

ORIGINAL

MEMORANDUM



TO: Docket Control Center

FROM: Steven M. Olea *LJL for SMO*
 Director
 Utilities Division

DATE: March 8, 2013

RE: **CONSOLIDATED STAFF REPORT FOR DII-EMERALD SPRINGS' AND DOYLE THOMPSON'S APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WASTEWATER SERVICE TO THE EMERALD SPRINGS SUBDIVISION HOMEOWNERS ASSOCIATION (DOCKET NOS. WS-20794A-11-0140, WS-2079A-11-0279 AND SW-20851A-12-0226)**

Attached is the Consolidated Staff Report for DII-Emerald Springs and Doyle Thompson's Certificate of Convenience and Necessities ("CC&N") to serve wastewater to Emerald Springs Subdivision Homeowners' Association ("HOA"). Staff recommends denial of the new CC&N's. Staff recommends the rates and conditions set forth in the Doyle Thompson Staff Report.

SMO:VW:red/SH

Originator: Vicki Wallace

Arizona Corporation Commission
DOCKETED
 MAR 8 2013

DOCKETED BY
[Handwritten Signature]

2013 MAR 8 PM 1 24
 AZ CORP COM
 DOCKET CONTROL CENTER

Service List for: DII-EMERALD SPRINGS AND DOYLE THOMPSON
Docket Nos. WS-20794A-11-0140, WS-2079A-11-0279 and SW-20851A-12-0226

Mr. Doyle Thompson
PO Box 287
Ehrenberg, Arizona 85334

Mr. Steve Wene
1850 North Central Avenue, Suite 1100
Phoenix, Arizona 85004

Arizona Reporting Service, Inc.
2200 North Central Avenue, Suite 502
Phoenix, Arizona 85004-1481

Ms. Julie LaBenz
1300 Joshua Avenue, Suite B
Parker, Arizona 85344

Mr. Henry Melendez
212 E. Rowland Street, Suite 423
Covina, California 91723

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

DII-EMERALD SPRINGS AND DOYLE THOMPSON

**DOCKET NO. SW-20851A-12-0226
AND CONSOLIDATED DOCKETS NOS:
WS-20794A-11-0279 (RATES)
WS-20794A-11-0140 (CC&N)**

**APPLICATION OF DII-EMERALD SPRINGS
AND DOYLE THOMPSON TO PROVIDE WASTEWATER
SERVICE TO EMERALD SPRINGS SUBDIVISION HOA**

MARCH 8, 2013

**CONSOLIDATED
DII-EMERALD SPRINGS AND DOYLE THOMPSON
DOCKET NO. WS-20794A-11-0140,
WS-2079A-11-0279 AND SW-20851A-12-0226**

On April 4, and July 15, 2011, Henry Melendez filed with the Arizona Corporation Commission (“ACC” or “Commission”) a Certificate of Convenience and Necessity (“CC&N”) and rate application, respectively, for DII-Emerald Springs, L.L.C. (“DII”) to provide wastewater service to the Emerald Springs Subdivision Homeowners Association (“Emerald Springs HOA” or “HOA”) in a service area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker in La Paz, Arizona.

On December 16, 2011, a Staff Report was filed with recommendations regarding DII’s initial applications for wastewater service to this area. An updated DII-Emerald Springs Staff Report is provided as Attachment A to this Consolidated Staff Report.

On June 7, 2012, Doyle Thompson (“Thompson”) filed an application with the ACC for a new CC&N to provide wastewater service to the HOA in the same area referenced in DII’s applications. The Staff Report for Doyle Thompson’s application is provided as Attachment B.

A Procedural Order was issued January 10, 2013, combining these dockets and ordering a hearing date of April 3, 2013.

All of the background, system, financial, rate and compliance information is detailed in each Staff Report for DII and Thompson (attached).

Conclusions and Considerations

Pursuant to A.R.S. §40-281, *et seq.*, the ACC is authorized to issue a CC&N to a public service corporation upon a showing that granting the CC&N to a particular applicant would serve the public interest.

Staff does not believe that granting a CC&N to either Thompson or DII would be in the public interest at this time.

First, both Thompson and DII violated A.A.C. R14-2-602(B)(1) by constructing and/or operating a wastewater system for public use prior to obtaining approval from the ACC. Additionally, there is a history of discord among both Thompson and DII and the HOA. Moreover, the ability to provide efficient and effective customer service is imperative for a CC&N provider. There are no assurances at this point that either DII or Thompson can provide effective customer service to the HOA. Furthermore, as explained in the Thompson Staff Report, wastewater treatment capacity is going to be an issue.

As discussed in the updated DII Staff Report, DII does not own the property on which the sewer plant (“WWTP”) is located. Staff has not received information documenting a formal

leasing document for the two acres of property occupied by the WWTP. Staff believes that the wastewater service provider must have assurances that it can continue to provide service to its customers. DII is still not in compliance with Arizona Department of Environmental Quality (“ADEQ”) regulations. Staff is revising its initial recommendation and is now recommending that DII’s application for a CC&N be denied.

Staff’s research also revealed questionable conduct of Doyle Thompson. Mr. Thompson has been arrested and convicted of numerous misdemeanor offenses, including assault, disorderly conduct, and tax evasion. In fact, in 2011 Mr. Thompson pled guilty to an undesignated felony tax violation for trafficking and selling large quantities of unstamped and illegal cigarettes. Therefore, Staff believes that Mr. Thompson should not be granted a CC&N either. However, Mr. Thompson should be required to continue providing wastewater to his existing customers as a public service corporation regulated by the ACC. Mr. Thompson should not be allowed to hook-up any new customers without prior approval from the Commission and ADEQ.

Staff Recommendations

Staff recommends that Doyle Thompson’s CC&N application for providing wastewater service to the Emerald Springs HOA be denied. For the reasons stated above, Staff does not believe that Thompson would be a fit and proper entity to be a public wastewater service provider. Staff also recommends that since Doyle Thompson is currently serving as a public service corporation, he continue to serve the Copper State and HOA Subdivision customers at the rates and conditions of service determined by Staff in the attached report.

Additionally, Staff recommends that DII-Emerald Springs’ CC&N and rate case applications be denied. Although Staff initially recommended that DII be granted a CC&N with conditions, Staff believes that DII’s applications should be denied for the reasons stated above. Notably, DII has no current customers and no requests for service which is a major determinate in granting CC&Ns. As a result, Staff believes that DII is no longer operating as a public service corporation.

Further, Staff notes that DII would be in violation of A.A.C. R14-2-602(B)(1) if the HOA reconnects to DII without first obtaining approval from the Commission. In the event DII reconnects to the HOA, Staff may file a Complaint against DII and/or recommend that the ACC initiate an Order to Show Cause proceeding against DII for violating A.A.C. R14-2-602(B)(1), as well as all other applicable regulations, orders, and statutes.

**UPDATED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

DII - EMERALD SPRINGS, LLC

**DOCKET NOS. WS-20794A-11-0140 (CC&N)
WS-20794A-11-0279 (RATES)**

**APPLICATIONS FOR A PERMANENT
RATE INCREASE AND FOR ISSUANCE OF A NEW CERTIFICATE OF
CONVENIENCE AND NECESSITY**

MARCH 8, 2013

INTRODUCTION

On April 4, 2011, DII-Emerald Springs, LLC (“DII”, “Company” or “Applicant”) filed an application with the Arizona Corporation Commission (“Commission” or “ACC”) for a new Certificate of Convenience and Necessity (“CC&N”) to provide wastewater services in a service area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker in La Paz, Arizona.

On May 2, 2011, the ACC Utilities Division Staff (“Staff”) filed a Notice to Docket Regarding Sufficiency, explaining that DII and Staff had worked together to evaluate DII’s unique situation and had agreed that the established 30-day timeline for Staff to determine the sufficiency of DII’s CC&N application should be waived to allow for the concurrent processing of a rate case. On July 15, 2011, the referenced rate application was filed with the ACC.

On August 24, 2011, Staff issued a Sufficiency Letter.

On September 15, 2011, a Procedural Order was issued consolidating the CC&N docket and the Rate docket. On October 7, 2011, a revised Procedural Order was issued establishing a hearing and procedural dates.

BACKGROUND

DII initially came to the attention of ACC Staff upon receiving a telephone call from the Arizona Department of Environmental Quality (“ADEQ”) questioning whether the ACC regulated the Company. ADEQ provided Staff the contact information for the Company. Staff contacted Mr. Henry Melendez, President of DII, who indicated that he was not aware of ACC regulatory requirements. Mr. Melendez was advised that it appeared DII was operating as a public service corporation and that he could either file an Application for Adjudication Not a Public Service Corporation or file an Application for a CC&N to serve as a sewer utility service provider.

According to the Company, DII owns the wastewater treatment plant (“WWTP”), and the Emerald Springs Subdivision Homeowners Association (“Subdivision” or “HOA”) owns, operates, and maintains everything outside the treatment plant, i.e., the collection system and the force mains for the sewer system. The Company asserts that the HOA was its only customer per a July 2004 Agreement Regarding Sewer Services (“Agreement”) between Dynamic Financial & Investment Services dba Dynamic Homes (“Dynamic”) and the HOA. Under that Agreement, Mr. Melendez was required to provide sewer service that would serve the homes of the 53-lot Subdivision and, in return, he was allowed to bill and receive specific payments from the HOA for such sewer service. The contract between Dynamic and the HOA is attached as Exhibit 1.

Mr. Melendez advised Staff that he and the HOA had past and current contractual disagreements. Staff was also contacted by the HOA president, Dennis Price, who confirmed

this conflict. The HOA was urged on several occasions to file for intervention in the CC&N and rate cases. Specific instructions on filing for intervention were given to Dennis Price. To date, no such intervention has been filed.

SERVICE AREA

The service area requested encompasses the 53-lot (40 homes built but not all occupied) Subdivision to which the Company has been providing wastewater service since 2004. Staff's legal description and engineering maps of the service area are attached as Exhibit 2. The Subdivision is located approximately one mile north of Ehrenberg along the Colorado River. Figures 1 and 2 that are attached to Staff's Engineering Report (Attachment A) show more detailed maps of the location within the County. The Company's WWTP, located approximately 2,500 feet or 0.5 miles east of the Subdivision, is outside the requested CC&N.

OWNERSHIP AND OPERATION

On June 20, 2003, DII purchased 33 of 54 lots (53 lots and 1 common area) located within the Subdivision in Ehrenberg, Arizona. This is a gated community with an existing HOA. The sewer provider at that time was Doyle Thompson ("Thompson"), who owned a property neighboring the Subdivision. In early 2004, Mr. Thompson terminated sewer service to the HOA, which was then forced to contract with a pumping service to empty the lift station a couple times per day. The difficulty this presented became a critical problem that the entire community felt would hinder further development of the lots. Mr. Melendez was a homeowner/landowner in the Subdivision. Dynamic, an affiliate of DII, was in the process of constructing a sewer plant to service the lots owned by DII. Pursuant to the Agreement, Dynamic contracted to provide sewer service to all lot owners within the Subdivision. The collection system infrastructure already existed; Dynamic just intercepted the 2-inch line that was originally connected to Thompson's plant and diverted the flow to its sewer plant.

Ehrenberg Improvement Association ("EIA") is the water service provider for the Subdivision, and at one time, expressed an interest in forming a sewer district. To date, the EIA has made no attempt to provide sewer service to the HOA, and in fact, the EIA has related to Staff that it has no intention of owning the sewer facility or providing sewer service in this area. Additionally, there are no other utility service providers in close proximity to the area.

DII is in good standing with the Commission's Corporations Division. DII is currently owned by Blue Tower Holdings, LLC ("Blue Tower"), and Blue Tower is the sole member of the Company. Henry Melendez is the President of Blue Tower and is in charge of the operations; he is not a shareholder. The directors/shareholders and their respective percentage of ownership are as follows:

Agustin & Edith Dea Melendez	47.62%
Guisella M. Pesantes	47.62%
R. Steffen Blumenthal	4.76%

The Officers are:

Henry Melendez, President
Guisella M. Pesantes, Secretary & Treasurer
Agustin Melendez, Vice President
R. Steffen Blumenthal, Vice President

Prior to Blue Tower's ownership of the Company, Dynamic was the sole member of DII and Henry Melendez was the sole owner of Dynamic. In 2008, Dynamic, dba DII - Emerald Springs, LLC, filed for chapter 11 Bankruptcy protection in order to get an extension from the lender to continue exploring the possibility of putting together a project that would allow the Company to repay the lender. Eventually, the Lender and Company agreed on a settlement, and the Company requested that the case be dismissed. The case was dismissed by the Bankruptcy Court in 2010.

Thereafter, there was a foreclosure on the property on which the sewer plant is located as well as property located in other areas within and outside the Subdivision. The new owner of the property is WALTCO, located in Los Angeles, California. The Company also lost some lots (had 33 lots and lost all but 3) and other lands around the Subdivision due to the foreclosure. Mr. Melendez states that Blue Tower, dba DII, still owns the sewer plant. There are currently negotiations with the new land owner about continuing to provide sewer service in the area, and there appears to be no claim by the new land owner to ownership of the sewer plant. Notice of the Company's filing and of future ACC proceedings were sent to WALTCO in addition to the HOA and its members. Mr. Melendez indicates that WALTCO has committed to cooperate with the process, and Mr. Melendez is waiting for a formal leasing document on the two acres of property occupied by the WWTP.

DII EMERALD SPRINGS WASTEWATER SYSTEM

The Company explained that it established a package sewer plant on an emergency basis in 2004, with permission from ADEQ, but that the situation has since become permanent. Per Staff's Engineering Report (Attachment A), a field visit was conducted, and the inspection revealed that the sewer treatment system has a 20,000 gallon per day ("GPD") package wastewater treatment plant that processes wastewater.

Further detailed information concerning the wastewater system and operation, including schematics, sewer flows, growth, etc., can be found in Staff's Engineering Report.

MANAGERIAL/TECHNICAL/FINANCIAL CAPABILITY TO PROVIDE REQUESTED SERVICES

Managerial Expertise

Henry Melendez supervises the day-to-day operations of the DII sewer plant. Mr. Melendez has been active in Arizona real estate for more than two decades. During that time, he has been involved with the construction of water and wastewater systems necessary to develop property.

The Company has been operating the plant since late 2004 (the date of installation). The Plant has been operated by a professional-licensed individual, Jim Grimes.

Mr. Melendez has further explained that, prior to the collapse of the economy, DII was a residential real estate development company that had numerous employees and subcontractors working on projects. Mr. Melendez was personally in charge of construction projects in Arizona and in California. He also dealt with banking institutions, fund control, and inspection companies.

Technical Expertise

James Grimes, who is the certified operator for DII, has been operating the plant since 2004.

Financial Capability

All of the financial information, including proposed rates, is covered in the attached report.

ADEQ COMPLIANCE

Aquifer Protection Permit ("APP")

On May 27, 2004, an APP application was submitted to ADEQ. On June 10, 2010, ADEQ issued the APP, No. P-105513, that authorized the construction, operation and maintenance of the Company's WWTP. During this APP approval process, the Company had to address and correct Notices of Violation and Consent Orders issued by ADEQ.

Compliance

In an ADEQ compliance status report, dated June 29, 2011, ADEQ reported the Company's wastewater system, No. 105513, was not in compliance with ADEQ regulations. Based on the Company's APP requirements, the Company has not complied with numerous

monitoring and reporting requirements. In addition, the Company has requested an APP Amendment to reduce the monitoring frequencies. This Amendment request is still under review and is not yet issued.

Before any customer (including the Subdivision) connects with the Company's wastewater system, Staff recommends that the Company file with Docket Control, as a compliance item, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in compliance.

LA PAZ COUNTY PERMIT

Attached as Exhibit 3 is the Company's Special Use Permit issued by the La Paz County Board of Supervisors to construct a WWTP.

CONCLUSIONS AND RECOMMENDATIONS

Staff concludes that:

- The Company's WWTP has the capacity to serve the Subdivision.
- According to the ADEQ, the Company is not currently in compliance with ADEQ regulations.

Staff recommends that the CC&N application be denied. However, if the Commission decides to approve the CC&N, Staff would recommend the following conditions:

1. Table D-1, Plant-in-Service, of the Engineering Staff Report be used as a guideline for the plant-in-service review.
2. Before any customer (including the Subdivision), reconnects to the Company's wastewater system, the Company be required to file with Docket Control, as a compliance item, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and Company is in compliance.
3. The Company adopt and use Staff's typical and customary depreciation rates as delineated in Table G-1 of Attachment A, Staff's Engineering Report.
4. No Service Lateral Installation Charges be approved for this Company.

**UPDATED STAFF REPORT ON RATES
DII - EMERALD SPRINGS, LLC
DOCKET NO. WS-20794A-11-0140 (CC&N)
DOCKET NO. WS-20794A-11-0279 (RATES)**

On April 1, 2011, DII - Emerald Springs, LLC (“DII” or “Company” or “Applicant”) filed an application with the Arizona Corporation Commission (“Commission”) for a new Certificate of Convenience and Necessity (“CC&N”) to provide wastewater service in an area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker, in La Paz County, Arizona. On July 15, 2011, the Company filed a rate application.

On September 15, 2011, a Procedural Order was issued consolidating the CC&N case and the rate case.

At the time Staff was made aware of the Company’s operations, DII was serving one customer, the Emerald Springs Subdivision Homeowners Association (“HOA”). Since that time the HOA terminated its service from the Company and is now receiving its wastewater service from Mr. Doyle Thompson. Thus, the Company has no current customers and no requests for service from any possible future customers. Therefore, Staff believes that DII is not a public service corporation and will not be a public service corporation, so its request for a CC&N should be denied.

RECOMMENDATIONS

Staff recommends that the CC&N application be denied.

However, if the Commission decides to approve the CC&N, Staff recommends the following:

- 1) Approval of Staff’s recommended rates and charges as shown in Schedule BCA-4.
- 2) That 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.
- 3) That Table D-1 – Plant-in-Service be used as a guideline for the plant-in-service review.
- 4) If the HOA wishes is to reconnect to the Company’s wastewater system, the Company file with Docket Control, as a compliance item in this docket, within 6 months of the effective date of the Decision in this proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in total compliance with ADEQ prior to the HOA, or any customer, connecting to the Company.

