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BEFORE THE ARIZONA CORPORATION COMMISSION

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GARY PIERCE  
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AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

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NOV 15 2013

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IN THE MATTER OF THE APPLICATION OF  
PAYSON WATER CO., INC. AN ARIZONA  
CORPORATION, FOR A DETERMINATION OF  
THE FAIR VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
WATER RATES AND CHARGES FOR UTILITY  
SERVICE BASED THEREON.

DOCKET NO. W-03514A-13-0111

IN THE MATTER OF THE APPLICATION OF  
PAYSON WATER CO., INC. FOR AUTHORITY  
TO ISSUE EVIDENCE OF INDEBTEDNESS IN  
AN AMOUNT NOT TO EXCEED \$1,238,000 IN  
CONNECTION WITH INFRASTRUCTURE  
IMPROVEMENTS TO THE UTILITY SYSTEM;  
AND ENCUMBER REAL PROPERTY AND  
PLANT AS SECURITY FOR SUCH  
INDEBTEDNESS.

DOCKET NO. W-03514A-13-0142

**STAFF'S NOTICE OF FILING DIRECT  
TESTIMONY (PHASE 2)**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Direct Testimony of Staff witnesses Crystal S. Brown and Jian W. Liu in the above-referenced matter.

RESPECTFULLY SUBMITTED this 15<sup>th</sup> day of November, 2013.

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27 ...  
28 ...

1 Original and thirteen (13) copies of the  
2 foregoing filed this 15<sup>th</sup> day of November,  
2013, with:

3 Docket Control  
4 Arizona Corporation Commission  
4 1200 West Washington Street  
5 Phoenix, Arizona 85007

6 Copy of the foregoing mailed this 15<sup>th</sup>  
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BEFORE THE ARIZONA CORPORATION COMMISSION

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DIRECT

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 15, 2013

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**EXECUTIVE SUMMARY**  
**PAYSON WATER CO., INC.**  
**DOCKET NOS.**  
**W-03514A-13-0111 and W-03514A-13-0142**

Rate Application

Payson Water Company, Inc. ("Payson" or "Company") is an Arizona Class C utility engaged in the business of providing potable water service in portions of Gila County, Arizona. Payson serves over 1,100 customers.

The Company proposes a \$399,785, or 124.73 percent revenue increase from \$320,525 to \$720,310. The proposed revenue increase would produce an operating income of \$72,540 for an 11.00 percent rate of return on an original cost rate base ("OCRB") of \$659,457. For the United System, the Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 1,434 gallons from \$18.77 to \$43.18, for an increase of \$24.42 or 130.10 percent.

Staff recommends a \$240,721 or 75.10 percent revenue increase from \$320,525 to \$561,246. Staff's recommended revenue increase would produce an operating income of \$38,262 for a 6.40 percent rate of return on a Staff adjusted OCRB of \$425,129 as shown on Schedule CSB-1. For the United System, Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 1,434 gallons from \$18.77 to \$25.74, for an increase of \$6.97 or 37.13 percent.

Staff recommends denial of the Company proposed O&M Surcharge at this time.

Financing Application

On May 17, 2013, Payson filed a financing application requesting authority to borrow up to \$1,238,000 from the Water Infrastructure and Finance Authority of Arizona ("WIFA") to fund improvements to the Company's Mesa del Caballo water system. In Decision No. 74175, dated October 25, 2013, the Commission approved the Company proposed \$275,000 Phase I financing. On October 28, 2013, the Company revised its cost estimates for the proposed Phase II financing to a level of \$904,650. Staff recommends approval of the \$904,650 Phase II amount as discussed in the direct testimony of Staff witness, John Cassidy.

1 **INTRODUCTION**

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

3 A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona  
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business  
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

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

13  
14 **Q. Please describe your educational background and professional experience.**

15 A. I received a Bachelor of Science Degree in Business Administration from the University  
16 of Arizona and a Bachelor of Science Degree in Accounting from Arizona State  
17 University.

18  
19 Since joining the Commission in August 1996, I have participated in numerous rate cases  
20 and other regulatory proceedings involving electric, gas, water, and wastewater utilities. I  
21 have testified on matters involving regulatory accounting and auditing. Additionally, I  
22 have attended utility-related seminars sponsored by the National Association of  
23 Regulatory Utility Commissioners ("NARUC") on ratemaking and accounting designed to  
24 provide continuing and updated education in these areas.

25

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

2 A. I am presenting Staff's analysis and recommendations in the areas of rate base and  
3 operating revenues, expenses, and rate design regarding the Payson Water Company, Inc.  
4 ("Payson" or "Company") application for a permanent rate increase. I also address Staff's  
5 recommendations regarding the Company's request for approval of an O&M surcharge.  
6 Staff witness, John Cassidy, is presenting Staff's cost of capital and financing  
7 recommendations. Staff witness, Jian Liu, is presenting Staff's engineering analysis and  
8 recommendations.

9  
10 **Q. What is the basis of your recommendations?**

11 A. I performed a regulatory audit of the Company's application to determine whether  
12 sufficient, relevant, and reliable evidence exists to support the Company's requested rate  
13 increase. The regulatory audit consisted of examining and testing the financial  
14 information, accounting records, and other supporting documentation and verifying that  
15 the accounting principles applied were in accordance with the Commission-adopted  
16 NARUC Uniform System of Accounts ("USoA").

17  
18 **BACKGROUND**

19 **Q. Please provide a brief description of Payson and the service it provides.**

20 A. Payson is an Arizona Class C utility engaged in the business of providing potable water  
21 service in portions of Gila County, Arizona. Payson serves over 1,100 customers.  
22 Payson's current rates were approved in Decision No. 62320, dated February 17, 2000 and  
23 Decision No. 62401, dated March 30, 2000.

24  
25 **Q. What is the primary reason for Payson's requested permanent rate increase?**

26 A. Payson was ordered to file a rate case in Decision No. 73774, dated March 21, 2013.

1 **CONSUMER SERVICE**

2 **Q. Please provide a brief history of customer complaints received by the Commission**  
3 **regarding Payson.**

4 A. Staff reviewed the Commission's records and found the following, for the years 2010 to  
5 2013:

- 6
- 7 • **2013** – 24 complaints (13 billing, 4 quality of service; 7 disconnect/termination);
- 8 • **2012** – 61 complaints (16 billing, 2 new service; 1 service; 31 quality of service; 9  
9 disconnect/termination; 1 rates and tariffs; and 1 other ACC Admin question);
- 10 • **2011** – 81 complaints (33 billing, 3 new service; 1 service; 30 quality of service; 13  
11 disconnect/termination; and 1 other company policy); and
- 12 • **2010** – 12 complaints (6 billing; 1 deposit; 4 quality of service; 1  
13 disconnect/termination)
- 14

15 All complaints have been resolved and closed.

16

17 **COMPLIANCE**

18 **Q. Please provide a summary of the compliance status of Payson.**

19 A. A check of the Compliance database indicates that there are currently no delinquencies for  
20 Payson.

21

22 **SUMMARY OF PROPOSED REVENUES**

23 **Q. Please summarize the Company's filing.**

24 A. The Company proposes a \$399,785, or 124.73 percent revenue increase from \$320,525 to  
25 \$720,310. The proposed revenue increase would produce an operating income of \$72,540  
26 for an 11.00 percent rate of return on an original cost rate base ("OCRB") of \$659,457.  
27 For the United System, the Company's proposed rates would increase the typical

1 residential 5/8 x 3/4-inch meter bill with a median usage of 1,434 gallons from \$18.77 to  
2 \$43.18, for an increase of \$24.42 or 130.10 percent.

3  
4 **Q. Please summarize Staff's recommended revenue.**

5 A. Staff recommends a \$240,721 or 75.10 percent revenue increase from \$320,525 to  
6 \$561,246. Staff's recommended revenue increase would produce an operating income of  
7 \$38,262 for a 6.40 percent rate of return on a Staff adjusted OCRB of \$425,129 as shown  
8 on Schedule CSB-1. For the United System, Staff's recommended rates would increase  
9 the typical residential 5/8 x 3/4-inch meter bill with a median usage of 1,434 gallons from  
10 \$18.77 to \$25.74, for an increase of \$6.97 or 37.13 percent.

11  
12 **Q. What test year did Payson utilize in this filing?**

13 A. Payson's test year is based on the twelve months ended December 31, 2012.

14  
15 **Q. Please summarize Staff's rate base and operating income adjustments for Payson.**

16 A. Staff's testimony discusses the following adjustments:

17  
18 **Rate Base Adjustments**

19 Unsupported Plant Treated As Contributions In Aid of Construction "CIAC" – This  
20 adjustment decreases rate base by a net \$58,665 to reflect the unsupported cost of plant  
21 additions placed in service prior to 2009 while the Company was under different  
22 ownership. The adjustment is composed of the net of a \$70,120 increase to CIAC and an  
23 \$11,455 increase to amortization of CIAC.

24  
25 Unsupported Removal of CIAC Related to the Condemnation Sale of Star/Quail Valley  
26 System – This adjustment decreases rate base by a net \$175,663 to reflect the removal of

1 CIAC that was shown to be related to the plant that was sold. The adjustment adds back  
2 \$470,913 in CIAC and \$295,250 in amortization of CIAC which the Company claims was  
3 solely for the system that was sold but had no documentation to support its claim.  
4

5 **Operating Income Adjustments**

6 Salaries and Wages – This adjustment decreases salaries and wages expense by \$2,507 to  
7 remove the direct labor expenses related to the Star/Quail Valley system that was sold.  
8

9 Contractual Services Expense – This adjustment decreases contractual services expense by  
10 \$1,683 to reflect updated legal expenses related to the sale of the Star/Quail Valley  
11 system.  
12

13 Corporate Office Allocation – The adjustment decreases miscellaneous expense by  
14 \$43,260 to remove bonuses and reflects corporate allocation costs that should be reduced  
15 due to the loss of customers and plant from the sale of the Star/Quail Valley System.  
16

17 Miscellaneous Expense, Beaver Valley Write Off – This adjustment decreases  
18 miscellaneous expense by \$7,857 to remove costs incurred by the prior owner in exploring  
19 the possibility of purchasing Beaver Valley Water Company.  
20

21 Miscellaneous Expense, Other – This adjustment decreases miscellaneous expense by  
22 \$7,007 to remove expenses that should be treated as pass-throughs such sales taxes and the  
23 Commission annual assessment. The adjustment also removes costs related to the sale of  
24 the Star/Quail Valley system and the water augmentation revenue.  
25

1            Depreciation Expense – This adjustment decreases depreciation expense by \$26,198 to  
2            reflect Staff’s calculation of depreciation expense using Staff’s recommended depreciation  
3            rates and Staff’s recommended plant and CIAC balances.

4  
5            Income Tax Expense – This adjustment increases income tax expenses by \$34,236 to  
6            reflect the income tax calculation on Staff’s adjusted test year operating loss.

7  
8            **RATE BASE**

9            *Fair Value Rate Base*

10          **Q.     Did the Company prepare schedules showing the elements of Reconstruction Cost**  
11          **New Rate Base?**

12          A.     No, the Company did not. The Company’s filing treats the OCRB the same as the fair  
13          value rate base.

14  
15          *Gain On Condemnation Sale of Star/Quail Valley System*

16          **Q.     During the test year was the Company’s Star/Quail Valley water system condemned**  
17          **by and sold to the Town of Star Valley??**

18          A.     Yes. According to the Company’s response to data request CSB 1.17, “The Town of Star  
19          Valley paid Brooke Utilities \$780,000 for condemnation of the Star Valley/Quail Valley  
20          water system. This amount was determined through settlement negotiations between the  
21          parties and then approved and ordered by the court.”

22  
23          **Q.     What amount of gain did the Company record as a result of the condemnation sale?**

24          A.     The Company recorded a gain in the amount of \$755,709.  
25

1 **Q. How is a gain on the sale of an asset calculated**

2 A. In general, a gain on the sale of an asset is calculated by comparing the amount of cash or  
3 other compensation received for an asset to the asset's book value at the time of the sale.  
4 If the value received is greater than the asset's book value, the difference is recorded as a  
5 gain.

6  
7 **Q. What portion of the Star/Quail Valley plant was depreciated?**

8 A. According to the Company's response to CSB 1.18, \$488,308 of the \$745,008 original  
9 cost was depreciated.

10

11 **Q. Does depreciated plant reflect the cost of the plant that had been recovered through**  
12 **rates?**

13 A. Yes. The Company had recovered \$488,308 of the Star/Quail Valley plant cost from its  
14 customers through rates at the time the system was sold.

15

16 **Q. Did Payson's customers also fund the repair and maintenance expense on the**  
17 **Star/Quail Valley system for the years it was in service?**

18 A. Yes.

19

20 **Q. In Staff's opinion, does the \$755,709 gain belong to the Company or the owner of the**  
21 **Company?**

22 A. The gain belongs to the Company since the Company and the owner of the Company are  
23 separate legal entities and the Company, rather than the owner, faced condemnation of the  
24 plant.

25

1 **Q. Does Staff typically recommend a sharing of the gain on plant that customers have**  
2 **paid for, and for which they have funded repairs and maintenance on the plant?**

3 A. In general, yes. For example, in Decision No. 66849 (page 34, line 19), the Commission  
4 authorized a 50/50 sharing of a \$1.4 million settlement that Arizona Water Company  
5 received.

6  
7 **Q. To the best of Staff's knowledge, does the Company currently have the \$755,709?**

8 A. No, it does not. The new owner of the Company indicated that the money had been  
9 removed from the Company before he purchased it from the prior owner.

10

11 **Q. What is Staff's recommendation concerning the gain?**

12 A. Staff does not recommend a sharing of the gain because of the change in ownership.  
13 However, Staff would like to bring to the Commission's attention that it appears the  
14 previous owner received the benefit of the entire gain.

15

16 *Rate Base Summary*

17 **Q. Please summarize Staff's adjustments to Payson's rate base shown on Schedules**  
18 **CSB-3 and CSB-4.**

19 A. Staff's adjustments to Payson's rate base resulted in a net decrease of \$234,328, from  
20 \$659,457 to \$425,129 due to various adjustments as discussed in Staff's testimony.

21

22 *Rate Base Adjustment No. 1 – Unsupported Plant Treated as CIAC*

23 **Q. What type of documentation does Staff review in its audit?**

24 A. Staff reviews source documentation in its audit.

25

1 **Q. What is the definition of “source documentation”?**

2 A. Source documentation is an original record containing the details to substantiate a  
3 transaction entered in an accounting system. For example, the source document for the  
4 purchase of a pump would be the supplier's invoice.

