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ORIGINAL

MEMORANDUM

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AZ CORP COMMISSION  
DOCKET CONTROL

2014 FEB 5 PM 3 11

TO: Docket Control  
FROM: Steven M. Olea  
Director  
Utilities Division  
DATE: February 5, 2014  
RE: **STAFF REPORT FOR CIBOLA MUTUAL WATER COMPANY INC'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-04106A-13-0266)**

*EA for SMD*

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

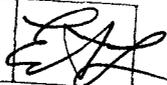
Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 18, 2014.

SMO:CLP:red\ML

Originator: Christine Payne

Arizona Corporation Commission  
DOCKETED

FEB 05 2014

DOCKETED BY 

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Docket No. W-04106A-13-0266

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**CIBOLA MUTUAL WATER COMPANY, INC.  
DOCKET NO. W-04106-13-0266**

**APPLICATION  
FOR A  
PERMANENT RATE INCREASE**

**FEBRUARY 5, 2014**

## STAFF ACKNOWLEDGMENT

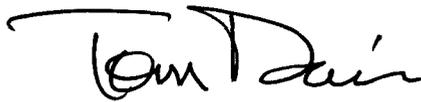
The Staff Report for Cibola Mutual Water Company Inc. ("Company") Docket No. W-04106-13-0266 was the responsibility of the Staff members listed below. Christine Payne was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Tom Davis was responsible for reviewing customer complaints filed with the Commission.



Christine Payne  
Public Utilities Analyst II.



Katrin Stukov  
Utilities Engineer



Tom Davis  
Public Utilities Consumer Analyst I.

**EXECUTIVE SUMMARY  
CIBOLA MUTUAL WATER COMPANY, INC.  
DOCKET NO. W-04106A-13-0266**

Cibola Mutual Water Company, Inc. ("Cibola" or "Company") is a Class D water utility, located in a rural area adjacent to the Cibola National Wildlife Refuge in La Paz County. The area is located at the Arizona state line approximately 20 miles south of Blythe, California. The Company provides potable water service to approximately 160 customers based on rates and charges approved by the Commission in Decision No. 65750, dated March 20, 2003. Cibola is a Non-Profit Corporation.

Cibola proposes to increase its test year total operating revenues by \$35,354 or 34.00 percent, from \$103,983 to \$139,337; resulting in an operating income of \$25,975. The Company's Original Cost Rate Base ("OCRB") is a negative \$5,319 at test year-end. The Company's proposal will increase the monthly bill of a typical residential customer on a 3/4 inch meter, with a median usage of 1,000 gallons by \$21.00 or 44.68 percent, from \$47.00 to \$68.00.

Staff recommends increasing the Company's test year operating revenues by \$32,354 or 31.11 percent, from \$103,983 to \$136,337; resulting in an operating income of \$17,535. Staff's recommended OCRB is a negative \$26,557 at test year-end. Staff's recommended rates will increase the monthly bill of a typical residential customer on a 3/4 inch meter, with a median usage of 1,000 gallons, by \$9.00 or 19.15 percent, from \$47.00 to \$56.00.

Based on these findings, Staff recommends:

1. The Commission approve Staff's recommended rates and charges in this proceeding.
2. The Commission authorize Cibola to collect from its customers an appropriate share of any privilege, sales or use tax as provided for in AAC R14-2-409(D).
3. The Commission order Cibola to adopt the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as set forth on Exhibit 6 of Staff's Engineering Report.
4. Staff recommends that the Company, be required to file with Docket Control, as a compliance item in this docket, a status report delineating the ADEQ compliance status, within six months of the effective date of the Decision in this matter and every six months thereafter until further notice from the Commission.
5. Staff recommends the Commission order Cibola to change its Plant investing accounting based on Staff's recommended Plant categories and balances in order to assure compliance with NARUC Uniform System of Accounts and Generally Accepted Accounting Principles ("GAAP"), within 90 days from the date of the Commission decision in this docket. The Company should file an affidavit with

the Commission confirming compliance with this condition on a going forward basis.

6. 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 conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost recovery of actual costs associated with the BMP's implemented in its next general rate application.

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## ATTACHMENT

Engineering Report .....	Attachment A
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**FACT SHEET**

**Company:**

Current Rates: Decision No. 65750, dated March 20, 2003  
Type of Ownership: Non-Profit Corporation

Location: Cibola Water Company, Inc. is located at the Arizona state line approximately 20 miles south of Blythe, California in La Paz County. The Company is not located within an Active Management Area (“AMA”).

**Rates:**

Permanent rate increase application filed: August 2, 2013  
Current test year ended: December 31, 2012

**Metered Rates:**

	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
<b>Based on 3/4-inch meter</b>			
<b>Monthly Minimum Charge</b>	\$45.00	\$65.00	\$52.00
<b>Gallons in minimum</b>	0	0	0
<b>Commodity Charge (per 1,000 gallons)</b>			
0 to 8,000 gallons	\$2.00	\$3.00	\$4.00
8,001 to 16,000 gallons	\$2.35	\$3.50	\$5.25
Over 16,000 gallons	\$2.80	\$4.00	\$6.50
<b>Typical residential bill</b>			
*(based on median usage of 1,000 gallons)	\$47.00	\$68.00	\$56.00

\* Out of the Company’s total customer base of 160 customers, 125 or 78% are seasonal customers. As a result, the median usage is only 1,000 gallons.

**Customers:**

Average number of metered customers in the current test year (12/31/12): 160  
Current test year customers by meter size:

5/8 X 3/4-inch	0
3/4-inch	152
1-inch	8
1 1/2-inch	0
2-inch	0
4-inch	0
6-inch	0

Seasonal customers: 125

**Customer Notification:**

On August 2, 2013, the Company filed an *Affidavit of Mailing* with the Commission, confirming that its customers of record were notified of its application for a rate increase. The Company's *Public Notice* was mailed to each Cibola customer via United States First Class Mail. The notice of rate increase was also posted on the bulletin board located at Cibola's Office, local bulletin board at community mail boxes and the convenience store, as well as posting on the Company's web site.

**Complaints:**

Number of customer complaints from January 1, 2011 to current reveals the following:

2011 – One complaint (billing)

2012 – 2013 - Zero complaints

2013 – Six opinions were filed opposing the rate case.

All complaints have been resolved and closed.

## SUMMARY OF FILING

On August 2, 2013, Cibola Mutual Water Company Inc., (“Cibola or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) for a permanent rate increase. On November 5, 2013, the Commission Utilities Division Staff (“Staff”) determined that the Company’s application met sufficiency requirements of the Arizona Administrative Code, Section R14-2-103. Cibola is a Class D water utility and a Non-Profit company.

Cibola’s proposed rates, as filed, would produce Total Operating Revenue of \$139,337 and Operating Income of \$25,975 resulting in an 18.64 percent operating margin. The Company’s Original Cost Rate Base (“OCRB”) is a negative \$5,319. The Company’s proposed rates would increase the typical residential bill, with a median usage of 1,000 gallons, from \$47.00 to \$68.00 for an increase of \$21.00, or 44.68 percent, as shown on Schedule CLP-5.

Staff recommends rates that would produce Total Operating Revenue of \$136,337 and Operating Income of \$17,535 resulting in a 12.86 percent operating margin. Staff adjusted the Company’s OCRB from a negative \$5,319 to a negative \$26,557. Staff’s recommended rates would increase the typical residential bill, with a median usage of 1,000 gallons, from \$47.00 to \$56.00 for an increase of \$9.00, or 19.15 percent, as shown on Schedule CLP-5.

## BACKGROUND

Cibola is located in a rural area adjacent to the Cibola National Wildlife Refuge in La Paz County. The area is located at the Arizona state line approximately 20 miles south of Blythe, California. The Company provides potable water service to approximately 160 customers based on rates and charges approved by the Commission in Decision No. 65750, dated March 20, 2003.

## CONSUMER SERVICES RECOMMENDATIONS

Establishment Charge – Cibola proposed an increase to the Establishment Charge from \$20.00 to \$50.00. Staff recommends approval of an Establishment Charge of \$30.00. This recommendation is a reasonable and customary charge.

Reconnection (Delinquent) Charge – Cibola proposed an increase to the Reconnection (Delinquent) Charge from \$20.00 to \$60.00. Staff recommends approval of a Reconnection (Delinquent) Charge of \$25.00. This recommendation is a reasonable and customary charge.

After Hours Service Charge – Cibola proposed an increase to the After Hours Service Charge from \$35.00 to \$65.00. Staff recommends approval of an After Hours Service Charge of \$35.00. This recommendation is a reasonable and customary charge.

