

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: October 22, 2012

RE: STAFF REPORT FOR KOHL'S RANCH WATER COMPANY'S APPLICATION
FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02886A-12-0190)

Attached is the Staff Report for Kohl's Ranch Water Company's application for a permanent rate increase. Staff recommends approval of the rate increase application using Staff's recommended rates and charges.

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

SMO:BCA:tdp\BS

Originator: Brendan C. Aladi

Arizona Corporation Commission

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DOCKET CONTROL
AZ CORP COMMISSION

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Service List for: Kohl's Ranch Water Company
Docket No. W-02886A-12-0190

Mr. Douglas Thorne
Kohl's Ranch Water Company
Post Office Box 206
Payson, Arizona 85547

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

KOHL'S RANCH WATER COMPANY

DOCKET NO. W-02886A-12-0190

**APPLICATION FOR
A PERMANENT RATE INCREASE**

OCTOBER 22, 2012

STAFF ACKNOWLEDGMENT

The Staff Report for Kohl's Ranch Water Company, Docket No. W-02886A-12-0190 was the responsibility of the Staff members listed below. Brendan C. Aladi was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Brendan C. Aladi
Public Utilities Analyst III



Katrin Stukov
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
KOHL'S RANCH WATER COMPANY
APPLICATION FOR A PERMANENT RATE INCREASE
DOCKET NO. W-02886A-12-0190

The current rates, authorized in Decision No. 42881, have been in effect since November 1972. The Current monthly customer charge for all metered customers is \$5.75 including 5,000 gallons. On September 2, 2010, Kohl's Ranch Water Company ("Kohl's Ranch" or "Company") filed for an emergency rate increase. On January 20, 2011, the Arizona Corporation Commission ("Commission") approved a \$75,892 emergency interim surcharge in Decision No. 72094, until new rates are set. The monthly emergency customer charge for a 5/8 x 3/4-inch meter customer is \$20.09 and for a 6-inch meter customer is \$2,900, with increases to the commodity charges as well. In aggregate, residential customers are currently paying \$25.84 in monthly customer charges.

On May 25, 2012, Kohl's Ranch filed this application for a permanent rate increase with the Commission. Kohl's Ranch is a Class D for-profit Arizona public service corporation that provides potable water service to approximately 123 metered customers in Gila County, Arizona.

Kohl's Ranch proposed an \$8,646 or 7.91 percent revenue increase over test year revenue of \$109,311 to \$117,957. The proposed revenue increase would produce an operating income of \$1,123 for an operating margin of 0.95 percent. However, the Company's proposed rates actually produce total revenues of \$128,551. The Company's proposed rates would increase the typical 5/8 x 3/4 residential bill with a median usage of 617 gallons from \$25.84 to \$31.85, for an increase of \$6.01, or 23.3 percent as shown on Schedule BCA-5.

Staff recommends an \$8,911 or an 8.15 percent decrease in test year revenue of \$109,311 to \$100,400. Staff's recommended revenues would result in an operating income of \$15,133, for an operating margin of 15.07 percent. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 617 gallons from \$25.84 to \$22.23, for a decrease of \$3.61, or 14.0 percent as shown on Schedule BCA-5.

Effectively, Staff's recommendation provides a permanent rate increase that is significantly above the Company's previous permanent rates, but the recommended increase is not as high as the previously authorized interim emergency rate increase.

STAFF RECOMMENDATIONS

Staff recommends approval of its rates and charges as shown in Schedule BCA-4.

Staff further recommends that the Company be ordered to file with Docket Control a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the interim surcharge authorized in Decision No. 72094 be discontinued when the rates approved in this rate case become effective.

Staff further recommends that, on a going-forward basis, the Company maintain its books and records in accordance with the NARUC USOA.

Staff further recommends that the Company be ordered to use the depreciation rates delineated in Table B of the attached Engineering Report.

Staff further recommends that the Company be required to report information such as, but not limited to, Plant Description and Water Use Data, separately for each of its individual systems by Public Water System ("PWS"), as defined by ADEQ, in future Annual Reports and rate filings.

The Company's Spring water system operates at a 11.5 percent water loss. This percentage exceeds Staff's recommended limit of 10 percent. Staff recommends that, within 13 months of the effective date of the decision in this case, the Company file, as a compliance item in this docket, a 12-month Water Use Data Report indicating for each month the number of customers served, gallons sold, gallons obtained from the source, gallons of water drained into the creek and the resulting water loss percentage for each month during the 12-month reporting period. The Company shall coordinate the monthly reading of its source meters, drain line meter and individual customer meters to ensure that an accurate accounting of the monthly water loss in the system can be determined. Staff recommends that, in the event the water loss reported for the 12-month reporting period is greater than 10 percent, the Company shall evaluate its water system and submit a water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. 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.

Staff further 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.

Staff further recommends approval of the Company's backflow prevention tariff filed with this application on July 20, 2012.

Staff further recommends that the Commission find that the Company does not have a refund obligation related to the level of interim emergency rates approved by the Commission in Decision No. 72094.

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ATTACHMENT

Engineering Report Attachment A

Fact sheet

Company:

Type of Ownership: C Corporation.

Kohl's Ranch is a Class D for-profit Arizona public service corporation that provides potable water service to approximately 123 metered customers in Gila County, Arizona.

Rates:

Permanent rate increase application filed: May 25, 2012.

Current test year ended: January 31, 2012.

Prior test year ended: December 31, 1972.

Emergency Rates Date: October 21, 2010.

The application became sufficient on August 1, 2012.

	<u>Company Current & Emergency Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Number of Gallons in the Minimum	5	0	0
Monthly Minimum Rates			
Residential Monthly Minimum Charge			
5/8 x 3/4-inch meter (\$5.75+\$20.09) =	\$ 25.84	\$ 30.00	\$ 21.00
3/4-inch meter	\$ N/A	\$ N/A	\$ 21.00
1-inch meter	\$ N/A	\$ N/A	\$ 52.50
1 1/2-inch meter	\$ N/A	\$ N/A	\$ 105.00
2-inch meter	\$ N/A	\$ N/A	\$ 168.00
3-inch meter	\$ N/A	\$ N/A	\$ 336.00
4-inch meter	\$ N/A	\$ N/A	\$ 525.00
6-inch meter (\$5.75+\$2,900) =	\$ 2,905.75	\$ 2,934.15	\$1,825.00

Fact Sheet (Continued)

Company Current & Emergency Rates	Company Proposed Rates	Staff Recommended Rates
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Commodity Rates (Per 1,000 gallons)

All Meter Sizes

0 to 5,000 gallons		\$ 0.00	\$ 3.00	N/A
5,001 to 25,000 gallons	(\$0.50 + \$3.00) =	\$ 3.50	\$ 5.50	N/A
25,001 to 60,000 gallons	(\$0.50 + \$4.50) =	\$ 5.00	\$ 7.00	N/A
Over 60,000 gallons	(\$0.50 + \$6.00) =	\$ 6.50	\$ 0.00*	N/A

5/8 x 3/4 & 3/4-inch meter

0 to 5,000 gallons	N/A	N/A	\$ 2.00
5,001 to 12,000 gallons	N/A	N/A	\$ 3.80
Over 12,000 gallons	N/A	N/A	\$ 7.23

6 – inch meter

0 to 60,000 gallons	N/A	N/A	\$ 3.80
Over 60,000 gallons	N/A	N/A	\$ 7.23

Typical 5/8 x 3/4-inch residential bill

Average use (2,089 gallons)	\$ 25.84	\$ 36.27	\$ 25.34
Median use (617 gallons)	\$ 25.84	\$ 31.85	\$ 22.23

Customers

Average Number of customers in the current test year (1/31/12): 123

Current test year customers by meter size:

5/8 x 3/4-inch	122
6-inch	<u>1</u>
	123

Note: * The Company inadvertently made all water usage in excess of 60,000 gallons free by not pricing usage above that level.

Fact Sheet (Continued)

Notifications

A notarized cover letter and affidavit of mailing "Customer Notification" was filed on June 14, 2012.

Number of opinions filed against the rate increase application: 1

Number of customer complaints filed against the Company from January 1, 2009, to September 12, 2012: 1

The complaint has been resolved and closed.

Summary of Filing

The test year results as adjusted by Utilities Division Staff ("Staff") for Kohl's Ranch Water Company ("Kohl's Ranch" or "Company") show total operating revenue of \$109,311, an operating income of \$24,812, resulting in a 22.70 percent operating margin, as shown on Schedule BCA-1.

Kohl's Ranch proposed an \$8,646 or 7.91 percent revenue increase over test year revenue of \$109,311 to \$117,957. The proposed revenue increase would produce an operating income of \$1,123, for an operating margin of 0.95 percent. However, the Company's proposed rates actually produce total revenues of \$128,551. The Company's proposed rates would increase the typical 5/8 x 3/4 residential bill with a median usage of 617 gallons from \$25.84 to \$31.85, for an increase of \$6.01, or a 23.3 percent as shown on Schedule BCA-5.

Staff recommends an \$8,911 or an 8.15 percent decrease in Staff adjusted test year revenue of \$109,311 to \$100,400. Staff's recommended revenue would result in an operating income of \$15,133 for an operating margin of 15.07 percent. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 617 gallons from \$25.84 to \$22.23, for a decrease of \$3.61, or 14.0 percent as shown on Schedule BCA-5.

According to the application, the Company requests a rate increase due to increases in the cost of operating the water system. The interim surcharge will be terminated when the Decision in the instant rate case is issued. The Commission required Kohl's Ranch to file this permanent rate case.

Background

On March 2, 2009, ILX, the former owner of Kohl's Ranch filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On July 23, 2010, the United States Bankruptcy court approved a Plan of Reorganization and Sale Order. ILX expected that the buyer of the assets of ILX would also purchase the utility. However, the buyer did not. Consequently, Kohl's Ranch requested an emergency rate increase to allow it to generate enough revenue to pay for its operating expenses and maintain service to customers. On January 31, 2011, Mr. Douglas Thorne purchased the utility.

During the test year ended January 31, 2012, Kohl's Ranch provided water service to an average of 123 metered customers.

