



0000150286

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: February 10, 2014

RE: STAFF REPORT FOR LAGOON ESTATES WATER COMPANY'S
APPLICATION FOR A PERMANENT RATE INCREASE
(DOCKET NO. W-01825A-13-0329)

Arizona Corporation Commission

DOCKETED

FEB 10 2014

DOCKETED BY

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

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 20, 2014.

SMO:BCA:tdp|BES

Originator: Brendan C. Aladi

ORIGINAL

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AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Lagoon Estates Water Company
Docket No. W-01825A-13-0329

Mr. Charles B. Sherrill
Lagoon Estates Water Company
2600 N. 44th Street, Suite 203
Phoenix, Arizona 85202

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

LAGOON ESTATES WATER COMPANY

DOCKET NO. W- 01825A-13-0329

**APPLICATION FOR
A PERMANENT RATE INCREASE**

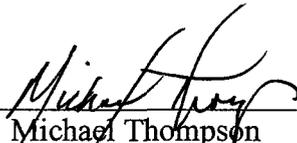
FEBRUARY 10, 2014

STAFF ACKNOWLEDGMENT

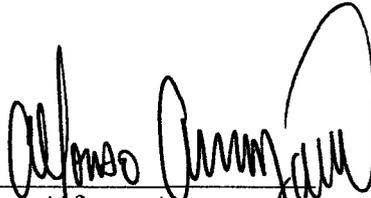
The Staff Report for Lagoon Estates Water Company, Docket No. W-01825A-13-0329 was the responsibility of the Staff members listed below. Brendan C. Aladi was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Michael Thompson was responsible for the engineering and technical analysis. Alfonso Amezcua was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Brendan C. Aladi
Public Utilities Analyst III



Michael Thompson
Utilities Engineer



Alfonso Amezcua
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
LAGOON ESTATES WATER COMPANY
APPLICATION FOR A PERMANENT RATE INCREASE
DOCKET NO. W-01825A-13-0329**

Lagoon Estates Water Company ("Lagoon Estates" or "Company") filed an application for a rate increase with the Arizona Corporation Commission ("Commission") on September 24, 2013.

Lagoon Estates is a class D for-profit S-Corporation and an Arizona public service corporation that provides potable water service to approximately 365 metered customers. Lagoon Estates provides water service to an area located near the Colorado River approximately 20 miles south of Bullhead City, in Mohave County, Arizona. The current permanent rates were authorized in Decision No. 71870, dated September 1, 2010.

The Company proposed a \$20,000 or 11.38 percent increase over test year revenue of \$175,808 to \$195,808. The Company proposed revenue would result in an operating income of \$19,004 for an operating margin of 9.71 percent. The Company proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,124 gallons from \$25.16 to \$28.83, for an increase of \$3.76, or 14.61 percent.

Staff recommends a \$13,819 or 7.58 percent increase over the Staff adjusted test year revenue of \$182,293 to \$196,112. Staff's recommended revenues would result in an operating income of \$24,155 for an operating margin of 12.32 percent. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,124 gallons from \$25.16 to \$27.55, for an increase of \$2.39, or 9.49 percent.

Staff detected an error in the Company's bill count revenue amount of \$153,763. The correct test year bill count revenue is \$167,801.

STAFF RECOMMENDATIONS

1. Staff recommends approval of its recommended rates and charges as shown in Schedule BCA-4.
2. Staff further recommends that the Company be ordered to file with Docket Control a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. Staff further recommends that the Company be ordered to use the depreciation rates presented in Table C of the attached Engineering Report.
4. Staff further recommends that Lagoon Estates install a storage tank with a minimum of 15,000 gallons of storage at water system PWS No. 08-046. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket by May 31, 2016,

a copy of the Arizona Department of Environmental Quality (“ADEQ”) Approval of Construction (“AOC”) for the storage tank installation.

5. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2015, a copy of a plan for water system PWS No. 08-046 that provides specific details on how the Company would address the loss of water production and service to existing customers in the event that Well No. 2 were to fail.
6. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three (3) Best Management Practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff for Commission’s review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that a maximum of two (2) BMPs may come from the “Public Awareness/Public Relations” or “Education and Training” categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

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ATTACHMENT

Engineering ReportA

Fact sheet

Company:

Type of Ownership: S Corporation.

Lagoon Estates Water Company (“Lagoon Estates” or “Company”) is a class D for-profit Arizona public service corporation that provides potable water service to approximately 365 metered customers.

Rates:

Permanent rate increase application filed: September 1, 2013.

Current test year ended: December 31, 2012.

Prior test year ended: December 31, 2008.

The application became sufficient on November 22, 2013.

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Rates			
Residential Monthly Minimum Charge			
5/8 x 3/4-inch meter	\$ 15.00	\$ 18.00	\$ 16.00
3/4-inch meter	\$ 22.50	\$ 23.50	\$ 16.00
1-inch meter	\$ 37.50	\$ 39.00	\$ 40.00
1 1/2-inch meter	\$ 75.00	\$ 80.00	\$ 80.00
2-inch meter	\$ 120.00	\$ 125.00	\$ 128.00
3-inch meter	\$ 240.00	\$ 245.00	\$ 256.00
4-inch meter	\$ 375.00	\$ 380.00	\$ 400.00
6-inch meter	\$ 750.00	\$ 750.00	\$ 800.00
8-inch meter	\$1,200.00	\$1,200.00	\$1,200.00
 (Gallons included in the minimum)	 0	 0	 0

Fact Sheet (Continued)

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Commodity Rates (Per 1,000 gallons)			
<u>5/8 x 3/4 & 3/4-inch meters</u>			
0 to 3,000 gallons	\$ 2.15	\$ 2.30	\$ 2.50
3,001 to 10,000 gallons	\$ 3.30	\$ 3.50	\$ 3.60
Over 10,000 gallons	\$ 3.90	\$ 3.90	\$ 4.43
Typical 3/4-inch residential bill			
Average use (5,562 gallons)	\$ 29.90	\$ 33.86	\$ 32.72
Median use (4,124 gallons)	\$ 25.16	\$ 28.83	\$ 27.55

Customers

Average Number of customers in the current test year (12/31/12): 365

Fact Sheet (Continued)

Notifications

Affidavit of mailing for the Customer Notification was filed on September 24, 2013.

Summary of Filing

The test year results as adjusted by Utilities Division Staff ("Staff") for Lagoon Estates Water Company ("Lagoon Estates" or "Company") show total operating revenue of \$182,293, an operating income of \$13,319, for an operating margin of 7.31 percent as shown on Schedule BCA-1. The Original Cost Rate Base ("OCRB") as adjusted by Staff is \$81,767¹.

Lagoon Estates proposed a \$20,000 or 11.38 percent increase over test year revenue of \$175,808 to \$195,808. The Company requested an increase in the total operating revenue of \$20,000 as shown on page 6 of its application. This increase would result in total revenues of \$195,808. However, the Company's proposed rates would actually produce total revenue of \$184,136. The difference of \$11,672 appears to be due to the Company's inexperience in preparing rate applications. The Company proposed revenue would result in an operating income of \$19,004 for an operating margin of 9.71 percent. The Company proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,124 gallons from \$25.16 to \$28.83, for an increase of \$3.67, or 14.61 percent, as shown on Schedule BCA-5.

Staff recommends a \$13,819 or 7.58 percent increase over the Staff adjusted test year revenue of \$182,293 to \$196,112. Staff's recommended revenues would result in an operating income of \$24,155 for an operating margin of 12.32 percent. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,124 gallons from \$25.16 to \$27.55, for an increase of \$2.39, or 9.49 percent, as shown on Schedule BCA-5.

Staff detected an error in the Company's bill count revenue amount of \$153,763. The correct test year bill count revenue is \$167,801.

According to the application, the Company requests a rate increase due to increases in the cost of operating the aging water system and cost to professionally manage the system in order to stay in compliance with the various agencies and laws.

Background

During the test year ended December 31, 2012, Lagoon Estates provided water service to an average of 365 metered customers.

Lagoon Estates is an Arizona S corporation that provides water service to Arizona customers and is located near the Colorado River approximately 20 miles south of Bullhead City, in Mohave County, Arizona.

Lagoon Estates filed an application for a rate increase with the Arizona Corporation Commission ("Commission") on September 1, 2013. On October 23, 2013, Staff issued a Letter of Sufficiency.

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

Consumer Services

Staff reviewed the Commission's records for the period beginning January 1, 2011, to January 31, 2014, and found one complaint (billing) and no opinions filed against the rate increase request.

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

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issues.

Lagoon Estates is in good standing with the Corporations Division of the Commission.

Lagoon Estates is current on its property and sales tax payments.

Engineering Analysis

Staff inspected Lagoon Estates plant facilities on November 20, 2012. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

Rate Base

Staff's adjustments increased the Company's proposed rate base by \$23,661, from \$58,106 to \$81,767, as shown on Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Staff made one plant in service adjustment as shown on Schedule BCA-2, page 1.

Office Furniture and Equipment – Adjustment "a" decreases this account by \$3,699, from \$12,423 to \$8,724, as shown on Schedule BCA-2, pages 2 and 3. This adjustment reflects the transfer of \$3,699 from office furniture and equipment to computers and software.

Computers and software – Adjustment "b" increases this account by \$3,699, from \$0 to \$3,699, as shown on Schedule BCA-2, pages 2 and 3. This adjustment reflects the transfer of \$3,699 from office furniture and equipment to computers and software.

Accumulated Depreciation

Accumulated Depreciation - Adjustment A decreases accumulated depreciation by \$6,554, from \$461,503 to \$454,949, as shown on Schedule BCA-2, pages 1 and 4. Staff calculated the ending balance of accumulated depreciation by utilizing the ending plant balances and accumulated depreciation by plant account in the last rate case (Docket No. W-01825A-09-0345), reflecting plant additions and retirements as identified by Staff and the Company, and applying the Commission-approved depreciation rates.

Working Capital

Lagoon Estates did not claim any working capital allowance. Staff's adjustments B and C resulted in a net increase to working capital of \$17,107, from \$0 to \$17,107, as shown on Schedule BCA-2, pages 1 and 5.

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

Operating Income Statement

Operating Revenue

Staff's adjustment to operating revenue resulted in a decrease of \$7,830, from \$176,804 to \$168,974, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments are discussed below.