5  
6 **Q. As a part of the audit of the Company’s plant, did Staff select a sample of plant items  
7 and request that the Company provide source documentation (i.e. invoices) to  
8 support the cost?**

9 A. Yes. Staff selected a sample of plant additions from the years 2000 to 2012 and requested  
10 invoices to support the plant cost.

11  
12 **Q. Did the Company provide invoices for all of the plant selected in the sample?**

13 A. No, the Company provided invoices for the years 2009 to 2012, but did not provide  
14 invoices for plant added prior to 2009.

15  
16 **Q. What reason did the Company give for not providing the invoices?**

17 A. The Company indicated that it was unable to obtain them from the prior owner.  
18

19 **Q. Are plant costs required to be supported?**

20 A. Yes. The Arizona Administrative Code R14-2-610 D.1 states, “Each utility shall keep  
21 general and auxiliary accounting records reflecting the cost of its properties . . . and all  
22 other accounting and statistical data necessary to give complete and authentic information  
23 as to its properties . . .” (emphasis added).  
24

1 **Q. Why are invoices needed?**

2 A. Invoices are needed to determine who paid for the plant and to determine if the amount  
3 reported on the invoice is the same amount that was added to the plant account total.

4  
5 **Q. Does Staff typically recommend that inadequately supported plant costs be treated as  
6 CIAC?**

7 A. Yes. It is the Company's responsibility to support its claimed costs. If unsupported costs  
8 are not removed, ratepayers are at risk of paying for overstated costs.

9  
10 **Q. Did Staff recommend that 100 percent of the unsupported plant be treated as CIAC  
11 in this case?**

12 A. No, Staff recommends that only 30 percent of the unsupported plant be treated as CIAC.

13  
14 **Q. Has Staff conditioned its continued treatment of the unsupported plant on any action  
15 by the Company?**

16 A. Yes, Staff has conditioned its treatment of this unsupported plant on the requirement that  
17 the Company file a signed affidavit stating that it believes that the Company actually paid  
18 for the unsupported plant. This affidavit should be filed with Docket Control by  
19 December 6, 2013.

20  
21 **Q. What is Staff's recommendation?**

22 A. Staff recommends increasing CIAC by \$70,120 and increasing amortization of CIAC by  
23 \$11,455 resulting in a net decrease to rate base of \$58,665 as shown in column B on  
24 Schedules CSB-4 and CSB-5.

25

1 *Rate Base Adjustment No. 2 – Unsupported Removal of CIAC Related to Condemnation Sale of*  
2 *the Star/Quail Valley System*

3 **Q. At the beginning of the test year, how many separate water systems was Payson**  
4 **composed of?**

5 A. At the beginning of the test year, Payson was composed of eight water systems: Geronimo  
6 Estates, Deer Creek, Meads Ranch, Whispering Pines, Flowing Springs, Gisela/TCS,  
7 Star/Quail Valley, and East Verde Park Estates.

8  
9 **Q. Was the accounting for these eight systems recorded using eight separate charts of**  
10 **accounts and accounting systems?**

11 A. No, the accounting for the eight water systems was recorded using one accounting system  
12 and one chart of accounts.

13  
14 **Q. Was the CIAC for all eight water systems also recorded in one CIAC account?**

15 A. Yes.

16  
17 **Q. How does the Company's 2011 CIAC balance compare to the test year (i.e. 2012)?**

18 A. The Company's CIAC balance decreased by \$502,246, from \$877,282 in 2011 to  
19 \$375,036 in 2012 (i.e., test year).

20  
21 **Q. Why did the CIAC balance decrease by \$502,246?**

22 A. According to the Company's response to data request CSB 1.22, the \$502,246 decrease  
23 was caused primarily by the condemnation sale of the Star/Quail Valley system.

24

1 **Q. What amount of CIAC and amortization of CIAC did the Company remove from its**  
2 **books as a result of the sale of the Star/Quail Valley system?**

3 A. According to the Company's response to data request CSB 2.17, the Company removed  
4 \$548,628 from CIAC and \$343,975 from amortization of CIAC.

5  
6 **Q. Did Staff request documentation to support the Company's claim?**

7 A. Yes.

8  
9 **Q. Why did Staff request the documentation?**

10 A. Since the Company recorded CIAC for all eight of its water systems in one CIAC account,  
11 the CIAC could relate to any one of the eight systems. Removing CIAC that was not  
12 related to the Star/Quail Valley system would over-state rate base and, in turn, inflate rates  
13 paid by Payson's customers.

14  
15 **Q. What amount of the \$548,628 in CIAC could the Company support as being used to**  
16 **construct the Star/Quail Valley system?**

17 A. The Company could support only \$77,715; therefore, Staff disallowed the remaining  
18 \$470,913 in CIAC that was unsupported as shown on Schedule CSB-6.

19  
20 **Q. Did Staff make a corresponding adjustment to the Company proposed removal of**  
21 **\$343,975 in amortization of CIAC related to the Star/Quail Valley system?**

22 A. Yes. Staff allowed \$48,725 of the Company proposed \$343,975 in amortization of CIAC  
23 and disallowed the remaining \$295,250 as shown on Schedule CSB-6.

24

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends increasing CIAC by \$470,913 and increasing amortization of CIAC by  
3 \$295,250, for a net \$175,663 decrease in rate base as shown on Schedules CSB-4 and  
4 CSB-6.

5  
6 **OPERATING INCOME**

7 *Operating Income Summary*

8 **Q. What are the results of Staff's analysis of test year revenues, expenses and operating**  
9 **income?**

10 A. As shown on Schedules CSB-7 and CSB-8, Staff's analysis resulted in test year revenues  
11 of \$320,525, expenses of \$448,728 and an operating loss of \$128,203.

12  
13 *Operating Income Adjustment No. 1 – Salaries and Wages*

14 **Q. What expenses did the Company propose to remove due to the condemnation sale of**  
15 **the Star/Quail Valley System?**

16 A. As shown on Schedule C-2, page 6 of Mr. Bourassa's direct testimony, the Company is  
17 proposing to remove \$5,949 for purchased power expense, \$257 for chemicals, \$47 for  
18 repairs and maintenance, \$606 for bad debt expense, \$130 for travel and lodging, and  
19 \$12,198 for contractual services professional fees.

20  
21 **Q. Did the Company remove any direct labor incurred for maintaining and operating**  
22 **the Star/Quail Valley system?**

23 A. No, it did not.  
24

1 **Q. Did Staff request information related to maintenance of the Star/Quail Valley**  
2 **system?**

3 A. Yes, Staff requested this information in data request CSB 2.20.  
4

5 **Q. Did the Company provide the information?**

6 A. No, it did not.  
7

8 **Q. Did Staff utilize information that the Company provided to other data requests to**  
9 **calculate an amount for salaries and wages?**

10 A. Yes, Staff calculated a \$2,507 salary and wage expense for Star/Quail Valley from other  
11 information provided by the Company as shown on Schedule CSB-9. Staff determined  
12 from the Company's response to CSB 2.11 that four employees spent 165 actual direct  
13 labor hours working on the Star/Quail Valley system. Staff then multiplied the actual  
14 hours by the employees' hourly rates identified in data request CSB 1.24.  
15

16 **Q. What is Staff's recommendation?**

17 A. Staff recommends decreasing salaries and wage expense by \$2,507 as shown on Schedules  
18 CSB-8 and CSB-9.  
19

20 *Operating Income Adjustment No. 2 – Contractual Services*

21 **Q. What amount in contractual services is the Company proposing to remove due to the**  
22 **condemnation sale of the Star/Quail Valley system?**

23 A. The Company is proposing to remove \$12,198 in professional fees as shown on Schedules  
24 C-1, page 1 and C-2 page 6 of Mr. Bourassa's testimony.  
25

1 **Q. What are the professional fees?**

2 A. The professional fees relate to the legal costs incurred due to the condemnation sale of the  
3 Star/Quail Valley system. These costs are non-recurring and should be removed for  
4 ratemaking purposes.

5  
6 **Q. Did the Company provide updated costs on the legal fees incurred for the  
7 condemnation sale of the Star/Quail Valley system.**

8 A. Yes, in response to data request CSB 1.31, the legal expenses had increased by \$1,683,  
9 from \$12,198 to \$13,881.

10

11 **Q. What is Staff's recommendation?**

12 A. Staff recommends decreasing contractual services expense by \$1,683 as shown on  
13 Schedules CSB-8 and CSB-10.

14

15 *Operating Income Adjustment No. 3 – \$197,722 Corporate Office Allocation*

16 **Q. Who was the parent company of Payson during the test year?**

17 A. Brooke Utility, Inc. ("Brooke") was Payson's parent company during the test year.

18

19 **Q. How many utilities did Brooke own?**

20 A. According to the application, Brooke owned three utility companies: Payson, Tonto Basin  
21 Water Company, Inc., and Navajo Water Company, Inc.

22

23 **Q. Did Brooke use shared services to manage and operate Brooke and the three  
24 regulated utilities during the test year?**

25 A. Yes, Brooke used a shared service arrangement to manage and operate Brooke and the  
26 three regulated utilities during the test year. The shared services included, but were not

1 limited to, employees, transportation, office building space, office supplies, utilities,  
2 computers, computer software, telephone, insurance, and other miscellaneous equipment,  
3 plant, and professional services.

4  
5 **Q. Out of what location were the shared services provided?**

6 A. The shared services were provided out of the corporate office located in Bakersfield,  
7 California.

8  
9 **Q. What was the actual test year amount incurred for the shared services?**

10 A. The actual test year amount was \$197,722.

11  
12 **Q. Subsequent to the test year, was Payson sold to a new owner?**

13 A. Yes, Payson was sold to Mr. Jason Williamson. Mr. Williamson is owner and President of  
14 Pivotal Utility Management, Inc. Pivotal owns or manages the following: Verde Santa Fe  
15 Wastewater, Inc., Pine Meadows Utilities, LLC, Bensch Ranch Utilities, LLC, Coronado  
16 Utilities, Tonto Basin Water Company, Inc., Navajo Water Company, Inc., and Bison  
17 Ranch Estates. Pivotal's corporate office is located in Denver, Colorado.

18  
19 **Q. Did the new owner propose a different corporate office allocation?**

20 A. Yes, in response to data request CSB 2.8, Mr. Williamson proposed \$173,903.

21  
22 **Q. Did Staff ask for documentation to support the Company proposed \$173,903?**

23 A. Yes in data request CSB 2.8 (c).  
24

1 **Q. What was the Company's response?**

2 A. The Company stated that "The management fees are an estimate because at this time there  
3 is very little ownership experience with the utilities acquired from Brook Utilities."

4  
5 **Q. Is the Company's proposed \$173,903 corporate office allocation known and  
6 measurable?**

7 A. No, it is not because the Company's estimate was not determined based on actual  
8 operating data adjusted for known and measurable changes.

9  
10 **Q. Did Staff use the \$173,000 estimate or the \$197,722 actual test year amount as the  
11 basis for its analysis?**

12 A. Staff used the \$197,722 actual test year amount as the basis of its analysis.

13  
14 **Q. What adjustment did Staff make to the \$197,722 corporate office allocation?**

15 A. As shown on schedule CSB-11, Staff removed \$33,545 for bonuses, \$138 for advertising  
16 and promotion, and \$12 for fines and penalties as these costs are not needed in the  
17 provision of service. Also, Staff removed \$949 for tools and equipment and Staff  
18 removed \$850 related to a gain on the sale of an asset as these amounts are not operating  
19 expenses.

20  
21 **Q. Did Staff also remove costs related to the loss of Star/Quail Valley customers and  
22 plant?**

23 A. Yes.

24

1 **Q. What was Payson's customer count by water system prior to the sale of the**  
2 **Star/Quail Valley water system?**

3 **A. The customer count by system prior to the sale was as follows:**  
4

<b>Payson Water Company Customer Count By Water System</b>		
<u>Name</u>	<u>Customers</u>	<u>Percentage</u>
Geronimo Estates	83	5.54%
Deer Creek	121	8.07%
Meads Ranch	69	4.60%
Whispering Pines	146	9.74%
Flowing Springs	29	1.93%
Gisela/TCS	162	10.81%
<b>Star/Quail Valley</b>	<b>385</b>	<b>25.68%</b>
East Verde Park Estates	140	9.34%
Mesa Del Caballo	364	24.28%
<b>Total</b>	<b>1,499</b>	<b>100.00%</b>

5  
6 **Q. What corporate office allocation expenses did Staff adjust due to the loss of**  
7 **Star/Quail Valley customers and plant?**

8 **A. Staff decreased costs that would vary based on customer count and plant. Staff removed**  
9 **\$4,308 for shared service salary and wage expense, \$635 for payroll taxes, and \$489 for**  
10 **benefits expense related to billing, customer service, accounting, payroll, human**  
11 **resources, and other similar expenses. Further, Staff removed \$1,881 for office supplies**  
12 **and expense, \$320 for bank charges and fees, \$128 for property and casualty insurance**  
13 **and \$1,706 for management fees that will no longer be needed to provide service to the**  
14 **Star/Quail Valley system.**

15  
16 **Q. What is Staff's recommendation?**

17 **A. Staff recommends decreasing miscellaneous expense by \$43,260 as shown on Schedules**  
18 **CSB-8 and CSB-11.**  
19

1 *Operating Income Adjustment No. 4 – Miscellaneous Expense, Beaver Valley Write Off*

2 **Q. Did the Company propose to recover \$7,857 in costs associated with Beaver Valley**  
3 **Water Company?**

4 A. Yes.

5  
6 **Q. Why was the expense incurred?**

7 A. According to the Company's response to data request CSB 2.3 (a) the "Expenses related to  
8 research and due diligence by PWC for the possible acquisition of Beaver Valley Water  
9 Co."

10  
11 **Q. Was the cost needed in the provision of service for Payson's customers?**

12 A. No, the cost was not needed in the provision of service to Payson's customers. The cost  
13 was incurred by the previous parent company, Brooke, to explore the possibility of  
14 purchasing Beaver Valley Water Company. As such, the expense is properly allocated to  
15 the parent company.

16  
17 **Q. What is Staff's recommendation?**

18 A. Staff recommends decreasing miscellaneous expense by \$7,857 as shown on Schedules  
19 CSB-8 and CSB-12.

20  
21 *Operating Income Adjustment No. 5 – Miscellaneous Expense Other*

22 **Q. What did the Company propose for miscellaneous expense?**

23 A. The Company proposed \$232,253 for miscellaneous expense.  
24

1 **Q. What adjustment did Staff make?**

2 A. As shown on Schedule CSB-13, Staff removed \$2,438 for a consumption report regarding  
3 water augmentation costs. This cost will be non-recurring due to Staff's recommendation  
4 to eliminate the water augmentation surcharge in Phase I of this proceeding. Staff  
5 removed \$2,438 in chemical costs which the Company stated in response to CSB 2.6 was  
6 duplicative. Staff also removed \$825 for costs related to a "Star Valley deposit sort" as  
7 the Company no longer owns the Star/Quail Valley System.

