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AZ CORP COMMISSION
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COMMISSIONERS

BOB STUMP - Chairman
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IN THE MATTER OF THE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC FOR APPROVAL OF FINANCING TO INSTALL A WATER LINE FROM THE WELL ON TIEMAN TO WELL NO. 1 ON TOWERS.	DOCKET NO. W-04254A-12-0204
IN THE MATTER OF THE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC FOR APPROVAL OF FINANCING TO PURCHASE THE WELL NO. 4 SITE AND THE COMPANY VEHICLE.	DOCKET NO. W-04254A-12-0205
IN THE MATTER OF THE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC FOR APPROVAL OF FINANCING FOR AN 8,000-GALLON HYDRO-PNEUMATIC TANK.	DOCKET NO. W-04254A-12-0206
IN THE MATTER OF THE RATE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC.	DOCKET NO. W-04254A-12-0207
JOHN E. DOUGHERTY, COMPLAINANT, v. MONTEZUMA RIMROCK WATER COMPANY, LLC, RESPONDENT.	DOCKET NO. W-04254A-11-0323

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Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-04254A-08-0361
IN THE MATTER OF THE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC FOR APPROVAL OF A FINANCING APPLICATION.	DOCKET NO. W-04254A-08-0362 **NOTICE OF FILING** **STAFF'S DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Gerald W. Becker, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 24th day of May, 2013.

Charles H. Hains
Wesley C. Van Cleve
Attorneys, Legal Division
Arizona Corporation Commission
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Phoenix, Arizona 85007
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Original and thirteen (13) copies
of the foregoing filed this
24th day of May 2013, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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Copy of the foregoing EMAILED this
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Copy of the foregoing mailed this
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Monica A. [illegible]

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC FOR APPROVAL OF FINANCING TO INSTALL A WATER LINE FROM THE WELL ON TIEMAN TO WELL NO. 1 ON TOWERS	DOCKET NO. W-04254A-12-0204
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JOHN E. DOUGHERTY, COMPLAINANT, V. MONTEZUMA RIMROCK WATER COMPANY, LLC, RESPONDENT.	DOCKET NO. W-04254A-11-0323
IN THE MATTER OF THE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-04254-08-0361
IN THE MATTER OF THE APPLICATION OF MONTEZUMA RIMROCK WATER COMPANY, LLC FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-04254-08-0362

DIRECT

TESTIMONY

OF

GERALD BECKER

EXECUTIVE CONSULTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 24, 2013

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EXECUTIVE SUMMARY
MONTEZUMA RIMROCK COMPANY, LLC
DOCKET NO. W-04254A-12-0204, ET AL

Montezuma Rimrock Water Company, LLC ("Montezuma" or "Company") is an Arizona public service corporation authorized to provide water service in a community near Rimrock, AZ. On May 31, 2012, the Company filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to increase its rates for water service along with three financing applications. The Company filed several amendments to its rate application, and on April 12, 2013, the Company amended its financing applications. The Company's existing Certificate of Convenience and Necessity ("CC&N") for its service covers an area of approximately 3/8 square miles. Montezuma has approximately 205 water customers.

The Company proposes a revenue increase of $43,400 or 42.85 percent over the Company proposed test year revenues of $101,276 to $144,676, in addition to surcharges proposed to cover certain legal expenses and to fund the replacement of storage tanks. The Company proposed revenue increase would produce an operating income of $50,819 for a 97.72 percent rate of return on an original cost rate base ("OCRB") of $52,005. The Company did not propose new notes for this increase in revenue.

Staff recommends a revenue increase of $21,355 or 21.09 percent over the test year revenues of $101,276 to $122,631. The Staff recommended revenue increase would produce an operating income of $2,770 for a 4.16 percent rate of return on a Staff adjusted OCRB of $66,590. The Company proposes to use OCRB as its fair value rate base. In addition, Staff recommends the approval of two surcharges for $18,541 of debt related to pressure tanks and $108,000 in debt for additional storage tanks.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Gerald Becker. I am an Executive Consultant III employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as an Executive Consultant III.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, and prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Masters of Business Administration with an emphasis in Accounting from Pace University. I am a Certified Public Accountant and a Certified Internal Auditor.

I have participated in multiple rate, financing and other regulatory proceedings. I attended the National Association of Regulatory Utility Commissioners ("NARUC") Utilities Rate School.

I began employment with the Commission as a utilities regulatory analyst in April 2006. Prior to joining the Commission, I worked as an Auditor at the Department of Economic Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget Manager at United Illuminating, an investor-owned electric company in New Haven, CT.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations in the areas of rate base, operating revenues and expenses, revenue requirement, and rate design recommendations in the rate case. I am also providing Staff's recommendations regarding the financing request, the Montezuma Rimrock Water Co., LLC's ("Montezuma" or "Company") request to reconsider Decision No. 71317 under the A.R.S § 40-252, and the complaint filed against the Company by John E. Dougherty. Staff witness Marlin Scott, Jr. is presenting Staff's engineering analysis and recommendations.

Q. What is the basis of your recommendations?

A. I performed a regulatory audit of the Company's application to determine whether sufficient, relevant, and reliable evidence exists to support the Company's requested rate increase. The regulatory audit consisted of examining and testing the financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA"). I also reviewed the Company's financing applications to determine the propriety and financial impacts of the proposed transactions.

OVERVIEW

Q. Please provide an overview of the dockets in this proceeding.

A. On July 16, 2008, Montezuma filed a rate application in Docket No. W-04254A-08-0361 and a financing application in Docket No. W-04254A-08-0362. On February 4, 2009, a Procedural Order was issued consolidating the two Dockets. On October 30, 2009, the Commission issued Decision No. 71317 which authorized a rate increase and the authority to incur $165,000 of long term debt with the Water Infrastructure Finance Authority of

Arizona ("WIFA") to pay for an arsenic treatment project to bring its water supply into compliance with the United States Environmental Protection Agency ("EPA") and Arizona Department of Environmental Quality ("ADEQ') maximum contaminant level ("MCL") of 10 parts per billion ("ppb") for arsenic.

On April 27, 2011, in response to a request filed by Montezuma, the Commission voted to reopen Decision No. 71317 dated October 30, 2009, issued in Docket Nos. W-04254A-08-0361 and -0362 (collectively "A.R.S. § 40-252 dockets"), under A.R.S. § 40-252, for the purpose of determining whether to modify the decision concerning financing approval and related provisions. Montezuma had requested that the decision be reopened so that it could be authorized to fund an arsenic treatment project through means other than a loan from the WIFA.

On August 23, 2011, John Dougherty filed a formal complaint in Docket No. W-04254A-11-0323, ("Complaint proceeding"). This complaint originally contained 14 allegations. Since the original complaint was filed, 3 additional allegations have been added and some were withdrawn.

On May 31, 2012, Montezuma filed with the Commission the following: in Docket No. W-04254A-12-0204, an application for approval of a loan agreement in which Montezuma promises to pay Rask Construction ("Rask") the sum of $68,592 with interest for Rask's installation of a water line from the well on Tieman to Well No. 1 on Towers ("Rask Financing"); in Docket No. W-04254A-12-0205, an application for approval of a loan agreement in which Montezuma promises to pay Patricia Olsen the sum of $21,377 with interest for the purchase of the Well No. 4 site and a company vehicle ("Olsen Site and Vehicle Financing"); in Docket No. W-04254A- 12-0206, an application for approval of a loan agreement in which Montezuma promises to pay Sergei Arias the sum of $15,000 with interest for the purchase of an 8,000-gallon hydro-pneumatic tank to provide additional water storage to Montezuma's system ("Arias Tank Financing"); and in Docket No. W-04254A-12-0207, an application for a rate increase ("Rate Application").

On February 26, 2013, a Procedural Order was issued consolidating the seven dockets described above.

On April 12, 2013, the Company amended its request for authority to incur long term debt by submitting applications to incur debt associated with four 20,000 gallon storage tanks, the Arsenic Treatment System ("ATS"), and the building that houses the ATS.

Q. How will your testimony be organized?

A. My testimony will address the A.R.S. § 40-252 dockets first. Then, I will address the rate application and each of the financing applications, along with the financing application that was filed subsequent to the consolidation of the seven dockets. The last issue I will address will be Staff's comments on the Complaint proceeding.

A.R.S. § 40-252 Dockets

Q. Please describe the nature of this filing.

A. On October 30, 2009, the Commission issued Decision No. 71317 which authorized a rate increase and the authority to incur up to $165,000 of long term debt with WIFA for a loan in the amount of up to $165,000 to pay for an arsenic treatment project. Subsequently, Montezuma has decided to pursue alternate sources of financing.

In its filing of January 24, 2011, the Company states:

> MRWC was required by WIFA to submit an Environmental Information Document (EID). Upon review of the submitted EID by MRWC, WIFA now requires an Environmental Impact Statement (EIS). The EIS requires approximately one to two years for completion and with an anticipated cost of over $100,000.00.

On April 27, 2011, in response to a request filed by Montezuma, the Commission voted to reopen Decision No. 71317 (October 30, 2009), issued in Docket Nos. W-04254A-08-0361 and 0362 (collectively "A.R.S. § 40-252 dockets"), under A.R.S. § 40-252, for the purpose of determining whether to modify the decision concerning financing approval and related provisions. Montezuma had requested that the decision be reopened so that it could be authorized to fund an arsenic treatment project through means other than a loan from WIFA. December 4, 2012, the Company filed a request to withdraw its WIFA loan request and related submittal requirements, as would be required by Decision No. 71317.

Q. What is Staff recommending?

A. Since the Company has financed its ATP and the building in which the ATP is located through alternative means as more fully discussed below, Staff recommends that the Commission grant the Company's request to withdraw its WIFA loan request and thereby cancel the previously issued authority to incur debt from WIFA.

RATE APPLICATION

Q. Please describe the Company's operations.

A. Montezuma is a Limited Liability Corporation owned by Patricia Olsen. Montezuma has approximately 205 residential water customers.

Montezuma's current rates were approved in Decision No. 71317 dated October 30, 2009.

Q. What are the primary reasons for the Company's requested permanent rate increase?

A. Montezuma states that it has incurred costs for the implementation and lease of an arsenic treatment system and extensive related legal expenses. In its application, the Company indicates that it incurred an adjusted test year operating income of $7,739. (Staff notes a $20 arithmetic error and indicates test year income per the Company of $7,719 on Schedule GWB-1.)

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints received by the Commission regarding Montezuma.

A. A search of the Consumer Services database reveals that the following customer Complaints and Opinions were filed against Montezuma from January 1, 2010 through the current date:

2013 – Zero Complaints
Three Opinions – All opposed to the proposed rate increase.

2012 – One Complaint – Quality of Service
Seven Opinions – All opposed to the proposed rate increase.

2011 – Two Complaints – One Disconnect Non-Pay, One New Service

2010 – One Complaint – New Service

All complaints have been resolved and are closed except for the complaint filed by Mr. Dougherty.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Company's filing.

A. In its original filing, the Company does not state the amount of revenue increase being requested. On September 4, 2012 and September 14, 2012, the Company filed responses to Staff's Letter of Insufficiency, and the Company indicates a proposed revenue increase of $43,400, or 42.85 percent increase from $101,276 to $144,676. The Company did not propose new rates. Therefore, there are no reliable bill impacts proposed by the Company that correspond to a requested revenue increase.

In response to Staff's Letter of Insufficiency, the Company also proposes two surcharges in addition to the increase to base rates. One is the "JD Legal Surcharge" of $6.57 per month per customer to cover legal fees incurred as a result of Mr. Dougherty's actions against the Company. The second proposed surcharge is a "Storage Tank Surcharge" of $6.04 per month per customer to fund the replacement of storage tanks that are beyond repair.

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a revenue increase of $21,355 or 21.09 percent over the test year revenues of $101,276 to $122,631. Staff's recommended revenue increase would produce an operating income of $2,770 for a 4.16 percent rate of return on a Staff adjusted OCRB of $66,590. The Company proposes to use OCRB as its fair value rate base. In addition, Staff recommends the approval of two surcharges for $18,541 of debt related to pressure tanks and $108,000 in debt for additional storage tanks. Staff bases its recommended revenue on a cash flow analysis as shown on Schedule GWB-4 that provides the Company adequate cash flow to pay its bills including the full amount due for the ATS excluding media costs.

The impact of Staff's recommended rates on the typical residential bill will be discussed in subsequent rate design testimony.

Q. Please explain the cash flow analysis performed by Staff.

A. As shown on Schedule GWB-4, Staff determines that the Company needs an operating income of $2,770 in order to pay its recurring expense and to support the obligations with Nile River Leasing LLC ('Nile") and Financial Pacific LLC ("Financial Pacific"). In making this determination, Staff uses the total annual amounts of $4,105 due to Nile but provides for approximately 57.2 percent of the annual amounts of approximately $13,631 due to Financial Pacific, or $7,791. The total obligation to Financial Pacific is $38,000 of which $21,720, or 57.2 percent, is for the ATS itself and $16,280, or 42.8 percent, is for the arsenic media costs. Staff removes the cost of the media from the lease payments because arsenic media typically has a 2 year life, and the lease with Financial Pacific is a 5 year obligation. Staff provides for the recovery of media costs by adding $8,140 to chemical expenses.