Metered Water Revenue – Adjustment A increases metered water revenue by \$14,038, from \$153,763 to \$167,801, as shown on Schedule BCA-3, page 1 and 2. Staff's adjustment reflects Staff's calculation of the metered water revenue using the billing determinants provided by the Company.

Other Water Revenue - Adjustment B decreases other water revenue by \$7,553, from \$22,045 to \$14,492, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the removal of customer security deposits and out of test year revenues from other water revenue.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$7,830, from \$176,804 to \$168,974, as shown on Schedule BCA-3, page 1 and 2. Details of Staff's adjustments are presented below.

Salaries and Wages Expense - Adjustment C decreases salaries and wages expense by \$4,689, from \$61,351 to \$56,662, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects Staff's computation of salaries and wages expense based on documentation provided by the Company.

Purchased Power - Adjustment D decreases purchased power expense by \$54, from \$7,928 to \$7,874, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects Staff's computation of purchased power based on submitted invoices.

Repairs and Maintenance Expense - Adjustment E increases repairs and maintenance expense by \$212, from \$17,122 to \$17,334, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects Staff's computation of repairs and maintenance expense based on submitted invoices.

Outside Services Expense (Management Fee) - Adjustment F increases outside services expense by \$20,800, from \$0 to \$20,800, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the transfers of \$12,800 from miscellaneous expense and \$8,000 from rent. Sherrill Farms shares certain operating expenses with Lagoon Estates. Lagoon Estates contracts with Sherrill Farms to reimburse it \$400 per week for the use of its staff, office space and office equipment.

Water Testing Expense - Adjustment G increases water testing expense by \$1,192, from \$2,017 to \$3,209, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined and reported in the attached Engineering Report.

Rent - Adjustment H decreases rent expense by \$8,000, from \$10,400 to \$2,400, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the transfer of \$8,000 from rent to outside services expense.

Miscellaneous Expense - Adjustment I decreases miscellaneous expense by \$12,800, from \$15,285 to \$2,485, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the transfer of \$12,800 from miscellaneous expense to outside services expense.

Depreciation Expense - Adjustment J decreases depreciation expense by \$2,811, from \$17,934 to \$15,123, as shown on Schedule BCA-3, pages 1 and 4. This adjustment reflects Staff's calculation of depreciation expense applying Staff's recommended depreciation rates to Staff's recommended plant balances for Lagoon Estates.

Taxes Other Than Income - Adjustment K decreases taxes other than income expense by \$1,438, from \$4,753 to \$3,315, as shown on Schedule BCA-3, pages 1 and 5. This adjustment reflects the removal of water testing expense from taxes other than income.

Property Tax Expense – Adjustment L decreases property tax expense by \$242, from \$8,673 to \$8,431 as shown on Schedule BCA-3, pages 1 and 6. Staff calculated its property tax amount using a modified version of the Arizona Department of Revenue’s (“ADOR”) property tax method.

Income Taxes – Staff notes that the Company did not request the recovery of income tax in the original application, but Staff included income tax allowance of \$2,770 in its recommended expenses going forward. The Company provided Staff with an individual list of owners of the trust, percent distribution of profits and individual income tax filing status with which to calculate the income tax allowance.

Revenue Requirement

The Company’s narrative portion of the Application states that Lagoon Estates needs a rate increase to maintain the aging water system and cope with rising operating costs.

Lagoon Estates proposed a \$20,000, or 11.38 percent, increase over test year revenue of \$175,808 to \$195,808. Company proposed revenue would result in an operating income of \$19,004 for an operating margin of 9.71, as shown on Schedule BCA-1.

Staff recommends a \$13,819, or 7.58 percent, increase over the Staff adjusted test year revenue of \$182,293 to \$196,112. Staff’s recommended revenues would result in an operating income of \$24,115 for an operating margin of 12.32 percent, as shown on Schedule BCA-1.

Staff’s recommended increase provides the Company with adequate cash flow to meet its normal operating expenses, maintain its aging water system, and fund contingencies.

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 residential 5/8 x 3/4-inch meter bill with a median usage of 4,124 gallons from \$25.16 to \$28.83, for an increase of \$3.67, or 14.61 percent, as shown on Schedule BCA-5.

Staff’s recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,124 gallons from \$25.16 to \$27.55, for an increase of \$2.39, or 9.49 percent, as shown on Schedule BCA-5.

Staff detected an error in the Company’s bill count revenue amount of \$153,763. The correct test year bill count revenue is \$167,801.

Miscellaneous Service Charges

The Company proposes to increase the establishment service charge from \$30 to \$35. Staff recommends \$35 as a reasonable charge for the service.

The Company proposes to increase the reconnection (delinquent) charge from \$30 to \$35. The current \$30 charge is within the range of reconnect (delinquent) charges for similar companies. Further, the Company did not provide any sufficient reason to justify the increase. Staff recommends denial.

The Company proposes no change to the meter test (if correct) charge of \$30. The Company was unaware that the Commission tests meters at our facility at no charge. The Company will use the Commission testing facility for future requests.

The Company proposes to change the meter re-read (if correct) charge from \$23 to \$25. Staff recommends \$25 as a reasonable charge for the service.

Staff recommends an After-Hours Service charge at the customer's request (after hours). Staff agrees that an additional fee for service provided after normal business hours is appropriate when such service is at the customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service.

Moreover, Staff concludes that it is appropriate to apply an After-Hours service charge in addition to the charge for any utility service provided outside of regular business hours at the customer's request or for the customer's convenience. Therefore, Staff recommends elimination of the Company's current Establishment (After-Hours) charge. Instead of this charge, Staff recommends a separate \$30 After-Hours Service charge. For example, under Staff's proposal, a customer would be subject to a \$35 Establishment fee if it is done during normal business hours, but would pay an additional \$30 After-Hours fee if the customer requested that the establishment be done after normal business hours.

Service Line and Meter Installation Charges

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

The Company has proposed to increase its existing service line and meter installation charges. The proposed charges are refundable advances and are similar to the Staff's typical range of charges for service line and meter installations. 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.

Staff recommends approval of Staff's service line and meter installation charges as shown on Schedule BCA-4.

STAFF RECOMMENDATIONS

1. Staff recommends approval of its recommended rates and charges as shown in Schedule BCA-4.
2. Staff further recommends that the Company be ordered to file with Docket Control a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. Staff further recommends that the Company be ordered to use the depreciation rates presented in Table C of the attached Engineering Report.
4. Staff further recommends that Lagoon Estates install a storage tank with a minimum of 15,000 gallons of storage at water system PWS No. 08-046. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket by May 31, 2016, a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval of Construction ("AOC") for the storage tank installation.
5. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2015, a copy of a plan for water system PWS No. 08-046 that provides specific details on how the Company would address the loss of water production and service to existing customers in the event that Well No. 2 were to fail.
6. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three (3) Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that a maximum of two (2) BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the 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	\$153,763	\$167,801	\$173,763	\$181,620
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	22,045	14,492	22,045	14,492
Total Operating Revenue	\$175,808	\$182,293	\$195,808	\$196,112
Operating Expenses:				
Operation and Maintenance	\$145,444	\$142,105	\$145,444	\$142,105
Depreciation	17,934	15,123	17,934	15,123
Property & Other Taxes	13,426	11,746	13,426	11,959
Income Tax	0	0	0	2,770
Total Operating Expense	\$176,804	\$168,974	\$176,804	\$171,957
Operating Income/(Loss)	(\$996)	\$13,319	\$19,004	\$24,155
Rate Base O.C.L.D.	\$58,106	\$81,767	\$58,106	\$81,767
Rate of Return - O.C.L.D.	N/M	16.29%	32.71%	29.54%
Operating Margin	N/M	7.31%	9.71%	12.32%
Cash Flow	\$16,938	\$28,441	\$36,938	\$39,278

RATE BASE

	----- Original Cost -----		Staff
	Company	Adjustment	
Plant in Service	\$ 585,610	\$ 0	\$ 585,610
Less:			
Accum. Depreciation	461,503	(6,554) A	454,949
Net Plant	\$ 124,107	\$ 6,554	\$ 130,661
Less:			
Plant Advances (AIAC)	35,894	0	35,894
Service Line and Meter Advances	11,974	0	11,974
Customer Security Deposits	18,133	0	18,133
Total Advances	66,001	0	66,001
Contributions Gross	-	-	-
Less:			
Amortization of CIAC	-	-	-
Net CIAC	-	-	-
Total Deductions	\$ 66,001	\$ -	\$ 66,001
Plus:			
1/24 Power	0	\$328 B	\$328
1/8 Operation & Maint.	0	16,779 C	16,779
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$ -	\$ 17,107	\$ 17,107
Rate Base	\$ 58,106	\$ 23,661	\$ 81,767

Explanation of Adjustment:

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

PLANT ADJUSTMENTS

	Company Exhibit	Adjustment	Staff Adjusted
301 Intangibles/Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	28,262	0	28,262
304 Structures & Improvements	45,434	0	45,434
307 Wells & Springs	76,974	0	76,974
311 Electrical Pumping Equipment	68,039	0	68,039
320.1 Water Treatment Plant	19,536	0	19,536
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tank	64,376	0	64,376
330.2 Pressure Tank	0	0	0
331 Transmission & Distribution Mains	221,524	0	221,524
333 Services	0	0	0
334 Meters & Meter Installations	40,307	0	40,307
335 Hydrants	448	0	448
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	12,423	(3,699) a	8,724
340.1 Computers and Software	0	3,699 b	3,699
341 Transportation Equipment	8,287	0	8,287
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	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$585,610	\$0	\$585,610

STAFF ADJUSTMENTS

a -	OFFICE FURNITURE & EQUIPMENT - Per Company	\$12,423	
	Per Staff	<u>8,724</u>	<u>(\$3,699)</u>

To reflect the transfer from office furniture and equipment to computer and softwares.

b -	COMPUTERS & SOFTWARE - Per Company	\$0	
	Per Staff	<u>3,699</u>	<u>\$3,699</u>