Kohl's Ranch is an Arizona "C" corporation that provides water service to Arizona customers and is located in Gila County, Arizona.

Pursuant to Decision No. 72094, Kohl's Ranch filed an application for a rate increase with the Commission on May 25, 2012. On August 1, 2012, the application was made sufficient.

Consumer Services

Staff reviewed the Commission's records for the period beginning January 1, 2009, to September 12, 2012, and found the following:

One complaint filed. The complaint has been resolved and closed.

One opinion against the proposed rate increase.

A notarized cover letter and affidavit of mailing "Customer Notification" was filed on June 14, 2012.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

Kohl's Ranch is in good standing with the Corporations Division of the Commission.

Kohl's Ranch is current on its property and sales tax payments.

Compliance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA")

Commission rules require water companies to maintain their books and records in accordance to the NARUC USOA. Arizona Administrative Code R14-2-411.D.2 states the following: "Each utility shall maintain its books and records in conformity with the NARUC Uniform System of Accounts for Class A, B, C, and D Water Utilities."

Staff noted during the course of its audit in this proceeding that the Company did not consistently follow the NARUC USOA as mandated by the Commission. Staff found that the Company did not record the cost of a well house and storage tank in its plant accounts.

Staff recommends that, on a going-forward basis, the Company maintain its books and records in accordance with the NARUC USOA, which includes recording structures and improvements in account no. 304 and storage tanks in account no. 330. Further, Staff recommends that the Company file, within 90 days of a Decision in this proceeding, a plan identifying the actions it will take to keep its books and records in accordance with the NARUC USOA.

Engineering Analysis and Recommendations

Staff inspected Kohl's Ranch plant facilities on August 8, 2012. 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 decrease the Company's proposed rate base by \$145,176, from \$157,356 to \$12,180, as shown on Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Adjustment A decreases plant in services by a net change of \$40, from \$163,150 to \$163,110, as shown on Schedule BCA-2, Pages 1 and 2. However, this net change is comprised of a number of significant sub-parts, which are explained below. Mr. Thorne purchased the water Company in January 2011 for \$5,000. He did not have sufficient and reliable information to establish the original cost plant value for each plant account. The Company submitted plant using reconstruction cost new pricing ("RCN"). Staff conducted a RCN analysis to establish the plant value, but Staff analysis included depreciation to establish reconstruction cost net of depreciation ("RCND") which resulted in plant value of \$163,110 and accumulated depreciation of \$159,568. Details of Staff's adjustments are presented below.

Structures and Improvements - Adjustment "a" increases this account by \$20,231, from \$2,836 to \$23,066, as shown on Schedule BCA-2 pages 2 and 3. Staff increased this account to reflect Staff's adjustment to Company's RCN plant value.

Wells and Springs - Adjustment "a" increases this account by \$775, from \$3,000 to \$3,775, as shown on Schedule BCA-2 pages 2 and 3. Staff increased this account to reflect Staff's adjustment to Company's RCN plant value.

Pumping Equipment - Adjustment "a" increases this account by \$9,219, from \$500 to \$9,719, as shown on Schedule BCA-2 pages 2 and 3. Staff increased this account to reflect Staff's adjustment to Company's RCN plant value.

Water Treatment Equipment - Adjustment "a" decreases this account by \$40, from \$2,200 to \$2,160, as shown on Schedule BCA-2 pages 2 and 3. Staff decreased this account to reflect Staff's adjustment to Company's RCN plant value.

Distribution Reservoirs and Standpipes - Adjustment "a" decreases this account by \$69,030, from \$144,030 to \$75,000, as shown on Schedule BCA-2 pages 2 and 3. Staff decreased this account to reflect Staff's adjustment to Company's RCN plant value.

Transmission and Distribution Mains - Adjustment "a" increases this account by \$30,716, from \$5,500 to \$36,216, as shown on Schedule BCA-2 pages 2 and 4. Staff increased this account to reflect Staff's adjustment to Company's RCN plant value. Per our discussion with Mr. Thorne during the audit, he indicated that he owns the water main from the meter between the utility and the lodge; the service lines from the meter to the lodge are owned by the lodge.

Services - Adjustment "a" increases this account by \$4,027, from \$0 to \$4,027, as shown on Schedule BCA-2 pages 2 and 4. Staff increased this account to reflect Staff's adjustment to Company's RCN plant value.

Meters and Meter Installation - Adjustment "a" increases this account by \$2,398, from \$1,210 to \$3,608, as shown on Schedule BCA-2 pages 2 and 4. Staff increased this account to reflect Staff's adjustment to Company's RCN plant value.

Hydrants - Adjustment "a" increases this account by \$1,664, from \$0 to \$1,664, as shown on Schedule BCA-2 pages 2 and 4. Staff increased this account to reflect Staff's adjustment to Company's RCN plant value.

Accumulated Depreciation

Adjustment B increases accumulated depreciation by \$153,774, from \$5,794 to \$159,568, as shown on Schedule BCA-2, pages 1 and 5.

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, reflecting plant additions and retirements as identified by Staff and the Company and applying the Commission-approved depreciation rates. Staff identified fully-depreciated plant by utilizing the detail of plant cost by year and useful lives reported in the Reconstruction Cost New net of Depreciation Study that was performed by Staff.

Working Capital

Kohl's Ranch did not claim any working capital allowance. Staff's adjustments C and D resulted in a net increase to working capital of \$8,638, from \$0 to \$8,638, as shown on Schedule BCA-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 did not make any operating revenue adjustments.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$29,306, from \$116,926 to \$87,621, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments are presented below.

Salaries and Wages Expense - Adjustment A increases this expense by \$16,000, from \$24,000 to \$40,000, as shown on Schedule BCA-3 pages 1 and 2. This adjustment reflects the transfer of payments made to Mr. Thorne and booked as outside services expense to salaries and wages expense. The adjustment also removes \$4,000 of Ms. Thorne's requested salary. The Company requested \$24,000 in salaries and wages for Ms. Thorne and \$36,000 in outside services expense for Mr. Thorne. Neither Mr. Thorne nor Ms. Thorne maintains time sheets. Apparently because he is "on call" for emergencies, Mr. Thorne claims he works 24 hour per day, 7 days a week.

The actual work responsibilities of Mr. and Mrs. Thorne appear to overlap since both have indicated responsibilities for billing, customer service, and bookkeeping, while Mr. Thorne is also responsible for meter reading, repairs and maintenance. With only 123 customers it is difficult to justify the need for both of these individuals to perform the billing, customer service, and bookkeeping activities, especially since Staff is continuing to allow recovery of \$7,600 in outside services related to taxes, billing activity support, and some system maintenance. Staff is proposing to allow recovery of \$20,000 for each of these two employees.

Purchased Power - Adjustment B decreases this account by \$2,936, from \$6,779 to \$3,843, as shown on Schedule BCA-3 pages 1 and 2. This adjustment reflects the removal of \$2,936 in out of test year expense.

Outside Services Expense - Adjustment C decreases outside services expense by \$40,322, from \$47,922 to \$7,600, as shown on Schedule BCA-3 pages 1 and 2. Staff's adjustment reflects the Company's outside services expense going-forward. The Company's outside services expense is a result of the Company dropping some of its former independent contracts that were providing services. Mr. Thorne now provides certified operator and meter reading services.

Water Testing Expense - Adjustment D decreases water testing expense by \$1,530, from \$3,905 to \$2,375, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined and reported in the attached Engineering Report.

Insurance - General Liability - Adjustment E decreases general liability insurance by \$408, from \$2,641 to \$2,233, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects the amount updated, supported and verified by the insurance company.

Depreciation Expense – Adjustment F decreases depreciation expense by \$5,107, from \$5,749 to \$642, as shown on Schedule BCA-3 pages 1 and 3. 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 by \$3,329, from \$6,607 to 3,278, as shown on Schedule BCA-3 pages 1 and 4. This adjustment reflects Staff's removal of sales tax paid by customers. As a pass-through tax, this should not be reflected as an expense for rate making-purposes.

Property Tax Expense – Adjustment H increases property tax expense by \$3,673, from \$2,160 to \$5,833 as shown on Schedule BCA-3 pages 1 and 4. Staff calculated its property tax amount using a modified version of the Arizona Department of Revenue's ("ADOR") property tax method.

Income Tax Expense - Adjustment I increases income tax expense by \$4,653, from \$1,453 to \$6,107 as shown on Schedule BCA-3 pages 1 and 4. This adjustment reflects income tax as calculated by Staff.

Revenue Requirement

The Company's narrative portion of the application states that the Company needs a rate increase to maintain its water system and to cope with rising operating costs.

Staff finds Kohl's Ranch's rate base is \$12,180, which is very low and, consequently, Staff chose to use cash flow in calculating the revenue requirement.

Kohl's Ranch proposed an \$8,646 or 7.91 percent revenue increase over test year revenue of \$109,311 to \$117,957. The proposed revenue increase would produce an operating income of \$1,123, for an operating margin of 0.95 percent. However, the Company's proposed rates actually produce total revenues of \$128,551.

Staff recommends an \$8,911 or an 8.15 percent decrease in Staff adjusted test year revenue of \$109,311 to \$100,400. Staff's recommended revenue would result in an operating income of \$15,133 for an operating margin of 15.07 percent.

Staff's recommended decrease would provide the Company with adequate cash flow to meet its normal operating expenses and maintain its water system.

Rate Design

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

The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter residential bill with a median usage of 617 gallons from \$25.84 to \$31.35, an increase of \$6.01 or 23.3 percent, as shown on Schedule BCA-5.

Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter residential bill with a median usage of 617 gallons from \$25.84 to \$22.23, a decrease of \$3.61 or 14.0 percent, as shown on Schedule BCA-5.

Staff recommends that the emergency surcharges previously authorized by the Commission be suspended when new rates authorized in this proceeding become effective.

Although Staff is recommending an overall reduction in rates, Staff believes that the emergency rates, as authorized, were appropriate at the time. The Company has made operational changes so that, on a going-forward basis, operating expenses are reduced and that is reflected in the Staff's recommended rates. Staff believes that no refunding of interim rates is necessary.

