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MEMORANDUM

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

2013 NOV 26 AM 10 44

DATE: November 26, 2013

RE: STAFF REPORT FOR A. PETERSEN WATER COMPANY, INC'S
APPLICATION FOR A RATE INCREASE (DOCKET NO. W-02678A-13-0293).

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

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before December 6, 2013.

SMO:BCA:tdp|SH

Originator: Brendan C. Aladi

Arizona Corporation Commission

DOCKETED

NOV 26 2013

DOCKETED BY 

Service List for: A. Petersen Water Company Inc.
Docket No. W-02678A-13-0293

Mr. Thomas Grapp
A. Petersen Water Company, Inc.
Post Office Box 85160
Tucson, Arizona 85754

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

A. PETERSEN WATER COMPANY

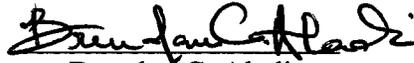
DOCKET NO. W-02678A-13-0293

**APPLICATION FOR
A RATE INCREASE**

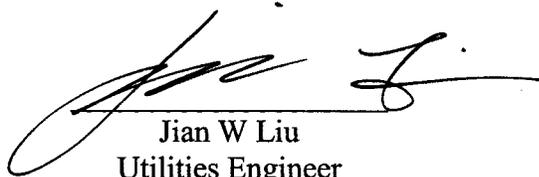
NOVEMBER 26, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for A. Petersen Water Company, Inc. Docket No. W-02678A-13-0293 was the responsibility of the Staff members listed below. Brendan C. Aladi was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Jian W. Liu was responsible for the engineering and technical analysis. Deborah Reagan was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Brendan C. Aladi
Public Utility Analyst III



Jian W Liu
Utilities Engineer



Deborah Reagan
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
A. PETERSEN WATER COMPANY, INC.
APPLICATION FOR A RATE INCREASE
DOCKET NO. W-02678A-13-0293

A. Petersen Water Company (“A. Petersen” or “Company”) is an Arizona Sub-Chapter S Corporation engaged in the business of providing potable water service to approximately 39 customers in Navajo County, Arizona. The Company’s service territory is located approximately 10 miles west of Snowflake in Navajo County, Arizona, on State Route 277. The Company has been classified as a class E utility and its current rates were effective March 9, 2011, per Arizona Corporation Commission Decision No. 72227.

The Company proposes total operating revenue of \$34,375, an increase of \$12,247, or 55.35 percent over test year revenue of \$22,128, which would result in an operating income of \$8,994. The Company’s proposed rates would yield a cash flow of \$10,323 and an operating margin of 26.16 percent. The Company has proposed an original cost rate base (“OCRB”) of \$23,452. The Company did not propose a fair value rate base that differs from its OCRB.

Staff recommends total operating revenue of \$27,395, an increase of \$5,267, or 23.80 percent over test year revenue of \$22,128, which results in an operating income of \$5,487. Staff’s recommended rates would yield a cash flow of \$5,816 and an operating margin of 20.03 percent. Staff has recommended an OCRB of \$9,481. Staff was unable to derive the revenue requirement by applying a rate of return on rate base because the Company’s extremely small rate base did not produce sufficient revenues for the Company’s operating needs.

The Company’s proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 3,647 gallons from \$31.59 to \$49.81, an increase of \$18.22 or 57.7 percent.

Staff’s recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 3,647 gallons from \$31.59 to \$37.29, for an increase of \$5.70 or 18.1 percent.

Staff Recommendations:

Staff Recommends:

1. Approval of the Staff’s recommended rates and charges as shown on Schedule BCA-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.
2. That the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

3. That the Company adopt the typical and customary depreciation rates as delineated on Table B of the attached Engineering Report.
4. That the Company continue to use its current meter and service line installation charges.
5. That the Company be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff, available at the Commission's website, for the Commission's review and consideration. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

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ATTACHMENT

Engineering ReportA

Fact sheet

Type of Ownership Arizona Sub-Chapter S Corporation.

Location The Company serves water customers approximately 10 miles west of Snowflake in Navajo County, Arizona.

Active Management Area The Company is not located in any Active Management Area (“AMA”) and is not subject to any AMA reporting and conservation requirements.

Rates Permanent rate increase application filed: September 3, 2013. The application became sufficient on September 27, 2013.

Prior Test Year December 31, 2009.

Current Test Year Ended December 31, 2012.

Monthly Minimum Rates

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Residential Monthly Minimum Charge Based on 5/8 x 3/4-inch meter (no gallons included in minimum)	\$ 21.50	\$26.90	\$ 23.50

Commodity Rates

5/8 x 3/4 Inch Meter

0 to 3,000 gallons	\$ 2.50	N/A	\$ 3.25
3,001 to 9,000 gallons	\$ 4.00	N/A	\$ 6.25
Over 9,000 gallons	\$ 6.14	N/A	\$ 9.25
0 to 3,000 gallons	N/A	\$ 5.75	N/A
3,001 to 8,000 gallons	N/A	\$ 8.75	N/A
Over 8,000 gallons	N/A	\$13.25	N/A
Bulk Water	\$ 6.14	\$ 6.14	\$ 9.25

Fact Sheet (Continued)

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Typical 5/8 x 3/4-inch residential bill			
Average use (5,765 gallons)	\$40.06	\$68.35	\$50.53
Median use (3,647 gallons)	\$31.59	\$49.81	\$37.29

Customers

Average Number of customers in the current test year (12/31/12): 39

Current test year customers by meter size:

5/8 x 3/4-inch	39
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Notifications

An affidavit of mailing of the customer notification was filed on September 3, 2013.

Number of opinions filed against the rate increase application as of the date of this Staff Report: 20, two opinions and one petition with 18 signatures totaling 20.

Number of customer complaints filed against the Company from January 1, 2010, to November 15, 2013: 2. All Complaints have been resolved and are closed.