To reflect the transfer from office furniture and equipment to computers and software.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 461,503
Accumulated Depreciation - Per Staff	<u>454,949</u>
Total Adjustment	A <u><u>(\$6,554)</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	33,562	449	34,011
307 Wells and Srings	57,773	294	58,067
311 Electrical Pumping Equipment	65,647	2,392	68,039
320.1 Water Treatment Plant	9,544	(5)	9,539
320.2 Solution Chemical Feeders	-	-	-
330 Distribution Reservoirs & Standpipes	-	-	-
330.1 Storage Tank	56,947	(1,841)	55,106
330.2 Pressure Tank	-	-	-
331 Transmission and Distribution Mains	191,494	(12,291)	179,203
333 Services	-	-	-
334 Meters and Meter Installation	33,496	5,987	39,483
335 Hydrants	448	-	448
339 Other Plant and Miscellaneous Equipment	-	-	-
340 Office Furniture and Fixtures	9,125	(401)	8,724
340.1 Computers and Software	-	370	370
341 Transportation Equipment	3,466	(1,507)	1,959
343 Tools and Work Equipment	-	-	-
345 Power Operated Equipment	-	-	-
346 Communications Equipment	-	-	-
348 Other Tangible Plant	-	-	-
Total	<u>\$ 461,503</u>	<u>\$ (6,554)</u>	<u>\$ 454,949</u>

STAFF PLANT ADJUSTMENTS

B -	WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company	\$0	
	Per Staff	\$328	\$ 328

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	16,779	\$16,779

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	\$153,763	\$14,038	A	\$167,801
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	22,045	(7,553)	B	14,492
Total Operating Revenue	\$175,808	\$6,485		\$182,293
Operating Expenses:				
601 Salaries and Wages	\$61,351	(\$4,689)	C	\$56,662
610 Purchased Water	0	0		0
615 Purchased Power	7,928	(54)	D	7,874
618 Chemicals	399	0		399
620 Repairs and Maintenance	17,122	212	E	17,334
621 Office Supplies & Expense	12,738	0		12,738
630 Outside Services (Management Fee)	0	20,800	F	20,800
635 Water Testing	2,017	1,192	G	3,209
641 Rents	10,400	(8,000)	H	2,400
650 Transportation Expenses	4,356	0		4,356
657 Insurance - General Liability	7,672	0		7,672
659 Insurance - Health and Life	6,176	0		6,176
666 Regulatory Commission Expense - Rate Case	0	0		0
675 Miscellaneous Expense	15,285	(12,800)	I	2,485
403 Depreciation Expense	17,934	(2,811)	J	15,123
408 Taxes Other Than Income	4,753	(1,438)	K	3,315
408.11 Property Taxes	8,673	(242)	L	8,431
409 Income Tax	0	0		0
Total Operating Expenses	\$176,804	(\$7,830)		\$168,974
OPERATING INCOME/(LOSS)		(\$996)	\$14,315	\$13,319

STAFF ADJUSTMENTS

A -	METERED WATER REVENUES - Per Company	\$153,763	
	Per Staff	167,801	<u>\$14,038</u>

To reflect Staff's calculation of the metered water revenue using the billing determinants.

B -	OTHER WATER REVENUES - Per Company	\$22,045	
	Per Staff	<u>14,492</u>	<u>(\$7,553)</u>

To reflect the removal of customer security deposits(\$3,885) and out of test year revenue(\$3,668) from other water revenue.

C -	SALARIES AND WAGES - Per Company	\$61,351	
	Per Staff	<u>56,662</u>	<u>(\$4,689)</u>

To reflect Staff's computation of salaries and wages based on documentation provided by the Company.

D -	PURCHASED POWER - Per Company	\$7,928	
	Per Staff	<u>7,874</u>	<u>(\$54)</u>

To reflect Staff's computation of purchased power based on submitted invoices.

E -	REPAIRS AND MAINTENANCE - Per Company	\$17,122	
	Per Staff	<u>17,334</u>	<u>\$212</u>

To reflect Staff's computation of repairs and maintenance expense based on submitted invoices.

F -	OUTSIDE SERVICES EXPENSE - Per Company	\$0	
	Per Staff	<u>20,800</u>	<u>\$20,800</u>

To reflect Staff's computation of outside services expense based on documentation provided by the Company.

Transfer from:	
Rent	\$ 8,000
Miscellaneous Exp.	<u>\$ 12,800</u>
	<u>\$ 20,800</u>

STAFF ADJUSTMENTS

G - WATER TESTING - Per Company	\$2,017	
Per Staff	<u>3,209</u>	<u>\$1,192</u>

To reflect annual water testing expense, per Staff Engineering Report.

H - RENT - Per Company	\$10,400	
Per Staff	<u>2,400</u>	<u>(\$8,000)</u>

To reflect the transfer of \$8,000 from rent expense to outside services expense.

I - MISCELLANEOUS EXPENSE - Per Company	\$15,285	
Per Staff	<u>2,485</u>	<u>(\$12,800)</u>

To reflect the transfer of \$12,800 from miscellaneous expense to outside services expense.

STAFF ADJUSTMENTS (Cont.)

J - DEPRECIATION - Per Company \$17,934
Per Staff 15,123 (\$2,811)

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] Plant In Service Per Staff	[B] NonDepreciable or Fully Depreciated Plant	[C] Depreciable Plant (Col A - Col B)	[D] Depreciation Rate	[E] Depreciation Expense Col C x Col D
1	301 - Organization Cost	\$ -	\$ -	-	0.00%	-
2	302 - Franchise Cost	\$ -	\$ -	-	0.00%	-
3	303 - Land and Land Rights	28,262	28,262	-	0.00%	-
4	304 - Structures and Improvements	\$45,434	-	\$ 45,434	3.33%	1,513
5	305 - Collecting and Impounding Res.	-	-	-	2.50%	-
6	306 - Lake River and Other Intakes	-	-	-	2.50%	-
7	307 - Wells & Spring	76,974	-	76,974	3.33%	2,563
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	68,039	68,039	-	12.50%	-
12	320 - Water Treatment Equipment	-	-	-	-	-
13	320.1 Water Treatment Plants	19,536	-	19,536	3.33%	651
14	320.2 Solution Chemical Feeders	-	-	-	20.00%	-
15	330 - Distribution Resrvr & Standpipe	-	-	-	-	-
16	330.1 Storage Tanks	64,376	54,868	9,508	2.22%	211
17	330.2 Pressure Tanks	-	-	-	5.00%	-
18	331 - Transmission & Distr. Mains	221,524	-	221,524	2.00%	4,430
19	333 - Services	-	-	-	3.33%	-
20	334 - Meter & Meter Installations	40,307	-	40,307	8.33%	3,358
21	335 - Hydrants	448	448	-	2.00%	-
22	336 - Backflow Prevention Devices	-	-	-	6.67%	-
23	339 - Other Plant & Misc Equipment	-	-	-	6.67%	-
24	340 - Office Furniture and Fixtures	8,724	8,724	-	6.67%	-
25	340.1 Computers and Softwares	3,699	-	3,699	20.00%	740
26	341 - Transportation Equipment	8,287	-	8,287	20.00%	1,657
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	\$ 585,610	\$ 160,341	\$ 425,269		\$ 15,123
33						
34	Composite Depreciation Rate (Depr Exp / Depreciable Plant):					3.56%
35	CIAC:					\$ -
36	Amortization of CIAC (Line 34 x Line 35):					\$ -
37						
38	Pro Forma Annual Depreciation Expense					
39						
40	Plant in Service					\$ 585,610
41	Less: Non Depreciable Plant					\$ 28,262
42	Fully Depreciable Plant					132,079
43	Depreciable Plant					<u>\$425,269</u>
44	Times: Staff Proposed Depreciation Rate					3.56%
45	Depreciation Expense Before Amortization of CIAC:					\$ 15,123
46	Less Amortization of CIAC:					\$ -
47	Test Year Depreciation Expense - Staff:					<u>\$ 15,123</u>
48	Depreciation Expense - Company:					\$ 17,934
49	Staff's Total Adjustment:					<u>\$ (2,811)</u>

STAFF ADJUSTMENTS

K · TAXES OTHER THAN INCOME - Per Company	\$4,753
Per Staff	<u>3,315</u> <u>(\$1,438)</u>

To remove water testing expense.

OPERATING INCOME ADJUSTMENT L - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2012	\$ 182,293	\$ 182,293
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 364,587	\$ 364,587
4	Staff Recommended Revenue, Per Schedule BCA-1	182,293	196,112
5	Subtotal (Line 4 + Line 5)	\$ 546,880	\$ 560,699
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 182,293	\$ 186,900
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 364,587	\$ 373,799
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 364,587	\$ 373,799
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	69,271	\$ 71,022
15	Composite Property Tax Rate (Obtained from Pima County)	12.171%	12.171%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 8,431	
17	Company Proposed Property Tax	8,673	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (242)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 8,644
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 8,431
21	Increase/(Decrease) to Property Tax Expense		\$ 213
22	Decrease to Property Tax Expense		\$ 213
23	Increase in Revenue Requirement		13,819
24	Decrease to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.54%
J -	PROPERTY TAXES - Per Company	8,673	
	Per Staff	\$ 8,431	(242)

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

Calculation of Income Tax Allowance

	<u>Corporate Tax Calculation</u>		<u>Married Filing Jointly Personal Tax Calculation</u>
<i>Calculation of Income Tax:</i>			
1 Revenue (Schedule BCA-1)	\$ 196,112		\$ 196,112
2 Operating Expenses Excluding Income Taxes	\$ 169,187		\$ 169,187
3 Less: Synchronized Interest (L3)	\$ -		\$ -
4 Arizona Taxable Income (L1 - L2- L3)	<u>\$ 26,925</u>		<u>\$ 26,925</u>
5 Arizona State Income Tax Rate	6.50%		2.88%
6 Arizona Income Tax (L4 x L5)	\$ 1,750		\$ 717
7 Federal Taxable Income (L42 - L44)	\$ 25,175		\$ 26,925
8 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 3,776		<u>15%</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>\$ 3,776</u> \$ 3,776		<u>\$ 2,053</u> \$ 2,053
14 Combined Federal and State Income Tax (L35 + L42)	\$ - \$ 5,526		\$ 2,770 \$ 2,770