Meter Test – Cibola proposed an increase to the Meter Test Charge from \$10.00 to \$35.00. Staff recommends an approval of \$20.00. CMW has been advised that the Arizona Corporation Commission’s Utilities Division test 5/8” and 3/4” meters at no charge.

Deposit and Deposit Interest – Staff recommends including an asterisk referring to the Rule at the bottom of the page stating \* Rule AAC R14-2-403. B.

Re-Establishment (within 12 months) – Staff recommends a double asterisk at the bottom of the page stating \*\* Months off the system times monthly minimum per Rule AAC R14-2-403. D.

Non-Sufficient Fund (“NSF”) Check – Cibola proposed an increase to the NSF Charge from \$25.00 to \$35.00. The Company provided information that the bank charge is \$10.00 for each NSF check. Staff recommends approval of \$15.00 for the NSF Charge.

Deferred Payment – Staff agrees with the Deferred Payment of 1.5 percent, however, Staff recommends adding (per month) after Deferred Payment.

Late Fee – Staff agrees with the proposed Late Fee of 1.5 percent, however, Staff recommends adding (per month) after Late Fee.

Meter Re-read – Cibola proposed an increase to the Meter Re-read charge from \$20.00 to \$25.00. Staff recommends adding (If Correct) after Meter Re-read.

## **ENGINEERING ANALYSIS**

Staff conducted a field inspection of Cibola’s facilities on October 9, 2013. A complete description of the Company’s water system, Staff’s technical findings and recommendations are contained in the Engineering Report, attached as Attachment A.

## **RATE BASE**

Staff’s rate base adjustments result in a net decrease to the Company’s proposed rate base by \$21,238 from negative \$5,319 to a negative \$26,557, as shown in Schedule CLP-2, page 1. Details of Staff’s adjustments are discussed below.

### *Plant in Service*

Pumping Equipment – Adjustment “a” decreases Pumping Equipment by \$35,000 for Storage Tanks that were misclassified in this account.

Water Treatment Equipment – Adjustment “b” decreases Water Treatment Equipment by \$639,961 that was misclassified.

Water Treatment Plant – Adjustment ‘c’ increases Water Treatment Plant by \$588,261 that was misclassified in Water Treatment Equipment.

Solution Chemical Feeders – Adjustment “d” increases Solution Chemical Feeders by \$51,700 that was misclassified in Water Treatment Equipment.

Distribution Reservoirs & Distribution Mains – Adjustment “e” decreases Distribution Reservoirs & Distribution Mains by \$458,000 that was misclassified.

Storage Tanks – Adjustment “f” increases Storage Tanks by \$35,000 that was misclassified in Pumping Equipment.

Pressure Tanks – Adjustment “g” increases Pressure Tanks by \$458,000 that was misclassified in Distribution Reservoirs and Standpipes.

These adjustments are offsetting so there was no net change to the Company’s Plant value of \$5,140,375.

#### *Accumulated Depreciation*

Adjustment H reflects an increase of \$34,147 to Accumulated Depreciation from the Company’s proposed amount of \$434,853 to Staff’s recommended amount of \$469,000 based on Staff’s calculated Plant balances.

#### *Working Capital*

Adjustment I reflect the result of Staff’s calculation of cash working capital based on the formula method. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, and purchased power and expenses plus one twenty-fourth of purchased power and water expenses.

### **OPERATING INCOME STATEMENT**

#### *Operating Revenue*

Staff made no adjustment to the Company’s test year revenues.

#### *Operating Expenses*

The Company reports test year total operating expenses of \$113,362. Staff’s adjustments shown on Schedule CLP-3, page 1, results in test year total operating expenses of \$118,140, \$4,778 more than the Company’s test year expenses. Staff’s adjustments are as follows:

Water Testing – Adjustment A increases annual water testing expense by \$1,186 as per Staff’s Engineering Report.

Depreciation Expense – Adjustment B decreases depreciation expense by \$2,154 to reflect Staff's calculation of depreciation expense based on Staff adjusted Plant in service at test year-end. Staff's calculation of depreciation expense is depicted on Schedule CLP-3, page 1 of 3.

Property Tax Expense – Adjustment C increases test year property tax expense by \$5,746 to reflect property taxes based on Staff's recommended revenue.

## **REVENUE REQUIREMENT**

Cibola seeks Commission authorization to increase its revenue by \$35,354 or 34.00 percent for a total of \$139,337. The Company's proposal results in an Operating Income of \$25,975 or an 18.64 percent operating margin.

Staff recommends an increase in revenue by \$32,354 or 31.11 percent for a total Operating Income of \$136,337. Staff's recommendation results in an operating income of \$17,535 or 12.86 percent operating margin. As fully discussed below, Staff employed cash flow analysis in order to derive the respective operating income recommendations because the Company's negative rate base does not provide any revenue to cover its contingencies.

Typically, operating income is established by multiplying rate base by a rate of return, derived through a cost of capital analysis. Because Cibola currently has a negative rate base, Staff has employed the cash flow methodology in determining its operating income in this case. Staff's recommended revenue requirement will enable Cibola to cover its operating expenses, contingencies, and meet the debt service coverage ("DSC") ratio for the two U.S. Department of Rural Development loans totaling \$342,610 (\$200,000 and \$142,610).

### *Income Taxes*

Cibola Mutual Water Company is a non-profit entity and does not have any Income Tax obligation.

## **RATE DESIGN**

Cibola's current rate design is comprised of three tiers, with a first-tier break-over of 8,000; 8,001-gallons for the second-tier; and over 16,000-gallons for the third-tier. Currently, the monthly commodity charges are the same for all meter sizes at the different break-over points. The Company's current monthly minimum charges do not include any gallons.

Staff recommends a three-tiered rate structure for the 5/8 x 3/4 inch meter, the 3/4 inch meter and 1 inch meters. Staff recommends a gradual increase in rates and a change in break-over points for meter sizes over 1 inch. Staff's recommended rate design (Schedule CLP-4) will encourage a more efficient use of water within the Company's certificated territory.

As shown on Schedule CLP-5, the Company's proposed rates for a typical residential customer, on a 3/4-inch meter, with a median usage of 1,000-gallons, result in a monthly increase of \$21.00 or 44.68 percent. Staff's recommended rates result in an increase of \$9.00 or 19.15 percent for a typical residential customer with the same level of consumption.

Staff recommends adoption of its recommended Service Line and Meter Installation Charges as well as Service Charges, shown on Schedule CLP-4.

## **OTHER MATTERS**

### *Accounting Records*

Staff recommends the Commission order Cibola to change the Plant accounts based on Staff's recommended Plant categories and balances to be kept in compliance with the NARUC Uniform System of Accounts and Generally Accepted Accounting Principles ("GAAP"), within 90 days of the date of the Commission decision in this docket. The Company should file an affidavit with the Commission confirming compliance with this condition on a going forward basis.

### *Contributions in Aid of Construction ("CIAC")*

Staff is concerned about the Company's over-reliance on Contributions In Aid of Construction ("CIAC"). The level of CIAC on a utility's books can affect available cash flows since amortization of CIAC is recognized as a reduction to recoverable depreciation expense when setting rates. In Cibola's rate case, approximately ninety six percent of total Plant (\$4,908,196) is CIAC. Staff calculated non-depreciable Plant (\$232,179 or 4.5 percent of total Plant) as non-amortizable contribution to recover \$7,854 of depreciation expense (see CLP-3, page 3 of 3).

## **STAFF'S RECOMMENDATIONS**

Based on Staff's analysis and findings in this proceeding, Staff recommends:

1. The Commission approve Staff's recommended rates and charges in this proceeding.
2. The Commission authorize Cibola to collect from its customers an appropriate share of any privilege, sales or use tax as provided for in AAC R14-2-409(D).
3. The Commission order Cibola to adopt the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as set forth on Exhibit 6 of Staff's Engineering Report.

4. Staff recommends that the Company, be required to file with Docket Control, as a compliance item in this docket, a status report delineating the ADEQ compliance status, within six months of the effective date of the Decision in this matter and every six months thereafter until further notice from the Commission.
5. Staff recommends the Commission order Cibola to change its Plant investing accounting based on Staff's recommended Plant categories and balances in order to assure compliance with NARUC Uniform System of Accounts and Generally Accepted Accounting Principles ("GAAP"), within 90 days from the date of the Commission decision in this docket. The Company should file an affidavit with the Commission confirming compliance with this condition.
6. 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 conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost recovery of actual costs associated with the BMP's implemented in its next general rate application.

