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MEMORANDUM
RECEIVED

2013 JUL -8 A 11:37

AZ CORP COMMISSION
DOCKET CONTROL

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

DATE: July 8, 2013

RE: STAFF REPORT FOR COLDWATER CANYON WATER COMPANY'S
APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-
01559A-12-0479)

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

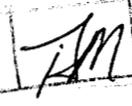
Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 19, 2013.

SMO:BCA:sms

Originator: Brendan C. Aladi

Arizona Corporation Commission
DOCKETED

JUL 08 2013

DOCKETED BY 

Service List for: Coldwater Canyon Water Company
Docket No. W-01559A-12-0479

Mr. Roger Wagner
Coldwater Canyon Water Company
Post Office Box 637
Black Canyon City, Arizona 85324

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

COLDWATER CANYON WATER COMPANY

DOCKET NO. W- 01559A-12-0479

**APPLICATION FOR
A PERMANENT RATE INCREASE**

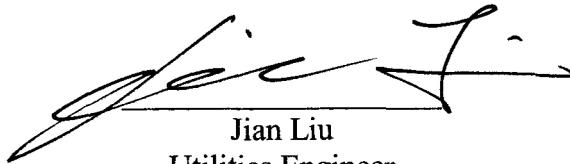
JULY 8, 2013

STAFF ACKNOWLEDGMENT

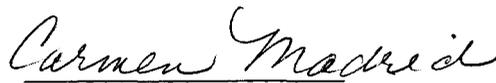
The Staff Report for Coldwater Canyon Water Company, Docket No. W-01559A-12-0479 was the responsibility of the Staff members listed below. Brendan C. Aladi was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Jian Liu was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Brendan C. Aladi
Public Utilities Analyst III



Jian Liu
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
COLDWATER CANYON WATER COMPANY
APPLICATION FOR A PERMANENT RATE INCREASE
DOCKET NO. W-01559A-12-0479**

Coldwater Canyon Water Company ("Coldwater Canyon" or "Company") filed an application for a rate increase with the Arizona Corporation Commission ("Commission") on November 29, 2013. The application was made sufficient on April 23, 2013.

Coldwater Canyon is a class D for-profit C-Corporation, Arizona public service corporation that provides potable water service to approximately 380 metered customers. The Company is located in the vicinity of Black Canyon City, in Yavapai County, Arizona. The current rates were authorized in Decision No. 55062, dated June 11, 1986.

The Company proposed a \$28,012¹ or a 30.12 percent increase over the test year revenue of \$92,988 to \$121,000. Company proposed revenue would result in an operating income of \$30,757 for a 14.03 percent rate of return on an original cost rate base ("OCRB") of \$219,294. Company proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,859 gallons from \$15.43 to \$21.55, for an increase of \$6.12, or 39.7 percent.

Staff recommends a \$22,012 or a 22.24 percent increase over the Staff adjusted test year revenue of \$98,988 to \$121,000. Staff's recommended revenues would result in an operating income of \$17,590, for a 10.97 rate of return on an original rate base ("OCRB") of \$160,347. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,859 gallons from \$15.43 to \$16.36, for an increase of \$0.93, or 6.0 percent.

STAFF RECOMMENDATIONS

1. Staff recommends approval of its recommended rates and charges as shown in Schedule BCA-4.
2. Staff recommends that the Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. Staff recommends that, on a going-forward basis, the Company maintain its books and records in accordance with the National Association of Regulatory Commissioners ("NARUC") Uniform System of Accounts. The Company should file an affidavit in Docket Control by December 31, 2013, as a compliance item in this docket, attesting that the Company's books and records are being kept in accordance with NARUC.

¹ The Company requested an increase the total operating revenue of \$28,000 as shown on page 6 of its application. This increase would result in total revenue of \$121,000. However, Coldwater Canyon proposed rates would actually produce total revenue of \$126,578, resulting in the difference of \$5,578 (i.e. \$126,578 - \$121,000).

4. Staff recommends that the Company be ordered to use the depreciation rates presented in Table B of the attached Engineering Report.
5. Staff recommends that the Company be required to install a well meter for each of the Company's six active wells. Staff further recommends that the Company file documentation with Docket Control, as a compliance item in this docket, demonstrating that installation of the six well meters has been completed by April 30, 2014.
6. Staff recommends that the Company monitor its three water systems and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed, as a compliance item in this case, by January 31, 2015. If the reported water loss is greater than 10 percent for any water system, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed, as a compliance item in this case, by March 15, 2015.
7. Staff recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of an updated ADEQ Compliance Status Report indicating that the Company is in compliance with ADEQ requirements.
8. 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 Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

TABLE OF CONTENTS

	<u>PAGE</u>
FACT SHEET	1
TYPE OF OWNERSHIP.....	1
TYPICAL 5/8-INCH RESIDENTIAL BILL.....	2
CUSTOMERS	2
NOTIFICATIONS	2
BACKGROUND	3
CONSUMER SERVICES	4
COMPLIANCE	4
ENGINEERING ANALYSIS AND RECOMMENDATIONS	4
RATE BASE	5
PLANT IN SERVICE.....	5
CONTRIBUTION IN AID OF CONSTRUCTION.....	4
ACCUMULATED AMORTIZATION OF CIAC.....	4
ACCUMULATED DEPRECIATION.....	5
WORKING CAPITAL	5
OPERATING INCOME STATEMENT	6
OPERATING REVENUE	6
OPERATING EXPENSES	6
REVENUE REQUIREMENT	7
RATE DESIGN	7
MISCELLANEOUS SERVICE CHARGES	8
SERVICE LINE AND METER INSTALLATION CHARGES	8
STAFF RECOMMENDATIONS	9

SCHEDULES

Summary of Filing Schedule BCA-1

Rate Base Schedule BCA-2

Statement of Operating Income Schedule BCA-3

Rate Design Schedule BCA-4

Typical Bill Analysis Schedule BCA-5

Income Tax Calculation Schedule BCA-6

ATTACHMENT

Engineering Report A

Fact sheet

Company:

Type of Ownership: C Corporation.

Coldwater Canyon Water Company (“Coldwater Canyon” or “Company”) is a class D for-profit Arizona public service corporation that provides potable water service to approximately 380 metered customers.

Rates:

Permanent rate increase application filed: November 29, 2012.

Current test year ended: December 31, 2011.

Prior test year ended: December 31, 1984.

The application became sufficient on April 23, 2013.

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Rates			
Residential Monthly Minimum Charge			
5/8 x 3/4-inch meter	\$ 12.00	\$ 16.00	\$ 12.50
3/4-inch meter	\$ N/A	\$ 16.00	\$ 12.50
1-inch meter	\$ 14.00	\$ 18.00	\$ 30.00
1 1/2-inch meter	\$ N/A	\$ 22.00	\$ 55.00
2-inch meter	\$ 20.00	\$ 26.00	\$ 85.00
3-inch meter	\$ N/A	\$ N/A	\$ N/A
 (Gallons included in the minimum)	 2,000	 2,000	 0

Fact Sheet (Continued)

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Commodity Rates (Per 1,000 gallons)			
<u>5/8 x 3/4 & 3/4-inch meters</u>			
0 to 2,000 gallons	\$ 0	N/A	N/A
Over 2,000 gallons	\$ 1.20	N/A	N/A
<u>All meter sizes</u>			
0 to 2,000 gallons	N/A	\$ 0.00	N/A
2,001 to 5,000 gallons	N/A	\$ 1.85	N/A
5,000 to 10,000 gallons	N/A	\$ 2.00	N/A
Over 10,000 gallons	N/A	\$ 2.60	N/A
<u>5/8 x 3/4 & 3/4-inch meters</u>			
0 to 4,000 gallons	\$ N/A	N/A	\$.75
4,001 to 10,000 gallons	\$ N/A	N/A	\$ 1.00
Over 10,000 gallons	\$ N/A	N/A	\$ 1.65
<u>All other meters sizes</u>			
0 to 10,000 gallons	\$ N/A	N/A	\$ 1.00
Over 10,000 gallons	\$ N/A	N/A	1.65

Typical 5/8x3/4 or 3/4-inch residential bill

Average use (8,831 gallons)	\$ 20.20	\$ 29.21	\$ 20.33
Median use (4,859 gallons)	\$ 15.43	\$ 21.55	\$ 16.36

Customers

Average Number of customers in the current test year (12/31/11): 380

Notifications

Affidavit of mailing for the Customer Notification was filed on February 5, 2013.