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	\$ 15.00	\$ 18.00	\$ 16.00
3/4 Inch	22.50	23.50	16.00
1 Inch	37.50	39.00	40.00
1 1/2 Inch	75.00	80.00	80.00
2 Inch	120.00	125.00	128.00
3 Inch	240.00	245.00	256.00
4 Inch	375.00	380.00	400.00
6 Inch	750.00	750.00	800.00
8 Inch	1,200.00	1,200.00	1,200.00
Commodity Charge - Per 1,000 Gallons			
5/8 x 3/4-Inch Meter			
First 3,000 gallons	2.1500	2.3000	\$ 2.5000
3,001 to 10,000 gallons	3.3000	3.5000	3.6000
Over 10,000 gallons	3.9000	3.9000	4.4310
3/4-Inch Meter			
First 3,000 gallons	N/a	N/a	\$ 2.5000
3,001 to 10,000 gallons	N/a	N/a	3.6000
Over 10,000 gallons	N/a	N/a	4.4310
1" Meter (All Classes)			
First 20,000 gallons	3.3000	3.5000	3.6000
Over 20,000 gallons	3.9000	3.9000	4.4310
1 1/2" Meter (All Classes)			
First 50,000 gallons	3.3000	N/a	3.6000
Over 50,000 gallons	3.9000	N/a	4.4310
2" Meter (All Classes)			
First 80,000 gallons	3.3000	3.9000	3.6000
Over 80,000 gallons	3.9000	3.9000	4.4310
3" Meter (All Classes)			
First 150,000 gallons	3.3000	3.9000	3.6000
Over 150,000 gallons	3.9000	3.9000	4.4310
4" Meter (All Classes)			
First 300,000 gallons	3.3000	3.9000	3.6000
Over 300,000 gallons	3.9000	3.9000	4.4310
6" Meter (All Classes)			
First 500,000 gallons	3.3000	3.9000	3.6000
Over 500,000 gallons	3.9000	3.9000	4.4310
8" Meter (All Classes)			
First 600,000 gallons	3.3000	3.9000	3.6000
Over 600,000 gallons	3.9000	3.9000	4.4310
Standpipe, Bulk Water			
Per 1000 Gallons	3.9000	3.9000	4.4310
Other Service Charges			
Establishment	\$ 30.00	\$ 35.00	\$ 35.00
Establishment (After Hours)	\$ 40.00	40.00	N/A
Reestablishment (within 12 months)	**	**	**
Reconnection (Delinquent)	\$ 30.00	\$ 35.00	\$ 30.00
Meter Test (If Correct)	\$ 30.00	\$ 30.00	\$ 30.00
Deposit	*	*	*
Deposit Interest	*	*	*
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment (per month)	***	***	***
Late Payment Fee (per month)	\$ 5.00	\$ 5.00	\$ 5.00
Meter Re-read (if correct)	\$ 23.00	\$ 25.00	\$ 25.00
After Hour Service Charge (at customers request)	N/A	N/A	\$ 30.00
Fire Sprinkler (All Meter Sizes)	****	****	****

* Per Rule R14-2-403(B).
 ** Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).
 *** Per Commission Rule A.A.C. R14-2-409G
 **** 2.00% of monthly minimum for a comparable size meter connection but no less than \$10.00 per month. The Service charge for the fire sprinklers is only applicable for service separate and distinct from the primary water service line.

Service Line and Meter Installation Charges

	Company Current Rates	Company Proposed			Staff Recommended		
		Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8" x 3/4"-inch	\$ 520	415	\$ 125	\$ 540	415	\$ 125	\$ 540
3/4"-inch	\$ 620	415	\$ 225	\$ 640	415	\$ 225	\$ 640
1"	\$ 730	465	\$ 285	\$ 750	465	\$ 285	\$ 750
1-1/2"-inch	\$ 995	520	\$ 495	\$ 1,015	520	\$ 495	\$ 1,015
2" Turbo	\$ 1,795	800	\$ 995	\$ 1,795	800	\$ 995	\$ 1,795
2" Compound	\$ 2,640	800	\$ 1,860	\$ 2,660	800	\$ 1,860	\$ 2,660
3" Turbo	\$ 2,635	1,015	\$ 1,640	\$ 2,655	1,105	\$ 1,640	\$ 2,745
3" Compound	\$ 3,630	1,135	\$ 2,515	\$ 3,650	1,135	\$ 2,515	\$ 3,650
4" Turbo	\$ 4,000	1,430	\$ 2,590	\$ 4,020	1,430	\$ 2,590	\$ 4,020
4" Compound	\$ 5,155	1,610	\$ 3,565	\$ 5,175	1,610	\$ 3,565	\$ 5,175
6" Turbo	\$ 7,075	2,150	\$ 4,945	\$ 7,095	2,150	\$ 4,945	\$ 7,095
6" Compound	\$ 9,090	2,270	\$ 6,840	\$ 9,110	2,270	\$ 6,840	\$ 9,110

Typical Bill Analysis
Residential 5/8 x 3/4 - Inch Meter

Average Number of Customers : 345

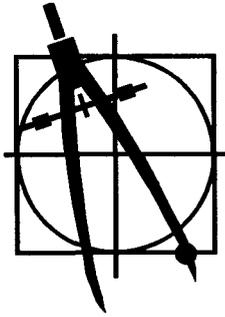
Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,560	\$ 29.90	\$ 33.86	\$ 3.96	13.25%
Median Usage	4,124	\$ 25.16	\$ 28.83	\$ 3.67	14.61%

Staff Recommended

Average Usage	5,560	\$ 29.90	32.72	\$ 2.82	9.43%
Median Usage	4,124	25.16	27.55	\$ 2.39	9.49%

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

Gallons Consumption	Present		Company Proposed		Staff Recommended	
	5/8 x 3/4 - inch Meter		5/8 x 3/4 - inch Meter		5/8 x 3/4 - inch Meter	
	Rates		Rates	Increase %	Rates	Increase %
-	\$ 15.00		\$ 18.00	20.00%	\$ 16.00	6.67%
1,000	17.15		20.30	18.37%	18.50	7.87%
2,000	19.30		22.60	17.10%	21.00	8.81%
3,000	21.45		24.90	16.08%	23.50	9.56%
4,000	24.75		28.40	14.75%	27.10	9.49%
5,000	28.05		31.90	13.73%	30.70	9.45%
6,000	31.35		35.40	12.92%	34.30	9.41%
7,000	34.65		38.90	12.27%	37.90	9.38%
8,000	37.95		42.40	11.73%	41.50	9.35%
9,000	41.25		45.90	11.27%	45.10	9.33%
10,000	44.55		49.40	10.89%	48.70	9.32%
20,000	83.55		88.40	5.80%	93.01	11.32%
25,000	103.05		107.90	4.71%	115.17	11.76%
50,000	200.55		205.40	2.42%	225.94	12.66%
75,000	298.05		302.90	1.63%	336.72	12.97%
100,000	395.55		400.40	1.23%	447.49	13.13%
125,000	493.05		497.90	0.98%	558.27	13.23%
150,000	590.55		595.40	0.82%	669.04	13.29%
175,000	688.05		692.90	0.70%	779.82	13.34%
200,000	785.55		790.40	0.62%	890.59	13.37%



**ENGINEERING REPORT FOR
Lagoon Estates Water Company**

**Docket No.
W-01825A-13-0329 (Rates)**

By Michael Thompson

February 4, 2013

EXECUTIVE SUMMARY

CONCLUSIONS

1. The Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Staff (“Utilities Staff” or “Staff”) concludes that the Lagoon Estates Water Company, Inc. (“LEWC” or “Company”) Public Water System (“PWS”) No. 08-021 has adequate production capacity to serve the present customer base and any reasonable growth.
2. Staff concludes that LEWC’s water system PWS No. 08-046 does not have adequate storage capacity, during the peak periods, to serve the present customer base and any reasonable growth.
3. Staff concludes that water system PWS No. 08-046 has no means of providing service to its existing customers should Well No. 2 become unable to produce water.
4. The Arizona Department of Environmental Quality (“ADEQ”) has reported that the LEWC water systems are currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
5. The Arizona Department of Water Resources (“ADWR”) has reported that LEWC is currently in compliance with departmental requirements governing water providers and/or community water systems. LEWC’s service area is not located within an ADWR Active Management Area.
6. According to the Utilities Division Compliance Section database LEWC currently has no delinquent Commission compliance items.
7. LEWC has approved Curtailment and Backflow Tariffs on file with the Commission.

RECOMMENDATIONS

1. Staff recommends an annual water testing expense of \$3,209 presented in Table B be used for purposes of this application.
2. Staff recommends that LEWC adopt and use Staff's typical and customary depreciation rates presented in Table C.
3. Staff recommends that the meter and installation charges listed under "Staff's Recommendation" in Table D be adopted.
4. Staff recommends that LEWC install a storage tank with a minimum of 15,000 gallons of storage at water system PWS No. 08-046. Staff further recommends that LEWC file with Docket Control, as a compliance item in this docket, by May 31, 2016, a copy of the ADEQ Approval of Construction ("AOC") for the storage tank installation.
5. Staff recommends that LEWC file with Docket Control, as a compliance item in this docket by December 31, 2015, a copy of a plan for water system PWS No. 08-046 that provides specific details on how LEWC would address the loss of water production and service to existing customers in the event that Well No. 2 were to fail.
6. Staff recommends that LEWC file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three (3) Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that a maximum of two (2) BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.
7. Staff recommends that the water sampling and testing expenses in the amount of \$1,438 be moved from "Taxes Other Than Income" (Account No. 408) to "Water Testing" (Account No. 635).

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A. INTRODUCTION AND LOCATION OF COMPANY

On September 25, 2013, Lagoon Estates Water Company (“LEWC” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) to increase its rates (Docket No.W-01825A-13-0329). The Company’s current rates were approved in Commission Decision No. 71870, dated August 31, 2010. The ACC Utilities Division Staff (“Utilities Staff” or “Staff”) engineering review and analysis of the pending rate application is presented in this report.

LEWC is a Class D water utility company that provides public utility water service to 365 metered connections.¹ LEWC serves two communities in the south Mohave Valley area located off State Route 95 (Mohave Valley Highway) approximately 20 miles south of Bullhead City, Arizona. The location of LEWC, and the area covered by its Certificate of Convenience and Necessity (“CC&N”), which covers approximately 3.7 square miles (2,354 acres), is shown in Figures 1 and 2, respectively. The CC&N was granted in Commission Decision No. 33753 dated March 12, 1962.

B. DESCRIPTION OF THE WATER SYSTEM

The LEWC water system was visited on November 20, 2013, by Staff member Michael Thompson. Mr. Thompson was accompanied by Ms. Karen Brereton. Ms. Brereton currently handles the day-to-day operations of the water system, and is also the certified operator.² The in-service plants (i.e. wells, tanks, pumps, and visible pipe) appeared to be in proper working order, properly maintained, and in reasonably good condition. Staff did not observe any leaks at the well sites or in the distribution system.