Summary of Filing

The test year results as adjusted by Utilities Division Staff ("Staff") for A. Petersen Water Company, Inc. ("A. Petersen" or "Company") reflect total operating revenue of \$22,128 and an operating income of \$1,080 as shown on Schedule BCA-1. The original cost rate base ("OCRB") as adjusted by Staff is \$9,481.

The Company proposed a \$12,247, or a 55.35 percent, increase over the test year revenue of \$22,128 to \$34,375. A. Petersen's proposed rates would produce total operating revenue of \$34,375 and an operating income of \$8,994. The Company's proposed rates would yield a cash flow of \$10,323 and an operating margin of 26.16 percent. The Company proposes an OCRB of \$23,452, which does not differ from its fair value rate base. The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 3,647 gallons from \$31.59 to \$49.81, an increase of \$18.22 or 57.7 percent, as shown on Schedule BCA-5. However, Staff's analysis shows that A. Petersen proposed rates would actually produce total revenue of \$37,054, resulting in the difference of \$2,679 (ie \$37,054 - 34,375).

Staff's recommended rates would produce total operating revenue of \$27,395 and operating income of \$5,487. Staff's recommended rates would yield a cash flow of \$5,816 and an operating margin of 20.03 percent. Staff recommends an OCRB of \$9,481, which does not differ from its fair value rate base. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 3,647 gallons from \$31.59 to \$37.29, for an increase of \$5.70 or 18.1 percent.

The Company is registered as an Arizona Sub-Chapter S corporation with the Corporations Division of the Arizona Corporation Commission ("Commission").

Company Background

A. Petersen provides water service to an area approximately 10 miles west of Snowflake in Navajo County, Arizona. The Company's service territory is located on State Route 277.

On September 3, 2013, A. Petersen filed an application for a permanent rate increase. On September 27, 2013, Staff issued a Letter of Sufficiency. The Company filed with Docket Control on September 3, 2013, a copy of its affidavit of service notifying customers of its pending rate increase application.

The Company provides water service to approximately 39 residential customers with 5/8 x 3/4-inch meters. The Company has been classified as a class E utility.

Consumer Services

A review of the Consumer Services Section database from January 1, 2010, through November 15, 2013, revealed that there were three opinions filed opposing the present rate increase request (two opposed and one petition with 18 signatures opposed totaling 20 customers). The review revealed that during the same time period there were two complaints filed against the Company, both of which have since been resolved.

2013 – One complaint (Quality of service).

2012 – One complaint (Billing).

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

A. Petersen is current on its property and sales tax payments.

A. Petersen is in good standing with the Corporations Division of the Commission.

Engineering

The water system was field-inspected on November 7, 2013, by Mr. Jian Liu, Staff Utilities Engineer, in the accompaniment of Mr. Bryan Mullins, representing the Company. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

Rate Base

Staff's adjustments decreased A. Petersen's proposed rate base by \$13,971, from \$23,452 to \$9,481 as shown on Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Staff did not make any adjustments to plant-in-service.

Accumulated Depreciation

Staff increased accumulated depreciation by \$16,277, from \$3,688 to \$19,965 as shown on Schedule BCA-2, pages 1 and 3. The significant portion of Staff's increase to accumulated depreciation was the result of Staff's adjustments to properly reflect the accumulated depreciation account balance per Decision No. 72227, from the Company's prior rate case. The Company failed to update its records.

Working Capital

Staff's adjustments to working capital resulted in a net increase of \$2,306, from \$0 to \$2,306, as shown on Schedule BCA-2, pages 1 and 4.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses, plus one twenty-fourth of purchased power and purchased water expenses.

Operating Income Statement

Operating Revenue

Staff did not make adjustments to operating revenue.

Operating Expenses

Staff adjustments to operating expenses resulted in a decrease of \$4,333, from \$25,381 to \$21,048, as shown on Schedule BCA-3, page 1. The adjustments are explained below.

Salaries and Wages Expense - The Company made a pro-forma adjustment of \$2,547 to increase salaries and wages expense to \$11,500. Staff adjustment A decreases salaries and wages expense by \$1,642, from \$11,500 to \$9,858 as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects a reasonable normalized amount of salaries and wages expense based on the last three years and it is trending down.

Regulatory Commission Expense – Rate Case – Staff adjustment B decreases regulatory commission expense – rate case by \$505, from \$757 to \$252, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects Staff's computation of the normalized level over three years of rate case expense.

Depreciation Expense – Staff adjustment C decreases depreciation expense by \$1,000, from \$1,329 to \$329, as shown on Schedule BCA-3, pages 1 and 3. This adjustment reflects Staff's calculation of depreciation expense by applying Staff's recommended depreciation rates to Staff's recommended plant balances for A. Petersen.

Taxes Other Than Income - Staff adjustment D decreases taxes other than income by \$1,452, from \$1,452 to \$0 as shown on Schedule BCA-3, pages 1 and 4. This adjustment reflects Staff's removal of sales taxes collected by the Company and included in operating expenses. These sales taxes were paid to the Arizona Department of Revenue and should be removed from expenses, since the corresponding collected taxes were removed from revenue.

Property Tax Expense - Staff adjustment E increases property tax by \$266, from \$619 to \$885, to reflect Staff's calculation of property tax expense, as shown on Schedule BCA-3, page 5.

Expense Allocation

The Company utilized a single-factor allocation method to allocate shared costs amongst the five companies¹ owned by Mr. Mark Grapp. All of the companies are Commission-regulated with the exception of Water Management Company, LLC. The Company is requesting that the shared costs between Mr. Grapp's companies be allocated solely on customer count.

The owner uses shared services to manage and operate the five companies. Shared service expenses accounted for a significant portion of the various companies' operating expenses. The shared services include, but are not limited to, employees, office building space, office supplies, utilities, computers, computer software, telephone, insurance, and other miscellaneous services. Also, Mr. Grapp's salary is allocated among the five companies.