8  
9 **Q. Did Staff remove any other costs?**

10 A. Yes, Staff removed \$1,076 in sales taxes paid to the Arizona Department of Revenue.  
11 Staff also removed \$1,018 for the Company's annual assessment from the Commission.  
12 Staff recommends that, in addition to the collection of the Company's regular rates and  
13 charges that the Company be authorized to collect a proportionate share of sales taxes and  
14 the ACC annual assessment.

15  
16 **Q. What is Staff's recommendation?**

17 A. Staff recommends decreasing miscellaneous expense by \$7,007, as shown on Schedules  
18 CSB-8 and CSB-13.

19  
20 *Operating Income Adjustment No. 6 – Depreciation Expense*

21 **Q. What is Payson proposing for depreciation expense?**

22 A. Payson is proposing depreciation expense of \$85,632.

23

1 **Q. What adjustment did Staff make to depreciation expense?**

2 A. Staff adjusted depreciation expense to reflect Staff's calculation of depreciation expense  
3 using Staff's recommended depreciation rates, plant balances, and CIAC balances. Staff's  
4 calculation is shown on Schedule CSB-14.

5  
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends decreasing depreciation expense by \$26,198, as shown on Schedules  
8 CSB-8 and CSB-14.

9  
10 *Operating Income Adjustment No. 7 – Income Taxes*

11 **Q. What is Payson proposing for test year income tax expense?**

12 A. Payson is proposing a negative \$109,557 for income tax expense.

13  
14 **Q. Did Staff make any adjustments to test year income tax expense?**

15 A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon  
16 Staff's adjusted test year taxable income.

17  
18 **Q. What is Staff's recommendation?**

19 A. Staff recommends increasing income tax expense by \$34,236 as shown on Schedules  
20 CSB-8 and CSB-15.

21  
22 *O&M Expense Recovery Surcharge*

23 **Q. Has the Company requested an O&M Expense Recovery Surcharge?**

24 A. Yes, as discussed on page 18 of Mr. Bourassa's testimony. This surcharge would address  
25 recovery of the operation and maintenance expense expected to be incurred when the  
26 Cragin Pipeline becomes fully operational.

1 **Q. When will the Cragin Pipeline be completed?**

2 A. The Cragin Pipeline will not be completed for another two or three years. Therefore, the  
3 operational costs related to the operation and maintenance of the pipeline are not known  
4 and measurable at the present time.

5  
6 **Q. Would Staff consider an O&M surcharge once the plant has been built and the  
7 Company has sufficient operational experience?**

8 A. Yes, but addressing approval of such a surcharge now is premature.

9  
10 **Q. What is Staff's recommendation?**

11 A. Staff recommends denial of the Company proposed O&M Surcharge at this time.

12  
13 **RATE DESIGN**

14 **Q. Has Staff prepared a schedule summarizing the present, Company proposed, and  
15 Staff recommended rates and service charges?**

16 A. Yes. Schedule CSB-17 provides a summary of the Company's present, Company's  
17 proposed, and Staff's recommended rates.

18  
19 **Q. Please summarize the present rate design for Payson's United System.**

20 A. Customer class is distinguished by meter size. The monthly minimum charges vary by  
21 meter size and include no gallons. The commodity rates are based on an inverted two- tier  
22 rate design.

23  
24 **Q. Please summarize the present rate design for Payson's C&S Systems.**

25 A. Customer class is distinguished by meter size. The monthly minimum charges vary by  
26 meter size and include no gallons. One commodity rate applies to all usage.

- 1 **Q. Has Payson proposed to consolidate the rates for the United System and the C&S**  
2 **system?**
- 3 A. Yes. Payson has proposed one set of rates for the United and C&S systems and Staff  
4 concurs.
- 5
- 6 **Q. Please summarize the Company's proposed consolidated rate design.**
- 7 A. Customer class is distinguished by meter size. The monthly minimum charges vary by  
8 meter size and include no gallons. The commodity rates are based on an inverted three-  
9 tier rate design. For the United System, the Company's proposed rates would increase the  
10 typical residential 5/8 x 3/4-inch meter bill with a median usage of 1,434 gallons from  
11 \$18.77 to \$43.18, for an increase of \$24.42 or 130.10 percent as shown on Schedule CSB-  
12 18.
- 13
- 14 **Q. Please summarize Staff's recommended consolidated rate design.**
- 15 A. Customer class is distinguished by meter size. The monthly minimum charges vary by  
16 meter size and include no gallons. The commodity rates are based on an inverted three-  
17 tier rate design. For the United System, Staff's recommended rates would increase the  
18 typical residential 5/8 x 3/4-inch meter bill with a median usage of 1,434 gallons from  
19 \$18.77 to \$25.74, for an increase of \$6.97 or 37.13 percent as shown on Schedule CSB-18.  
20
- 21 **Q. Did the Company propose any changes to its Meter and Service Line Charges?**
- 22 A. Yes, and Staff recommends approval. Both the Company-proposed and the Staff-  
23 recommended changes are shown on Schedule CSB-18 and are discussed in greater detail  
24 in the testimony of Staff witness, Jian Liu.  
25

1 *Service Charges*

2 **Q. Did the Company propose any changes to the service charges for the C&S Systems as**  
3 **a result of consolidating rates and charges for the United and C&S systems?**

4 A. Yes. The Company proposes to increase the Meter Test charge from \$20 to \$25, increase  
5 the insufficient fund ("NSF") Check charge from \$10 to \$17.50, and to increase the Meter  
6 Re-Read from \$10 to \$15.

7  
8 **Q. Does Staff agree with the Company-proposed Meter Test (If Correct) charge, Meter**  
9 **Re-Read (If Correct) charge, and the NSF charge?**

10 A. Yes. The proposed charges are reasonable and customary.

11  
12 **Q. Does Staff recommend the elimination of the \$35 Establishment (After Hours)**  
13 **Charge, the \$30 Reconnection (Delinquent and After Hours) Charge and to add a**  
14 **\$35 After Hours Charge?**

15 A. Yes, Staff recommends that the Establishment (After-Hours) Charge should be eliminated  
16 and that an After-Hours charge should be added. Staff agrees that an additional fee for  
17 service provided after normal business hours is appropriate when such service is at the  
18 customer's request. Such a tariff compensates the utility for additional expenses incurred  
19 from providing after-hours service.

20 Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in  
21 addition to the charge for any utility service provided after hours at the customer's request.  
22 For example, under Staff's proposal, a customer would be subject to a \$25.00  
23 Establishment fee if it is done during normal business hours, but would pay an additional  
24 \$35 after-hours fee if the customer requested that the establishment be done after normal  
25 business hours.

1 **FINANCING APPLICATION**

2 **Q. Did the Company file a financing application?**

3 A. Yes. On May 17, 2013, Payson filed a financing application requesting authority to  
4 borrow up to \$1,238,000 from the Water Infrastructure and Finance Authority of Arizona  
5 (“WIFA”) to fund improvements to the Company’s Mesa del Caballo water system. In  
6 Decision No. 74175, dated October 25, 2013, the Commission approved the Company  
7 proposed \$275,000 Phase I financing. On October 28, 2013, the Company revised its cost  
8 estimates for Staff for the proposed Phase II financing to a level of \$904,650.

9  
10 **Q. Does Staff recommend approval of the \$904,650 amount?**

11 A. Yes, Staff recommends approval of the \$904,650 Phase II amount and that the related debt  
12 service be the responsibility of the Mesa Del Caballo customers as discussed in greater  
13 detail in the direct testimony of Staff witness, John Cassidy.

14  
15 **Q. Does this conclude Staff’s Direct Testimony?**

16 A. Yes, it does.

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Adjusted Rate Base	\$ 659,457	\$ 425,129
2	Adjusted Operating Income (Loss)	\$ (182,479)	\$ (128,203)
3	Current Rate of Return (L2 / L1)	-27.67%	-30.16%
4	Required Rate of Return	11.00%	6.40%
5	Required Operating Income (L4 * L1)	\$ 72,540	\$ 27,208
6	Operating Income Deficiency (L5 - L2)	\$ 255,020	\$ 155,412
7	Gross Revenue Conversion Factor	1.56766	1.54892
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 399,785	\$ 240,721
9	Adjusted Test Year Revenue	\$ 320,525	\$ 320,525
10	Proposed Annual Revenue (L8 + L9)	\$ 720,310	\$ 561,246
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	124.73%	75.10%

References:

Column [A]: Company Schedules A-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-15

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	35.4391%			
5	Subtotal (L3 - L4)	64.5609%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.548925</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	33.9956%			
9	One Minus Combined Income Tax Rate (L7 - L8)	66.0044%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	29.0519%			
16	Effective Federal Income Tax Rate (L14 x L15)	27.0276%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		33.9956%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	33.9956%			
20	One Minus Combined Income Tax Rate (L18-L19)	66.0044%			
21	Property Tax Factor	2.1870%			
22	Effective Property Tax Factor (L20*L21)		1.4435%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			35.4391%	
24	Required Operating Income	\$ 27,208			
25	Adjusted Test Year Operating Income (Loss)	(128,203)			
26	Required Increase in Operating Income (L24 - L25)		\$ 155,412		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 4,724			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	(75,321)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		80,045		
30	Recommended Revenue Requirement	\$ 561,246			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue	\$ 26,294			
36	Property Tax on Test Year Revenue	21,030			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		5,265		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 240,721		
<u>Calculation of Income Tax:</u>					
39	Revenue	\$ 320,525	\$ 240,721	\$ 561,246	
40	Operating Expenses Excluding Income Taxes	\$ 524,050	\$ 5,264	\$ 529,314	
41	Synchronized Interest (L56)	\$ 9,353		\$ 9,353	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (212,878)		\$ 22,579	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (14,833)		\$ 1,573	
45	Federal Taxable Income (L42 - L44)	\$ (198,045)		\$ 21,005	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 3,151	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (38,237)		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ (60,487)		\$ 3,151	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (75,321)		\$ 4,724	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			29.0519%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base	\$ 425,129			
55	Weighted Average Cost of Debt	2.2000%			
56	Synchronized interest (L45 X L46)	\$ 9,353			

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	\$ 2,159,387	\$ -		\$ 2,159,387
2	1,332,825	-		1,332,825
3	<u>\$ 826,562</u>	<u>\$ -</u>		<u>\$ 826,562</u>
<u>LESS:</u>				
4	\$ -	\$ -		\$ -
5	\$ -	\$ -		\$ -
6	\$ 375,036	\$ 541,033	1	\$ 916,069
7	231,270	306,705	2	537,975
8	<u>\$ 143,766</u>	<u>234,328</u>		<u>\$ 378,094</u>
9	\$ 143,766	\$ 234,328		\$ 378,094
10	\$ -	\$ -		\$ -
11	\$ 23,339	\$ -		\$ 23,339
<u>ADD: Working Capital</u>				
12	\$ -	\$ -		\$ -
13	\$ -	\$ -		\$ -
14	<u>\$ 659,457</u>	<u>\$ (234,328)</u>		<u>\$ 425,129</u>

References:

Column [A], Company Schedule B-1, Page 1  
Column [B]: Schedule CSB-4  
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	Acct. No. PLANT IN SERVICE	[A]	[B]	[C]	[D]
		COMPANY AS FILED	Adj No.1 Unsupported Plant Treated as CIAC Ref: Sch CSB-5	ADJ No. 2 Unsupported Removal of CIAC Related to Sale of Star/Quail Valley System Ref: Sch CSB-6	STAFF AS ADJUSTED
1	No. Plant Description				
2	301 Organization Cost	\$ 221	\$ -	\$ -	\$ 221
3	302 Franchises	-	-	-	-
4	303 Land and Land Rights	16,500	-	-	16,500
5	304 Structures and Improvements	300,078	-	-	300,078
	305 Collecting and Impounding Reservoirs	2,531	-	-	2,531
6	307 Wells and Springs	273,013	-	-	273,013
7	309 Supply Mains	3,681	-	-	3,681
8	310 Power Generation Equipment	8,310	-	-	8,310
9	311 Pumping Equipment	217,608	-	-	217,608
10	320 Water Treatment Equipment	10,567	-	-	10,567
11	330 Distribution Reservoirs and Standpipes	273,800	-	-	273,800
12	330.2 Pressure Tanks	-	-	-	-
13	331 Transmission and Distribution Mains	439,972	-	-	439,972
14	333 Services	81,823	-	-	81,823
15	334 Meters and Meter Installations	199,952	-	-	199,952
16	335 Hydrants	1,171	-	-	1,171
17	336 Backflow Prevention Devices	-	-	-	-
18	339 Other Plant and Miscellaneous Equipment	320,820	-	-	320,820
19	340 Office Furniture and Equipment	-	-	-	-
20	340.1 Computers and Software	-	-	-	-
21	341 Transportation Equipment	-	-	-	-
22	343 Tools, Shop, and Garage Equipment	72	-	-	72
23	344 Laboratory Equipment	-	-	-	-
24	345 Power Operated Equipment	-	-	-	-
25	346 Communication Equipment	9,267	-	-	9,267
26	347 Miscellaneous Equipment	-	-	-	-
27	348 Other Tangible Equipment	-	-	-	-
28	Rounding	1	-	-	1
29	Total Plant in Service	\$ 2,159,387	\$ -	\$ -	\$ 2,159,387
30	Less: Accumulated Depreciation	\$ 1,332,825	\$ -	\$ -	\$ 1,332,825
31	Net Plant in Service	\$ 826,562	\$ -	\$ -	\$ 826,562
33	<u>LESS:</u>				
34	Advances in Aid of Construction (AIAC)	\$ -	\$ -	\$ -	\$ -
35	Meter Deposits - Service Line & Meter Advances	\$ -	-	-	-
37	Contributions in Aid of Construction (CIAC)	\$ 375,036	70,120	470,913	916,069
38	Less: Accumulated Amortization of CIAC	\$ 231,270	11,455	295,250	537,975
39	Net CIAC	\$ 143,766	\$ 58,665	\$ 175,663	\$ 378,094
41	Total Advances and Net Contributions	\$ 143,766	\$ 58,665	\$ 175,663	\$ 378,094
43	Customer Deposits	\$ -	-	-	\$ -
44	Accumulated Deferred Taxes	\$ 23,339	-	-	\$ 23,339
46	<u>ADD: Working Capital</u>				
47	Prepayments	\$ -	-	-	\$ -
48		\$ -	-	-	\$ -
49	<b>Total Rate Base</b>	\$ 659,457	\$ (58,665)	\$ (175,663)	\$ 425,129