In the second and third columns of the cash flow analysis, Staff reflects the impact of the Arias Tank Financing without and with a surcharge, respectively. As indicated, the Company would need a surcharge of $4,301 to support the Arias Tank Financing and pay its obligations.

In the fourth and fifth columns of the cash flow analysis, Staff reflects both the impact of the Arias Tank Financing without and with the surcharge, respectively and the impact of the WIFA loan without and with a surcharge, respectively. As indicated, the Company would need a surcharge of $8,409 to support the WIFA loan including the WIFA reserve, in addition to needing a surcharge of $4,301 to support the Arias Tank Financing and pay all of its obligations.

Q. Please compare Staff's recommended revenue requirement with the Company's proposal.

A. Staff's recommended revenue of $122,631 is $21,745, or 15.06 percent, less than the Company's proposed revenue of $144,376.

Q. What test year did the Company utilize for this filing?

A. Montezuma's rate filing is based on the twelve months ended December 31, 2011 ("test year").

RATE BASE

Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost New Rate Base?

A. No, the Company did not. The Company requested that its OCRB be treated as its fair value rate base.

RATE BASE ADJUSTMENTS

Q. Is Staff proposing any adjustments to the Company's rate base?

A. Yes.

Q. Please summarize the rate base and operating income recommendations and adjustments addressed in your testimony for Montezuma's application.

A. A summary of my testimony on rate base and operating income follows:

Staff-Recommended Rate Base Adjustments:

Plant in Service – These adjustments decrease plant by $91,286.

Accumulated Depreciation – This adjustment decreases accumulated depreciation by $4,922.

Advances in Aid of Construction ("AIAC") – These adjustments decrease AIAC by $30,986.

Customer Deposits – These adjustments decrease Customer Deposits by $12,018.

Contributions in Aid of Construction ("CIAC") –Accumulated Amortization – These adjustments increase Accumulated Amortization - CIAC by $44,957.

Working Capital – These adjustments increase the cash working capital component of Working Capital by $230 and $12,758, for a total increase of 12,988.

Staff-Recommended Operating Income Adjustments:

Salaries and Wages – This adjustment increases test year expenses by $13,181 to reflect a normalized level of salary expense.

Purchased Water – This adjustment decreases Purchased Water Expense by $686 from $686 to $0 for amounts that have been reclassified as Office Supplies and Expense.

Purchased Power – This adjustment decreases Purchased Power Expense by $541 from $6,064 to $5,523 to reflect the amount supported by the Company.

Chemicals – This adjustment increases Chemicals by $8,140 from $711 to $8,851 to reflect a normalized amount of arsenic media costs.

Office Supplies and Expense – This adjustment decreases Office Supplies and Expense by $2,757 from $13,160 to $10,403 to reflect an amount of $9,717 supported by information the Company provided, plus the $686 transferred from the Purchased Water account.

Outside Services – This adjustment increases Office Supplies and Expense by $2,389 from $15,890 to $21,701 to reflect annualized expenses excluding non-rate case, non - legal expenses of $11,436, plus 75 percent of annualized non rate case related, legal expenses of 13,686 or $10,265, for a total of $21,701.

Water Testing Expense – This adjustment increases Water Testing Expense by $800 from $1,000 to $1,800 to reflect application of Staff's Water Testing Expense.

Insurance – General Liability – This adjustment decreases Insurance – General Liability by $2,526 from $4,948 to $2,422 to reflect the amount supported by the Company.

Regulatory Commission Expense – Rate Case – This adjustment increases Regulatory Commission Expense – Rate Case by $13,364 from $833 to $14,250.

Depreciation Expense – This adjustment increases Depreciation Expense by $1,759 from $7,367 to $9,126 to reflect application of Staff's recommended depreciation rates to Staff's recommended plant balances in this proceeding.

Taxes Other than Income – This adjustment decreases Taxes Other than Income by $10,291 from $10,291 to $0 for sales tax collections that are a pass-through rather than an expense.

Income Tax Expense – This adjustment increases income taxes by $50 from $0 to $50 to reflect the application of statutory state and federal income tax rates to Staff's test year taxable income, in accordance with the Commission's recent adoption of a policy regarding income taxes in Decision No. 73739 (February 21, 2013).

Plant In Service

Staff's adjustments to plant in service resulted in a net decrease of $91,286, from $570,636 to $479,350 as shown on Schedule GWB-2, page 1. A significant portion of Staff's decrease to plant in service was related to the removal of Well No. 4 and associated improvements.

Land and Land Rights - Adjustment A decreases the land and land rights account by $37,000, from $37,000 to $0 as shown on Schedule GWB-2, pages 2 and 3. Staff's adjusted amount reflects the amounts spent to purchase the site for Well No. 4 which is not in service.

Structures and Improvements - Adjustment B increases the structures and improvements account by $8,000, from $38,595 to $46,595 as shown on Schedule GWB-2, pages 2 and 3. Staff's adjusted amount includes the $8,000 building housing the ATS that was not recorded by the Company in its test year amounts.

Wells and Springs - Adjustment C decreases the wells and springs account by $42,755, from $84,265 to $41,510 as shown on Schedule GWB-2, pages 2 and 3. Staff's adjusted amount reflects the $49,584 balance established in Decision No. 71317 less $8,074 for Well No. 2 that has been removed from service since that proceeding, or $41,510. Staff has estimated a corresponding adjustment to Accumulated Depreciation for this removal as discussed below.

Pumping Equipment - Adjustment D decreases the pumping equipment account by $24,999, from $63,263 to $38,264 as shown on Schedule GWB-2, pages 2 and 3. Staff's adjusted amount reflects $36,556 balance established in Decision No. 71317 plus $1,708 for several additions, for a total of $38,264.

Water Treatment Equipment and Water Treatment Plant - Adjustment E decreases the Water Treatment Equipment account by $7,386, from $7,386 to $0 to transfer this amount to Water Treatment Plant. Adjustment F increases the Water Treatment Plant account by $7,386 plus 37% of the cost of the ATS, or $8,036, for a total of $15,422. The cost of the ATS is based on the $38,000 requested by the Company in its application, less $16,280 for media costs included in the $38,000 for an ATS cost excluding media of $21,720. The $21,720 is multiplied by the 37 percent utilization rate as described more fully in Staff's Engineering Report, for a net of $8,036. These adjustments are shown on Schedule GWB-2, pages 2 and 3.

Distribution Reservoirs & Standpipes and Storage Tanks - Adjustment G decreases the Distribution Reservoirs account from $31,028 to $0, and increases the Storage Tanks account by $31,028, from $0 to $31,028 as shown on Schedule GWB-2, pages 2 and 3. Staff's adjustment is to transfer the balance from the Distribution Reservoirs and Standpipes capstone account to the more specific Storage Tanks account.

OTHER RATE BASE ITEMS

Accumulated Depreciation

Staff decreased Accumulated Depreciation by $4,922 from $234,721 to $229,799 as shown on Schedule GWB-2, pages 1. Staff recalculated Accumulated Depreciation by starting with the Accumulated Depreciation of $168,539 on December 31, 2007 approved in Decision No. 71317 and added 4 years of Depreciation Expense of $15,819 also approved in Decision 71317 for an initial total Accumulated Depreciation of $231,815 at December 31, 2011. From the initial amount of $231,815, Staff deducts $2,016 related to the removal of Well No. 2, based on the removal of $8,074, times 3.33 percent depreciation for an estimated 7.5 years of service, for a Staff recommended balance of $229,799.

Advances in Aid of Construction

Staff decreased advances in aid of construction ("AIAC") by $30,986, from $30,986 to $0, as shown on Schedule GWB-2, page 1. The adjustment reflects the Company's representation that it has no amounts due as AIAC under Main Extension Agreements or other obligations.

Customer Deposit

Staff decreased Customer Deposits by $12,018 from $32,163 to $20,145 as shown on Schedule GWB-2, page 1. The adjustment reflects the amount of Customer Deposits due per the Company's supporting schedule.

Amortization of CIAC

Staff increased amortization of CIAC by $44,957, from $36,981 to $81,938 as shown on Schedule GWB-2, page 1. The adjustment reflects Staff's calculation of CIAC amortization based upon the balance established in Decision No. 71317 of $42,983 plus annual CIAC amortization based on the CIAC amortization rate of 3.9 percent established in Decision No. 71317 applied to the average CIAC balances each year since the test year used in the prior proceeding, for an increase of $38,955, or $81,938.

Working Capital

Staff's adjustments to working capital resulted in a net increase of $12,988, from $0 to $12,988 as shown on Schedule GWB-2, pages 1, as a result of increasing cash working capital.

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.

Staff-Recommended Operating Income Adjustments:

Salaries and Wages – Adjustment A increases test year expenses by $13,181 to reflect a normalized level of salary expense. Due to cash flow constraints, the Company was unable to pay wages to its owners or others who had been paid wages in connection with maintaining the water company operations in the prior year. The $13,181 amount above reflects a 3 year normalized amount.

Purchased Water – Adjustment B decreases Purchased Water Expense by $686 from $686 to $0 for amounts that have been reclassified as Office Supplies and Expense. This amount is for water purchased from the Company from itself for use at its office.

Purchased Power – Adjustment C decreases Purchased Power Expense by $541 from $6,064 to $5,523 to reflect the amount supported by invoices provided by the Company.

Chemicals – Adjustment D increases Chemicals by $8,140 from $711 to $8,851 to reflect a normalized amount of arsenic media costs. The Company proposes $711 for chemicals used to treat its water, and this amount is accepted by Staff. In addition, the Company has included $16,280 in media costs as part of the amended financings as described more fully below. Since arsenic media has a usual expected life of 24 months or less, Staff recommends an increase of $8,140 to reflect one year of media recovery. ($16,280 divided by 24, multiplied by 12).

Office Supplies and Expense – Adjustment E decreases Office Supplies and Expense by $2,757 from $13,160 to $10,403 to reflect an amount of $9,717 supported by the Company, plus the $686 transferred from the Purchased Water account.

Outside Services – Adjustment F increases Outside Services Expense by $5,811 from $15,890 to $21,701 to reflect annualized expenses excluding non-rate case, non-legal expenses of $11,436 which were supported by the Company, plus 75 percent of annualized non rate case related, legal expenses of 13,686 or $10,265, for a total of $21,701. A review of documentation provided by the Company indicated that the costs were incurred for regulatory agency approvals for construction and operation of its ATS including ADEQ and Yavapai County matters, Commission proceedings related to its ATS, defending itself against a suit brought by John Dougherty and Fred Shute, and obtaining an Order of Protection against John Dougherty. The Company states that from November 2009 through October 2012, it incurred $29,032.50 to the Law Offices of Douglas C. Fitzpatrick and that April 2010 through December 2012, it incurred $25,699 to Fennemore Craig, not including expenses in the current proceeding. Adding the amount results in total of $54,731 over an approximately 4 year period, or $13,683 per year. Although the ADEQ and Yavapai matters were related to the construction of well No. 4 which was intended to provide an additional water supply for the ratepayers, Staff recommends a 25 percent disallowance of legal fees to reflect the matters related to correcting some zoning violations that could have been avoided by the Company.

Water Testing Expense – Adjustment G increases Water Testing Expense by $800 from $1,000 to $1,800 to reflect application of Staff's Water Testing Expense.

Insurance – General Liability – Adjustment H decreases Insurance – General Liability by $2,526 from $4,948 to $2,422 to reflect the amount supported by the Company.

Regulatory Commission Expense – Rate Case – Adjustment I increases Regulatory Commission Expense – Rate Case by $13,364 from $833 to $14,250. This is based on total estimated rate case expense of $57,000 amortized over 4 years, or $14,250.

Depreciation Expense – Adjustment J increases Depreciation Expense by $1,759 from $7,367 to $9,126 to reflect application of Staff's recommended depreciation rates to Staff's recommended plant balances in this proceeding.

Taxes Other than Income – This adjustment decreases Taxes Other than Income by $10,291 from $10,291 to $0 for sales tax collections that are a pass-through rather than an expense.

Income Tax Expense – This adjustment increases income taxes by $50 from $0 to $50 to reflect the application of statutory state and federal income tax rates to Staff's test year taxable income, in accordance with a recently adopted Commission policy regarding income taxes.

FINANCING APPLICATIONS

"Rask" Financing

Q. Please give a brief description of the Company's proposed plan related to the "Rask" financing.

A. On May 31, 2012, the Company filed a financing application with the Commission, requesting Commission approval to borrow $68,592 from Rask Construction.

Q. What is the purpose of the loan?

A. Originally filed in the previously unconsolidated Docket No. W-04254A-12-0204, the "Rask" financing seeks retroactive authority to incur debt related to an interconnection line between well site No. 1 and well site No. 4. This line was intended to provide additional supply along with the ability to mitigate the arsenic levels in the water from Well No. 4.