Miscellaneous Service Charges

Staff recommends the elimination of both the \$35 establishment (after hours) tariff and the \$45 reconnection (after hours) tariff. Staff also recommends denial of the re-establishment (After Hours) charge. Instead, Staff recommends that the after-hours service charge be set at \$40 and that this fee be in addition to the charge for any utility service provided after hours at the customer's request or for the customer's convenience.

Service Line and Meter Installation Charges

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

Staff Recommendations

Staff recommends approval of its rates and charges as shown in Schedule BCA-4.

Staff further recommends that the Company be ordered to file with Docket Control a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the interim surcharge authorized in Decision No. 72094 be discontinued when the rates approved in this rate case become effective.

Staff further recommends that, on a going-forward basis, the Company maintain its books and records in accordance with the NARUC USOA.

Staff further recommends that the Company be ordered to use the depreciation rates delineated in Table B of the attached Engineering Report.

Staff further recommends that the Company be required to report information such as, but not limited to, Plant Description and Water Use Data, separately for each of its individual systems by Public Water System ("PWS"), as defined by ADEQ, in future Annual Reports and rate filings.

The Company's spring water system operates at a 11.5 percent water loss. This percentage exceeds Staff's recommended limit of 10 percent. Staff recommends that, within 13 months of the effective date of the decision in this case, the Company file, as a compliance item in this docket, a 12-month Water Use Data Report indicating for each month the number of customers served, gallons sold, gallons obtained from the source, gallons of water drained into the creek and the resulting water loss percentage for each month during the 12-month reporting period. The Company shall coordinate the monthly reading of its source meters, drain line meter and individual customer meters to ensure that an accurate accounting of the monthly water loss in the system can be determined. Staff recommends that, in the event the water loss reported for the 12-month reporting period is greater than 10 percent, the Company shall evaluate its water system and submit a water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. 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.

Staff further 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.

Staff further recommends approval of the Company's backflow prevention tariff filed with this application on July 20, 2012.

Staff recommends that the emergency surcharges previously authorized by the Commission be suspended when new rates authorized in this proceeding become effective, and that no refunding of interim rates is necessary.

SUMMARY OF RATES

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$109,311	\$109,311	\$117,957	\$100,400
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$109,311	\$109,311	\$117,957	\$100,400
Operating Expenses:				
Operation and Maintenance	\$100,957	\$71,761	\$100,865	\$71,669
Depreciation	5,749	642	5,749	642
Property & Other Taxes	8,767	9,111	8,767	8,952
Income Tax	1,453	6,107	1,453	4,004
Total Operating Expense	\$116,926	\$87,620	\$116,834	\$85,267
Operating Income/(Loss)	(\$7,615)	\$21,691	\$1,123	\$15,133
Rate Base (Company = RCN) (Staff = R.C.N.D)	\$157,356	\$12,180	\$157,356	\$12,180
Rate of Return (Company = RCN) (Staff = R.C.N.D)	N/M	178.08%	0.71%	124.24%
Operating Margin	N/M	19.84%	0.95%	15.07%
Cash Flow				\$ 15,775

RAFF BASE

	-- Reconstruction Cost New --		
	Company	Adjustment	Staff
Plant in Service	\$163,150	(\$40) A	\$163,110
Less:			
Accum. Depreciation	5,794	153,774 B	159,568
Net Plant	\$157,356	(\$153,814)	\$3,542
Less:			
Plant Advances	0	0	0
Accumulated Deferred Income Taxes	-	0	-
Total Advances	-	0	-
Contributions Gross	0	0	0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	0	0	0
Total Deductions	-	0	-
Plus:			
1/24 Power	0	\$160 C	\$160
1/8 Operation & Maint.	0	8,478 D	8,478
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$0	\$8,638	\$8,638
Rate Base	\$157,356	(\$145,176)	\$12,180

Explanation of Adjustment:

- A - Refer to Schedule BCA-2, Pages 2,3 and 4.
- B - Refer to Schedule BCA-2, Page 5.
- C - Refer to Schedule BCA-2, Page 6.
- D - Refer to Schedule BCA-2, Page 6.

PLANT ADJUSTMENTS

	RCN* Company Exhibit	Adjustment		RCN* Staff Adjusted
301 Organization	\$0	-		\$0
302 Franchises	0	-		0
303 Land & Land Rights	0	-		0
304 Structures & Improvements	2,836	20,231	a	23,066
307 Wells & Springs	3,000	775	a	3,775
311 Electrical Pumping Equipment	500	9,219	a	9,719
320 Water Treatment Equipment	2,200	(40)	a	2,160
330 Distribution Reservoirs & Standpipes	0	-		0
330.1 Storage Tank	144,030	(69,030)	a	75,000
330.2 Pressure Tank	0	-		0
331 Transmission & Distribution Mains	5,500	30,716	a	36,216
333 Services	0	4,027	a	4,027
334 Meters & Meter Installations	1,210	2,398	a	3,608
335 Hydrants	0	1,664	a	1,664
336 Backflow Prevention Devices	0	-		0
339 Other Plant and Misc. Equipment	0	-		0
340 Office Furniture & Equipment (Computer\$ Softwares)	2,518	-		2,518
341 Transportation Equipment	0	-		0
343 Tools Shop & Garage Equipment	0	-		0
344 Laboratory Equipment	0	-		0
345 Power Operated Equipment	500	-		500
346 Communication Equipment	857	-		857
347 Miscellaneous Equipment	0	-		0
348 Other Tangible Plant	0	-		0
105 C.W.I.P.	0	-		0
TOTALS	\$163,150	(40)	A	\$163,110

Note: RCN* = Reconstruct Cost New

STAFF PLANT ADJUSTMENTS

a -	STRUCTURES AND IMPROVEMENTS - Per Company	\$	2,836	
	Per Staff	\$	23,066	<u>20,231</u>

To reflect Staff's adjustment to Company's reconstruct cost new plant value.

a -	WELLS AND SPRINGS - Per Company	\$	3,000	
	Per Staff	\$	3,775	<u>775</u>

See the previous explanation.

a -	ELECTRICAL PUMPING EQUIPMENT - Per Company	\$	500	
	Per Staff	\$	9,719	<u>9,219</u>

See the previous explanation.

a -	WATER TREATMENT EQUIPMENT - Per Company	\$	2,200	
	Per Staff	\$	2,160	<u>(40)</u>

See the previous explanation.

a -	STORAGE TANK - Per Company	\$	144,030	
	Per Staff	\$	75,000	<u>(69,030)</u>

See the previous explanation.

PLANT ADJUSTMENTS

a -	TRANSMISSION AND DISTRIBUTION MAINS - Per Company	\$ 5,500	
	Per Staff	<u>\$ 36,216</u>	<u>\$ 30,716</u>

To reflect Staff's adjustment to Company's reconstruct cost new plant value.

a -	SERVICES - Per Company	\$ -	
	Per Staff	<u>\$ 4,027</u>	<u>\$ 4,027</u>

See the previous explanation.

a -	METERS AND METER INSTALLATION - Per Company	\$ 1,210	
	Per Staff	<u>\$ 3,608</u>	<u>\$ 2,398</u>

See the previous explanation.

a -	HYDRANTS - Per Company	\$ -	
	Per Staff	<u>\$ 1,664</u>	<u>\$ 1,664</u>

See the previous explanation.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 5,794
Accumulated Depreciation - Per Staff	159,568
Total Adjustment	B \$153,774

ACCT		ACCUMULATED DEPRECIATION		
<u>No.</u>	<u>Description</u>	<u>Company</u>	<u>Staff</u>	<u>Staff</u>
		<u>Application</u>	<u>Adjustment</u>	<u>Calculated</u>
301	Intangibles	\$ -	\$ -	\$ -
303	Land and Land Rights	-	-	-
304	Structures and Improvements	217	22,849	23,066
307	Wells and Srings	247	3,528	3,775
311	Electrical Pumping Equipment	-	9,719	9,719
320	Water Treatment Equipment	-	2,160	2,160
330	Distribution Reservoirs & Standpipes	-	-	-
330.1	Storage Tank	4,696	70,304	75,000
330.2	Pressure Tank	-	-	-
331	Transmission and Distribution Mains	-	36,216	36,216
333	Services	51	3,976	4,027
334	Meters and Meter Installation	583	3,025	3,608
335	Hydrants	-	1,664	1,664
339	Other Plant and Miscellaneous Equipment	-	-	-
340	Office Furniture and Fixtures	-	-	-
340.1	Computers and Software	-	252	252
341	Transportation Equipment	-	-	-
343	Tools and Work Equipment	-	-	-
345	Power Operated Equipment	-	38	38
346	Communications Equipment	-	43	43
348	Other Tangible Plant	-	-	-
	Total	\$ 5,794	\$ 153,774	\$ 159,568

STAFFING ADJUSTMENTS

C -	WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company	\$ -	
	Per Staff	<u>\$ 160</u>	<u>\$ 160</u>

To reflect Staff's calculation of cash working capital based on Staff's recommendations for purchased power and purchase water.