**RATE BASE ADJUSTMENT NO. 1 - UNSUPPORTED PLANT TREATED AS CIAC**

LINE NO.	DESCRIPTION	[A]	[B]	[C]	
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	
1	CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 70,120	\$ 70,120	Line 33
2	Amort of CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 11,455	\$ 11,455	Line 50
3	Net CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 58,665	\$ 58,665	

4  
5  
6  
7  
8

UNSUPPORTED PLANT TREATED AS CIAC			
Description	Plant Selected In Sample	Unsupported Plant Costs	Staff as Adjusted
2006 Plant Addition, Acct No. 307-Wells & Springs	\$ 11,646	\$ -	\$ 11,646
2007 Plant Addition, Acct No. 310-Power Generation Equip.	\$ 20,059	\$ -	\$ 20,059
2002 Plant Addition, Acct No. 311 - Pumping Equipment	\$ 12,580	\$ -	\$ 12,580
2005 Plant Addition, Acct No. 311 - Pumping Equipment	\$ 12,467	\$ -	\$ 12,467
2008 Plant Addition, Acct No. 311 - Pumping Equipment	19,722	-	19,722
<b>Acct No. 311- Pumping Equipment Subtotal</b>	<b>\$ 44,769</b>	<b>\$ -</b>	<b>\$ 44,769</b>
2001 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	\$ 24,296	\$ -	\$ 24,296
2002 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	31,220	-	31,220
2003 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	42,968	-	42,968
<b>Acct No. 331- Transp. &amp; Distrib. Mains Subtotal</b>	<b>\$ 98,484</b>	<b>\$ -</b>	<b>\$ 98,484</b>
2003 Plant Addition, Acct No. 331-Services	\$ 23,284	\$ -	\$ 23,284
2000 Plant Addition, Acct No. 334-Meters	\$ 35,491	\$ -	\$ 35,491
<b>Total</b>	<b>\$ 233,733</b>	<b>\$ -</b>	<b>\$ 233,733</b>
		x	30%
			<b>\$ 70,119.90</b>

32  
33  
34  
35

CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT							
Year Added	Plant Additions	Unsupported Plant	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC	
2000	Meters	\$ 35,491	2000	12.5	8.33%	\$36,955.00	
2001	Distrib Reserviors	\$ 24,296	2001	11.5	2.22%	\$6,202.77	
2002	Pumping Equip	\$ 12,580	2002	10.5	12.50%	\$16,511.25	
2002	Distrib Reserviors	\$ 31,220	2002	10.5	2.22%	\$7,277.38	
2003	Distrib Reserviors	\$ 42,968	2003	9.5	2.22%	\$9,061.95	
2003	Services	\$ 23,284	2003	9.5	3.33%	\$7,365.89	
2005	Pumping Equip	\$ 12,467	2005	7.5	12.50%	\$11,687.81	
2006	Wells and Springs	\$ 11,646	2006	6.5	3.33%	\$2,520.78	
2007	Pwr Gen Equip	\$ 20,059	2007	5.5	5.00%	\$5,516.23	
2008	Pumping Equip	\$ 19,722	2008	4.5	12.50%	\$11,093.63	
		<b>\$ 233,733</b>				<b>\$38,184.33</b>	
					x	30%	
							<b>\$ 11,455.30</b>

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.3
- Column C: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 2 -UNSUPPORTED REMOVAL OF CIAC  
RELATED TO SALE OF STAR/QUAIL VALLEY SYSTEM**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Company Proposed Removal of CIAC Related to Sale	\$ -	\$ 548,628	\$ 548,628
2	Amount of Supported CIAC Related to Sale	\$ -	\$ (77,715)	\$ (77,715)
3	Unsupported Removal of CIAC Related to Sale	\$ -	\$ 470,913	\$ 470,913
4				
5	Company Proposed Removal of Amort of CIAC Related to Sale	\$ -	\$ 343,975	\$ 343,975
6	Amort. Of CIAC on \$77,715 Supported CIAC	\$ -	\$ (48,725)	\$ (48,725) Line 26
7	Total Unsupported Removal of Amortization of CIAC	\$ -	\$ 295,250	\$ 295,250
8				
9	Net CIAC	\$ -	\$ 175,663	\$ 175,663

Star/Quail Valley System	
CIAC & Amort of CIAC	% of CIAC That Is Fully Amortized
CIAC for Star Valley Plant (CSB 2.17)	\$ 548,628
Amortization of CIAC for Star Valley Plant (CSB 2.17)	\$ 343,975

63% Line 18 / Line 17

Amortization of CIAC on \$77,715 Amount	
\$ 77,715	From Line 2
Multiplied by 63%	From Line 18
\$ 48,725	

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB, Company Data Request Responses CSB 2.16 & CSB 2.17
- Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED	
<u>REVENUES:</u>								
1	Metered Water Sales	\$ 313,559			\$ 313,559	\$ 236,971	\$ 550,530	
2	Water Sales - Unmetered	-	-		-		-	
3	Other Operating Revenues	6,966	-		6,966	3,750	10,716	
4	<b>Total Revenues</b>	<u>\$ 320,525</u>	<u>\$ -</u>		<u>\$ 320,525</u>	<u>\$ 240,721</u>	<u>\$ 561,246</u>	
5								
6	<u>EXPENSES:</u>							
7	Salaries and Wages	\$ 55,097	\$ (2,507)	1	\$ 52,591	\$ -	\$ 52,591	
8	Employee Pensions & Benefits	-	-		-	-	-	
9	Purchased Power	50,533	-		50,533	-	50,533	
10	Fuel for Power Production	-	-		-	-	-	
11	Chemicals	2,181	-		2,181	-	2,181	
12	Repairs and Maintenance	28,089	-		28,089	-	28,089	
13	Office Supplies & Expense	-	-		-	-	-	
14	Contractual Services	58,481	(1,683)	2	56,798	-	56,798	
15	Water Testing	11,000	-		11,000	-	11,000	
16	Rents	-	-		-	-	-	
17	Transportation Expenses	-	-		-	-	-	
18	Insurance - General Liability	-	-		-	-	-	
19	Insurance - Health and Life	266	-		266	-	266	
20	Reg. Comm. Exp.	-	-		-	-	-	
21	Reg. Comm. Exp. - Rate Case	65,000	-		65,000	-	65,000	
22	Miscellaneous Expense	235,253	(58,124)	3,4,5	177,129	-	177,129	
23	Bad Debt Expense	-	-		-	-	-	
24	Depreciation Expense	85,632	(26,198)	6	59,434	-	59,434	
25	Taxes Other Than Income	-	-		-	-	-	
26	Property Taxes	21,030	-		21,030	5,264	26,294	
27	Income Taxes	(109,557)	34,236	7	(75,321)	80,045	4,724	
28	Rounding	(1)	-		(1)	-	(1)	
29								
30	<b>Total Operating Expenses</b>	<u>\$ 503,004</u>	<u>\$ (54,276)</u>		<u>\$ 448,728</u>	<u>\$ 85,309</u>	<u>\$ 534,038</u>	
31								
32	<b>Operating Income (Loss)</b>	<u>\$ (182,479)</u>	<u>\$ 54,276</u>		<u>\$ (128,203)</u>	<u>\$ 151,662</u>	<u>\$ 27,209</u>	

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule CSB-16
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CSB-1 and CSB-2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Salaries and Wages	[C] ADJ #2 Contractual Services	[D] ADJ #3 Corporate Office Allocation	[E] ADJ #4 Misc. Expense, Beaver Valley Write Off	[F] ADJ #5 Misc. Expense, Other	[G] ADJ #6 Depreciation Expense	[H] ADJ #7 Income Tax Expense	[I] STAFF ADJUSTED
	REVENUES:	Ref. Sch CSB-9	Ref. Sch CSB-10	Ref. Sch CSB-11	Ref. Sch CSB-12	Ref. Sch CSB-13	Ref. Sch CSB-14	Ref. Sch CSB-15		
1	Metered Water Sales	\$ 313,559								\$ 313,559
2	Water Sales - Unmetered									
3	Other Operating Revenues	6,966								6,966
4	<b>Total Revenues</b>	<b>\$ 320,525</b>								<b>\$ 320,525</b>
5										
6	<b>OPERATING EXPENSES:</b>									
7	Salaries and Wages	55,097	(2,507)							52,591
8	Employee Pensions & Benefits									
9	Purchased Power	50,533								50,533
10	Fuel for Power Production									
11	Chemicals	2,181								2,181
12	Repairs and Maintenance	28,089								28,089
13	Office Supplies & Expense									
14	Contractual Services	58,481	(1,683)							56,798
15	Water Testing	11,000								11,000
16	Rents									
17	Transportation Expenses									
18	Insurance - General Liability									
19	Insurance - Health and Life	266								266
20	Reg. Comm. Exp.									
21	Reg. Comm. Exp. - Rate Case	65,000								65,000
22	Miscellaneous Expense	235,253		(43,260)		(7,857)				177,129
23	Bad Debt Expense									
24	Depreciation Expense	85,632					(26,198)			59,434
25	Taxes Other Than Income									
26	Property Taxes	21,030								21,030
27	Income Taxes	(109,557)							34,236	(75,321)
28	Rounding	(1)								(1)
29										
30	<b>Total Operating Expenses</b>	<b>\$ 503,004</b>	<b>\$ (2,507)</b>	<b>\$ (43,260)</b>	<b>\$ (7,857)</b>	<b>\$ (7,007)</b>	<b>\$ (26,198)</b>	<b>\$ 34,236</b>		<b>\$ 448,728</b>
31										
32	<b>Operating Income (Loss)</b>	<b>\$ (182,479)</b>	<b>\$ 2,507</b>	<b>\$ 43,260</b>	<b>\$ 7,857</b>	<b>\$ 7,007</b>	<b>\$ 26,198</b>	<b>\$ (34,236)</b>		<b>\$ (128,203)</b>

OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES & WAGES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Salaries & Wages	\$ 55,097	\$ (2,507)	\$ 52,591
2				
3				
4				
5				
6				
7				
8	Allred	\$ 34,320	\$ 16.50	59.50 \$ 981.75
9	Bartlet	\$ 26,000	\$ 12.50	46.00 \$ 575.00
10	Stouder	\$ 34,320	\$ 16.50	51.50 \$ 849.75
11	Williams	\$ 26,000	\$ 12.50	8.00 \$ 100.00
12			165.00	\$ 2,507

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request Responses CSB 1.15, 1.24, and 2.11
- Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 2 - CONTRACTUAL SERVICES**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contractual Services	\$ 70,679	\$ -	\$ 70,679
2	Legal Expenses Related to Condemnation	\$ (12,198)	\$ (1,683)	\$ (13,881)
3	Total Contractual Services	\$ 58,481	\$ (1,683)	\$ 56,798

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB, Data Request Response CSB 1.31
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - \$197,722 Corporate Office Allocation

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 37,531	\$ -	\$ 37,531
2				
3	Central Office Overhead Allocation	\$ 197,722	\$ -	\$ 197,722
4	Bonuses	\$ -	\$ (33,545)	\$ (33,545)
5	Star/Quail Valley Costs	\$ -	\$ (9,466)	\$ (9,466)
6	Other (Advertising, Fines, Utility Plant, Gain on Sale)	\$ -	\$ (249)	\$ (249)
7	<b>Subtotal - Central Office Overhead Allocation</b>	<b>\$ 197,722</b>	<b>\$ (43,260)</b>	<b>\$ 154,462</b>
8				
9	Total Miscellaneous Expense (L1 + L7)	\$ 235,253	\$ (43,260)	\$ 191,993

\$197,722 Central Office Overhead Allocation (CSB 1.13, 2.8, 2.10, 2.11, & 2.12)

Description	Per Company	Difference	Per Staff
Salaries & Wages	\$ 47,998.99	\$ (4,307.76)	\$ 43,691.23
Salaries & Wages, Bonuses	\$ 33,544.62	\$ (33,544.62)	\$ -
Payroll Taxes	\$ 4,939.37	\$ (634.31)	\$ 4,305.06
Benefits	\$ 3,810.35	\$ (489.32)	\$ 3,321.03
Building Occupancy Expenses	\$ 81.43	\$ -	\$ 81.43
Utilities	\$ 3,182.87	\$ -	\$ 3,182.87
Communications	\$ 7,679.43	\$ -	\$ 7,679.43
Travel	\$ 13,911.85	\$ -	\$ 7,679.43
Meals & Entertainment	\$ 577.95	\$ -	\$ 577.95
Lodging	\$ 2,135.89	\$ -	\$ 2,135.89
Supplies (Office Expenses)	\$ 14,640.49	\$ (1,881.40)	\$ 12,759.09
Repairs and Maintenance	\$ 5,181.27	\$ -	\$ 5,181.27
Bank Charges & Fees	\$ 2,488.32	\$ (319.55)	\$ 2,488.32
Professional Fees	\$ 31,210.70	\$ -	\$ 31,210.70
Training & Education	\$ 466.18	\$ -	\$ 466.18
Advertising & Promotion	\$ 137.87	\$ (137.87)	\$ -
Dues & Subscriptions	\$ 1,338.34	\$ -	\$ 1,338.34
Licenses & Permits	\$ 2,685.24	\$ -	\$ 2,685.24
Fines & Penalties	\$ 12.36	\$ (12.36)	\$ -
Write Off	\$ 15.75	\$ -	\$ 15.75
Utility Plant In Service	\$ 948.87	\$ (948.87)	\$ -
Other General Business	\$ 197.25	\$ -	\$ 197.25
Property & Casualty Insurance	\$ 997.07	\$ (128.04)	\$ 997.07
Management Fees	\$ 13,281.62	\$ (1,705.61)	\$ 11,576.01
Depreciation/Utility Plant In Service (Office Space)	\$ 7,107.99	\$ -	\$ 7,107.99
(Gain) Loss on Sale of Assets	\$ (849.66)	\$ 849.66	\$ -
	\$ 197,722.41	\$ (43,260.06)	\$ 148,678

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(G)
No. of Payson Customers Excluding Star/Quail Valley (CSB 2.8)	Number of Star/Quail Valley Customers (From Water Co. Plant Descrip Included in Applica)	Total Number of Payson Customers Including Star/Quail Valley Col A + Col B	Description	Amount	Annual Amount Per Customer Col E / Col C	Monthly Amount Per Customer Col F / 12	Monthly Amount Per Customer For Six Months Col G x 6 Months
1114	385	1499	Salaries & Wages	\$ 33,544.62	\$ 22	\$ 1.86	\$ 4,307.76
1114	385	1499	Payroll Taxes	\$ 4,939.37	\$ 3	\$ 0.27	\$ 634.31
1114	385	1499	Benefits	\$ 3,810.35	\$ 3	\$ 0.21	\$ 489.32
1114	385	1499	Suppl. (Office Expenses)	\$ 14,650.49	\$ 10	\$ 0.81	\$ 1,881.40
1114	385	1499	Bank Charges & Fees	\$ 2,488.32	\$ 2	\$ 0.14	\$ 319.55
1114	385	1499	Prop & Casualty Ins	\$ 997.07	\$ 1	\$ 0.06	\$ 128.04
1114	385	1499	Management Fees	\$ 13,281.62	\$ 9	\$ 0.74	\$ 1,705.61
							\$ 9,466.00