The primary goal of cost allocation is to prevent or limit, as much as possible, any cross-subsidization of customers from one company by customers of another company.

The single-factor allocation methodology that the Company is requesting is inappropriate because it always results in the utility companies with the largest number of customers paying the largest amount of the allocated cost regardless of any direct causal relationship between the number of customers and that cost.

For example, in any given year the owner could spend significantly more time on one of the smaller utilities (i.e. A. Petersen). However, with adoption of the Company's request, a significant portion of the owner's salary will be allocated to the larger companies rather than the company that required more of Mr. Grapp's attention. If this occurs, the cost causation ratemaking principles will have been violated as one of the larger companies will be unfairly allocated a significant portion of the salary, rather than the company that caused the cost.

Another example where the single-factor allocation method using customer count would not meet the cost causation ratemaking principle would be office rent. Office rent is impacted more by the total number of office employees and their direct labor hours than by customer count.

¹ A. Petersen Water Company, Inc.; Cedar Grove Water, Inc.; Vernon Valley Water, Inc.; Watco, Inc.; and Water Management Company, LLC.

The National Association of Regulatory Commissioners ("NARUC") Guideline for Cost Allocations and Affiliate Transactions states that:

The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

Staff believes that the four factors (number of customers, direct labor hours, direct operating expenses and net plant) currently being used to allocate shared cost amongst the companies better matches cost causation with the appropriate company. While customer count may produce appropriate allocation of shared expenses, the current four-factor allocation method is a more accurate method for allocating shared cost to the activities and company that have caused the cost. Customer count is a relevant cost allocator; however, it yields a better allocation of shared cost when used in conjunction with other relevant cost allocators rather than used as the sole cost allocator.

Cash Flow and Operating Margin

The Company's proposed rates and charges would provide an operating income of \$8,994 and would yield a cash flow of \$10,323 and an operating margin of 26.16 percent.

Staff's recommended rates and charges would provide an operating income of \$5,487 and would yield a cash flow of \$5,816 and an operating margin of 20.03 percent.

Revenue Requirement

Staff recommends total operating revenue of \$27,395, a \$5,267 or 23.80 percent increase over test year operating revenue of \$22,128. Staff's recommended revenue provides an operating income of \$5,487, as shown in Schedule BCA-1.

In determining the revenue requirement, Staff endeavored to provide the Company with sufficient funds to manage contingencies, operating expenses, etc. Staff believes that its recommended cash flow provides ample funds to meet the Company's operating needs. Staff's higher than normal operating margin reflects the age of the system and that a significant portion of the system is fully depreciated. Staff was unable to derive the revenue requirement by applying a rate of return on rate base because the Company's extremely small rate base did not produce sufficient revenues for the Company's operating needs.

Rate Design

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

The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 3,647 gallons from \$31.59 to \$49.81, an increase of \$18.22 or 57.7 percent, as shown on Schedule BCA-5.

Staff's recommended rates would increase the 5/8 x 3/4-inch meter residential bill with a median usage of 3,647 gallons from \$31.59 to \$37.29, for an increase of \$5.70 or 18.1 percent.

Miscellaneous Service Charges

The Company proposed no change to the following:

Establishment	\$25
Meter Test (if correct)	\$40
NSF Check	\$30
Deferred Payment	1.5%
Late Payment	1.5%
Reconnect (delinquent)	\$50

Staff finds all of the above are reasonable charges for the service and recommends approval.

The Company proposed to increase the meter re-read (if correct) service charge from \$15.00 to \$25.00. Staff agrees.

Staff recommends the elimination of both the \$40.00 Establishment (after hours) tariff and the \$75.00 Reconnection (delinquent after hours) tariff. Staff agrees with the Company that an after hour service charge is appropriate when it is at the customer's request or for the customer's convenience. Such a charge compensates the utility for additional expenses incurred when providing after-hours service. Staff recommends the addition of a Service Charge (after hours) tariff in the amount of \$35.00 and that this charge be in addition to the charge for any utility service provided after hours at the customer's request or for the customer convenience.

The Company did not request any changes in its fire sprinkler rates. Staff recommends continuing the current fire sprinkler rates as indicated on Schedule BCA-4.

Service Line and Meter Installation Charges

The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application (Decision No. 72227). Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of Staff's Service Line and Meter Installation Charges as shown on Schedule BCA-4.

Staff Recommendations

Staff Recommends:

1. Approval of the Staff's recommended rates and charges as shown on Schedule BCA-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.
2. That the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. That the Company adopts the typical and customary depreciation rates as delineated on Table B of the attached Engineering Report.
4. That the Company continues to use its current meter and service line installation charges.
5. That the Company be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff, available at the Commission's website, for the Commission's review and consideration. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$21,853	\$21,853	\$34,100	\$27,120
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	275	275	275	275
Total Operating Revenue	\$22,128	\$22,128	\$34,375	\$27,395
Operating Expenses:				
Operation and Maintenance	\$21,981	\$19,834	\$21,981	\$19,834
Depreciation	1,329	329	1,329	329
Property & Other Taxes	2,071	885	2,071	955
Income Tax	0	0	0	790
Total Operating Expense	\$25,381	\$21,048	\$25,381	\$21,908
Operating Income/(Loss)	(\$3,253)	\$1,080	\$8,994	\$5,487
Rate Base O.C.L.D.	\$23,452	\$9,481	\$23,452	\$9,481
Rate of Return - O.C.L.D.	N/M	11.39%	38.35%	57.88%
Operating Margin	N/M	4.88%	26.16%	20.03%
Cash Flow	N/M	\$1,409	\$10,323	\$5,817

