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BEFORE THE ARIZONA CORPORATIC

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COMMISSIONERS

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

2012 SEP 24 P 2:40
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

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SEP 24 2012

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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01049A-11-0300
MORENCI WATER & ELECTRIC COMPANY)
FOR APPROVAL OF A RATE INCREASE.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01049A-11-0311
MORENCI WATER & ELECTRIC COMPANY)
FOR THE ESTABLISHMENT OF JUST AND)
REASONABLE RATES FOR ITS ELECTRIC)
AND WATER DEPARTMENTS.)
NOTICE OF FILING
REBUTTAL TESTIMONY

Morenci Water & Electric Company ("MWE") files its Rebuttal Testimony of Roy Archer and Daniel L. Neidlinger.

RESPECTFULLY SUBMITTED this 24th day of September, 2012.

By

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Original and 13 copies of the foregoing filed this 24th day of September, 2012, with:

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Arizona Corporation Commission
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Phoenix, Arizona 85007

1 Copy of the foregoing hand-delivered
this 24th day of Septembr, 2012 to:

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13 By Debbie Amund
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - CHAIRMAN
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01049A-11-0300
MORENCI WATER & ELECTRIC COMPANY TO) W-01049A-11-0311
DETERMINE THE FAIR VALUE OF ITS)
PROPERTIES AND TO ESTABLISH JUST AND)
REASONABLE RATES FOR ITS ELECTRIC)
DEPARTMENT.)

Rebuttal Testimony of

Roy Archer

MORENCI WATER & ELECTRIC COMPANY

September 24, 2012

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1. Introduction.....1
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1 **1. INTRODUCTION.**

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

3 A. My name is Roy Archer. My business address in Morenci is 4521 U.S. Highway 191, in
4 Morenci, Arizona 85540.

5

6 **Q. Are you the same Roy Archer that submitted Direct Testimony in this case?**

7 A. Yes.

8

9 **Q. What topics are you addressing in your Rebuttal Testimony?**

10 A. I address Commission Staff's recommendation to implement five Best Management
11 Practices ("BMPs") for Morenci Water and Electric Company's ("MWE's") Water
12 Department. I also address Staff's recommendations that the interest on customer deposits
13 remain at 6%; and establishment of service charges for be lowered to \$40 from \$60 (the
14 current charge for establishing electric service and for establishing water service). I also
15 have some brief comments regarding Staff's recommendations for renewable energy and
16 energy efficiency adjustor mechanisms, to ensure the Company understands what Staff is
17 recommending.

18

19 **2. BEST MANAGEMENT PRACTICES.**

20 **Q. How does MWE respond to Staff's recommendation that the Company submit five**
21 **BMPs in the form of tariffs that substantially conform to the templates Staff created**
22 **for Commission consideration?**

23 A. We do not believe it is necessary for the Company to implement five BMPs for several
24 reasons. MWE's customer base does not use a lot of water. The average monthly
25 residential use is around 8,675 gallons for the Morenci townsite and 7,268 gallons for the
26 Town of Clifton. These are not high averages. The water that customers do use is
27 relatively non-discretionary and is mainly to meet customers' basic needs. Further, MWE

1 customers do not have pools or large grass lawns. Most of the homes and businesses have
2 relatively little landscaping, since Morenci and Clifton are located around large mining
3 operations. Many of the BMP templates Staff created are not applicable to MWE's service
4 territory. In addition, and aside from any new housing that may be built by the mine to
5 accommodate mining expansion, there is no other new home or business developments
6 planned for the area that MWE is aware of; so any templates regarding new construction
7 are also inapplicable to its service territory. Finally, many of the remaining BMPs would
8 be costly to implement. The Company is agreeing to significant negative returns for its
9 Water Department – even after new rates are fully phased in. The Company does not
10 believe it should have to incur significant additional expense for BMPs that are unlikely to
11 have significant effect on water use given the particular characteristics of its service
12 territory.

13
14 Even so, the Company has discussed with Staff the BMPs recommendation and re-
15 examined the BMP tariffs on the Commission's website. As a result, the Company is
16 willing to implement three BMPs in accordance with the tariffs available on the
17 Commission's website, which the Company believes it can do at little to no cost for the
18 Company and its customers:

- 19 • Customer High-Use Water Use Inquiry Resolution Tariff – BMP 3.6.
- 20 • Customer High-Use Water Use Notification Tariff – BMP 3.7.
- 21 • Water System Tampering Tariff – BMP 5.2.