Summary of Filing

The test year results as adjusted by Utilities Division Staff (“Staff”) for Coldwater Canyon Water Company (“Coldwater Canyon” or “Company”) show total operating revenue of \$98,988, an operating income \$544, for a rate of return of 0.34 percent, as shown on Schedule BCA-1. The Original Cost Rate Base (“OCRB”) as adjusted by Staff is \$160,347¹.

Coldwater Canyon proposed a \$28,012, or a 30.12 percent, increase over the test year revenue of \$92,988 to \$121,000. The Company requested an increase in the total operating revenue of \$28,000 shown on page 6 of its application. This increase would result in total revenue of \$121,000. However, Coldwater Canyon proposed rates would actually produce total revenue of \$126,578, resulting in the difference of \$5,578 (i.e. \$126,578 – 121,000).

Company proposed revenue would result in an operating income of \$30,757 for a rate of return 14.03 percent. Company proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,859 gallons from \$15.43 to \$21.55, for an increase of \$6.12, or 39.7 percent, as shown on Schedule BCA-5.

Staff recommends a \$22,012 or a 22.24 percent increase over the Staff adjusted test year revenue of \$98,988 to \$121,000. Staff’s recommended revenues would result in an operating income of \$17,590 for a rate of return of 10.97 percent. Staff’s recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,859 gallons from \$15.43 to \$16.36, for an increase of \$0.93, or 6.0 percent, as shown on Schedule BCA-5.

According to the application, the Company requests a rate increase due to increases in the cost of operating the aging water system, increased regulatory requirements, increased county liability insurance requirements and has not been in for a rate increase since 1985.

Background

During the test year ended December 31, 1984, Coldwater Canyon provided water service to an average of 146 metered customers.

Coldwater Canyon is an Arizona C Corporation that provides water service within portions of Yavapai County, Arizona. The Company provides service to approximately 370 active connections.

Coldwater Canyon filed an application for a rate increase with the Arizona Corporation Commission (“Commission”) on November 29, 2012. On April 23, 2013, Staff issued a Letter of Sufficiency.

¹ The Company did not propose a fair value rate base that differs from its OCRB.

Consumer Services

Staff reviewed the Commission's records for the period beginning January 1, 2010, to December 31, 2011, and found no complaints and opinions filed against the rate increase request. For the year 2012 to June 14, 2012, Staff found the following:

- 2012 Zero Complaint
Two opinions – Rate case items (opposed)
- 2013 One complaint – Quality of service
Zero opinions

A notarized affidavit of mailing "Customer Notification" was filed with the application on August 31, 2012.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

Goldwater Canyon is current on its property and sales tax payment.

Coldwater Canyon is in good standing with the Corporations Division of the Commission.

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

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

Staff noted during the course of its audit in this filing, that the Company did not consistently follow the NARUC USoA as required by the Commission. Staff found that the Company did not keep records of its operation from 1985 to 2004, did not record some cost of plant in the correct accounts, did not record plant retirements, and had poor record keeping. Consequently, Coldwater Canyon plans to hire an accounting firm to help the Company maintain its books and records in accordance with the NARUC USoA.

Engineering Analysis and Recommendations

Staff inspected Coldwater Canyon's plant facilities on June 25, 2013. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

Rate Base

Staff's adjustments decreased the Company's proposed rate base by \$58,947, from \$219,294 to \$160,347, as shown on Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Adjustment A increases plant in service by \$13,411 from \$549,200 to \$562,611, as shown on Schedule BCA-2, pages 1 and 2. This adjustment reflects Staff's reclassification and addition of supported plant in service.

Accumulated Depreciation

Accumulated Depreciation - Adjustment B decreases accumulated depreciation, account no. 108, by \$8,308 from \$329,586 to \$321,278, as shown on Schedule BCA-2, pages 1 and 3.

Contribution in aid of Construction ("CIAC")

Adjustment C increases gross CIAC account by \$285,510 from \$0 to \$285,510, as shown on Schedule BCA-2, page 1 and 4. This adjustment reflects Staff's recognition as CIAC of unsupported plant additions. The Company did not maintain records for plant additions from 1985 to the end of the current test year.

Accumulated Amortization of CIAC

Coldwater Canyon did not claim any accumulated amortization of CIAC. Adjustment D increases amortization of CIAC account by \$195,511 from \$0 to \$195,511, as shown on Schedule BCA-2, pages 1 and 4. This adjustment reflects Staff's recognition of unsupported plant addition as CIAC and its amortization.

Working Capital

Coldwater Canyon did not claim any working capital allowance. Staff's adjustments E and F resulted in a net increase to working capital of \$9,333, from \$0 to \$9,333, as shown on Schedule BCA-2, pages 1 and 4. Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

Operating Income Statement

Operating Revenue

Staff's adjustment to total operating revenue resulted in a net increase of \$6,000, from 92,988 to \$98,988, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments are discussed below.

Metered Water Revenue – Adjustment A increases metered water revenue by \$6,000, from 92,988 to \$98,988, as shown on Schedule BCA-3, page 1 and 2. Staff's adjustment reflects Staff's calculation of the metered water revenue using the billing determinants provided by the Company.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net increase of \$8,200, from \$90,243 to \$98,443, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments are presented below.

Salaries and Wages Expense – Adjustment B increases salaries and wages expense by \$4,200, from \$37,200 to \$41,400, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the supported salaries and wages expense for the test year.

Purchased Power Expense – Adjustment C decreases purchased power expense by \$1,020, from \$13,341 to \$12,321, as shown on Schedule BCA-3, pages 1 and 2. Staff removed out of test year expenses.

Repairs and Maintenance Expense – Adjustment D increases repairs and maintenance expense by \$2,432, from \$12,100 to \$14,532, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects a reasonable normalized amount of arsenic media expense based on two years and \$840 in other repairs and maintenance expense.

Water Testing Expense – Adjustment E increases water testing expense by \$1,594, from \$2,100 to \$3,694, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined and reported in the attached Engineering Report.

General Liability Insurance – Adjustment F decreases general liability insurance expense by \$306, from \$5,109 to \$4,803, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the updated and supported general liability insurance expense.

Rate Case Expense – Adjustment G increases rate case expense by \$1,820, from \$1,324 to \$3,144, as shown on Schedule BCA-3, pages 1 and 5. This adjustment reflects a reasonable normalized amount of rate case expense based on a three year normalization period.

Depreciation Expense – Adjustment H decreases depreciation expense by \$1,087, from \$9,936 to \$8,849, as shown on Schedule BCA-3, pages 1 and 4. Staff’s depreciation expense reflects application of Staff’s recommended depreciation rates to Staff’s recommended plant balances.

Taxes Other Than Income – Adjustment I increases taxes other than income by \$270, from \$0 to \$270, as shown on Schedule BCA-3, pages 1 and 5. This adjustment reflects the amount supported by the Company’s documentation for taxes other than income.

Property Tax Expense – Adjustment J increases property tax expense by \$144, from \$6,144 to \$6,288 as shown on Schedule BCA-3, pages 1 and 5. Staff calculated its property tax amount using a modified version of the Arizona Department of Revenue’s (“ADOR”) property tax method.