RATE BASE

	----- Original Cost -----		Staff
	Company	Adjustment	
Plant in Service	\$ 27,580	\$0	\$ 27,580
Less:			
Accum. Depreciation	3,688	16,277 A	19,965
Net Plant	\$ 23,892	\$ (16,277)	\$ 7,615
Less:			
Plant Advances	0	0	0
Service Line and Meter Advances	440	0	440
Total Advances	440	0	440
Contributions Gross	-	0	-
Less:			
Amortization of CIAC	0	-	-
Net CIAC	-	-	-
Total Deductions	\$ 440	\$ -	\$ 440
Plus:			
1/24 Power	0	\$86 B	\$86
1/8 Operation & Maint.	0	2,220 C	2,220
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$ -	\$ 2,306	\$ 2,306
Rate Base	\$ 23,452	\$ (13,971)	\$ 9,481

Explanation of Adjustment:

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

PLANT ADJUSTMENTS

	Company Exhibit	Adjustment	Staff Adjusted
301 Intangibles/Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	3,000	0	3,000
304 Structures & Improvements	0	0	0
307 Wells & Springs	3,000	0	3,000
311 Electrical Pumping Equipment	4,000	0	4,000
320.1 Water Treatment Plant	0	0	0
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tank	610	0	610
330.2 Pressure Tank	0	0	0
331 Transmission & Distribution Mains	10,000	0	10,000
333 Services	1,964	0	1,964
334 Meters & Meter Installations	3,006	0	3,006
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	2,000	0	2,000
105 C.W.I.P.	0	0	0
TOTALS	\$27,580	\$0	\$27,580

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 3,688
Accumulated Depreciation - Per Staff	<u>19,965</u>
Total Adjustment	A - <u><u>\$16,277</u></u>

ACCT	ACCUMULATED DEPRECIATION		
	Company	Staff	Staff
<u>No.</u> <u>Description</u>	<u>Application</u>	<u>Adjustment</u>	<u>Calculated</u>
301 Organization	\$ -	\$ -	\$ -
302 Franchise	\$ -	\$ -	\$ -
303 Land and Land Rights	-	-	-
304 Structures and Improvements	-	-	-
307 Wells and Srings	300	2,700	3,000
311 Electrical Pumping Equipment	1,500	2,500	4,000
320.1 Water Treatment Plant	-	-	-
320.2 Solution Chemical Feeders	-	-	-
330 Distribution Reservoirs & Standpipes	-	-	-
330.1 Storage Tank	42	6	48
330.2 Pressure Tank	-	-	-
331 Transmission and Distribution Mains	600	9,400	10,000
333 Services	181	63	244
334 Meters and Meter Installation	465	208	673
335 Hydrants	-	-	-
339 Other Plant and Miscellaneous Equipment	-	-	-
340 Office Furniture and Fixtures	-	-	-
340.1 Computers and Software	-	-	-
341 Transportation Equipment	-	-	-
343 Tools and Work Equipment	-	-	-
345 Power Operated Equipment	-	-	-
346 Communications Equipment	-	-	-
348 Other Tangible Plant	600	1,400	2,000
Total	<u>\$ 3,688</u>	<u>16,277</u>	<u>\$ 19,965</u>

STAFF PLANT ADJUSTMENTS

B -	WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company	\$0	
	Per Staff	\$86	\$ 86

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

C -	WORKING CAPITAL (1/8 operation & Maint exp.) Per Company	\$0	
	Per Staff	2,220	\$ 2,220

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

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$21,853	\$0	\$21,853
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	275	0	275
Total Operating Revenue	\$22,128	\$0	\$22,128
Operating Expenses:			
601 Salaries and Wages	\$11,500	(\$1,642) A	\$9,858
610 Purchased Water	0	0	0
615 Purchased Power	2,074	0	2,074
618 Chemicals	0	0	0
620 Repairs and Maintenance	141	0	141
621 Office Supplies & Expense	621	0	621
630 Outside Services	2,985	0	2,985
635 Water Testing	844	0	844
641 Rents	1,642	0	1,642
650 Transportation Expenses	1,080	0	1,080
657 Insurance - General Liability	112	0	112
659 Insurance - Health and Life	225	0	225
666 Regulatory Commission Expense - Rate Case	757	(505) B	252
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	1,329	(1,000) C	329
408 Taxes Other Than Income	1,452	(1,452) D	0
408.11 Property Taxes	619	266 E	885
409 Income Tax	0	0	0
Total Operating Expenses	\$25,381	(\$4,333)	\$21,048
OPERATING INCOME/(LOSS)	(\$3,253)	\$4,333	\$1,080

STAFF ADJUSTMENTS

A -	SALARIES AND WAGES - Per Company	\$11,500	
	Per Staff	9,858	<u>(\$1,642)</u>

The Company made a pro-forma adjustment of \$2,547 to increase salaries and wages to \$11,500. Staff adjustment reflects a reasonable normalized amount of salaries and wages expense based on the last three years.

\$	29,573	Salaries and Wages Expense (2012, 2011 & 2010)
		3 Divided by 3 years
\$	<u>9,858</u>	Normalized annual Salaries and Wages Expense

B -	REGULATORY COMMISSION EXPENSE (Rate Case) - Per Company	\$757	
	Per Staff	252	<u>(\$505)</u>

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

\$	757	Rate Case Expense
		3 Divided by 3 years
\$	<u>252</u>	Normalized annual Rate Case Expense

STAFF ADJUSTMENTS (Cont.)