D -	WORKING CAPITAL (1/8 operation & Maint exp.) Per Company	\$ -	
	Per Staff	<u>\$ 8,478</u>	<u>\$ 8,478</u>

To reflect Staff's calculation of cash working capital based on 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
Revenues:				
461 Metered Water Revenue	\$109,311	\$0		\$109,311
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	0	0		0
Total Operating Revenue	\$109,311	\$0		\$109,311
Operating Expenses:				
601 Salaries and Wages	\$24,000	\$16,000	A	\$40,000
610 Purchased Water	0	0		0
615 Purchased Power	6,779	(2,936)	B	3,843
618 Chemicals	966	0		966
620 Repairs and Maintenance	3,550	0		3,550
621 Office Supplies & Expense	4,433	(0)		4,433
630 Outside Services	47,922	(40,322)	C	7,600
635 Water Testing	3,905	(1,530)	D	2,375
641 Rents	0	0		0
650 Transportation Expenses	6,669	0		6,669
657 Insurance - General Liability	2,641	(408)	E	2,233
665 Regulatory Commission Expense	0	0		0
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	92	(0)		92
403 Depreciation Expense	5,749	(5,107)	F	642
408 Taxes Other Than Income	6,607	(3,329)	G	3,278
408.11 Property Taxes	2,160	3,673	H	5,833
409 Income Tax	1,453	4,653	I	6,107
Total Operating Expenses	\$116,926	(\$29,306)		\$87,621
OPERATING INCOME/(LOSS)				
	(\$7,615)	\$29,306		\$21,691

STAFF ADJUSTMENTS

A -	SALARIES AND WAGES EXPENSE - Per Company	\$24,000	
	Per Staff	<u>40,000</u>	<u>\$16,000</u>
	To transfer Mr. Thorne's \$20,000 outside services expense to salaries and wages expense and remove Ms. Thorne's \$4,000 excess salaries and wages expense.		
B -	PURCHASED POWER - Per Company	\$6,779	
	Per Staff	<u>3,843</u>	<u>(\$2,936)</u>
	To remove \$2,936 in out of test year expense.		
C -	OUTSIDE SERVICES - Per Company	\$47,922	
	Per Staff	<u>7,600</u>	<u>(\$40,322)</u>
	To recognize \$7,600 in outside services expense going forward, transfer \$18,000 to salaries expense and remove \$22,922 in unnecessary outside services expense.		
D -	WATER TESTING - Per Company	\$3,905	
	Per Staff	<u>2,375</u>	<u>(\$1,530)</u>
	To reflect annual water testing expense, per Staff's Engineering Report.		
E -	GENERAL LIABILITY INSURANCE - Per Company	\$2,641	
	Per Staff	<u>2,233</u>	<u>(\$408)</u>
	To adjust to the updated, verified and supported general liability insurance expense.		

ADJUSTMENTS (Cont.)

F - DEPRECIATION - Per Company \$ 5,749
Per Staff 642 (\$5,107)

To reflect application of Staff's recommended depreciation rates to Staff's recommended plant, by account.

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment I - Test Year Depreciation Expense

LINE 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)
1	301 - Organization Cost	\$ -	\$ -	-	0.00%	\$ -
2	302 - Franchise Cost	-	-	-	0.00%	-
3	303 - Land and Land Rights	-	-	-	0.00%	-
4	304 - Structures and Improvements	23,066	23,066	-	3.33%	-
5	305 - Collecting and Impounding Res.	-	-	-	2.50%	-
6	306 - Lake River and Other Intakes	-	-	-	2.50%	-
7	307 - Wells & Spring	\$3,775	3,775	-	3.33%	-
8	308 - Infiltration Galleries and Tunnels	-	-	-	6.67%	-
9	309 - Supply Main	-	-	-	2.00%	-
10	310 - Power Generation Equip.	-	-	-	5.00%	-
11	311 - Electric Pumping Equipment	\$9,719	9,719	-	12.50%	-
12	320 - Water Treatment Equipment	\$ 2,981	2,160	821	3.33%	27
13	320.1 Water Treatment Plants	-	-	-	3.33%	-
14	320.2 Solution Chemical Feeders	-	-	-	20.00%	-
15	330 - Distribution Resrvr & Standpipe	75,000	75,000	-	-	-
16	330.1 Storage Tanks	-	-	-	2.22%	-
17	330.2 Pressure Tanks	-	-	-	5.00%	-
18	331 - Transmission & Distr. Mains	\$36,216	36,216	-	2.00%	-
19	333 - Services	4,027	4,027	-	3.33%	-
20	334 - Meter & Meter Installations	\$3,608	3,608	-	8.33%	-
21	335 - Hydrants	1,664	1,664	-	2.00%	-
22	336 - Backflow Prevention Devices	-	-	-	6.67%	-
23	339 - Other Plant & Misc Equipment	-	-	-	6.67%	-
24	340 - Office Furniture and Fixtures	-	-	-	6.67%	-
25	340.1 Computers and Softwares	\$ 2,518	-	2,518	20.00%	504
26	341 - Transportation Equipment	-	-	-	20.00%	-
27	343 - Tools & Work Equipment	\$ -	-	-	5.00%	-
28	345 - Power Operated Equipment	\$ 500	-	500	5.00%	25
29	346 - Communication Equipment	\$ 857	-	857	10.00%	86
30	347 - Miscellaneous Equipment	\$ -	-	-	10.00%	-
31	348 - Other Tangible Plant	-	-	-	-	-
32	Total Plant	\$163,931	\$159,235	\$4,696		\$642
33						
34	Composite Depreciation Rate (Depr Exp / Depreciable Plant):					13.66%
35	CIAC:				\$	-
36	Amortization of CIAC (Line 33 x Line 34):				\$	-
37						
38	Pro Forma Annual Depreciation Expense					
39						
40	Plant in Service					\$163,931
41	Less: Non Depreciable Plant					-
42	Fully Depreciable Plant					<u>159,235</u>
43	Depreciable Plant					\$4,696
44	Times: Staff Proposed Depreciation Rate					13.66%
45	Depreciation Expense Before Amortization of CIAC:				\$	642
46	Less Amortization of CIAC:				\$	-
47	Test Year Depreciation Expense - Staff:				\$	<u>642</u>
48	Depreciation Expense - Company:				\$	5,749
49	Staff's Total Adjustment:				\$	<u><u>(5,107)</u></u>

STATE ADJUSTMENTS

G -	TAXES OTHER THAN INCOME - Per Company	\$6,607	
	Per Staff	<u>3,278</u>	<u>(\$3,329)</u>

To remove sales taxes paid by customers.
As a pass-through tax, it is not included in
revenue, so should not be included in expenses.

H -	PROPERTY TAXES - Per Company	\$2,160	
	Per Staff	<u>5,833</u>	<u>\$3,673</u>

To reflect property tax expense using the Arizona
Department of Revenue method.

I -	INCOME TAX - Per Company	\$1,453	
	Per Staff	<u>6,107</u>	<u>\$4,653</u>

To reflect income tax as calculated by Staff.



Monthly Usage Charge		Present	Company	Staff
		Rates	Proposed	Recommended
5/8" x 3/4" Meter	(\$5.75 + \$20.09)	\$25.84	\$30.00	\$ 21.00
3/4" Meter		NT	NT	21.00
1" Meter		NT	NT	52.50
1 1/2" Meter		NT	NT	105.00
2" Meter		NT	NT	168.00
3" Meter		NT	NT	336.00
4" Meter		NT	NT	525.00
6" Meter	(\$5.75 + \$2,900)	\$2,905.75	\$ 2,934.15	1,825.00

Gallons in Minimum 5,000 0 0

Commodity Rates (Per 1,000 gallons)

All Meter Sizes

First Tier - 0 - 5,000 gallons	\$ -	\$ 3.00	N/A
Second Tier - 5,001 - 25,000 gallons (\$50+\$3.00)	\$ 3.50	\$ 5.50	N/A
Third Tier - 25,001 - 60,000 gallons (\$.50+\$4.50)	\$ 5.00	\$ 7.00	N/A
Fourth Tier - Over 60,000 gallons (\$.50+\$6.00)	\$ 6.50	\$ -	N/A

5/8 x 3/4 - inch Meter

First Tier - 0 - 2,000 gallons	N/A	N/A	\$ 2.00
Second Tier - 2,001 - 10,000 gallons	N/A	N/A	\$ 3.80
Third Tier - Over 10,000 gallons	N/A	N/A	\$ 7.23

6 - inch Meter

First Tier - 0 - 60,000 gallons	N/A	N/A	3.80
Second Tier - Over 60,000 gallons	N/A	N/A	7.23

Service Line and Meter Installation Charges	Company	Company	-----Staff Recommended-----		
	Current Tariff	Proposed Tariff	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	\$100	\$100	\$ 415	\$ 105	\$ 520
3/4" Meter	120	120	415	205	620
1" Meter	160	160	465	265	730
1 1/2" Meter	300	300	520	475	995
2" Meter	400	400	N/A	N/A	N/A
2" Meter Turbine	N/A	N/A	800	995	1,795
2" Meter Compound	N/A	N/A	800	1,840	2,640
3" Meter	N/A	N/A	N/A	N/A	N/A
3" Meter Turbine	N/A	N/A	1,015	1,620	2,635
3" Meter Compound	N/A	N/A	1,135	2,495	3,630
4" Meter	N/A	N/A	N/A	N/A	N/A
4" Meter Turbine	N/A	N/A	1,430	2,570	4,000
4" Meter Compound	N/A	N/A	1,610	3,545	5,155
6" Meter	500	700	N/A	N/A	N/A
6" Meter Turbine	N/A	N/A	2,150	4,925	7,075
6" Meter Compound	N/A	N/A	2,270	6,820	9,090

Service Charges

Establishment	\$ 25.00	\$50.00	\$25.00
Establishment (After Hours)	\$ 35.00	0.00	NT
Reconnection (Delinquent)	\$ 35.00	35.00	\$35.00
Reconnection (Delinquent after hours)	\$ 45.00	0.00	NT
Meter Test (If Correct)	\$ 35.00	65.00	\$35.00
Deposit	*	*	*
Deposit Interest Per Annum		6.00%	*
Re-Establishment (Within 12 Months)	**	Per Rule	**
NSF Check	\$ 25.00	50.00	\$25.00
Deferred Payment - Per Month	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$ 15.00	30.00	\$15.00
Late Payment Charge-Per Month	1.50%	1.50%	1.50%
Service Charge (After Hours)	NT	NT	\$40.00

* Per Commission Rules (R14-2-403.B)

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

NT = No Tariff

TYPICAL BILL ANALYSIS

5/8 x 3/4 Inch Meter

WITH REFLECTION OF SURCHARGES IN CURRENT RATES

Average Number of Customers: 122

<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	2,089	\$25.84	\$36.27	\$10.43	40.4%
Median Usage	617	\$25.84	\$31.85	\$6.01	23.3%
<u>Staff Recommend</u>					
Average Usage	2,089	\$25.84	\$25.34	(\$0.50)	-1.9%
Median Usage	617	\$25.84	\$22.23	(\$3.61)	-14.0%