Income Tax – Adjustment K increases income tax by \$153, from \$0 to \$153, as shown on Schedule BCA-3, pages 1 and 5. This adjustment reflects the income tax amount on the operating income.

Revenue Requirement

Staff recommends a \$22,012, or a 22.24 percent, increase over the Staff adjusted test year revenue of \$98,988 to \$121,000. Staff’s recommended revenues would result in an operating income of \$17,590 for a 10.97 percent rate of return as shown on Schedule BCA-1.

Rate Design

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

The Company requested an increase in the total operating revenue of \$28,000 shown on page 6 of its application. This increase would result in total revenue of \$121,000. However, Coldwater Canyon proposed rates would actually produce total revenue of \$126,578, resulting in the difference of \$5,578 (ie \$126,578 – 121,000).

The Company’s proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,859 gallons from \$15.43 to \$21.55, for an increase of \$6.12, or 39.7 percent, as shown on Schedule BCA-5.

Staff’s recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,859 gallons from \$15.43 to \$16.36, for an increase of \$0.93, or 6.0 percent, as shown on Schedule BCA-5.

Miscellaneous Service Charges

The Company proposes to change the establishment charge from \$12.50 to \$25. Staff finds \$25 as a reasonable charge for the service and recommends approval of this element of the Company's request.

The Company proposes to change the reconnection (delinquent) charge from \$50 to \$75. Staff finds \$50 as a reasonable charge for the service and recommends denial of the Company's request, and approval of Staff's recommendation.

The Company proposes to change the meter test (if correct) charge from \$25 to \$75. Staff finds \$25 as a reasonable charge for the service and recommends denial of the Company's request, and approval of Staff's recommendation.

The Company currently charges \$40 for deposit and is proposing to change it to \$100. Staff recommends approval of the default rate authorized per Rule, R-14-2-403.B.7.

The Company currently pays 6 percent for deposit interest and is proposing to change it to 4 percent. Staff recommends approval of the default rate authorized per Rule, R-14-2-403.B.3.

The Company proposes to change the Non-Sufficient Fund ("NSF") check charge from \$10 to \$25. Staff finds \$20 as a reasonable charge for the service and recommends approval of this element of the Company's request.

The Company proposes no change to deferred payment charge of \$18. Staff recommends approval of the default rate authorized per Rule, R-14-2-409.

The Company proposes a new late payment charge of \$5. Staff recommends approval of the default rate authorized per Rule, R-14-2-409.

The Company proposes to change the meter reread (if correct) charge from \$12.50 to \$25. Staff finds \$25 as a reasonable charge for the service and recommends approval of this element of the Company's request.

The Company has proposed a Reconnection (Delinquent) After-Hours charge of \$75.00, and an Establishment (after hours) charge of \$50.00. Staff agrees that an additional fee for service provided after normal business hours is appropriate when such service is provided at the customer's request. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service. Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request. Staff recommends denial of the Company's requested Reconnection (Delinquent) After Hours and elimination of the Establishment (after hours) charges. Instead, Staff recommends the creation of a separate \$30.00 after-hours service charge. For example,

under Staff's proposal, a customer would be subject to a \$25.00 (proposed) Establishment fee if it is done during normal business hours, but would pay an additional \$30.00 after-hours fee if the customer requested that the establishment be done after normal working hours.

Service Line and Meter Installation Charges

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

Staff has recommended service line and meter installation charges based upon an analysis of costs as discussed in the attached Engineering Report. Further, since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends separate service line and meter installation charges. Staff recommends approval of Staff's service line and meter installation charges are shown on Schedule BCA-4.

STAFF RECOMMENDATIONS

1. Staff recommends approval of its recommended rates and charges as shown in Schedule BCA-4.
2. Staff further recommends that the Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. Staff further recommends that, on a going-forward basis, the Company maintain its books and records in accordance with the NARUC USoA. The Company should file an affidavit in Docket Control by December 31, 2013, as a compliance item in this docket, attesting that the Company's books and records are being kept in accordance with NARUC.
4. Staff further recommends that the Company be ordered to use the depreciation rates presented in Table B of the attached Engineering Report.
5. Staff further recommends that the Company be required to install a well meter for each of the Company's six active wells. Staff further recommends that the Company file documentation with Docket Control, as a compliance item in this docket, demonstrating that the installation of the six well meters has been completed by April 30, 2014.
6. Staff further recommends that the Company monitor its three water systems and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed, as a compliance item in this case, by January 31, 2015. If the

reported water loss is greater than 10 percent for any water system, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed, as a compliance item in this case, by March 15, 2015.

7. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of an updated ADEQ Compliance Status Report indicating that the Company is in compliance with ADEQ requirements.
8. Staff further 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 Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Coldwater Canyon Water Company
Docket No. W-01559A-12-0479
Test Year Ended December 31, 2011

Schedule BCA-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$92,988	\$98,988	\$121,000	\$121,000
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$92,988	\$98,988	\$121,000	\$121,000
Operating Expenses:				
Operation and Maintenance	\$74,163	\$82,883	\$74,163	\$82,883
Depreciation	9,936	8,849	9,936	8,849
Property & Other Taxes	6,144	6,558	6,144	7,024
Income Tax	0	153	0	4,654
Total Operating Expense	\$90,243	\$98,443	\$90,243	\$103,410
Operating Income/(Loss)	\$2,745	\$545	\$30,757	\$17,590
Rate Base O.C.L.D.	\$219,294	\$160,347	\$219,294	\$160,347
Rate of Return - O.C.L.D.	1.25%	0.34%	14.03%	10.97%
Operating Margin	2.95%	N/M	25.42%	14.54%

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$549,200	\$13,411	A	\$562,611
Less:				
Accum. Depreciation	329,586	(8,308)	B	321,278
Net Plant	\$219,614	\$21,719		\$241,333
Less:				
Plant Advances	0	0		0
Accumulated Deferred Income Taxes	320	0		320
Total Advances	320	0		320
Contributions Gross	0	285,510	C	285,510
Less:				
Amortization of CIAC	0	195,511	D	195,511
Net CIAC	0	89,999		89,999
Total Deductions	320	89,999		90,319
Plus:				
1/24 Power	0	\$513	E	\$513
1/8 Operation & Maint.	0	8,820	F	8,820
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$9,333		\$9,333
Rate Base	\$219,294	(\$58,947)		\$160,347

Explanation of Adjustment:

- A - Refer to Schedule BCA-2, Page 2
- B - Refer to Schedule BCA-2, Page 3
- C - Refer to Schedule BCA-2, Page 4
- D - Refer to Schedule BCA-2, Page 4
- E - Refer to Schedule BCA-2, Page 4
- F - Refer to Schedule BCA-2, Page 4

PLANT ADJUSTMENTS

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$458	\$0		\$458
302 Franchises	94	-		94
303 Land & Land Rights	49,450	-		49,450
304 Structures & Improvements	13,408	(1,955.00)	a	11,453
307 Wells & Springs	20,748	-		20,748
310 Power Generation Equipment	0	2,380.00	a	2,380
311 Electrical Pumping Equipment	110,525	15,256.00	a	125,781
320.1 Water Treatment Plant	35,411	91,907.00	a	127,318
320.2 Solution Chemical Feeders	0	3,009.00	a	3,009
330 Distribution Reservoirs & Standpipes	0	-		0
330.1 Storage Tank	41,872	4,229.00	a	46,101
330.2 Pressure Tank	0	8,156.00	a	8,156
331 Transmission & Distribution Mains	36,257	(8,157.00)	a	28,090
333 Services	0	-		0
334 Meters & Meter Installations	59,469	(4,092.00)	a	55,377
335 Hydrants	0	-		0
336 Backflow Prevention Devices	0	-		0
339 Other Plant and Misc. Equipment	0	2,909.00	a	2,909
340 Office Furniture & Equipment	0	-		0
341 Transportation Equipment	26,710	1,260.00	a	27,970
343 Tools Shop & Garage Equipment	135,142	(85,062.00)	a	50,080
344 Laboratory Equipment	0	-		0
345 Power Operated Equipment	0	1,840.00	a	1,840
346 Communication Equipment	0	-		0
347 Miscellaneous Equipment	19,658	(18,259.00)	a	1,399
348 Other Tangible Plant	0	-		0
105 C.W.I.P.	0	-		0
TOTALS	\$549,200	\$13,411	A	\$562,611

A - To reclassify and add supported plant in service.