Q. Did Staff conduct an engineering analysis of the proposed financing?

A. Yes. Please refer to the testimony of Marlin Scott, Jr. and the associated Engineering Report for details of Staff's engineering analysis. In brief, the engineering analysis concludes that the transmission line from Well No. 4 to Well No. 1 is not used and useful because Well No. 4 does not have Yavapai County approval and because the transmission line was never connected to the water system.

Q. What does Staff recommend?

A. Staff recommends denial of this request because the associated infrastructure is not in service and is not expected to be in service in the near future.

Financing for Site for Well No. 4 and Company Vehicle ("Olsen Site and Vehicle Financing")

Q. Please give a brief description of the Company's proposed plan related to the "Olsen Site and Vehicle Financing" financing.

A. On May 31, 2012, the Company filed a financing application with the Commission, requesting Commission approval to borrow $21,377 from Patricia Olsen, the owner of the Company.

Q. What is the purpose of the loan?

A. Originally filed in the previously unconsolidated Docket No. W-04254A-12-0205, this loan is to finance the purchase of the site for Well No. 4 and the purchase of a Company vehicle.

Q. Did Staff conduct an engineering analysis of the proposed financing?

A. Yes. Please refer to the testimony of Marlin Scott, Jr. and the associated Engineering Report for details of Staff's engineering analysis related to the purchase of the site for Well No. 4. In brief, the engineering analysis notes that Yavapai County has determined that Well No. 4 does not currently meet Yavapai County setback requirements and could not be approved, and Yavapai County ordered the removal of all structures. Staff visited the well site, confirmed that all structures had been removed except for the well itself, and concluded that Well No. 4 is not in service. Thus, the site itself is not in service to the ratepayers and the request to approve the financing for this is not appropriate.

Q. Did Staff evaluate the Company vehicle component of the financing request?

A. Yes. The second item is the approval of financing for the Company vehicle in the amount of $6,056. Although Staff believes that the purchase of the Company vehicle is appropriate, Staff's review of the Company's records indicates that the vehicle was added to the Company's Utility Plant in Service ("UPIS") in 2010 at an original cost of $11,180.

Q. What does Staff recommend?

A. Staff recommends denial of both components of this request. Well No. 4 is not in service and the vehicle is included in the Company's rate base.

Financing for Pressure Tank ("The Arias Tank Financing")

Q. Please give a brief description of the Company's proposed plan related to "The Arias Tank Financing".

A. On May 31, 2012, the Company filed a financing application with the Commission, requesting Commission approval of a loan agreement in which Montezuma promises to pay Sergei Arias the sum of $15,000 plus interest. The proposed loan would bear interest at the rate of 6 percent over 5 years.

Q. What is the purpose of the loan?

A. Originally filed in the previously unconsolidated Docket No. W-04254A-12-0206, this loan is to finance the purchase of an 8,000 gallon hydro-pneumatic tank to provide additional water storage.

Q. Did Staff conduct an engineering analysis of the proposed financing?

A. Yes. Please refer to the testimony of Marlin Scott, Jr. and the associated Engineering Report for details of Staff's engineering analysis related to The Arias Tank Financing. In brief, the engineering analysis concludes that the pressure tank is necessary and appropriate but that the costs should also include $3,541 for installation costs, for a total of

$18,541. Staff makes no "used and useful" determination of the proposed projects and no specific treatment should be inferred for rate making or rate base purposes in the future.

Q. What amount of financing does Staff recommend for the proposed capital improvements?

A. Staff recommends $18,541 of financing for the proposed capital improvements under the Arias Tank Financing. This would result in an estimated payment of $358.45 per month for this obligation, based on the recommended amount of $18,541 divided by the original amount requested of $21,377, or approximately 86.7 percent, times the payment of $413.28 per the application necessary to support the entire $21,377, results in a payment of $358.45 per month for 5 years to be funded as a surcharge, "Surcharge No. 1". Staff further recommends that this financing cease after 60 months of collections through Surcharge No. 1.

Q. Did Staff conduct a financial analysis of the Company's ability to support the debt service on the Arias Tank Financing?

A. Yes. The proposed financing does not have any stated covenants such as a Debt Service Coverage ("DSC") or Times Interest Earned Ratio ("TIER") requirements. Staff analyzed the Company's ability to support this debt as part of its cash flow and financial analysis as shown on Schedules GWB-4 and GWB-5.

Other Financing Requests

Q. Please give a brief description of the Company's amendments to its requests for financing authority.

A. Subsequent to the consolidation of the seven dockets on April 12, 2013, the Company amended its financing requests to borrow $108,000 from WIFA, $8,000 from Nile, and $38,000 from Financial Pacific.

Q. What are the purposes of the loans?

A. The purpose of the WIFA loan is to purchase four 20,000 gallon storage tanks. The purpose of the approval of the debt associated with Nile is to obtain retroactive approval of the debt associated with the lease for the building that houses the ATS at $8,000. The purpose of the approval of the debt associated with the lease with Financial Pacific, is to obtain retroactive approval of the debt associated with the ATS including media costs at $38,000.

Q. Did Staff conduct an engineering analysis of the proposed financing?

A. Yes. Please refer to the testimony of Marlin Scott, Jr. and the associated engineering report for details of Staff's engineering analysis. In brief, the engineering analysis concludes that 37 percent of the ATS, the building that houses the ATS, and the storage tanks are appropriate and the cost estimates are reasonable.

Q. What amount of financing does Staff recommend for the proposed capital improvements?

A. Staff recommends $108,000 of financing with WIFA for the storage tanks, $8,000 for the ATS building, but $38,000 for the ATS included $16,280 of media costs, for a net cost for the ATS of $21,720. As discussed above, Staff recommends that the cost of the arsenic media be recovered by depreciating these costs over 24 months and including 12 months of media expense as part of Chemicals Expense, as discussed above.

Q. Did Staff conduct a financial analysis of the Company's ability to support the debt service on these three financings?

A. Yes. The WIFA financing is analyzed using DSC and/or TIER. The debt associated with long term leases do not contain debt covenants and are evaluated on a cash flow basis, similar to the Arias Tank financing discussed above. Staff analyzed the Company's ability to support this debt as part of its cash flow analysis as shown on Schedules GWB-4. As indicated on Schedules GWB-5, the Company has a pro-forma DSC of 1.98 based on Staff's recommended revenues and the estimated surcharges to support both the Arias Tank Financing and the WIFA loan.

Q. Please describe the other financings requested by the Company.

A. Subsequent to the consolidation of the seven dockets, the Company amended its financing requests as filed in the consolidated docket. On April 12, 2013, the Company submitted financing requests for three more plant facilities including four 20,000 gallon storage tanks at $108,000, a lease approval for a building that houses the ATS at $8,000, and a lease approval for the ATS itself at $38,000. The financing for the four 20,000 gallon storage tanks would be provided by WIFA. The financing for the ATS building represents the obligation under a leasing agreement with Nile.

Q. Did Staff evaluate this financing request?

A. Yes. As discussed more fully in Staff's Engineering Report, the Company needs additional storage and an ATS. Staff notes that the storage tanks are yet to be constructed and that it would be appropriate to fund the tanks through a surcharge once they are placed in service. In contrast, the ATS and the ATS building were place in service in 2012 and Staff has included these items in Staff's recommended rate base. See Schedule GWB-2. Staff has evaluated these leases and determined the lease on the ATS is a capital lease and the associated long term obligation that needs to be approved by the Commission.

Q. What does Staff recommend?

A. Staff recommends approval of the financing and that the Commission grant authority for the Company to apply for a surcharge to provide debt service coverage.

COMPLAINT DOCKET

Q. What are Staff's comments on the Complaint docket?

A. At a Procedural Conference on October 25, 2011, Staff responded to the allegations in the complaint allegations in previously unconsolidated Docket No. W-04254A-11-0323. Staff's position with regard to those allegations has not changed. Subsequently, Mr. Dougherty has added Allegation XVII which involves the Company's incurring long term debt without Commission approval and voluntarily dismissed a number of the original allegations from the Complaint. To the extent that a response to Allegation XVII requires a legal analysis, Staff defers to counsel to explain Staff's position. However, Staff has reviewed the Response to Motion for Partial Summary Judgment filed by the Company on May 15, 2013, and agrees that it is not unusual for the Commission to grant retroactive approval for financings. In the present case, as described more fully above, Staff recommends that the Commission likewise retroactively approve the debt at issue.

RATE DESIGN

Q. Did Staff prepare schedules showing the present, Company-proposed, and Staff-recommended rates and charges?

A. Yes. Staff Schedule GWB-7 shows the present monthly minimum charges and commodity rates, the Company's proposed monthly minimum charges and commodity rates and Staff's recommended monthly minimum charges and commodity rates. The schedule also shows the present, proposed and recommended service charges. A summary of the present, Company-proposed and Staff-recommended rates is presented in the following section.

Q. Please provide an overview of the present rate design.

A. The present monthly minimum charges are as follows: Residential 5/8" x ¾" $27.25, 3/4 –inch $40.88, 1 inch customers $68.13. For all customers, the present commodity rate has three tiers. Tier one is 1 gallon to 4,000 gallons at the commodity rate of $1.50 per 1,000 gallons. Tier two is 4,001 gallons to 10,000 gallons at the commodity rate of $2.50 per 1,000 gallons. Tier three is all gallons over 10,000 at the commodity rate of $4.00 per 1,000 gallons.

Q. Please provide an overview of the Company's proposed rate design.

A. Although the Company proposes a rate increase, its application indicates proposed rates that are the same as its present rates, i.e., the Company did not propose new rates.

Q. Please provide an overview of Staff's recommended rate design for the Company's Sewer Division?

A. Staff's recommended rates and charges are presented in Schedule GWB-7. Residential 5/8 x 3/4' $30.00, 3/4 –inch $45.00, 1 inch customers $75.00. For all customers, the recommended commodity rates have three tiers. Tier one is 1 gallon to 3,000 gallons at the commodity rate of $2.15 per 1,000 gallons. Tier two is 3,001 gallons to 9,000 gallons at the commodity rate of $3.58 per 1,000 gallons. Tier three is all gallons over 9,000 at the commodity rate of $5.73 per 1,000 gallons.

Q. What is the rate impact on a typical 5/8 x ¾ inch meter residential customer?

A. Staff is unable to determine the impact of the Company's proposed rates, since new rates were not proposed. The median usage of residential 5/8 x 3/4 inch meter customers is 4,112 gallons per month. The median residential 5/8 x 3/4 inch-meter customers would experience a $6.90 or 20.6 percent increase in their monthly bill from $33.53 to $40.43 under Staff's recommended rates. See Schedule GWB-6

Staff recommends approval of the Company's proposed services charges which are unchanged in this proceeding.

Miscellaneous Charges

Q. Does Staff have any comments related to service charges?

A. Yes. Staff agrees with the Company's proposed Other Service Charges, with the following exceptions. Staff recommends the elimination of the Establishment (After Hours) charge of $60. Staff recommends the addition of a Service Charge (After Hours) tariff in the amount of $35.00 and that this charge be in addition to the charge for any utility service provided after hours at the customer's request or for the customer's convenience. Such a charge compensates the utility for additional expenses incurred from providing after-hours service.

ELIMINATE:

Establishment (After Hours)	$60.00

ADD:

Service Charge (After Hours)	$35.00

Staff does not recommend the approval of the requested deposit amount of $60. The current deposit per Arizona Administrative Code ("A.A.C.") Rule 14-2-403.B should remain. Staff also does not recommend the approval of the requested deposit interest of 0%. Deposit interest per A.A.C. Rule 14-2-403.B should remain. Also, the deferred payment interest of 1.5% per month should remain.

DENY:

Deposit	$60.00
Deposit Interest	0%
Deferred Payment	0%

Staff also recommends that the current Monthly Service Charge for Fire Sprinkler (All Meter Sizes) remain the same as approved in Decision No. 71317, which is 1% of the monthly minimum for a comparably sized meter connection, but no less than $5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Q. What does Staff recommend for Other Service Charges?

A. Staff recommends the approval of the Other Services Charges as shown on Schedule GWB-1.

Q. Did the Utilities Division conduct a typical compliance check on Montezuma for this case?

A. Yes. A check of the compliance database indicated that there are currently two outstanding items relating to Decision No. 71317. Montezuma was required to provide both an ADEQ Approval of Construction relating to Well No. 4 (by 12/31/09) and an arsenic remediation surcharge application (within 60 days after executing the loan documents of the expected WIFA loan).

In each case, circumstances subsequent to the Commission order have rendered the compliance item moot. Montezuma cannot obtain an ADEQ Approval of Construction for Well No. 4 because it does not meet Yavapai County ordinance. Also, since the WIFA loan was never executed by the Company, no arsenic remediation surcharge application was required. Staff recommends that the Commission remove the obligation for these compliance requirements as circumstances have rendered them outdated in nature.