- 5) That the Company adopt and use Staff's typical and customary depreciation rates as delineated in Table G-1.
- 6) That the Company be ordered to file a rate case within 3 years of it serving its first customer.

TABLE OF CONTENTS

	PAGE
FACT SHEET	1
TYPE OF OWNERSHIP.....	1
CUSTOMERS.....	1
NOTIFICATIONS.....	1
BACKGROUND	2
CONSUMER SERVICES	3
COMPLIANCE	3
ENGINEERING ANALYSIS AND RECOMMENDATIONS	3
RATE BASE	3
PLANT IN SERVICE.....	3
ACCUMULATED DEPRECIATION.....	4
WORKING CAPITAL.....	4
OPERATING INCOME STATEMENT	4
OPERATING REVENUE.....	4
OPERATING EXPENSES.....	4
DEBT	6
REVENUE REQUIREMENT	6
RATE DESIGN	6
MISCELLANEOUS SERVICE CHARGES	7
SERVICE LINE AND METER INSTALLATION CHARGES	8
RECOMMENDATIONS	8

SCHEDULES

Summary of Filing.....	Schedule BCA-1
Rate Base.....	Schedule BCA-2
Statement of Operating Income.....	Schedule BCA-3
Rate Design.....	Schedule BCA-4

FACT SHEET

Company:

Type of Ownership: Limited Liability Company (“LLC”).

Rates:

Permanent rate increase application filed: July 15, 2011.

Current test year ended: December 31, 2010.

The Company’s rate application met sufficiency status on August 15, 2011.

CC&N Application filed on April 1, 2011.

Monthly Service Charge:	Company Test Year Rates	Company Current Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Flat Charge	\$2,680.33 ¹	\$3,041.18	N/A	N/A
Equivalent rates per completed residential connection (at 43 connections)	\$62.33	\$70.73	N/A	\$125.80

Customers

Average number of customers in the current test year (12/31/10): 1 (comprised of 43 completed residential connections). The Company currently has no customers.

Fact Sheet (Continued)

Notifications

An affidavit of Publication was docketed on November 9, 2011, indicating that notification to the Emerald Springs Subdivision Homeowners Association (“HOA”) and every HOA member individually were mailed on October 5, 2011, and October 21, 2011 and that the newspaper *Parker Pioneer* published the notice on October 12, 2011, and October 26, 2011.

¹ Company was not charging Commission-authorized rates and the charge to the homeowners association changed during the test year. This rate represents the average monthly charge during the test year.

A search of the Consumer Service database from January 1, 2008 to November 4, 2011, revealed no complaints and three opinions opposed to the proposed rates.

Summary of Filing

The test year results as adjusted by Utilities Division Staff (“Staff”) for DII – Emerald Springs, LLC (“DII” or “Company” or “Applicant”) show total operating revenue of \$32,164, an operating loss of \$32,751, and no rate of return, as shown on Schedule BCA-1. The original cost rate base (“OCRB”) as adjusted by Staff is \$311,350².

The rates recommended in this Staff Report docketed December 16, 2011, do not yet exist. The Company’s application, as filed, does not propose any specific increase over the adjusted test year total operating revenues of \$32,164. The Company stated that it had no idea of how much of an increase to propose. This is because the Company has no authorized rates. The Company proposed test year revenue and expenses would produce an operating loss of \$31,886. The Company proposes an OCRB of \$451,132.

Staff recommends a \$32,751 or 101.83 percent increase over Staff’s adjusted test year revenue of \$32,164 to \$64,915. Staff’s recommended increase would produce an operating income of \$0 for a 0 percent rate of return. Due to the large increase necessary to bring the Company to a “breakeven” status and using estimates for many of the costs, Staff concludes that it is appropriate to recommend no rate of return for the Company at this time. Staff recommends that the unauthorized fixed monthly flat rate for the Company’s single customer be replaced with an unauthorized rate calculated as a flat charge of \$125.80 per completed residential connection.

According to the application, the Company requests a rate increase due to increase in the cost of operating the wastewater system. The Company has never had any rates established by the Arizona Corporation Commission (“Commission”).

BACKGROUND

During the test year ended December 31, 2010, DII provided wastewater service to the HOA, comprised of an average of 43 completed residential connections.

On April 1, 2011, DII filed an application with the Commission for a new Certificate of Convenience and Necessity (“CC&N”) to provide wastewater service to the HOA. On July 15, 2011, the Company filed a rate application.

On September 15, 2011, a Procedural Order was issued consolidating the CC&N case and the rate case.

² The Company did not propose a fair value rate base that differs from its OCRB.

The existence of the Company was brought to the attention of Commission Staff upon an inquiry by the Arizona Department of Environmental Quality (“ADEQ”). After research, Staff determined that, although DII was subject to Commission regulation, the Company was operating without the Commission’s knowledge. Staff subsequently contacted Dr. Henry Melendez, President of DII, who stated that he was not aware of the Company’s regulatory obligations.

CONSUMER SERVICES

Staff reviewed the Commission’s records for the period January 1, 2008, to November 4, 2011, and found that there have been no complaints and three opinions filed opposed to the rate case.

COMPLIANCE

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

ENGINEERING ANALYSIS AND RECOMMENDATIONS

Staff inspected DII’s plant facilities on August 31, 2011. A complete discussion of Staff’s technical findings and recommendations and a complete description of the wastewater system are provided in the attached Engineering Report.

RATE BASE

Staff’s adjustments decreased the Company’s proposed rate base by \$139,782, from \$451,132 to \$311,350, as shown on Schedule BCA-2, page 1. Details of Staff’s adjustments are discussed below.

Plant in Service

Adjustment A decreases plant in service by \$9,117, from \$451,132 to 442,015, as shown on Schedule BCA-2, pages 1 and 2. These cost were removed because they were the costs associated with correcting on ADEQ violation.

Structures and Improvements - Adjustment “a” increases this account by \$12,948, from \$0 to \$12,948, as shown on Schedule BCA-2, pages 2 and 3. Staff transferred this amount from the treatment and disposal equipment account.

Flow Measuring Devices – Adjustment “b” increases this account by \$210, from \$2,068 to \$2,278, as shown on Schedule BCA-2, pages 2 and 3. Staff moved this amount from the flow measuring installations account.

Flow Measuring Installations – Adjustment “c” decreases this account by \$210, from \$210 to \$0, as shown on Schedule BCA-2, pages 2 and 3. Staff transferred this balance to the flow measuring devices account.

Treatment and Disposal Equipment – Adjustment “d” decreases this account by \$22,065, from \$448,854 to \$426,789, as shown on Schedule BCA-2, pages 2 and 3. Staff calculated the ending balance of this account by reflecting \$448,854 in plant additions, transferring \$12,948 to structures and improvements and removing \$9,117 in costs of correcting the ADEQ notice of violations as identified by the Company and Staff.

Accumulated Depreciation

Adjustment B increases accumulated depreciation by \$135,660, from \$0 to \$135,660, as shown on Schedule BCA-2, pages 1 and 4. Staff calculated accumulated depreciation by reflecting plant additions and retirements as identified by Staff and the Company and applying the standard Commission-approved depreciation rates.

Working Capital

DII did not claim any working capital allowance. Staff’s adjustments C and D resulted in a net increase to working capital of \$4,995, from \$0 to \$4,995, as shown on Schedule BCA-2, pages 1 and 5.

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 made no operating revenue adjustments.

Operating Expenses

Staff’s adjustments to operating expenses resulted in a net increase of \$865, from \$64,050 to \$64,915, as shown on Schedule BCA-3, page 1. Details of Staff’s adjustments are presented below.

Salaries and Wages – Adjustment A decreases this account by \$11,400, from \$30,000 to \$18,600, as shown on Schedule BCA-3, pages 1 and 2. Emerald Springs plans to hire an Administrative Assistant to perform all functions that are currently done by Dr. Henry Melendez, which includes all communications and interactions with ADEQ, Commission employees, and

operators, in addition to billings, accounts payable and accounts receivable. Staff reviewed the salary survey for an Administrative Assistant in Covina, California, and determined that the average salary for an Administrative Assistant is \$31,000. The prospective employee will work 24 hours per week. That is 60 percent of full time, and 60 percent of \$31,000 is \$18,600.

Sludge Removal Expense – Adjustment B increases sludge removal expense by \$300, from \$1,800 to \$2,100, as shown on Schedule BCA-3, pages 1 and 2. Staff estimated annual sludge removal loads to be 7, as the Company’s future annual loads removal is difficult to determine. The Company should be required to prove its annual sludge load removal cost in any future rate case.

Purchased Power – Adjustment C decreases purchased power expense by \$1,557, from \$5,250 to \$3,693, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the decrease of purchased power expense to a known and measurable amount.

Outside Services Expense – Adjustment D decreases outside services expense by \$2,240, from \$11,972 to \$9,732, as shown on Schedule BCA-3, pages 1 and 2. Staff’s adjustment reflects the decrease to the updated and supported certified operator’s expense.

Insurance – General Liability – Adjustment E decreases general liability insurance by \$736, from \$4,500 to \$3,764, as shown on Schedule BCA-3, pages 1 and 2. Staff’s adjustment reflects the amount updated and supported by the Company’s documentation for general liability insurance expense.

Miscellaneous Expense – Adjustment F increases miscellaneous expense by \$2,500, from \$0 to \$2,500, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects Staff’s recognition of accounting and bookkeeping expenses going forward.

Depreciation Expense – Adjustment G increases depreciation expense by \$21,998, from \$0 to \$21,998, as shown on Schedule BCA-3, pages 1 and 2. Staff’s depreciation expense reflects application of Staff’s recommended depreciation rates to Staff’s recommended plant balances.

Taxes Other Than Income – Adjustment H decreases taxes other than income by \$5,000, from \$5,500 to \$500, as shown on Schedule BCA-3, pages 1 and 4. This adjustment reflects Staff’s removal of \$5,000 in unnecessary ADEQ annual permit fees.

Income Tax Expense – Adjustment I decreases income tax expense by \$3,000, from \$3,000 to \$0, as shown on Schedule BCA-3, pages 1 and 4. The Company is a limited liability company and does not incur income taxes.

DEBT

Mr. Galo G. Pesantes infused \$250,000 into the Company on December 30, 2008, with promissory notes from Dr. Henry Melendez. The Company never applied for authorization to incur debt as required by A.R.S. § 40-301 and the Company has verbally requested authorization of the debt in this proceeding.

Staff will not make a financing recommendation because the Company has not filed a financing application.

REVENUE REQUIREMENT

The Company's narrative portion of the application states that the Company needs rates to cope with rising operating costs.

The Company does not propose any specific increase over the adjusted test year revenue of \$32,164. The Company stated that it had no idea of how much of an increase to propose. The Company's adjusted test year revenue provides an operating loss of \$31,886 for no rate of return, as shown on Schedule BCA-1.

Staff recommends total operating revenue of \$64,915, an increase of \$32,751, or 101.83 percent above the test year revenue of \$32,164. Staff's recommended revenue provides an operating income of \$0 for a zero percent rate of return as shown on Schedule BCA-1. Due to the large increase necessary to bring the Company to a "breakeven" status and using estimates for many of the costs, Staff concludes that it is appropriate to recommend no rate of return for the Company at this time. Staff recommends that the fixed monthly flat rate for the Company's single customer be replaced with a rate calculated as a flat charge of \$125.80 per completed residential connection, as shown on Schedule BCA-4. This rate is 101.83 percent high than the test year rate, but just 77.86 percent higher than the current rate.

Staff notes that the Company's current rates were not approved by the Commission. Staff also notes that the test year revenue equates to a monthly charge of \$62.33 per completed residential connection. However, the Company advises that it has already increased its billing rate to one that equates to a monthly charge of \$70.73 per completed residential connection. Based on the Company's revenue and Staff's adjusted expenses for the test year, the Company would suffer a \$32,751 operating loss.

Staff's recommended rates provide the Company with adequate cash flow to meet its operating expenses.

RATE DESIGN

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

MISCELLANEOUS SERVICE CHARGES

The Company has proposed service charges for Reconnection/Delinquent, Re-Establishment within 12 Months, and Late Payment Penalty which are outside of typical rates and percentages approved for such services. Additionally, the Company failed to request a Deposit and Deposit Interest tariff.

Because the Arizona Administrative Code rules address a utility's right to charge for Deposit, Deposit Interest, Re-Establishment within 12 Months and Late Payment Penalty, Staff recommends that these services be assessed pursuant to the applicable rules.

In regard to Disconnect/Reconnect (Delinquent), Staff recognizes the fact that the costs involved in terminating sewer service to a customer for non payment can become excessively high. Therefore, Staff recommends that Disconnect/Reconnect (Delinquent) be charged to the customer at cost.

Staff recommends a Deferred Payment of 1.5% per month in order to remain consistent with other utility companies.

Staff recommends the following changes to the service charges:

Eliminate:

Company-Recommended Service Charges:

Reconnection/Delinquent (R14-2-603.D.1)	\$250.00
Deposit (R14-2-603.B.7)	No Charge
Deposit Interest (R14-2-603.8.3)	No Charge
Re-Establishment W/N 12 Months (R14-2-603.D.1)	\$150.00
Late Payment Penalty (R14-2-608.F.1)	10%

Add:

Staff-Recommended Service Charges:

Disconnect/Reconnect (Delinquent)	Cost***
Deposit (R14-2-603.B.7)	Per Rule*
Deposit Interest (R14-2-603.8.3)	Per Rule*
Re-Establishment W/N 12 Months (R14-2-603.D.1)	Per Rule**
Late Payment Penalty (R14-2-608.F.1)	1.5% / Mo.

*Per Commission Rules (R14-2-603.B)

**Months off the system times the monthly minimum (R14-2-603.D.1)

***Actual Cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

SERVICE LINE AND METER INSTALLATION CHARGES

The Company requested a 4-inch service lateral installation charge of \$3,500. In its review, Staff found that all the service taps/laterals have been installed up to the property lines. In addition, since the Company does not own the collection system, Staff recommends that no charge be adopted as shown on Schedule BCA-4.

RECOMMENDATIONS

Staff recommends that the CC&N application be denied.

However, if the Commission decides to approve the CC&N, Staff recommends the following:

- 1) Approval of Staff's recommended rates and charges as shown in Schedule BCA-4.
- 2) That 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.
- 3) That Table D-1 – Plant-in-Service be used as a guideline for the plant-in-service review.
- 4) If the HOA wishes to reconnect to the Company's wastewater system, the Company file with Docket Control, as a compliance item in this docket, within 6 months of the effective date of the Decision in this proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in total compliance with ADEQ prior to the HOA, or any customer, connecting to the Company.
- 5) That the Company adopt and use Staff's typical and customary depreciation rates as delineated in Table G-1.
- 6) That the Company be ordered to file a rate case within 3 years of it serving its first customer.

DII- Emerald Springs

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&N)

Test Year Ended: December 31, 2010

Schedule BCA-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Flat Rate Revenue	\$32,164	\$32,164	\$32,164	\$64,915
Measured Revenue	0	0	0	0
Other Waste Water Revenues	0	0	0	0
Total Operating Revenue	\$32,164	\$32,164	\$32,164	\$64,915
Operating Expenses:				
Operation and Maintenance	\$55,550	\$42,417	\$55,550	\$42,417
Depreciation	0	21,998	0	21,998
Taxes Other Than Income(ADEQ Fee)	5,500	500	5,500	500
Property & Other Taxes				
Income Tax	3,000	0	3,000	0
Total Operating Expense	\$64,050	\$64,915	\$64,050	\$64,915
Operating Income/(Loss)	(\$31,886)	(\$32,751)	(\$31,886)	\$0
Rate Base O.C.L.D.	\$451,132	\$311,350	\$451,132	\$311,350
Rate of Return - O.C.L.D.	N/M	N/M	N/M	0.00%
Operating Margin	N/M	N/M	N/M	0.00%

RATE BASE

	Original Cost			Staff
	Company	Adjustment		
Plant in Service	\$451,132	(\$9,117)	A	\$442,015
Less:				
Accum. Depreciation	0	135,660	B	135,660
Net Plant	\$451,132	(\$144,777)		\$306,355
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$0		\$0
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$0		\$0
Plus:				
1/24 Power	\$0	\$154	C	\$154
1/8 Operation & Maint.	0	4,841	D	4,841
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$4,995		\$4,995
Rate Base	\$451,132	(\$139,782)		\$311,350

Explanation of Adjustment:

- A - Refer to Schedule BCA-2, Page 2 of 5
- B - Refer to Schedule BCA-2, Page 4 of 5
- C - Refer to Schedule BCA-2, Page 5 of 5
- D - Refer to Schedule BCA-2, page 5 of 5

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
351 Organization	\$0	\$0		\$0
352 Franchises	0	0		0
353 Land & Land Rights	0	0		0
354 Structures & Improvements	0	12,948	a	12,948
355 Power Generation Equipment	0	0		0
360 Collection Sewers - Force	0	0		0
361 Collection Sewers - Gravity	0	0		0
362 Special Collection Structures	0	0		0
363 Services to Customers	0	0		0
364 Flow Measuring Devices	2,068	210	b	2,278
365 Flow Measuring Installations	210	(210)	c	0
370 Receiving Wells	0	0		0
371 Pumping Equipment	0	0		0
380 Treatment and Disposal Equipment	448,854	(22,065)	d	426,789
381 Plant Sewers	0	0		0
382 Outfall Sewer Lines	0	0		0
389 Other Plant and Misc. Equipment	0	0		0
390 Office Furniture and Fixture	0	0		0
391 Transportation Equipment	0	0		0
393 Tools, Shop and Garage	0	0		0
394 Laboratory Equipment	0	0		0
395 Power Operated Equipment	0	0		0
396 Communications Equipment	0	0		0
TOTALS	\$451,132	(\$9,117)	A	\$442,015

Explanation of Adjustment:

See Schedule BCA -2, Page 3 of 5

STAFF PLANT ADJUSTMENTS

a -	STRUCTURES AND IMPROVEMENTS - Per Company Per Staff	\$ - <u>12,948</u> <u>\$ 12,948</u>
	To add \$12,948 from treatment and disposal equipment to Structures and improvements..	
b -	FLOW MEASURING DEVICE - Per Company Per Staff	\$ 2,068 <u>2,278</u> <u>\$ 210</u>
	To add \$210 from flow measuring installations to flow measuring device.	
c -	FLOW MEASURING INSTALLATIONS - Per Company Per Staff	\$ 210 <u>-</u> <u>\$ (210)</u>
	To transfer \$210 to flow measuring device.	
d -	TREATMENT AND DISPOSAL EQUIPMENT - Per Company Per Staff	\$ 448,854 <u>426,789</u> <u>\$ (22,065)</u>
	To transfer \$12,948 to structures and improvements and remove \$9,117 in cost of correcting ADEQ notice of violations.	