ACCUMULATED DEPRECIATION ADJUSTMENT

	Amount
Accumulated Depreciation - Per Company	\$ 329,586
Accumulated Depreciation - Per Staff	321,278
Total Adjustment	B (\$8,308)

To reflect Staff's calculation of accumulated depreciation expense based upon Staff's adjustments to plant

ACCT	ACCUMULATED DEPRECIATION		
	Company Application	Staff Adjustment	Staff Recommended
No Description	\$	\$	\$
301 Intangibles	-	-	-
303 Land and Land Rights	-	-	-
304 Structures and Improvements	10,242	646	9,596
307 Wells and Springs	11,151	519	10,632
310 Power Generation Equipment	-	(514)	514
311 Electrical Pumping Equipment	93,018	190	92,828
320.1 Water Treatment Plant	35,411	(13,613)	49,024
320.2 Water Treat. Equipment (Soln.Chemical Feeders)	-	(327)	327
330 Distribution Reservoirs & Standpipes	-	-	-
330.1 Storage Tank	41,872	(762)	42,634
330.2 Pressure Tank	-	(1,088)	1,088
331 Transmission and Distribution Mains	14,661	1,767	12,894
333 Services	-	-	-
334 Meters and Meter Installation	45,912	2,261	43,651
335 Hydrants	-	-	-
339 Other Plant and Miscellaneous Equipment	-	(260)	260
340 Office Furniture and Fixtures	-	-	-
340.1 Computers and Software	-	-	-
341 Transportation Equipment	26,710	(122)	26,832
343 Tools and Work Equipment	48,152	17,382	30,770
345 Power Operated Equipment	-	-	-
346 Communications Equipment	-	-	-
347 Miscellaneous Equipment	2,457	2,229	228
348 Other Tangible Plant	-	-	-
Total	\$ 329,586	\$ 8,308	\$ 321,278

STAFF PLANT ADJUSTMENTS

		Required Adjustment
C - CONTRIBUTION IN AID OF CONSTRUCTION (CIAC) - Per Company	\$0	
Per Staff	\$285,510	<u>\$ 285,510</u>

Company did not maintain records for plant additions from 1985 to the end of the current test year. Staff recommended treatment of plant additions as CIAC.

D - ACCUMULATED AMORTIZATION OF CIAC - Per Company	\$0	
Per Staff	\$195,511	<u>\$ 195,511</u>

Staff calculated the ending balance of the accumulated amortization of CIAC by calculating the amortization on the CIAC from the end of the last test year to the end of the current test year.

E - WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company	\$0	
Per Staff	\$513	<u>\$ 513</u>

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

F - WORKING CAPITAL (1/8 operation & Maint exp.) Per Company	\$0	
Per Staff	8,820	<u>\$ 8,820</u>

To reflect Staff's calculation of cash working capital based on Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	\$92,988	\$6,000	A	\$98,988
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	0	0		0
Total Operating Revenue	\$92,988	\$6,000		\$98,988
Operating Expenses:				
601 Salaries and Wages	\$37,200	\$4,200	B	\$41,400
610 Purchased Water	0	0		0
615 Purchased Power	13,341	(1,020)	C	12,321
618 Chemicals	435	0		435
620 Repairs and Maintenance	12,100	2,432	D	14,532
621 Office Supplies & Expense	153	0		153
630 Outside Services	0	0		0
635 Water Testing	2,100	1,594	E	3,694
641 Rents	0	0		0
650 Transportation Expenses	1,077	0		1,077
657 Insurance - General Liability	5,109	(305)	F	4,803
665 Regulatory Commission Expense	0	0		0
666 Regulatory Commission Expense - Rate Case	1,324	1,820	G	3,144
675 Miscellaneous Expense	1,324	0		1,324
403 Depreciation Expense	9,336	(1,087)	H	8,849
408 Taxes Other Than Income	0	270	I	270
408.11 Property Taxes	6,144	144	J	6,288
409 Income Tax	0	153	K	153
Total Operating Expenses	\$90,243	\$8,200		\$98,443
OPERATING INCOME/(LOSS)	\$2,745	(\$2,200)		\$545

STAFF ADJUSTMENTS

		Required Adjustment
A -	METERED WATER REVENUE - Per Company	\$92,988
	Per Staff	<u>98,988</u> <u>\$6,000</u>
	To reflect Staff's calculation of the metered water revenue using the billing determinants provided by the Company.	
B -	SALARIES AND WAGES - Per Company	\$37,200
	Per Staff	<u>41,400</u> <u>\$4,200</u>
	To add \$4,200 in supported salaries and wages expense.	
C -	PURCHASED POWER - Per Company	\$13,341
	Per Staff	<u>12,321</u> <u>(\$1,020)</u>
	To remove \$1,020 in out of test year expense.	
D -	REPAIRS AND MAINTENANCE - Per Company	\$12,100
	Per Staff	<u>14,532</u> <u>\$2,432</u>
	To reflect a reasonable normalized amount of arsenic media expense based on two years.	
	$ \begin{array}{l} \$ 27,383 \text{ Media expense per Staff's analysis} \\ \underline{2 \text{ Divided by 2 years (media is replaced every 2 years)}} \\ \$ 13,692 \text{ Annual media expense} \\ \$ \quad 840 \text{ Other repairs and maintenance expense} \\ \hline \text{Total } \$ 14,532 \text{ Repairs and maintenance expense} \end{array} $	
E -	WATER TESTING - Per Company	\$2,100
	Per Staff	<u>3,694</u> <u>\$1,594</u>
	To reflect annual water testing expense, per Staff's Engineering report.	
F -	GENERAL LIABILITY INSURANCE - Per Company	\$5,109
	Per Staff	<u>4,803</u> <u>(\$306)</u>
	To adjust to the updated and supported general liability insurance expense.	

STAFF ADJUSTMENTS

		Required Adjustment
G -	RATE CASE EXPENSE - Per Company	\$1,324
	Per Staff	<u>3,144</u> <u>\$1,520</u>

To reflect a reasonable normalized amount of rate case expense based on three years.

\$ 9,433 Rate case expense - per Staff's analysis
3 Divided by 3 years
\$ 3,144 Annual Rate Case Expense

STATE ADJUSTMENTS (Cont.)