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB; CSB 1.13, CSB 2.8
- Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 5 - MISCELLANEOUS EXPENSE, BEAVER DAM WRITE OFF**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 227,396	\$ -	\$ 227,396
2	Beaver Dam Write Off (CSB 2.3)	\$ 7,857	\$ (7,857)	\$ -
3	Total Miscellaneous Expense	\$ 235,253	\$ (7,857)	\$ 227,396

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - MISCELLANEOUS EXPENSE, OTHER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 232,815	\$ -	\$ 232,815
2	Chemicals (CSB 2.6)	\$ 2,438	\$ (2,438)	\$ -
3	Consumption Report Regarding Water Augmentation Costs	\$ 1,650	\$ (1,650)	\$ -
4	Cogsdale - Star Valley Deposit Sort	\$ 825	\$ (825)	\$ -
5	Arizona Department of Revenue	\$ 1,076	\$ (1,076)	\$ -
6	ACC Annual Assessment	\$ 1,018	\$ (1,018)	\$ -
7	Total Miscellaneous Expense	\$ 239,822	\$ (7,007)	\$ 232,815

573

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301 Organization Cost	\$ 221	\$ (221)	\$ -	0.00%	\$ -
2	302 Franchises	-	-	\$ -	0.00%	\$ -
3	303 Land and Land Rights	16,500	(16,500)	\$ -	0.00%	-
4	304 Structures and Improvements	300,078	-	300,078	3.33%	9,993
5	305 Collecting and Impounding Reservoirs	2,531	-	2,531	3.33%	84
6	306 Lake, River, and Other Intakes	-	-	-	2.50%	-
7	307 Wells and Springs	273,013	-	273,013	3.33%	9,091
8	309 Supply Mains	3,681	-	3,681	2.00%	74
9	310 Power Generation Equipment	8,310	-	8,310	5.00%	416
10	311 Pumping Equipment	217,608	-	217,608	12.50%	27,201
11	320 Water Treatment Equipment	10,567	-	10,567	3.33%	352
12	330 Distribution Reservoirs and Standpipes	273,800	-	273,800	2.22%	6,078
13	330.2 Pressure Tanks	-	-	-	5.00%	-
14	331 Transmission and Distribution Mains	439,972	-	439,972	2.00%	8,799
15	333 Services	81,823	-	81,823	3.33%	2,725
16	334 Meters and Meter Installations	199,952	-	199,952	8.33%	16,656
17	335 Hydrants	1,171	-	1,171	2.00%	23
18	336 Backflow Prevention Devices	-	-	-	6.67%	-
19	339 Other Plant and Miscellaneous Equipment	320,820	-	320,820	6.67%	21,399
20	340 Office Furniture and Equipment	-	-	-	6.67%	-
21	341 Transportation Equipment	-	-	-	20.00%	-
22	340.1 Computers and Software	-	-	-	20.00%	-
23	343 Tools, Shop, and Garage Equipment	72	-	72	5.00%	4
24	344 Laboratory Equipment	-	-	-	10.00%	-
25	345 Power Operated Equipment	-	-	-	5.00%	-
26	346 Communication Equipment	9,267	-	9,267	10.00%	927
27	347 Miscellaneous Equipment	-	-	-	10.00%	-
28	348 Other Tangible Equipment	-	-	-	10.00%	-
29	Total Plant	\$ 2,159,386	\$ (16,721)	\$ 2,142,665		\$ 103,821
30						
31						
32						
33	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.85%				
34	CIAC:	\$ 916,069				
35	Amortization of CIAC (Line 33 x Line 34):	\$ 44,387				
36						
37	Depreciation Expense Before Amortization of CIAC:	\$ 103,821				
38	Less Amortization of CIAC:	\$ 44,387				
39	Test Year Depreciation Expense - Staff:	\$ 59,434				
40	Depreciation Expense - Company:	85,632				
41	Staff's Total Adjustment:	<u>\$ (26,198)</u>				

References:

- Column [A]: Schedule CSB-4
- Column [B]: From Column [A]
- Column [C]: Column [A] - Column [B]
- Column [D]: Engineering Staff Report
- Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 7 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
	<u>Calculation of Income Tax:</u>		
		<u>Test Year</u>	
1	Revenue	\$ 320,525	
2	Less: Operating Expenses - Excluding Income Taxes	\$ 524,050	
3	Less: Synchronized Interest (L17)	<u>\$ 9,353</u>	
4	Arizona Taxable Income (L1- L2 - L3)	\$ (212,878)	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		\$ (14,833)
7	Federal Taxable Income (L4 - L6)	\$ (198,045)	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (38,237)	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax		<u>\$ (60,487)</u>
14	Combined Federal and State Income Tax (L6 + L13)		<u>\$ (75,321)</u>
	<u>Calculation of Interest Synchronization:</u>		
15	Rate Base	\$ 425,129	
16	Weighted Average Cost of Debt	2.20%	
17	Synchronized Interest (L16 x L17)	<u>\$ 9,353</u>	
18	Income Tax - Per Staff	\$ (75,321)	
19	Income Tax - Per Company	<u>\$ (109,557)</u>	
20	Staff Adjustment	<u>\$ 34,236</u>	

Payson Water Company, Inc.  
Docket No. W-03514A-13-0111  
Test Year Ended December 31, 2012

Schedule CSB-16

**OPERATING INCOME - PROPERTY TAX EXPENSE**

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 320,525	\$ 320,525
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	641,050	\$ 641,050
4	Staff Recommended Revenue, Per Schedule CSB-1	320,525	\$ 561,246
5	Subtotal (Line 4 + Line 5)	961,575	1,202,296
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	320,525	\$ 400,765
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	641,050	\$ 801,531
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	641,050	\$ 801,531
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	128,210	\$ 160,306
15	Composite Property Tax Rate	16.4025%	16.4025%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 21,030	\$ -
17	Company Proposed Property Tax	21,030	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (0)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 26,294
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 21,030
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 5,265
22	Increase to Property Tax Expense		\$ 5,265
23	Increase in Revenue Requirement		240,721
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		2.187000%

Monthly Usage Charge	United System Present	C&S Systems Present	Company Proposed Rates Consolidated	Staff Recommended Rates Consolidated
<b>Meter Size (All Classes):</b>				
5/8 x 3/4 Inch	\$ 16.00	\$ 17.00	\$ 39.24	\$ 20.00
3/4 Inch	18.40	25.50	58.85	33.00
1 Inch	21.28	42.50	98.09	55.00
1 1/2 Inch	32.00	85.00	196.18	110.00
2 Inch	56.00	136.00	313.89	176.00
3 Inch	80.00	255.00	627.78	352.00
4 Inch	128.00	425.00	980.90	550.00
6 Inch	No Tariff	850.00	1,961.80	1,200.00
8 Inch	No Tariff	No Tariff	3,138.88	1,760.00
<b>Commodity Charge - Per 1,000 Gallons</b>				
<b>C&amp;S System (All Meter Sizes)</b>				
Per 1,000 gallons, for all gallons	N/A	\$ 1.4800	N/A	N/A
<b>United Systems (All Meter Sizes)</b>				
First 4,000 gallons	\$ 1.9300	N/A	N/A	N/A
Over 4,000 gallons	2.9900	N/A	N/A	N/A
<b>5/8"x3/4" and 3/4" Meters (Consolidated)</b>				
First 4,000 gallons	N/A	N/A	\$ 2.7500	N/A
4,001 to 10,000 gallons	N/A	N/A	4.7500	N/A
Over 10,000 gallons	N/A	N/A	6.7500	N/A
First 3,000 gallons	N/A	N/A	N/A	\$ 4.0000
3,001 to 10,000 gallons	N/A	N/A	N/A	7.2000
Over 10,000 gallons	N/A	N/A	N/A	9.0090
<b>1" Meter (Consolidated)</b>				
First 25,000 gallons	N/A	N/A	4.0000	N/A
Over 25,000 gallons	N/A	N/A	4.2500	N/A
First 18,000 gallons	N/A	N/A	N/A	7.2000
Over 18,000 gallons	N/A	N/A	N/A	9.0090
<b>1 1/2" Meter (Consolidated)</b>				
First 50,000 gallons	N/A	N/A	4.0000	N/A
Over 50,000 gallons	N/A	N/A	4.2500	N/A
First 40,000 gallons	N/A	N/A	N/A	7.2000
Over 40,000 gallons	N/A	N/A	N/A	9.0090
<b>2" Meter (Consolidated)</b>				
First 80,000 gallons	N/A	N/A	4.0000	N/A
Over 80,000 gallons	N/A	N/A	4.2500	N/A
First 60,000 gallons	N/A	N/A	N/A	7.2000
Over 60,000 gallons	N/A	N/A	N/A	9.0090
<b>3" Meter (Consolidated)</b>				
First 160,000 gallons	N/A	N/A	4.0000	N/A
Over 160,000 gallons	N/A	N/A	4.2500	N/A
First 120,000 gallons	N/A	N/A	N/A	7.2000
Over 120,000 gallons	N/A	N/A	N/A	9.0090
<b>4" Meter (Consolidated)</b>				
First 250,000 gallons	N/A	N/A	4.0000	N/A
Over 250,000 gallons	N/A	N/A	4.2500	N/A
First 200,000 gallons	N/A	N/A	N/A	7.2000
Over 200,000 gallons	N/A	N/A	N/A	9.0090



Typical Bill Analysis for United System  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,903	\$ 21.60	\$ 47.22	\$ 25.62	118.60%
Median Usage	1,434	18.77	43.18	\$ 24.42	130.10%
<b>Staff Recommended</b>					
Average Usage	2,903	\$ 21.60	\$ 31.61	\$ 10.01	46.33%
Median Usage	1,434	18.77	25.74	\$ 6.97	37.13%

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

Gallons Consumption	Present		Company Proposed		%	Staff Recommended		%
	5/8"		5/8"			5/8"		
	Rates		Rates	Increase	Rates	Increase		
-	\$ 16.00	\$ 39.24	145.25%	\$ 20.00	25.00%			
1,000	17.93	41.99	134.19%	24.00	33.85%			
2,000	19.86	44.74	125.28%	28.00	40.99%			
3,000	21.79	47.49	117.94%	32.00	46.86%			
4,000	23.72	50.24	111.80%	39.20	65.26%			
5,000	26.71	54.99	105.88%	46.40	73.72%			
6,000	29.70	59.74	101.14%	53.60	80.47%			
7,000	32.69	64.49	97.28%	60.80	85.99%			
8,000	35.68	69.24	94.06%	68.00	90.58%			
9,000	38.67	73.99	91.34%	75.20	94.47%			
10,000	41.66	78.74	89.01%	82.40	97.79%			
11,000	44.65	85.49	91.47%	91.41	104.72%			
12,000	47.64	92.24	93.62%	100.42	110.79%			
13,000	50.63	98.99	95.52%	109.43	116.13%			
14,000	53.62	105.74	97.20%	118.44	120.88%			
15,000	56.61	112.49	98.71%	127.45	125.13%			
16,000	59.60	119.24	100.07%	136.45	128.95%			
17,000	62.59	125.99	101.29%	145.46	132.41%			
18,000	65.58	132.74	102.41%	154.47	135.55%			
19,000	68.57	139.49	103.43%	163.48	138.41%			
20,000	71.56	146.24	104.36%	172.49	141.04%			
25,000	86.51	179.99	108.06%	217.54	151.46%			
30,000	101.46	213.74	110.66%	262.58	158.80%			
35,000	116.41	247.49	112.60%	307.63	164.26%			
40,000	131.36	281.24	114.10%	352.67	168.48%			
45,000	146.31	314.99	115.29%	397.72	171.83%			
50,000	161.26	348.74	116.26%	442.76	174.56%			
75,000	236.01	517.49	119.27%	667.99	183.03%			
100,000	310.76	686.24	120.83%	893.21	187.43%			

Typical Bill Analysis for C&S System  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,961	\$ 27.30	\$ 64.30	\$ 37.00	135.53%
Median Usage	4,500	23.66	52.62	\$ 28.96	122.38%
<b>Staff Recommended</b>					
Average Usage	6,961	\$ 27.30	\$ 60.52	\$ 33.22	121.66%
Median Usage	4,500	23.66	42.80	\$ 19.14	80.90%

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

Gallons	Present		Company Proposed		%	Staff Recommended		%
	5/8"		5/8"			5/8"		
	Rates		Rates	Increase	Rates	Increase		
-	\$ 17.00	\$ 39.24	130.82%	\$ 20.00	17.65%			
1,000	18.48	41.99	127.22%	24.00	29.87%			
2,000	19.96	44.74	124.15%	28.00	40.28%			
3,000	21.44	47.49	121.50%	32.00	49.25%			
4,000	22.92	50.24	119.20%	39.20	71.03%			
5,000	24.40	54.99	125.37%	46.40	90.16%			
6,000	25.88	59.74	130.83%	53.60	107.11%			
7,000	27.36	64.49	135.71%	60.80	122.22%			
8,000	28.84	69.24	140.08%	68.00	135.78%			
9,000	30.32	73.99	144.03%	75.20	148.02%			
10,000	31.80	78.74	147.61%	82.40	159.12%			
11,000	33.28	85.49	156.88%	91.41	174.67%			
12,000	34.76	92.24	165.36%	100.42	188.89%			
13,000	36.24	98.99	173.15%	109.43	201.95%			
14,000	37.72	105.74	180.33%	118.44	213.99%			
15,000	39.20	112.49	186.96%	127.45	225.11%			
16,000	40.68	119.24	193.12%	136.45	235.43%			
17,000	42.16	125.99	198.84%	145.46	245.03%			
18,000	43.64	132.74	204.17%	154.47	253.97%			
19,000	45.12	139.49	209.15%	163.48	262.32%			
20,000	46.60	146.24	213.82%	172.49	270.15%			
25,000	54.00	179.99	233.31%	217.54	302.84%			
30,000	61.40	213.74	248.11%	262.58	327.65%			
35,000	68.80	247.49	259.72%	307.63	347.13%			
40,000	76.20	281.24	269.08%	352.67	362.82%			
45,000	83.60	314.99	276.78%	397.72	375.74%			
50,000	91.00	348.74	283.23%	442.76	386.55%			
75,000	128.00	517.49	304.29%	667.99	421.86%			
100,000	165.00	686.24	315.90%	893.21	441.34%			

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 )  
PAYSON WATER CO., INC., AN ARIZONA )  
CORPORATION, FOR DETERMINATION OF )  
THE FAIR VALUE OF ITS UTILITY PLANTS )  
AND PROPERTY AND FOR INCREASES IN ITS )  
WATER RATES AND CHARGES FOR UTILITY )  
SERVICE BASED THEREON. )

DOCKET NO. W-03514A-13-0111

IN THE MATTER OF THE APPLICATION OF )  
PAYSON WATER CO., INC., FOR AUTHORITY )  
TO ISSUE EVIDENCE OF INDEBTEDNESS IN )  
AN AMOUNT NOT TO EXCEED \$1,238,000 IN )  
CONNECTION WITH INFRASTRUCTURE )  
IMPROVEMENTS TO THE UTILITY SYSTEM )  
AND ENCUMBER REAL PROPERTY AND )  
PLANT AS SECURITY FOR SUCH )  
INDEBTEDNESS. )

DOCKET NO. W-03514A-13-0142

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 15, 2013

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**EXHIBIT**

Engineering Report for Payson Water Company, Inc. ....	JWL
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**ATTACHMENT**

BMP tariffs.....	JWL
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1 **INTRODUCTION**

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

3 A. My name is Jian W. Liu. My business address is 1200 West Washington Street, Phoenix,  
4 Arizona 85007.

5  
6 **Q. By whom and in what position are you employed?**

7 A. I am employed by the Arizona Corporation Commission (“Commission” or “ACC”) as a  
8 Utilities Engineer - Water/Wastewater in the Utilities Division (“Staff”).