LEWC consists of two separate water systems, Public Water System (“PWS”) No. 08-021 and PWS No. 08-046, which are approximately one (1) mile apart. PWS No. 08-021, the larger of the two water systems, consists of two (2) well sites designated Unit No. 4 and Unit No. 7. PWS No. 08-046. The smaller of the two systems, consists of one (1) well site designated Unit No. 2. The larger system serves approximately 323 connections located in Rancho Palo Verde Unit No. 7, River Valley High School, and Lagoon Estates Unit No. 4, No. 5, & No. 6; while the smaller system serves approximately 37 connections located in Lagoon Estates Unit No. 2.³

Both LEWC distribution systems combined consist of 178,680 linear feet (“lf”) of 4-inch Poly Vinyl Chloride (“PVC”) pipe, 10,870 lf of 6-inch PVC, 1,827 lf of 8-inch PVC, 342 lf of 8-inch Asbestos Concrete (“AC”) pipe, and 1,833 lf of 12-inch PVC pipe which currently serve approximately 376 metered connections.⁴ The distribution systems also have a total of eleven

¹ Per plant data submitted with the application.

² Ms. Brereton is a Certified Grade 3 Water Distribution System Operator, and a Grade 3 Water Treatment Plant Operator, ADEQ Operator Identification No. OP009250.

³ Customer count is based on data from the Water Use Data Sheets included in LEWC’s 2012 Annual Report and Rate Application.

⁴ Metered connections are based on plant data taken from LEWC’s 2012 Annual Report and Rate Application.

(11) standard fire hydrants and five (5) Jones Wharf Head fire hydrants.⁵ Two of the Jones Wharf Head hydrants are being utilized to provide water to metered standpipes. One standpipe provides water to Mohave County, and the other to Sherrill Ventures.

PWS No. 08-021 (Larger Water System)

Unit No. 4 Well Site is located on the north side of Cabot Drive at the intersection of Cabot Drive and Harduahala Drive in Mohave Valley. The well site consists of a well, a vacant hydro-pneumatic pressure tank pad, a flow meter, and a storage building. The well, ADWR No. 55-618835, contains two (2) submersible pumps (one on standby) that occupy the same well casing. The primary pump, a 4 horsepower (“hp”) submersible pump, produces approximately 150 gallons per minute (“gpm”). The standby pump, a 3.5 hp submersible pump, produces approximately 90 gpm. If necessary, both pumps can be operated simultaneously. Both pumps, when operating, pump water directly to the distribution system and the two (2) hydro-pneumatic tanks located at the Unit No. 7 Well Site. The 5,000 gallon hydro-pneumatic pressure tank, that once occupied the Unit No. 4 Well Site tank pad, was removed and placed at the Unit No. 2 Well Site located in PWS No. 08-046. The Unit No. 4 Well Site has no chlorination system, storage tanks, or emergency backup power generator.

The Unit No. 7 Well Site is located on the east side of Aquarius Drive at the intersection of Aquarius Drive and Cabot Drive in Mohave Valley. The well site consists of a well, two (2) 5,000 gallon hydro-pneumatic pressure tanks, a flow meter, a 75 kilo-watt (“kW”) emergency generator (back-up power), and a chlorination system. The well, ADWR No. 55-536722, contains a 50 hp vertical turbine pump that produces approximately 1,800 gpm. The well pumps water directly into the distribution system through the pressure tanks. The well site has no storage tanks.

During normal operation only the Unit No. 7 well provides water to the distribution system. The Unit #4 well is in standby, and is only utilized if Unit No. 7 is off-line for maintenance.

PWS #08-046 (Smaller Water System)

The Unit No. 2 Well Site consists of two (2) wells, a 5,000 gallon hydro-pneumatic pressure tank, one (1) sand separator, two (2) flow meters, and an old chlorine building currently being utilized as a utility shed. The well site has no chlorination system, storage tanks, or emergency backup power generator.

Well No. 1, ADWR No. 55-618836, has a 7.5 hp submersible pump that produces approximately 150 gpm. The well has historically experienced high levels of Arsenic which generally exceeds 40 CFR 141 (National Primary Drinking Water Regulations) Maximum Contaminant Level (“MCL”) for Arsenic of 10 parts per billion (“ppb”). The most recent water

⁵ A Jones Wharf Head is a wet barrel fire hydrant which threads directly to a wet riser (a vertical pipe that is connected to a water main) as compared to a standard hydrant which is bolted to the wet riser/vertical pipe.

sample, taken September 24, 2013, contained an Arsenic concentration of 11 ppb. Currently, the well has no blending system or treatment system in place for the reduction or removal of Arsenic, respectively. Consequently, Well No. 1 is only used when the Arsenic levels fall below 10 ppb. When operating, Well No. 1 has the capability of pumping water in one (1) of two (2) directions; either, through the hydro-pneumatic pressure tank to the distribution system, or directly and simultaneously to the distribution system and hydro-pneumatic pressure tank.

Well No. 2 (w/sand separator), ADWR No. 55-618837, has a 7.5 hp submersible pump that produces approximately 150 gpm. Currently, Well No. 2 is the only well providing water to the Lagoon Estates Unit No. 2 distribution system. The well does produce sand occasionally. Consequently, a sand separator was installed to reduce sand infiltration. During the system inspection, the operator mentioned that the source of the sand may possibly be due to an obstruction that is located below the wells submersible pump. A video of the well is to be scheduled to determine the nature of the obstruction, and if any damage to the well casing has occurred. Arsenic concentrations in Well No. 2 have consistently been below the MCL. The most recent water sample, taken September 24, 2013, contained an Arsenic concentration of 3 ppb.

Both wells carry high levels of iron and manganese, which are greater than the non-mandatory water quality standards established in 40 CFR 143 (National Secondary Drinking Water Regulations). Currently, the water system does not have any treatment in place to remove the iron and manganese contaminants from the water produced from the wells.

Schematics of the water systems are illustrated in Figures 3 and 4, with detailed listings of the plant facilities included in Table A.

Table A. Plant Facilities Summary⁶

Well Data

	PWS No. 08-021 (Large System)		PWS No. 08-046 (Small System)	
	Unit No. 4 Well Site	Unit No. 7 Well Site	Unit No. 2 Well Site	
ADWR Registration No.	55-618835	55-536722	55-618836	55-618837
Location	Unit No. 4 Well Site	Unit No. 7 Well Site	Unit No. 2 Well Site	
Casing Diameter (inches)	12	16	8	8
Casing Depth (feet)	175	270	600	340
Pump Horsepower (hp)	4 3.5*	50	7.5	7.5*
Pump Type	Submersible	Vertical Turbine	Submersible	Submersible
Pump Yield (gpm)	150 90	1,800	150	150
Meter Size (inches)	4 3	8	3	3
Chlorination	No No	Gas	No	No
Year Drilled	9/30/1966		4/12/1980	4/8/1980

*The 3.5 hp and 7.5 hp pumps located at Unit #4 and Unit #2 Well Sites, respectively, are designated stand-by pumps.

⁶ The information listed was based on one, or a combination of, the following sources: 1) Company's Application, 2) Commission Annual Reports, 3) Arizona Department of Water Resources Records, 4) Information contained in the Company's Response to Staff Data Requests and, 5) Information collected during Staff's site visit.

Equipment & Structures

Location	Storage Tank	Pressure Tank	Emergency Generator	Security Fence	Buildings
Unit No. 2 Well Site	None*	One 5,000 Gallon Tank	None	30 feet x 50 feet	Utility Shed
Unit No. 4 Well Site	None*	None	None	50 feet x 60 feet	Shop Building
Unit No. 7 Well Site	None*	Two 5,000 Gallon Tanks	75 kW Natural Gas	150 feet x 200 feet	Utility Shed

*Storage not required for multiple well systems.

Distribution Mains

Diameter (inches)	Material	Length (feet)
4	PVC	178,680
6	PVC	10,870
8	ACP	342
8	PVC	1,827
10	PVC	1,833

Notes: 1) ACP is asbestos-cement pipe used in water distribution systems and in general construction.
 2) PVC is poly vinyl chloride pipe used in water distribution systems and in general construction.