C - DEPRECIATION - Per Company \$1,329
Per Staff 329 (\$1,000)

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

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment E - Test Year Depreciation Expense

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		Plant In Service Per Staff	NonDepreciable or Fully Depreciated Plant	Depreciable Plant Col A - Col B	Depreciation Rate	Depreciation Expense (Col C x Col D)
1	301 - Organization Cost	\$ -	\$ -	-	0.00%	-
2	302 - Franchise Cost	-	-	-	0.00%	-
3	303 - Land and Land Rights	3,000	3,000	-	0.00%	-
4	304 - Structures and Improvements	-	-	-	3.33%	-
5	305 - Collecting and impounding Res.	-	-	-	2.50%	-
6	306 - Lake River and Other Intakes	-	-	-	2.50%	-
7	307 - Wells & Spring	3,000	3,000	-	3.33%	-
8	308 - Infiltration Galleries and Tunnels	-	-	-	6.67%	-
9	309 - Supply Main	-	-	-	2.00%	-
10	310 - Power Generation Equip.	-	-	-	5.00%	-
11	311 - Electric Pumping Equipment	4,000	4,000	-	12.50%	-
12	320 - Water Treatment Equipment	-	-	-	-	-
13	320.1 Water Treatment Plants	-	-	-	3.33%	-
14	320.2 Solution Chemical Feeders	-	-	-	20.00%	-
15	330 - Distribution Resvrv & Standpipe	-	-	-	-	-
16	330.1 Storage Tanks	610	-	610	2.22%	14
17	330.2 Pressure Tanks	-	-	-	5.00%	-
18	331 - Transmission & Distr. Mains	10,000	10,000	-	2.00%	-
19	333 - Services	1,964	-	1,964	3.33%	65
20	334 - Meter & Meter Installations	3,006	-	3,006	8.33%	250
21	335 - Hydrants	-	-	-	2.00%	-
22	336 - Backflow Prevention Devices	-	-	-	6.67%	-
23	339 - Other Plant & Misc Equipment	-	-	-	6.67%	-
24	340 - Office Furniture and Fixtures	-	-	-	6.67%	-
25	340.1-Computers and Softwares	-	-	-	20.00%	-
26	341 - Transportation Equipment	-	-	-	20.00%	-
27	343 - Tools & Work Equipment	-	-	-	5.00%	-
28	345 - Power Operated Equipment	-	-	-	5.00%	-
29	346 - Communication Equipment	-	-	-	10.00%	-
30	347 - Miscellaneous Equipment	-	-	-	10.00%	-
31	348 - Other Tangible Plant	-	-	-	-	-
32	Total Plant	\$ 25,580	\$ 20,000	\$ 5,580		\$ 329
33						
34	Composite Depreciation Rate (Depr Exp / Depreciable Plant):					5.90%
35	CIAC:					\$ -
36	Amortization of CIAC (Line 34 x Line 35):					\$ -
37						
38	Pro Forma Annual Depreciation Expense					
39						
40	Plant in Service					\$ 25,580
41	Less: Non Depreciable Plant					\$ 3,000
42	Fully Depreciable Plant					17,000
43	Depreciable Plant					<u>\$5,580</u>
44	Times: Staff Proposed Depreciation Rate					5.90%
45	Depreciation Expense Before Amortization of CIAC:					\$ 329
46	Less Amortization of CIAC:					\$ -
47	Test Year Depreciation Expense - Staff:					<u>\$ 329</u>
48	Depreciation Expense - Company:					\$ 1,329
49	Staff's Total Adjustment:					<u><u>\$ (1,000)</u></u>

STAFF ADJUSTMENTS

D -	TAXES OTHER THAN INCOME - Per Company	\$1,452	
	Per Staff	0	<u>(\$1,452)</u>

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

OPERATING INCOME ADJUSTMENT E - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2012	\$ 22,128	\$ 22,128
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 44,256	\$ 44,256
4	Staff Recommended Revenue, Per Schedule BCA-1	22,128	27,395
5	Subtotal (Line 4 + Line 5)	\$ 66,384	\$ 71,651
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 22,128	\$ 23,884
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 44,256	\$ 47,767
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 44,256	\$ 47,767
13	Assessment Ratio	22.5%	22.5%
14	Assessment Value (Line 12 * Line 13)	9,958	\$ 10,748
15	Composite Property Tax Rate (Obtained from County Records)	8.885%	8.885%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 885	
17	Company Proposed Property Tax	619	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 266	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 955
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 885
21	Increase/(Decrease) to Property Tax Expense		\$ 70
22	Decrease to Property Tax Expense		\$ 70
23	Increase in Revenue Requirement		5,267
24	Decrease to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.33%
F -	PROPERTY TAXES - Per Company	619	
	Per Staff	\$ 885	266

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

Calculation of Income Tax Allowance

<u>Calculation of Income Tax:</u>	<u>Corporate Tax Calculation</u>	<u>Married Filing Jointly Personal Tax Calculation</u>
1 Revenue (Schedule BCA-1)	\$ 27,395	\$ 27,395
2 Operating Expenses Excluding Income Taxes	\$ 21,118	\$ 21,118
3 Less: Synchronized Interest (L3)	\$ -	\$ -
4 Arizona Taxable Income (L1 - L2- L3)	<u>\$ 6,277</u>	<u>\$ 6,277</u>
5 Arizona State Income Tax Rate	6.50%	2.59%
6 Arizona Income Tax (L4 x L5)	\$ 408	\$ 163
7 Federal Taxable Income (L42 - L44)	\$ 5,869	\$ 6,277
8 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 880	<u>10%</u>
9 Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%		
10 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%		
11 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%		
12 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%		
13 Total Federal Income Tax	<u>\$ 880</u> \$ 880	<u>\$ 628</u> \$ 628
14 Combined Federal and State Income Tax (L35 + L42)	\$ - \$ 1,288	\$ 790

RATE DESIGN

Monthly Usage Charge	Current	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$21.50	\$26.90	\$ 23.50
3/4" Meter	32.25	32.25	23.50
1" Meter	53.75	53.75	58.75
1½" Meter	107.50	107.50	117.50
2" Meter	172.00	172.00	188.00
3" Meter	344.00	334.00	376.00
4" Meter	537.50	537.50	587.50
6" Meter	\$ 1,075.00	\$ 1,075.00	\$ 1,175.00

Gallons in Minimum 0 0 0

Commodity Rates (Per 1,000 gallons)

All Meter Sizes

First Tier - 0 - 3,000 gallons	\$ 2.50	N/A	\$ 3.25
Second Tier - 3,001 to 9,000 gallons	4.00	N/A	6.25
Third Tier - Over 9,000 gallons	6.14	N/A	9.25