Q. Does Staff have other recommendations?

A. Staff recommends that the Company file a new rate case no later than June 30, 2017, using a test year no later than December 31, 2016, in order to review the effects of the rate and financing applications that may be approved in this proceeding and to monitor the financial and operating conditions of the Company.

RECOMMENDATIONS

Q. What are Staff recommendations?

A. Staff recommendations are discussed below:

<u>Recommendations pertaining to the Complaint Docket</u>

- Staff's position with respect to the original complaint allegations has not changed from what was expressed orally by Staff counsel at the October 25, 2011 procedural conference held in the Complaint Docket.

- Retroactive approval of the debt at issue in this case is appropriate.

Recommendations pertaining to the request to reopen Decision No. 71317

- Denial of the Company's request to reopen Decision No. 71317 which would authorize the Company to borrow up to $165,000 from a source other than WIFA.

- Revocation of the authority to incur debt up to $165,000 from WIFA as approved in Decision No. 71317.

Recommendations (not related to the Financing):

- Approval of Staff's rates and charges as shown in Schedules GWB-7. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).

- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.

- Authorizing the depreciation rates by individual NARUC account, as presented in Table B of Staff's Engineering Report.

- Directing the Company, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regularly-scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.

- Directly the Company to file a new rate case no later than June 30, 2017 using a test year no later than December 31, 2016.

- Due to arsenic deficiencies, the Arizona Department of Environmental Quality ("ADEQ") cannot determine if the Company is currently delivering water that meets the water quality standards. Since the ATS has ADEQ approval and is currently serving customers, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the quarterly arsenic compliance results for Staff's review. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket and by January 31, 2014, an updated ADEQ Compliance Status Report indicating that the Company's water system has resolved the arsenic deficiencies and is in full compliance.

- Staff recommends an annual water testing expense of $1,800 be used for purposes of this application.

- Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by

Staff for the Commission's review and consideration. These BMP templates are available on the Commission's website. The Company may request cost recovery of the actual costs associated with the BMP Tariffs implemented in its next general rate application.

- Since the ATS has ADEQ approval and is currently serving customers, Staff concludes that the requested PTY plant – ATS is used and useful for the provision of service to customers. Staff recommends that 37% of the actual ATS cost be adopted in this proceeding because the ATS's treatment capacity of 150 GPM is excessive for the actual production of Well #1 at 55 GPM.

- Staff recommends the removal of Well #2 at a total cost of $8,074 from the plant-in-service because this well is not used and useful.

- Staff recommends that the Company continue to use Staff's depreciation rates.

- The Company requested no changes to its service line and meter installation charges. Staff recommends that the Company continue to use its service line and meter installation charges as delineated in Tables 10 and 11 of the attached Engineering Report.

- Staff recommends that the Commission remove the obligation for compliance requirements to file an ADEQ Approval of Construction regarding Well No. 4 and an arsenic remediation surcharge, as circumstances have rendered them outdated in nature.

Recommendations pertaining to the Financing Applications:

- For the financing applications, Staff finds that the request for: a) the transmission main connecting Well Site #4 to Well Site #1 at $68,592 is not reasonable nor appropriate, b) the purchase of Well Site #4 at $16,758 is not reasonable nor appropriate, c) the purchase and installation of an 8,000 gallon hydro-pneumatic tank at $18,541 is reasonable and appropriate, d) the purchase and installation of four 20,000 gallon storage tanks at $108,000 is reasonable and appropriate, and e) the installation of the arsenic treatment building and the arsenic treatment system are reasonable and appropriate
- Denial of the Olsen Site and Vehicle Financing

- Regarding the Arias Tank Financing, granting the Company authorization to incur a 5-year amortizing loan in an amount not to exceed $18,541 and for a term not to exceed 5 years for the purpose of installing an 8,000 gallon hydro-pneumatic or pressure tank, and that the Company is authorized an infrastructure surcharge ("Surcharge No. 1") to meet its debt service and the associated loan obligation. Surcharge No. 1 shall cease after 60 months of collections.

- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed $108,000 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA for the purpose of installing additional storage tanks, and that the Company is authorized an infrastructure surcharge ("Surcharge No. 2") to meet its debt service and the associated loan obligation.

- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding of December 31, 2015.
- Granting retroactive authority to incur long term debt related to the ATS including media in the amount of $38,000 and ATS building in the amount of $8,000 for property financed through long term leases and providing for the debt service coverage approved in base rates approved in this proceeding.

- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

- Directing the Company to provide to the Staff's Utilities Division Director, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and also to file a letter in Docket Control verifying that such documents have been provided.

- Granting the Company authorization to charge a two separate infrastructure surcharges to become effective at a date and in a manner as subsequently authorized by the Commission.

- Directing the Company to file in this Docket, upon filing of the loan closing notice and upon providing the loan documents to Staff, an application requesting to implement an associated surcharge.

- Directing Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 30 days of the filing of a surcharge implementation request by the Company and to calculate the surcharge based on the actual loan debt service (interest and principal) payments and using the current customer count at the time of the loan closing to provide the cash flow adopted in this proceeding.

- Authorizing the Company to pledge its assets in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the Arias Tank Financing and the WIFA loan.

- Authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Montezuma Rimrock Water Company, L.L.C.
Docket No. W-04254A-12-0204 et al
Test Year Ended December 31, 2011

Schedule GWB-1

SUMMARY OF FILING

WITHOUT FINANCING SURCHARGES

	-- Present Rates --		-- Proposed Rates --	
	Company as Amended*	Staff as Adjusted	Company as Amended*	Staff as Adjusted
Revenues:				
Metered Water Revenue	$97,305	$97,305	$140,405	$118,660
Surcharge WIFA loan	0	0	0	0
Other Water Revenues	3,971	3,971	3,971	3,971
Total Operating Revenue	**$101,276**	**$101,276**	**$144,376**	**$122,631**
Operating Expenses:				
Operation and Maintenance	$72,801	$107,587	$72,801	$107,587
Depreciation	7,367	9,126	7,367	9,126
Property & Other Taxes	13,389	3,098	13,389	3,098
Income Tax	0	50	0	50
Total Operating Expense	**$93,557**	**$119,861**	**$93,557**	**$119,861**
Operating Income/(Loss)	**$7,719**	**($18,585)**	**$50,819**	**$2,770**
Rate Base O.C.L.D.	$52,005	$66,590	$52,005	$66,590
Rate of Return - O.C.L.D.	14.84%	N/M	97.72%	4.16%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Operating Margin	7.62%	-18.35%	35.20%	2.26%

NOTES: 1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

2. The Debt Service Coverage Ratio (DSC) represent the Company's ability to pay principal and interest before taxes and depreciation

3.Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

N/M Not Meaningful

RATE BASE

	---------- Original Cost -------------			
	Company	Adjustment		Staff
Plant in Service*	$570,636	($91,286)	A	$479,350
Less:				
Accum. Depreciation*	234,721	(4,922)	B	229,799
Net Plant	$335,915	($86,364)		$249,551
Less:				
Plant Advances	$30,986	($30,986)	C	$0
Customer Deposits	32,163	(12,018)	C	20,145
Total Advances	$63,149	($43,004)		$20,145
Contributions Gross	$257,742	$0		$257,742
Less:				
Accumulated Amortization of CIAC	36,981	$44,957	D	81,938
Net CIAC	$220,761	($44,957)		$175,804
Total Deductions	$283,910	($87,961)		$195,949
Plus:				
1/24 Power	$0	$230	E	$230
1/8 Operation & Maint.	$0	12,758	E	12,758
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	$0	$12,988		$12,988
Rate Base	$52,005	$14,585		$66,590

Explanation of Adjustment:
A To remove reflect the net plant adjustments shown on page 2
B To adjust accumulated deperecation to reflect amount per testimony.
C To remove Advances not supported by the Company.
C To adjust the balance in the Customer Deposits Account to reflect supporting documentation.
D To update balance in Accumulated Amortization - CIAC balance.
E To record adjustment for working capital.

Montezuma Rimrock Water Company, L.L.C.
Docket No. W-04254A-12-0204 et al
Test Year Ended December 31, 2011

PLANT ADJUSTMENT

	Company Exhibit*	Adjustment		Staff Adjusted
301 Organization	$0	$0		$0
302 Franchises	0	0		$0
303 Land & Land Rights	37,000	(37,000)	A	$0
304 Structures & Improvements	38,595	8,000	B	$46,595
305 Collections & Impounds	1,700	(1,700)		$0
307 Wells & Springs	84,265	(42,755)	C	$41,510
309 Water Mains	1,096	(868)		$228
310 Power Generating Equipment	1,054	0		$1,054
311 Pumping Equipment	63,263	(24,999)	D	$38,264
320 Water Treatment Equipment	7,386	(7,386)	E	$0
320.1 Water Treatment Plants	0	15,422	F	$15,422
320.2 Solution Chemical Feeders	0	0		$0
330 Distribution Reservoirs & Standpipes	31,028	(31,028)	G	$0
330.1 Storage Tanks	0	31,028	G	$31,028
330.2 Pressure Tanks	0	0		$0
331 Transmission & Distribution Mains	188,664	0		$188,664
333 Services	11,415	0		$11,415
334 Meters & Meter Installations	50,730	0		$50,730
335 Hydrants	11,264	0		$11,264
336 Backflow Prevention Devices	72	0		$72
339 Other Plant and Misc. Equipment	11,061	0		$11,061
340 Office Furniture & Equipment	3,009	0		$3,009
340.1 Computers & Software	1,239			$1,239
341 Transportation Equipment	11,180	0		$11,180
343 Tools Shop & Garage Equipment	14,766	0		$14,766
344 Laboratory Equipment	0	0		$0
345 Power Operated Equipment	1,849	0		$1,849
346 Communication Equipment	0	0		$0
347 Miscellaneous Equipment	0	0		$0
348 Other Tangible Plant	0	0		$0
105 C.W.I.P.	0	0		$0
TOTALS	$570,636	($91,286)		$479,350

Explanation of Adjustment:
A - G See testimony

ACCUMULATED DEPRECIATION ADJUSTMENT

	Amount
Accumulated Depreciation - Per Company*	$234,721
Accumulated Depreciation - Per Staff	229,799
Total Adjustment	($4,922)

To remove the Accumulated Depreciation to reflect amount per Staff Testimony

Montezuma Rimrock Water Company, L.L.C.
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Test Year Ended December 31, 2011

STATEMENT OF OPERATING INCOME

	Company as Amended*	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	$97,305	$0		$97,305
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	3,971	0		3,971
Total Operating Revenue	$101,276	$0		**$101,276**
Operating Expenses:				
601 Salaries and Wages	$0	$13,181	A	$13,181
610 Purchased Water	686	(686)	B	0
615 Purchased Power	6,064	(541)	C	5,523
618 Chemicals	711	8,140	D	8,851
620 Repairs and Maintenance	8,047	0		8,047
621 Office Supplies & Expense	13,160	(2,757)	E	10,403
630 Outside Services	15,890	5,811	F	21,701
635 Water Testing	1,000	800	G	1,800
641 Rents	7,983	0		7,983
650 Transportation Expenses	9,352	0		9,352
657 Insurance - General Liability	4,948	(2,526)	H	2,422
659 Insurance - Health and Life	1,597	0		1,597
666 Regulatory Commisssion Expense - Rate Case	886	13,364	I	14,250
675 Miscellaneous Expense	2,477			2,477
403 Depreciation Expense	7,367	1,759	J	9,126
408 Taxes Other Than Income	10,291	(10,291)	K	0
408.11 Property Taxes	3,098	0		3,098
409 Income Tax	0	50	L	50
Total Operating Expenses	$93,557	$26,304		**$119,861**
OPERATING INCOME/(LOSS)	**$7,719**	**($26,304)**		**($18,585)**

Montezuma Rimrock Water Company, L.L.C.
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Test Year Ended December 31, 2011

STAFF ADJUSTMENTS

A	SALARIES AND WAGES - Per Company	0	
	Per Staff	13,181	$13,181
	To annualize Salaries and Wages		
B	PURCHASED WATER - Per Company	686	
	Per Staff	0	(686)
	To remove cost of water used by the Company's office		
C	PURCHASED POWER - Per Company	6,064	
	Per Staff	5,523	($541)
	To reflect the power expense supported by the Company		
D -	CHEMICALS - Per Company	$711	
	Per Staff	8,851	$8,140
	To reflect arsenic media expenses		
E	OFFICE SUPPLIES AND EXPENSE - Per Company	$13,160	
	Per Staff	10,403	($2,757)
	To reflect amounts supported by the Company plus $686 for Purchased Water, above.		
F	OUTISE SERVICES - Per Company	$15,890	
	Per Staff	21,701	$5,811
	To reflect amounts per Testimony		
G -	WATER TESTING - Per Company	$1,000	
	Per Staff	1,800	$800
	To reflect normalized annual water testing cost		
H	INSURANCE - GENERAL LIABILITY - Per Company	$4,948	
	Per Staff	2,422	($2,526)
	To reflect amounts supported by the Company		

I	REGULATORY COMMISSION EXPENSE - RATE CASE - Per Company	$886	
	Per Staff	14,250	$13,364
	To recognize a normalized level of the estimated rate case expense		
J	DEPRECIATION - Per Company*	$7,367	
	Per Staff	9,126	$1,759
	To recalculate depreciation expense at Staff recommended rates See Page 3 of 3		
K	TAXES OTHER THAN INCOME - Per Company	$10,291	
	Per Staff	0	($10,291)
	To remove sales tax collections that are pass through amounts		
	INCOME TAXES - Per Company	$0	
	Per Staff	50	$50
	To reflect income taxes per recent ACC policy		

Montezuma Rimrock Water Company, L.L.C.
Docket No. W-04254A-12-0204 et al
Test Year Ended December 31, 2011

STAFF ADJUSTMENTS (Cont.)

