median Usage	4,744	\$44.04	\$44.04	\$0.00	0.0%

Staff Recommend

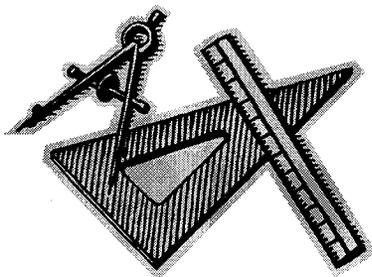
Average Usage	7,869	\$55.76	\$59.41	\$3.65	6.5%
Median Usage	4,744	\$44.04	\$45.35	\$1.31	3.0%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$30.00	\$30.00	0.0%	\$30.00	0.0%
1,000	32.50	32.50	0.0%	32.50	0.0%
2,000	35.00	35.00	0.0%	35.00	0.0%
3,000	37.50	37.50	0.0%	37.50	0.0%
4,000	41.25	41.25	0.0%	42.00	1.8%
5,000	45.00	45.00	0.0%	46.50	3.3%
6,000	48.75	48.75	0.0%	51.00	4.6%
7,000	52.50	52.50	0.0%	55.50	5.7%
8,000	56.25	56.25	0.0%	60.00	6.7%
9,000	60.00	60.00	0.0%	64.50	7.5%
10,000	64.50	64.50	0.0%	70.50	9.3%
15,000	87.00	87.00	0.0%	100.50	15.5%
20,000	109.50	109.50	0.0%	130.50	19.2%
25,000	132.00	132.00	0.0%	160.50	21.6%
50,000	244.50	244.50	0.0%	310.50	27.0%
75,000	357.00	357.00	0.0%	460.50	29.0%
100,000	469.50	469.50	0.0%	610.50	30.0%
125,000	582.00	582.00	0.0%	760.50	30.7%
150,000	694.50	694.50	0.0%	910.50	31.1%
175,000	807.00	807.00	0.0%	1,060.50	31.4%
200,000	919.50	919.50	0.0%	1,210.50	31.6%

CASH FLOW ANALYSIS

Line No.		Staff Recommended
Cash Inflows		
1	461 Metered Water Revenue	\$24,550
2	460 Unmetered Water Revenue	97
3	474 Other Water Revenues	270
4		
5	Total Revenue	<u>\$24,917</u>
Cash Outflows		
6	601 Salaries and Wages	\$0
7	610 Purchased Water	-
8	615 Purchased Power	3,088
9	618 Chemicals	-
10	620 Repairs and Maintenance	2,511
11	621 Office Supplies & Expense	382
12	630 Outside Services	7,744
13	635 Water Testing	770
14	641 Rents	-
15	650 Transportation Expenses	1,934
16	657 Insurance - General Liability	1,189
17	659 Insurance - Health and Life	-
18	666 Regulatory Commission Expense - Rate Case	1,000
19	675 Miscellaneous Expense	50
20	403 Depreciation Expense	14,890
21	408 Taxes Other Than Income	-
22	408.11 Property Taxes	314
23	409 Income Tax	-
24	Total Expenses	<u>\$33,872</u>
25	Operating Income	<u>(\$8,955)</u>
26	Plus: Depreciation Expense	14,890
27	Less: Loan Payment Interest	0
28	Less: Loan Payment Principal	0
29	AIAC Refunds	943
30	Cash Flow from Operations	<u><u>\$4,992</u></u>



ENGINEERING REPORT FOR EMPIRITA WATER COMPANY

DOCKET NO. W-03948A-12-0181 (Rates)

July 25, 2012

CONCLUSIONS

1. The Arizona Department of Environmental Quality (“ADEQ”) has determined that the Company’s system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. The Empirita water system has a water loss of 7.5 percent. This percentage is within acceptable limit of 10 percent.
3. The Company’s water system well production and storage capacities are adequate to serve the present customer base and a reasonable level of growth.
4. The Arizona Department of Water Resources (“ADWR”) has determined that the Empirita water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.
5. The Company has no outstanding Arizona Corporation Commission (“ACC”) compliance issues.
6. The Company has an approved curtailment plan tariff.
7. The Company has an approved backflow prevention tariff.