All Meter Sizes

First Tier - 0 - 3,000 gallons	N/A	\$ 5.75	N/A
Second Tier - 3,001 to 8,000 gallons	N/A	\$ 8.75	N/A
Third Tier - Over 8,000 gallons	N/A	\$ 13.25	N/A

Bulk Water \$ 6.14 \$ 6.14 \$ 9.25

Service Line and Meter Installation Charges	Company		-----Staff Recommended-----		
	Current Charge	Proposed Total Charge	Service Line Charge	Meter Charge	Total Charges
5/8" x 3/4" Meter	\$ -	\$ -	\$ -	\$ -	\$ -
3/4" Meter	320	320	230	90	320
1" Meter	370	370	230	140	370
1½" Meter	545	545	280	265	545
2" Meter Turbine	750	750	330	420	750
3" Meter Turbine	980	980	380	600	980
4" Meter Turbine	1,820	1,820	650	1,170	1,820
6" Meter Turbine	\$ 3,920	\$ 3,920	\$ 1,200	\$ 2,720	\$ 3,920

Service Charges

Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 40.00	N/A	N/A
Reconnection (Delinquent)	\$ 50.00	\$ 50.00	\$ 50.00
Reconnection (Delinquent) (After Hours)	\$ 75.00	N/A	N/A
Meter Test (If Correct)	\$ 40.00	\$ 40.00	\$ 40.00
Deposit	*	*	*
Deposit Interest Per Annum	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	\$ 30.00	\$ 30.00	\$ 30.00
Deferred Payment - Per Month	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$ 15.00	\$ 25.00	\$ 25.00
Late Payment Charge/Month (On unpaid balance)	1.50%	1.50%	1.50%
Service Charge (After Hours)	\$ 40.00	\$ 35.00	\$ 40.00

Monthly Service Charge for Fire Sprinkler

4" or Smaller	***	\$0.00	***
6"	***	0.00	***
8"	***	0.00	***
10"	***	0.00	***
Larger than 10"	***	0.00	***

* Per Commission rule A.A.C. R14-2-403(B)

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

*** 2.00% of monthly minimum for a comparable size meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS

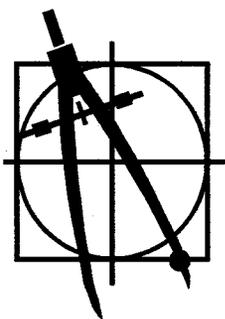
5/8 x 3/4 - Inch Meter

Average Number of Customers: 39

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,765	\$40.06	\$68.35	\$28.29	70.6%
Median Usage	3,647	\$31.59	\$49.81	\$18.22	57.7%
<u>Staff Recommended</u>					
Average Usage	5,765	\$40.06	\$50.53	\$10.47	26.1%
Median Usage	3,647	\$31.59	\$37.29	\$5.70	18.1%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$21.50	\$26.90	25.1%	\$23.50	9.3%
1,000	24.00	32.65	36.0%	26.75	11.5%
2,000	26.50	38.40	44.9%	30.00	13.2%
3,000	29.00	44.15	52.2%	33.25	14.7%
4,000	33.00	52.90	60.3%	39.50	19.7%
5,000	37.00	61.65	66.6%	45.75	23.6%
6,000	41.00	70.40	71.7%	52.00	26.8%
7,000	45.00	79.15	75.9%	58.25	29.4%
8,000	49.00	87.90	79.4%	64.50	31.6%
9,000	53.00	101.15	90.8%	70.75	33.5%
10,000	59.14	114.40	93.4%	80.00	35.3%
15,000	89.84	180.65	101.1%	126.25	40.5%
20,000	120.54	246.90	104.8%	172.50	43.1%
25,000	151.24	313.15	107.1%	218.75	44.6%
50,000	304.74	644.40	111.5%	450.00	47.7%
75,000	458.24	975.65	112.9%	681.25	48.7%
100,000	611.74	1,306.90	113.6%	912.50	49.2%
125,000	765.24	1,638.15	114.1%	1,143.75	49.5%
150,000	918.74	1,969.40	114.4%	1,375.00	49.7%
175,000	1,072.24	2,300.65	114.6%	1,606.25	49.8%
200,000	1,225.74	2,631.90	114.7%	1,837.50	49.9%



Engineering Report for:
A. Petersen Water Company for a Rate Increase
Docket No. W-02678A-13-0293

By: Jian W Liu
Utilities Engineer

November 15, 2013

EXECUTIVE SUMMARY

CONCLUSIONS:

1. The Arizona Department of Environmental Quality (“ADEQ”) regulates the A. Petersen Water Company (“A. Petersen” or “Company”) system under ADEQ Public Water System (“PWS”) I.D. No. 09-032. ADEQ reported that the A. Petersen drinking water system is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ compliance status report dated November 3, 2013).
2. The Company is not located in any Active Management Area (“AMA”) and is not subject to any Arizona Department of Water Resources (“ADWR”) AMA reporting and conservation requirements. ADWR reported that A. Petersen is currently 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 the Company. (ACC Compliance Section Email dated October 21, 2013).
4. Staff concludes that the A. Petersen Water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.
5. A. Petersen has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

RECOMMENDATIONS

1. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.
2. Staff recommends an annual water testing expense of \$848 be used for purposes of this application.
3. The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.
4. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff, available at the Commission's website, for the Commission's review and consideration. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

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FIGURES

COUNTY MAP	FIGURE 1
CERTIFICATED AREA	FIGURE 2

A. INTRODUCTION AND LOCATION OF COMPANY

On September 3, 2013, A. Petersen Water Company (“A. Petersen” or “Company”) filed an application to increase its rates with the Arizona Corporation Commission (“ACC” or “Commission”) in Docket No. W-02678A-13-0293. A. Petersen, which served 40 customers as of December 31, 2012, is located approximately 20 miles northwest of Show Low and 9 miles west of Snowflake on State Route 277 in Navajo County. Please see Figures 1 & 2. The Company’s current schedule of rates and charges were approved in Decision No. 72227 dated March 9, 2011. The Commission Utilities Division Staff (“Utilities Staff” or “Staff”) engineering review and analysis of the pending application is presented in this report.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on November 7, 2013 by Jian Liu, Staff Utilities Engineer, in the accompaniment of Bryan Mullins, representing the Company.