Test Year Ended December 31, 2012

**SUMMARY OF FILING**

	-- Present Rates --		Proposed	Recommended
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Recommended
<b>Revenues:</b>				
Metered Water Revenue	\$ 102,980	\$ 102,980	\$ 138,334	\$ 135,334
Surcharge Revenue	\$ -	\$ -	\$ -	\$ -
Other Water Revenues	\$ 1,003	\$ 1,003	\$ 1,003	\$ 1,003
<b>Total Operating Revenue</b>	<b>\$ 103,983</b>	<b>\$ 103,983</b>	<b>\$ 139,337</b>	<b>\$ 136,337</b>
<b>Operating Expenses:</b>				
Operation and Maintenance	\$ 98,794	\$ 99,980	\$ 98,794	\$ 99,980
Depreciation	\$ 10,008	\$ 7,854	\$ 10,008	\$ 7,854
Property Taxes	\$ 639	\$ 6,385	\$ 639	\$ 7,047
Taxes Other Than Income	\$ 3,921	\$ 3,921	\$ 3,921	\$ 3,921
Income Taxes	\$ -	\$ -	\$ -	\$ -
<b>Total Operating Expense</b>	<b>\$ 113,362</b>	<b>\$ 118,140</b>	<b>\$ 113,362</b>	<b>\$ 118,802</b>
<b>Operating Income/(Loss)</b>	<b>\$ (9,379)</b>	<b>\$ (14,157)</b>	<b>\$ 25,975</b>	<b>\$ 17,535</b>
<b>Rate Base O.C.L.D.</b>	<b>\$ (5,319)</b>	<b>\$ (26,557)</b>	<b>\$ (5,319)</b>	<b>\$ (26,557)</b>
<b>Rate of Return - O.C.L.D.</b>	<b>N/M</b>	<b>N/M</b>	<b>N/M</b>	<b>N/M</b>
<b>Operating Margin**</b>	<b>-9.02%</b>	<b>-13.61%</b>	<b>18.64%</b>	<b>12.86%</b>

\*Amounts result from Staff's cash flow recommendation. (CLP-6)

<b>RATE BASE</b>					
	----- Original Cost -----				
	Company	Adjustment*	Reference	Staff	
Plant in Service	\$ 5,140,375	\$ -	*a,b,c,d,e,f,g	\$ 5,140,375	
Less:					
Accum. Depreciation	\$ 434,853	\$ 34,147	H	\$ 469,000	
<b>Net Plant</b>	<b>\$ 4,705,522</b>	<b>\$ (34,147)</b>		<b>\$ 4,671,375</b>	
Less:					
Line Extension Advances	\$ -	\$ -		\$ -	
Service Line and Meter Advances	\$ -	\$ -		\$ -	
<b>Total Advances</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	
Contributions Gross	\$ 4,948,642	\$ -		\$ 4,948,642	
Less:					
Accumulated Amortization of CIAC	\$ (237,801)	\$ -		\$ (237,801)	
<b>Net CIAC</b>	<b>\$ 4,710,841</b>	<b>\$ -</b>		<b>\$ 4,710,841</b>	
<b>Total Deductions</b>	<b>\$ 4,710,841</b>	<b>\$ -</b>		<b>\$ 4,710,841</b>	
Plus:					
1/24 Purchased Power & Water	\$ -	\$ 412	I	\$ 412	
1/8 Operation & Maint.	\$ -	\$ 12,498	I	\$ 12,498	
Inventory	\$ -	\$ -		\$ -	
Prepayments	\$ -	\$ -		\$ -	
<b>Total Additions</b>	<b>\$ -</b>	<b>\$ 12,910</b>		<b>\$ 12,910</b>	
<b>Rate Base</b>	<b>\$ (5,319)</b>	<b>\$ (21,238)</b>		<b>\$ (26,557)</b>	

\* Rate Base adjustments "a,b,c,d,e,f, g" result in \$0.00 net effect to Plant  
(see Plant Adjustment Schedule CLP-2, page 2)

<b>PLANT ADJUSTMENT</b>
-------------------------

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$ 223,134	\$ -		\$ 223,134
302 Franchises	\$ -	\$ -		\$ -
303 Land & Land Rights	\$ 9,045	\$ -		\$ 9,045
304 Structures & Improvements	\$ 395,244	\$ -		\$ 395,244
305 Collecting & Impounding	\$ -	\$ -		\$ -
306 Lake, River, Canal Intakes	\$ -	\$ -		\$ -
307 Wells & Springs	\$ 248,000	\$ -		\$ 248,000
308 Infiltration Galleries	\$ -	\$ -		\$ -
309 Raw Water Supply Mains	\$ -	\$ -		\$ -
310 Power Generation Equipment	\$ -	\$ -		\$ -
311 Pumping Equipment	\$ 171,000	\$ (35,000)	a	\$ 136,000
320 Water Treatment Equipment	\$ 639,961	\$ (639,961)	b	\$ -
320.1 Water Treatment Plant	\$ -	\$ 588,261	c	\$ 588,261
320.2 Solution Chemical Feeders	\$ -	\$ 51,700	d	\$ 51,700
330 Distribution Reservoirs & Standpipes	\$ 458,000	\$ (458,000)	e	\$ -
330.1 Storage Tanks	\$ -	\$ 35,000	f	\$ 35,000
330.2 Pressure Tanks	\$ -	\$ 458,000	g	\$ 458,000
331 Transmission & Distribution Mains	\$ 2,004,414	\$ -		\$ 2,004,414
333 Services	\$ 81,515	\$ -		\$ 81,515
334 Meters & Meter Installations	\$ 142,633	\$ -		\$ 142,633
335 Hydrants	\$ 260,300	\$ -		\$ 260,300
336 Backflow Prevention Devices	\$ -	\$ -		\$ -
339 Other Plant and Misc. Equipment	\$ 83,433	\$ -		\$ 83,433
340 Office Furniture & Equipment	\$ 10,131	\$ -		\$ 10,131
340.1 Computers & Software	\$ -	\$ -		\$ -
341 Transportation Equipment	\$ 18,116	\$ -		\$ 18,116
342 Stores Equipment	\$ -	\$ -		\$ -
343 Tools Shop & Garage Equipment	\$ 5,449	\$ -		\$ 5,449
344 Laboratory Equipment	\$ 390,000	\$ -		\$ 390,000
345 Power Operated Equipment	\$ -	\$ -		\$ -
346 Communication Equipment	\$ -	\$ -		\$ -
347 Miscellaneous Equipment	\$ -	\$ -		\$ -
348 Other Tangible Plant	\$ -	\$ -		\$ -
	\$ 5,140,375	\$ -		\$ 5,140,375

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	434,853
Accumulated Depreciation - Per Staff	<u>469,000</u>
<b>Total Adjustment</b>	<b>H <u><u>\$34,147</u></u></b>

*Explanation of Adjustment:*

- B - To reflect application of the authorized depreciation rates per Commission approval in Decision No. 65750

<u>Accumulated Depreciation Balances</u>	Per Company	Per Staff <sup>1</sup>
301 Organization	-	-
302 Franchises	-	-
303 Land & Land Rights	-	-
304 Structures & Improvements	32,041	32,685
305 Collecting & Impounding Reservoirs	-	-
306 Lake, River Canal Intakes	-	-
307 Wells & Springs	20,104	20,508
308 Infiltration Galleries	-	-
309 Raw Water Supply Mains	-	-
310 Power Generation Equipment	-	-
311 Pumping Equipment	48,261	47,727
320 Water Treatment Equipment	51,831	51,150
320.1 Water Treatment Plants	-	-
320.2 Solution Chemical Feeders	-	10,340
330 Distribution Reservoirs & Standpipes	24,974	15,916
330.1 Storage Tanks	-	-
330.2 Pressure Tanks	-	22,900
331 Transmission & Distribution Mains	98,625	99,820
333 Services	6,606	6,741
334 Meters & Meter Installations	27,217	28,610
335 Hydrants	12,808	12,963
336 Backflow Prevention Devices	-	-
339 Other Plant and Misc. Equipment	12,554	13,054
340 Office Furniture & Equipment	1,601	1,667
340.1 Computers & Software	-	-
341 Transportation Equipment	7,682	8,696
342 Stores Equipment	-	-
343 Tools Shop & Garage Equipment	654	674
344 Laboratory Equipment	89,895	95,550
345 Power Operated Equipment	-	-
346 Communication Equipment	-	-
347 Miscellaneous Equipment	-	-
348 Other Tangible Plant	-----	-----
<b>Total Accumulated Depreciation<sup>1</sup></b>	<u><u>434,853</u></u>	<u><u>469,000</u></u>

<sup>1</sup> The Company's balance sheet shows Accumulated Depreciation \$434,853.