Meters

Size (inch)	Quantity
5/8 x 3/4	372
1	2
2	1
Turbo 8	1

Fire Hydrants

Size/Description	Quantity
Standard	11
Jones Wharf Head	5

MOHAVE COUNTY

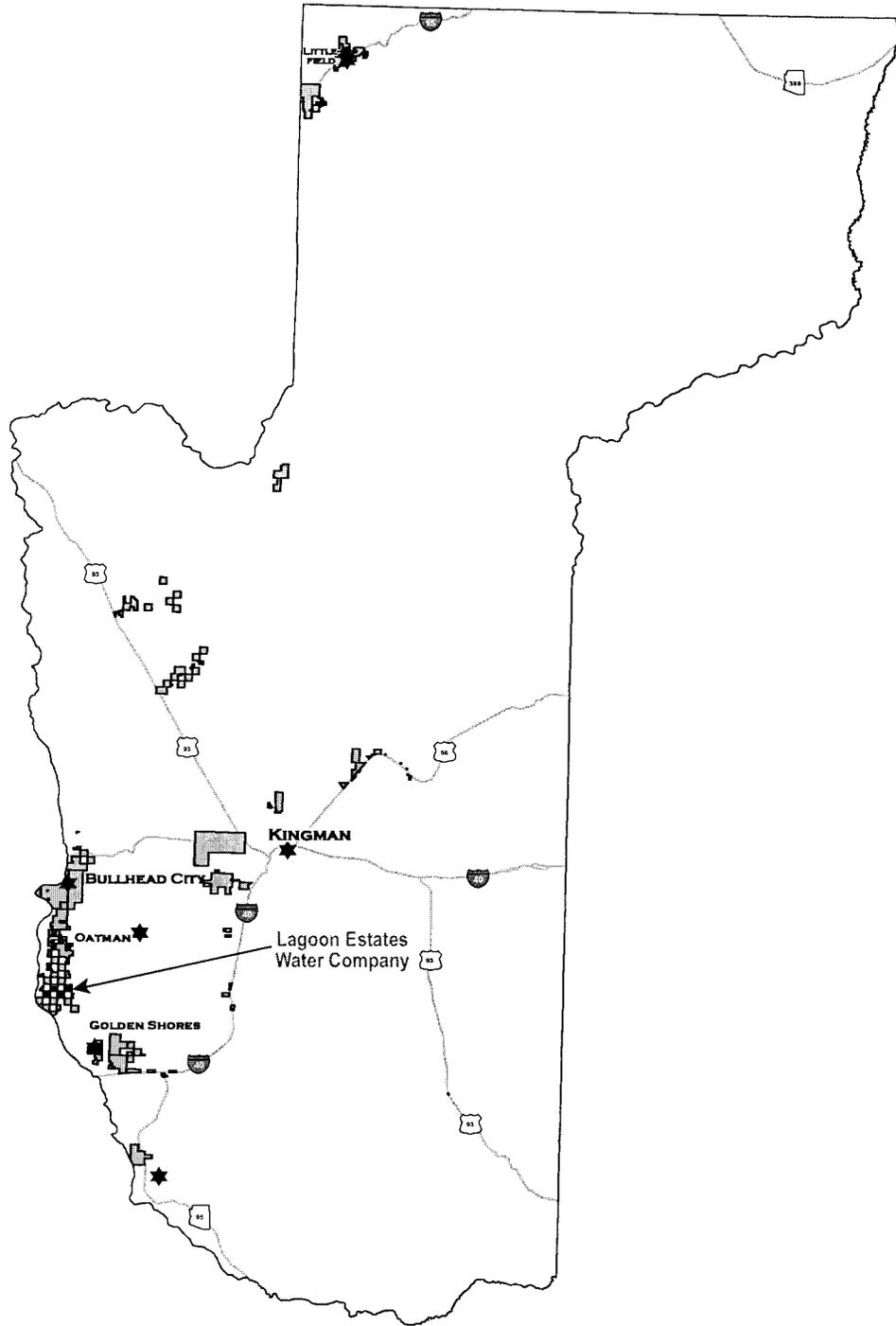


Figure 1. County Map

M O H A V E C O U N T Y

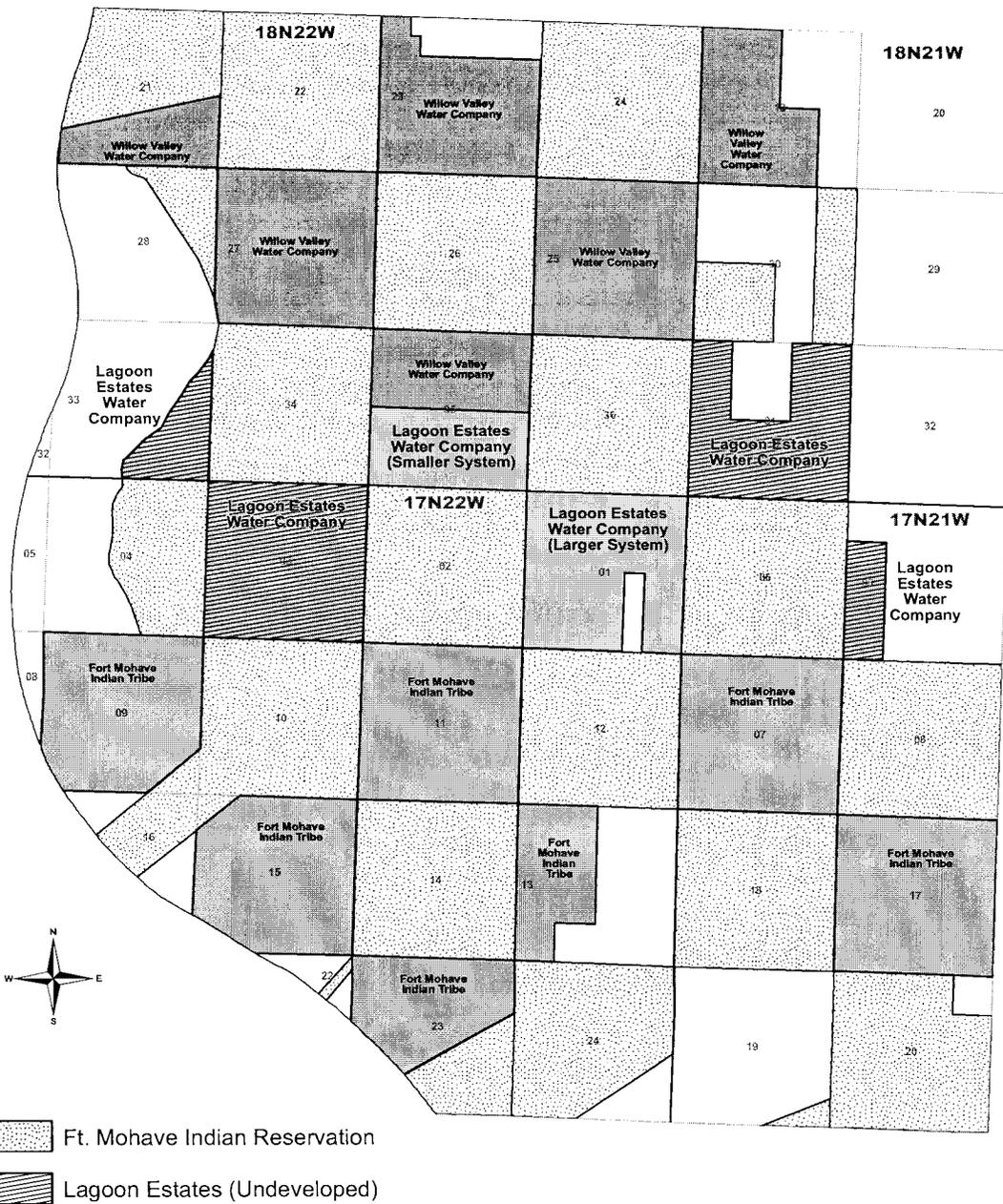


Figure 2. Certificated

**PROCESS SCHEMATIC – LAGOON ESTATES WATER COMPANY
 SYSTEM ID #08-021**

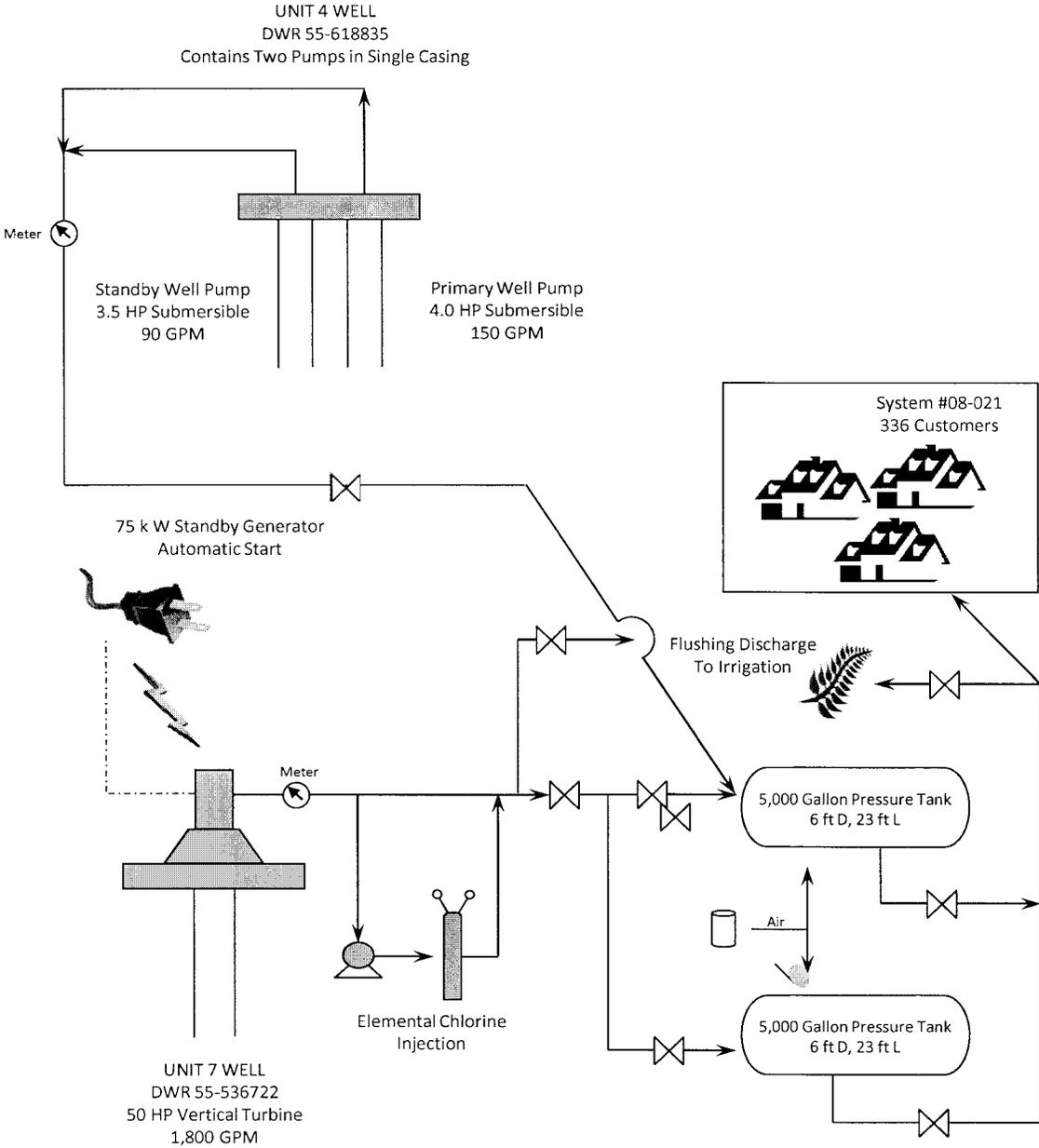


Figure 3. Water System Schematic – Larger System

**PROCESS SCHEMATIC – LAGOON ESTATES WATER COMPANY
SYSTEM ID #08-046**

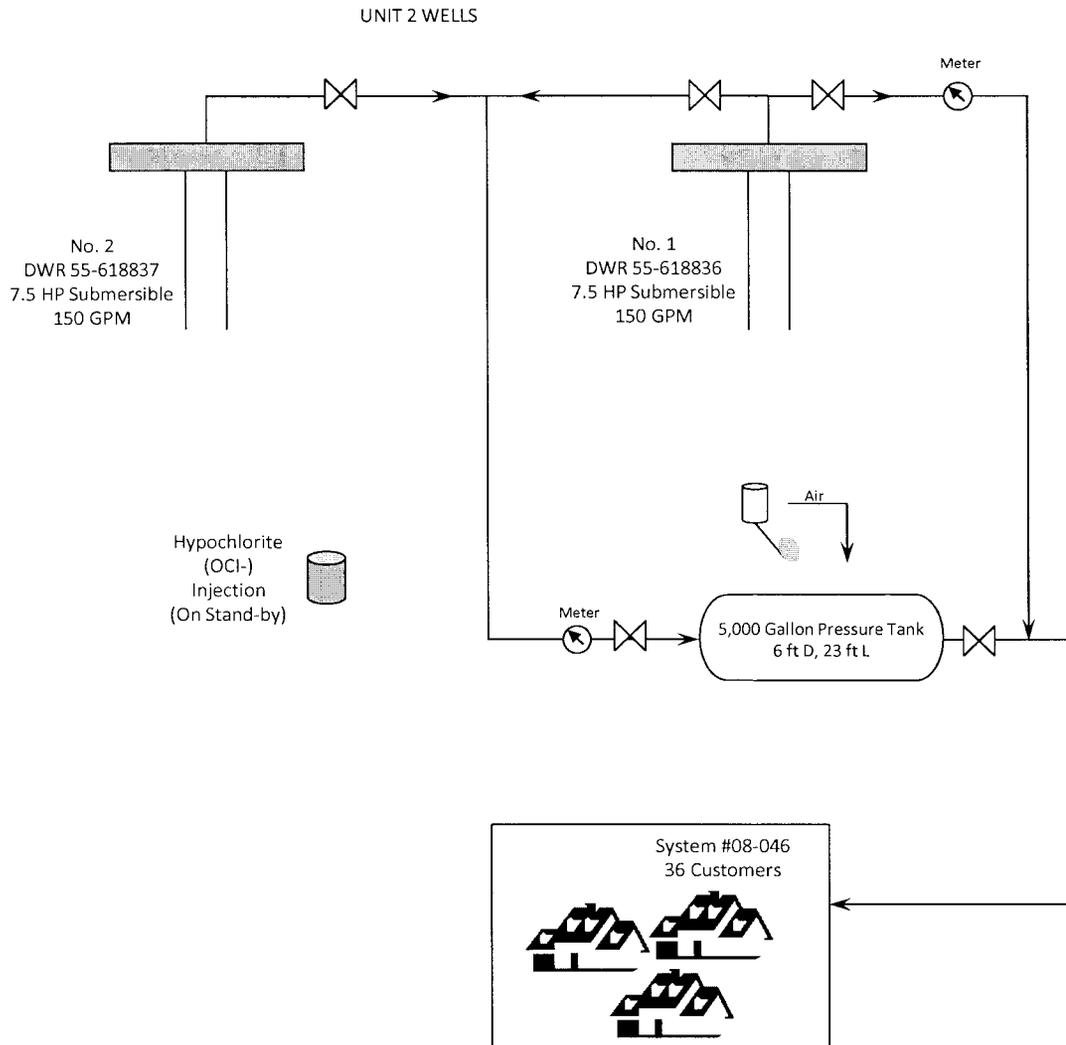


Figure 4. Water System Schematic – Smaller System

C. WATER USE

Water Sold

Figure 5 represents the water consumption data for PWS No. 08-021 (“Larger System”) provided by LEWC for the test year ending December 31, 2012. Customer consumption for the Larger System included a high monthly water use of 304 gallons per day (“gpd”) per connection in June, and the low water use of 160 gpd per connection in February. The average daily demand during the twelve-month period was approximately 214 gpd per connection.