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$0
Accumulated Depreciation - Per Staff	135,660 B
Total Adjustment	\$135,660

Explanation of Adjustment:

- B - Staff calculated accumulated depreciation by using the beginning balances and made adjustments for depreciation expense, additions and retirements through the end of the test year, using Staff's recommended depreciation rates.

ACCT NO. DESCRIPTION	Staff Calculated	Company Application	Staff Adjustment
354 Structure and Improvements	2,802	-	2,802
355 Power Generation Equipment	-	-	-
361 Collection - Gravity	-	-	-
363 Services to Customers	-	-	-
364 Flow Measuring Device	342	-	342
367 Reuse Meter and Meter Installation	-	-	-
370 Receiving Wells	-	-	-
371 Electric Pumping Equipment	-	-	-
380 Treatment and Disposal Equipment	132,516	-	132,516
390 Office Furniture and Equipment	-	-	-
391 Transportation Equipment	-	-	-
393 Tools, Shop and Garage Equip.	-	-	-
394 Laboratory Equipment	-	-	-
395 Power Operated Equipment	-	-	-
396 Communications Equipment	-	-	-
Total Adjustment	\$ 135,660	\$ -	\$ 135,660

STAFF PLANT ADJUSTMENTS

C - WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company
Per Staff

	\$0	
	\$154	\$ 154

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

D - WORKING CAPITAL (1/8 operation & Maint exp.) Per Company
Per Staff

	\$0	
	4,841	\$ 4,841

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).

DII- Emerald Springs

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&N)

Test Year Ended: December 31, 2010

Schedule BCA-3

Page 1 of 4

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
521 Flat Rate Revenue	\$32,164	\$0	\$32,164
522 Measured Revenue	0	0	0
536 Other Waste Water Revenue	0	0	0
Total Operating Revenue	\$32,164	\$0	\$32,164
Operating Expenses:			
701 Salaries and Wages	\$30,000	(\$11,400) A	\$18,600
710 Purchased Wastewater Treatment	0	0	0
710 Sludge Removal Expense	1,800	300 B	2,100
715 Purchased Power	5,250	(1,557) C	3,693
716 Fuel For Power Production	0	0	0
718 Chemicals	2,028	0	2,028
720 Materials and Supplies	0	0	0
731 Contractual Services - Certified Operator	11,972	(2,240) D	9,732
735 Contractual Services - Testing	0	0	0
740 Rents	0	0	0
750 Transportation Expense	0	0	0
755 Insurance Expense	4,500	(736) E	3,764
765 Regulatory Commission Expense	0	0	0
775 Miscellaneous Expense (Accting & Tax Prep)	0	2,500 F	2,500
403 Depreciation Expense	0	21,998 G	21,998
408 Taxes other than Income (ADEQ Fee)	5,500	(5,000) H	500
408.11 Property Taxes	0	0	0
409 Income Taxes	3,000	(3,000) I	0
Total Operating Expenses	\$64,050	\$865	\$64,915

OPERATING INCOME/(LOSS)	(\$31,886)	(\$865)	(\$32,751)
--------------------------------	-------------------	----------------	-------------------

Other Income/(Expense):

419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
426 Non-Utility - Depreciation	0	0	0
426 Non-Utility - Amortization	0	0	0
427 Interest Expense	0	0	0
Total Other Income/(Expense)	\$0	\$0	\$0

NET INCOME/(LOSS)	(\$31,886)	(\$865)	(\$32,751)
--------------------------	-------------------	----------------	-------------------

STAFF ADJUSTMENTS

A -	SALARIES AND WAGES = Per Company Per Staff	\$30,000 18,600	<u>(\$11,400)</u>
	To reflect salaries and wages for a prospective Office Administrative Assistant employee going forward.		
B -	SLUDGE REMOVAL EXPENSE - Per Company Per Staff	\$1,800 2,100	<u>\$300</u>
	To increase sludge removal expense due to the increase in the number of occupied houses since the test year.		
C -	PURCHASED POWER - Per Company Per Staff	\$5,250 \$3,693	<u>(\$1,557)</u>
	To decrease purchase power expense to known and measurable amount.		
D -	CONTRACTUAL SERVICES - Per Company Per Staff	\$11,972 \$9,732	<u>(\$2,240)</u>
	To decrease to the updated and supported Certified Operators expense.		
E -	GENERAL LIABILITY INSURANCE - Per Company Per Staff	\$4,500 \$3,764	<u>(\$736)</u>
	To recognize \$3,764 in general liability insurance expense going forward.		
F -	MISCELLANEOUS EXPENSE - Per Company Per Staff	\$0 \$2,500	<u>\$2,500</u>
	To recognize \$2,500 in accounting and bookkeeping expense going forward.		

STAFF ADJUSTMENTS (Cont.)

G - DEPRECIATION - Per Company \$0
Per Staff 21,998 \$21,998

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	351 Organization	\$0	\$ -	-	0.00%	-
2	352 Franchises	-	-	-	0.00%	-
3	353 Land & Land Rights	-	-	-	0.00%	-
4	354 Structures & Improvements	12,948	-	12,948	3.33%	431
5	355 Power Generation Equipment	-	-	-	5.00%	-
6	360 Collection Sewers - Force	-	-	-	2.00%	-
7	361 Collection Sewers - Gravity	-	-	-	2.00%	-
8	362 Special Collection Structures	-	-	-	2.00%	-
9	363 Services to Customers	-	-	-	2.00%	-
10	364 Flow Measuring Devices	2,278	-	2,278	10.00%	228
11	365 Flow Measuring Installations	-	-	-	10.00%	-
12	370 Receiving Wells	-	-	-	3.33%	-
13	371 Pumping Equipment	-	-	-	12.50%	-
14	380 Treatment and Disposal Equipment	426,788	-	426,788	5.00%	21,339
15	381 Plant Sewers	-	-	-	5.00%	-
16	382 Outfall Sewer Lines	-	-	-	3.33%	-
17	389 Other Plant and Misc. Equipment	-	-	-	6.67%	-
18	390 Office Furniture and Fixture	-	-	-	6.67%	-
19	391 Transportation Equipment	-	-	-	20.00%	-
20	393 Tools, Shop and Garage	-	-	-	5.00%	-
21	394 Laboratory Equipment	-	-	-	10.00%	-
22	395 Power Operated Equipment	-	-	-	5.00%	-
23	396 Communications Equipment	-	-	-	10.00%	-
24	397 Miscellaneous Equipment	-	-	-	10.00%	-
25	398 Other Tangible Plant	-	-	-	10.00%	-
26		-	-	-	-	-
27	Total Plant	442,014	\$0	442,014		21,998
28						
29	Composite Depreciation Rate (Depr Exp / Depreciable Plant):					4.98%
30	CIAC:					\$ -
31	Amortization of CIAC (Line 33 x Line 34):					\$ -
32						
33	Pro Forma Annual Depreciation Expense					
34						
35	Plant in Service					\$442,014
36	Less: Non Depreciable Plant					-
37	Fully Depreciable Plant					-
38	Depreciable Plant					\$442,014
39	Times: Staff Proposed Depreciation Rate					4.98%
40	Depreciation Expense Before Amortization of CIAC:					\$ 21,998
41	Less Amortization of CIAC:					\$ -
42	Test Year Depreciation Expense - Staff:					\$ 21,998
43	Depreciation Expense - Company:					\$0
44	Staff's Total Adjustment:					\$ 21,998

STAFF ADJUSTMENTS

H -	TAXES OTHER THAN INCOME - Per Company	\$5,500	
	Per Staff	\$500	<u>(\$5,000)</u>

To remove \$5,000 in unnecessary ADEQ annual permit fees.

I -	INCOME TAX - Per Company	\$3,000	
	Per Staff	\$0	<u>(\$3,000)</u>

To remove \$3,000 in income tax expense.

DII- Emerald Springs
Docket No. SW-20794A-11-0279 (Rates)
SW-20794A-11-0140 (CC&N)
Test Year Ended: December 31, 2010

Schedule BCA-4

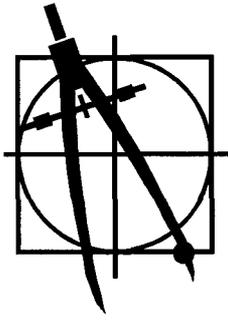
RATE DESIGN

Monthly Usage Charge	Test Year	Present	-Proposed Rates-	
	Rates	Rates	Company	Staff
Residential (All Sizes, Flat Rate)	\$ 2,680.33	\$ 3,041.18	N/A	\$ 125.80 Per Completed Residential Connection
Equivalent rate per completed customer connection (at 43 connections)	\$ 62.33	\$ 70.73	N/A	
<u>Service Lateral Installation Charge</u>				
4-inch Lateral		NT	\$ 3,500	NT
<u>Other Service Charges</u>				
Disconnect/Reconnect/Deliquent (R14-2-603.D.1)		NT	\$ 250	Cost***
Deposit (R14-2-603.B.7)		NT	No Charge	Per Rule*
Deposit Interest (R14-2-603.8.3)		NT	No Charge	Per Rule*
Re-Establishment W/N 12 Months (R14-2-603.D.1)		NT	\$ 150	Per Rule**
Late Payment Penalty (R14-2608.F.1)		NT	10%	1.50%
Deferred Payment		NT	NT	1.50%

*Per Commission Rules (R14-2-603.B)

**Months off the system times the monthly minimum (R14-2-603.D.1)

*** Actual cost of physical disconnection and reconnection (if same customer)



**Engineering Report
for
DII Emerald Springs, LLC**

**Docket No. SW-20794A-11-0140 (CC&N)
Docket No. SW-20794A-11-0279 (Rates)**

By Marlin Scott, Jr.

February 15, 2013

CONCLUSION

- A. DII Emerald Springs, LLC's ("Company") has a 20,000 gallon per day wastewater treatment plant but is not currently serving any customers. Although the Company was serving the Emerald Springs Subdivision ("Subdivision") in the past, the sewer service was disconnected on March 6, 2012, and reconnected to the Doyle Thompson sewer system.

RECOMMENDATIONS

1. Staff recommends that Table D-1 – Plant-in-Service be used as a guideline for the plant-in-service review.
2. Prior to the disconnection on March 6, 2012, the Company was not in compliance with the Arizona Department of Environmental Quality ("ADEQ") regulations. Before any customer (including the Subdivision) connects to the Company's wastewater system, Staff recommends that the Company file with Docket Control, as a compliance item, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in total compliance with ADEQ.
3. Staff recommends that the Company adopt Staff's typical and customary depreciation rates and further recommends that the Company use these depreciation rates delineated in Table G-1.
4. Staff recommends that no Service Lateral Installation Charges be approved for this Company.

TABLE OF CONTENTS

	<u>PAGE</u>
A. INTRODUCTION	3
B. DESCRIPTION OF THE SEWER SYSTEM	3
FIGURE 1. COUNTY MAP	5
FIGURE 2. CERTIFICATED AREA	6
FIGURE 3. SYSTEM SCHEMATIC	7
C. SEWER FLOWS	8
FIGURE 4. SEWER FLOWS	8
TABLE C-1. SEWER FLOWS	9
SYSTEM ANALYSIS	9
D. PLANT-IN-SERVICE	9
TABLE D-1. PLANT-IN-SERVICE	10
E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE	10
AQUIFER PROTECTION PERMIT	10
COMPLIANCE	10
F. DEPRECIATION RATES	11
TABLE G-1. DEPRECIATION RATES	12
G. OTHER ISSUES	12
SERVICE LATERAL INSTALLATION CHARGES	12
TABLE H-1. SERVICE LATERAL INSTALLATION CHARGES	13

A. INTRODUCTION

On April 1, 2011, DII Emerald Springs, LLC (“Company”) filed a Certificate of Convenience and Necessity (“CC&N”) application to provide sewer service. On July 15, 2011, the Company filed a rate application. This Engineering Report constitutes Staff’s engineering evaluation relative to the Company’s CC&N and rate applications.

Location of Company

The Company served the Emerald Springs Subdivision (“Subdivision”) located approximately one mile north of Ehrenberg along the Colorado River. Figure 1 shows the location of the Company within La Paz County and Figure 2 shows the requested CC&N for the Subdivision covering approximately 49.6 acres or 0.08 square-miles. The Company’s wastewater treatment plant (“WWTP”), located approximately 2,500 feet or 0.5 miles east of the Subdivision, is outside the requested CC&N.

B. DESCRIPTION OF THE SEWER SYSTEM

The sewer system was initially field inspected on August 31, 2011, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Henry Melendez, owner, and James Grimes, operator for the Company. However, on March 6, 2012, the Subdivision disconnected from the Company’s WWTP and reconnected to Doyle Thompson’s WWTP.

The Company’s sewer treatment system has a 20,000 gallon per day (“GPD”) package wastewater treatment plant (“WWTP”) consisting of bar screening, flow equalization, anoxic and aerobic treatment, secondary clarification, chlorination with dechlorination, and an aerobic sludge digester. This package WWTP is installed above ground. The effluent is discharged to two unlined basins for infiltration/evaporation and all the sludge is hauled off site. The Company owns this WWTP.

The 53-lot Subdivision’s sewer collection system consists of approximately 1,350 feet of 8-inch sewer main and five manholes serving approximately 40 service laterals, with 5 to 8 homes being permanent customers, during the test year ending December 2010. Flows from the collection system were combined at a lift station (equipped with two 2-Horsepower pumps) and then transported through 2,500 feet of 3-inch force main to the WWTP. According to the Company, the Emerald Springs Home Owners Association (“HOA”) was the only customer and the HOA owns the collection system and the force main.

A sewer system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1. Treatment Plant

Name	Plant Capacity
Emerald Springs Unit 1 WWTP	20,000 GPD extended aeration treatment plant

Table 2. Force Main and Lift Station

Location	Plant Facilities	Quantity
Lift Station	2-Hp pumps	2 each
Force Main	3-inch PVC	2,500 feet

Tables 3a & 3b. Collection System

Mains		
Diameter	Material	Length (ft.)
8-inch	PVC	1,350

Manholes	
Size	Quantity
Standard	5

Table 4. Service Laterals

Lateral Size	Quantity
4-inch	40
6-inch	
8-inch	
Total:	40

Prior Sewer Service by Thompson

In 2000 the Subdivision was constructed which at that time pumped the wastewater flow to a 45,000 GPD WWTP owned by Doyle Thompson. Thompson's WWTP is located approximately one-quarter mile east of the Company's WWTP. In 2004 Mr. Thompson had a conflict with the HOA, resulting in discontinuing service to the then 8 to 10 homes being served. The HOA continued its own service by collecting the wastewater flow at the lift station and

contracting a pumping service to remove the waste. This pumping service continued until the Company constructed its 20,000 GPD WWTP in 2004. However, on March 6, 2012, the Subdivision disconnected from the Company's WWTP and reconnected to Doyle Thompson's WWTP that included a Temporary Agreement for Sewer Service for a period of 12 months to gather data required for making business decisions by both Mr. Thompson and the HOA.