**STATEMENT OF OPERATING INCOME**

	COMPANY	Staff	STAFF	Staff	Staff
	Adj. Test Year	Adjustments	Adj. Test Year	Adjustments	Recommended
461 Metered Water Revenue	\$ 102,980	\$ -	\$ 102,980	\$ 32,354	\$135,334
460 Unmetered Water Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
474 Other Water Revenues	\$ 1,003	\$ -	\$ 1,003	\$ -	\$ 1,003
Total Operating Revenue	\$ 103,983	\$ -	\$ 103,983	\$ 32,354	\$ 136,337
Operating Expenses:					
601 Salaries and Wages	\$ 43,684	\$ -	\$ 43,684	\$ -	\$ 43,684
610 Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
615 Purchased Power	\$ 9,895	\$ -	\$ 9,895	\$ -	\$ 9,895
618 Chemicals	\$ 2,343	\$ -	\$ 2,343	\$ -	\$ 2,343
620 Repairs and Maintenance	\$ 9,477	\$ -	\$ 9,477	\$ -	\$ 9,477
621 Office Supplies & Expense	\$ 7,371	\$ -	\$ 7,371	\$ -	\$ 7,371
630 Contractual Services	\$ 16,838	\$ -	\$ 16,838	\$ -	\$ 16,838
635 Water Testing	\$ 3,120	\$ 1,186	\$ 4,306	\$ -	\$ 4,306
641 Rents	\$ 500	\$ -	\$ 500	\$ -	\$ 500
650 Transportation Expenses	\$ 1,226	\$ -	\$ 1,226	\$ -	\$ 1,226
657 Insurance - General Liability	\$ 4,340	\$ -	\$ 4,340	\$ -	\$ 4,340
659 Insurance - Health and Life	\$ -	\$ -	\$ -	\$ -	\$ -
666 Regulatory Commission Expense - Rate Case	\$ -	\$ -	\$ -	\$ -	\$ -
675 Miscellaneous Expense	\$ -	\$ -	\$ -	\$ -	\$ -
403 Depreciation Expense	\$ 10,008	\$ (2,154)	\$ 7,854	\$ -	\$ 7,854
408 Taxes Other Than Income	\$ 3,921	\$ -	\$ 3,921	\$ -	\$ 3,921
408.11 Property Taxes	\$ 639	\$ 5,746	\$ 6,385	\$ 662	\$ 7,047
409 Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 113,362	\$ 4,778	\$ 118,140	\$ 662	\$ 118,802
<b>OPERATING INCOME/(LOSS)</b>	<b>\$ (9,379)</b>	<b>\$ (4,778)</b>	<b>\$ (14,157)</b>	<b>\$ 31,692</b>	<b>\$ 17,535</b>

**STAFF ADJUSTMENTS**

A	-	WATER TESTING - Per Company	3,120	
		Per Staff	4,306	
		To reflect Staff's recommended water testing expense		1,186
B	-	PROPERTY TAX - Per Company	\$ 639	
		Per Staff	\$ 6,385	
		To reflect Staff's calculation of Property as follows:		5,746

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 103,983	\$ 103,983
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	207,966	\$ 207,966
4	Staff Recommended Revenue, Per Schedule CLP-1	103,983	\$ 136,337
5	Subtotal (Line 4 + Line 5)	311,949	344,303
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	103,983	\$ 114,768
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	207,966	\$ 229,535
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	207,966	\$ 229,535
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	39,514	\$ 43,612
15	*Composite Property Tax Rate	16.16%	16.16%
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 6,385	
17	Company Proposed Property Tax	639	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 5,746	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 7,047
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 6,385
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 662
22	Increase to Property Tax Expense		\$ 662
23	Increase in Revenue Requirement		32,354
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		2.046690%

**\*Composite Tax Rate Calculation**

Assessment Value (Line 14)	39,514
Property Tax per 2012 Notice	2,494
Composite Property Tax Rate	0.161580823

**STAFF ADJUSTMENTS CONT'D**

C - DEPRECIATION - Per Company \$ 10,008  
Per Staff 7,854 (\$2,154)

To reflect Staff's calculation of depreciation as follows:

		[A]	[B]	[C]	[D]	[E]
Acct No.	DESCRIPTION	PLANT In SERVICE Per Staff	nDepreciable lly Depreciat PLANT	DEPRECIABLE PLANT (Col A - Col B)	EPRECIATIO RATE	DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$ 223,134	\$ 223,134	\$ -	0.00%	\$ -
302	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
303	Land & Land Rights	\$ 9,045	\$ 9,045	\$ -	0.00%	\$ -
304	Structures & Improvements	\$ 395,244	\$ -	\$ 395,244	3.33%	\$ 13,162
307	Wells & Springs	\$ 248,000	\$ -	\$ 248,000	3.33%	\$ 8,258
310	Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
311	Pumping Equipment	\$ 136,000	\$ -	\$ 136,000	12.50%	\$ 17,000
320	Water Treatment Equipment					
320.1	Water Treatment Plant	\$ 588,261	\$ -	\$ 588,261	3.33%	\$ 19,589
320.2	Solution Chemical Feeders	\$ 51,700	\$ -	\$ 51,700	20.00%	\$ 10,340
330	Dist Reservoirs & Standpipes					
330.1	Storage Tanks	\$ 35,000	\$ -	\$ 35,000	2.22%	\$ 777
330.2	Pressure Tanks	\$ 458,000	\$ -	\$ 458,000	5.00%	\$ 22,900
331	Transmission & Dist Mains	\$ 2,004,414	\$ -	\$ 2,004,414	2.00%	\$ 40,088
333	Services	\$ 81,515	\$ -	\$ 81,515	3.33%	\$ 2,714
334	Meters & Meter Installations	\$ 142,633	\$ -	\$ 142,633	8.33%	\$ 11,881
335	Hydrants	\$ 260,300	\$ -	\$ 260,300	2.00%	\$ 5,206
336	Backflow Prevention Devices	\$ -	\$ -	\$ -	6.67%	\$ -
339	Other Plant & Misc. Equipment	\$ 83,433	\$ -	\$ 83,433	6.67%	\$ 5,565
340	Office Furniture & Equipment	\$ 10,131	\$ -	\$ 10,131	6.67%	\$ 676
340.1	Computer & Software	\$ -	\$ -	\$ -	20.00%	\$ -
341	Transportation Equipment	\$ 18,116	\$ -	\$ 18,116	20.00%	\$ 3,623
342	Stores Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
343	Tools, Shop & Garage Equipment	\$ 5,449	\$ -	\$ 5,449	5.00%	\$ 272
344	Laboratory Equipment	\$ 390,000	\$ -	\$ 390,000	10.00%	\$ 39,000
345	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
346	Communication Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
347	Miscellaneous Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
348	Other Tangible Plant					
Total Plant		\$ 5,140,375	\$ 232,179	\$ 4,908,196		\$ 201,053