22 I have attached the tariffs as Exhibit 1 to my Rebuttal Testimony, which are also available
23 at <http://www.azcc.gov/divisions/utilities/water/forms.asp>. The Company also requests
24 that it not be required to file for approval of these BMP tariffs in a subsequent proceeding;
25 the Commission should simply approve these three BMP tariffs as part of this proceeding.

26 ...

27 ...

1 **Q. Why should the Commission not require MWE to implement five BMPs?**

2 A. I understand that the Commission has approved five BMPs for other similarly-sized water
3 utilities, but I do not believe any of those companies were also agreeing to a significantly
4 negative rate of return – a negative 8.17% return for serving the Morenci townsite and a
5 negative 10.17% return for serving the Town of Clifton. In addition, I am aware that the
6 Commission did not require Chino Meadows II Water Company to implement any BMPs –
7 although it did require Chino Meadows to file a BMP tariff should it decide to proceed
8 with a leak detection program (Decision No. 72896). I understand that Chino Meadows
9 serves about 889 customers and is located in the Prescott Active Management Area
10 (“AMA”). While MWE is not in an AMA and serves about 2,100 customers, it is agreeing
11 to implement three BMPs in accordance with the Commission tariffs in this case. Also,
12 approved rates for Chino Meadows allow it an opportunity to earn a positive 9.6% rate of
13 return; MWE is essentially agreeing to forego its opportunity to earn *any* positive rate of
14 return from customers. In short, MWE believes implementing three BMPs is more than
15 reasonable given these particular facts and circumstances.

16
17 **Q. Do you believe a three-tiered inverted-bloc rate design that Staff is recommending**
18 **will sufficiently promote water conservation without the need for additional BMPs**
19 **beyond the three MWE is agreeing to in this case?**

20 A. Yes. Mr. Neidlinger will address Staff’s water rate design in detail, but the Company
21 agrees generally with Staff’s recommendation for a three-tier inverted bloc rate design
22 (with three blocs) for all meter sizes. This will be a significant change from MWE’s
23 current rate design. This design will also give customers more opportunities to control the
24 amount they pay for water and incent them to use less water.

25 ...
26 ...
27 ...

1 **3. INTEREST ON CUSTOMER DEPOSITS AND CHARGES TO ESTABLISH**
2 **SERVICE.**

3 **Q. Regarding interest on customer deposits, what is your understanding of what Staff is**
4 **recommending?**

5 A. It appears that Staff is recommending that the interest on customer deposits remain at 6% –
6 for both electric and water service.

7

8 **Q. Does the Company agree with 6% interest on customer deposits?**

9 A. No. The Company believes that 2% interest on customer deposits for electric and water
10 service is appropriate. This is consistent with what the Commission ordered for
11 Semstream Arizona Propane, LLC in Decision No. 73160 (May 18, 2012). Staff appears
12 to have agreed with Semstream’s proposal to lower the rate to 2% from 6% in its 2011 rate
13 application. The Commission’s regulations governing water and electric utilities allow for
14 it to approve an interest rate other than 6%. MWE believes that a 2% interest rate on
15 customer deposits is appropriate.

16

17 **Q. Staff is recommending that MWE reduce its charge for establishment of service from**
18 **\$60 to \$40 its Electric and Water Departments. What is the Company’s response?**

19 A. The Company agrees with Staff’s recommendation. To make it clear, the Company
20 currently charges \$60 for establishing electric service and \$60 for establishing water
21 service. These charges were approved in the Company’s last rate case. Staff recommends
22 that those charges be reduced – to \$40 for establishing electric service and \$40 for
23 establishing water service. The Company supports that recommendation.

24 ...

25 ...

26 ...

27 ...

1 **4. RENEWABLE ENERGY AND ENERGY EFFICIENCY ADJUSTOR**
2 **MECHANISMS.**

3 **Q. Finally, Staff recommended that the Renewable Energy Standard Surcharge**
4 **(“RESS”) tariff and Energy Efficiency Surcharge (“EES”) become adjustor**
5 **mechanisms. What is your reaction?**

6 **A.** The Company understands that the rate and caps (if any) should remain as is until the next
7 respective plans are submitted and the Commission approves any changes. MWE further
8 understands that the adjustor mechanisms will operate exactly the same as the surcharges
9 are currently operating, subject to any future changes in subsequent proceedings involving
10 MWE’s renewable energy and energy efficiency plans. Assuming that is correct, the
11 Company supports Staff’s recommendations. Further, the Company is already tracking
12 expenditures of EE funds in a separate bank balance as it is doing for the RESS.