RECOMMENDATIONS

1. Staff recommends its annual water testing expense of \$770 be used for this proceeding.
2. Staff recommends that the depreciation rates listed in Table C be used.
3. Staff recommends continued use of the Company’s existing service line and meter installation charges as listed in Table D.
4. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in

the form of tariffs that conform to the templates created by Staff for the 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>. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

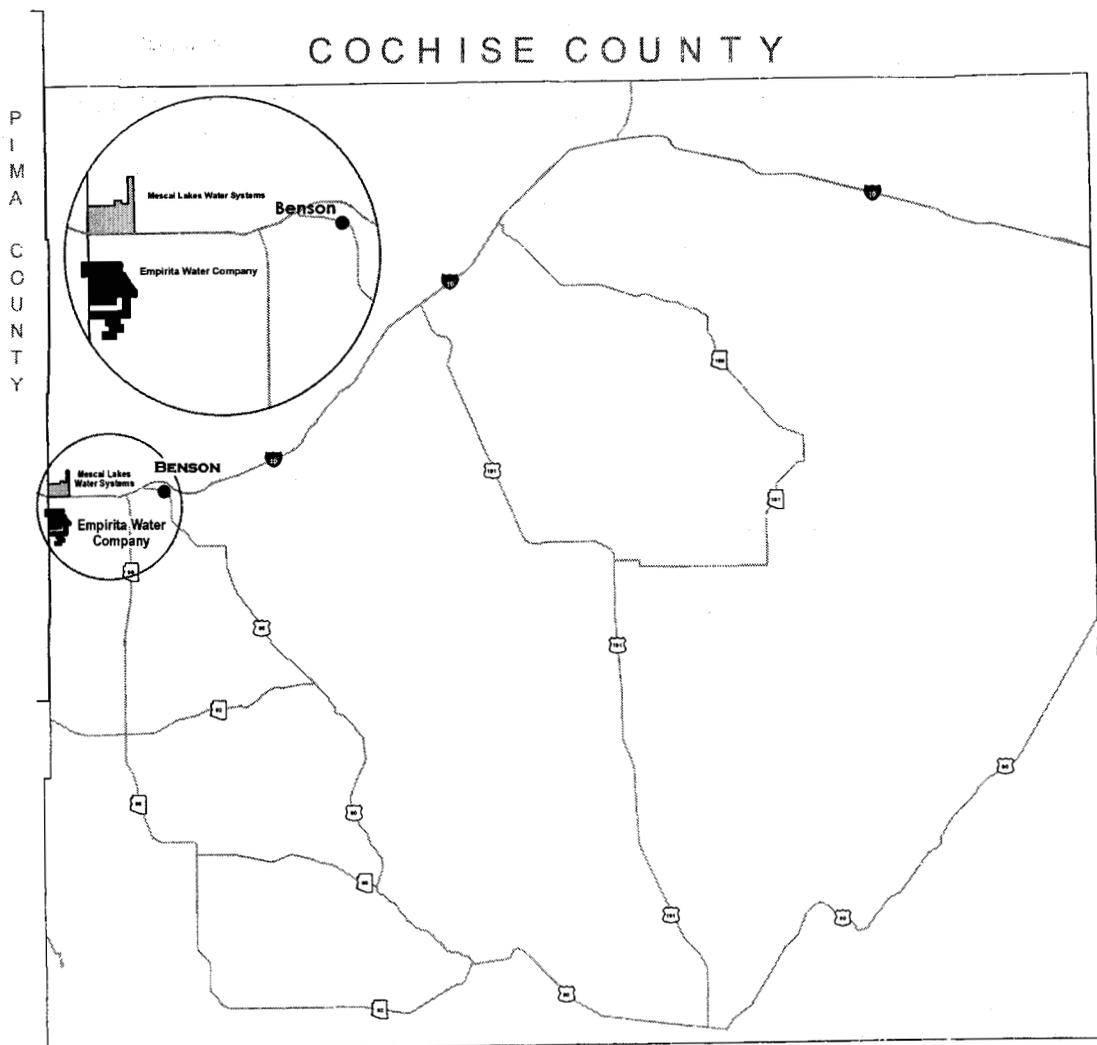
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I. INTRODUCTION AND LOCATION OF COMPANY