Depreciation Expense Before Amortization of CIAC: \$ 201,053

Less Amortization of CIAC\*: \$ 193,199

**Test Year Depreciation Expense - Staff: \$ 7,854**

Depreciation Expense - Company: \$ 10,008

**Staff's Total Adjustment: \$ (2,154)**

**\* Amortization of CIAC Calculation:**

Contribution(s) in Aid of Construction (Gross) \$4,948,642

Less: Non Amortizable Contribution(s) 232,179

Less: Fully Amortized Contribution(s) 0

Amortizable Contribution(s) \$ 4,716,463

CIAC Amortization Rate (Depreciation Expense / Depreciable Plant): 4.096%

**Amortization of CIAC \$ 193,199**

**RATE DESIGN**

	<b>Present Rates</b>	<b>Company Proposed</b>	<b>Staff Recommended</b>
<b>Monthly Customer Charge:</b>			
5/8" x 3/4" Meter	\$ 19.00	\$ 45.00	\$ 25.00
3/4" Meter	\$ 45.00	\$ 65.00	\$ 52.00
1" Meter	\$ 50.00	\$ 70.00	\$ 62.00
1½" Meter	\$ 90.00	\$ 140.00	\$ 125.00
2" Meter	\$ 144.00	\$ 194.00	\$ 200.00
3" Meter	\$ 270.00	\$ 320.00	\$ 400.00
4" Meter	\$ 450.00	\$ 500.00	\$ 625.00
6" Meter	\$ 900.00	\$ 950.00	\$ 1,250.00
<b>Gallons Included In Monthly Customer Charge:</b>	0	0	0
<b>5/8" x 3/4" Meter</b>			
0 - 8,000 gallons	\$ 2.00	\$ 3.00	\$ 4.00
8,001 to 16,000 gallons	\$ 2.35	\$ 3.50	\$ 5.25
Over 16,000 gallons	\$ 2.80	\$ 4.00	\$ 6.50
<b>3/4" Meter</b>			
0 - 8,000 gallons	\$ 2.00	\$ 3.00	\$ 4.00
8,001 to 16,000 gallons	\$ 2.35	\$ 3.50	\$ 5.25
Over 16,000 gallons	\$ 2.80	\$ 4.00	\$ 6.50
<b>1" Meter</b>			
0 - 8,000 gallons	\$ 2.00	\$ 3.00	\$ 6.50
8,001 to 16,000 gallons	\$ 2.35	\$ 3.50	\$ 7.50
Over 16,000 gallons	\$ 2.80	\$ 4.00	\$ 8.60
<b>1½" Meter</b>			
0 - 20,000 gallons	\$ 2.00	\$ 3.00	\$ 7.50
Over 20,000 gallons	\$ 2.35	\$ 3.50	\$ 8.60
<b>2" Meter</b>			
0 - 50,000 gallons	\$ 2.00	\$ 3.00	\$ 7.50
Over 50,000 gallons	\$ 2.35	\$ 3.50	\$ 8.60
<b>3" Meter</b>			
0 - 80,000 gallons	\$ 2.00	\$ 3.00	\$ 7.50
Over 80,000 gallons	\$ 2.35	\$ 3.50	\$ 8.60
<b>4" Meter</b>			
0 - 150,000 gallons	\$ 2.00	\$ 3.00	\$ 7.50
Over 150,000 gallons	\$ 2.35	\$ 3.50	\$ 8.60
<b>6" Meter</b>			
0 - 500,000 gallons	\$ 2.00	\$ 3.00	\$ 7.50
Over 500,000 gallons	\$ 2.35	\$ 3.50	\$ 8.60

**RATE DESIGN**

**SERVICE LINE AND METER INSTALLATION CHARGES:**  
(Refundable pursuant to A.A.C. R14-2-405.)

Meter Size	Company Current Tariff	Company Proposed Tariff*	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge**
5/8" x 3/4" Meter	\$ 375	0	0	0	0
3/4" Meter	\$ 550	\$ 5,000	\$ 455	\$ 255	\$ 700
1" Meter	\$ 630	\$ 5,200	\$ 495	\$ 315	\$ 810
1½" Meter	\$ 865	\$ 5,500	\$ 550	\$ 525	\$ 1,075
2" Meter	\$ 1,455	\$ 6,090	\$ 830	\$ 1,045	\$ 1,875
3" Meter	\$ 2,055	\$ 6,690	\$ 1,045	\$ 1,670	\$ 2,715
4" Meter	\$ 3,200	\$ 8,980	\$ 1,490	\$ 2,670	\$ 4,160
5" Meer	\$ 4,495	\$ 10,275	0	0	0
6" Meter	\$ 5,795	\$ 11,575	\$ 2,210	\$ 5,025	\$ 7,235

\*Installation cost includes \$3,550 for boring under a paved road

\*\* Note: The actual cost incurred for boring under a paved road will be added if required

	Current Charges	Company Proposed	Staff's Recommendation
Establishment	\$ 20.00	\$ 50.00	\$ 30.00
Reconnection (delinquent)	\$ 20.00	\$ 60.00	\$ 25.00
After Hours Service Charge	\$ 35.00	\$ 65.00	\$ 35.00
Meter Test (if correct)	\$ 10.00	\$ 35.00	\$ 20.00
Deposit	*	0	*
Deposit Interest	*	0	*
Re-establishment (within 12 months)	**	0	**
NSF Check	\$ 25.00	\$ 35.00	\$ 15.00
Deferred Payment (per month)	1.50%	1.50%	1.50%
Meter Re-read	\$ 20.00	\$ 25.00	\$ 15.00
Late Fee	0.00%	1.50%	1.50%

**Monthly Service Charge for Sprinklers:**

4" or smaller	***	***	***
6"	***	***	***
8"	***	***	***
10"	***	***	***
Larger than 10"	***	***	***

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

\*\* Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403.D.

\*\*\* 2.0% of monthly minimum for a comparable meter size connection, but no less than \$20.00 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**  
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,500	\$ 50.00	\$ 72.50	\$ 22.50	45.00%
Median Usage	1,000	47.00	68.00	\$ 21.00	44.68%
<b>Staff Recommended</b>					
Average Usage	2,500	\$ 50.00	\$ 62.00	\$ 12.00	24.00%
Median Usage	1,000	47.00	56.00	\$ 9.00	19.15%

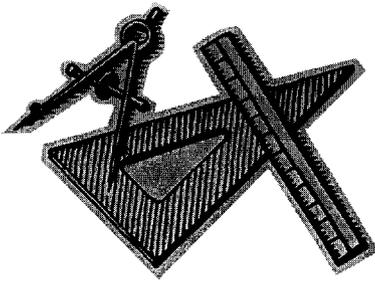
**Present & Proposed Rates (Without Taxes)**  
General Service 3/4-Inch Meter

Gallons	Company Proposed		%	Staff Recommended	
	Present	Proposed		Rates	Increase
	3/4"	3/4"		3/4"	
	Minimum Charge \$ 45.00	Minimum Charge \$ 65.00		Minimum Charge \$ 52.00	
	1st Tier Rate 2.00	1st Tier Rate 3.00		1st Tier Rate 4.00	
	1st Tier Breakover 8,000	1st Tier Breakover 8,000		1st Tier Breakover 3,000	
	2nd Tier Rate \$ 2.35	2nd Tier Rate \$ 3.50		2nd Tier Rate \$ 5.25	
	2nd Tier Breakover 16,000	2nd Tier Breakover 16,000		2nd Tier Breakover 16,000	
	3rd Tier Rate \$ 2.80	3rd Tier Rate \$ 4.00		3rd Tier Rate \$ 6.50	
Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 45.00	\$ 65.00	44.44%	\$ 52.00	15.56%
1,000	47.00	68.00	44.68%	56.00	19.15%
2,000	49.00	71.00	44.90%	60.00	22.45%
2,500	50.00	72.50	45.00%	62.00	24.00%
3,000	51.00	74.00	45.10%	64.00	25.49%
4,000	53.00	77.00	45.28%	69.25	30.66%
5,000	55.00	80.00	45.45%	74.50	35.45%
5,500	56.00	81.50	45.54%	77.13	37.72%
6,000	57.00	83.00	45.61%	79.75	39.91%
7,000	59.00	86.00	45.76%	85.00	44.07%
8,000	61.00	89.00	45.90%	90.25	47.95%
9,000	63.35	92.50	46.01%	95.50	50.75%
10,000	65.70	96.00	46.12%	100.75	53.35%
11,000	68.05	99.50	46.22%	106.00	55.77%
12,000	70.40	103.00	46.31%	111.25	58.03%
13,000	72.75	106.50	46.39%	116.50	60.14%
14,000	75.10	110.00	46.47%	121.75	62.12%
15,000	77.45	113.50	46.55%	127.00	63.98%
16,000	79.80	117.00	46.62%	132.25	65.73%
17,000	82.60	121.00	46.49%	138.75	67.98%
18,000	85.40	125.00	46.37%	145.25	70.08%
19,000	88.20	129.00	46.26%	151.75	72.05%
20,000	91.00	133.00	46.15%	158.25	73.90%
25,000	105.00	153.00	45.71%	190.75	81.67%
30,000	119.00	173.00	45.38%	223.25	87.61%
35,000	133.00	193.00	45.11%	255.75	92.29%
40,000	147.00	213.00	44.90%	288.25	96.09%
45,000	161.00	233.00	44.72%	320.75	99.22%
50,000	175.00	253.00	44.57%	353.25	101.86%
75,000	245.00	353.00	44.08%	515.75	110.51%
100,000	315.00	453.00	43.81%	678.25	115.32%

<b>CASH FLOW ANALYSIS</b>
---------------------------

Line  
No.