13

14 **Q. Do you have any other comments regarding Staff’s Direct Testimony?**

15 **A.** Yes. MWE understands that any rate increase can result in hardship for customers. For
16 this reason, MWE is not requesting any base rate increase for its Electric Department and
17 is agreeing to what would typically be an unreasonable rate of return for its Water
18 Department. While the Company reserves its right to request a revenue increase that does
19 produce a reasonable rate of return in future cases, it is agreeing to significantly negative
20 rate of return for its Water Department, and a very low rate of return for the Electric
21 Department. The Company is only seeking a modest increase in water rates – phased in
22 over three steps; and a surcharge to recover the current under-collected balance of
23 approximately \$300,000 for fuel and purchased power costs. The under-collected balance
24 is the result of Decision No. 73261 (July 30, 2012) where the Commission approved an
25 increase in MWE’s purchase power and fuel adjustor mechanism (the “PPFAC”) that only
26 prevented the under-collected bank balance from increasing. As a result of discussions
27 with Staff, the Company is proposing to collect a surcharge that should recover the under-

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collected balance in approximately 18 months, if electricity use remains consistent with historical levels for non-mining customers. Mr. Neidlinger provides further detail regarding the surcharge in his Rebuttal Testimony.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does.

Exhibit

"1"

Morenci Water and Electric Company

Decision No.: _____

(928) 865-2229

Effective Date: _____

Customer High Water Use Inquiry Resolution Tariff – BMP 3.6

PURPOSE

A program for the Company to assist its customers with their high water-use inquiries and complaints (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.6: Customer High Water Use Inquiry Resolution).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle high water use inquiries as calls are received.
2. Calls shall be taken by a customer service representative who has been trained on typical causes of high water consumption as well as leak detection procedures that customers can perform themselves.
3. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to the customer's residence to conduct a leak detection inspection and provide the customer with water conservation measures. The leak detection inspection may consist of a meter read check for flow verification. If the on-site inspection is requested by the customer, the Commission approved meter re-read tariff fee shall apply.
4. The Company shall follow up in some way on every customer inquiry or complaint and keep a record of inquiries and follow-up activities.

Customer High Water Use Notification Tariff – BMP 3.7

PURPOSE

A program for the Company to monitor and notify customers when water use seems to be abnormally high and provide information that could benefit those customers and promote water conservation (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services Program 3.7: Customer High Water Use Notification).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall track water usage for each customer and notify the customer if water use seems excessive for that particular billing for that time of the year.
2. The Company shall identify customers with high consumption and investigate each instance to determine the possible cause.
3. The Company shall contact the high water use customers via telephone, email, by mail or in person. The Company shall contact the customer as soon as practical in order to minimize the possible loss of water. The customer will not be required to do anything to receive this notification.
4. In the notification the Company shall explain some of the most common water usage problems and common solutions and points of contact for dealing with the issues.
5. In the notification, the customer will be reminded of at least the following water-saving precautions:
 - a. Check for leaks, running toilets, or valves or flappers that need to be replaced.
 - b. Check landscape watering system valves periodically for leaks and keep sprinkler heads in good shape.
 - c. Adjust sprinklers so only the vegetation is watered and not the house, sidewalk, or street, etc.
 - d. Continue water conservation efforts with any pools such as installing covers on pools and spas and checking for leaks around pumps.
6. In the notification, the customer will also be reminded of at least the following ordinary life events that can cause a spike in water usage:
 - a. More people in the home than usual taking baths and showers.
 - b. Doing more loads of laundry than usual.
 - c. Doing a landscape project or starting a new lawn.
 - d. Washing vehicles more often than usual.
7. The Company shall provide water conservation information that could benefit the customer, such as, but not limited to, audit programs, publications, and rebate programs.
8. The Company shall assist the customer in a self-water audit and assist the customer in determining what might be causing the high water usage as well as supply

Morenci Water and Electric Company

Decision No.: _____

(928) 865-2229

Effective Date: _____

customer with information regarding water conservation and landscape watering guidelines. As part of the water audit the Company shall confirm the accuracy of the customer meter if requested to do so by the customer (applicable meter testing fees shall apply).

9. The type of notification, the timing of the notification (i.e., how long after high water use was discovered by the Company), and the criteria used for determining which customers are notified shall be recorded and made available to the Commission upon request.

Template

Morenci Water and Electric Company

Decision No.: _____

(928) 865-2229

Effective Date: _____

WATER SYSTEM TAMPERING TARIFF – BMP 5.2

PURPOSE

The purpose of this tariff is to promote the conservation of groundwater by enabling the Company to bring an action for damages or to enjoin any activity against a person who tampers with the water system.