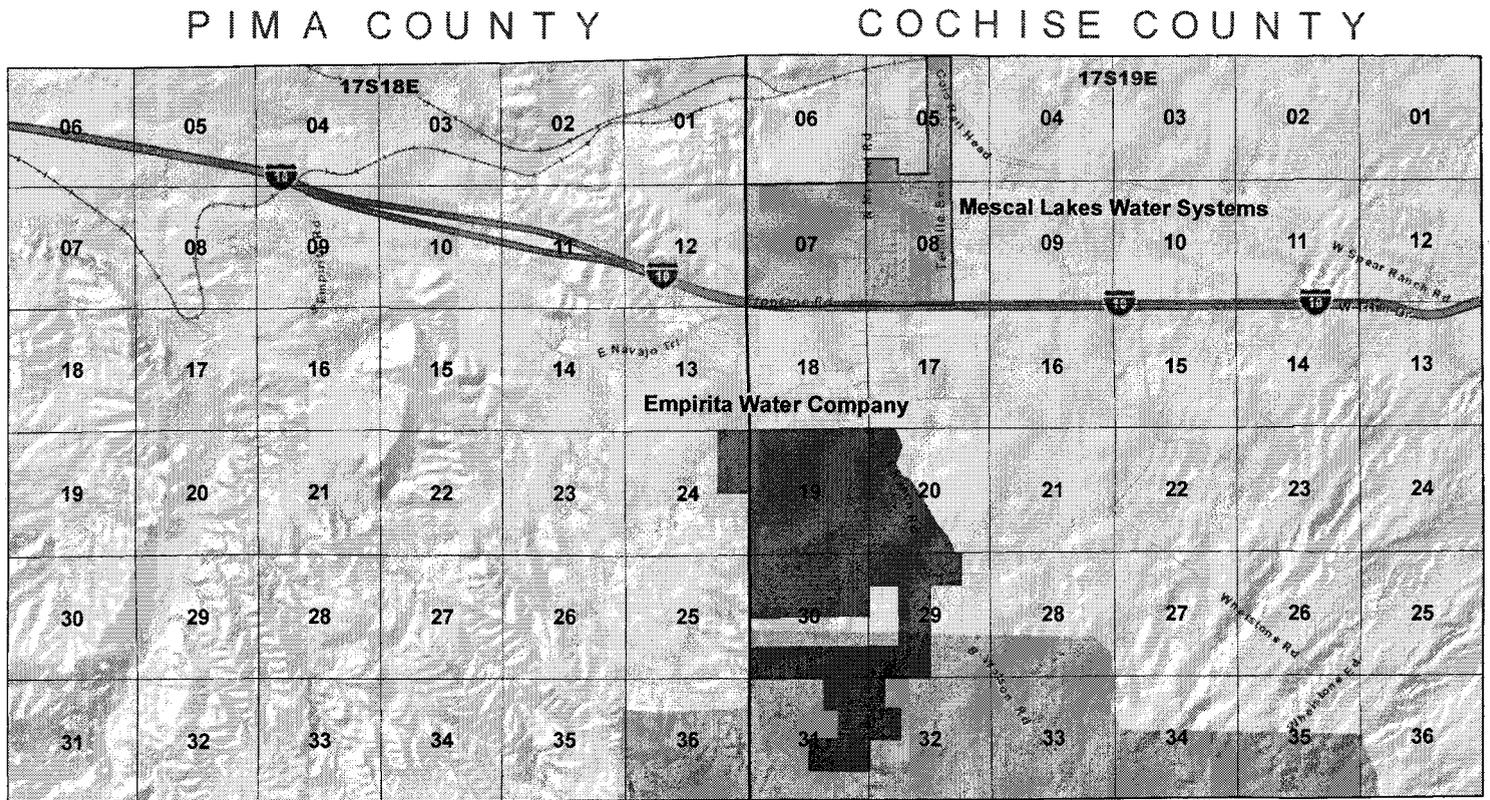
On May 18, 2012 Empirita Water Company (“Empirita” or “Company”) filed a rate application with the Arizona Corporation Commission (“ACC” or “Commission”). Empirita’s Certificate of Convenience and Necessity (“CC&N”) area is located approximately 8 miles west of Benson in Cochise County in Arizona.¹ Empirita’s water system serves residential developments known as Red Hawk I and Red Hawk II. Figure 1 shows the location of the Company within Cochise and partially Pima Counties and Figure 2 delineates the approximate 1,971 acres (approximately three square miles) of Empirita’s certificated area.