<b>1</b>	<b>INCOME STATEMENT</b>		
<b>2</b>	<b>Operating Revenue</b>		
3	Metered Water Revenue	\$	135,334
4	Unmetered Revenue	\$	-
5	Other Water Revenues	\$	1,003
6	<b>Total Operating Rev:</b>	\$	136,337
<b>7</b>	<b>Operating Expenses</b>		
8	601 Salaries and Wages	\$	43,684
9	610 Purchased Water	\$	-
10	615 Purchased Power	\$	9,895
11	618 Chemicals	\$	2,343
12	620 Repairs and Maintenance	\$	9,477
13	621 Office Supplies & Expense	\$	7,371
14	630 Contractual Services	\$	16,838
15	635 Water Testing	\$	4,306
16	641 Rents	\$	500
17	650 Transportation Expenses	\$	1,226
18	657 Insurance - General Liability	\$	4,340
19	657 Insurance - Health and Life	\$	-
20	666 Regulatory Comm Exp - Rate Case	\$	-
21	675 Miscellaneous Expense	\$	-
22	403 Depreciation Expense	\$	7,854
23	408 Taxes Other Than Income	\$	3,921
24	408.11 Property Taxes	\$	7,047
25	409 Income Tax	\$	-
26	<b>Total Operating Expense</b>	\$	118,802
27	<b>Operating Income</b>	\$	17,535
28	Interest Income	\$	-
29	Interest Expense on Long-term debt	\$	15,265
30	<b>Total Other Interest Expense</b>	\$	15,265
31	<b>Net Income</b>	\$	2,270
32	<b>Rate Base</b>	\$	(26,557)
33	<b>Rate of Return</b> (Line 27 / Line 32)		-66.03%
34	<b>Operating Margin</b> (Line 27 / Line 6)		12.86%
35	<b>Principal Repayment</b>	\$	3,611
36	<b>Cash Flow</b> [(L22+L27) - (L29+I35)]	\$	6,513



Engineering Report For  
Cibola Mutual Water Company  
Docket No. W-04106A-13-0266 (Rates)  
By Katrin Stukov  
Utilities Engineer  
November 12, 2013

## SUMMARY

### Conclusions

1. The Arizona Department of Environmental Quality (“ADEQ”) reported that based upon ongoing unresolved monitoring and reporting deficiencies, ADEQ cannot determine if the Cibola Mutual Water Company’s (“Cibola” or “Company”) 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.
2. The Company’s water system has a water loss of 5.5 percent. This percentage is within the acceptable limit of 10 percent.
3. Based on the Company’s water use data for the test year, Arizona Corporation Commission (“ACC”) Utilities Division Staff (“Staff”) concludes that the Cibola water system has adequate water supply and storage capacities to serve the present customer base and reasonable growth.
4. The Company’s water system is not within an Active Management Area (“AMA”).
5. The Arizona Department of Water Resources (“ADWR”) has determined that the Cibola water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.
6. The Company has no outstanding ACC compliance issues.
7. The Company has an approved backflow prevention tariff.
8. The Company has an approved curtailment plan tariff.

## **Recommendations**

1. Staff recommends that the Company, be required to file with Docket Control, as a compliance item in this docket, a status report delineating the ADEQ compliance status, within six months of the effective date of the Decision in this matter and every six months thereafter until further notice from the Commission.
2. 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 conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.
3. Staff recommends annual water testing expense of \$4,306 be used for the purpose of this proceeding.
4. Staff recommends the depreciation rates delineated in Table B.
5. Staff recommends its service line and meter installation charges labeled "Staff's Recommendation" in Table C.

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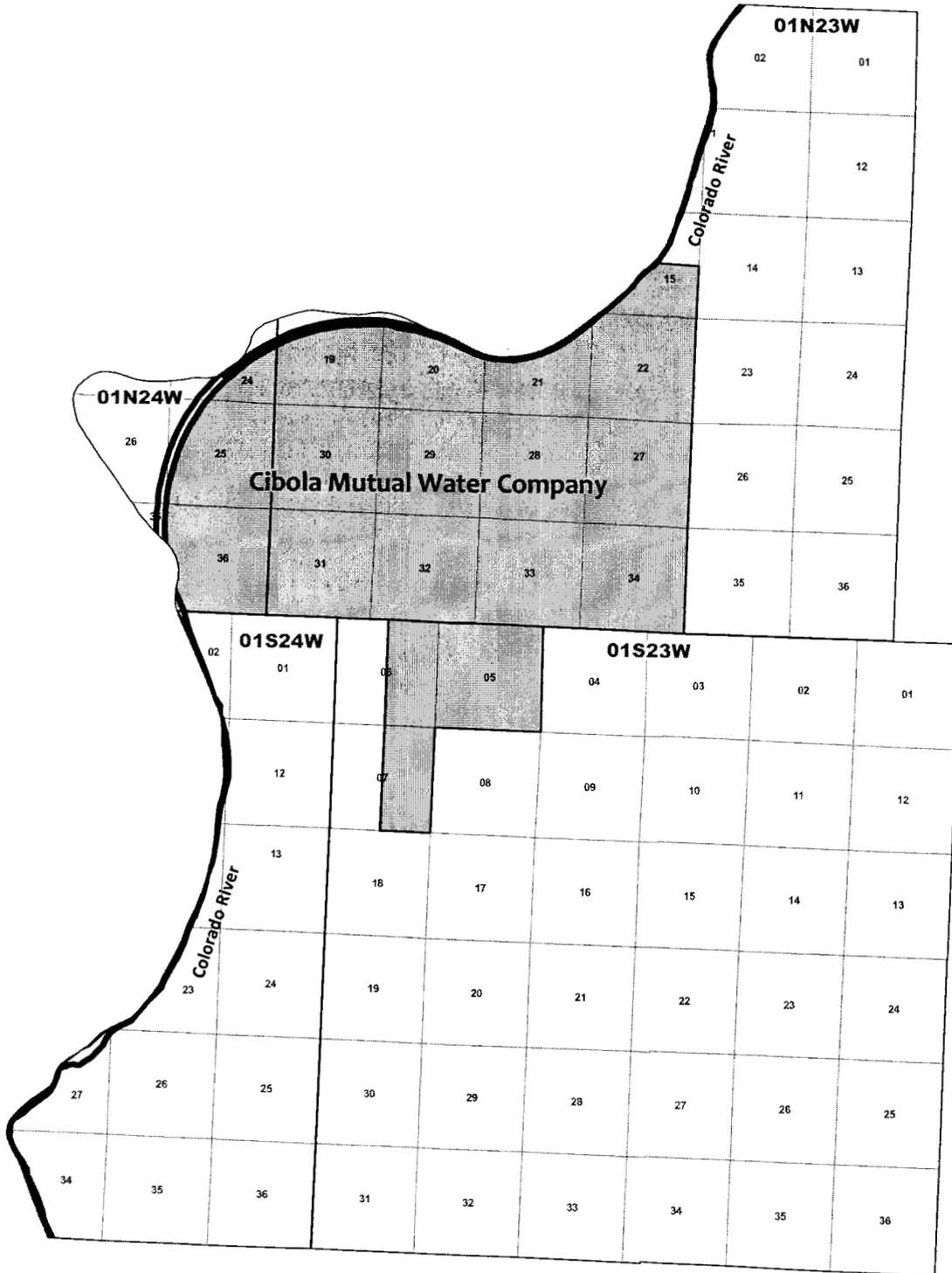
## **I. INTRODUCTION AND LOCATION OF COMPANY**

On August 2, 2013, Cibola Mutual Water (“Company” or “Cibola”) filed a rate application with the Arizona Corporation Commission (“ACC” or “Commission”). The Company provides potable water service to over 160 customers in rural area adjacent to the Cibola National Wildlife Refuge, in La Paz County. The area is located at the Arizona state line approximately 20 miles south of Blyth, California.

The Company’s certificated area covers approximately 15 square miles (approximately 9,816 acres). Figure 1 delineates the Company’s certificated area and Figure 2 shows the location of Cibola within La Paz County.

The Cibola plant facilities were visited on October 9, 2013, by Katrin Stukov, Commission Utilities Division Staff (“Staff”) Engineer, accompanied by the Company’s representatives, Dave Grundy and Paul Massey.