H - DEPRECIATION - Per Company \$9,936
Per Staff 8,849 (\$1,057)

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

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment I - Test Year Depreciation Expense

LINE NO.	DESCRIPTION	(A) Plant in Service Per Staff	(B) Non-Depreciable or Fully Depreciated Plant	(C) Depreciable Plant [Col. A - Col. B]	(D) Depreciation Rate	(E) Depreciation Expense (Col. C x Col. D)
1	301 - Organization Cost	\$ 456.00	\$ 456.00	-	0.00%	\$ -
2	302 - Franchise Cost	94.00	94	-	0.00%	-
3	303 - Land and Land Rights	49,450.00	49,450	-	0.00%	-
4	304 - Structures and Improvements	\$11,453	-	11,453	3.33%	381
5	305 - Collecting and Impounding Res.	-	-	-	2.50%	-
6	306 - Lake River and Other Intakes	-	-	-	2.50%	-
7	307 - Wells & Spring	\$20,748	-	20,748	3.33%	691
8	308 - Infiltration Galleries and Tunnels	-	-	-	6.67%	-
9	309 - Supply Main	-	-	-	2.00%	-
10	310 - Power Generation Equip.	2,380.00	-	2,380	5.00%	119
11	311 - Electric Pumping Equipment	\$125,781	-	125,781	12.50%	15,723
12	320 - Water Treatment Equipment	-	-	-	-	-
13	320.1 Water Treatment Plants	127,318.00	35,411	91,907	3.33%	3,061
14	320.2 Solution Chemical Feeders	3,009.00	-	3,009	20.00%	602
15	330 - Distribution Resvr & Standpipe	-	-	-	-	-
16	330.1 Storage Tanks	\$46,101	41,872	4,229	2.22%	13
17	330.2 Pressure Tanks	8,156.00	-	8,156	5.00%	408
18	331 - Transmission & Distr. Mains	\$28,090	-	28,090	2.00%	720
19	333 - Services	\$0	-	-	3.33%	-
20	334 - Meter & Meter Installations	\$55,377	-	55,377	8.33%	4,613
21	335 - Hydrants	-	-	-	2.00%	-
22	336 - Backflow Prevention Devices	-	-	-	6.67%	-
23	339 - Other Plant & Misc Equipment	2,909.00	-	2,909	6.67%	194
24	340 - Office Furniture and Fixtures	\$0	-	-	6.67%	-
25	340.1 Computers and Softwares	-	-	-	20.00%	-
26	341 - Transportation Equipment	27,970.00	25,710	1,260	20.00%	252
27	343 - Tools & Work Equipment	50,080.00	-	50,080	5.00%	2,504
28	345 - Power Operated Equipment	1,840.00	-	1,840	5.00%	92
29	346 - Communication Equipment	-	-	-	10.00%	-
30	347 - Miscellaneous Equipment	1,399.00	-	1,399	10.00%	-
31	348 - Other Tangible Plant	-	-	-	-	-
32	Total Plant	\$562,611	\$153,993	\$408,618		\$29,372
33						
34	Composite Depreciation Rate (Depr Exp / Depreciable Plant)					7.19%
35	Gross CIAC:					\$ 285,510
36						
37						
38	Pro Forma Annual Depreciation Expense					
39	Plant in Service					\$562,611
40	Less: Non-Depreciable Plant:					50,000
41	Fully Depreciable Plant					103,993
42	Depreciable Plant					\$408,618
43	Times: Staff Proposed Depreciation Rate					7.19%
44	Depreciation Expense Before Amortization of CIAC:					\$ 29,372
45	Less: Amortization of CIAC:					\$ 20,523
46	Test Year Depreciation Expense - Staff:					\$ 8,849
47	Depreciation Expense - Company:					\$9,936
48	Staff's Total Adjustment:					<u>\$ (1,057)</u>

STAFF ADJUSTMENTS

		Required Adjustment
I -	TAXES OTHER THAN INCOME - Per Company	\$0
	Per Staff	270
		<u>\$270</u>
	To reflect \$270 in supported payroll taxes.	
J -	PROPERTY TAXES - Per Company	\$6,144
	Per Staff	6,288
		<u>\$144</u>
	To reflect property tax expense using the Arizona Department of Revenue property method.	
K -	INCOME TAX - Per Company	\$0
	Per Staff	153
		<u>\$153</u>
	To reflect the income tax amount on Staff's adjusted test year operating income.	

OPERATING INCOME ADJUSTMENT J - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	\$ 98,988	\$ 98,988
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 197,976	\$ 197,976
4	Staff Recommended Revenue, Per Schedule BCA-1	98,988	121,000
5	Subtotal (Line 4 + Line 5)	\$ 296,964	\$ 318,976
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 98,988	\$ 106,325
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 197,976	\$ 212,651
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 197,976	\$ 212,651
13	Assessment Ratio	22.5%	22.5%
14	Assessment Value (Line 12 * Line 13)	44,545	\$ 47,846
15	Composite Property Tax Rate (Obtained from Yavapai County)	14.1156%	14.1156%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 6,288	
17	Company Proposed Property Tax	6,144	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 144	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 6,754
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 6,288
21	Increase/(Decrease) to Property Tax Expense		\$ 466
22	Decrease to Property Tax Expense		\$ 466
23	Increase in Revenue Requirement		22,012
24	Decrease to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		2.12%

RATE DESIGN

Monthly Usage Charge	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$12.00	\$16.00	\$ 12.50
3/4" Meter	NT	\$ 16.00	12.50
1" Meter	14.00	18.00	30.00
1 1/2" Meter	NT	22.00	55.00
2" Meter	20.00	28.00	85.00
3" Meter	NT	NT	NT
4" Meter	NT	NT	NT
6" Meter	NT	NT	NT
Gallons in Minimum	2	2	0

Commodity Rates (Per 1,000 gallons)

All Meter Sizes			
First Tier - 0 - 2,000 gallons	\$ -	\$ -	\$ -
Second Tier - Over 2,001 gallons	1.20	N/A	N/A

All Meter Sizes			
First Tier - 0 - 2,000 gallons	N/A	\$ -	N/A
Second Tier - 2,001 - 6,000 gallons	N/A	1.85	N/A
Third Tier - 6,001 - 10,000 gallons	N/A	2.00	N/A
Fourth Tier - Over 10,000 gallons	N/A	\$ 2.60	N/A

5/8 x 3/4 & 3/4 - inch Meter Sizes			
First Tier - 0 - 4,000 gallons	N/A	N/A	0.75
Second Tier - 4,001 - 10,000 gallons	N/A	N/A	1.00
Third Tier - Over 10,000 gallons	N/A	N/A	1.65

All Other Meter Sizes			
First Tier - 0 - 10,000 gallons	N/A	\$ 4.75	\$ 1.00
Second Tier - Over 10,000 gallons	N/A	\$ 6.00	\$ 1.65

--- Staff Recommended ---

Service Line and Meter Installation Charges	Current Rates	Company Proposed	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	\$100	\$200	\$ 445	\$ 155	\$ 600
3/4" Meter	120	250	445	255	700
1" Meter	160	300	495	315	810
1 1/2" Meter	300	500	550	525	1,075
2" Meter	400	700	630	1,045	1,675
3" Meter	N/A	N/A	1,045	1,670	2,715
4" Meter	N/A	N/A	1,490	2,670	4,160
6" Meter	N/A	N/A	2,210	5,025	7,235

Service Charges			
Establishment	\$12.50	\$25.00	\$25.00
Establishment (After Hours)	25.00	50.00	NT
Reconnection (Delinquent)	50.00	75.00	\$50.00
Reconnection (Delinquent After hours)	NT	75.00	NT
Water Test (If Correct)	25.00	75.00	\$25.00
Deposit	40.00	100.00	*
Deposit interest Per Annum	6%	4%	*
Re-Establishment (Within 12 Months)	*	*	*
NSF Check	10.00	25.00	\$20.00
Deferred Payment - Per Month	18%	18%	**
Meter Re-Read (If Correct)	12.50	25.00	\$25.00
Late Payment Charge-Per Month	NT	\$ 5.00	**
Service Charge (After Hours)	N/A	N/A	\$30.00