Present & Proposed Rates (With Surcharges and Taxes)
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	\$25.84	\$30.00	16.1%	\$21.00	-18.7%
1,000	25.84	33.00	27.7%	23.00	-11.0%
2,000	25.84	36.00	39.3%	25.00	-3.3%
3,000	25.84	39.00	50.9%	28.80	11.5%
4,000	25.84	42.00	62.5%	32.60	26.2%
5,000	25.84	45.00	74.1%	36.40	40.9%
6,000	29.34	50.50	72.1%	40.20	37.0%
7,000	32.84	56.00	70.5%	44.00	34.0%
8,000	36.34	61.50	69.2%	47.80	31.5%
9,000	39.84	67.00	68.2%	51.60	29.5%
10,000	43.34	72.50	67.3%	55.40	27.8%
15,000	60.84	100.00	64.4%	91.55	50.5%
20,000	78.34	127.50	62.8%	127.70	63.0%
25,000	95.84	155.00	61.7%	163.85	71.0%
50,000	220.84	330.00	49.4%	344.60	56.0%
75,000	368.34	505.00	37.1%	525.35	42.6%
100,000	530.84	680.00	28.1%	706.10	33.0%
125,000	693.34	855.00	23.3%	886.85	27.9%
150,000	855.84	1,030.00	20.3%	1,067.60	24.7%
175,000	1,018.34	1,205.00	18.3%	1,248.35	22.6%
200,000	1,180.84	1,380.00	16.9%	1,429.10	21.0%

TYPICAL BILLING ANALYSIS

5/8 x 3/4 Inch Meter

WITHOUT REFLECTION OF SURCHARGES IN CURRENT RATES

Average Number of Customers: 122

<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	2,089	\$5.75	\$36.27	\$30.52	530.8%
Median Usage	617	\$5.75	\$31.85	\$26.10	453.9%
<u>Staff Recommend</u>					
Average Usage	2,089	\$5.75	\$26.96	\$21.21	368.9%
Median Usage	617	\$5.75	\$23.88	\$18.13	315.3%

Present & Proposed Rates (Without Surcharges and Taxes)
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	\$5.75	\$30.00	421.7%	\$22.65	293.9%
1,000	5.75	33.00	473.9%	24.65	328.7%
2,000	5.75	36.00	526.1%	26.65	363.5%
3,000	5.75	39.00	578.3%	30.10	423.5%
4,000	5.75	42.00	630.4%	33.55	483.5%
5,000	5.75	45.00	682.6%	37.00	543.5%
6,000	6.25	50.50	708.0%	40.45	547.2%
7,000	6.75	56.00	729.6%	43.90	550.4%
8,000	7.25	61.50	748.3%	47.35	553.1%
9,000	7.75	67.00	764.5%	50.80	555.5%
10,000	8.25	72.50	778.8%	54.25	557.6%
15,000	10.75	100.00	830.2%	81.50	658.1%
20,000	13.25	127.50	862.3%	108.75	720.8%
25,000	15.75	155.00	884.1%	136.00	763.5%
50,000	28.25	330.00	1,068.1%	272.25	863.7%
75,000	40.75	505.00	1,139.3%	408.50	902.5%
100,000	53.25	680.00	1,177.0%	544.75	923.0%
125,000	65.75	855.00	1,200.4%	681.00	935.7%
150,000	78.25	1,030.00	1,216.3%	817.25	944.4%
175,000	90.75	1,205.00	1,227.8%	953.50	950.7%
200,000	103.25	1,380.00	1,236.6%	1,089.75	955.4%

**OPERATING INCOME ADJUSTMENT I - TO REFLECT STAFF CALCULATION OF THE TEST
YEAR TAXES OTHER THAN INCOME**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Taxes Other Than Income	<u>\$ 9,187</u>	<u>\$ (5,909)</u>	<u>\$ 3,278</u>
	Salaries and Wages	\$ 30,000		
	FICA & Medicare	7.10%	\$ 2,130	
	No. of Employees	2		
	Salary Subject to Unemployment Tax	\$ 7,000		
	Total Taxable Unemployment Salaries	<u>\$ 14,000</u>		
	Combined SUTA & FUTA Rate	8.20%	\$ 1,148	
	SUTA Rate	0.02		
	FUTA Rate	<u>0.062</u>		
	Combined SUTA & FUTA Rate	0.082		
	Franchise Tax		\$ -	
	Other Taxes and Fees		<u>\$ -</u>	
	Total Taxes Other Than Income			<u>\$ 3,278</u>

Kohl's Ranch Water Company
Docket No. W-02886A-12-0190
Test Year Ended: January 31, 2012

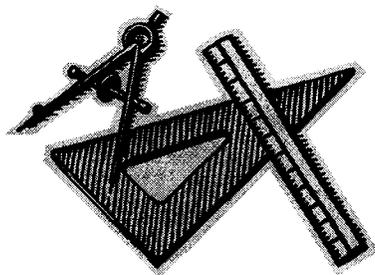
Schedule BCA-7

OPERATING INCOME ADJUSTMENT J - PROPERTY TAXES

		[A]	[B]
LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	\$ 109,311	\$ 109,311
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	\$ 218,623	\$ 218,623
4	Staff Recommended Revenue, Per Schedule BCA-1	109,311	100,400
5	Subtotal (Line 4 + Line 5)	\$ 327,934	\$ 319,023
6	Number of Years	<u>3</u>	<u>3</u>
7	Three Year Average (Line 5 / Line 6)	\$ 109,311	\$ 106,341
8	Department of Revenue Mutilplier	<u>2</u>	<u>2</u>
9	Revenue Base Value (Line 7 * Line 8)	\$ 218,623	\$ 212,682
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 218,623	\$ 212,682
13	Assessment Ratio	<u>20.0%</u>	<u>20.0%</u>
14	Assessment Value (Line 12 * Line 13)	43,725	\$ 42,536
15	Composite Property Tax Rate (Obtained from Pima County)	<u>13.340%</u>	<u>13.3395%</u>
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 5,833	
17	Company Proposed Property Tax	<u>2,160</u>	
18	Staff Test Year Adjustment (Line 16-Line 17)	<u>\$ 3,673</u>	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 5,674
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 5,833
21	Increase/(Decrease) to Property Tax Expense		<u>\$ (158)</u>
22	Decrease to Property Tax Expense		\$ (158)
23	Increase in Revenue Requirement		(8,911)
24	Decrease to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.78%

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	<u>100.0000%</u>			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	<u>21.7232%</u>			
5	Subtotal (L3 - L4)	<u>78.2768%</u>			
6	Revenue Conversion Factor (L1 / L5)	<u>1.27751841</u>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	<u>20.9228%</u>			
9	One Minus Combined Income Tax Rate (L7 - L8)	<u>79.0772%</u>			
10	Uncollectible Rate	<u>0.0000%</u>			
11	Uncollectible Factor (L9 * L10)	<u>0</u>			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	<u>6.9680%</u>			
14	Federal Taxable Income (L12 - L13)	<u>93.0320%</u>			
15	Applicable Federal Income Tax Rate (Line 44)	<u>15.0000%</u>			
16	Effective Federal Income Tax Rate (L14 x L15)	<u>0.139548</u>			
17	Combined Federal and State Income Tax Rate (L13 +L16)	<u>20.9228%</u>			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	<u>20.9228%</u>			
20	One Minus Combined Income Tax Rate (L18 - L19)	<u>79.0772%</u>			
21	Property Tax Factor	<u>1.0122%</u>			
22	Effective Property Tax Factor (L 21 * L 22)	<u>0.8004%</u>			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		<u>21.7232%</u>		
24	Required Operating Income (Schedule BCA-1)	\$ -			
25	Adjusted Test Year Operating Income (Loss) (Schedule BCA-1)	<u>\$ -</u>			
26	Required Increase in Operating Income (L24 - L25)		\$ -		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 4,004			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	<u>\$ 6,107</u>			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ (2,103)		
30	Recommended Revenue Requirement (Schedule BCA-1)	\$ -			
31	Uncollectible Rate (Line 10)	<u>0.0000%</u>			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (BCA-7)	\$ 5,674			
36	Property Tax on Test Year Revenue (BCA-7)	<u>\$ 5,833</u>			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		<u>\$ (158)</u>		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		<u>\$ (2,261)</u>		
<u>Calculation of Income Tax:</u>					
		<u>Test Year</u>		<u>Staff Recommended</u>	
39	Revenue (Schedule BCA-1)	\$ 109,311		\$100,400	
40	Operating Expenses Excluding Income Taxes	\$ 81,513		\$ 81,263	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L37- L38)	<u>\$ 27,798</u>		<u>\$ 19,137</u>	
43	Arizona State Income Tax Rate	<u>6.9680%</u>		<u>6.9680%</u>	
44	Arizona Income Tax (L42 x L43)		\$ 1,937		\$ 1,333
45	Federal Taxable Income (L42 - L44)	\$ 27,798		\$ 17,804	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 4,170		\$ 2,671	
47	Federal Tax on Second Income Bracket (\$50,001 - \$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	<u>\$ 4,170</u>		<u>\$ 2,671</u>	
52	Combined Federal and State Income Tax (L35 + L42)	<u>\$ 6,107</u>		<u>\$ 4,004</u>	
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				15.00%



**Engineering Report For
Kohl's Ranch Water Company
Docket No. W-02886A-12-0190 (Rates)
August 16, 2012**

KS

SUMMARY

Conclusions

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Company's two water systems are currently delivering water that meets water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, and Chapter 4.
2. The Well water system has adequate well production and storage capacities to serve its present customer base and a reasonable level of growth.
3. The Spring system's source production capacity of 40 GPM combined with the use of the emergency interconnect is adequate to serve the present customer base and reasonable growth.
4. The Company's two water systems are not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area.
5. ADWR has determined that it does not regulate the Company's water systems as community water systems and, therefore, cannot provide a compliance status.
6. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.
7. The Company has an approved curtailment plan tariff.
8. The Company filed a backflow prevention tariff with this application on July 20, 2012.