Pro Forma Annual Depreciation Expense:

Plant in Service	$479,350	
Less: Non Depreciable Plant	0	
Fully Depreciated Plant	1,849	
Depreciable Plant	$477,501	
Times: Staff Proposed Average Depreciation Rate	4.15%	
Credit to Accumulated Depreciation	$19,829	*
Less: Amort. of CIAC* @ 4.15%	10,703	
Pro Forma Annual Depreciation Expense	**$9,126**	

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	$257,742
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	$257,742
Times: Staff Proposed Amortization Rate	4.15%
Amortization of CIAC	**$10,703**

Montezuma Rimrock Water Company, L.L.C.
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Test Year Ended December 31, 2011

CASH FLOW ANALYSIS

Line No.		Without Surcharges	Without Surcharge and with Arias	With Surcharge and with Arias Loan	With Arias Surcharge without WIFA Surcharge	With Surcharge and with Arias Loan
1	**Cash Inflows**					
	Metered Water Revenue	$118,660	$ 118,660	$ 118,660	$ 118,660	$ 118,660
2	Other Water Revenues	$ 3,971	$ 3,971	$ 3,971	$ 3,971	$ 3,971
	Surcharge 1			$ 4,301	$ 4,301	$ 4,301
3	Surcharge 2					$ 7,854
4	Total Revenue	$122,631	$ 122,631	$ 126,932	$ 126,932	$ 134,786
5						
6	**Cash Outflows plus Depreciation**					
7	Operation and Maintenance	$107,587	$ 107,587	$ 107,587	$ 107,587	$ 107,587
8	Depreciation	$9,126	$ 9,126	$ 9,126	$ 9,126	$ 9,126
9	Property & Other Taxes	$3,098	$ 3,098	$ 3,098	$ 3,098	$ 3,098
10	Income Tax	$50	$ 50	$ 50	$ 50	$ 50
32	Total Expenses	$ 119,861	$ 119,861	$ 119,861	$ 119,861	$ 119,861
33						
34	**Operating Income**	$ 2,770	$ 2,770	$ 7,071	$ 7,071	$ 14,925
35						
36	Plus Depreciation Expense	$9,126	$ 9,126	$ 9,126	$ 9,126	$ 9,126
37						
38	Obligation Under Nile River Leasing, LLC	$ 4,105	$ 4,105	$ 4,105	$ 4,105	$ 4,105
39	Obligation under Financial Pacific Leasing, LLC	$ 7,791	$ 7,791	$ 7,791	$ 7,791	$ 7,791
40	Total amounts due under leases	$ 11,897	$ 11,897	$ 11,897	$ 11,897	$ 11,897
41						
42	Arias Loan Interest		$ 1,023	$ 1,023	$ 1,023	$ 1,023
43	Arias Loan Principal		$ 3,278	$ 3,278	$ 3,278	$ 3,278
44	Total Payment Arias Loan		$ 4,301	$ 4,301	$ 4,301	$ 4,301
45						
46	**Cash Flow from Operations before WIFA**	$ (0)	$ (4,302)	$ 0	$ 0	$ 7,853
47						
48	Less: WIFA Loan Payment Interest				$ 4,254	$ 4,254
49	Less: WIFA Loan Payment Principal				$ 3,599	$ 3,599
50	**Cash Flow from Operations before WIFA Reserve**	$ (0)	$ (4,302)	$ 0	$ (7,854)	$ (0)
51						
52	WIFA Reserve (20% of Principal and Interest)	$ -	$ -		$ 1,571	$ 1,571
53	**Cash Flow from Operations after WIFA Reserve**	$ (0)	$ (4,302)	$ 0	$ (9,425)	$ (1,571)
54						
55	Operating Income	$ 2,770	$ 2,770	$ 7,071	$ 7,071	$ 14,925
56	Less: Arias Loan Payment Interest		$ 1,023	$ 1,023	$ 1,023	$ 1,023
57	Less: WIFA Loan Payment Interest	$ -	$ -	$ -	$ 4,254	$ 4,254
58	**Net Income**	$ 2,770	$ 1,747	$ 6,048	$ 1,794	$ 9,648
59						
60	Rate of Return on Rate Base	4.16%	4.16%	4.16%	4.16%	4.16%
61	Operating Margin	2.26%	2.26%	5.57%	5.57%	11.07%

Montezuma Rimrock Water Company, L.L.C.
Docket Nos. W-04254A-12-0204 et al
Test Year Ended December 31, 2011

Schedule GWB-5

FINANCIAL ANALYSIS

Line		[A] Base Rates 12/31/2011	[B] *Pro forma* With Arias Loan Without Surcharge 1	[C] Pro forma With Surcharge 1 and with Arias Loan	[D] Pro forma With Arias Surcharge with WIFA loan without WIFA Surcharge	[E] *Pro forma Combined* Includes Surcharges		[F] Pro forma WIFA EX ARIAS
1	Operating Income	$2,770	$2,770	$7,071	$7,071	$14,925	$	10,624
2	Depreciation & Amort.	9,126	9,126	9,126	9,126	9,126	$	9,126
3	Income Tax Expense	50	50	50	50	50	$	50
4								
5	Interest Expense	0	1,023	1,023	5,278	5,278		4,254
6	Repayment of Principal	0	3,278	3,278	6,877	6,877		3,599
7								
8	TIER							
9	[1+3] ÷ [5]	N/M	2.76	6.96	1.35	2.84		2.51
10								
11	DSC							
12	[1+2+3] ÷ [5+6]	N/M	2.78	3.78	1.34	1.98		2.52
13								
14								

References:
Column [A]: Staff Recommended, No Surcharges
Column [B]: Staff Recommended with Arias Loan, No Surcharge
Column [C]: Staff Recommended with Arias Loan and Surcharge #1
Column [D]: Staff Recommended with Arias & WIFA Loan and Surcharge #1, only
Column [E]: Staff Recommended with Arias & WIFA Loan and both Surcharges
Column [E]: Staff Recommended with Arias & WIFA Loan and both Surcharges

Montezuma Rimrock Water Company Schedule GWB-6
Docket No. W-04254A-12-0207 et al
Test Year Ended December 31, 2011

TYPICAL BILL ANALYSIS

5/8 x 3/4 Inch Meter

WITHOUT REFLECTION OF THE (LOANS) SURCHARGES IN CURRENT RATES

Average Number of Customers: 185

Company Proposed		Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	See note *	5,192	$36.23	$36.23	$0.00	0.0%
Median Usage	See note *	4,112	$33.53	$33.53	$0.00	0.0%
Staff Recommend						
Average Usage		5,192	$36.23	$44.31	$8.08	22.3%
Median Usage		4,112	$33.53	$40.43	$6.90	20.6%

Present & Proposed Rates (Without WIFA Loan Surcharges and Taxes)
5/8 x 3/4 Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$27.25	$27.25	0.0%	$30.00	10.1%
1,000	28.75	28.75	0.0%	32.15	11.8%
2,000	30.25	30.25	0.0%	34.30	13.4%
3,000	31.75	31.75	0.0%	36.45	14.8%
4,000	33.25	33.25	0.0%	40.03	20.4%
5,000	35.75	35.75	0.0%	43.62	22.0%
6,000	38.25	38.25	0.0%	47.20	23.4%
7,000	40.75	40.75	0.0%	50.78	24.6%
8,000	43.25	43.25	0.0%	54.37	25.7%
9,000	45.75	45.75	0.0%	57.95	26.7%
10,000	48.25	48.25	0.0%	63.68	32.0%
15,000	68.25	68.25	0.0%	92.35	35.3%
20,000	88.25	88.25	0.0%	121.02	37.1%
25,000	108.25	108.25	0.0%	149.68	38.3%
50,000	208.25	208.25	0.0%	293.02	40.7%
75,000	308.25	308.25	0.0%	436.35	41.6%
100,000	408.25	408.25	0.0%	579.68	42.0%
125,000	508.25	508.25	0.0%	723.02	42.3%
150,000	608.25	608.25	0.0%	866.35	42.4%
175,000	708.25	708.25	0.0%	1,009.68	42.6%
200,000	808.25	808.25	0.0%	1,153.02	42.7%

* Company Proposed rates are not meaningful, as they are the same as present rates and do not support a rate increase.

Monthly Usage Charge	Present		Company Proposed Rates		Staff Recommended Rates	
Meter Size (All Classes):						
5/8 x 3/4 Inch	$	27.25	$	27.25	$	30.00
3/4 Inch		40.88		40.88		45.00
1 Inch		68.13		68.13		75.00
1 1/2 Inch		N/A		N/A		150.00
2 Inch		N/A		N/A		240.00
3 Inch		N/A		N/A		480.00
4 Inch		N/A		N/A		750.00
6 Inch		N/A		N/A		1,500.00
Commodity Charge - Per 1,000 Gallons						
5/8" x 3/4" Meter and 3/4" Meter (All)						
First 4,000 gallons	$	1.50	$	1.50		N/A
4,001 to 10,000 gallons	$	2.50	$	2.50		N/A
Over 10,000 gallons	$	4.00	$	4.00		N/A
First 3,000 gallons		N/A		N/A	$	2.15
3,001 to 9,000 gallons		N/A		N/A	$	3.58
Over 9,000 gallons		N/A		N/A	$	5.73
Other Service Charges						
Establishment	$	40.00	$	40.00	$	40.00
Establishment (After Hours)	$	60.00	$	60.00		N/A
Reconnection (Delinquent)	$	50.00	$	50.00	$	50.00
Service Charge - After hours at customer request		N/A		N/A	$	35.00
Meter Test (If Correct)	$	30.00	$	30.00	$	30.00
Deposit Requirement		*	$	60.00		*
Deposit Interest		*		Zero		*
Re-establishment (Within 12 months)		**		**		**
NSF Check	$	25.00	$	25.00	$	25.00
Deferred Payment (Per Month)		1.50%		1.50%		1.50%
Meter Re-read	$	15.00	$	15.00	$	15.00
Late Charge (Per Month)		***		***		***
Sprinkler rate		****		****		****

* Per Commission Rule R14-2-403.B.
** Per Rule R14-2-403.D. Monthly minimum times the number of months off system.
*** 1.5% of unpaid balance after 15 days
**** 1% of monthly minimum for a comparable meter connection, but no less than $5.00 per month. The service line for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Service and Meter Installation Charges