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

NT = No Tariff

TYPICAL BILL ANALYSIS
5/8 x 3/4 - Inch Meter

Average Number of Customers: 342

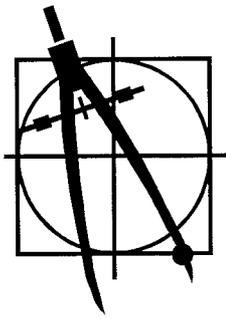
<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	8,831	\$20.20	\$29.21	\$9.01	44.6%
Median Usage	4,859	\$15.43	\$21.55	\$6.12	39.7%
<u>Staff Recommended</u>					
Average Usage	8,831	\$20.20	\$20.33	\$0.13	0.7%
Median Usage	4,859	\$15.43	\$16.35	\$0.93	6.0%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$12.00	\$16.00	33.3%	\$12.50	4.2%
1,000	12.00	16.00	33.3%	13.25	10.4%
2,000	12.00	16.00	33.3%	14.00	16.7%
3,000	13.20	17.85	35.2%	14.75	11.7%
4,000	14.40	19.70	36.8%	15.50	7.6%
5,000	15.60	21.55	38.1%	16.50	5.9%
6,000	16.80	23.55	40.2%	17.50	4.2%
7,000	18.00	25.55	41.9%	18.50	2.8%
8,000	19.20	27.55	43.5%	19.50	1.6%
9,000	20.40	29.55	44.9%	20.50	0.5%
10,000	21.60	31.55	46.1%	21.50	-0.5%
15,000	27.60	44.55	61.4%	29.75	7.8%
20,000	33.60	57.55	71.3%	38.00	13.1%
25,000	39.60	70.55	78.2%	46.25	16.8%
50,000	69.60	135.55	94.8%	87.50	25.7%
75,000	99.60	200.55	101.4%	128.75	29.3%
100,000	129.60	265.55	104.9%	170.00	31.2%
125,000	159.60	330.55	107.1%	211.25	32.4%
150,000	189.60	395.55	108.6%	252.50	33.2%
175,000	219.60	460.55	109.7%	293.75	33.8%
200,000	249.60	525.55	110.8%	335.00	34.2%

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 1)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	21.2580%			
5	Subtotal (L3 - L4)	78.7420%			
6	Revenue Conversion Factor (L1 / L5)	1.269970869			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	20.4528%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.5472%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	14.4948%			
16	Effective Federal Income Tax Rate (L14 * L15)	0.134848251			
17	Combined Federal and State Income Tax Rate (L13 + L16)	20.4528%			
<u>Calculation of Effective Property Tax Factor:</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	20.4528%			
20	One Minus Combined Income Tax Rate (L18 - L19)	79.5472%			
21	Property Tax Factor (GTM-18, L24)	1.0122%			
22	Effective Property Tax Factor (L21 * L22)	0.8052%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)	21.2580%			
24	Required Operating Income (Schedule BCA-1)	\$ -			
25	Adjusted Test Year Operating Income (Loss) (Schedule BCA-1)	\$ -			
26	Required Increase in Operating Income (L24 - L25)	\$ -			
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 4,654			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 153			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ 4,501			
30	Recommended Revenue Requirement (Schedule BCA-1)	\$ -			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)	\$ -			
35	Property Tax with Recommended Revenue (BCA-7)	\$ 6,754			
36	Property Tax on Test Year Revenue (BCA-7)	\$ 6,268			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$ 486			
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)	\$ 4,987			
<u>Calculation of Income Tax:</u>					
		Test Year		Staff Recommended	
39	Revenue (Schedule BCA-1)	\$ 98,988		\$121,000	
40	Operating Expenses Excluding Income Taxes	\$ 98,291		\$ 98,756	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L38 - L37 - L38)	\$ 697		\$ 22,244	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 49		\$ 1,650	
45	Federal Taxable Income (L42 - L44)	\$ -		\$ 20,694	
46	Federal Tax on First Income Bracket: (\$1 - \$50,000) @ 15%	\$ -		\$ 3,104	
47	Federal Tax on Second Income Bracket: (\$50,001 - \$75,000) @ 25%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket: (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket: (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket: (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 105		\$ 3,104	
52	Combined Federal and State Income Tax (L35 + L42)	\$ 153		\$ 4,654	
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L35]				14.49%



**Engineering Report for Coldwater Canyon
Water Company**

Docket No. W-01559A-12-0479 (Rates)

**By: Jian Liu
Utilities Engineer**

July 2, 2013

CONCLUSIONS

1. Arizona Department of Environmental Quality (“ADEQ”) reported that the Coldwater Canyon Water Company (“Coldwater Canyon” or the “Company”) has not submitted the 2011 Consumer Confidence Report (“CCR”) or the CCR Mailing Waiver that were due by July 1, 2012, and October 1, 2012, respectively. (ADEQ Compliance Status Report dated February 5, 2013).
2. The Company is not located in any Active Management Area (“AMA”) and is not subject to any AMA reporting and conservation requirements. Arizona Department of Water Resources (“ADWR”) reported that Coldwater Canyon is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated June 24, 2013).
3. A check with the Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Compliance Section showed no delinquent compliance items for Coldwater Canyon. (ACC Compliance Section Email dated June 26, 2013).
4. Coldwater Canyon has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.
5. Staff concludes that Coldwater Canyon has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.
6. Staff has reviewed the Company’s estimates for the proposed six well meters and concludes that they are reasonable. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

RECOMMENDATIONS

1. Staff has developed typical and customary depreciation rates within a range of anticipated equipment life which are presented in Table B. It is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category.
2. Staff recommends the annual water testing expense of \$3,694 (rounded) be used for purposes of this application.
3. Staff recommends that the Company be required to install a well meter for each of the Company’s six active wells. Staff further recommends that the Company file documentation with Docket Control, as a compliance item in this docket, demonstrating that the installation of the six well meters has been completed by April 30, 2014.
4. Staff recommends that the Company monitor its three water systems and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed, as a compliance item in this case, by January 31, 2015. If the reported water loss is greater than 10 percent for any water system, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed, as a compliance item in this case, by March 15, 2015.
5. Staff recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company’s filing of an updated ADEQ Compliance Status Report indicating that the Company is in compliance with ADEQ requirements.
6. 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 Commission’s review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.
7. Staff recommends that the Meter and Service Line charges listed under “Staff’s Recommendation” in Table C be adopted.

TABLE OF CONTENTS

	<u>PAGE</u>
A. LOCATION OF COMPANY	1
B. DESCRIPTION OF THE WATER SYSTEMS.....	1
<u>WATER SOLD</u>	5
<u>NON-ACCOUNT WATER</u>	5
D. GROWTH.....	6
E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE (“ADEQ”).....	6
<u>COMPLIANCE</u>	6
<u>WATER TESTING EXPENSE</u>	7
<u>TABLE A. WATER TESTING COST</u>	7
F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE	8
G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE.....	8
H. DEPRECIATION RATES	8
<u>TABLE B. DEPRECIATION RATES</u>	9
I. OTHER ISSUES	10
1. CURTAILMENT, BACKFLOW PREVENTION AND BEST MANAGEMENT PRACTICE (“BMP”) TARIFFS	10
2. SERVICE LINE AND METER INSTALLATION CHARGES	10
<u>TABLE C. SERVICE LINE AND METER INSTALLATION CHARGES</u>	10
<u>FIGURE 1. COUNTY MAP</u>	11
<u>FIGURE 2. CERTIFICATED AREAS</u>	12

A. LOCATION OF COMPANY

Coldwater Canyon Water Company (“Coldwater Canyon” or the “Company”) is an Arizona public service corporation authorized to provide water service within portions of Yavapai County, Arizona. On November 29, 2012, the Company filed an application with the Arizona Corporation Commission (“Commission” or “ACC”) to increase its rates for water service. Coldwater Canyon provides service to approximately 370 active connections. Figure 1 shows the location of Coldwater Canyon within Yavapai County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEMS

The plant facilities were visited on June 25, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Roger Wagner, President of the Company. The Company operates three independent water systems. Brief descriptions of these three systems are as follows:

1. Public Water System (“PWS”) 13-020: This system consists of three active wells, two storage tanks, one booster pump, one pressure tank, an arsenic and chlorination treatment system and a distribution system. This system served 227 active connections at the end of 2011.
2. PWS 13-192: This system consists of one active well, two storage tanks, two booster pumps, one pressure tank, an arsenic and chlorination treatment system and a distribution system. This system served 95 active connections at the end of 2011.
3. PWS 13-202: This system consists of two active wells, two storage tanks, two booster pumps, two pressure tanks, an arsenic and chlorination treatment system and a distribution system. This system served 49 active connections at the end of 2011.