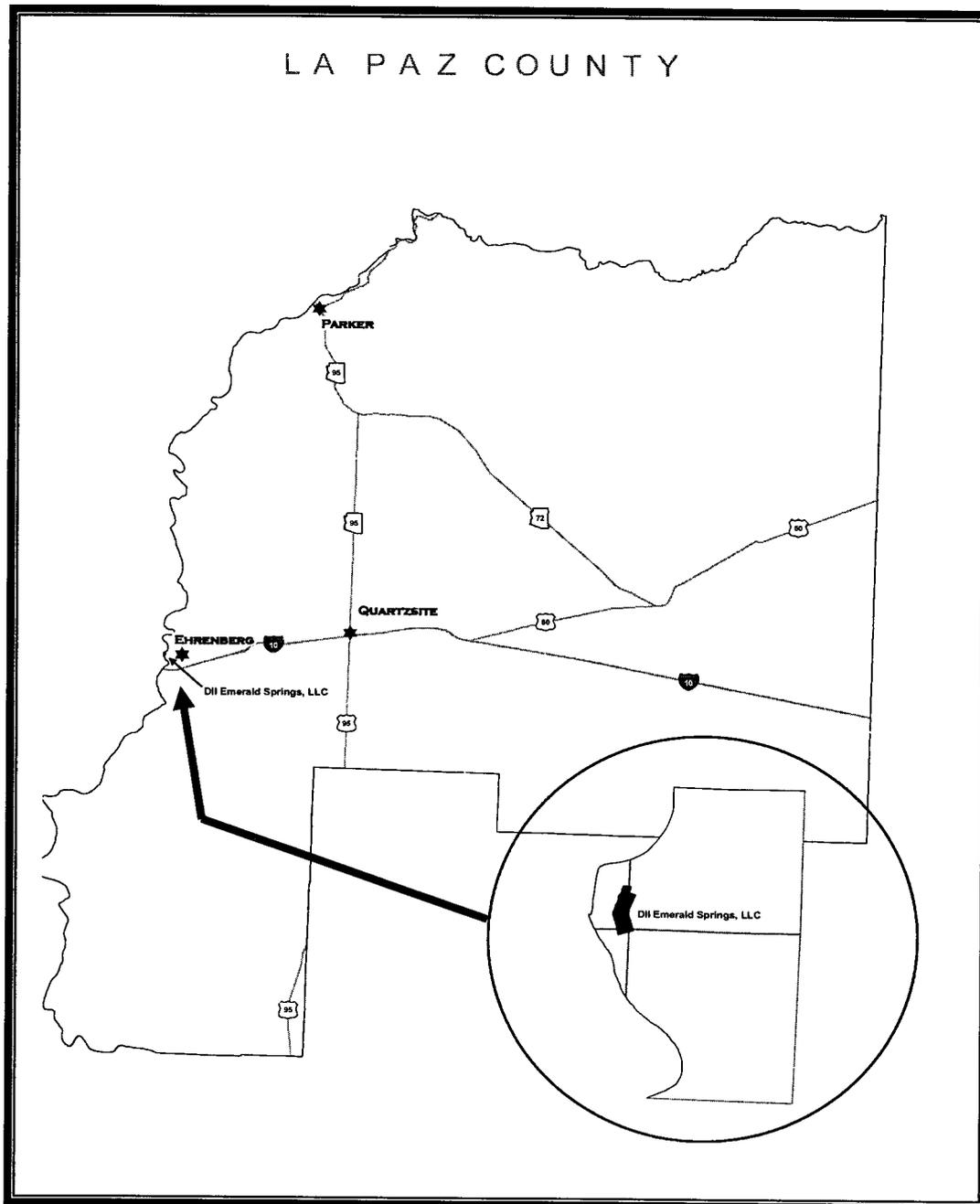


Figure 1. County Map

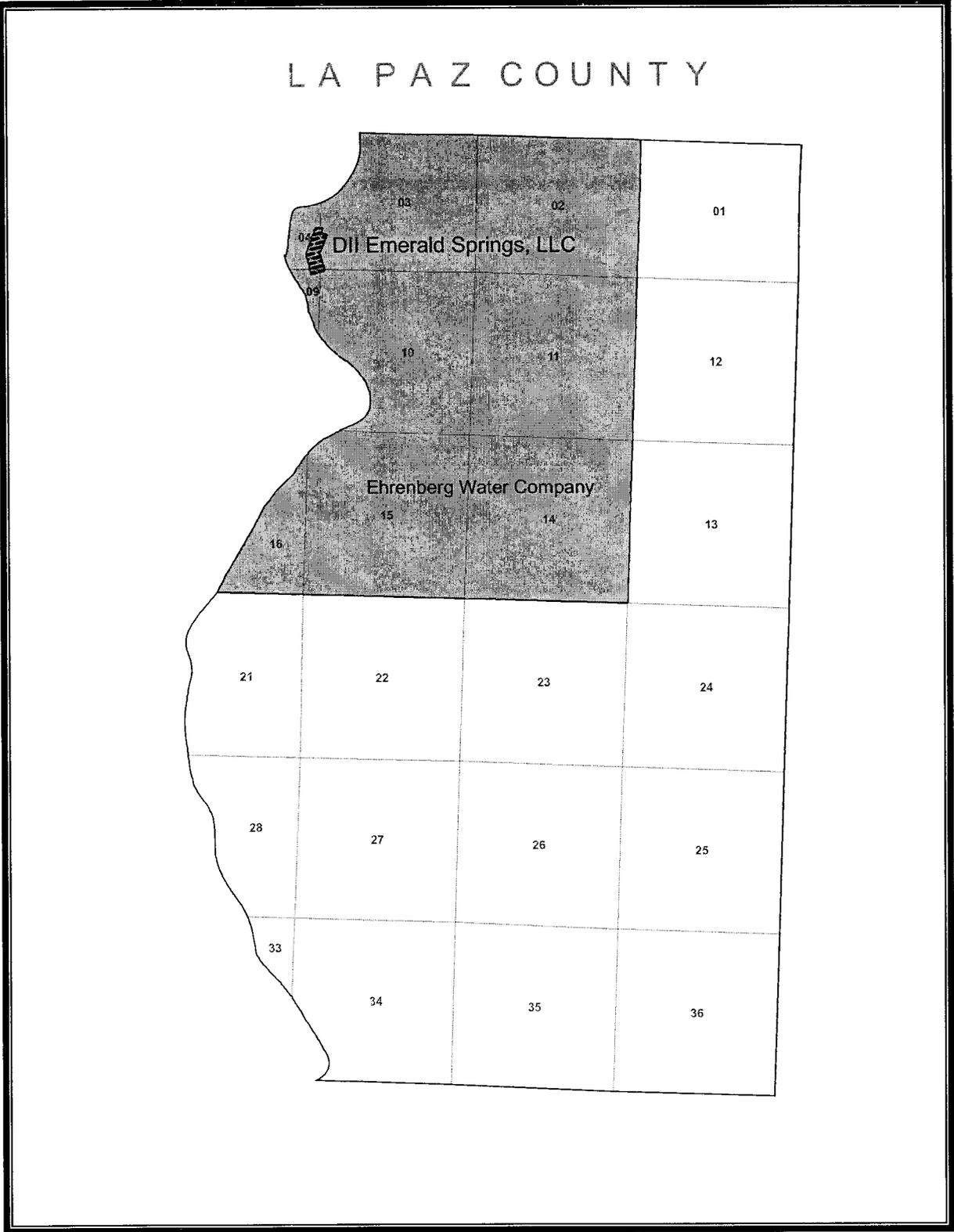


Figure 2. Certificated Area

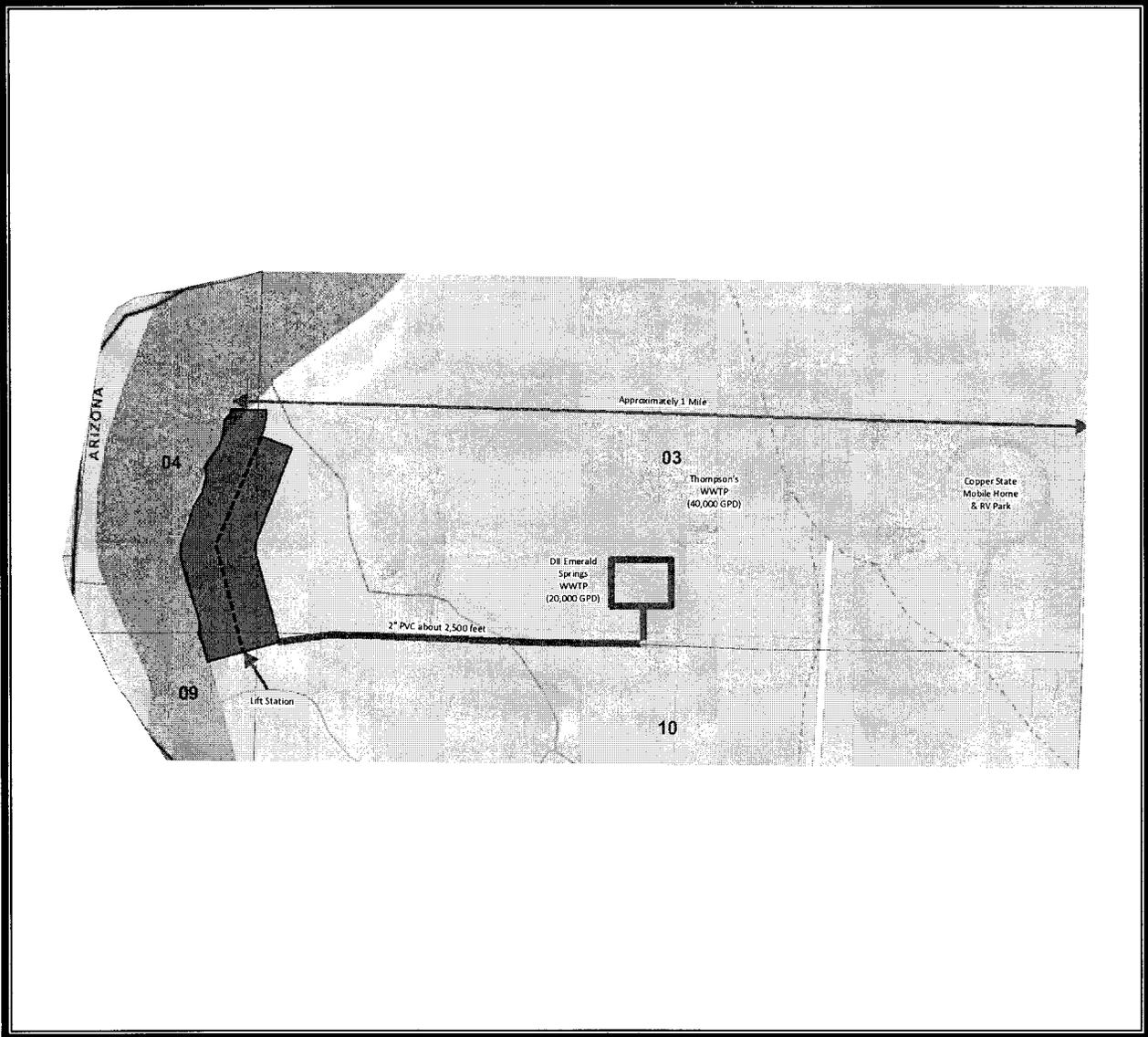


Figure 3. System Schematic

C. SEWER FLOWS

Sewer Flows

Based on the information provided by the Company, sewer flows for part of the 2010 test year and the first quarter of 2011 are presented in Figure C-1. For the average daily flows, September 2010 experienced the highest flow of 140 gallons per day (“GPD”) per service lateral. For the peak day flows, September 2010 also had the highest flow when 5,910 gallons were treated in one day.

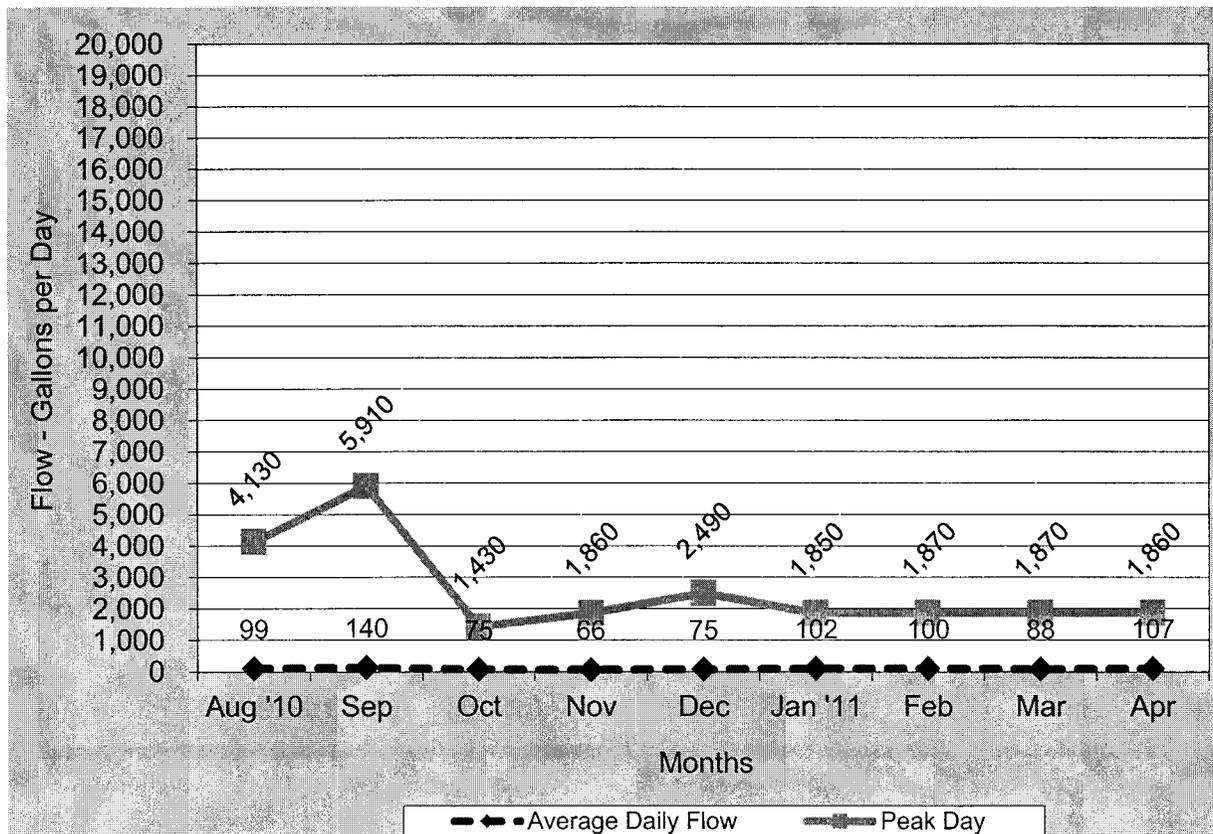


Figure C-1. Sewer Flows

Month	Average Daily Flow, in GPD per service lateral	Peak Day, in GPD
Aug '10	99	4,130
Sep	140	5,910
Oct	75	1,430
Nov	66	1,860
Dec	75	2,490
Jan '11	102	1,850
Feb	100	1,870
Mar	88	1,870
Apr	107	1,860

Table C-1. Sewer Flows

System Analysis

If each of the 53 Subdivision lots were to use 280 GPD (140 GPD x 2 (peaking factor))¹, then the flow would equate to approximately 15,000 GPD. As a result, the 20,000 GPD WWTP capacity is adequate to serve the Subdivision.

D. PLANT-IN-SERVICE

The Company submitted a plant-in-service cost of \$451,131. Staff has reviewed this plant-in-service amount and has correlated the plant items to match the costs as shown in Table D-1 below. This Table D-1 should be used as a guideline for the plant-in-service review.

¹ The flow data used is from part of the 2010 test year and the first quarter of 2011.

Table D-1. Plant-in-Service

Acct. No.	Plant-in-Service	2000	2004	2005	2006	2007	2008	2009	2010	TOTAL
301	Organization		-	-	-	-	-	-	-	
302	Franchise		-	-	-	-	-	-	-	
353	Land & Land Rights		-	-	-	-	-	-	-	
354	Structures & Improvements		-	-	-	-	-	-	-	
	Chain link fencing, 300 ft x 300 ft		12,948	-	-	-	-	-	-	\$ 12,948
360	Collection Sewer - Force		-	-	-	-	-	-	-	
	Lift station - two 2-Hp pumps	CIAC	-	-	-	-	-	-	-	
	2,500 ft. of 2-inch main	CIAC	-	-	-	-	-	-	-	
361	Collection Sewer - Gravity		-	-	-	-	-	-	-	
	1,350 ft. of 8-inch main	CIAC	-	-	-	-	-	-	-	
	Manholes, 5 ea.	CIAC	-	-	-	-	-	-	-	
363	Service to Customers		-	-	-	-	-	-	-	
	4-inch laterals, 40 ea.	CIAC	-	-	-	-	-	-	-	
364	Flow Measuring Devices		-	-	-	-	-	-	-	
	Flow meter		-	-	-	-	-	2,278	-	\$ 2,278
380	Treatment & Disposal Equipment		-	-	-	-	-	-	-	
	20,000 GPD WWTP		315,527	-	-	-	-	-	-	\$ 315,527
	Electrical, site finish		62,045	-	-	-	-	-	-	\$ 62,045
	Engineering, permits		16,604	1,705	1,155	7,059	-	-	-	\$ 26,523
	APS power service		2,840	-	-	-	-	-	-	\$ 2,840
	ADEQ APP		1,000	708	410	2,882	3,675	4,754	1,109	\$ 14,538
	Legal fees for 208 plan, NOVs		-	-	-	14,432	-	-	-	\$ 14,432
			410,964	2,413	1,565	24,373	3,675	7,032	1,109	\$ 451,131

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

Aquifer Protection Permit ("APP")

On May 27, 2004, an APP application was submitted to ADEQ. On June 10, 2010, ADEQ issued the APP, No. P-105513, that authorized the construction, operation and maintenance of the Company's WWTP. During this APP approval process, the Company had to address and correct Notice of Violations and Consent Orders issued by ADEQ.

Compliance

In an ADEQ compliance status report, dated June 29, 2011, ADEQ reported the Company's wastewater system, No. 105513, was not in compliance with ADEQ regulations. Based on the Company's APP requirements, the Company has not complied with numerous monitoring and reporting requirements. In addition, the Company has requested an APP Amendment to reduce the monitoring frequencies. This Amendment request is still under review and is not yet issued.

Before any customer (including the Subdivision) connects to the Company's wastewater system, Staff recommends that the Company file with Docket Control, as a compliance item, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in compliance.

F. DEPRECIATION RATES

The Commission has been adopting Staff's typical and customary depreciation rates. These rates are presented in Table G-1 and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners account.

Table G-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.00
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398 – 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.

G. OTHER ISSUES

Service Lateral Installation Charges

The Company requested a 4-inch service lateral installation charge of \$3,500. In its review, Staff found that all the service taps/laterals have been installed up to the property lines. In addition, since the Company does not own the Subdivision collection system, Staff

recommends that the Company's proposed charge be denied and that no charge be adopted as shown in Table H-1 below:

Table H-1. Service Lateral Installation Charge

Lateral Size	Company's Proposed Charges	Staff's Proposed Charges
4-inch	\$3,500	\$0

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

DOYLE THOMPSON

DOCKET NO. SW-20851A-12-0226

**APPLICATION OF DOYLE THOMPSON TO
PROVIDE WASTEWATER SERVICE TO
THE EMERALD SPRINGS SUBDIVISION
HOMEOWNERS ASSOCIATION**

MARCH 8, 2013

DOYLE THOMPSON
DOCKET NO. SW-20851A-12-0226

On June 7, 2012, Doyle Thompson (“Thompson” or “Company”) filed an application with the Arizona Corporation Commission (“ACC”) for a new Certificate of Convenience and Necessity (“CC&N”) to provide wastewater services to the Emerald Springs Subdivision Homeowners’ Association (“HOA”) in a service area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker in La Paz, Arizona.