Service Size	Total Present Charge	Present & Proposed Service Line Charge	Present & Proposed Meter Insallation	Total Recommended Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge
5/8 x 3/4 Inch - Same side of road	$ 500.00	$ 370.00	$ 130.00	$ 500.00	$ 370.00	$ 130.00
5/8 x 3/4 Inch - Other side of road	$ 800.00	$ 670.00	$ 130.00	$ 800.00	$ 670.00	$ 130.00
3/4 Inch - Same side of road	$ 550.00	$ 370.00	$ 180.00	$ 550.00	$ 370.00	$ 180.00
3/4 Inch - Other side of road	$ 875.00	$ 695.00	$ 180.00	$ 875.00	$ 695.00	$ 180.00
1 Inch - Same side of road	$ 625.00	$ 400.00	$ 225.00	$ 625.00	$ 400.00	$ 225.00
1 Inch - Other side of road	$ 1,000.00	$ 775.00	$ 225.00	$ 1,000.00	$ 775.00	$ 225.00
1 1/2 Inch - Same side of road	$ 900.00	$ 450.00	$ 450.00	$ 900.00	$ 450.00	$ 450.00
1 1/2 Inch - Other side of road	$ 1,425.00	$ 975.00	$ 450.00	$ 1,425.00	$ 975.00	$ 450.00
2 Inch Turbo - Same side of road	$ 1,450.00	$ 550.00	$ 900.00	$ 1,450.00	$ 550.00	$ 900.00
2 Inch Turbo - Other side of road	$ 2,350.00	$ 1,450.00	$ 900.00	$ 2,350.00	$ 1,450.00	$ 900.00
2 Inch Compound - Same side of road	$ 2,125.00	$ 550.00	$ 1,575.00	$ 2,125.00	$ 550.00	$ 1,575.00
2 Inch Compound - Other side of road	$ 3,400.00	$ 1,825.00	$ 1,575.00	$ 3,400.00	$ 1,825.00	$ 1,575.00
3 Inch Turbo - Same side of road	$ 1,975.00	$ 765.00	$ 1,210.00	$ 1,975.00	$ 765.00	$ 1,210.00
3 Inch Turbo - Other side of road	$ 3,175.00	$ 1,965.00	$ 1,210.00	$ 3,175.00	$ 1,965.00	$ 1,210.00
3 Inch Compound - Same side of road	$ 2,750.00	$ 795.00	$ 1,955.00	$ 2,750.00	$ 795.00	$ 1,955.00
3 Inch Compound - Other side of road	$ 4,375.00	$ 2,420.00	$ 1,955.00	$ 4,375.00	$ 2,420.00	$ 1,955.00
4 Inch Turbo - Same side of road	$ 3,175.00	$ 1,055.00	$ 2,120.00	$ 3,175.00	$ 1,055.00	$ 2,120.00
4 Inch Turbo - Other side of road	$ 5,100.00	$ 2,980.00	$ 2,120.00	$ 5,100.00	$ 2,980.00	$ 2,120.00
4 Inch Compound - Same side of road	$ 4,025.00	$ 1,095.00	$ 2,930.00	$ 4,025.00	$ 1,095.00	$ 2,930.00
4 Inch Compound - Other side of road	$ 6,425.00	$ 3,495.00	$ 2,930.00	$ 6,425.00	$ 3,495.00	$ 2,930.00
6 Inch Turbo - Same side of road	$ 6,025.00	$ 1,600.00	$ 4,425.00	$ 6,025.00	$ 1,600.00	$ 4,425.00
6 Inch Turbo - Other side of road	$ 9,625.00	$ 5,200.00	$ 4,425.00	$ 9,625.00	$ 5,200.00	$ 4,425.00
6 Inch Compound - Same side of road	$ 7,850.00	$ 1,730.00	$ 6,120.00	$ 7,850.00	$ 1,730.00	$ 6,120.00
6 Inch Compound - Other side of road	$ 12,550.00	$ 6,430.00	$ 6,120.00	$ 12,550.00	$ 6,430.00	$ 6,120.00

There are no proposed or recommended changes to
Service Line and Meter Installation Charges

Attachment A

Engineering Report for
Montezuma Rimrock Water Company, LLC

Docket No. W-04254A-12-0207 (Rates)
Docket No. W-04254A-12-0204 (Financing)
Docket No. W-04254A-12-0205 (Financing)
Docket No. W-04254A-12-0206 (Financing)

By: Marlin Scott, Jr.

May 23, 2013

CONCLUSIONS

A. During the 2011 Test Year, Montezuma Rimrock Water Company, LLC ("Company") had a water loss of 5.9%, which is within the acceptable limit of 10%.

B. The Company's system does not have adequate storage capacity. The Company has submitted a financing application for the purchase of four 20,000 gallon storage tanks.

C. The Company's is not within an Arizona Department of Water Resources ("ADWR") Active Management Area. According to ADWR, the Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

D. The Company has an approved curtailment tariff that became effective on April 1, 2002.

E. The Company has an approved backflow prevention tariff that became effective on November 27, 1996.

F. The Company has an approved Off-Site Facilities and Original Main Replacement Hook-Up Fee Tariff that first became effective on December 1, 1996, by Decision No. 59833 and revised by Decision No. 64665, effective on April 1, 2002.

G. On March 7, 2013, Staff called Arizona Water Company ("AWC") to discuss if AWC was interested in purchasing the Company. As previously mentioned by AWC, AWC is always interested in purchasing smaller water companies if the owner is interested in selling and if the purchase price is reasonable. At this time, the Company is not interested in selling its water system.

RECOMMENDATIONS

1. Due to arsenic deficiencies, the Arizona Department of Environmental Quality ("ADEQ") cannot determine if the Company is currently delivering water that meets the water quality standards. Since the Arsenic Treatment System ("ATS") has ADEQ approval and is currently serving customers, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the quarterly arsenic compliance results for Staff's review. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket and by January 31, 2014, an updated ADEQ Compliance Status Report indicating that the Company's water system has resolved the arsenic deficiencies and is in full compliance.

2. Staff recommends an annual water testing expense of $1,800 be used for purposes of this application.

3. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration. These BMP templates are available on the Commission's website. The Company may request cost recovery of the actual costs associated with the BMP Tariffs implemented in its next general rate application.

4. Since the ATS has ADEQ approval and is currently serving customers, Staff concludes that the requested PTY plant – ATS is used and useful for the provision of service to customers. Staff Engineering recommends that 37% of the actual ATS cost be adopted in this proceeding because the ATS's treatment capacity of 150 GPM is excessive for the actual production of Well #1 at 55 GPM.

5. Staff recommends the removal of Well #2 at a total cost of $8,074 from the plant-in-service because this well is not used and useful.

6. Staff recommends that the Company continue to use Staff's depreciation rates.

7. The Company requested no changes to its service line and meter installation charges. Staff recommends that the Company continue to use its service line and meter installation charges as delineated in Tables 10 and 11.

8. For the financing applications, Staff finds that the request for: a) the transmission main connecting Well Site #4 to Well Site #1 at $68,592 is not reasonable nor appropriate, b) the purchase of Well Site #4 at $16,758 is not reasonable nor appropriate, c) the purchase and installation of an 8,000 gallon hydro-pneumatic tank at $18,541 is reasonable and appropriate, d) the purchase and installation of

four 20,000 gallon storage tanks at $108,000 is reasonable and appropriate, and e) the installation of the arsenic treatment building and the arsenic treatment system are reasonable and appropriate.

TABLE OF CONTENTS

PAGE

A. INTRODUCTION

Montezuma Rimrock Water Company, LLC ("Company") filed rates and three financing applications on May 31, 2012. On April 12, 2013, the Company amended its financing applications. This Engineering Report constitutes Staff's engineering evaluation relative to these applications.

Location of Company

The Company serves a community near Rimrock, which is located approximately ten miles northeast of Camp Verde. Figure 1 shows the location of the Company within Yavapai County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 3/8 square-miles.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on September 28, 2012, December 7, 2012 and February 21, 2013, by Marlin Scott, Jr., Staff Utilities Engineer. In the first two inspections, Staff was accompanied of Patricia Olsen, Manager for the Company.

The operation of the water system consists of one well (55 gallons per minute ("GPM")), a centralized 150 GPM arsenic treatment system, three storage tanks, two booster systems, and a distribution system serving 210 service connections during the test year ending 2011. A system schematic is shown in Figure 3 with a detailed plant facility listing as follows:

Table 1. Well Data

Well Information	Well #1	Well #2 (Not-in-service)	Well #4 (Not approved and not-in-service)
ADWR ID No.	55-621605	55-202458	55-213141
Casing Size	12-inch	8-inch	12-inch
Casing Depth	365 ft.	350 ft.	400 ft.
Pump Size	5-Hp	3-Hp	15-Hp
Pump Type	Submersible	Submersible	-
Pump Yield	55 GPM	15 GPM	-
Wellhead meter	2-inch	2-inch	-
Treatments	Liquid chlorination & arsenic	-	-
Arsenic Levels	Untreated at 35 ppb Treated at < 1 ppb	Untreated at 43 ppb	

Table 2. Storage Tanks & Booster Systems

Location	Plant Facilities
• Well Site #1	One 10,000 gallon & one 5,200 gallon storage tanks, two 7-1/2-Hp booster pumps & one 2,000 gallon pressure tank
Well Site #2	One 10,000 gallon storage tank, 5-Hp & 7-1/2-Hp booster pumps & one 2,000 gallon pressure tank
	Total storage tank capacity = 25,200 gallons

• Note: In the prior rate case, there were two 5,200 gallon storage tanks. As of November 2012, one of the 5,200 gallon tanks was disconnected as a storage tank and re-plumbed as the backwash tank for the arsenic treatment system.

Table 3. Water Mains

Diameter	Material	# Length
2-inch	PVC	733 ft.
4-inch	PVC	16,700 ft.
6-inch	PVC	13,233 ft.
	Total:	30,666 ft.

Note: The 2,500 feet of 4-inch PVC transmission main from Well #4 to Well #1 is not included in this table.

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	203
3/4-inch	20
1-inch	2
2-inch	-
4-inch	-
Total:	243

Table 5. Hydrants

Size	Quantity
Standard	4

Table 6. Structures & Treatment Equipment

Equipment & Structures
Well Site #1 – 50 ft. x 100 ft. chain link fencing, 8 ft. x 10 ft. metal/wooden storage building, Arsenic treatment system at 150 GPM capacity with a 5,200 gallon backwash tank. Treatment building is 10 ft. x 20 ft. x 10 ft. (H).
Well Site #2 – 50 ft. x 50 ft. chain link fencing

Additional Plant Facilities

Well Site #4

On October 28, 2009, the Arizona Department of Environmental Quality ("ADEQ") issued its Certificate of Approval to Construct ("ATC") for Well #4. In the prior rate case under Docket No. 08-0361, Well #4 was under construction and was not considered in that rate case. Well #4 was subsequently completed. However, through a 2010 complaint proceeding, it was discovered that Well #4 did not meet the Yavapai County setback requirements and could not be approved. Due to this zoning ordinance/code violation, Yavapai County issued a judgment on November 13, 2012, that ordered the Company to remove all structures and return the Well #4 property to vacant land by December 20, 2012. On February 21, 2013, Staff visited the well site and confirmed that all the structures had been removed with the exception of the well itself. As a result, all plant facilities for Well #4 should not be included in this rate proceeding.

Transmission Main From Well #4 to Well #1

On June 11, 2010, ADEQ issued its ATC for the transmission main from Well #4 to Well #1. This main was to transport the Well #4 water to Well #1 for processing through the arsenic treatment system. The main consisted of approximately 2,500 feet of 4-inch PVC pipe that was completed in 2011 but was never connected to the water system.

On November 21, 2012, ADEQ issued its Approval of Construction ("AOC") for the transmission main. Although this main has received ADEQ approval, it cannot be used because the water source (Well #4) connected to this main does not have Yavapai County approval. Therefore, like Well #4, this main should not be included in this rate proceeding.

Arsenic Treatment System ("ATS")

On June 11, 2010, ADEQ also issued its ATC for the ATS. In 2012, the Company installed a 150 GPM ATS that received the ADEQ AOC on November 21, 2012. The 150 GPM ATS capacity was selected to treat flows from Well #1 at 55 GPM and Well #4 at 100 GPM. For further discussion of this ATS, see Section H of this report.

Leaking Storage Tanks

The 10,000 gallon steel storage tanks located at Well Sites #1 and #2 are leaking at the base of the tanks. According to the Company, these leaks have been repaired numerous times but new leaks keep occurring. To address this issue, the Company amended its financing applications for the purchase of four 20,000 gallon storage tanks. The four new storage tanks are estimated at $108,000 and are further discussed in Section J of this report.