Detailed plant facility listings are as follows:

COLDWATER CANYON WATER COMPANY

Docket No. W-01559A-12-0479 (Rates)

Page 2

PWS 13-020

Well Data (active wells only)

ADWR ID	Pump Hp	Pump Gallons Per Minute ("GPM")	Casing Size	Casing Depth (Feet)	Meter Size	Year Drilled
55-508241	5	55	10"	120	No Meter	1984
55-612699	5	55	10"	120	No Meter	1962
55-612700	7.5	90	12"	120	No Meter	1968
Total Production	-	200	-	-	-	

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
30,000	1	3,000	1	1.5	1
10,000	1				
Total 40,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	2,800	5/8x3/4	208	None
3	3,350	3/4		
4	2,900	1	17	
6	1,400	1.5		
		2	4	
		Total Metered Connections	229	

COLDWATER CANYON WATER COMPANY

Docket No. W-01559A-12-0479 (Rates)

Page 3

PWS 13-192

Well Data (active wells only)

ADWR ID	Pump Hp	Pump GPM	Casing Size	Casing Depth (Feet)	Meter Size	Year Drilled
55-509903	5	55	8"	100	No Meter	2001
Total Production	-	55	-	-	-	

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
2,500	2	2,000	1	1.5	2
Total 5,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
1.5	400	5/8x3/4	90	None
2	900	3/4		
3	1,250	1	7	
4	4,300	1.5	1	
		2	1	
		Total Metered Connections	99	

COLDWATER CANYON WATER COMPANY

Docket No. W-01559A-12-0479 (Rates)

Page 4

PWS 13-202

Well Data (active wells only)

ADWR ID	Pump Hp	Pump GPM	Casing Size	Casing Depth (Feet)	Meter Size	Year Drilled
55-800301	2	25	8"	65	No Meter	1963
55-586436	5	55	8"	100	No Meter	2001
Total Production	-	80	-	-	-	

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
15,000	2	1,000	2	2	2
Total 30,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	3,000	5/8x3/4	43	None
3	400	3/4		
4	1,200	1	5	
6	700	1.5	1	
		2	1	
		Total Metered Connections	50	

C. WATER USE

Water Sold

Based on the information provided by the Company in its Water Use Data Sheets, water use for the year 2011 is presented below for each system.

Water Use, gallons per day (“GPD”) per connection

Water System Name	High	Low	Average
PWS 13-020	529 in Aug.	144 in Dec.	329
PWS 13-192	486 in May	208 in Feb.	335
PWS 13-202	356 in Aug.	159 in Dec.	249

Non-Account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

The Company did not know how many gallons of water were pumped for the test year 2011 since the Company’s six active wells are not equipped with meters.

Staff recommends that the Company be required to install a well meter for each of the Company’s six active wells. Staff further recommends that the Company file documentation with Docket Control, as a compliance item in this docket, demonstrating that the installation of the six well meters has been completed by April 30, 2014.

Staff recommends that the Company monitor its three water systems and submit reports regarding gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed, as a compliance item in this case, by January 31, 2015. If the reported water loss is greater than 10 percent for any water system, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed, as a compliance item in this case, by March 15, 2015.

Cost Analysis

The Company estimated cost to install six well meters is as follows:

Six Well Meters:	\$5,000
Installation fees:	\$300
Contingency funds:	\$500

Total: \$5,800

Staff has reviewed the Company's estimates for installing the six well meters and concludes that the Company's estimates are reasonable. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

D. GROWTH

In December 2011, the Company had 371 customers. Coldwater Canyon estimates that the customer base will remain the same (with little or no growth) for the next 5 years.

Staff concludes that Coldwater Canyon has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

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

Compliance

ADEQ reported that Coldwater Canyon has not submitted the 2011 Consumer Confidence Report ("CCR") or the CCR Mailing Waiver that were due by July 1, 2012 and October 1, 2012, respectively. (ADEQ Compliance Status Report dated February 5, 2013).

ADEQ can not determine if drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of an updated ADEQ Compliance Status Report indicating that the Company is in compliance with ADEQ requirements.

Water Testing Expense

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

The Company reported its water testing expense at \$2,100 during the test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs to add the omitted monitoring requirements for lead & copper.

Table A. Water Testing Cost

Monitoring (PWS 13-020)	Cost per test	Quantity of tests per 3 years	Annual Cost
Total coliform (2 samples monthly)	\$20	72	\$480
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$836 (rounded)
Lead & Copper	\$45	12	\$180
Total			\$1,496

Note: ADEQ's MAP invoice for the 2011 Calendar Year was \$835.96

Monitoring (PWS 13-192)	Cost per test	Quantity of tests per 3 years	Annual Cost
Total coliform (2 samples monthly)	\$20	72	\$480
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$497 (rounded)
Lead & Copper	\$45	12	\$180
Total			\$1,157

Note: ADEQ's MAP invoice for the 2011 Calendar Year was \$496.72

Monitoring (PWS 13-202)	Cost per test	Quantity of tests per 3 years	Annual Cost
Total coliform (2 samples monthly)	\$20	72	\$480
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$381 (rounded)
Lead & Copper	\$45	12	\$180
Total			\$1,041

Note: ADEQ’s MAP invoice for the 2011 Calendar Year was \$381.07

Staff recommends the annual water testing expense of \$3,694 (rounded) be used for purposes of this application.

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

The Company is not located in any Active Management Area (“AMA”) and is not subject to any ADWR AMA reporting and conservation requirements. ADWR reported that Coldwater Canyon is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated June 24, 2013).

G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated June 26, 2013).

H. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B. It is recommended that the Company use these depreciation rates by individual NARUC category.

COLDWATER CANYON WATER COMPANY

Docket No. W-01559A-12-0479 (Rates)

Page 9

Table B. 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
320.3	Media for Arsenic Treatment	2	50.00
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	3	33.33
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

I. OTHER ISSUES

1. Curtailment, Backflow Prevention and Best Management Practice (“BMP”) Tariffs

Coldwater Canyon has approved Curtailment and Backflow Prevention tariffs on file with the ACC.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, 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 Commission’s review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

2. Service Line and Meter Installation Charges

The Company proposes to change its service line and meter installation charges. These charges are refundable advances and the Company’s proposed charges are below Staff’s recommended range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff recommends that the charges listed under “Staff’s Recommendation” in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Size	Current Charges	Proposed Charges	Staff recommended Service Line Charges	Staff recommended *Meter Charges	Staff recommended Total Charges
5/8 x3/4-inch	100	\$200	\$130	\$70	\$200
3/4-inch	120	\$250	\$130	\$120	\$250
1-inch	160	\$300	\$130	\$170	\$300
1-1/2-inch	300	\$500	\$150	\$550	\$700
2-inch	400	\$700	\$250	\$750	\$1,000
3-inch	N/A	N/A	N/A	N/A	N/A
4-inch	N/A	N/A	N/A	N/A	N/A
6-inch	N/A	N/A	N/A	N/A	N/A

*Note: 1. Meter charge includes meter box or vault.