Figure 1



¹ See Decision No. 70476 (September 3, 2008) in which the Commission granted extension of the Company’s CC&N and Decision No. 72372 (May 27, 2011) in which the Commission approved an extension of compliance filing date deadline.

Figure 2



II. WATER SYSTEM

A. Description of the Water System

The water system was visited on July 17, 2012, by Katrin Stukov, ACC Utilities Division Staff Engineer, in the accompaniment of James Vermilyea, the Company's President. Empirita's water system consists of two active wells, one storage tank, one pressure tank, two booster pumps and a distribution system serving 30 customers in Red Hawk I and 3 customers in Red Hawk II (as of the end of the test year December 31, 2011).

A system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing:

Table A. Plant Facilities Summary²

Well #	ADWR ID#	Well Pump Horsepower (hp)	Pump Yield (gpm)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Fence (feet)	Surge Control Tanks
1	55-579078	10	25	445	5	2	2000	20'x20'	(2)-80gal
2	55-580933	10	30	425	5	2	2000	10'x10'	

Storage Tanks		Pressure Tanks		Booster Pumps		Structures
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity	
47,000	1	5,000	1	3	2	Fence 60'x50'
150,000 (not in use)	1					Shed

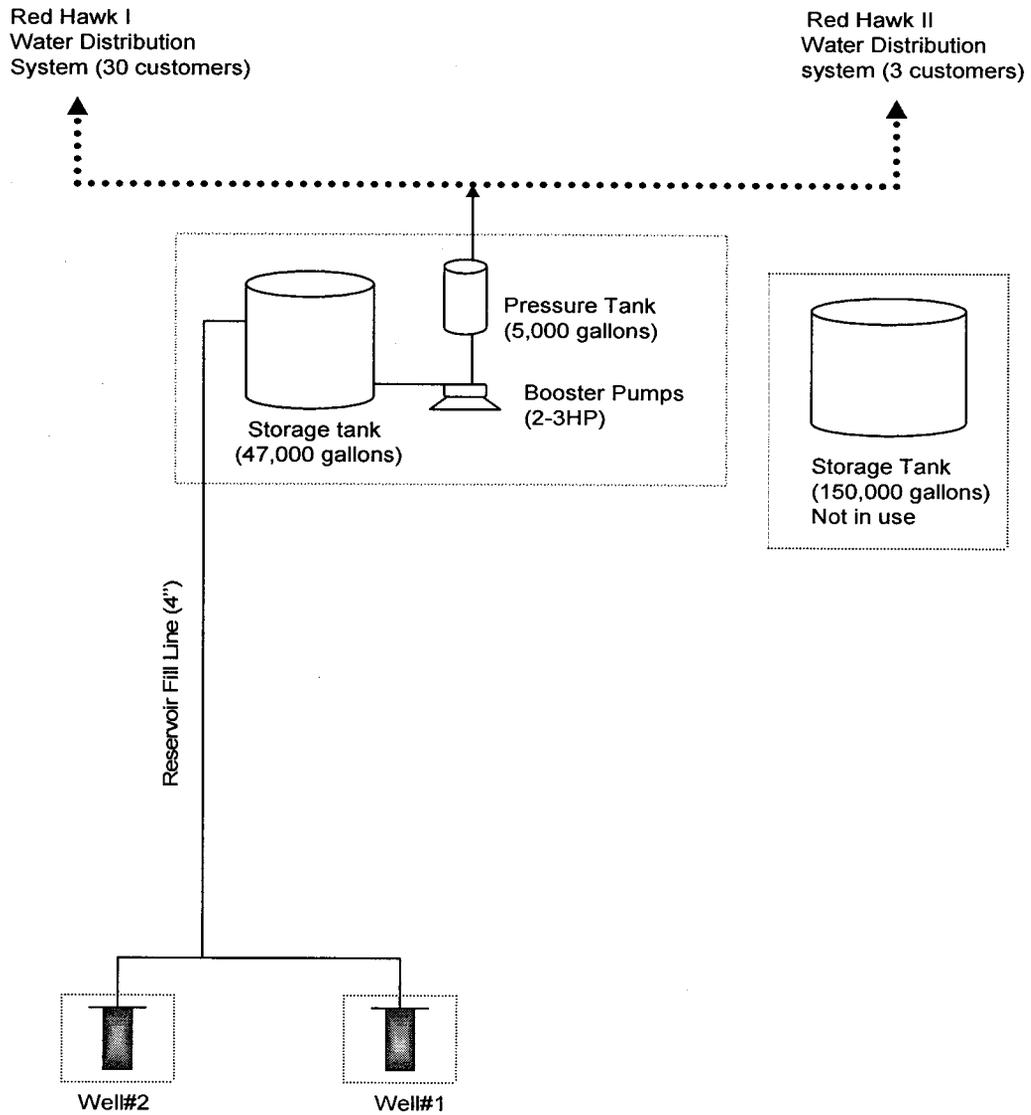
Size (inches)	Material	Length (feet)
2 1/2	PVC	1,660
4	PVC	10,520
6	PVC	11,950
8	PVC	173