Recommendations

1. Staff recommends that the Company be required to report information, such as, but not limited to Plant Description and Water Use Data, separately for each of its individual systems by Public Water System ("PWS"), as defined by ADEQ, in future Annual Reports and rate filings.

2. The Company's Spring water system operates at a 11.5 percent water loss. This percentage exceeds Staff's recommended limit of 10 percent. Staff recommends that within 13 months of the effective date of the decision in this case, the Company file as a compliance item in this docket, a 12-month Water Use Data Report indicating for each month the number of customers served, gallons sold, gallons obtained from the source, gallons of water drained into the creek and the resulting water loss percentage for each month during the 12-month reporting period. The Company shall coordinate the monthly reading of its source meters, drain line meter and individual customer meters to ensure that an accurate accounting of the monthly water loss in the system can be determined. Staff recommends that in the event the water loss reported for the 12-month reporting period is greater than 10 percent, the Company shall evaluate its water system and submit a water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. 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.
3. Staff recommends its annual water testing expense estimate of \$2,375 be used for this proceeding.
4. Staff recommends the depreciation rates listed in Table B.
5. Staff recommends its service line and meter installation charges labeled "Staff's Recommendation" in Table C.
6. 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.
7. Staff recommends approval of the Company's backflow prevention tariff filed with this application on July 20, 2012.

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I. INTRODUCTION AND LOCATION OF COMPANY

On May 25, 2015, Kohl's Ranch Water Company, Inc. ("Company" or "Kohl's Ranch") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission"). The Commission Utilities Division Staff ("Staff") engineering review and analysis of the application is presented in this report.

Kohl's Ranch provides water service in the area east of Payson, Gila County. The Company has two separate but interconnected water systems that obtain water from two separate sources (a well and a spring). The Well system serves the Kohl's Ranch Lodge resort ("Resort") and the Spring System serves approximately 120 connections in the Kohl's Ranch Tonto Creek subdivision.

The plant facilities were visited on August 8, 2012, by Katrin Stukov, Staff Utilities Engineer, accompanied by the Company's representative Douglas Thorne.

Figure 1 shows the location of the Company within Gila County and Figure 2 delineates the Company's certificated area which covers approximately 46 acres (less than one-tenth of a square mile).

Figure 1

G I L A C O U N T Y

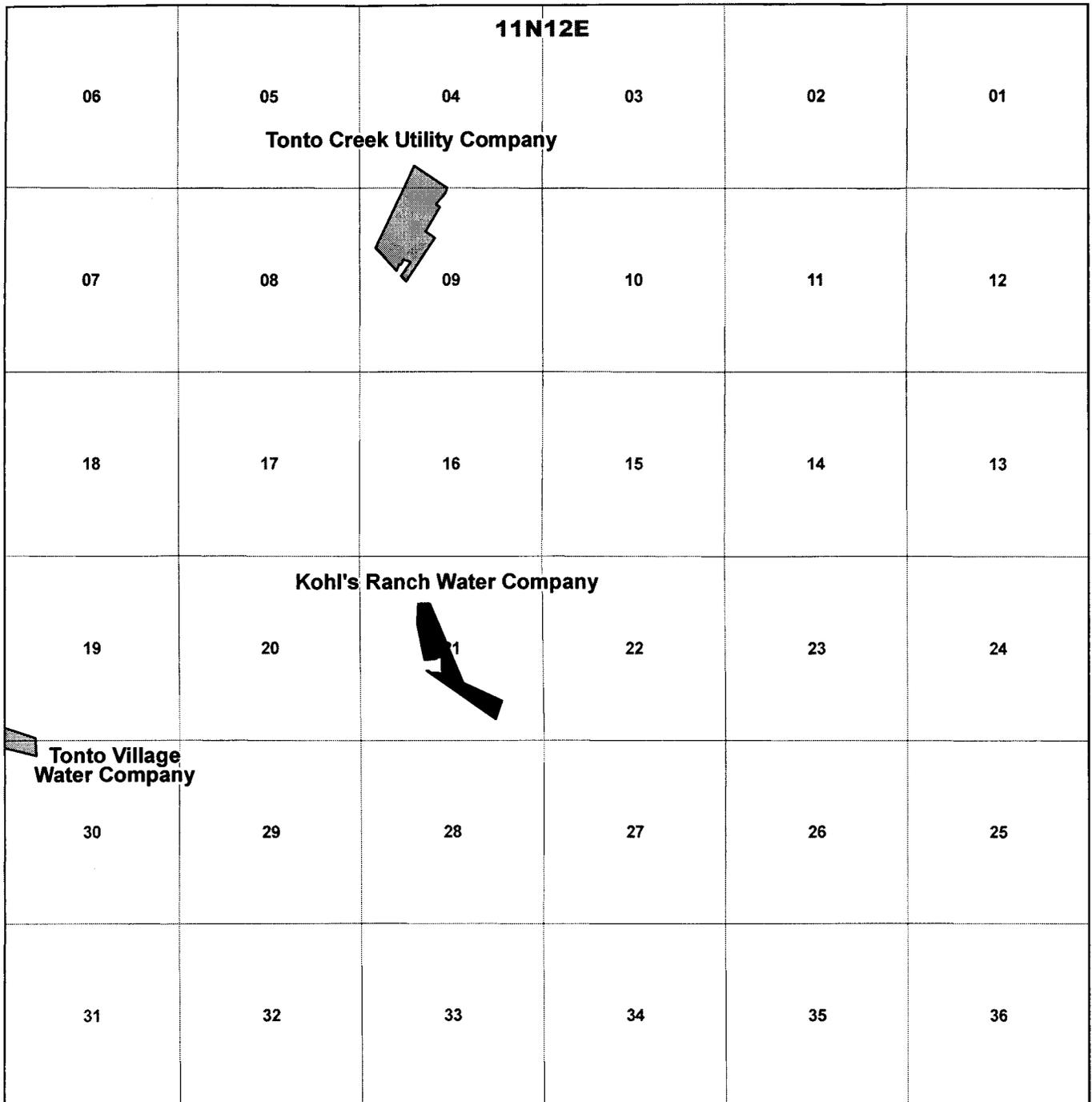
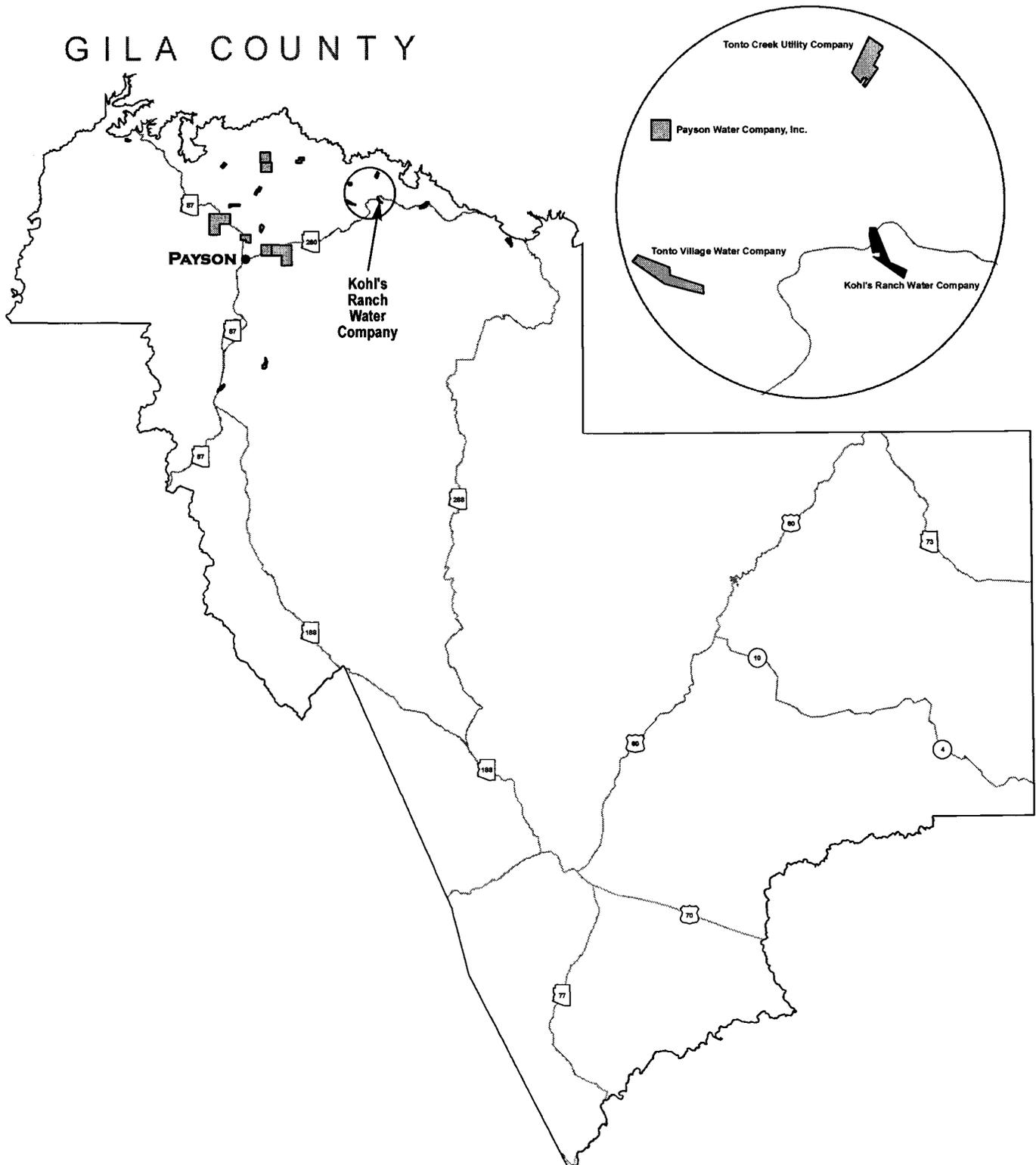