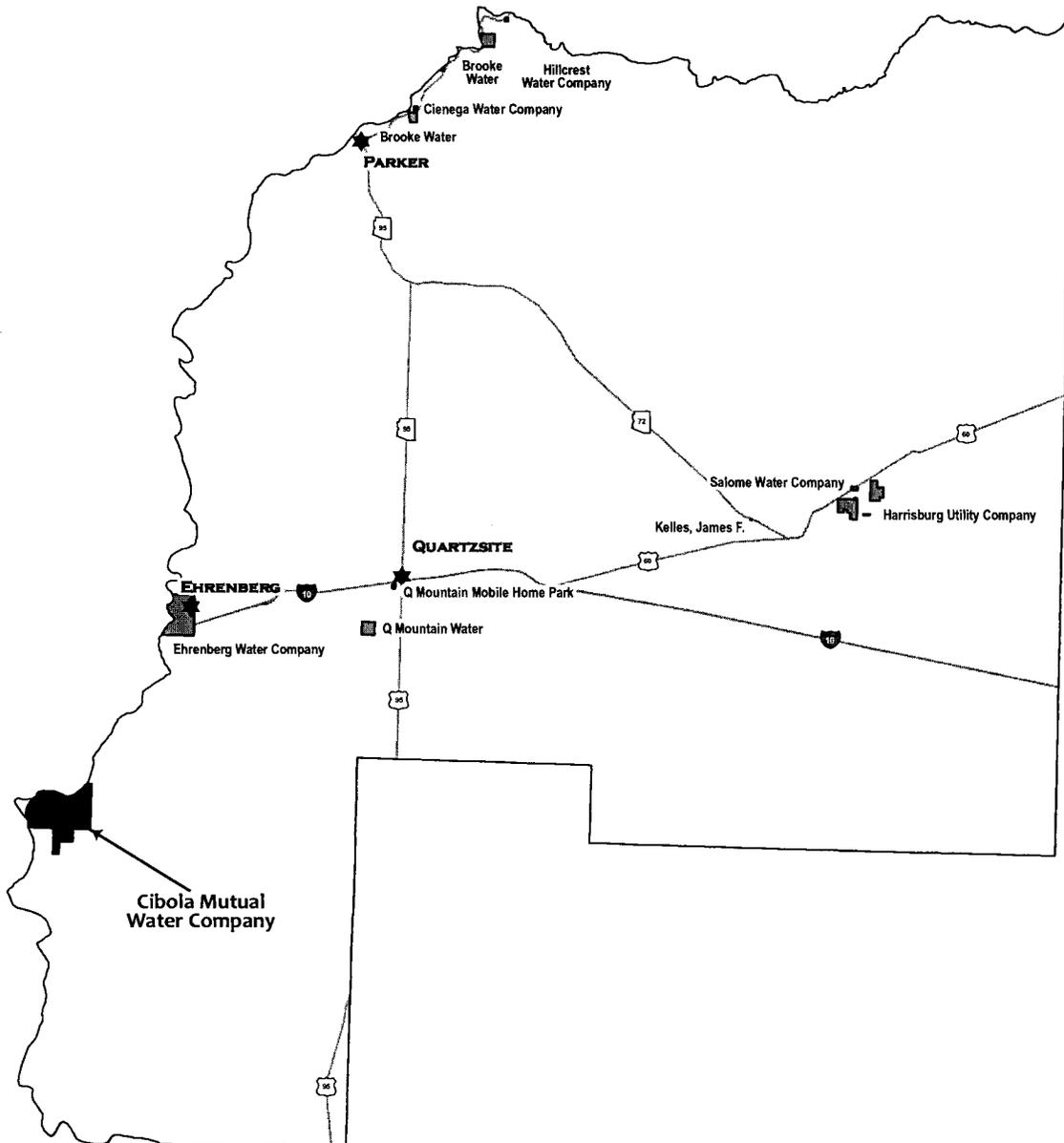
Figure 1



LA PAZ COUNTY

Figure 2

LA PAZ COUNTY



## II. WATER SYSTEM

### 1. Description of the Water System

Current operation of the Cibola water system consists of Colorado River water intake pump station with two pumps, one water treatment plant (“WTP”), chlorination system, two potable water storage tanks, three booster pumps, one pressure tank, and a distribution system. A water system schematic is shown in Figure 3 and a plant facilities summary<sup>1</sup> is tabulated below:

#### Surface Water Intake Pump Station

Pumps	
Capacity (HP)	Quantity
1	2

Capacity	Process	Equipment	Date Placed in Service <sup>2</sup>
50 gallon per minute (“GPM”)	Ultrafiltration membrane system with frequent membrane backwash	Two membrane filter units with four 1 HP pumps, backwash system, one 4,000 gallon compensating tank, two 2HP filtered water pumps, chlorination system with one 1 HP pump.	7/20/2010 (first filter) 11/10/2011 (second filter)

#### WTP

#### Potable Water System

Storage Tanks		Pressure Tanks		Booster Pumps		Date Placed in Service <sup>2</sup>
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity	
100,000	1	1,550	1	10 100	2 1	7/20/2010
168,000	1					11/10/2011

#### Distribution system

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
8	PVC	32,220	3/4	158	64
12	PVC	19,680	1	6	

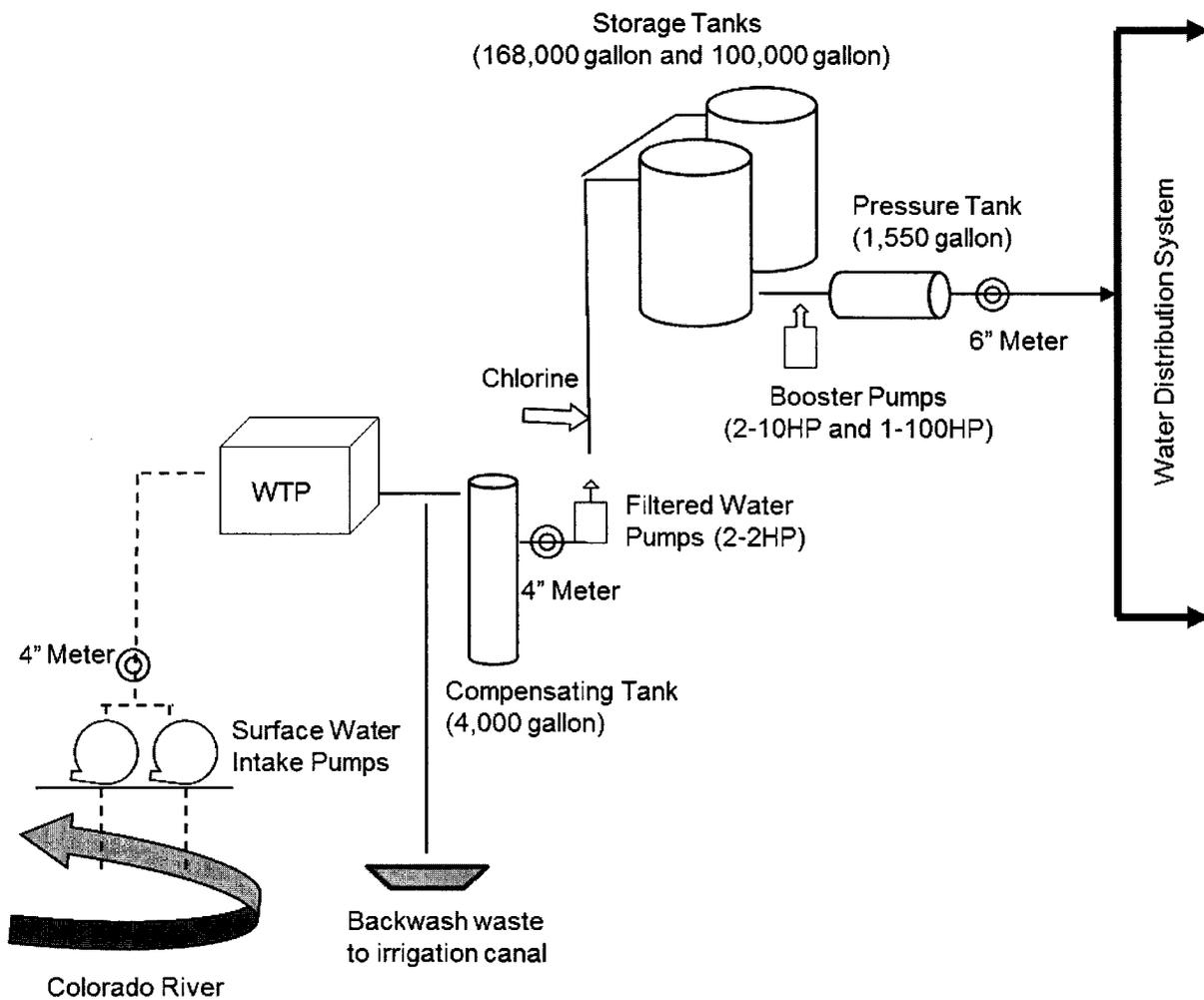
#### Structures / Other

Intake Platform on Colorado River	Office Mobile Trailer	Chlorination Building
WTP Shed	Electrical / Control Room Building	Generator

<sup>1</sup> Per Company’s application, responses to data requests and site visit.