Conclusions and Considerations

Pursuant to A.R.S. §40-281. et. seq., the ACC is authorized to issue a CC&N to a public service corporation upon a showing that granting the CC&N to a particular applicant would serve the public interest.

Staff does not believe that granting a CC&N to Doyle Thompson is in the public interest at this time.

Thompson violated A.R.S. § R14-2-602(B)(1) by constructing and/or operating a wastewater system for public use prior to obtaining approval from the ACC. Additionally, there is a history of discord between Thompson and the Emerald Springs HOA. The ability to provide efficient and effective customer service is imperative for a CC&N provider. There are no assurances at this point that Thompson can assure effective service with the HOA.

Additionally, as explained in the Staff Report, Thompson’s wastewater treatment capacity is constrained and is going to be an issue.

Staff’s research has also revealed questionable conduct of Doyle Thompson. Mr. Thompson has been arrested and convicted of numerous misdemeanor offenses, including assault, disorderly conduct, and tax evasion. Additionally, in 2011, Mr. Thompson pled guilty to an undesignated felony tax violation for trafficking and selling large quantities of unstamped and illegal cigarettes.

Staff Recommendations

Staff recommends that Doyle Thompson’s CC&N application for providing wastewater service to the Emerald Springs HOA be denied. For reasons stated above, Staff does not believe that Thompson would be a fit and proper entity to be entrusted with being a public wastewater provider. Staff also recommends that since Doyle Thompson is currently serving as a public service corporation, he continue to serve the Copper State and HOA Subdivision customers at the rates and conditions of service recommended by Staff in this report.

In addition, Staff recommends that Thompson be prohibited from connecting any new customers to his wastewater system without prior approval from the Commission and ADEQ.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
BACKGROUND	1
DESCRIPTION OF THOMPSON’S SEWER SYSTEM	1
LOCATION OF THOMPSON	1
THOMPSON’S SEWER SYSTEM.....	1
SUBDIVISION’S COLLECTION SYSTEM.....	2
PRIOR SEWER SERVICES.....	2
ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”).....	2
SEWER FLOWS.....	2
MANAGERIAL/TECHNICAL/FINANCIAL CAPABILITY TO PROVIDE REQUESTED SERVICES	3
OWNERSHIP AND OPERATIONS.....	3
MANAGERIAL EXPERTISE.....	3
TECHNICAL EXPERTISE	3
FINANCIAL CAPABILITY	3
CONCLUSIONS AND CONSIDERATIONS	3
STAFF RECOMMENDATIONS	4

EXHIBITS

Temporary Agreement for Sewer Service	1
Engineering Map.....	2

INTRODUCTION

On June 7, 2012, Doyle Thompson (“Thompson”) filed an application with the Arizona Corporation Commission (“Commission” or “ACC”) for a new Certificate of Convenience and Necessity (“CC&N”) to provide wastewater services to the Emerald Spring Subdivision Homeowners’ Association (“Subdivision” or “HOA”) in a service area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker in La Paz, Arizona.

BACKGROUND

In March of 2012, the HOA, through its own actions, ceased receiving sewer service from DII-Emerald Springs, LLC wastewater system and began receiving sewer service from Doyle Thompson, who was already providing sewer service to Copper State Mobile Home and RV Park (“Copper State”), for which Mr. Thompson is the sole owner. A Temporary Agreement for Sewer Services was executed between Doyle Thompson and the HOA on March 6, 2012, for a twelve (12) month test period which is attached as Exhibit 1. The Temporary Agreement states that it can be rolled over to a Permanent Agreement with approval of Doyle Thompson and the HOA.

On June 7, 2012, Mr. Thompson filed an application for a CC&N to provide sewer service to the Emerald Springs Subdivision HOA. The HOA expressed support for Mr. Thompson’s CC&N application.

DESCRIPTION OF THOMPSON’S SEWER SYSTEM

Location of Thompson

Thompson is located approximately one mile north of Ehrenberg along the Colorado River. Figure 1 of the Engineering Report shows the location of Thompson within La Paz County and Figure 2 of that Report shows the requested CC&N for the Emerald Spring Subdivision covering approximately 29.6 acres or 0.08 square miles. Thompson’s wastewater treatment plant (“WWTP”), located approximately 4,200 feet or 0.8 miles east of the Subdivision, is outside the requests CC&N area. The legal description and map of the requested CC&N area is attached as Exhibit 3.

Thompson’s Sewer System

Thompson currently provides sewer service to his own properties; Copper State and a residential lot, and services to the Subdivision. Doyle Thompson proposes to service approximately 99 customers; 22 RV Park customers; 37 Mobile Home Park customers; and 40 HOA customers. The full description of the Thompson Sewer System is explained in the Engineering Report, Exhibit 2.

Subdivision's Collection System

The 53-lot Subdivision consists of approximately 1,350 feet of 8-inch main and five manholes serving approximately 40 service laterals, with 5 to 8 homes being permanent customers; and the remaining homes are second, vacation, weekend or vacation rental homes. Currently, flows from the collection system are combined at a lift station (equipped with two 2-Horsepower pumps) and then transported through 4,200 feet of 3-inch force main to the Thompson WWTP. The HOA owns the subdivision collection system and the force main.

Prior Sewer Services

The Subdivision was constructed in 2000 and pumped its wastewater flow to the Thompson WWTP. In 2004, Thompson had a conflict with the HOA, resulting in discontinuing service to the then 8 to 10 homes being served. The HOA continued its own service by collecting the wastewater flow at the lift station and contracted a pumping service to remove the waste. This pumping service continued until DII-Emerald Springs constructed its 20,000 gallons per day ("GPD") package sewer plant WWTP in 2004. On March 6, 2012, the Subdivision disconnected from the DII plant and reconnected to Thompson that included the Temporary Agreement.

Arizona Department of Environmental Quality ("ADEQ")

According to ADEQ, Thompson's wastewater system, No. 102043 and G-0020-15, has a Type 1.09 General Permit which requires no reporting requirement for facility inspection. Although the Thompson WWTP is rated at 45,000 GPD, the issuance of this General Permit limits the flow rate to 20,000 GPD and restricts any treatment plant modifications. If Thompson were to violate the conditions of the General Permit, Thompson would be required to apply for another permit. Since the WWTP is not likely to qualify for any of the General Permits, Thompson would almost certainly have to apply for an Individual Aquifer Protection Permit ("APP").

Sewer Flows

A complete system analysis is provided of the sewer flow data in the Engineering Report, Exhibit 2. Staff concluded that Thompson's WWTP is near its restricted capacity of 20,000 GPD with a peak data flow of 18,922 GPD in December 2012. Since the Thompson WWTP is connected to the HOA's 53-lot subdivision, Thompson would be responsible to provide service to any and all 53 lots upon request. If all 40 of the existing HOA homes become occupied, the Thompson WWTP would need more than the restricted capacity of 20,000 GPD. When Thompson's WWTP reaches the restricted 20,000 GPD capacity, under the Type 1.09 General Permit, Mr. Thompson will need to apply for an Individual APP. The cost of filing this ADEQ – APP is estimated at \$50,000. This cost would be in addition to any plant modification costs incurred at the Thompson WWTP that would be needed to meet the APP's Best Available Demonstrated Control Technology and the Aquifer Water Quality Standard requirements.

MANAGERIAL/TECHNICAL/FINANCIAL CAPABILITY TO PROVIDE REQUESTED SERVICES

Ownership and Operations

Doyle Thompson is the sole owner and operator of Copper State Mobile Home and RV Park and the WWTP serving Copper State and the HOA.

Managerial Expertise

Doyle Thompson manages the day-to-day operations of the Copper State sewer plant. Prior to his disconnection of service to the Subdivision in 2004, he had agreements with various owners and/or the HOA to provide sewer service to the Subdivision since 1997.

Technical Expertise

James Grimes is the certified operator for Thompson.

Financial Capability

This report addresses the Company's financial ability to provide the requested services. All of the financial information, including proposed rates, is covered in that information. The final proposed rates recommended for Doyle Thompson's system is a flat fee monthly charge of \$149.85 per lot for the HOA, \$87.91 for the Mobile Home Park, and \$44.85 for the RV Park.

CONCLUSIONS AND CONSIDERATIONS

Pursuant to A.R.S. §40-281, *et. seq.*, the ACC is authorized to issue a CC&N to a public service corporation only on a showing that granting the CC&N to a particular applicant would serve the public interest.

Staff does not believe that granting a CC&N to Thompson would be in the public interest at this time.

Thompson violated A.A.C. R14-2-602(B)(1) by constructing and/or operating a wastewater system for public use prior to obtaining approval from the ACC. Additionally, there is a history of discord between Thompson and the Emerald Springs HOA. The ability to provide efficient and effective customer service is imperative for a CC&N provider. There are no assurances at this point that Thompson can assure effective service with the HOA.

Additionally, as explained in the Staff Reports for Thompson, wastewater treatment capacity is going to be an issue.

Staff's research has also revealed questionable conduct of Doyle Thompson. Mr. Thompson has been arrested and convicted of numerous misdemeanor offenses, including assault, disorderly conduct, and tax evasion. Additionally, in 2011, Mr. Thompson pled guilty to an undesignated felony tax violation for trafficking and selling large quantities of unstamped and illegal cigarettes.

STAFF RECOMMENDATIONS

Staff recommends that Doyle Thompson's CC&N application for providing wastewater service to the Emerald Springs HOA as well as Copper State's service area be denied. For reasons stated above, Staff does not believe that Thompson would be a fit and proper entity to be entrusted with being a public wastewater provider. Staff also recommends that since Doyle Thompson is currently serving as a public service corporation, he continue to serve the Copper State and HOA Subdivision customers at the rates and conditions of service recommended by Staff.

In addition, Staff recommends that Thompson not connect any new customers to his wastewater system without prior approval from the Commission and ADEQ.

TEMPORARY AGREEMENT FOR SEWER SERVICE

The TEMPORARY AGREEMENT FOR SEWER SERVICE ("AGREEMENT") will become effective as of the 6 day of MARCH, 2012 by and between (EMERALD SPRINGS HOME OWNERS ASSOCIATION) the ("HOA"), an Arizona nonprofit association and (DOYLE THOMPSON) an individual.

The TEMPORARY AGREEMENT FOR SEWER SERVICE ("AGREEMENT") will be in effect for a period of twelve (12) continuous months to gather data required for making business decisions by both the sewer treatment provider (DOYLE THOMPSON) and the ("HOA"). When the required data has been evaluated by both the sewer treatment provider (DOYLE THOMPSON) and the ("HOA"), the TEMPORARY AGREEMENT FOR SEWER SERVICE ("AGREEMENT") can be rolled over to a PERMANENT AGREEMENT FOR SEWER SERVICE with the approval of both (DOYLE THOMPSON) and the ("HOA").

RECITALS:

- A. Emerald Springs ("Emerald Springs") is a residential subdivision located in the city of Ehrenberg in La Paz County, Arizona. The subdivision consists of 52 lots (individually referred to as a "Lot") There are currently 40 homes built on 40 of the available 52 lots.
- B. The ("HOA") is the home owners association for EMERALD SPRINGS subdivision.
- C. The ("HOA") an Arizona nonprofit association, wishes to terminate the AGREEMENT REGARDING SEWER SERVICES between DYNAMIC FINANCIAL & INVESTMENT SERVICES INC., a California corporation, dba Dynamic Homes (Dynamic).
- D. (DOYLE THOMPSON) is willing to allow the existing homes in Emerald Springs subdivision to connect to his sewer services upon the terms and conditions set forth.
- E. The ("HOA") is the representative of the existing lot owners and has full authority to enter into this ("AGREEMENT") on behalf of the existing lot owners.

Now, therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the ("HOA") an Arizona nonprofit association and (DOYLE THOMPSON) agree as follows.

AGREEMENTS:

1. **Recitals.** The parties hereby acknowledge the accuracy of the Recitals set forth above.
2. **Fees.** The per lot fees for connection and use of the sewer treatment facility shall be as follows:
3. Any lot owner erecting new construction on any of the vacant lots requiring sewer service shall individually pay to (DOYLE THOMPSON) a onetime sewer connection fee of \$4000.00. This fee must be paid by the individual lot owner before any new construction can begin. The monthly sewer service fee for each subsequently improved lot (New Construction) will commence upon issuance of the certificate of occupancy for such lot by La Paz County, Arizona.
4. The ("HOA") shall pay to (DOYLE THOMPSON), a monthly sewer service fee of fifty (\$50.00) per month for each existing lot commencing upon connection to sewer service. There are 40 existing homes requiring sewer service within the 52 lots comprising the Emerald Springs subdivision. The current monthly sewer service fee payable by the ("HOA") to (DOYLE THOMPSON) shall be Two Thousand Dollars (\$2000.00) per month.
5. The amount of the monthly sewer service fee will be reviewed on an annual basis. (DOYLE THOMPSON) shall be entitled to adjust the sewer service fee annually based, however, said monthly sewer service fees shall not increase by more than seven and one half percent (7 1/2%) per twelve month period.
6. **Maintenance.** (DOYLE THOMPSON) shall be responsible for the maintenance of the sewer facility. The ("HOA") shall be responsible for maintenance of the lift station and electricity to the lift station and the delivery system to (DOYLE THOMPSON'S) treatment plant.
7. If for some reason ADEQ requests DOYLE THOMPSON to test or treat the waste water in the sewer plant due to the extra effluent created by receiving waste water from ("HOA") Emerald Springs Subdivision, DOYLE THOMPSON will cover the cost for the first (1st) year and after the first ("1st") year, ("HOA") Emerald Springs subdivision will cover the cover cost if any.

10 CONT.

8. **Payments.** DOYLE THOMPSON shall provide the ("HOA") with a yearly statement indicating all sewer service fees due and payable from ("HOA"). The ("HOA") shall be entitled to pass on such charges to the existing individual homeowners and subsequent homeowners through the collection of ("HOA") assessments at the rate of fifty (\$50.00) per month or currently two thousand dollars (\$2000.00) per month. Should either party ("HOA") or (DOYLE THOMPSON) default, the yearly sum of Twenty four thousand dollars (\$24,000) shall be prorated to the end of the last Sewer service month provided to the ("HOA") by (DOYLE THOMPSON).
9. **Default.** In the event of any default by either party of its obligations under this ("AGREEMENT"), the non-defaulting party shall have all rights and remedies available under applicable law. In addition, in the event that the ("HOA") fails to make any payment required pursuant to this agreement, (DOYLE THOMPSON) shall have the right to (1) collect a late fee of ten percent (10%) of the payment due, (2) disconnect the sewer treatment facility upon thirty (30) days prior written notice if the default is not cured within said thirty (30) day period.
10. **Governing Law.** This agreement shall be governed construed accordingly to Arizona Law.
11. **Execution.** This agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall be deemed one and the same ("AGREEMENT"). Signatures to this ("AGREEMENT") may be exchanged by telecopy.

EMERALD SPRINGS HOME OWNERS ASSOCIATION

By

3.6.12

DOYLE THOMPSON

By

Doyle Thompson 3-6-12

MEMORANDUM

TO: Vicki Wallace
Chief, Consumer Services & Special Projects
Utilities Division

FROM: Barb Wells *bw*
Information Technology Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: February 19, 2013

RE: **DOYLE THOMPSON (DOCKET NO. SW-20851A-12-0226)**

The area requested by Doyle Thompson for a CC#N for wastewater service has been plotted using the legal description filed in the docket on July 9, 2012 (a copy of which is attached).

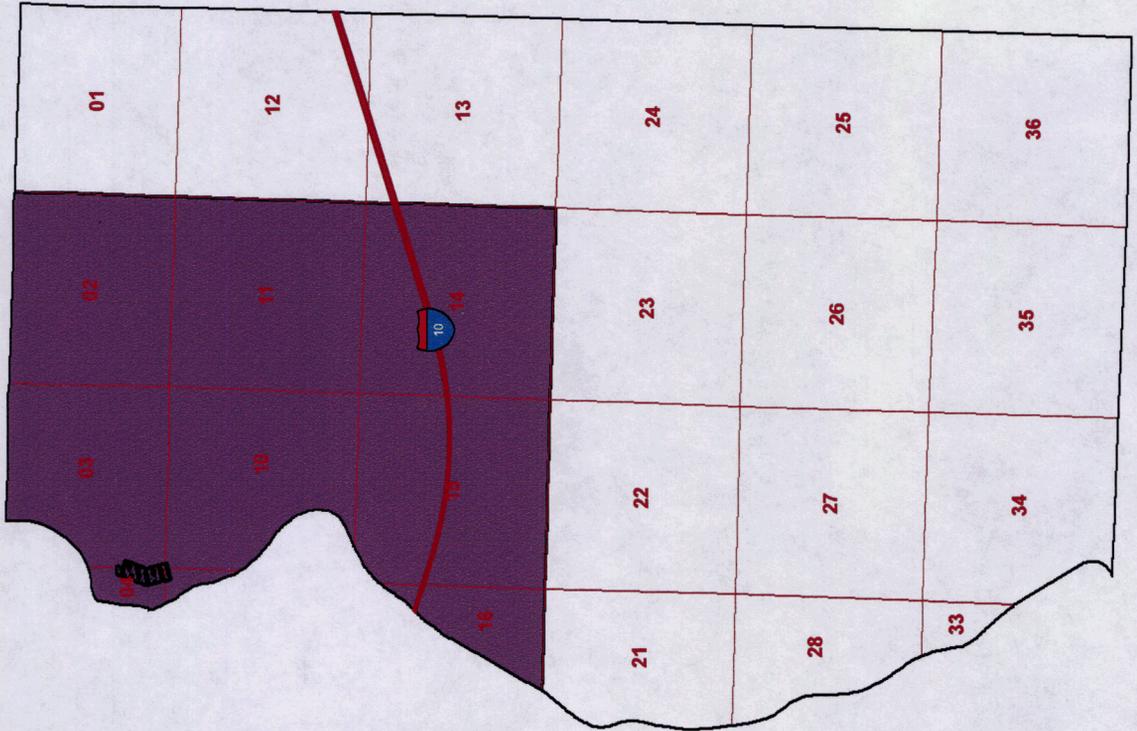
Also attached is a copy of the map for your files along with a map that shows the area enlarged for more detail.