The facility consists of a well, two 10,000 gallon storage tanks, one 3,000 gallon pressure tank, and a distribution system.

(Tabular Description of Water System)
 Well Data

	Well No 1
ADWR ID No.	55-806500
Casing Size	8 inch
Casing Depth	440 ft
Pump Size	10 Hp
Pump Yield	60 gal/min
Year Drilled	1963

Storage, Pumping

Structure or equipment	Location	Capacity
booster pump	Well #1 Site	5 Hp
pressure tank	Well #1 Site	One 3,000 gal
Storage tank	Well #1 Site	Two 10,000 gal

Distribution Mains

Diameter	Material	Length(ft)
4 inch	AC and PVC	20,000

Meters	
Size (inch)	Quantity
5/8 x 3/4	53

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

ADEQ reported that the A. Petersen drinking water system is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ compliance status report dated November 3, 2013)

D. ACC COMPLIANCE

A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated October 21, 2013)

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

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

F. WATER TESTING EXPENSES

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

The Company reported its water testing expense at \$844 during the 2012 test year. Staff has reviewed documentation provided by the Company in support of this amount. Table 1 provides Staff’s itemized list of the Company’s testing expenses with participation in the MAP.

Table 1 Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$20	36	720	240
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	368
Lead & Copper	48	15	720	240
Total				\$848

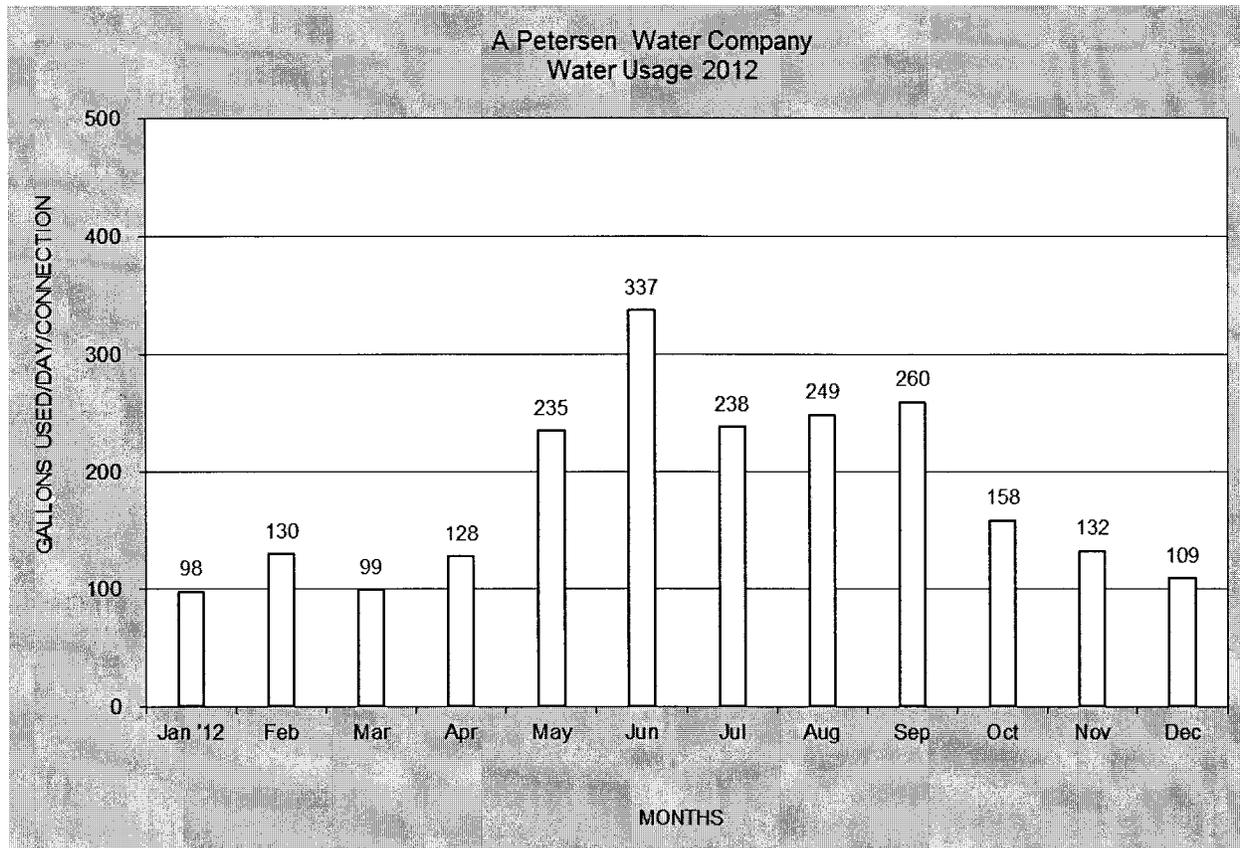
Note: ADEQ’s MAP invoice for the 2012 calendar year was \$368.22

Staff recommends the annual water testing expense of \$848 be used for purposes of this application.

G. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2012 is presented below. The high monthly domestic water use was 337 gal/day per service connection in June and the low monthly domestic water use was 98 gal/day per service connection in January. The average annual use was 181 gal/day per service connection.



Non-account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 2,779,000 gallons pumped and 2,699,520 gallons sold, resulting in a water loss of 2.86% on an annual basis for 2012, which is within acceptable limits.

H. GROWTH

In December 2009, Company had 46 customers, and in December 2012, the Company had 40 customers. The customer base has decreased from 2009 to 2012. The Company estimates that the customer base will be flat for the next 5 years.