Coldwater Canyon Water Company
Docket No. W-01559A-12-0479 (Rates)

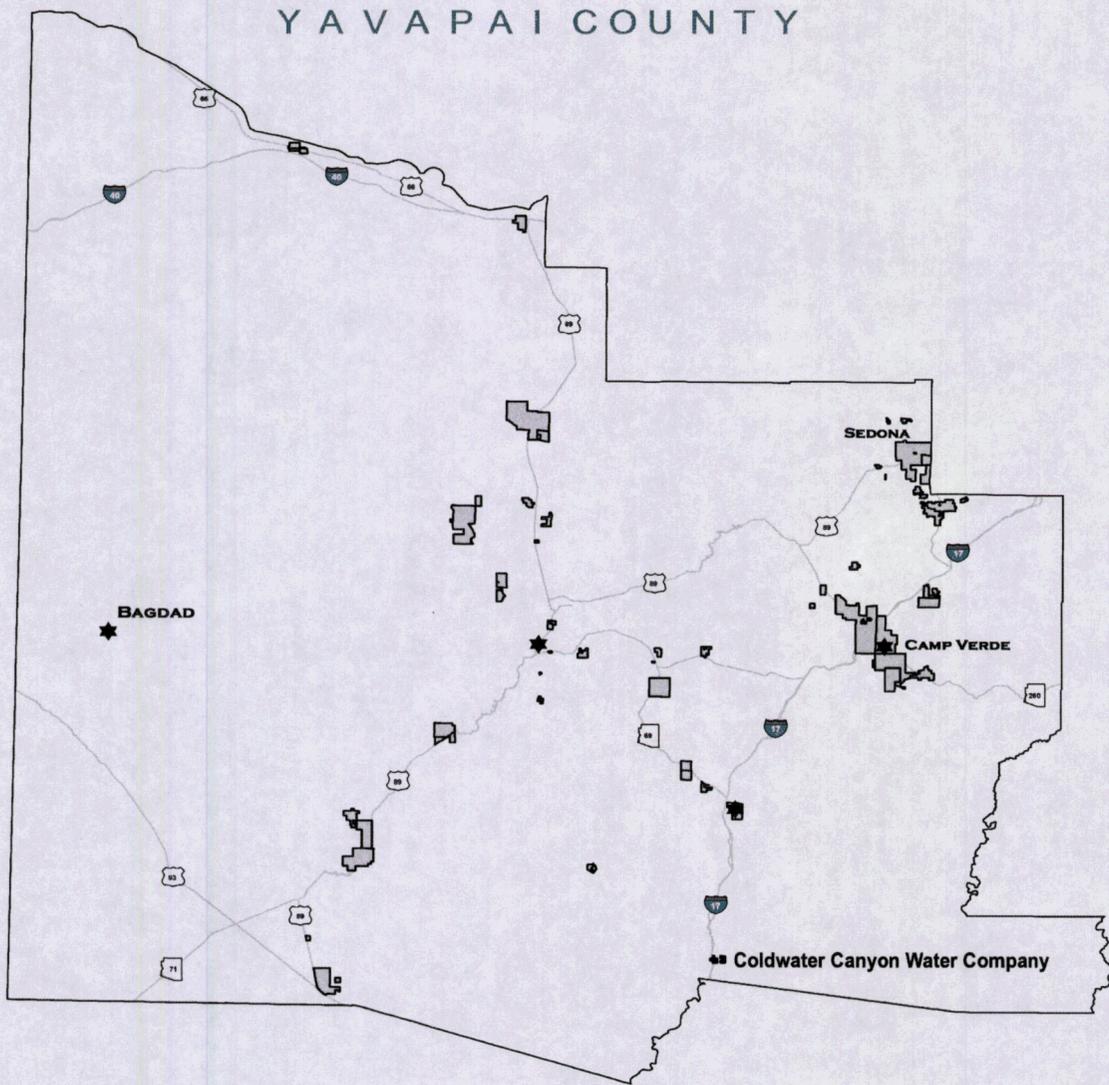


Figure 1. County Map

Coldwater Canyon Water Company
Docket No. W-01559A-12-0479 (Rates)

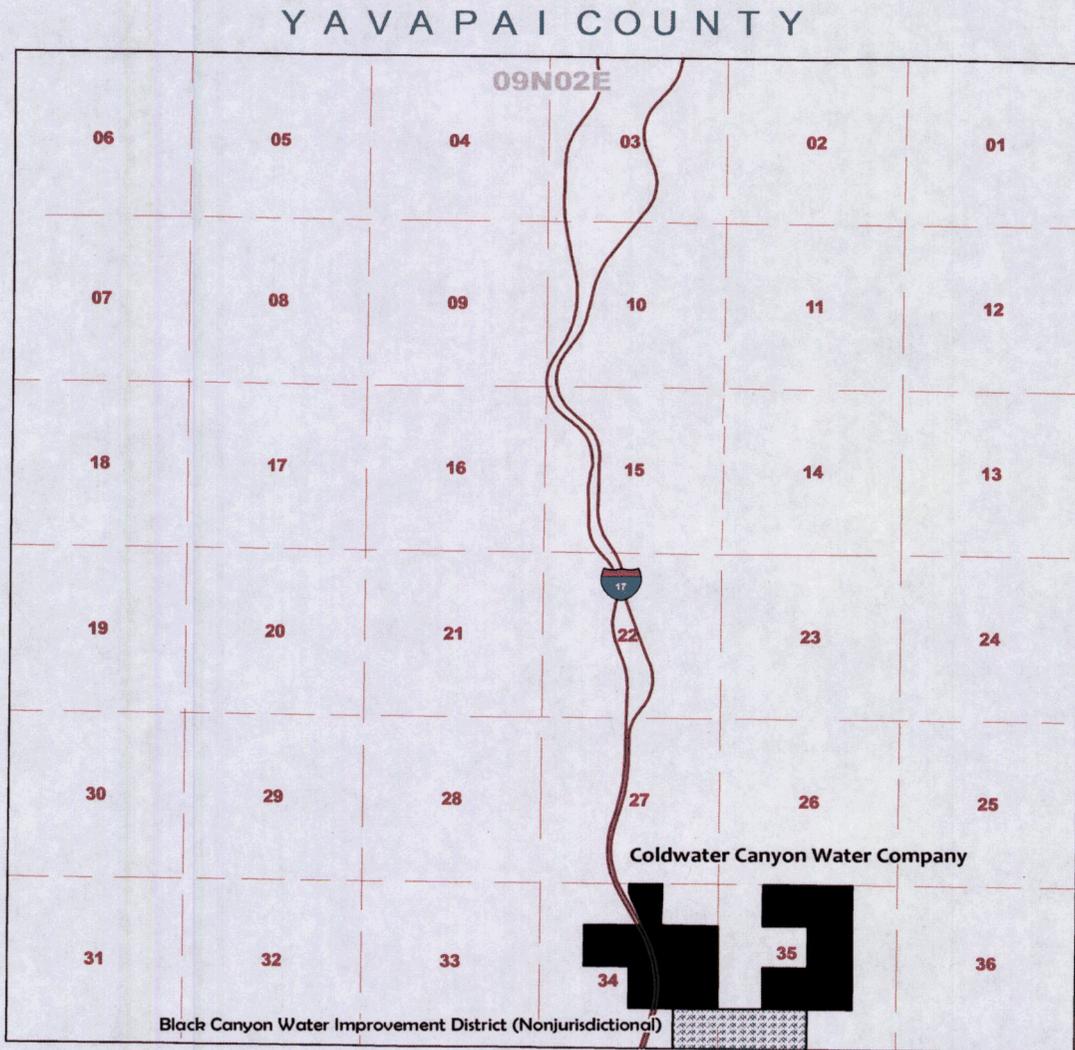


Figure 2. Certificated Areas