<sup>2</sup> Based on ADEQ Approval of Construction

Figure 3 Water System Schematic

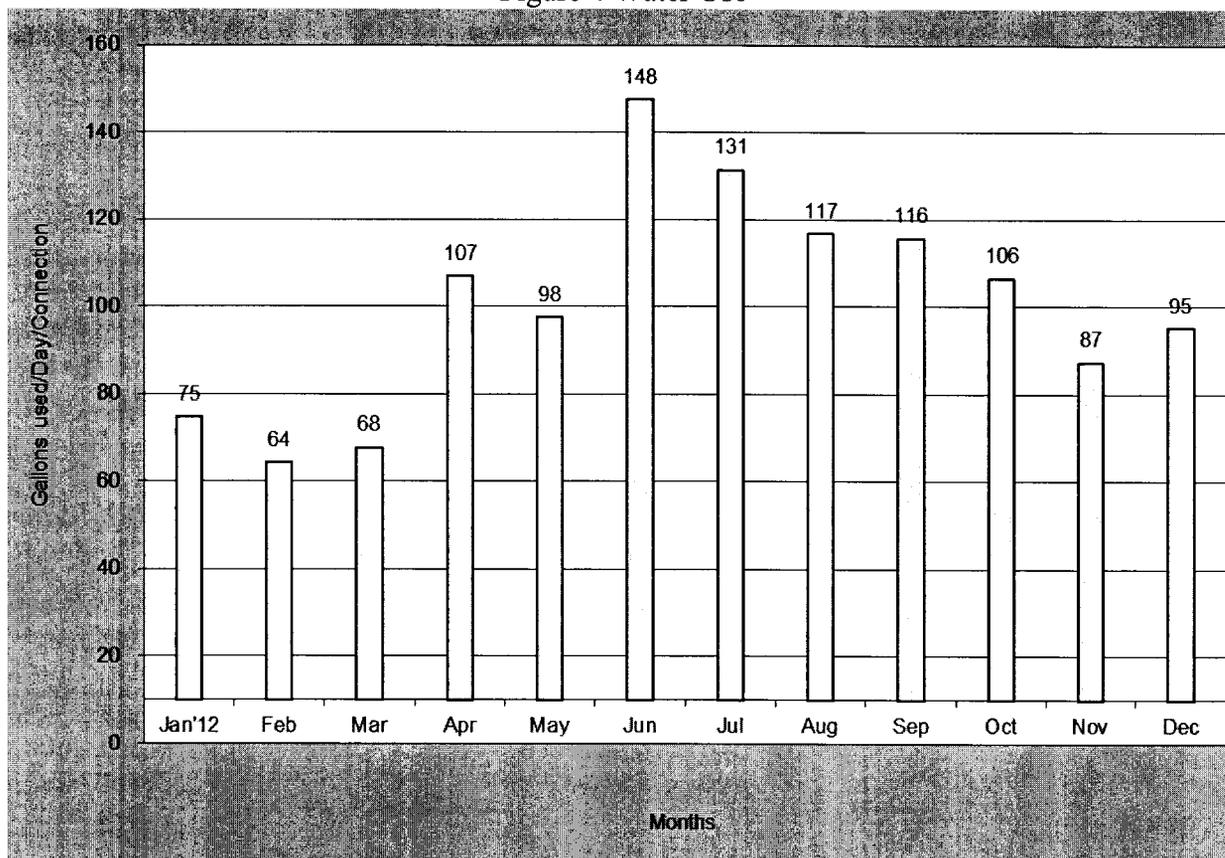


## 2. Water Use

### Water Sold:

Figure 5 represents the water consumption data provided by the Company in its water use data sheet for the test year ending December 31, 2012. The Cibola customer consumption included a high monthly water use of 148 gallons per day (“GPD”) per connection in June, and the low water use was 64 GPD per connection in February. The average annual use was 101 GPD per connection.<sup>3</sup>

Figure 4 Water Use



### 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 company to identify water and revenue losses due to leakage, theft and flushing.

<sup>3</sup> According to the Company, Cibola has only 35 year round customers and majority of its customers are seasonal.

The Company reported 11,149,000 gallons pumped, 6,315,650 gallons sold and 4,214,000 gallons of beneficial non-revenue uses<sup>4</sup> for the test year, resulting in a water loss of 5.5 percent. This percentage is within the acceptable limit of 10 percent.

### 3. *System Analysis*

Based on the Company's water use data for the test year, Staff concludes that the Cibola water system has adequate treated water production and storage capacity to serve the present customer base and a reasonable level of growth.

### 4. *Growth*

Based on customer data obtained from the Company's Annual Reports, the Cibola System is expected to experience minimal growth. A listing of the number of connections at the end of each year from 2010 to 2012 is tabulated below:

2010	2011	2012
180	162	168

## III. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

### *Compliance*

The ADEQ regulates the Company's water system under ADEQ Public Water System ("PWS") No. 15-0123. Per ADEQ Compliance Status Report dated September 16, 2013, ADEQ reported the following ongoing unresolved deficiencies: exceedance of the maximum containment level ("MCL") for disinfection by-products for both TTHM and HAA5. Based upon the noted ongoing unresolved monitoring and reporting deficiencies, ADEQ cannot determine if the Cibola 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.

According to ADEQ, the Company's current compliance monitoring period for TTHM and HAA5 is from October 2013 through July 2014. When results of all samples for this period are available, ADEQ will evaluate the data and determine compliance status. It is likely that the Company will continue to exceed the MCL for TTHM and HAA5 for an extended period of time before the ongoing deficiencies will be resolved.

Staff recommends that the Company, be required to file with Docket Control, as a compliance item in this docket, a status report delineating the ADEQ compliance status, within six months of the effective date of the Decision in this matter and every six months thereafter until further notice from the Commission.

<sup>4</sup> Per Company's e-mail dated August 12, 2013, the Company's beneficial non-revenue water use includes regular flushing of water lines, hydrants and frequent filters backwashing.

*Water Testing Expense*

Participation in the ADEQ Monitoring Assistance Program ("MAP") 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 \$3,120 for the 2012 test year. Staff's estimated average annual water testing expenses for Cibola at \$4,306.<sup>5</sup> Table A shows the cost details of Staff's annual monitoring expense estimate totaling \$4,306 with participation in the MAP.<sup>6</sup> Staff recommends annual water testing expense of \$4,306 be used for purpose of this proceeding.

TABLE A  
WATER TESTING COST

Monitoring	Cost per Sample	No. of samples per year	Average Annual Cost
Total coliform – monthly	\$30	12	\$360
Nitrates-quarterly	\$25	4	\$100
TTHM-quarterly	\$91	8	\$728
HAA5- quarterly	\$168	8	\$1,344
Lead & Copper- quarterly	\$50	20	\$1,000
Environmental Fee			\$88
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrite, Asbestos- annual	MAP	MAP	\$686
Total			<b>\$4,306</b>

#### IV. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Cibola system is not within an Active Management Area. The ADWR has determined that the Cibola water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.<sup>7</sup>

#### V. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.<sup>8</sup>

<sup>5</sup> Based on data provided by the Company and the current ADEQ sampling schedules

<sup>6</sup> The ADEQ MAP invoice for the 2012 Calendar Year was \$686, rounded.

<sup>7</sup> Per ADWR Compliance status check dated October 8, 2013.

<sup>8</sup> Per ACC Compliance status check dated August 12, 2013.

## VI. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B. Staff recommends that the Company adopt Staff's typical and customary depreciation rates in the accounts listed in Table B.

TABLE B  
DEPRECIATION RATE TABLE FOR WATER COMPANIES

NARUC Account 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. Account 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.

## VII. OTHER ISSUES

### 1. Service Line and Meter Installation Charges

Service line and meter charges are refundable advances. The Company has requested changes in its service line and meter installation charges and the requested charges exceed Staff's customary range of charges. According to the Company, the current charges approved do not recover the cost of installation when boring under a paved road is required. Staff recommends the upper end of its customary charges, plus the actual cost incurred when boring under a paved road is required. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff.

Staff recommends its service line and meter installation charges labeled "Staff's Recommendation" in Table C.

TABLE C  
SERVICE LINE AND METER INSTALLATION CHARGES

Meter Size	Company Current Tariff	Company Proposed Tariff*	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge**
5/8 x 3/4-inch	\$375	0	0	0	0
3/4-inch	\$550	\$5,000	\$455	\$255	\$700
1-inch	\$630	\$5,200	\$495	\$315	\$810
1-1/2-inch	\$865	\$5,500	\$550	\$525	\$1,075
2-inch	\$1,455	\$6,090	\$830	\$1,045	\$1,875
3-inch	\$2,055	\$6,690	\$1,045	\$1,670	\$2,715
4-inch	\$3,200	\$8,980	\$1,490	\$2,670	\$4,160
5-inch	\$4,495	\$10,275	0	0	0
6-inch	\$5,795	\$11,575	\$2,210	\$5,025	\$7,235
		*Note: installation cost includes \$3,550 for boring under a paved road.	**Note: The actual cost incurred for boring under a paved road will be added if required.		

2. *Curtailement Plan Tariff*

The Company has an approved curtailement plan tariff.

3. *Backflow Prevention Tariff*

The Company has an approved backflow prevention tariff.

4. *Best Management Practices ("BMPs")*

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 conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.