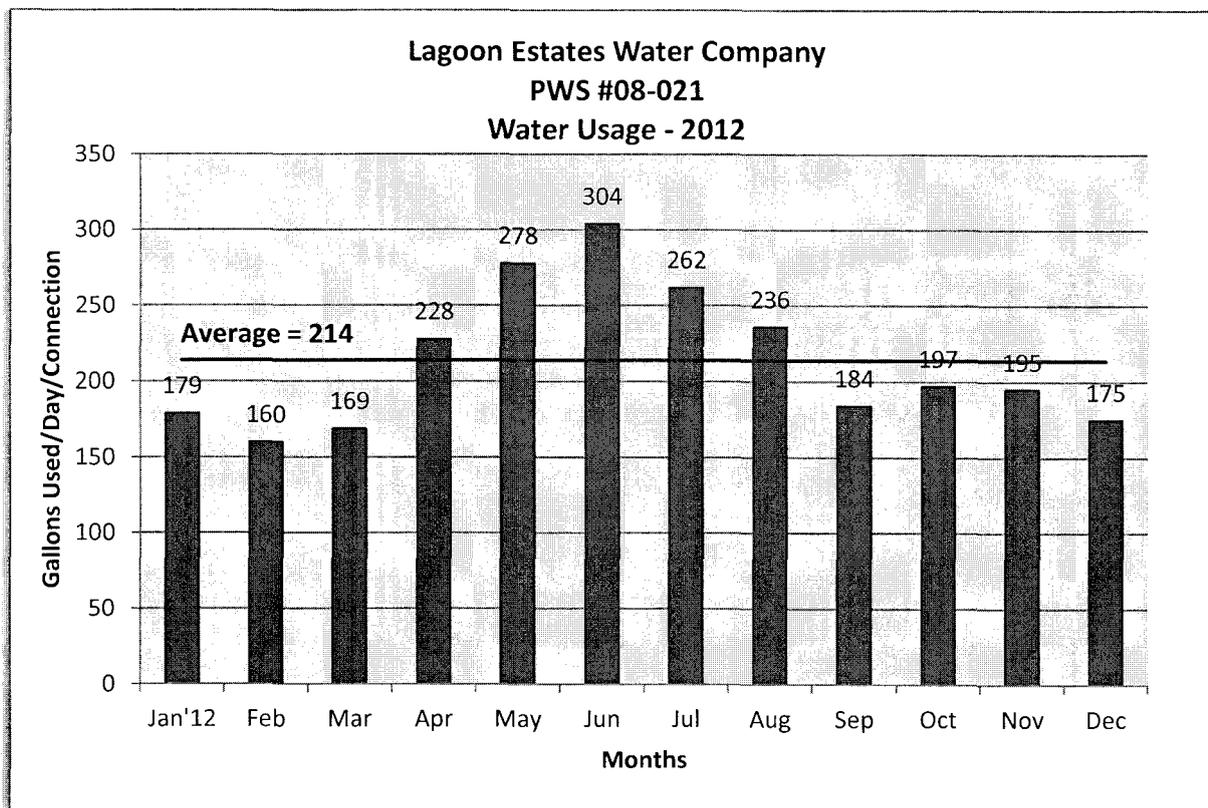


Figure 5. Water Use

Figure 6 represents the water consumption data for PWS #08-046 (“Smaller System”) provided by LEWC for the test year ending December 31, 2012. Customer consumption for the Smaller System included a high monthly water use of 347 gallons per day (“gpd”) per connection in October, and the low water use of 129 gpd per connection in September. The average daily demand during the twelve-month period was approximately 199 gpd per customer.

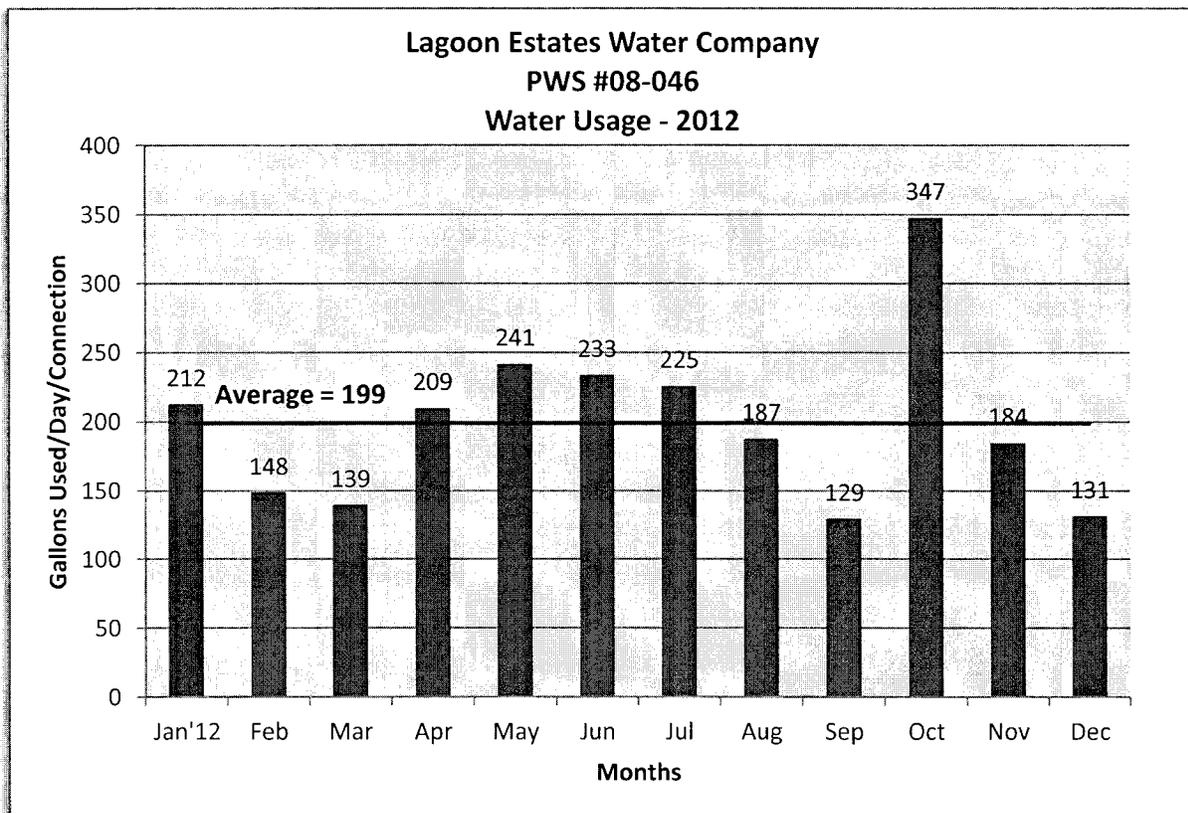


Figure 6. Water Use

Non-accounted For Water

Non-accounted for water should be 10 percent or less. 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. PWS No. 08-021 reported 26,306,000 gallons of water pumped and 25,130,000 gallons of water sold during the test year ending December, 2012, resulting in a water loss of 4.5 percent⁷. PWS No. 08-046 reported 2,613,000 gallons of water pumped and 2,512,000 gallons of water sold during the test year ending December, 2012, resulting in a water loss of 3.9 percent⁸.