9  
10 **Q. How long have you been employed by the Commission?**

11 A. I have been employed by the Commission since October 2005.

12  
13 **Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?**

14 A. My main responsibilities are to inspect, investigate and evaluate water and wastewater  
15 systems. This includes obtaining data, preparing reconstruction cost new and/or original  
16 cost studies, investigative reports, interpreting rules and regulations, and to suggest  
17 corrective action and provide technical recommendations on water and wastewater system  
18 deficiencies. I also provide written and oral testimony in rate cases and other cases before  
19 the Commission.

20  
21 **Q. How many companies have you analyzed for the Utilities Division?**

22 A. I have analyzed more than 40 companies fulfilling these various responsibilities for Staff.

23  
24 **Q. Have you previously testified before this Commission?**

25 A. Yes, I have testified on numerous occasions before this Commission.

26

1 **Q. What is your educational background?**

2 A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University  
3 (“ASU”). I have a Master of Science Degree in Natural Science from ASU and a Master  
4 of Science Degree in Civil Engineering from the Institute of Rock & Soil Mechanics  
5 (“IRSM”), Academy of Sciences, China.

6  
7 **Q. Briefly describe your pertinent work experience.**

8 A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS Corporation as a  
9 Civil and Environmental Engineer. In 2000, I joined the Arizona Department of  
10 Environmental Quality (“ADEQ”). My responsibilities with ADEQ included review and  
11 approval of water distribution systems, sewer distribution systems, and on-site wastewater  
12 treatment facilities. I remained with ADEQ until transferring to the Commission in  
13 October 2005.

14  
15 **Q. Please state your professional membership, registrations, and licenses.**

16 A. I am a licensed professional civil engineer in the State of Arizona.  
17

18 **PURPOSE OF TESTIMONY**

19 **Q. What was your assignment in this rate proceeding?**

20 A. My assignment was to provide Staff’s engineering evaluation in this case. I reviewed  
21 Payson Water Co., Inc.’s (“PWC” or “Company”) application and responses to data  
22 requests, and I inspected the water system. This testimony and its attachments present  
23 Staff’s engineering evaluation. The findings of my engineering evaluation are contained  
24 in the Engineering Report that I have prepared for this proceeding. The report is included  
25 as Exhibit JWL in this pre-filed testimony.  
26

1    **ENGINEERING REPORTS**

2    **Q.    Please describe the information contained in your Engineering Reports.**

3    A.    The Report is divided into three general sections: 1) *Executive Summary*; 2) *Engineering*  
4        *Report Discussion*, and 3) *Engineering Report Exhibits*. The *Discussion* section can be  
5        further divided into ten subsections: A) Location of Company; B) Description of the  
6        Water Systems; C) Water Usage; D) Growth; E) ADEQ Compliance; F) Arizona  
7        Department of Water Resources (“ADWR”) compliance; G) ACC Compliance; H)  
8        Depreciation Rates; I) Financing Application; and J) Other Issues.

9  
10   **RECOMMENDATIONS AND CONCLUSIONS**

11   **Q.    What are Staff’s conclusions and recommendations regarding the Company’s**  
12        **operations?**

13   A.    Staff’s conclusions and recommendations regarding the Company’s operations are listed  
14        below.

15  
16   **CONCLUSIONS**

17        1.    The ADEQ reported that all PWC drinking water systems, except Mesa del  
18        Caballo, are currently delivering water that meets water quality standards required  
19        by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary  
20        Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter  
21        4. (ADEQ report dated October 20, 2013).

22  
23        ADEQ reported that the Mesa del Caballo system had significant violations  
24        resulting in a Notice of Violation (“NOV”) issued August 12, 2013 for: Source  
25        (well does not have a well vent), Operator Compliance (no Approval to Construct  
26        (“ATC”)/Approval of Construction (“AOC”) prior to using well), O&M (need

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ADWR and ADEQ numbers posted at system locations), and Distribution (wells without ATC/AOC are connected to the distribution system). (ADEQ report dated October 20, 2013).

2. The Company is not located in any Active Management Area (“AMA”) and is not subject to ADWR AMA reporting and conservation requirements. ADWR reported that PWC is not in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 21, 2013).

3. A check with the ACC’s Utilities Division Compliance Section showed no delinquent compliance items for PWC. (October 30, 2013).

4. The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

5. PWC has very fragile water systems in which the majority of the wells have very low production capacity and are more than 40 years old. Mesa del Caballo and East Verde Park Estates hauled water during the test year 2012 because of water supply shortages.

6. Mesa del Caballo water system should not have water supply issues in the future once the proposed connection to the Town of Payson water system is completed.

7. Staff has reviewed PWC’s Phase II financing application with project cost estimates totaling \$904,650 and found the proposal reasonable and appropriate.

1                   However, no "used and useful" determination of the proposed plant items was  
2                   made, and no conclusions should be inferred for rate making or rate base purposes  
3                   in the future.

4  
5                   **RECOMMENDATIONS**

6                   1.       Staff recommends that PWC monitor the Flowing Springs water system and  
7                   submit the gallons pumped and sold to determine the non-account water for one  
8                   full year. The Company should coordinate when it reads the well meters each  
9                   month with customer billing so that an accurate accounting is determined. The  
10                  results of this monitoring and reporting shall be docketed as a compliance item in  
11                  this case within 13 months of the effective date of the order issued in this  
12                  proceeding. If the reported water loss is greater than 10 percent the Company shall  
13                  prepare a report containing a detailed analysis and plan to reduce water loss to 10  
14                  percent or less. If the Company believes it is not cost effective to reduce the water  
15                  loss to less than 10 percent, it should submit a detailed cost benefit analysis to  
16                  support its opinion. In no case shall the Company allow water loss to be greater  
17                  than 15 percent. The water loss reduction report or the detailed analysis,  
18                  whichever is submitted, shall be docketed as a compliance item within 13 months  
19                  of the effective date of the order issued in this proceeding.

20  
21                  2.       Staff recommends that PWC prepare a report containing a detailed analysis and  
22                  plan to reduce water loss to 10 percent or less for its Geronimo Estates, Meads  
23                  Ranch, Whispering Pines, and Gisela water systems. The water loss reduction  
24                  report shall be docketed as a compliance item within 90 days of the effective date  
25                  of the order issued in this proceeding. If the Company believes it is not cost  
26                  effective to reduce the water loss to less than 10 percent, it should submit a

- 1 detailed cost benefit analysis to support its opinion. In no case shall the Company  
2 allow water loss to be greater than 15 percent.
- 3
- 4 3. Staff recommends annual water testing expense of \$11,000 be used for purposes of  
5 this application.
- 6
- 7 4. Staff recommends that any increase in rates and charges approved in this  
8 proceeding not become effective until the first day of the month following the  
9 Company's filing of an updated ADEQ Drinking Water Compliance Status Report  
10 indicating that the Company is in compliance with ADEQ requirements for all its  
11 water systems.
- 12
- 13 5. Staff recommends that any increase in rates and charges approved in this  
14 proceeding not become effective until the first day of the month following the  
15 Company's filing of an updated ADWR Compliance Status Report indicating that  
16 the Company is in compliance with ADWR requirements.
- 17
- 18 6. It is recommended that the Company use the depreciation rates presented in Table  
19 B by individual National Association of Regulatory Utility Commissioners  
20 category.
- 21
- 22 7. PWC and Staff have agreed upon five BMP tariffs the Company will implement in  
23 its Mesa Del Caballo water system. Staff recommends that PWC adopt these same  
24 five BMP tariffs for implementation in its remaining water systems. The BMP  
25 tariffs recommended by Staff for implementation in the Company's remaining  
26 water systems are attached to Exhibit JWL. Staff further recommends that PWC

1 notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in  
2 this proceeding and their effective date by means of either an insert in the next  
3 regularly scheduled billing or by a separate mailing and shall provide copies of the  
4 BMP tariffs to any customer, upon request.

5  
6 8. Staff recommends that the Company file documentation showing the Company's  
7 long-term plan to address its water supply problem in the East Verde Park Estates  
8 water system. This documentation should be filed as a compliance item with  
9 Docket Control within six months of the effective date of the Commission  
10 Decision in this matter. Staff further recommends that a moratorium on new  
11 connections be implemented in the East Verde Park Estates water system until the  
12 Company can solve the water supply shortages.

13  
14 9. Staff recommends that the meter and service line charges listed under "Company  
15 Proposed and Staff recommended" in Table C be adopted along with the adoption  
16 of an installation charge of "At Cost" for meter sizes of 8-inch and larger.

17  
18 **Q. Does this conclude your Direct Testimony?**

19 A. Yes, it does.

**EXHIBIT JW**

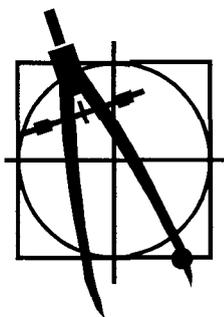
**ENGINEERING REPORT FOR**

**Payson Water Company**

**DOCKET NOs. W-03514A-13-0111 (Rates) AND  
W-03514A-13-0142 (Financing)**

**JIAN W LIU**

**November 15, 2013**



## **Engineering Report for Payson Water Company**

**Docket Nos. W-03514A-13-0111 (Rates) AND  
W-03514A-13-0142 (Financing)**

**By: Jian Liu  
Utilities Engineer**

**November 15, 2013**

### **CONCLUSIONS**

1. The Arizona Department of Environmental Quality (“ADEQ”) reported that all Payson Water Company, Inc. (“PWC” or “Company”) drinking water systems, except Mesa del Caballo, 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. (ADEQ report dated October 20, 2013).

ADEQ reported that the Mesa del Caballo system had significant violations resulting in a Notice of Violation (“NOV”) issued August 12, 2013 for Source (well does not have a well vent), Operator Compliance (no Approval to Construct (“ATC”)/Approval of Construction (“AOC”) prior to using well), O&M (need ADWR and ADEQ numbers posted at system locations), Distribution (wells without ATC/AOC are connected to the distribution system). (ADEQ report dated October 20, 2013).

2. The Company is not located in any Active Management Area (“AMA”) and is not subject to Arizona Department of Water Resources (“ADWR”) AMA reporting and conservation requirements. ADWR reported that PWC is not in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 21, 2013).
3. A check with the Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Compliance Section showed no delinquent compliance items for PWC. (ACC Compliance Section Email dated October 30, 2013).
4. The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.
5. PWC has very fragile water systems in which the majority of the wells have very low production capacity and are more than 40 years old. Mesa del Caballo and

East Verde Park Estates hauled water during the test year 2012 because of water supply shortages.

6. Mesa del Caballo water system should not have water supply issues in the future once the proposed connection to the Town of Payson water system is completed.
7. Staff has reviewed PWC's Phase II financing application with project cost estimates totaling \$904,650 and found the proposal reasonable and appropriate. However, no "used and useful" determination of the proposed plant items was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

### **RECOMMENDATIONS**

1. Staff recommends that PWC monitor the Flowing Springs water system 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 within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent 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 within 13 months of the effective date of the order issued in this proceeding.
2. Staff recommends that PWC prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less for its Geronimo Estates, Meads Ranch, Whispering Pines, and Gisela water systems. The water loss reduction report shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent.
3. Staff recommends annual water testing expense of \$11,000 be used for purposes of this application.
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 Drinking Water Compliance Status Report

indicating that the Company is in compliance with ADEQ requirements for all its water systems.

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 ADWR Compliance Status Report indicating that the Company is in compliance with ADWR requirements.
6. It is recommended that the Company use the depreciation rates presented in Table B by individual National Association of Regulatory Utility Commissioners category.
7. PWC and Staff have agreed upon five BMP tariffs the Company will implement in its Mesa Del Caballo water system. Staff recommends that PWC adopt these same five BMP tariffs for implementation in its remaining water systems. The BMP tariffs recommended by Staff for implementation in the Company's remaining water systems are attached to Exhibit JWL. Staff further recommends that PWC notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request.
8. Staff recommends that the Company file documentation showing the Company's long-term plan to address its water supply problem in the East Verde Park Estates water system. This documentation should be filed as a compliance item with Docket Control within six months of the effective date of the Commission Decision in this matter. Staff further recommends that a moratorium on new connections be implemented in the East Verde Park Estates water system until the Company can solve the water supply shortages.
9. Staff recommends that the meter and service line charges listed under "Company Proposed and Staff recommended" in Table C be adopted along with the adoption of an installation charge of "At Cost" for meter sizes of 8-inch and larger.

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## **A. LOCATION OF COMPANY AND INTRODUCTION**

Payson Water Company, Inc. ("PWC" or "Company") is located in Gila County, Arizona. Figure 1 shows the location of PWC within Gila County and Figure 2 shows the certificated area.

On April 22, 2013, Payson Water Company, Inc. ("PWC" or "Company") filed a request for a permanent rate increase with the Arizona Corporation Commission ("ACC" or "Commission"). On May 17, 2013, PWC filed a financing request with the Commission for approval to borrow funds in the amount of \$1,238,000. On June 3, 2013, Staff deemed the rate application sufficient. On August 15, 2013, the Company filed a motion to consolidate the rate case and financing applications and to expedite the processing of those applications. PWC seeks expedited approval to borrow up to \$275,000 of the total financing so it can build a line to connect the Town of Payson water system to PWC's Mesa del Caballo water system before next summer. On August 26, 2013 the PWC rate and financing applications were consolidated.