:bsw

Attachments

cc: Mr. Doyle Thompson
Ms. Deb Person (Hand Carried)
Mr. Marlin Scott, Jr.
File

RANGE 22 West



W-02273A (2)
 Ehrenberg Improvement Association
 dba Ehrenberg Water Company

(1)
 DII-Emerald Springs, LLC
 Docket No. WS-20794A-11-0140
 Application for CC&N for Sewer

(1)
 Doyle Thompson
 Docket No. SW-20851A-12-0226
 Application for CC&N for Sewer

TOWNSHIP 3 North

California



Prepared by:
 Arizona Corporation Commission
 Utilities Division
 Engineering Section/GIS Mapping
 602-542-4251



04

03

09

10

ORIGINAL

RECEIVED

2012 JUL -9 P 12:07

DII-EMERALD SPRINGS, LLC
DOCKET NO. SW-20851A-12-0226
AMENDED LEGAL DESCRIPTION

CORP COMMISSION

~~BEGINNING~~ at the Northeast corner of LOT FOUR (4) of Section 3, Township 3 North, Range 22 West, of the Gila and Salt River Base and Meridian, La Paz County, Arizona, said corner being North 00 degrees 21 minutes 04 seconds West a distance of 1320.02 feet from the Southeast corner of said Section 3;

THENCE North 89 degrees 52 minutes 45 seconds West along the north line of Lot 4 a distance of 735.77 feet to the Northwest corner of said Lot 4:

THENCE North 87 degrees 44 minutes 45 seconds West a distance of approximately 1747.91 feet to a point on the east line of Section 25, Township 6 South, Range 23 East, San Bernardino Base and Meridian;

THENCE N 87-44-45 W a distance of approximately 2762.07 feet to the left descending bank of the Colorado River and the TRUE POINT OF BEGINNING;

THENCE South 16 degrees 28 minutes 38 seconds West a distance of 35.99 feet;

THENCE South 45 degrees 54 minutes 34 seconds West a distance of 44.55 feet;

THENCE South 04 degrees 58 minutes 11 seconds West a distance of 23.09 feet;

THENCE South 10 degrees 36 minutes 47 seconds West a distance of 82.63 feet;

THENCE South 20 degrees 07 minutes 38 seconds West a distance of 50.01 feet;

THENCE South 35 degrees 50 minutes 50 seconds West a distance of 51.66 feet;

THENCE South 35 degrees 50 minutes 50 seconds West a distance of 51.66 feet;

THENCE South 30 degrees 21 minutes 48 seconds West a distance of 50.64 feet;

THENCE South 11 degrees 06 minutes 08 seconds East a distance of 39.12 feet;

THENCE South 06 degrees 49 minutes 06 seconds East a distance of 19.23 feet;

THENCE South 16 degrees 41 minutes 57 seconds West a distance of 50.16 feet;

THENCE South 16 degrees 41 minutes 57 seconds West a distance of 50.15 feet;

THENCE South 29 degrees 14 minutes 34 seconds West a distance of 50.49 feet;

THENCE South 31 degrees 28 minutes 37 seconds West a distance of 50.80 feet;

THENCE South 17 degrees 50 minutes 22 seconds West a distance of 50.09 feet;

THENCE South 11 degrees 35 minutes 08 seconds West a distance of 34.46 feet;

THENCE South 22 degrees 43 minutes 38 seconds West a distance of 25.44 feet;

THENCE South 20 degrees 40 minutes 56 seconds West a distance of 60.62 feet;

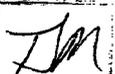
THENCE South 19 degrees 49 minutes 35 seconds West a distance of 63.03 feet;

THENCE South 03 degrees 56 minutes 50 seconds West a distance of 34.61 feet;

Arizona Corporation Commission

DOCKETED

JUL 09 2012

DOCKETED 

THENCE South 09 degrees 04 minutes 44 seconds West a distance of 27.74 feet;
THENCE South 09 degrees 47 minutes 08 seconds East a distance of 61.73 feet;
THENCE South 15 degrees 53 minutes 19 seconds East a distance of 61.31 feet;
THENCE South 15 degrees 11 minutes 30 seconds East a distance of 50.00 feet;
THENCE South 19 degrees 45 minutes 56 seconds East a distance of 50.16 feet;
THENCE South 17 degrees 28 minutes 56 seconds East a distance of 50.04 feet;
THENCE South 17 degrees 28 minutes 56 seconds East a distance of 50.04 feet;
THENCE South 16 degrees 20 minute 15 seconds East a distance of 50.01 feet;
THENCE South 16 degrees 20 minute 15 seconds East a distance of 50.01 feet;
THENCE South 01 degrees 46 minutes 34 seconds East a distance of 34.94 feet;
THENCE South 05 degrees 00 minutes 45 seconds West a distance of 17.06 feet;
THENCE South 10 degrees 13 minutes 28 seconds West a distance of 25.40 feet;
THENCE South 23 degrees 23 minutes 52 seconds East a distance of 27.34 feet;
THENCE South 16 degrees 22 minutes 27 seconds East a distance of 21.79 feet;
THENCE South 24 degrees 21 minutes 16 seconds East a distance of 28.57 feet;
THENCE South 11 degrees 45 minutes 29 seconds East a distance of 50.09 feet;
THENCE South 17 degrees 28 minutes 56 seconds East a distance of 50.04 feet;
THENCE North 74 degrees 48 minutes 30 seconds East a distance of 457.00 feet;
THENCE North 15 degrees 11 minutes 30 seconds West a distance of 550.00 feet to the
beginning of a tangent curve to the right having a radius of 125.00 feet, an angle of 36 degrees 27
minutes 53 seconds and a length of 79.55 feet;
THENCE North 21 degrees 16 minutes 23 seconds East a distance of 600.00 feet;
THENCE North 68 degrees 43 minutes 37 seconds West a distance of 200.00 feet;
THENCE North 21 degrees 16 minutes 23 seconds East a distance of 24.78 feet to the beginning
of a tangent curve to the left having a radius of 362.40 feet, an angle of 21 degrees 00 minutes 00
seconds and a length of 132.84 feet;
THENCE North 89 degrees 43 minutes 45 seconds West a distance of 50.00 feet;
THENCE North 87 degrees 44 minutes 45 seconds West a distance of 175.00 feet to the POINT
OF BEGINNING.

PARCEL 302-48-011A

BEGINNING at the Northeast corner of LOT FOUR (4) of Section 3, Township 3 North, Range 22 West, of the Gila and Salt River Base and Meridian, La Paz County, Arizona, said corner being North 00 degrees 21 minutes 04 seconds West a distance of 1320.02 feet from the Southeast corner of said Section 3;

THENCE North 87 degrees 44 minutes 45 seconds West along the north line of Lot 4 a distance of 270.40 feet to the POINT OF BEGINNING;

THENCE South 00 degrees 20 minutes West a distance of 310.00 feet;

THENCE North 87 degrees 44 minutes 45 seconds West a distance of 20.00 feet;

THENCE South 00 degrees 20 minutes West a distance of 300.00 feet;

THENCE North 87 degrees 44 minutes 45 seconds West a distance of 1826.96 feet;

THENCE North 00 degrees 20 minutes East a distance of 610.00 feet;

THENCE South 87 degrees 44 minutes 45 seconds East a distance of approximately 1911.93 feet to the POINT OF BEGINNING.

BACKGROUND

Doyle Thompson owns, operates, and provides wastewater services for Copper State Mobile Home and RV Park (“Copper State”), an unregulated Company.

On March 6, 2012, Doyle Thompson entered into a contract (entitled “Temporary Agreement for Service”) to provide sewer service to Emerald Springs Home Owners Association (“Agreement”)¹. On March 8, 2012, Staff contacted Doyle Thompson (“Company”) and confirmed that the Company was providing wastewater services to the Emerald Springs Homeowners Association (“HOA”). The Company did not obtain a Certificate of Convenience and Necessity (“CC&N”) prior to initiating service as required by Arizona Administrative Code R14-2-402.

On June 7, 2012, Doyle Thompson filed an application for a Certificate of Convenience and Necessity to provide wastewater service to the HOA. On July 9, 2012, Staff filed an Insufficiency Letter. On October 16, 2012, Staff filed a letter regarding additional insufficiency items. On January 7, 2013, Staff filed a Sufficiency Letter.

PROPOSED WASTEWATER SYSTEM AND CUSTOMER COUNT

The proposed wastewater system consists of Copperstate’s existing plant that serves the Mobile Home and RV parks and the new plant that serves the HOA. It is operated as one wastewater system. The Company proposes to serve approximately 99 customers: 22 RV Park customers; 37 Mobile Home Park customers; and 40 HOA customers.

FINANCIAL ANALYSIS

Historical information exists but is not sufficient for the financial analysis because the Agreement was not in effect for 12 full months at the time the Company filed its application. Further, the RV and Mobile Home parks’ records for the wastewater revenue, operating expenses and plant costs were not always maintained in accordance to the National Association of Regulatory Utility Commissioners (“NARUC”) Uniform System of Accounts (“USoA”). The Company provided the required pro forma balance sheet and income statement for three years. Additionally, in response to a data request, the Company provided plant costs for its combined system. Staff used the plant costs provided and third year operating expense data as the basis of its recommended rates and charges.

The Company proposed rates (which are its current unauthorized rates), as filed, produce total operating revenue of \$38,190 and an operating loss of \$57,280, for no rate of return on a Staff adjusted original cost rate base (“OCRB”) of \$249,428. The Company proposes a \$75 flat rate for residential customers of the HOA.

¹ On November 27, 2012, the Company filed a copy of the Agreement in response to item no. 10 in Staff’s Insufficiency Letter.

Staff's recommended rates produce total operating revenue of \$114,453 and no operating income. Staff's rate base is \$249,428. Staff recommends a \$149.85 per lot flat rate for residential customers of the HOA.

RATE BASE

The Company did not provide a rate base calculation. Staff utilized the information provided in the Company's application in addition to responses to data requests to calculate a rate base of \$249,428.

Plant in Service

The Company provided the required pro forma balance sheet which included actual costs. However, the RV and Mobile Home Park's records for the wastewater plant costs were not recorded and maintained in accordance to the NARUC USoA. Additionally, in response to a data request CSB-2.2, the Company provided plant costs totaling \$403,500 by NARUC account number for its combined system. The Company had some supporting invoices for the new plant constructed for the HOA but had no invoices to support the Copper State plant costs. Staff reviewed the \$403,500 and considered the amount reasonable. Staff's recommended plant in service values are shown on Schedule CSB-2, pages 1 and 2.

Accumulated Depreciation

Adjustment A increases the accumulated depreciation account by \$165,272 as shown on Schedule CSB-2, page 1. The Company did not provide an accumulated depreciation balance. Staff calculated an accumulated depreciation balance of \$165,272 based upon information obtained from the Company as shown on Schedule CSB-2, Page 3.

Cash Working Capital

Adjustment B increases cash working capital by \$11,199 as shown on Schedule CSB-2, Page 1. The Company did not propose a cash working capital allowance. Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power expense plus one twenty-fourth of purchased power expense.

OPERATING REVENUE

Adjustment A decreases revenue by \$22,809 as a result of reflecting Staff's calculation of the Company's revenue as shown on Schedule CSB-3, page 1.

OPERATING EXPENSES

Staff's adjustments to operating expenses resulted in a net decrease of \$3,921 primarily due to reflecting depreciation expense, property taxes, and income taxes.

Depreciation Expense

Adjustment B increases Depreciation Expense by \$15,025 to reflect application of Staff's recommended depreciation rates to Staff's recommended plant balances as shown on Schedule CSB-3, pages 1 and 2.

Property Taxes

Adjustment C decreases property taxes by \$1,299 to reflect Staff's calculation of property tax expense as shown on Schedule CSB-3, pages 1 and page 3.

Income Taxes

Adjustment D decreases income taxes by \$17,647 to reflect Staff's calculation of income tax expense as shown on Schedule CSB-3, page 1 and CSB-1, page 2, line 52.

OTHER MATTERS – PLANT DOCUMENTATION AND UNIFORM SYSTEM OF ACCOUNTS

The Company did not have all of the invoices needed to support its plant costs and operating expenses nor did it maintain its books and records in accordance with the NARUC USoA. Actual invoices are necessary in order to perform a regulatory audit and are required by Arizona Administrative Code R14-2-610.D1.

Additionally, Commission Rules require wastewater companies to maintain their books and records in accordance to the NARUC USoA. Therefore, on a going forward basis, Staff recommends that the Company comply with Arizona Administrative Code R14-2-610.D 1 and D 2.

REVENUE REQUIREMENT AND RATE DESIGN

Staff's recommended revenue requirement is anticipated to generate enough cash flow to pay for operating expenses and to allow for reasonable contingencies. Schedule 4 presents a complete listing of the Company's present (unauthorized), proposed, and Staff's recommended rates and charges.

STAFF RECOMMENDATIONS

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule 4.

Staff further recommends that the Company adopt the depreciation rates stated in the Engineering Memorandum related to this matter.

Staff recommends that the Company be ordered to comply with Arizona Administrative Code R14-2-610.D 1 and D 2.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 403,500	\$ 249,428
2	Adjusted Operating Income (Loss)	\$ (38,392)	\$ (57,280)
3	Current Rate of Return (L2 / L1)	-9.51%	-22.96%
4	Required Rate of Return	-9.51%	0.00%
5	Required Operating Income (L1 * L4)	\$ (38,392)	\$ -
6	Operating Income Deficiency (L5 - L2)	\$ -	\$ 57,280
7	Gross Revenue Conversion Factor	1.0000	1.3314
8	Required Revenue Increase (L7 * L6)	\$ -	\$ 76,263
9	Adjusted Test Year Revenue	\$ 60,999	\$ 38,190
10	Proposed Annual Revenue (L8 + L9)	\$ 60,999	\$ 114,453
11	Required increase in Revenue (%)	0.00%	199.69%

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)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	24.8918%			
5	Subtotal (L3 - L4)	75.1082%			
6	Revenue Conversion Factor (L1 / L5)	1.331412			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	23.5528%			
9	One Minus Combined Income Tax Rate (L7 - L8)	76.4472%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	17.8270%			
16	Effective Federal Income Tax Rate (L14 x L15)	16.5848%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	23.5528%			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	23.5528%			
20	One Minus Combined Income Tax Rate (L18 - L19)	76.4472%			
21	Property Tax Factor (All-16, L24)	1.7514%			
22	Effective Property Tax Factor (L 21 * L 22)	1.3389%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		24.8918%		
24	Required Operating Income	\$ -			
25	Adjusted Test Year Operating Income (Loss)	\$ (57,280)			
26	Required Increase in Operating Income (L24 - L25)		\$ 57,280		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 0			
28	Income Taxes on Test Year, Staff Adjusted Revenue (Col. (B), L52)	\$ (17,647)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 17,648		
30	Recommended Revenue Requirement	\$ 114,453			
31	Uncollectible Rate (Line 10)	0.0000%			
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	\$ 3,537			
36	Property Tax on Test Year, Staff Adjusted Revenue	\$ 2,201			
37	Increase in Property Tax Due to Increase in Revenue		\$ 1,336		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 76,263		
<u>Calculation of Income Tax:</u>					
39	Revenue	\$ 38,190	\$ 76,263	\$ 114,453	
40	Operating Expenses Excluding Income Taxes	\$ 113,117	\$ 1,336	\$ 114,453	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L317- L38)	\$ (74,927)		\$ 0	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L39 x L40)		\$ (5,221)		\$ 0
45	Federal Taxable Income (L33 - L35)	\$ (69,706)		\$ 0	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 0	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ (4,927)		\$ -	
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		\$ (12,427)		\$ 0
52	Combined Federal and State Income Tax (L35 + L42)		\$ (17,647)		\$ 0
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				17.8270%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base	\$ 249,428			
55	Weighted Average Cost of Debt	0.00%			
56	Synchronized Interest (L45 X L46)	\$ -			

ORIGINAL COST RATE BASE

	Per Company	Staff Adjustments	Staff Adjusted
Plant in Service	\$ 403,500	\$ -	\$ 403,500
Less:			
Accum. Depreciation	\$ -	165,272 A	\$ 165,272
Net Plant	\$403,500	(\$165,272)	\$238,228
Less:			
Advances in Aid of Constr (net of refunds)	\$ -	\$ -	\$ -
Service Line Adv (net of refunds)	\$ -	\$ -	\$ -
Net Advances	\$ -	\$ -	\$ -
Contributions In Aid of Construction (CIAC)			
Hook-up Fees	\$ -	\$ -	\$ -
Net Other CIAC	\$ -	\$ -	\$ -
Total CIAC	\$ -	\$ -	\$ -
Less:			
Customer Deposits	\$ -	\$ -	\$ -
Total Deductions	\$ -	\$ -	\$ -
Plus:			
1/24 Purchased Power	\$ -	\$ 394 B	\$ 394
1/8 Operation & Maint.	\$ -	\$ 10,806 B	\$ 10,806
Materials and Supplies Inventory	\$ -	\$ -	\$ -
Prepayments	\$ -	\$ -	\$ -
Total Additions	\$ -	\$ 11,199	\$ 11,199
Rate Base	\$403,500	(\$154,072)	\$249,428

Explanation of Adjustment:

A - To reflect Staff's calculation of the Company's revenue using the Company provided billing determinants.

B - To reflect Staff's calculation of cash working capital.