Customer Meters		Fire Hydrants
Size (inches)	Quantity	Quantity
5/8 x 3/4	33	1

² Based on the Company's responses to data requests and Staff's site visit

³ Per the Company's e-mail of July 25, 2012

Figure 3 System Schematic

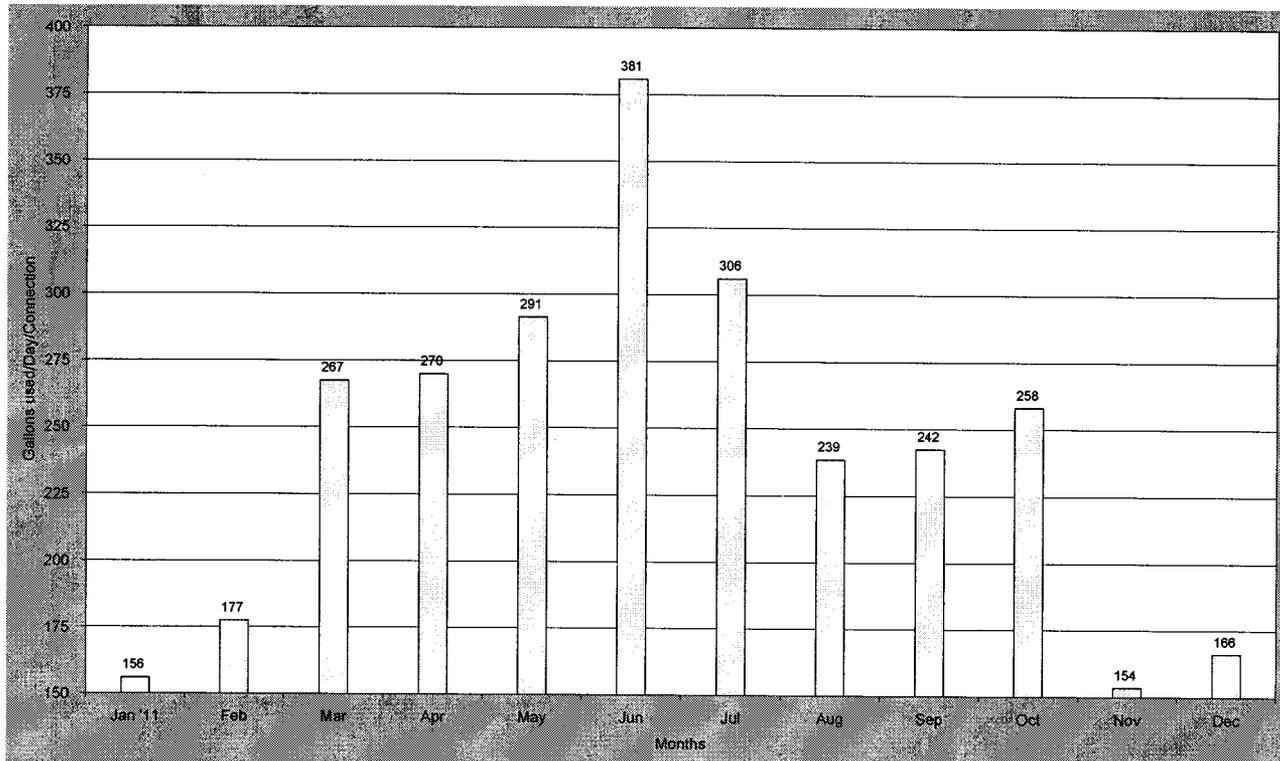


B. Water Use

Water Sold

Figure 4 represents the water consumption data for the test year ending December 31, 2011, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 381 gallons per day (“GPD”) per connection in June, and the low water use was 154 GPD per connection in November. The average annual use was 242 GPD per connection.

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.

The Company reported 3,104,000 gallons pumped and 2,870,000 gallons sold for the test year, resulting in a water loss of 7.5 percent. This percentage is within an acceptable limit of 10 percent.

C. System Analysis

Based on the data provided by the Company, the system's well total production capacity is 55 GPM and storage capacity is 47,000 gallons. The system had 33 connections as of December 2011. Staff concludes that the system's well total production and storage capacities are adequate to serve the present customer base and reasonable growth.

D. Growth

Based on customer data provided by the Company,⁴ it appears that the Empirita system growth was minimal. A listing of the number of connections at the end of each year from 2007 to 2011 is tabulated below:

2007	2008	2009	2010	2011
29	29	29	30	33

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

Compliance

According to an ADEQ Compliance Status Report, dated July 20, 2011, ADEQ reported no deficiencies and has determined that the Company's system (ADEQ Public Water System Identification No. 02-122) is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

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

Based on data provided by the Company, Staff's estimated average annual water testing expenses for the Company are \$770. Table B shows the cost details of Staff's annual monitoring expense estimate totaling \$770 with participation in the MAP.⁵

Staff recommends its annual water testing expense estimate of \$770 be used for purposes of this proceeding.

⁴ Per Company's responses KS 2.2

⁵ The ADEQ MAP invoice for the 2011 Calendar Year was \$332, rounded.