On September 5, 2013, PWC and the Utilities Division ("Staff") of the Commission filed a Stipulation for Procedural Order Bifurcating Proceeding and Establishing Case Schedule. According to the Stipulation, the first phase of the proceeding ("Phase I") would involve consideration of PWC's request for expedited financing approval along with approval of certain interim rate relief in the form of rate surcharges and/or adjustors in order to construct a new water transmission line to connect its Mesa del Caballo water system to the Town of Payson water system. Staff agreed with the expedited treatment of this portion of the financing because of the dire need for water in the Mesa del Caballo area coupled with the opportunity to end water hauling by next summer. The second phase ("Phase II") would involve (1) the remainder of the Company's request for financing approval; and (2) establishing the fair value of PWC's plant and property used for providing water utility service and setting permanent rates thereon. Staff's report for the Phase I proceeding was docketed on September 18, 2013 a hearing was held on September 25, 2013 and the Commission approved PWC's Phase I financing request in Decision No. 74175 on October 25, 2013.

## **B. DESCRIPTION OF THE WATER SYSTEMS**

The plant facilities were visited on August 8, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of David Allred, Operations Superintendent of the Company. The Company operates eight independent water systems a brief description of each system follows:

1. Geronimo Estates system, Public Water System ("PWS") 04-028: This system consists of three wells that pump water into two storage tanks, four booster pumps then pump the water to four pressure tanks before delivery to customers through the distribution system. This system serves 83 active connections.
2. Deer Creek system, PWS 04-064: This system consists of two wells that pump water into a storage tank, three booster pumps then pump the water to two

pressure tanks before delivery to customers through the distribution system. This system serves 121 active connections.

3. Meads Ranch system, PWS 04-015: This system consists of a well that pumps water into two storage tanks, two booster pumps then pump the water to a pressure tank before delivery to customers through the distribution system. This system serves 69 active connections.
4. Whispering Pines system, PWS 04-039: This system consists of two wells that pump water into two storage tanks, four booster pumps then pump the water to four pressure tanks before delivery to customers through the distribution system. This system serves 146 active connections.
5. Flowing Springs system, PWS 04-027: This system consists of a well that pumps water into a storage tank, a booster pump then pumps the water to a pressure tank before delivery to customers through the distribution system. This system serves 29 active connections.
6. Gisela system, PWS 04-346: This system consists of a well that pumps water into two storage tanks, four booster pumps that pump the water to three pressure tanks before delivery to customers through the distribution system. This system serves 162 active connections.
7. East Verde Park Estates system, PWS 04-026: This system consists of three wells that pump water into a storage tank, a booster pump then pumps the water to two pressure tanks before delivery to customers through the distribution system. This system serves 140 active connections.
8. Mesa del Caballo system PWS 04-030: This system consists of four wells that pump water into five storage tanks, four booster pumps then pump the water to six pressure tanks before delivery to customers through the distribution system. This system serves 364 active connections.

Detailed plant facility listings are as follows:

Table 1. Detailed Plant Facility Listings

Geronimo Estates system, PWS 04-028

Well Data for Geronimo Estates

ADWR ID No.	Pump Hp	Pump Yield (GPM)	Casing Size (inches)	Casing Depth (Feet)	Meter Size (inches)	Year Drilled
55-621336	1	5.5	6	160	5/8X3/4	1965
55-515318	2	15	6	150	5/8X3/4	1986
55-631114	1	6	6	160	1	1965
Total Pump Yield		26.5				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
15,000	2	500	1	5	3
		120	3	3	1
Total 30,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	1,631	5/8x3/4	83	None
3	2,268	1		
4	6,794	1.5		
		Total Metered Connections	83	

Deer Creek system, PWS 04-064

Well Data for Deer Creek

ADWR ID No.	Pump Hp	Pump Yield (GPM)	Casing Size (inches)	Casing Depth (Feet)	Meter Size (inches)	Year Drilled
55-086809	5	24	6	260	1	1981
55-512278	1	8	6	260	5/8X3/4	1985
Total Pump Yield		32				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
125,000	1	5000	1	7.5	2
		120	1	3	1
Total 125,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	385	5/8x3/4	115	None
4	18,368	3/4	2	
6	645	1	1	
		Turbo 3	3	
		Total Metered Connections	121	

Meads Ranch system, PWS 04-015

Well Data for Meads Ranch

ADWR ID No.	Pump Hp	Pump Yield (GPM)	Casing Size (inches)	Casing Depth (Feet)	Meter Size (inches)	Year Drilled
55-644405	5	5	20	160	5/8X3/4	1965
Total Pump Yield		5				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
10,000	2	80	1	5	1
				3	1
Total 20,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	4,480	5/8x3/4	69	None
3	2,519	1		
		1.5		
		Total Metered Connections	69	

Whispering Pines system, PWS 04-039

Well Data for Whispering Pines

ADWR ID No.	Pump Hp	Pump Yield (GPM)	Casing Size (inches)	Casing Depth (Feet)	Meter Size (inches)	Year Drilled
55-621333	1	17	6	86	1	1965
55-621334	2	28	6/7.5	50	1	1960
Total Pump Yield		45				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
20,000	2	2000	3	7.5	4
		1000	1		
Total 40,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	9,113	5/8x3/4	145	None
3	5,262	1	1	
4	18,908	1.5		
		Total Metered Connections	146	

Flowing Springs system, PWS 04-027

Well Data for Flowing Springs

ADWR ID No.	Pump Hp	Pump Yield (GPM)	Casing Size (inches)	Casing Depth (Feet)	Meter Size (inches)	Year Drilled
55-631115	1	10	6	150	5/8X3/4	1950
Total Pump Yield		10				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
15,000	1			5	1
		1000	1		
Total 15,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	11,638	5/8x3/4	29	None
3		1		
4	4,010	1.5		
		Total Metered Connections	29	

Gisela system, PWS 04-346

Well Data for Gisela

ADWR ID No.	Pump Hp	Pump Yield (GPM)	Casing Size (inches)	Casing Depth (Feet)	Meter Size (inches)	Year Drilled
55-646162	5	92	12	50	2	1971
Total Pump Yield		92				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
30,000	1	500	1	7.5	4
50,000	1	1000	1		
		2000	1		
Total 80,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2		5/8x3/4	159	None
3	366	1	3	
4	9,611	1.5		
6	7,855			
		Total Metered Connections	162	

East Verde Park Estates system, PWS 04-026

Well Data for East Verde Park Estates

ADWR ID No.	Pump Hp	Pump Yield (GPM)	Casing Size (inches)	Casing Depth (Feet)	Meter Size (inches)	Year Drilled
55-621332	1	7	8	80	5/8X3/4	1958
55-661335	1	1.2	8	40	5/8X3/4	1955
55-518599	8	8	8	100	1	1957
Total Pump Yield		16.2				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
40,000	1	2000	2	7.5	1
Total 40,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	5,992	5/8x3/4	139	None
3		3/4	1	
4	27,311			
		Total Metered Connections	140	

Mesa del Caballo system PWS 04-030

Well Data (active wells only) for Mesa del Caballo

ADWR ID No.	Pump Hp	Pump Yield (GPM)	Casing Size (inches)	Casing Depth (Feet)	Meter Size (inches)	Year Drilled
55-631113	5	4	6	104	5/8X3/4	1977
55-500270	3	2.2	6	450	5/8X3/4	1981
55-513409	1	3	6	395	5/8X3/4	1986
55-556148	2	8.5	6	400	1	1996
Total Pump Yield		17.7				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
40,000	1	80	2	5	1
20,000	1	2000	4	7.5	1
15,000	3			10	1
Total 105,000				20	1

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	738	5/8x3/4	363	None
3	1,422	1	1	
4	22,455	1.5		
		Total Metered Connections	364	

**C. WATER USE**

*Water Sold*

Based on the information provided by the Company on its Water Use Data Sheets submitted with the application, water use for the year 2012 is presented below for each system.

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

Water System Name	High	Low	Average
Geronimo Estates	85 in June	17 in Jan.	49
Deer Creek	215 in June	94 in Jan.	145
Meads Ranch	57 in June	10 in Feb.	28
Whispering Pines	203 in July	39 in Mar.	87
Flowing Springs	215 in June	49 in Feb.	105
Gisela	368 in June	126 in Mar.	226
East Verde Park Estates	116 in June	40 in Jan.	72
Mesa del Caballo	118 in June	83 in Mar.	98

*Non-Account Water*

For each water system, the Company reported the following gallons pumped and gallons sold in 2012, which Staff used to determine the water loss per system:

Table 2. Water Loss

Water System	Gallons Pumped	Gallons Sold	Water loss (%)
Geronimo Estates	1,665,000	1,495,000	10.21
Deer Creek	6,967,000	6,400,000	8.14
Meads Ranch	848,000	732,000	13.68
Whispering Pines	5,476,000	4,744,000	13.37
Flowing Springs	1,145,000	13,352,000	na*
Gisela	11,997,000	8,718,000	16.43
East Verde Park Estates	3,801,000	3,730,000	1.87
Mesa del Caballo	13,635,000	12,943,000	5.08

\*The quantity of water sold cannot exceed the quantity of water pumped for the same period of time, which suggests that the water use data reported is invalid.

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.

Staff recommends that PWC monitor the Flowing Springs water system 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 within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent 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 within 13 months of the effective date of the order issued in this proceeding.

Staff recommends that PWC prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less for its Geronimo Estates, Meads Ranch, Whispering Pines, and Gisela water systems. The water loss reduction report shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding. 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.

#### **D. GROWTH**

In December 2007, PWC had 1,270 customers, and in December 2012, the Company had 1,114 customers. The customer base has decreased from 2007 to 2012. The Company estimates that the customer base will be flat for the next 5 years.

Staff concludes that the PWC has very fragile water systems. The majority of the wells have very low production capacity and are more than 40 years old. Mesa del Caballo and East Verde Park Estates hauled water during the test year 2012 because of water supply shortages.

Mesa del Caballo water system should not have water supply issues in the future once the proposed connection to the Town of Payson water system is completed.

According to the Company's well data for the East Verde Park Estates water system during test year 2012, the production of the wells vary throughout the year, from 19.5 to 7.6 GPM due to production depletions, resulting in a water supply problem. For June 2012, East Verde Park Estates water system produced 9.5 GPM from its three wells which could only serve 96 connections based on this production (East Verde Park Estates had 142 connections in June 2012).

Staff recommends that the Company file documentation showing the Company's long-term plan to address its water supply problem in the East Verde Park Estates water system. This

documentation should be filed as a compliance item with Docket Control within six months of the effective date of the Commission Decision in this matter. Staff further recommends that a moratorium on new connections be implemented in the East Verde Park Estates water system until the Company can solve the water supply shortages.

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

*Compliance*

ADEQ reported that all PWC drinking water systems, except Mesa del Caballo, 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. (ADEQ report dated October 20, 2013).

ADEQ reported that the Mesa del Caballo system had significant violations resulting in a Notice of Violation ("NOV") issued August 12, 2013 for Source (well does not have a well vent), Operator Compliance (no Approval to Construct ("ATC")/Approval of Construction ("AOC") prior to using well), O&M (need ADWR and ADEQ numbers posted at system locations), Distribution (wells without ATC/AOC are connected to the distribution system). (ADEQ report dated October 20, 2013).

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 Drinking Water Compliance Status Report indicating that the Company is in compliance with ADEQ requirements for all its water systems.

*Water Testing Expense*

The Company reported water testing expense of \$10,999.61 during the test year 2012. PWC provided invoices and other documents to support this amount. Staff has reviewed the information provided and concludes that the water testing expense of \$10,999.61 is reasonable. Therefore, Staff recommends annual water testing expense of \$11,000 (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 ADWR AMA reporting and conservation requirements. ADWR reported that PWC is not in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 21, 2013).

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 ADWR Compliance Status Report indicating that the Company is in compliance with ADWR requirements.

**G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE**

A check with the Utilities Division Compliance Section showed no delinquent compliance items for PWC. (October 30, 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 and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

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
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:

- 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.
- 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. PHASE II FINANCING**

The Town of Payson is planning to construct its new Cragin Water Treatment Plant (“WTP”) adjacent to the Mesa Del Caballo community served by PWC. The plant will treat surface water that is piped from the Blue Ridge reservoir approximately 12 miles to the new WTP. The facility was planned with capacity to supply water to the Town and the Mesa del Caballo community for nine months out of the year. Therefore, a new inter-connection (transmission main) is required between the treatment plant and the Mesa Del Caballo water system. The Commission approved funding for this interconnection in its Phase I financing Decision.

During the three months of the year when the reservoir does not supply water, the PWC will continue to use their groundwater wells for drinking water. Once the Cragin water supplies become available to Mesa Del Caballo (in approximately year 2017), the system will operate much differently than it does now, since there should be no groundwater needed for nine months out of the year.

On October 28, 2013, PWC submitted a design memo that outlines the plan for the Cragin Pipeline-related construction that will be required at Mesa Del Caballo. PWC is proposing the following capital improvement projects for the Mesa Del Caballo water system:

- (1) Site work for grading and placing two new tanks,
- (2) Install two 50,000 tanks,
- (3) Install a booster pump station, and
- (4) Painting the existing tanks.

### **Updated Cost Estimates for Phase II Financing**

On October 28, 2013, PWC updated its cost estimates for the Phase II financing application for the Mesa del Caballo water system.

ITEM DESCRIPTION	TOTAL COST
1. Town of Payson Contract Payment	\$ 565,000*
2. Salt River Project Contract Payment.	\$ 85,000*
3. Storage & Pumping Improvements	\$ 192,000
4. Engineering Services	\$ 22,600
5. Fees, Legal, Permits, Testing, Admin, Etc.	\$ 6,850
6. Contingency	\$ 33,200
<b>TOTAL (Phase II)</b>	<b>\$ 904,650</b>

\*The shared costs for the Cragin Pipeline Project which is being built by Salt River Project (“SRP”) and the Town of Payson.

On October 25, 2013, the Commission approved PWC's Phase I financing application of \$275,000 in Decision No. 74175. The total updated financing application (combined Phase I & Phase II) is \$1,179,650, which is less than the Company's original request of \$1,238,000.

Staff has reviewed PWC's Phase II financing application with project cost estimates totaling \$904,650 and found the proposal reasonable and appropriate. However, no "used and useful" determination of the proposed plant items was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

## **J. OTHER ISSUES**

### *1. Curtailment, Backflow Prevention and Best Management Practice ("BMP") Tariffs*

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

PWC and Staff have agreed upon five BMP tariffs the Company will implement in its Mesa Del Caballo water system<sup>1</sup>. Staff recommends that PWC adopt these same five BMP tariffs for implementation in its remaining water systems. The BMPs tariffs recommended by Staff for implementation in the Company's remaining water systems are attached to Exhibit JWL. Staff further recommends that PWC notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request.