DETAIL OF UTILITY PLANT

Acct. No.	Description	Per Company	Staff Adjustments	Ref	Staff Adjusted
351	Organization	\$ -	\$ -		\$ -
352	Franchises	-	-		-
353	Land & Land Rights	100,000	-		100,000
354	Structures & Improvements	9,000	-		9,000
355	Power Generation Equipment	-	-		-
360	Collection Sewers - Force	-	-		-
361	Collection Sewers - Gravity	-	-		-
363	Services to Customers	-	-		-
364	Flow Measuring Devices	-	-		-
365	Flow Measuring Installations	-	-		-
366	Reuse Services	-	-		-
367	Reuse Meters & Installation	-	-		-
370	Receiving Wells	-	-		-
371	Pumping Equipment	-	-		-
374	Reuse Distribution Reserviors	-	-		-
375	Reuse Transmission & Distribution Mains	-	-		-
380	Treatment & Disposal Equipment	294,500	-		294,500
381	Plant Sewers	-	-		-
382	Outfall Sewer Lines	-	-		-
390.0	Office Furniture & Fixtures, General	-	-		-
390.1	Office Furniture & Fixtures, Computing	-	-		-
391	Transportation Equipment	-	-		-
392	Stores Equipment	-	-		-
393	Tools Shop & Garage Equipment	-	-		-
394	Laboratory Equipment	-	-		-
395	Power Operated Equipment	-	-		-
396	Communication Equipment	-	-		-
397	Miscellaneous General Equipment	-	-		-
		-	-		-
TOTALS		\$ 403,500	\$0		\$ 403,500

ACCUMULATED DEPRECIATION

	Original Cost	Depreciation Rates	Depreciation Expense		Number of Years	Accumulated Depreciation
351 Organization Cost	\$0	0.00%	\$0	x	0	\$0
352 Franchise Cost	0	0.00%	0	x	0	\$0
353 Land & Land Rights	100,000	0.00%	0	x	0	\$0
354 Structures & Improvements	9,000	3.33%	300	x	11	\$3,297
355 Power Generation Equipment	0	5.00%	0	x	0	\$0
360 Collection Sewers, Force	0	2.00%	0	x	0	\$0
361 Collection Sewers, Gravity	0	2.00%	0	x	0	\$0
363 Services	0	2.00%	0	x	0	\$0
364 Flow Measuring Devices	0	10.00%	0	x	0	\$0
365 Flow Measuring Installations	0	10.00%	0	x	0	\$0
366 Reuse Services	0	2.00%	0	x	0	\$0
367 Reuse Meters & Installation	0	8.33%	0	x	0	\$0
370 Receiving Wells	0	3.33%	0	x	0	\$0
371 Effluent Pumping Equipment	0	12.50%	0	x	0	\$0
374 Reuse Distribution Wells	0	2.50%	0	x	0	\$0
375 Reuse Transmission & Distr Mains	0	2.50%	0	x	0	\$0
380 Treatment & Disposal Equip	294,500	5.00%	14,725	x	11	\$161,975
381 Plant Sewers	0	5.00%	0	x	0	\$0
382 Outfall Sewer Lines	0	3.33%	0	x	0	\$0
390.0 Office Furniture & Fixt, General	0	6.67%	0	x	0	\$0
390.1 Office Furniture & Fixt, Computers	0	20.00%	0	x	0	\$0
391 Transportation Equip	0	20.00%	0	x	0	\$0
392 Stores Equipment	0	4.00%	0	x	0	\$0
393 Tools, Shop, & Garage Equip	0	5.00%	0	x	0	\$0
394 Laboratory Equipment	0	10.00%	0	x	0	\$0
395 Power Operated Equip	0	5.00%	0	x	0	\$0
396 Communications Equipment	0	10.00%	0	x	0	\$0
397 Miscellaneous Equipment	0	10.00%	0	x	0	\$0
Totals	\$403,500		\$15,025			\$165,272

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Flat Rate Revenues	\$ 60,999	\$ (22,809) A	\$ 38,190	\$ 76,263	\$ 114,453
2	Effluent Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
3	Other Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
4	Total Operating Revenues	<u>\$ 60,999</u>	<u>\$ (22,809)</u>	<u>\$ 38,190</u>	<u>\$ 76,263</u>	<u>\$ 114,453</u>
OPERATING EXPENSES:						
7	Salaries and Wages	\$ 46,305	\$ -	\$ 46,305	\$ -	\$ 46,305
8	Purchased Sewer Treatment	\$ -	\$ -	\$ -	\$ -	\$ -
9	Sludge Removal Expense	\$ 2,920	\$ -	\$ 2,920	\$ -	\$ 2,920
10	Purchased Power for Pumping Tr	\$ 9,444	\$ -	\$ 9,444	\$ -	\$ 9,444
11	Sewage Treatment and Testing	\$ -	\$ -	\$ -	\$ -	\$ -
12	Repairs and Maintenance	\$ 4,000	\$ -	\$ 4,000	\$ -	\$ 4,000
13	Office Supplies Expense	\$ 2,646	\$ -	\$ 2,646	\$ -	\$ 2,646
14	Outside Services	\$ 7,980	\$ -	\$ 7,980	\$ -	\$ 7,980
15	Rents	\$ -	\$ -	\$ -	\$ -	\$ -
16	Transportation Expense	\$ 2,646	\$ -	\$ 2,646	\$ -	\$ 2,646
17	General Insurance	\$ -	\$ -	\$ -	\$ -	\$ -
18	Depreciation Expense	\$ -	\$ 15,025 B	\$ 15,025	\$ -	\$ 15,025
19	Health and Life Insurance	\$ 18,000	\$ -	\$ 18,000	\$ -	\$ 18,000
20	Taxes Other Than Income	\$ -	\$ -	\$ -	\$ -	\$ -
21	Miscellaneous Expense	\$ 1,950	\$ -	\$ 1,950	\$ -	\$ 1,950
28	Property Taxes	\$ 3,500	\$ (1,299) C	\$ 2,201	\$ 1,336	\$ 3,537
29	Income Taxes	\$ -	\$ (17,647) D	\$ (17,647)	\$ 17,648	\$ 0
30	Total Operating Expenses	<u>\$ 99,391</u>	<u>\$ (3,921)</u>	<u>\$ 95,470</u>	<u>\$ 18,983</u>	<u>\$ 114,453</u>
31	Operating Income (Loss)	<u>\$ (38,392)</u>	<u>\$ (18,888)</u>	<u>\$ (57,280)</u>	<u>\$ 57,280</u>	<u>\$ (0)</u>

Explanation of Adjustment:

- A - To reflect Staff's calculation of the Company's revenue using the Company provided billing determinants.
- B - To reflect Staff's calculation of depreciation expense as shown on Sch CSB-3, page 2.
- C - To reflect Staff's calculation of property tax expense as shown on Sch CSB-3, page 3.
- D - To reflect Staff's calculation of income tax expense as shown on Sch CSB-1, page 2.

DEPRECIATION EXPENSE

Line No.	Acct. No.	Description	[A]	[B]	[C]	[D]	[E]
			Plant in Service Per Staff	Nondepreciable or Fully Depreciated Plant	Depreciable Plant (Col A - Col B)	Depreciation Rate	Depreciation Expense (Col C x Col D)
1	351	Organization	\$ -	\$ -	\$ -	0.00%	\$ -
2	352	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
3	353	Land & Land Rights	\$ 100,000	\$ 100,000	\$ -	0.00%	\$ -
4	354	Structures & Improvements	\$ 9,000	\$ -	\$ 9,000	3.33%	\$ 300
5	355	Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
6	360	Collection Sewers - Force	\$ -	\$ -	\$ -	2.00%	\$ -
7	361	Collection Sewers - Gravity	\$ -	\$ -	\$ -	2.00%	\$ -
8	363	Services to Customers	\$ -	\$ -	\$ -	2.00%	\$ -
9	364	Flow Measuring Devices	\$ -	\$ -	\$ -	10.00%	\$ -
10	365	Flow Measuring Installations	\$ -	\$ -	\$ -	10.00%	\$ -
11	366	Reuse Services	\$ -	\$ -	\$ -	2.00%	\$ -
12	367	Reuse Meters & Installation	\$ -	\$ -	\$ -	8.33%	\$ -
13	370	Receiving Wells	\$ -	\$ -	\$ -	3.33%	\$ -
14	371	Pumping Equipment	\$ -	\$ -	\$ -	12.50%	\$ -
15	374	Reuse Distribution Reservoirs	\$ -	\$ -	\$ -	2.50%	\$ -
16	375	Reuse Transmission & Distribution Mains	\$ -	\$ -	\$ -	2.50%	\$ -
17	380	Treatment & Disposal Equipment	\$ 294,500	\$ -	\$ 294,500	5.00%	\$ 14,725
18	381	Plant Sewers	\$ -	\$ -	\$ -	5.00%	\$ -
19	382	Outfall Sewer Lines	\$ -	\$ -	\$ -	3.33%	\$ -
20	390.0	Office Furniture & Fixtures, General	\$ -	\$ -	\$ -	6.67%	\$ -
21	390.1	Office Furniture & Fixtures, Computing	\$ -	\$ -	\$ -	20.00%	\$ -
22	391	Transportation Equipment	\$ -	\$ -	\$ -	20.00%	\$ -
23	392	Stores Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
24	393	Tools Shop & Garage Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
25	394	Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
26	395	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
27	396	Communication Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
28	397	Miscellaneous General Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
29			\$ -	\$ -	\$ -		\$ -
30		Total Plant	\$ 403,500	\$ 100,000	\$ 303,500		\$ 15,025
31							
32		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.95%				
33		CIAC: \$	-				
34		Amortization of CIAC (Line 32 x Line 33): \$	-				
35							
36		Depreciation Expense Before Amortization of CIAC: \$	15,025				
37		Less Amortization of CIAC: \$	-				
38		Test Year Depreciation Expense - Staff: \$	15,025				
39		Depreciation Expense - Company: \$	-				
40		Staff's Total Adjustment: \$	15,025				

RATE DESIGN

	Present Rates	Proposed Rates	
		Company	Staff
Flat Fee Monthly Charge			
Home Owner's Association, Per Lot	\$50.00	\$75.00	\$149.85
Mobile Home Park	\$30.00	\$30.00	\$89.91
RV Park	\$15.00	\$15.00	\$44.95

Service Lateral Installation Charge

4-Inch Lateral	\$4,000.00	\$0.00
----------------	------------	--------

Service Charges

	Present Rates	Proposed Rates	
		Company	Staff
Establishment, During Normal Business Hours (a)	NT	NT	\$30.00
Reconnection/Delinquent	NT	NT	\$50.00
Deposit	NT	NT	*
Deposit Interest	NT	NT	*
Reestablishment within 12 Months	\$50.00	\$50.00	**
NSF Check Charge	\$35.00	\$35.00	\$35.00
Late Payment Penalty (Per Month)	10.00%	10.00%	1.50%

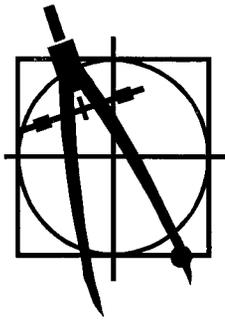
All revenue related taxes will be charged customers.

Rules and Regulations

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. Arizona Corporation Commission Rules will be controlling of Company procedures, unless specific Commission Orders provide otherwise.

* Per Commission Rules (R14-2-603B)

** Per Rule R14-2-603.D - Months off system times monthly minimum



**Engineering Report
for
Doyle Thompson**

Docket No. SW-20851A-12-0226 (CC&N)

By Marlin Scott, Jr.

February 13, 2013

CONCLUSION

- A. According to the Arizona Department of Environmental Quality (“ADEQ”), Doyle Thompson’s (“Thompson”) wastewater system, No. 102043 and G-0020-15, has a Type 1.09 General Permit which requires no reporting requirements or facility inspection. Although the Thompson wastewater treatment plant (“WWTP”) is rated at 45,000 gallons per day (“GPD”), the issuance of this General Permit has a restricted limit of the flow rate to 20,000 GPD and any treatment plant modifications is also restricted.
- B. Thompson’s WWTP is near its restricted capacity of 20,000 GPD. When Thompson’s WWTP reaches the restricted 20,000 GPD capacity under the Type 1.09 General Permit, Thompson will need to apply for an Individual Aquifer Protection Permit (“APP”). The cost of filing this ADEQ – APP is estimated at \$50,000. This cost would be in addition to any plant modification costs incurred at the Thompson WWTP that would be needed to meet the APP’s Best Available Demonstrated Control Technology and the Aquifer Water Quality Standard requirements.

RECOMMENDATIONS

- 1. Staff recommends that Table E-1 – Plant-in-Service be used as a guideline for the plant-in-service review.
- 2. Staff recommends that Thompson adopt Staff’s typical and customary depreciation rates and further recommends that Thompson use these depreciation rates delineated in Table F-1.
- 3. Staff recommends that no Service Lateral Installation Charges be approved for Thompson.

TABLE OF CONTENTS

	<u>PAGE</u>
A. INTRODUCTION	3
B. DESCRIPTION OF SEWER SYSTEM.....	3
FIGURE 1. COUNTY MAP	4
FIGURE 2. CERTIFICATED AREA	5
FIGURE 3. SYSTEM SCHEMATIC.....	6
C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE.....	6
D. SEWER FLOWS	7
FIGURE D-1. SEWER FLOWS	7
TABLE D-1. SEWER FLOWS	8
SYSTEM ANALYSIS	8
E. PLANT-IN-SERVICE	9
TABLE E-1. PLANT-IN-SERVICE.....	10
F. DEPRECIATION RATES	11
TABLE F-1. DEPRECIATION RATES	11
G. OTHER ISSUES.....	12
SERVICE LATERAL INSTALLATION CHARGES.....	12
TABLEG-1. SERVICE LATERAL INSTALLATION CHARGES	12

A. INTRODUCTION

On June 7, 2012, Doyle Thompson (“Thompson”) filed a Certificate of Convenience and Necessity (“CC&N”) application to provide sewer service. This Engineering Report constitutes Staff’s engineering evaluation relative to Thompson’s CC&N application.

Location of Thompson

Thompson is located approximately one mile north of Ehrenberg along the Colorado River. Figure 1 shows the location of the Thompson within La Paz County and Figure 2 shows the requested CC&N for the Emerald Springs Subdivision (“Subdivision”) covering approximately 49.6 acres or 0.08 square-miles. Thompson’s wastewater treatment plant (“WWTP”), located approximately 4,200 feet or 0.8 miles east of the Subdivision, is outside the requested CC&N.

B. DESCRIPTION OF THE SEWER SYSTEM

Thompson’s sewer system was field inspected on January 16, 2013, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Doyle Thompson, owner of Thompson. Thompson currently provides sewer service to his own properties; Copper State Mobile Home (“MH”) Park, an RV Park and a residential lot, and service to the Subdivision. A sewer system schematic is shown in Figure 3.

Thompson’s Sewer System

The Thompson wastewater treatment system has a 45,000 gallon per day (“GPD”) extended aeration WWTP consisting of an influent lift station, aeration reactors, denitrification, clarification, chlorination with dechlorination, and a sludge holding tank. There is no flow meter on this WWTP but a timer, which records in minutes and hours, was installed in May 2012 to estimate the flows. The effluent is discharged into leach fields. Thompson’s collection system consists of approximately 4,000 lineal feet of 3-inch, 4-inch and 6-inch PVC pipe (with no manholes), three clean-outs, that services 25 service laterals in the MH Park, 25 service laterals in the RV Park and 1 residential lot. The WWTP and collection system were constructed in 1989.

Subdivision’s Collection System

The 53-lot Subdivision’s sewer collection system consists of approximately 1,350 feet of 8-inch sewer main and five manholes serving approximately 40 service laterals, with 5 to 8 homes being permanent customers and the remaining homes are second, vacation, weekend or vacation rental homes. Flows from the collection system are combined at a lift station (equipped with two 2-Horsepower pumps) and then transported through 4,200 feet of 3-inch force main to the Thompson WWTP. According to Thompson, the Emerald Springs Home Owners

Association (“HOA”) is the only customer and the HOA owns the Subdivision collection system and the force main.

Prior Sewer Services

In 2000 the Subdivision was constructed which at that time pumped the wastewater flow to the Thompson WWTP. In 2004 Thompson had a conflict with the HOA, resulting in discontinuing service to the then 8 to 10 homes being served. The HOA continued its own service by collecting the wastewater flow at the lift station and contracting a pumping service to remove the waste. This pumping service continued until the DII Emerald Springs (“DII”) constructed its 20,000 GPD WWTP in 2004. On March 6, 2012, the Subdivision disconnected from the DII plant and reconnected to Thompson that included a Temporary Agreement for Sewer Service for a period of 12 months to gather data required for making business decisions by both Thompson and the HOA.