Figure 2



II. WATER SYSTEMS

1. The Well System (PWS # 04-089)

A. Description of the Water System

The Well system serves the Resort, including the Lodge building with hotel, restaurant, cabins and outdoor recreation area. This system includes a well, a storage tank, booster pumps, a pressure tank and a distribution system with one 6-inch metered customer- the Resort. The Well system, also, provides an emergency water supply to the Spring system, when needed, through an interconnect¹ with a 2-inch meter. A water system schematic is shown in Figure 3 and a plant facilities summary² is tabulated below:

Well

ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-508295	5.5	35	185	8"5"	2	1985

Storage Tank		Pressure Tank		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
200,000	1	5,000	1	30	1 (for fire flow)
				15	1
				1	2 (stand-by for power outage)

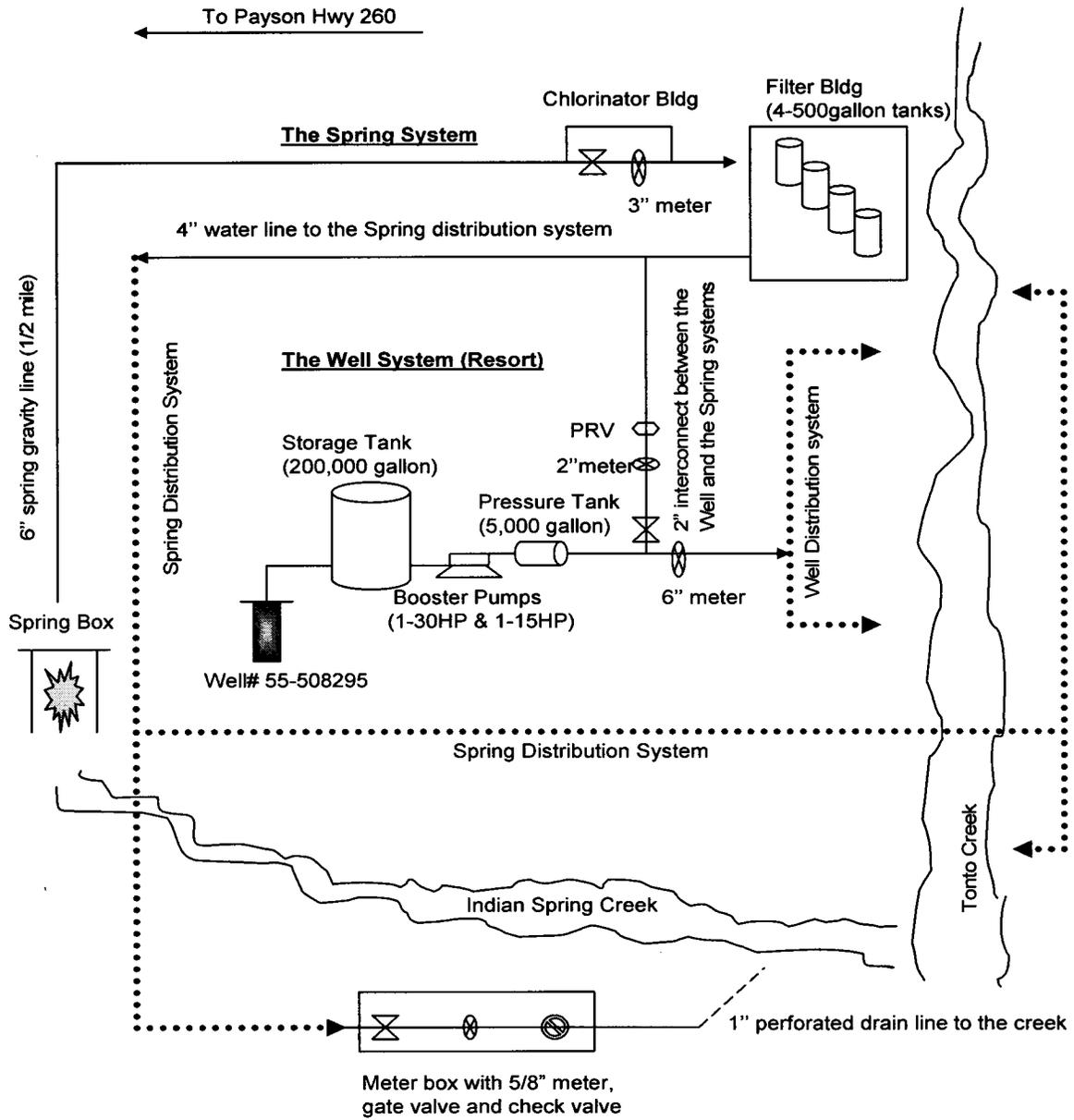
Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
2	PVC	1,385	6	1	2
3	PVC	400			
8	PVC	1,050			
1	Galvanized	550			
3	Galvanized	275			

Treatment Equipment	Components	Other
Chlorine Pump-1	64'x 20' Pump Building	Generator-2
Chlorine Tank-1	12'x 12' Well Building	
	100'x100' Fence	

¹ This interconnect line has a shut off valve and a PRV valve

² Per Company's responses and site visit

Figure 3 The Spring and the Well Systems Schematic

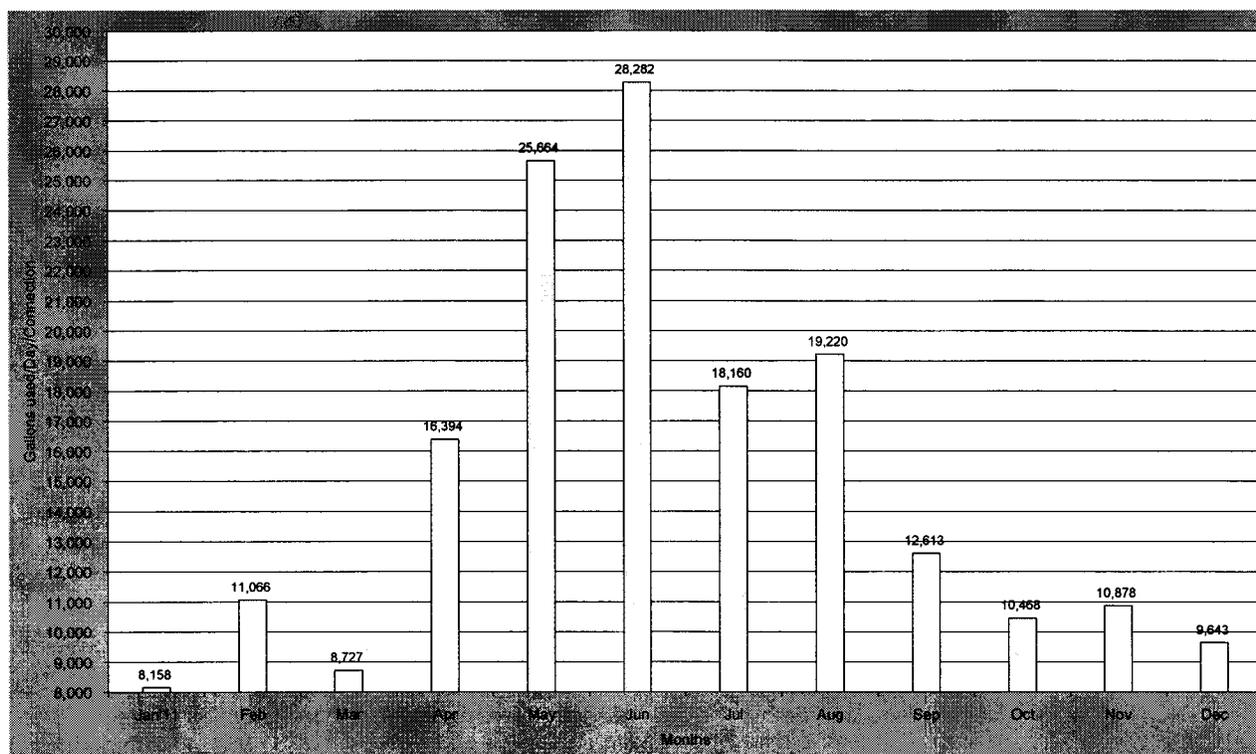


B. Water Use

Water Sold:

Figure 4 represents the Resort water consumption data provided by the Company in its water use data sheet for the test year ending December 31, 2011. The Resort consumption included a high monthly water use of 28,282 gallons per day (“GPD”) in June, and the low water use was 8,158 GPD in January. The resort average annual use was 14,939 GPD.

Figure 4 Water Use (The Well system)



Non-account Water:

Non-account water should be 10 percent or less, and never more than 15 percent. 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 the same 5,456,090 gallons pumped and 5,456,090 gallons sold for the test year and explained that the same gallons are attributable to a close proximity³ of the well meter to the customer (Resort) meter, resulting in no reportable water loss.

³ Approximately 200 feet

C. System Analysis

Based on the data provided by the Company for the Test Year, Staff concludes that the Well system's well production capacity of 35 GPM and storage capacity of 200,000 gallons are adequate to serve the Resort and reasonable growth.

2. *The Spring Water System (PWS # 04-013)*

A. Description of the Water System

The Spring system is fed by a pumpless water source- a naturally occurring spring. Water, piped from a spring box by gravity, moves through a chlorinator, a filter, down the distribution lines and drains out toward the creek⁴. The system consists of the spring intake box, one chlorinator, one 4-tank filtration system and a distribution system serving over 120 connections (mostly secondary part-time residences). The system does not have a storage tank. The Spring system supplements its water supply by obtaining water from the Well system through an emergency interconnect during peak summer demand periods, or as needed. A water system schematic is shown in Figure 3 and a plant facilities summary⁵ is tabulated below:

Source

Description	Capacity	Meter	Structure
Spring	40 GPM	3" ⁶	Spring Box Fence
Emergency interconnect with the Well system	35 GPM	2"	

Components	Structures
Chlorinator	Chlorinator Building
Sand Filter (4-500 gallon tanks and backwash valves)	Filter Building

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
3	Galvanized	3,280	5/8x3/4	121	none
3	Cement	5,320			
4	Cement	2,240			
6	Cast Iron	100			

⁴ According to the Company, a check valve in the water line is installed to prevent backflow of the untreated water from the creek.