### *2. Service Line and Meter Installation Charges*

The Company requested permission to change its service line and meter installation charges. PWC proposed to use Staff's recommended service line and meter charges. Staff recommends that the charges listed under "Company Proposed and Staff recommended" in Table C be adopted along with the adoption of an installation charge of "At Cost" for meter sizes of 8-inch and larger.

---

<sup>1</sup> In Decision No. 71902, the Commission ordered PWC to implement five BMPs in its Mesa Del Caballo water system.

**Table C. Service Line and Meter Installation Charges**

Meter Size	Current Charges	Company Proposed and Staff recommended Service Line Charges	Company Proposed and Staff recommended *Meter Charges	Company Proposed and Staff recommended Total Charges
5/8 x3/4-inch	430	\$445	\$155	\$600
3/4-inch	480	\$445	\$255	\$700
1-inch	550	\$495	\$315	\$810
1-1/2-inch	775	\$550	\$525	\$1075
2-inch Turbine	NA	\$830	\$1045	\$1,875
2-inch Compound	NA	\$830	\$1,890	\$2,720
3-inch Turbine	NA	\$1045	\$1,670	\$2,715
3-inch Compound	NA	\$1165	\$2,545	\$3,710
4-inch Turbine	NA	\$1,490	\$2,670	\$4,160
4-inch Compound	NA	\$1,670	\$3,645	\$5,315
6-inch Turbine	NA	\$2,210	\$5,025	\$7,235
6-inch Compound	NA	\$2,330	\$6,920	\$9,250
8-inch & Larger	NA	At Cost	At Cost	At Cost

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

Payson Water Company  
Docket Nos. W-03514A-13-0111 (Rates) &  
W-03514A-13-0142 (Financing)

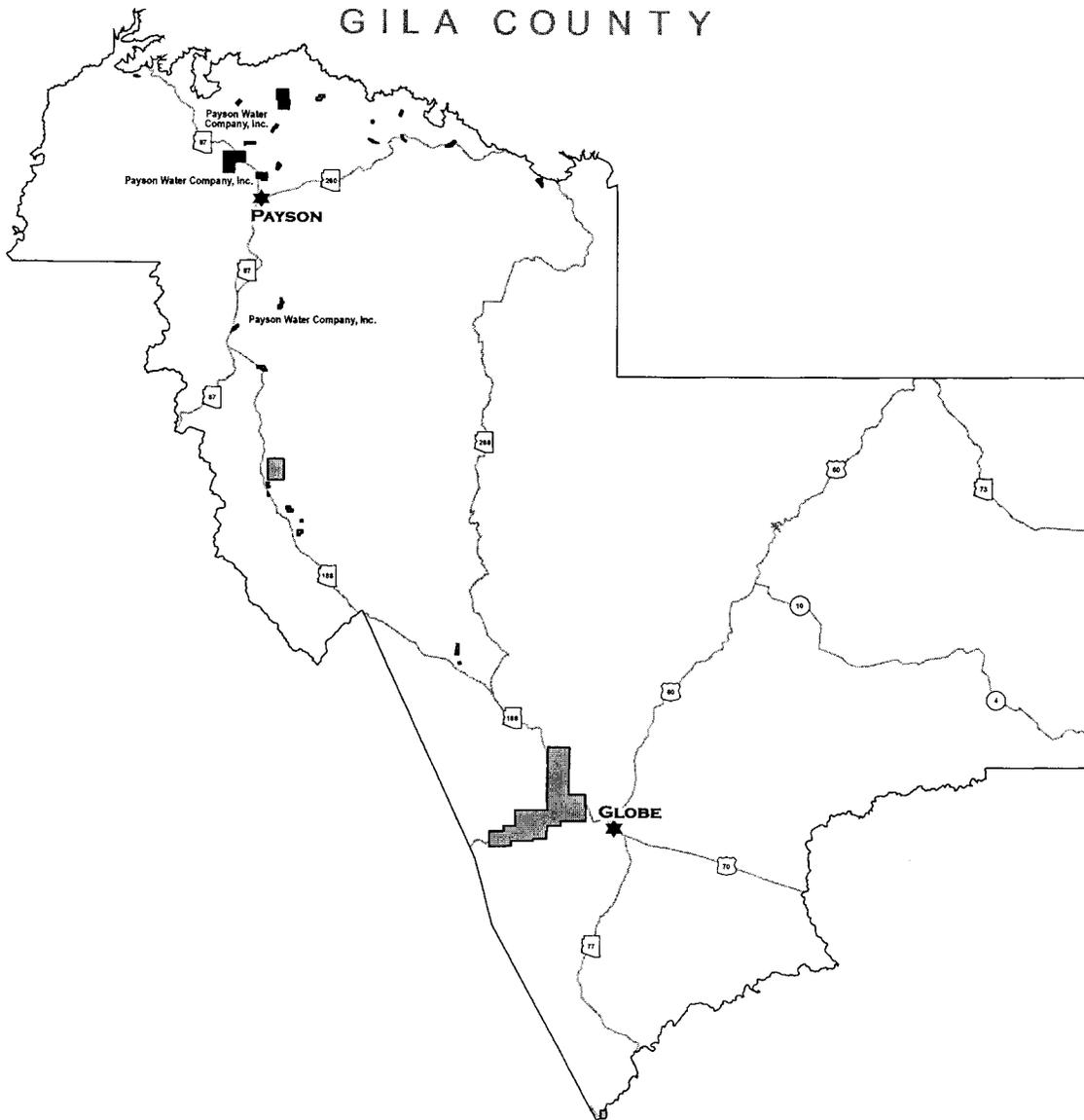


Figure 1. Gila County Map

Payson Water Company  
 Docket Nos. W-03514A-13-0111 (Rates) &  
 W-03514A-13-0142 (Financing)

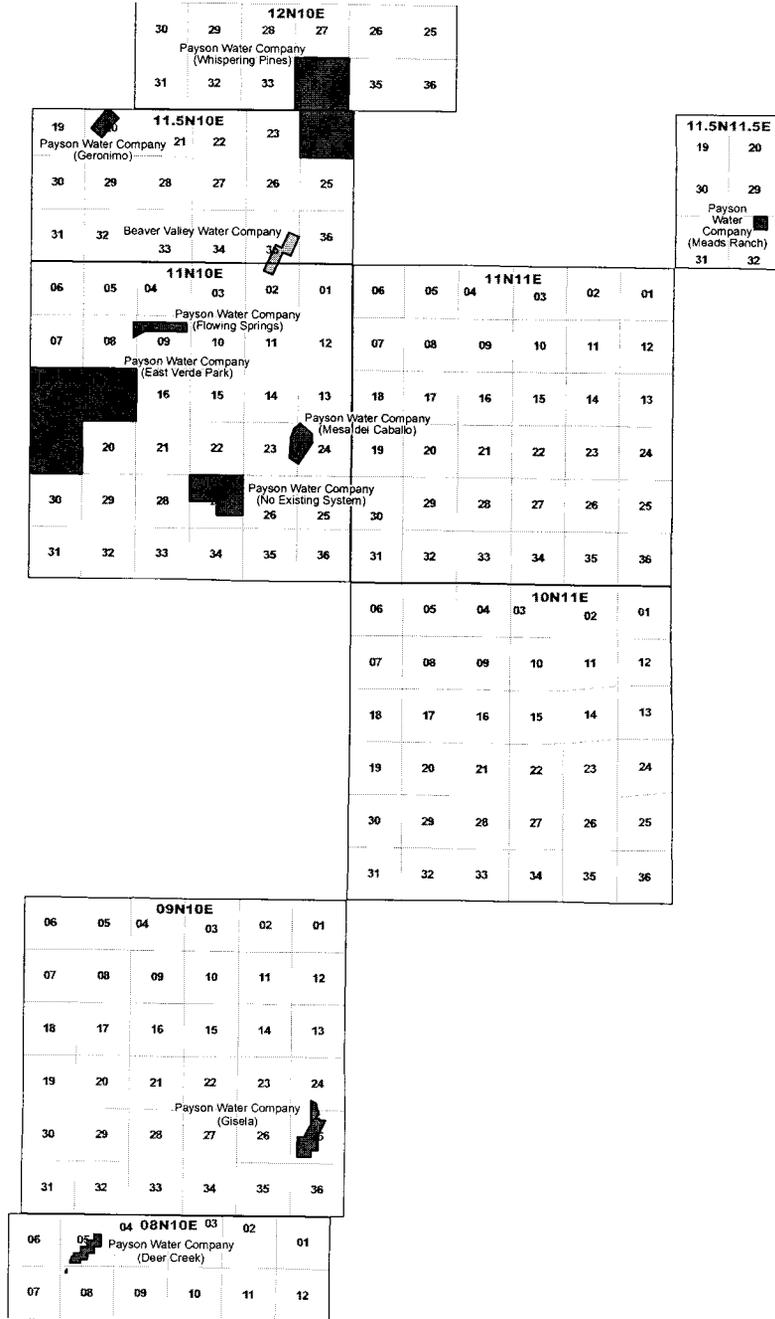


Figure 2. Certificated Areas

**ATTACHMENT JWL**

**BEST MANAGEMENT PRACTICE TARIFFS  
FOR**

**Payson Water Company**

**DOCKET NOS. W-03514A-13-0111 (Rates) AND  
W-03514A-13-0142 (Financing)**

## **Public Education Program Tariff**

### PURPOSE

A program for the Company to provide free written information on water conservation measures to its customers and to remind them of the importance of conserving water (Required Public Education Program).

### REQUIREMENTS

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

1. The Company shall provide two newsletters to each customer; one to be provided in the spring, the other in the fall. The goal of the letters is to provide timely information to customers in preparation of the hot summer months, and the cold winter months, in regards to their water uses. The Company shall remind customers of the importance of water conservation measures and inform them of the information available from the Company.
2. Information in the newsletters shall include water saving tips, home preparation recommendations for water systems/pipes, landscape maintenance issues for summer and winter, water cistern maintenance reminders and additional pertinent topics. Where practical, the Company shall make this information available in digital format which can be e-mailed to customers upon request or posted on the Company's website.
3. Communication channels shall include one or more of the following: water bill inserts, messages on water bills, Company web page, post cards, e-mails and special mailings of print pieces, whichever is the most cost-effective and appropriate for the subject at hand.
4. Free written water conservation materials shall be available in the Company's business office and the Company shall send information to customers on request.
5. The Company may distribute water conservation information at other locations such as libraries, chambers of commerce, community events, etc., as well.
6. The Company shall keep a record of the following information and make it available to the Commission upon request.
  - a. A description of each communication channel (i.e., the way messages will be provided) and the number of times it has been used.
  - b. The number of customers reached (or an estimate).
  - c. A description of the written water conservation material provided free to customers.

## **New Homeowner Landscape Information Tariff – BMP 2.3**

### PURPOSE

A program for the Company to promote the conservation of water by providing a landscape information package for the purpose of educating its new customers about low water use landscaping (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.3: New Homeowner Landscape Information).

### REQUIREMENTS:

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

1. Upon establishment of water service the Company shall provide a free "Homeowner Landscape Packet" to each new customer in the Company's service area. The packet will include at a minimum: a cover letter describing the water conservation expectations for all customers in the Company's service area, all applicable tariffs, a basic interior-exterior water saving pamphlet, xeriscape landscape information, and information on where to find low water use plant lists, watering guidelines, and a rain water harvesting pamphlet.
2. Upon customer request, the Company shall provide:
  - a. On-site consultations on low water use landscaping and efficient watering practices.
  - b. A summary of water saving options.
3. The number of packets provided to new customers will be recorded and made available to the Commission upon request.

## **Water Waste Investigations and Information Tariff – BMP 3.8**

### PURPOSE

A program for the Company to assist customers with water waste complaints and provide customers with information designed to improve water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.8: Water Waste Investigations and Information).

### REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission specifically R14-2-403 and R14-2-410 and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle water waste complaints as calls are received.
2. Calls shall be taken by a customer service representative who has been trained to determine the type of water waste and to determine if it may be attributed to a leak or broken water line.
3. The Company shall follow up on every water waste complaint.
4. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to investigate further and notify the responsible party of the waste and offer assistance and information to prevent waste in the future.
5. A letter of enforcement will be issued to customers with water running beyond the curb and/or off the customers property due to such things as, but not limited to, backwashing of pools, broken sprinkler heads, and over watering of lawns beyond the saturation point.
6. The same procedures outlined above in item #4 will be followed in the event of a second violation. Termination of service may result in the event of the third violation within a 12 month period. In the event of a third violation the customer's service may be terminated per Arizona Administrative Code R14-2-410C, R14-2-410D and R14-2-410E (applicable service reconnection fees shall apply).
7. The Company shall record each account and each instance noted for water waste, the action taken and any follow-up activities.
8. Subject to the provisions of this tariff, compliance with the water waste restriction will be a condition of service.
9. The Company shall provide to its customers a complete copy of this tariff and all attachments upon request and to each new customer. The customer shall abide by the water waste restriction.
10. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

## **Meter Repair and/or Replacement Tariff – BMP 4.2**

### PURPOSE

A program for the Company to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters for repair or replacement (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.2 Meter Repair and/or Replacement Program).

### REQUIREMENTS

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

1. On a systematic basis, the Company will inspect 100 percent of its 1-inch and smaller in-service water meters at least once every ten years for one of the following reasons (whichever occurs first):
  - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
  - b. A meter has registered 1,000,000 gallons of usage,
  - c. A meter has been in service for ten years.
2. Meters larger than 1-inch shall be inspected for one of the following reasons:
  - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
  - b. A meter has been in service for five years.
3. The inspection will be accomplished by having the meter pulled and having a Company Technician physically inspect each meter and its fittings for leaks, registers which may have become loose or are not properly attached to the meter and could be under-registering or other broken parts which need repair. In addition, meters shall be randomly selected for flow testing to identify potentially under-registering meters.
4. The Company shall also replace or reprogram any water meters that do not register in gallons. Upon the effective date of this tariff, the Company shall install all replacement meters with new:
  - a. 1-inch and smaller meters that register in 1 gallon increments,
  - b. 1-1/2-inch through 4-inch meters that register in 10 gallon increments, and
  - c. 6-inch and larger meters that register in 100 gallon increments.
5. The Company shall keep records of all inspected and replacement meters and make this information available to the Commission upon request.

## **WATER SYSTEM TAMPERING TARIFF – BMP 5.2**

### **PURPOSE**

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

### **REQUIREMENTS:**

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

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