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission, specifically Arizona Administrative Code ("AAC") R14-2-410 and the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. In support of the Company's water conservation goals, the Company may bring an action for damages or to enjoin any activity against a person who: (1) makes a connection or reconnection with property owned or used by the Company to provide utility service without the Company's authorization or consent; (2) prevents a Company meter or other device used to determine the charge for utility services from accurately performing its measuring function; (3) tampers with property owned or used by the Company; or (4) uses or receives the Company's services without the authorization or consent of the Company and knows or has reason to know of the unlawful diversion, tampering or connection. If the Company's action is successful, the Company may recover as damages three times the amount of actual damages.
2. Compliance with the provisions of this tariff will be a condition of service.
3. The Company shall provide to all its customers, upon request, a complete copy of this tariff and AAC R14-2-410. The customers shall follow and abide by this tariff.
4. If a customer is connected to the Company water system and the Company discovers that the customer has taken any of the actions listed in No. 1 above, the Company may terminate service per AAC R14-2-410.
5. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

**ARIZONA CORPORATION COMMISSION
MORENCI WATER & ELECTRIC COMPANY
DOCKET NOS. E-01049A-11-0300 & 11-0311**

Rebuttal Testimony of Dan L. Neidlinger

1 **Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

2 A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix, Arizona.
3 I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics.

4

5 **Q2. DID YOU PREVIOUSLY PROVIDE DIRECT AND SUPPLEMENTAL DIRECT**
6 **TESTIMONY ON BEHALF OF MORENCI WATER & ELECTRIC COMPANY (“MW&E” OR**
7 **“COMPANY”) IN THIS CASE?**

8 A2. Yes. I filed direct testimony on revenue requirements and rate design for both the Electric and
9 Water Departments. Additionally, I subsequently prepared supplemental direct testimony describing a
10 revised purchased power and fuel adjustment clause (“PPFAC”) for the Company.

11

12 **Q3. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

13 A3. The purpose of this additional testimony is to comment on the direct testimony of Staff witness
14 Julie McNeely-Kirwan on my proposed PPFAC and the direct testimony of Staff witness Bentley
15 Erdwurm on water rate design.

16 ...

17 ...

1 **Q4. WHAT ARE YOUR COMMENTS WITH RESPECT TO MS. MCNEELEY-KIRWAN'S**
2 **RECOMMENDED CHANGES TO YOUR PROPOSED PPFAC PROCEDURE?**

3 A4. As discussed in detail in my supplemental testimony, my revised PPFAC procedure recommends
4 an adjustor cap of \$0.0125 per kWh. Ms. McNeeley-Kirwan's recommends a cap for any semi-annual
5 adjustor change of \$0.0040 per kWh. In other words, previous adjustor levels could be increased, if
6 needed, by up to 4 mills every six months. There would be no cap on downward or negative adjustors.
7 This is an acceptable modification to my proposed procedure.

8

9 **Q5. HOW WILL CUSTOMER'S BILLS BE AFFECTED WHEN NEW RATES AND YOUR**
10 **REVISED PPFAC PROCEDURE ARE IMPLEMENTED?**

11 A5. The implementation date for new rates is expected to occur on or about February 1, 2013. The
12 estimated under-collected PPFAC bank balance at that date is \$300,000. This amount would be frozen
13 at that time and collected through a surcharge over the next 18 months. As shown on the attached
14 Exhibit DLN-1, this surcharge is estimated to be \$0.00602 per kWh. The new adjustor is estimated to
15 be a negative \$0.00927 per kWh. As indicated at the bottom of the exhibit, the net effect of the new
16 rates plus the surcharge and revised PPFAC adjustor is an increase in the average monthly bill of only
17 \$3.63 or 7.90%. Although I believe the assumptions underlying these calculations are reasonable, the
18 bill impact is merely illustrative at this time. Updated amounts will be provided for Staff review prior to
19 the actual implementation of new rates.

20

21 **Q6. WHAT ARE YOUR COMMENTS WITH RESPECT TO THE WATER RATE DESIGN**
22 **RECOMMENDATIONS OF MR. BENTLEY ERDWURM?**

23 A6. Mr. Erdwurm's proposed rates would require customers with meters larger than 1" to subsidize the
24 customers with smaller meters. Absent cost of service support, there is no justification, in my view, for
25 adopting Mr. Erdwurm's recommendations that would ultimately produce an extremely tilted rate
26 structure. There is agreement between the Staff and Company on water revenue requirements for both
27 the Morenci and Clifton systems. Staff concurs with the Company's three-step phase in of rate increases

1 for both systems that provide for an overall revenue increase of approximately 33% at the end of step
2 three.