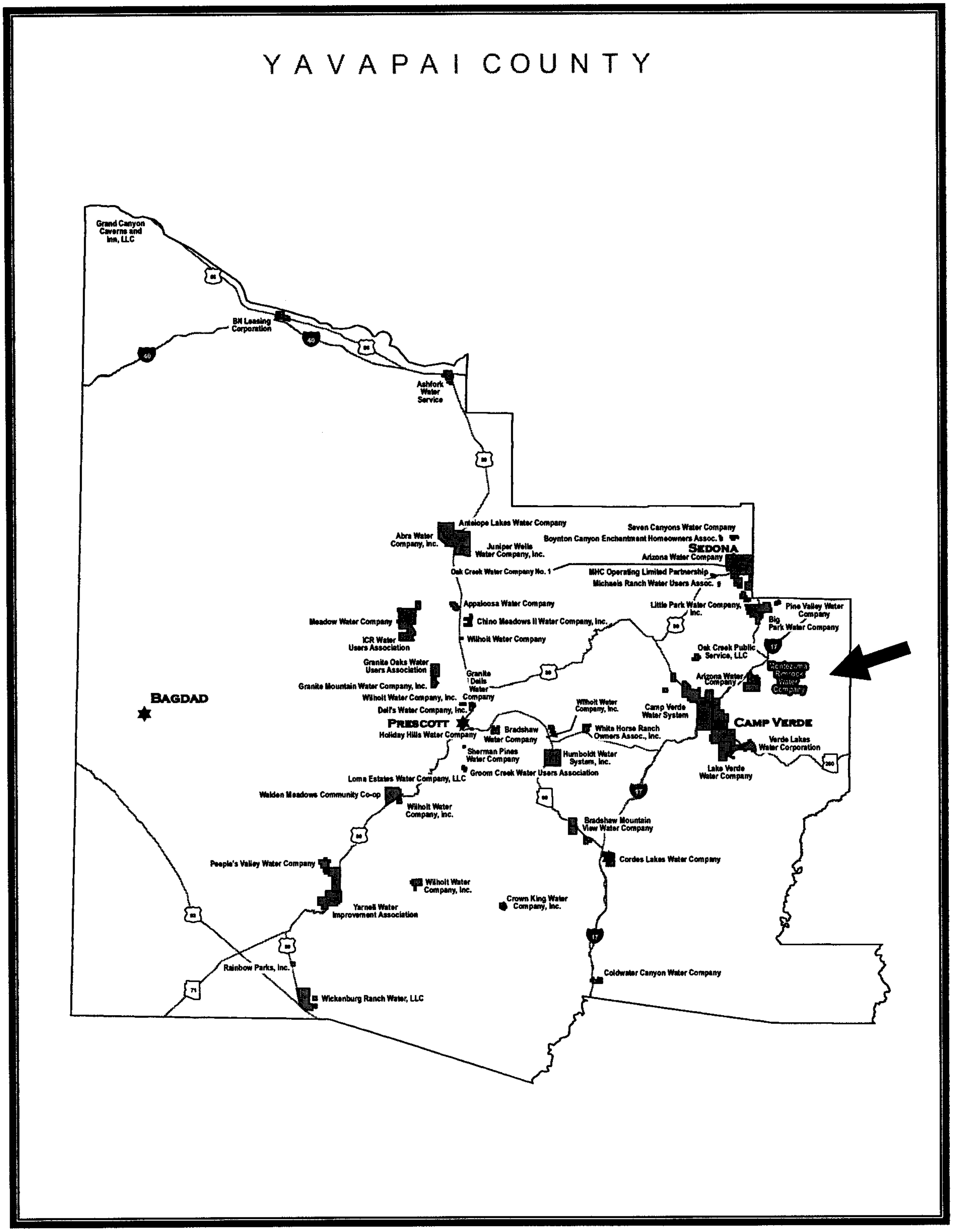

Figure 1. County Map

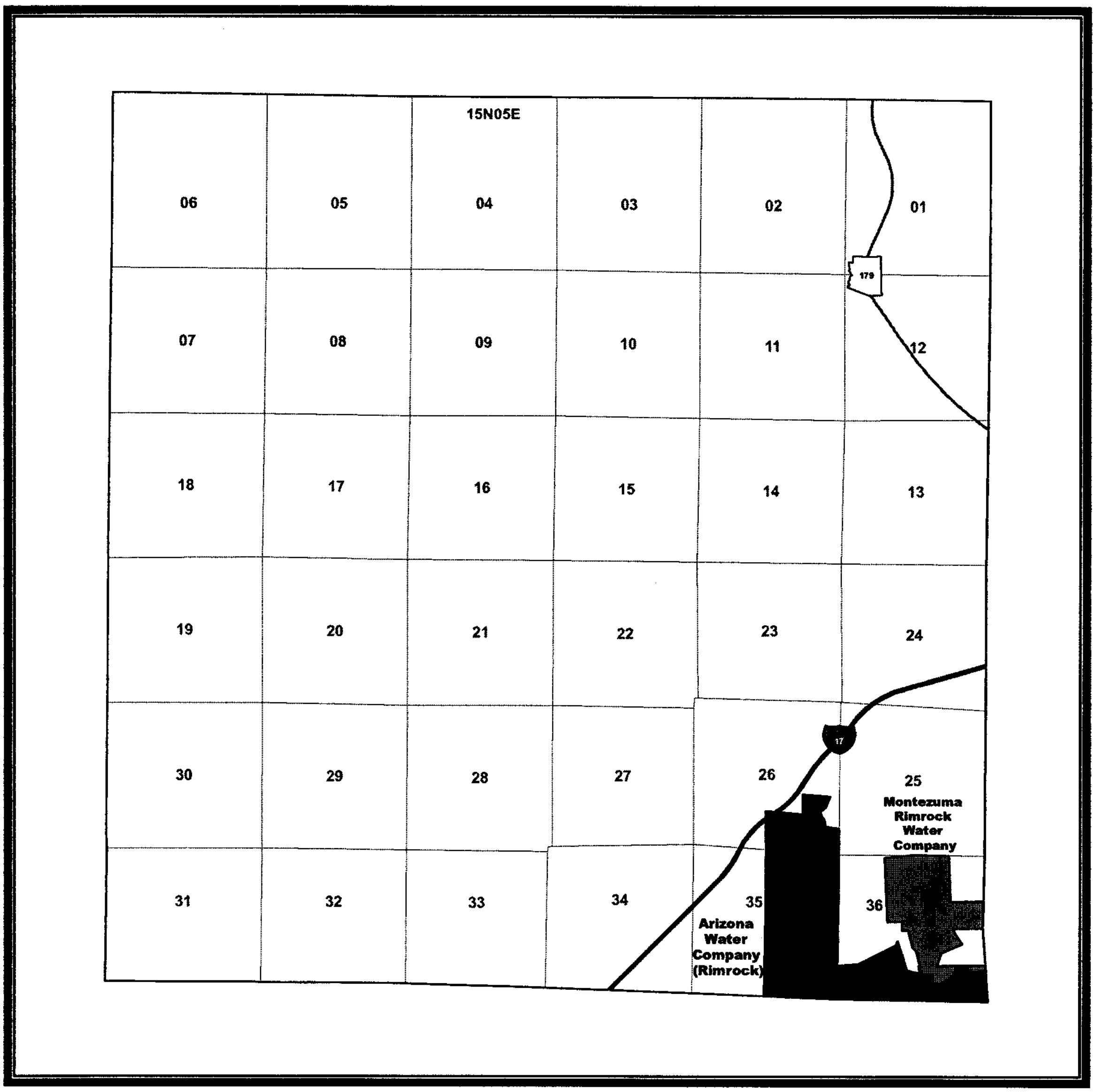

Figure 2. Certificated Area

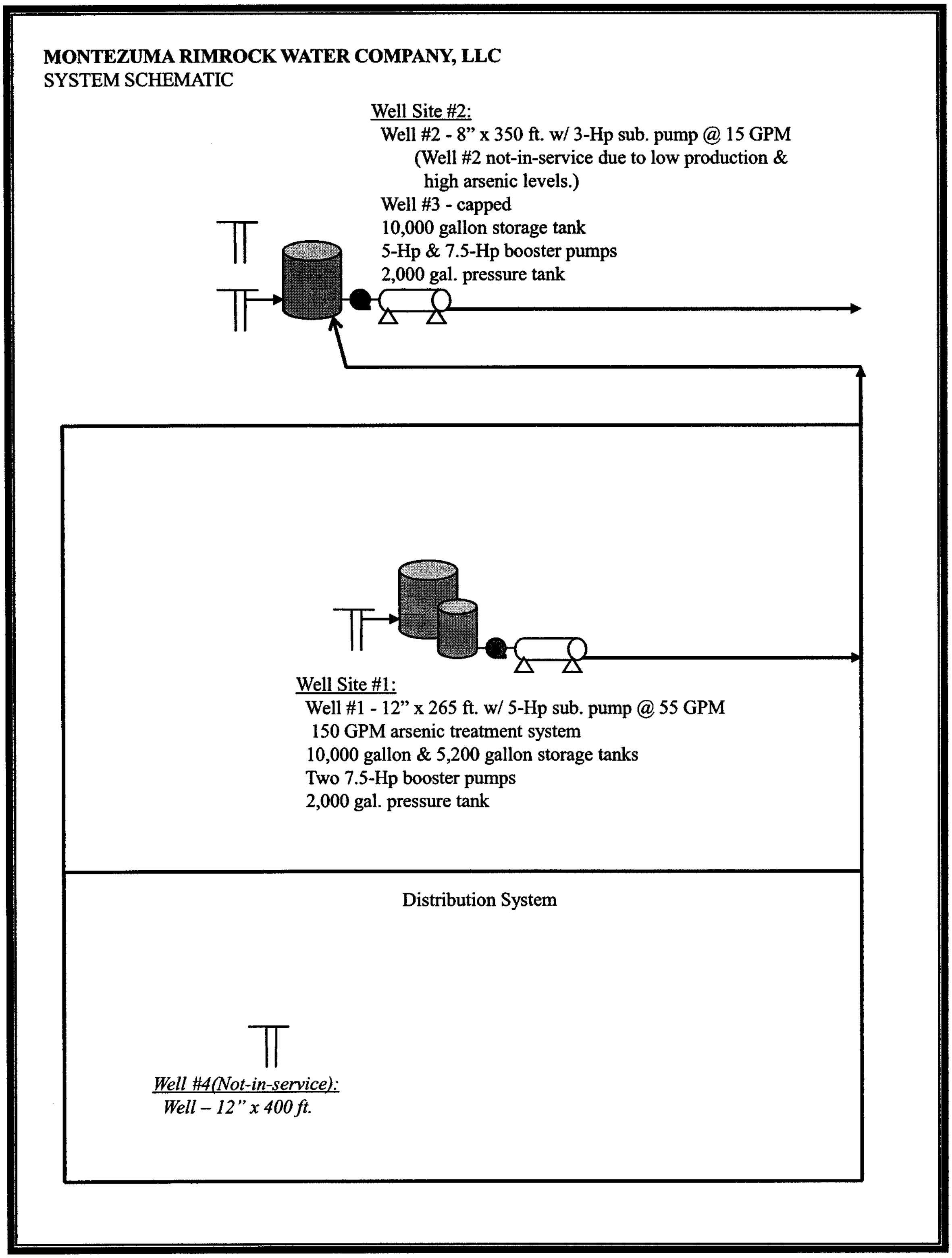

Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending 2011. The customer consumption experienced a high monthly usage of 261 gallons per day ("GPD") per connection in June and a low monthly water use of 121 GPD per connection in December for an average monthly use of 171 GPD per connection.

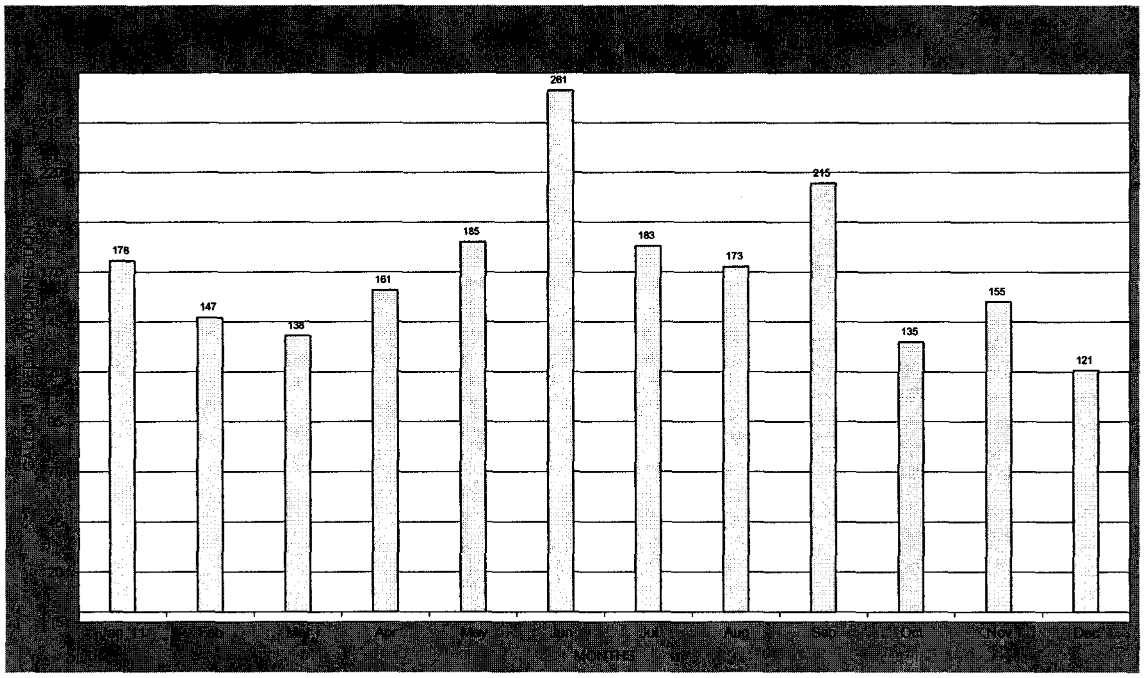

Figure 4. Water Use

Non-Account Water

During the 2011 Test Year, the Company reported 13,580,000 gallons of water pumped and 12,769,000 gallons of water sold, resulting in a water loss of 5.9%. This 5.9% is within acceptable limits.

System Analysis

The current well capacity of 55 GPM and storage capacity of 25,200 gallons is not adequate to serve the present customer base. For this system to adequately serve the current 210 service connections including reasonable system growth and fire protection, this system would require a total storage capacity of 87,500 gallons.

As indicated in Section B of this report, the Company has amended its financing applications for the purchase of four new 20,000 gallon storage tanks. The four new storage tanks will add the additional storage capacity needed and will address the issue with the tanks that are leaking.

D. GROWTH

Figure 5 details the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year 2011, the Company had 210 metered customers and it is projected that the Company could have approximately 220 customers by 2016.