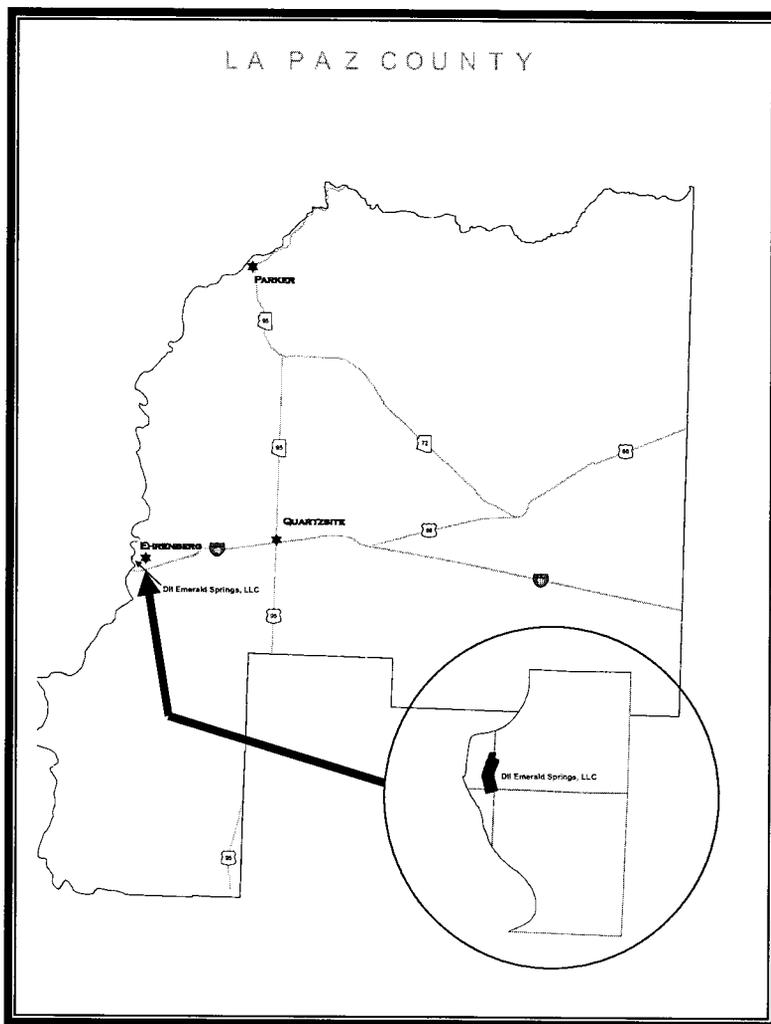


Figure 1. County Map

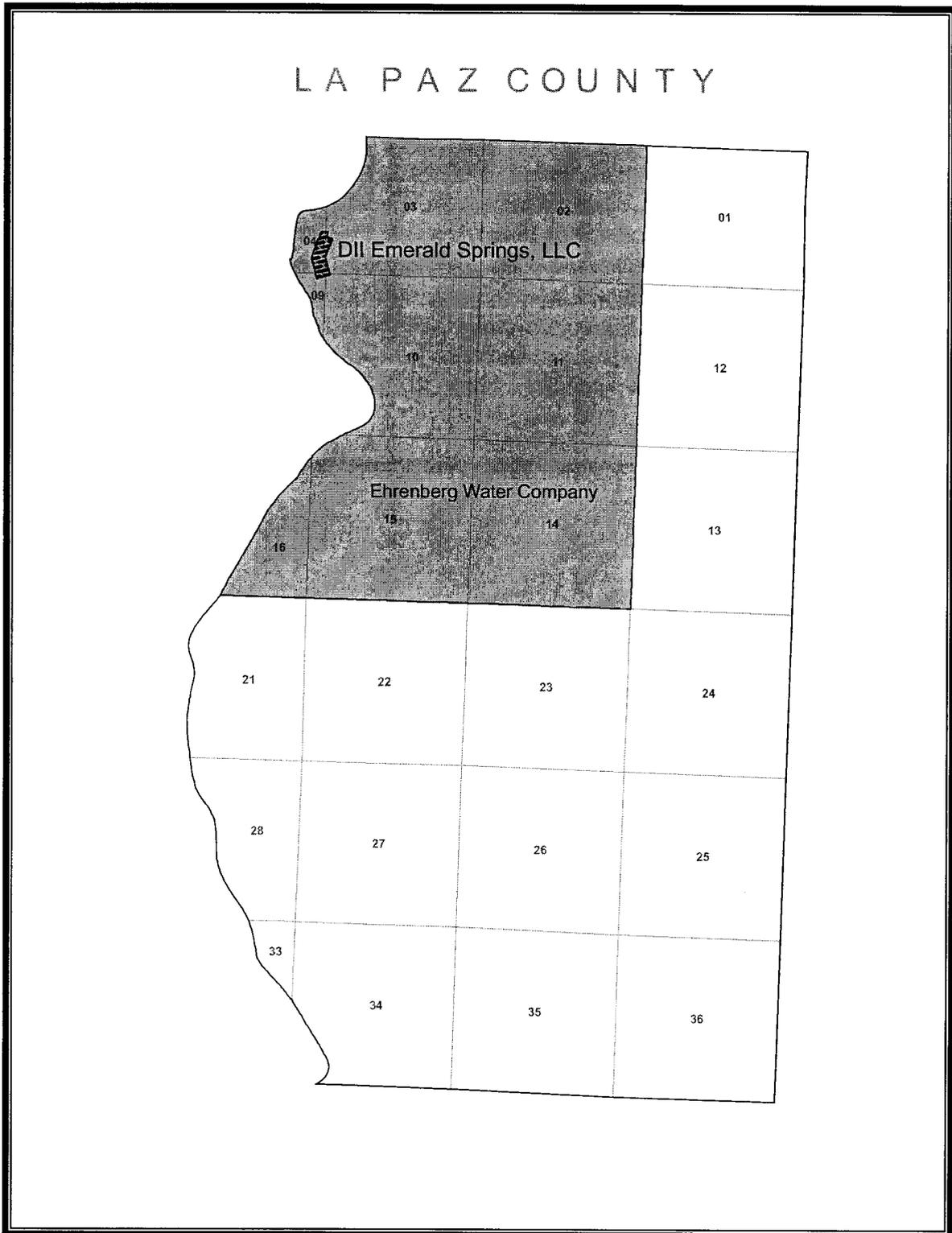


Figure 2. Certificated Area

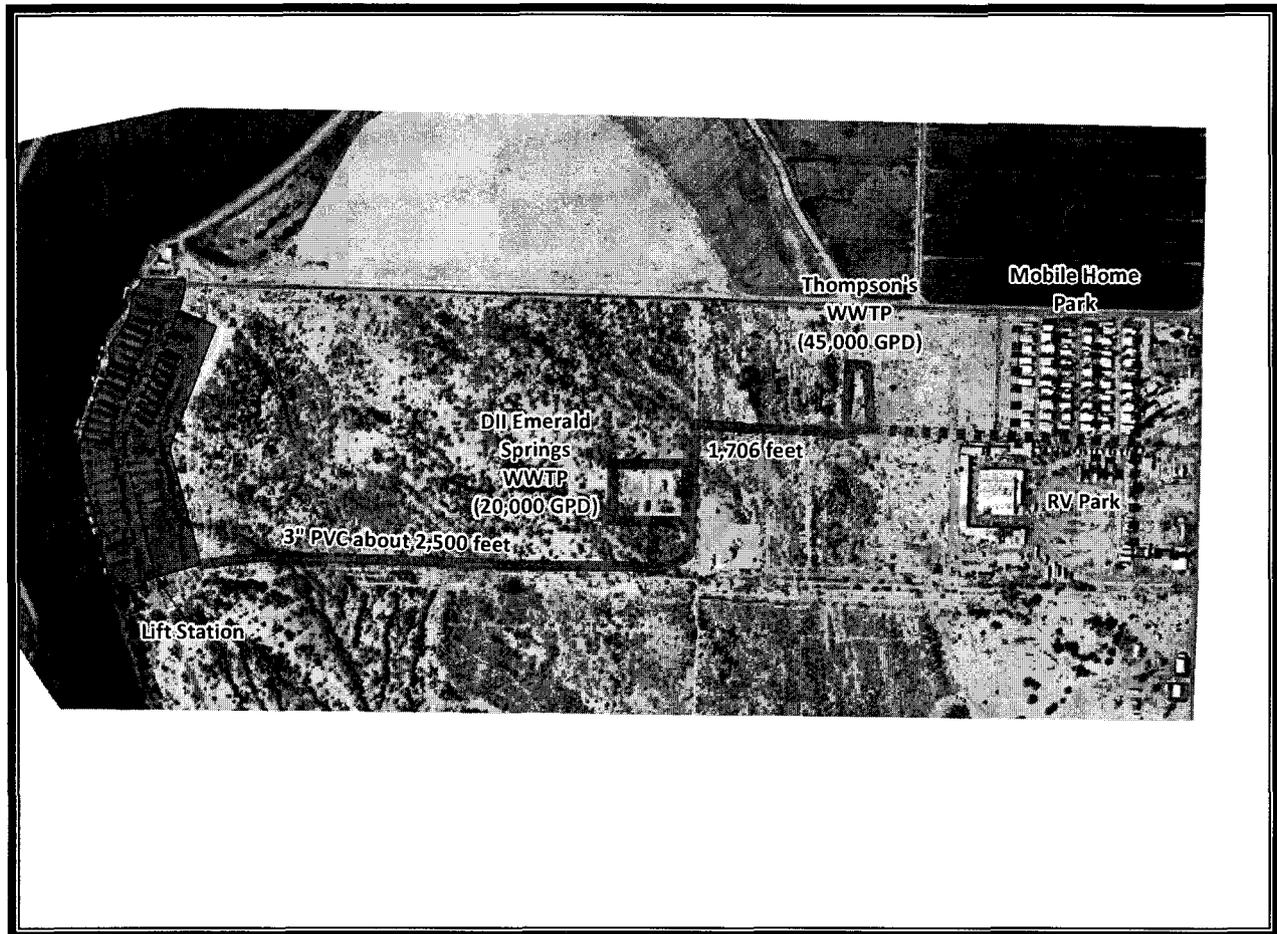


Figure 3. System Schematic

C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”)

According to ADEQ, Thompson’s wastewater system, No. 102043 and G-0020-15, has a Type 1.09 General Permit which requires no reporting requirements or facility inspection. Although the Thompson WWTP is rated at 45,000 GPD, the issuance of this General Permit limits the flow rate to 20,000 GPD and restricts any treatment plant modifications. If Thompson were to violate the conditions of the General Permit, Thompson would be required to apply for another permit.

D. SEWER FLOWS

Sewer Flows

Based on flow data provided by Thompson, sewer flows from June 2012 to December 2012 are presented in Figure D-1.

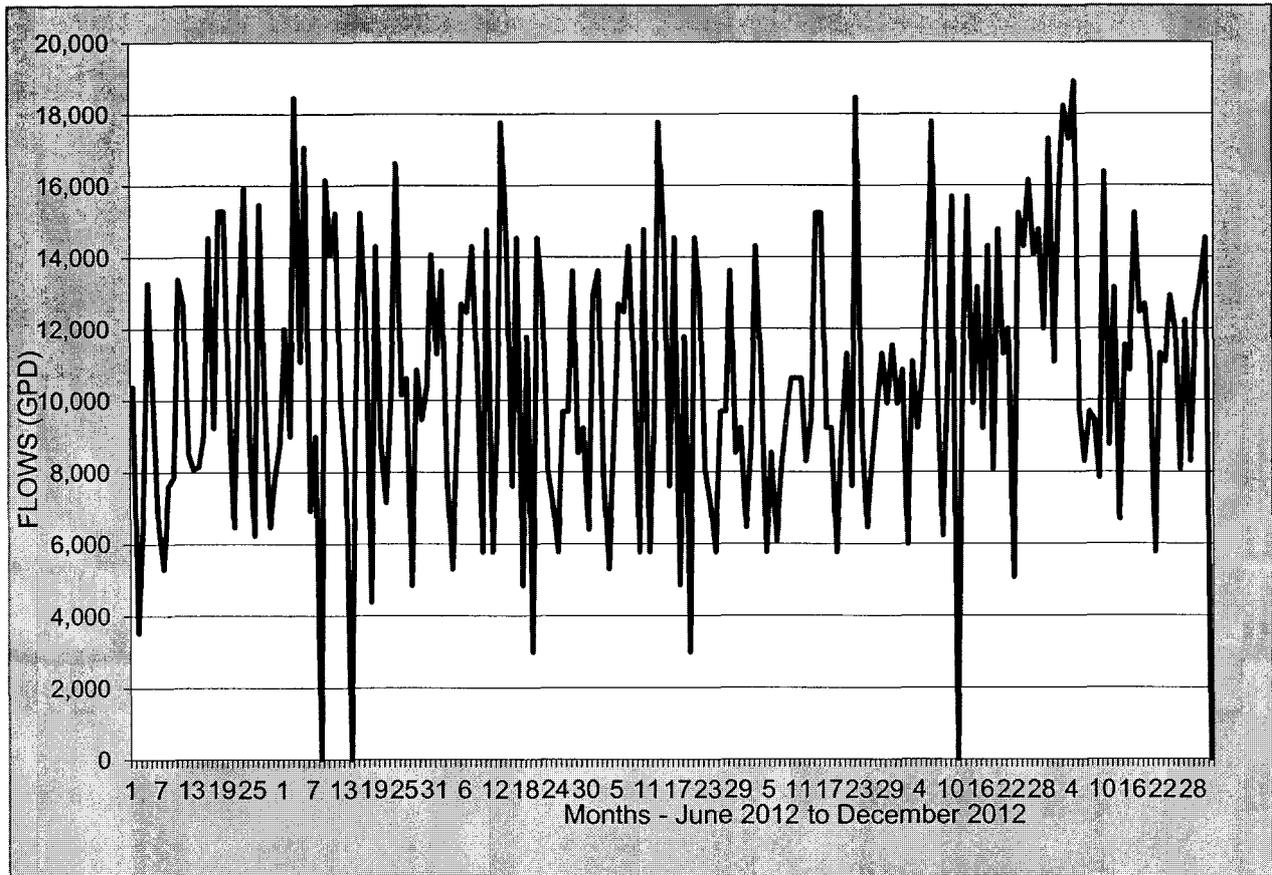


Figure D-1. Sewer Flows

Figure D-1 above shows four dates in which the daily flows were not recorded due to the float sticking, pump plugging or late flow reading. Using this flow data, the monthly average daily flows and monthly peak day flows were determined as shown in Table D-1 below. Although Thompson did not record and provide the number of service laterals per month, Staff used its own service lateral estimates to determine the GPD per service lateral shown in Table D-1.

Table D-1. Sewer Flows

2012 Month	Average Daily Flow, in GPD	Average Daily Flow, in GPD per service lateral	Peak Day, in GPD
June	9,789	152	15,922
July	11,307	185	18,460
August	10,129	166	17,768
September	10,038	164	17,768
October	10,007	166	18,460
November	12,079	204	17,786
December	11,876	201	18,922

System Analysis

Current Flows

As shown above in the sewer flows graph and table, the Thompson WWTP is currently near the limited 20,000 GPD capacity. If the 204 GPD per service lateral was used for peak day flow conditions, only 5 additional service laterals could be added and still be under the 20,000 GPD limit ($20,000 - 18,922 = 1,078 / 204 = 5$ service laterals). For average daily flow conditions, 38 additional service laterals could be added and still be under the 20,000 GPD limit ($20,000 - 12,079 = 7,921 / 204 = 38$).

Future Flows

For Thompson’s development, the build-out for the MH Park, RV Park and one residential lot with 3 homes are 60, 43 and 3 service laterals, respectively. If all lots were to be occupied, the total capacity needed would be 21,624 GPD ($=60+43+3=106 \times 204$).

For the Subdivision, if each of the 53 subdivision lots were to use 204 GPD, then the flow from the Subdivision would equate to 10,812 GPD.

As a result, these future flows would total to 32,436 GPD which would exceed the Thompson WWTP’s limited capacity of 20,000 GPD.

Conclusion/Recommendation

As stated earlier, Thompson has a Type 1.09 General Permit that has a restricted limit of its WWTP flow rate to 20,000 GPD and any treatment plant modification is also restricted. If Thompson were to violate the conditions of its General Permit, he would be required to apply for

another permit. Since the WWTP is not likely to qualify for any of the other General Permits, Thompson would almost certainly have to apply for an Individual Aquifer Protection Permit (“APP”).

Currently, Thompson’s WWTP is near its restricted capacity of 20,000 GPD with a peak day flow of 18,922 GPD in December 2012. Since the Thompson WWTP is connected to the HOA’s 53-lot subdivision, Thompson would be responsible to provide service to any and all 53 lots upon request. If all 40 of the existing HOA homes become occupied, the Thompson WWTP would need more than the restricted capacity of 20,000 GPD.

When Thompson’s WWTP reaches the restricted 20,000 GPD capacity under the Type 1.09 General Permit, Mr. Thompson will need to apply for an Individual APP. The cost of filing this ADEQ – APP is estimated at \$50,000. This cost would be in addition to any plant modification costs incurred at the Thompson WWTP that would be needed to meet the APP’s Best Available Demonstrated Control Technology and the Aquifer Water Quality Standard requirements.

E. PLANT-IN-SERVICE

Thompson submitted a plant-in-service cost of \$403,500. Staff has reviewed this plant-in-service amount and has correlated the plant facilities to match the National Association of Regulatory Utility Commissioners (“NARUC”) accounts as shown in Table E-1 below. This Table E-1 should be used as a guideline for the plant-in-service review.

Table E-1. Plant-in-Service

Acct. No.	Plant-in-Service	1989	2000	TOTAL
353	Land & Land Rights WWTP - 600 ft. x 600 ft.	\$100,000		\$100,000
354	Structures & Improvements Chain link fencing, 100 ft. x 300 ft.	\$9,000		\$9,000
360	Collection Sewer - Force HOA Subdivision: Lift station - two 2-Hp pumps 4,200 ft. of 3-inch main		CIAC CIAC	
361	Collection Sewer - Gravity Thompson: 3-inch PVC - 1,450 ft. 4-inch PVC - 1,320 ft. 6-inch PVC - 1,180 ft. Clean-outs, 3 each HOA Subdivision: 1,350 ft. of 8-inch main Manholes, 5 ea.	0 0 0 0	CIAC CIAC	
363	Service to Customers Thompson: MH Park, 25 each RV Park, 25 each Residential lot, 1 each HOA Subdivision: 4-inch laterals, 40 ea.	0 0 0	CIAC	
380	Treatment & Disposal Equipment 45,000 GPD WWTP Grading of land Leach field Engineering Electrical	\$175,000 \$80,000 \$20,000 \$12,000 \$7,500		\$175,000 \$80,000 \$20,000 \$12,000 \$7,500
		\$ 403,500	\$ -	\$ 403,500

F. DEPRECIATION RATES

The Commission has been adopting Staff's typical and customary depreciation rates. These rates are presented in Table F-1 and it is recommended that Thompson use these depreciation rates by individual NARUC account.

Table F-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.00
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398 – 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.

G. OTHER ISSUES

Service Lateral Installation Charges

Thompson requested a 4-inch service lateral installation charge of \$4,000. In its review, Staff found that all the service taps/laterals in the Subdivision have been installed up to the property lines. In addition, since Thompson does not own the Subdivision's collection system, Staff recommends that Thompson's proposed charge be denied and that no charge be adopted as shown in Table G-1 below:

Table G-1. Service Lateral Installation Charge

Lateral Size	Thompson's Proposed Charges	Staff's Proposed Charges
4-inch	\$4,000	\$0