Table B. Water Testing Cost

Monitoring	Cost per Sample	No of samples per year	Average Annual Cost
Total coliform – monthly	\$25	15	\$375
Lead & Copper – per 3 years	\$38	5/3-yr	\$63
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrite, Asbestos- annual	MAP	MAP	\$332
Total			\$770

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

The Company’s system is not within an Active Management Area. ADWR has determined that the Empirita water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.⁶

V. ACC COMPLIANCE

A check with the Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.⁷

VI. DEPRECIATION RATES

Staff recommends the depreciation rates listed in Table C be used.

⁶ Per ADWR Compliance status check dated June 19, 2012.

⁷ Per ACC Compliance status check dated June 4, 2012.

TABLE C
TYPICAL DEPRECIATION RATES FOR WATER COMPANIES

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

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

VII. OTHER ISSUES

1. *Service Line and Meter Installation Charges*

In its application the Company did not request changes to its service line and meter installation charges (these charges were adopted in Decision No. 70203, dated March 20, 2008). These charges are refundable advances and the existing charges are within Staff's recommended range for these charges.

Staff recommends continued use of the Company's existing service line and meter installation charges. These charges are listed below in Table D.

Table D Service Line and Meter Installation Charges

Meter Size	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$365	\$85	\$450
3/4-inch	\$360	\$170	\$530
1-inch	\$410	\$210	\$620
1-1/2-inch	\$440	\$425	\$865
2-inch Turbo	\$615	\$920	\$1,535
2-inch Comp.	\$610	\$1,650	\$2,260
3-inch Turbo	\$775	\$1,440	\$2,215
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4-inch Comp.	\$1,170	\$3,165	\$4,335
6-inch Turbo	\$1,660	\$4,490	\$6,150
6-inch Comp.	\$1,750	\$6,200	\$7,950

2. *Curtailment Plan Tariff*

The Company has an approved curtailment tariff.

3. *Backflow Prevention Tariff*

The Company has an approved backflow prevention tariff for its system.

4. *Best Management Practices (“BMPs”)*

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that conform to the templates created by Staff for the 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>. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

MEMORANDUM

TO: Mary Rimback
Public Utility Analyst
Finance & Rate Analysis
Utilities Division

FROM: Jenny Gomez *JG*
Consumer Services Analyst I
Utilities Division

THRU: Connie Walczak *CW*
Consumer Services Manager
Utilities Division

DATE: July 3, 2012

RE: IN THE MATTER OF THE APPLICATION OF EMPIRITA WATER
COMPANY, L.L.C. FOR APPROVAL OF A RATE INCREASE –
DOCKET NO. W-03948A-12-0181

COMPANY HISTORY

Empirita Water Company, LLC (“Empirita” or “Company”) is engaged in the business of providing potable water service to customers in Cochise County. The Company is located approximately 8 miles west of the City of Benson in Cochise County, Arizona. The Company provides services to approximately 33 customers and its current rates were effective April 1, 2008, per Arizona Corporation Commission (“Commission”) Decision No. 70203.

COMPLAINT HISTORY

A review of Consumer Services records for the time frame of January 1, 2009 through July 3, 2012 reflects that zero complaints have been filed.

OPINION HISTORY (FOR OR AGAINST RATE INCREASE)

No Opinions have been filed against the proposed rate increase.

AFFIDAVIT OF MAILING

The Company's Affidavit of Mailing of the Customer Notification was filed on May 18, 2012.

BILL FORMAT COMPLIANCE

A review of the Company's bill format indicates that it is in compliance with the Arizona Administrative Code R14-2-409.B.2.

CORPORATIONS DIVISION STATUS

Per the Corporations Division of the Commission, the Company is in good standing.

CROSS-CONNECTIONS/BACK-FLOW TARIFF

The Company's Cross Connection/Backflow Tariff was approved on June 18, 2012 per Docket No. W-03948A-12-0256.

CURTAILMENT TARIFF

The Company's Curtailment tariff went into effect on May 2, 2007, per Decision No. 69399

INTERVENORS

As of this date no interveners have filed.

Cc: Engineering