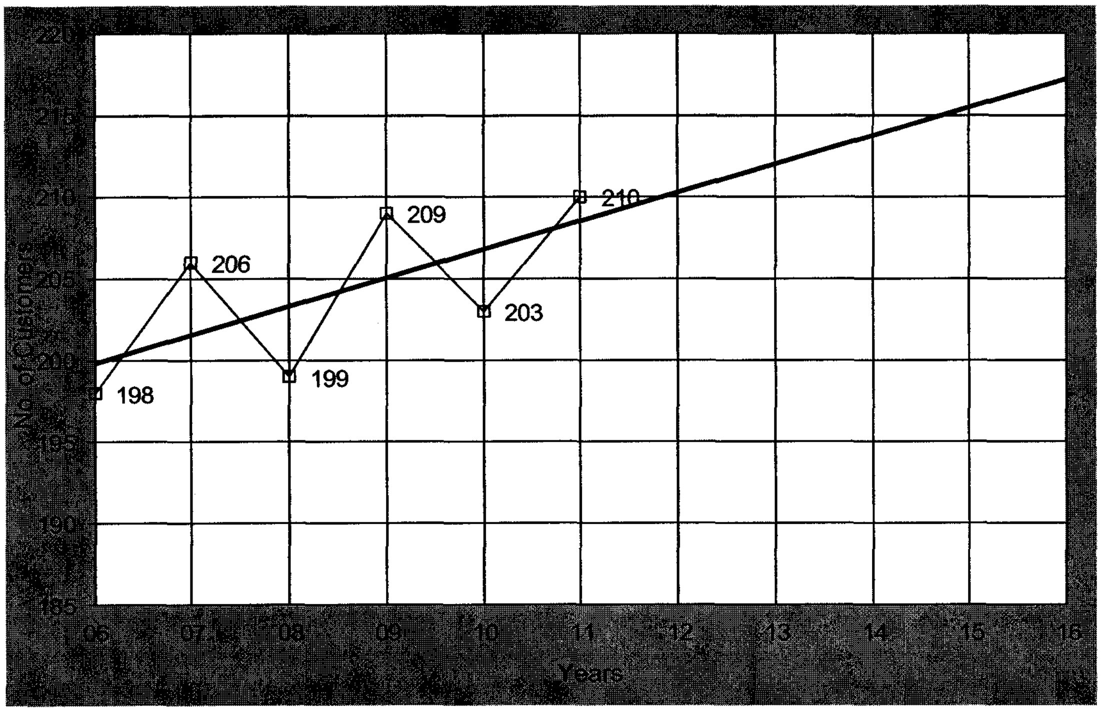

Figure 5. Growth Projection

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

Compliance

On December 17, 2008, ADEQ issued a Notice of Violation ("NOV") to the Company for distribution of water in excess of the MCL for arsenic. The NOV required the Company to submit documentation describing the measures that would be taken to resolve the arsenic exceedance. This NOV was escalated to a Compliance Order on February 25, 2010, that ordered the Company to achieve compliance by taking specific timeline actions to address the arsenic issue. On November 21, 2012, ADEQ issued an Approval of Construction ("AOC") – Partial Approval for the arsenic treatment system ("ATS") but not for the requested 30,000 gallon storage tank. Based on this Partial AOC, ADEQ authorized the Company to begin operation of the ATS.

According to an ADEQ Compliance Status Report, dated November 30, 2012, ADEQ reported major deficiencies due to exceedance of the arsenic maximum contaminant level ("MCL") and not meeting the timelines in the prior Compliance Order. As a result, ADEQ cannot determine if this system, PWS #13-071, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. In order for the Company to be in compliance, ADEQ stated that the arsenic compliance would be determined by the running annual average of quarterly compliance samples from the operation of the ATS. In addition, the Compliance Order would maintain the open status until the arsenic MCL is reached based on the quarterly sampling results.

Since the ATS has ADEQ approval and is currently serving customers, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of the quarterly arsenic compliance results for Staff's review. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket and by January 31, 2014, an updated ADEQ Compliance Status Report indicating that the Company's water system has resolved the arsenic deficiencies and is in full compliance.

<u>Water Testing Expense</u>

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). The Company reported its water testing expense at $1,000 during the test year but submitted $2,777 worth of invoices. Staff has reviewed this data and has recalculated its own annual expense. Table 7 shows Staff's adjusted annual monitoring expense estimate of $1,800 with participation in the MAP.

Table 7. Water Testing Expense

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – 2 samples per month	$20	24	$480
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	$787
Lead & Copper – per 3 years	$40	5	$67
D/DBP – TTHM/HAA5 – per year	$385	1	$385
Arsenic – per quarter	$20	4	$80
Total			$1,799 **Rounded to $1,800**

Note: ADEQ's MAP invoice for the 2012 Calendar Year was $787.13.

Staff recommends an annual water testing expense of $1,800 be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Compliance

The Company is not located in any Active Management Area. According to an ADWR Water Provider Compliance Report, dated November 20, 2012, this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

Best Management Practice ("BMP") Tariffs

The Company does not have BMP Tariffs. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration. These BMP templates are available on the Commission's website. The Company may request cost recovery of the actual costs associated with the BMP Tariffs implemented in its next general rate application.

G. PLANT-IN-SERVICE ADJUSTMENTS

Post-Test Year ("PTY") Plant

Although not specifically stated in the rate application, the Company is requesting PTY adjustments for plant items related to the ATS. The Company submitted and amended numerous invoices/contracts pertaining to the ATS. For the ATS itself, Staff recommends that 37% (= 55/150) of the actual ATS cost be adopted in this proceeding because the ATS's treatment capacity of 150 GPM is excessive for the actual production of Well #1 at 55 GPM.

Since the ATS has ADEQ approval and is currently serving customers, Staff concludes that the requested PTY plant item – ATS is used and useful for the provision of service to customers.

In its amended financing applications filed on April 12, 2013, the Company has requested leasing approval for the arsenic treatment building and the arsenic treatment system. For further discussion of these leasing requests, see Section J of this report.

Not Used and Useful Plant

During Staff's field inspection, Staff noted that Well #2 was taken out of service in 2011 due to low production. In addition, due to the arsenic level at 43 ppb, this well cannot be used as part of the system operation because the arsenic level exceeds the MCL of 10 ppb. Based on these factors, Staff finds that Well #2 is not used and useful at this time (see corresponding data below):

Table 8. Plant Not Used and Useful

Acct. No.	Plant Items	Year Installed	Year Retired	Original Cost
307	Wells & Springs – Well #2, 8" x 350 ft.	2004	2011	5,574
311	Pumping Equipment – Well #2, 3-Hp sub. pump	2004	2011	2,500
	Total:			**$8,074**

Note: In the prior Staff Report (June 15, 2009) for Docket No. 08-0361 et al., it was noted that due to the lack of records transferred to the Company at the time of the 2005 acquisition, documentation on plant additions since the preceding 2000 rate application was non-existent. Based on this situation, Staff utilized the Company's annual reports to determine the cost of Well #2.

Staff recommends the removal of Well #2 at a total cost of $8,074 from the plant-in-service because this well is not used and useful.

H. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary depreciation rates. These rates are presented in Table 9 and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category.

Table 9. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		

320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company requested no changes in its service line and meter installation charges. Staff recommends the Company continue to use its existing charges as shown in Tables 10 and 11 below, with separate installation charges for the service line and meter.

Table 10. Service Line and Meter Installation Charges
Water Main Same Side of Road

Meter Size	Co.'s Current Charges	Service Line Charges	Meter Installation Charges	Total Charges
5/8 x 3/4-inch	$500	$370	$130	$500
3/4-inch	$550	$370	$180	$550
1-inch	$625	$400	$225	$625
1-1/2-inch	$900	$450	$450	$900
2-inch – Turbo 2-inch – Compound	$1,450 $2,125	$550 $550	$900 $1,575	$1,450 $2,125
3-inch – Turbo	$1,975	$765	$1,210	$1,975

3-inch – Compound	$2,750	$795	$1,955	$2,750
4-inch – Turbo 4-inch – Compound	$3,175 $4,025	$1,055 $1,095	$2,120 $2,930	$3,175 $4,025
6-inch – Turbo 6-inch – Compound	$6,025 $7,850	$1,600 $1,730	$4,425 $6,120	$6,025 $7,850

Table 11. Service Line and Meter Installation Charges
Water Main Other Side of Road

Meter Size	Co.'s Current Charges	Service Line Charges	Meter Installation Charges	Total Charges
5/8 x 3/4-inch	$800	$670	$130	$800
3/4-inch	$875	$695	$180	$875
1-inch	$1,000	$775	$225	$1,000
1-1/2-inch	$1,425	$975	$450	$1,425
2-inch – Turbo 2-inch – Compound	$2,350 $3,400	$1,450 $1,825	$900 $1,575	$2,350 $3,400
3-inch – Turbo 3-inch – Compound	$3,175 $4,375	$1,965 $2,420	$1,210 $1,955	$3,175 $4,375
4-inch – Turbo 4-inch – Compound	$5,100 $6,425	$2,980 $3,495	$2,120 $2,930	$5,100 $6,425
6-inch – Turbo 6-inch – Compound	$9,625 $12,550	$5,200 $6,430	$4,425 $6,120	$9,625 $12,550

2. Curtailment Tariff

The Company has an approved curtailment tariff that became effective on April 1, 2002.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff that became effective on November 27, 1996.

4. Off-Site Facilities & Original Main Replacement Hook-Up Fee Tariff

The Company has an approved Off-Site Facilities and Original Main Replacement Hook-Up Fee Tariff, starting at $2,000, that first became effective on December 1, 1996, by Decision No. 59833 and revised by Decision No. 64665 with an effective date of April 1, 2002. The Company requests no changes to this tariff and Staff has no objection for continuation of this tariff.

5. Arizona Water Company ("AWC")

On March 7, 2013, Staff called AWC to discuss if AWC was interested in purchasing the Company. As previously mentioned by AWC, AWC is always interested in purchasing smaller water companies if the owner is interested in selling and if the purchase price is reasonable. At this time, the Company is not interested in selling its water system.

J. FINANCING

On May 31, 2012, Montezuma Rimrock Water Company, LLC ("Company") submitted three financing applications for: 1) transmission waterline connecting Wellsite #4 to Wellsite #1 at $68,592, 2) purchase Well Site #4 and a vehicle, totaling to $21,377 and 3) purchase and installation of an 8,000 gallon hydro-pneumatic pressure tank at $15,000. The Company is requesting funding approval for a total of $104,949 through various promissory notes. A discussion of each financing application, with updated Company costs, is as follows:

1) Docket No. 12-0204 (transmission waterline): The construction of this waterline consists of 4-inch PVC pipe at approximately 2,500 feet that was completed in 2011 but is not connected to the existing water system. Although the waterline is completed, this waterline cannot be used because the water source, Well #4, does not have Yavapai County approval due to zoning ordinance/code violations. On November 13, 2012, Yavapai County ordered the Company to remove all structures and return the Well #4 property to vacant land by December 20, 2012. For this reason, Staff finds this waterline financing not reasonable nor appropriate.

2) Docket No. 12-0205 (Well Site #4 and vehicle): The Company is requesting $16,758 for the purchase of Well Site #4 and $6,056 for a 2008 Chrysler PT Cruiser. Since Well #4 cannot be used, Staff finds the financing request to purchase this well site not reasonable nor appropriate.

3) Docket No. 12-0206 (pressure tank): The Company is requesting $15,000 for the purchase of a used 8,000 gallon pressure tank and $3,541 for installation cost, totaling to $18,541. This 8,000 gallon tank would replace the old 2,000 gallon pressure tank at Wellsite #1. Staff concludes that this proposed 8,000 gallon pressure tank is reasonable and appropriate.

On April 12, 2013, the Company amended its financing applications by submitting three more plant facilities for: 4) four 20,000 gallon storage tanks at $108,000, 5) lease approval for the arsenic treatment building at $8,000 and 6) lease approval for the arsenic treatment facility at $38,000. A discussion of each amended financing request is as follows:

4) The four new 20,000 gallon storage tanks at a total cost of $108,000 will replace two 10,000 gallon storage tanks located at each well site. According to the Company, the number and size of the new 20,000 gallon storage tanks were selected based on the Yavapai County height zoning restrictions and system operation; one tank to remain in operation when the other tank is down for maintenance at each well site. Staff finds this storage tank financing reasonable and appropriate. As previously discussed the new tanks will replace two old tanks that are deteriorated and leaking. The proposed new storage will also provide additional storage capacity that the system needs.

5) The Company is requesting $8,000 for the lease approval for the arsenic treatment building. Although the building is currently being used for housing for the arsenic treatment facilities, the building is also being used for storage and a field office. This building is being included as part of the requested post-test year plant.

6) The Company is requesting $38,000 for the lease approval for the arsenic treatment facility. This arsenic treatment facility is being considered as a post-test year plant item.