Staff concludes that the A. Petersen has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth in the event some unexpected growth occurs.

I. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to 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	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00

347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFF

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

K. BEST MANAGEMENT PRACTICES (“BMP”) TARIFFS

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

L. METER AND SERVICE LINE INSTALLATION CHARGES

The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company’s current meter and service line installation charges.

A. Petersen Water Company
Docket No. W-02678A-13-0293

NAVAJO COUNTY

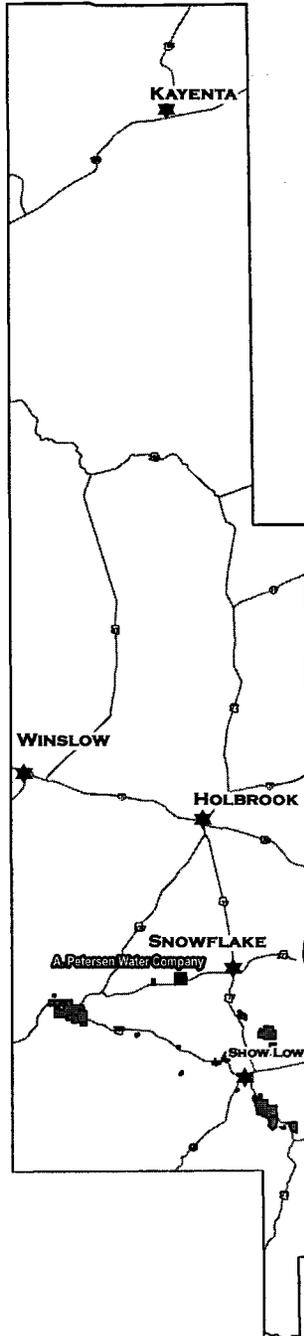


Figure 1: COUNTY MAP

A. Petersen Water Company
Docket No. W-02678A-13-0293

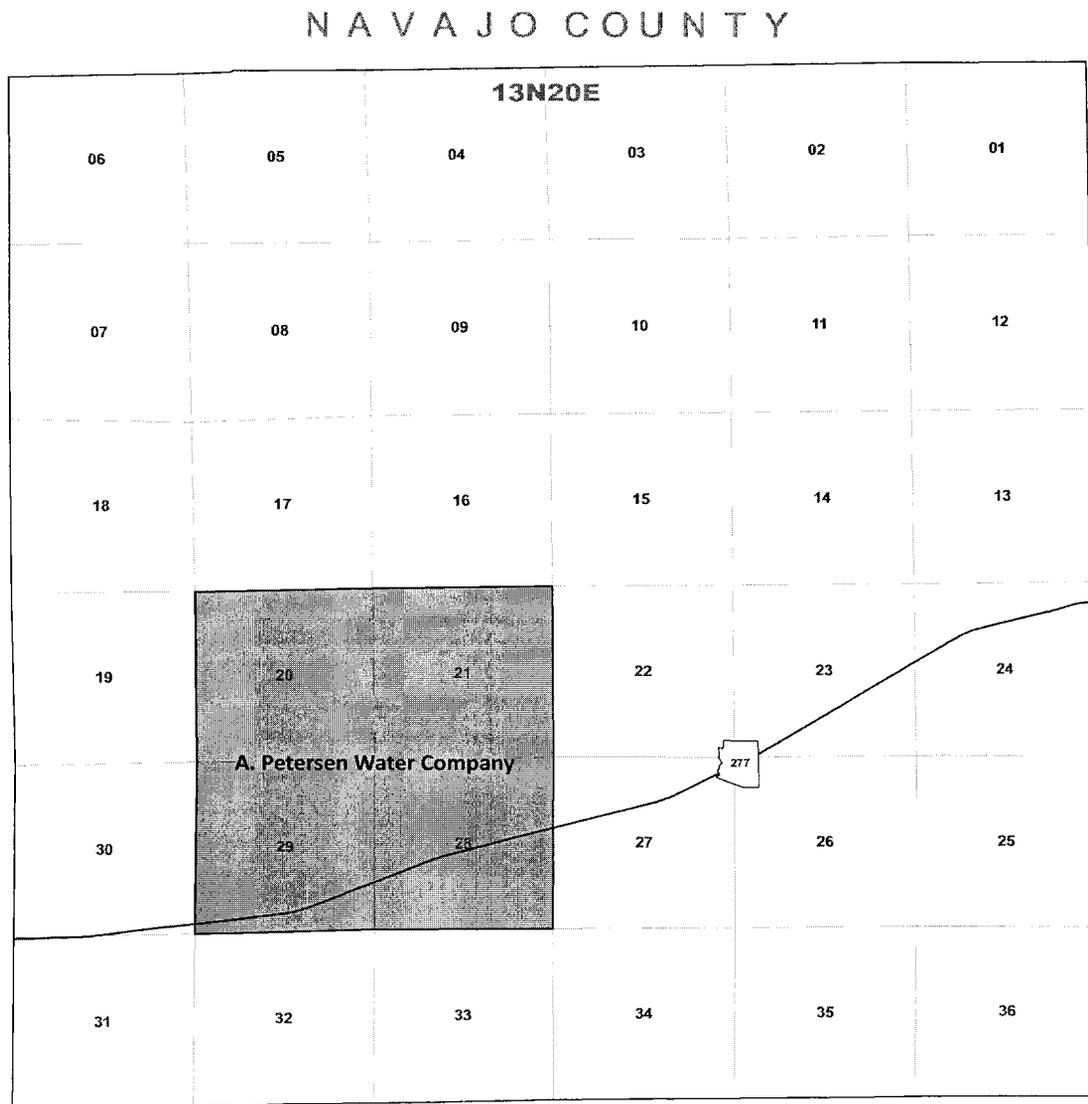


Figure 2: CERTIFICATED AREA