⁵ Per Company's responses and site visit

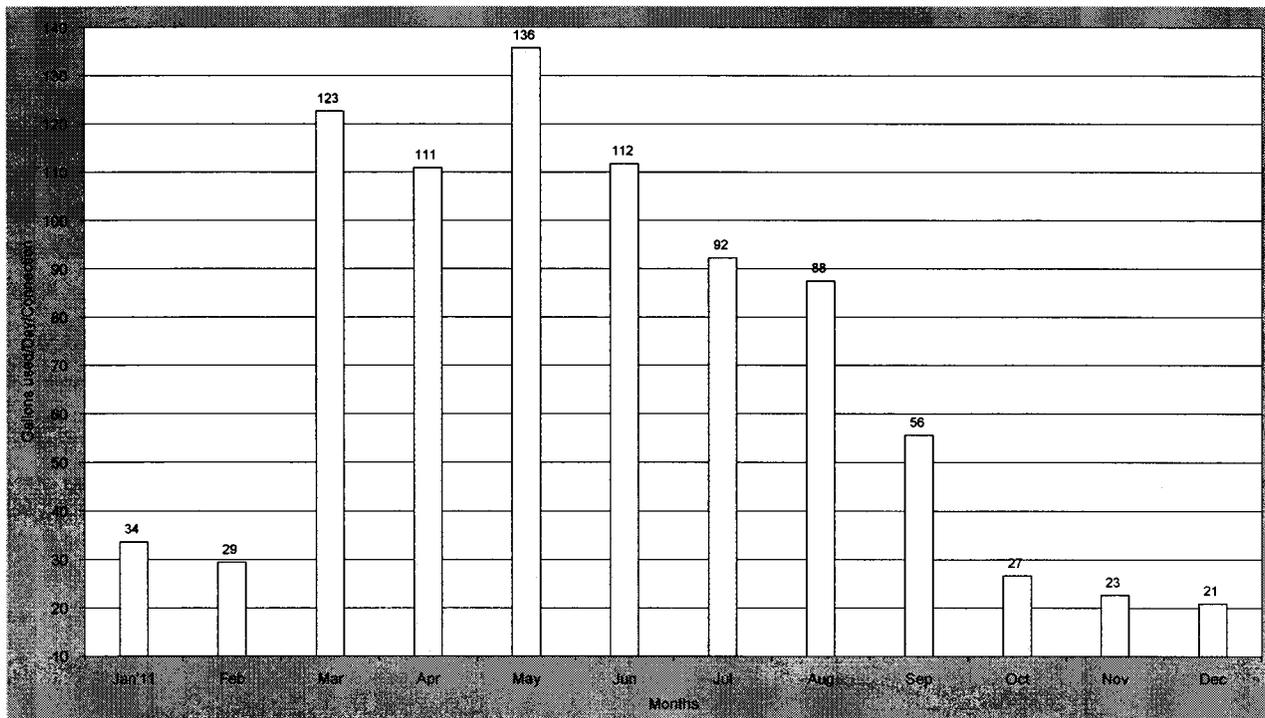
⁶ The meter is located in the chlorination building

B. Water Use

Water Sold:

Figure 6 represents the water consumption data provided by the Company in its water use data sheet for the test year ending December 31, 2011. The Spring system's customer consumption included a high monthly water use of 136 GPD per connection in May, and the low water use was 21 GPD per connection in December. The average annual use was 71 GPD per connection.

Figure 6 Water Use (The Spring system)



Non-account Water:

The Company reported 6,033,700 gallons obtained from the spring, no gallons obtained from the emergency interconnect and 3,140,222 gallons sold for the test year. The Company also reported 12,000 gallons of estimated non-revenue water used for backwashing the filter equipment and 2,202,000 gallons of estimated non-revenue water drained out into the creek⁷, resulting in a water loss of 11.5 percent. This percentage exceeds Staff's recommended limit of 10 percent. The Company believes that much of this water loss is attributable to numerous leaks, recurring water main breaks within the distribution system⁸, old inaccurate water meters and water drained out into

⁷ The Company explained that water obtained from the spring is flowing continuously and eventually drains out into the creek.

⁸ The Company explained that six water main breaks were repaired during the test year.

the creek. The Company stated that in May 2012 they installed a meter in the drain line and reduced the drain line water flow (from estimated 6,000 GPD to 500 GPD) by adjusting a gate valve.

Staff recommends that within 13 months of the effective date of the decision in this case, the Company file as a compliance item in this docket, a 12-month Water Use Data Report indicating for each month the number of customers served, gallons sold, gallons obtained from the source, gallons of water drained into the creek and the resulting water loss percentage for each month during the 12-month reporting period. The Company shall coordinate the monthly reading of its source meters, drain line meter and individual customer meters to ensure that an accurate accounting of the monthly water loss in the system can be determined.

Staff recommends that in the event the water loss reported for the 12-month reporting period is greater than 10 percent, the Company shall evaluate its water system and submit a water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. 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

C. System Analysis

Based on the data provided by the Company for the Test Year, Staff concludes that the system's spring production capacity of 40 GPM combined with the use of the emergency interconnect is adequate to serve the present customer base and reasonable growth.

D. Growth

Based on customer data obtained from the Company's Annual Reports it appears that the Spring system has actually lost connections. A listing of the number of connections at the end of each year from 2009 to 2011 is tabulated below:

2009	2010	2011
124	125	121

III. ADEQ COMPLIANCE

Compliance

The Arizona Department of Environmental Quality ("ADEQ") has reported that both Company's water systems are currently delivering water that meets water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, and Chapter 4.⁹

⁹ Per ADEQ Compliance Status Reports dated July 17 & July 20, 2012.

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). The Well system participates in the MAP. ADEQ considers the Spring system a transient, non-community water system¹⁰, and, therefore, its participation in the MAP is not mandatory. The Company reported its water testing expense at \$3,095¹¹(rounded) for the 2011 test year. Staff has reviewed the Company's water testing expense and has recalculated the testing costs based on tests required by ADEQ¹². Staff's estimated average annual water testing expenses for the Well system at \$1,560 with participation in the MAP¹³, and for the Spring system at \$ 815.

Table A lists Staff's annual monitoring expense estimate totaling \$2,375 for both systems.

Table A. Water Testing Cost

Monitoring	Well (PWS# 04-089) Non-transient, Non-community		
	Cost per Sample	No of samples per year	Average Annual Cost
Total coliform - monthly	\$30	24	\$720
Lead & Copper – per 3 years	\$50	10/3-yrs	\$167
TTHM-annually	\$175	1/3-yrs	\$58
HAA5-annually	\$225	1/3-yrs	\$75
Nitrate-annually	\$65	1	\$65
Nitrite	\$30	1	\$30
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrate, Nitrite, Asbestos- annually	MAP	MAP	\$445
Total			\$1,560

Monitoring	Spring (PWS# 04-013) Transient, Non-community		
	Cost per Sample	No of samples per year	Average Annual Cost
Total coliform - monthly	\$30	24	\$720
Nitrate-annually	\$65	1	\$65
Nitrite	\$30	1	\$30
Total			\$815

¹⁰ ADEQ considers this system a transient, non-community water system because majority of its customers are seasonal.

¹¹ The reported expense also includes outside services (certified operator) and transportation expenses (travel charges) that should be reported in their respective expense categories.

¹² Per ADEQ Inspection Report dated September 2, 2010.

¹³ The ADEQ MAP invoice for the 2011 Calendar Year was \$445, rounded for the Well system

Staff recommends its annual water testing expense estimate of \$2,375 for both systems be used for this proceeding.

IV. ADWR COMPLIANCE

The Company's two systems are not located in an ADWR designated Active Management Area. The ADWR has determined that it does not regulate the Company's water systems as community water systems and, therefore, cannot provide a compliance status¹⁴.

V. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.¹⁵

VI. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life per National Association of Regulatory Utility Commissioners ("NARUC") plant category. These rates are presented in Table B and it is recommended that these depreciation rates be used.

¹⁴ Per ADWR email dated August 3, 2012

¹⁵ Per ACC Compliance status check dated June 4, 2012.

**TABLE B
DEPRECIATION RATE TABLE 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 amended filing the Company requested changes to its current service line and meter installation charges. The Company's requested charges are lower than Staff's customary range of charges. After discussion with Staff, the Company requests the lower end of Staff's customary range of charges. Also, since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff.

Staff recommends its charges labeled "Staff's Recommendation" in Table C.

TABLE C
SERVICE LINE AND METER INSTALLATION CHARGES

Meter Size	Company Current Tariff	Company Proposed Tariff	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$100	\$100	\$415	\$105	\$520
3/4-inch	\$120	\$120	\$415	\$205	\$620
1-inch	\$160	\$160	\$465	\$265	\$730
1-1/2-inch	\$300	\$300	\$520	\$475	\$995
2-inch	\$400	\$400	N/A	N/A	N/A
2-inch Turbine	N/A	N/A	\$800	\$995	\$1,795
2-inch Compound	N/A	N/A	\$800	\$1,840	\$2,640
3-inch	N/A	N/A	N/A	N/A	N/A
3-inch Turbine	N/A	N/A	\$1,015	\$1,620	\$2,635
3-inch Compound	N/A	N/A	\$1,135	\$2,495	\$3,630
4-inch	N/A	N/A	N/A	N/A	N/A
4-inch Turbine	N/A	N/A	\$1,430	\$2,570	\$4,000
4-inch Compound	N/A	N/A	\$1,610	\$3,545	\$5,155
6-inch	\$500	\$700	N/A	N/A	N/A
6-inch Turbine	N/A	N/A	\$2,150	\$4,925	\$7,075
6-inch Compound	N/A	N/A	\$2,270	\$6,820	\$9,090

2. *Curtailement Plan Tariff*

The Company has an approved curtailment plan tariff.

3. *Backflow Prevention Tariff*

Staff recommends approval of the Company's backflow prevention tariff filed with this application on July 20, 2012.

4 *Best Management Practices ("BMPs")*

The Company does not have any approved BMP tariffs. 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.