3 The Company's proposed rates for both water systems are designed to achieve percentage increases at or
4 near 33% for all meter sizes at the end of step three. In some instances, the indicated percentage
5 increases for the larger meter sizes exceed the 33% target due to large and supportable increases in
6 monthly service charges. However, as shown on Exhibit DLN-2, Mr. Erdwurm's proposed rates provide
7 for percentage increases for the larger meters that are 40% to 50% greater than the percentage increases
8 under the Company's proposed rates. The large cross-subsidies advocated by Mr. Erdwurm cannot be
9 supported and should not be adopted by the Commission.

10

11 **Q7. WHAT CHANGES ARE NEEDED TO CORRECT THE DEFICIENCIES IN MR.**
12 **ERDWURM'S RATE DESIGN?**

13 A7. The major change required is Mr. Erdwurm's proposed rates for the first block (0-3,000 gallons).
14 For instance, for the Morenci system at step 3, his proposed rate for the first 3,000 gallons is only
15 \$0.55—just \$0.11 greater than Morenci's raw water purchase cost of \$0.44 per thousand gallons. When
16 treatment is considered, the cost of water delivered to the distribution system exceeds \$2.00 per
17 thousand gallons. The pumping and treatment costs for the Clifton system are approximately \$1.00 per
18 thousand gallons.

19 Significant increases in Mr. Erdwurm's first block rates are needed. The Company's proposed first
20 block rate (0-10,000 gallons) for the Morenci system at step 3 is \$2.05 per thousand gallons and \$1.75
21 per thousand for the Clifton system.

22

23 **Q8. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

24 A8. Yes, it does.

25

26

Exhibit

"1"

MORENCI WATER & ELECTRIC COMPANY
TEST YEAR ENDED DECEMBER 31, 2010

Bill Impact of PPFAC Surcharge and Adjustor Under Revised PPFAC Procedure

DESCRIPTION	AMOUNT
SURCHARGE CALCULATION:	
February 1, 2013 Implementation Date:	
Estimated Frozen Bank Balance - Under Collected	\$300,000
Estimated kWh Sales - 18 Months Forward	49,862,519
Surcharge - Per kWh	\$0.00602
PPFAC AT NEW RATES - FEB. 1 2013:	
Base Cost of Purchased Power - Per kWh	\$0.05000
Forecast Cost of Purchased Power - Per kWh	\$0.04073
PPFAC Before Surcharge - Per kWh	-\$0.00927
Surcharge - Per kWh	\$0.00602
Net PPFAC Adjustor (Feb.-Jun. 2013) - Per kWh	-\$0.00325

BILL IMPACT ON IMPLEMENTATION:

DESCRIPTION	PRESENT RATES	NEW RATES	INCREASE (DECREASE)	PERCENT INCREASE
Basic Service Charge	\$5.50	\$5.50	\$0.00000	
Energy Rate - Per kWh	\$0.10150	\$0.07628	-\$0.02522	
Average Monthly Usage - kWh	604	604	0.00	
Surcharge - Per kWh	0	\$0.00602	\$0.00602	
PPFAC Adjustor	-\$0.03449	-\$0.00927	\$0.02522	
Monthly Billing - Average Usage	\$45.97	\$49.61	\$3.63	7.90%

Exhibit

"2"

**MORENCI WATER & ELECTRIC COMPANY
TEST YEAR ENDED DECEMBER 31, 2010**

Comparison of Proposed Company and Staff Water increases by Meter Size

DESCRIPTION	% INCREASE AT STEP 3 (1)		STAFF MULTIPLE
	COMPANY	STAFF	
MORENCI:			
5/8" Meters	32.24%	21.03%	0.65
1" Meters	31.36%	39.79%	1.27
1 1/2" Meters	31.35%	46.78%	1.49
2" Meters	42.73%	62.62%	1.47
3" Meters	33.19%	49.71%	1.50
4" Meters	95.35%	119.00%	1.25
6" Meters	44.76%	61.44%	1.37
CLIFTON:			
5/8" Meters	33.98%	22.04%	0.65
3/4" Meters	49.32%	17.45%	0.35
1" Meters	32.28%	28.07%	0.87
1 1/2" Meters	50.90%	77.06%	1.51
2" Meters	40.30%	73.36%	1.82
3" Meters	40.02%	75.60%	1.89

NOTES:

(1) Percentage Increase Over Current Rates Using Average Monthly Usage for Each Meter Size