System Analysis

PWS No. 08-021(Larger Water System)

LEWC's larger water system has a total well production capacity of approximately 1,950 gpm (2,808,000 gpd). The water system does not have water storage. Unit No. 7 Well Site has

⁷ Total water sold during the test year is based on the monthly data from the meter reads for PWS No. 08-021.

⁸ Total water sold during the test year is based on the monthly data from the meter reads for PWS No. 08-046.

an emergency backup power generator, while Unit No. 4 Well Site does not. The distribution system has 11 standard fire hydrants and 5 Jones Head fire hydrants. Four (4) additional standard hydrants, located at the Mohave Valley High School, are maintained by the Mohave Valley Fire Department. The fire flow required by the Mohave Valley Fire Department is approximately 1,000 to 1,400 gpm with a minimum duration of 2 hours.

During the peak month, June 2012, the water system was serving 318 connections when LEWC reported 2,902,000 gallons of water sold. Average daily demand for the month of June 2012 was determined to be 96,733 gpd.

Staff concludes that the water system has adequate production capacity to serve the present customer base and any reasonable growth.

PWS No. 08-046 (Smaller Water System)

LEWC's smaller water system has a total production capacity of approximately 300 gpm (432,000 gpd) when both Well No. 1 and Well No. 2 are operating. However, since Well No. 1 is not operational due to its Arsenic concentration exceeding the MCL, the total production capacity is reduced to approximately 150 gpm (216,000 gpd). The water system does not have water storage or an emergency backup power generator.

During the peak month, October 2012, the water system was serving 35 connections when LEWC reported 376,000 gallon of water sold. Average daily demand for the month of October 2012 was determined to be 12,129 gpd.

According to AAC R18-5-503.A, the minimum storage capacity for a community water system or a non-community water system that serves a residential population or a school shall be equal to the average daily demand during the peak month of the year. Staff concludes that the water system does not have adequate storage capacity during the peak periods to serve the present customer base and any reasonable growth. Staff recommends that LEWC install a storage tank with a minimum of 15,000 gallons of storage. Staff further recommends that LEWC file with Docket Control, as a compliance item in this docket by May 31, 2016, a copy of the ADEQ Approval of Construction ("AOC") for the storage tank installation.

Well No. 2, which occasionally produces sand, possibly has an obstruction in its well casing. LEWC believes the obstruction is contributing to the sanding issue. A video of the well is to be scheduled to determine the nature of the obstruction, and if any damage to the well casing has occurred. Should the well casing be damaged, the possibility exists that the wells production could be compromised. Since Well No. 2 is currently the water system's only functional well, having an additional water source available would be prudent. With that in mind, Well No. 1 could be brought back into service if its Arsenic concentration was reduced to levels below the MCL.

Staff concludes that the water system, PWS No. 08-046, has no means of providing service to the existing customers should Well No. 2 become unable to produce water. Staff recommends that LEWC file with Docket Control, as a compliance item in this docket by December 31, 2015, a copy of a plan for water system PWS No. 08-046 that provides specific details on how LEWC would address the loss of water production and service to existing customers in the event that Well No. 2 were to fail.

D. GROWTH

LEWC has experienced moderate growth from 2000 to 2006, with a marginal decline from 2007 to 2012. LEWC reported 263 metered connections served in 2000 and 385 metered connections served year end 2006.⁹ LEWC currently serves approximately 365 metered connections, which include residential customers, a high school, a grocery store, and several small retail businesses. LEWC does not anticipate a change in their customer base and expects growth to be minimal through 2017.

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

Compliance

ADEQ regulates the LEWC water systems under ADEQ Public Water System Identification (“PWS ID”) No. 08-021 and 08-046. ADEQ inspected both water systems on December 11, 2012. During the inspection no major deficiencies were found in the operation, maintenance, or certified operator status of the water system.

ADEQ Compliance Status Report, dated July 11, 2013, indicates that the LEWC water systems have no major monitoring or reporting deficiencies, and are currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

In addition to Total Coliform, Lead & Copper, and Disinfection-By-Products testing, LEWC is also subject to mandatory participation in the Monitoring Assistance Program (“MAP”).¹⁰ LEWC reported water testing expenses of \$2,017.00 (MAP fees are not included) during the test year. MAP fees, totaling \$1,438.05, were included in the “Taxes Other Than Income” account (Account No. 408) under Operating Expenses, located on Page 19, of LEWC’s Application. Combining the reported testing expenses with MAP fees, the total expenses for water testing amounted to \$3,455.05. The monitoring and testing expenses that were reviewed,

⁹ Staff’s historical growth figures are based on the data reported by LEWC in their annual reports submitted to the Commission.

¹⁰ The MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

evaluated, and recalculated by Staff are represented in Table B. Staff recommends an annual water testing expense of \$3,209 be used for purposes of this application.

Table B. Water Testing Costs

Monitoring PWS #08-021	Cost per Test	Quantity of Tests per 3 years	Annual Testing Cost
Total Coliform	\$25	72	\$600
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	1,096 ¹
Lead & Copper/Metal Preparation	\$48	10 ²	\$160
Disinfection By-Products (TTHMs) ³	\$100	3 ⁴	\$100
Disinfection By-Products (HAA5s) ³	\$210	3 ⁴	\$210
Total Annual Cost	-	-	\$2166
Monitoring PWS #08-046	Cost per Test	Quantity of Tests per 3 years	Annual Testing Cost
Total Coliform	\$25	36	\$300
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$343 ¹
Lead & Copper/Metal Preparation	\$48	5 ²	\$80
Arsenic/Metal Preparation	\$40	24 ⁴	\$320
Total Annual Cost	-	-	\$883
Total Annual Costs (PWS #08-021 & #08-046)	-	-	\$3,209

¹The ADEQ MAP invoice for Calendar Year 2012 was \$1,095.53 and \$342.52 for PWS #08-021 and PWS #08-046, respectively,
²Assumes lead and copper testing will remain at a total of fifteen (15) tests triennially, ³TTHM means Total Trihalomethanes and HAA5 means Haloacetic Acids, ⁴Assumes one (1) TTHM & one (1) HAA5 test per year, and ⁵Assumes Arsenic will remain at one (1) test per quarter.

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

The LEWC service area is not located within an ADWR Active Management Area. ADWR Compliance Status Report, dated October 3, 2013, indicates that the LEWC water systems are currently in compliance with departmental requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

A check of the Utilities Division Compliance Section database showed that there are no delinquent Commission compliance items for LEWC.¹¹

¹¹ Per Compliance Section email dated October 2, 2013.

H. DEPRECIATION RATES

Staff’s typical and customary depreciation rates, which vary by National Association of Regulatory Utility Commissioners (“NARUC”) plant categories, are illustrated in Table C. These rates represent typical and customary values within a range of anticipated equipment life. Staff recommends that LEWC adopt and use the Staff’s typical and customary depreciation rates presented in Table C.

Table C. Depreciation Rate Table for Water Companies

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	20.00
320.3	Point-of-Use Treatment Devices	10	10.00
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 & Miscellaneous 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	---	-----

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

LEWC has proposed to increase its existing service line and meter installation charges.¹² The proposed charges are refundable advances and are similar to the Staff’s typical range of charges for service line and meter installations. Since LEWC may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Staff recommends that the charges listed under “Staff’s Recommendation” in Table D be adopted.

Table D. Service Line and Meter Installation Charges

Meter Size	Company Proposed			Staff’s Recommendation			
	Company Current Tariff	Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$520	\$415	\$125	\$540	\$415	\$125	\$540
3/4-inch	\$620	\$415	\$225	\$640	\$415	\$225	\$640
1-inch	\$730	\$465	\$285	\$750	\$465	\$285	\$810
1-1/2-inch	\$995	\$520	\$495	\$1,015	\$520	\$495	\$1,075
2-inch Turbine	\$1,795	\$800	\$995	\$1,795	\$800	\$995	\$1,875
2-inch Compound	\$2,640	\$800	\$1,860	\$2,660	\$800	\$1,860	\$2,660
3-inch Turbine	\$2,635	\$1,015	\$1,640	\$2,655	\$1,105	\$1,640	\$2,655
3-inch Compound	\$3,630	\$1,135	\$2,515	\$3,650	\$1,135	\$2,515	\$3,650
4-inch Turbine	\$4,000	\$1,430	\$2,590	\$4,020	\$1,430	\$2,590	\$4,020
4-inch Compound	\$5,155	\$1,610	\$3,565	\$5,175	\$1,610	\$3,565	\$5,175
6-inch Turbine	\$7,075	\$2,150	\$4,945	\$7,095	\$2,150	\$4,945	\$7,095
6-inch Compound	\$9,090	\$2,270	\$6,840	\$9,110	\$2,270	\$6,840	\$9,110
8-inch Turbine	\$10,135	\$3,080	\$7,075	\$10,155	\$3,080	\$7,075	\$10,155
8-inch Compound	\$15,785	\$3,200	\$12,605	\$15,805	\$3,200	\$12,605	\$15,805

2. Curtailment Tariff

LEWC has an approved Curtailment Tariff on file with the Commission.

3. Backflow Prevention Tariff

LEWC has an approved Backflow Prevention Tariff on file with the Commission.

¹² The Company’s current charges were approved in Decision No. 71870, dated August 31, 2010.

4. Best Management Practices (“BMP”) Tariff

Staff recommends that LEWC file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three (3) Best Management Practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff for Commission’s review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that a maximum of two (2) BMPs may come from the “Public Awareness/Public Relations” or “Education and Training” categories. LEWC may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

5. Reclassification of MAP Water Sampling and Testing Expenses

LEWC listed the MAP water sampling and testing expenses in the amount of \$1,438 in its Operating Expenses under “Taxes Other Than Income” account (Account No. 408). Staff recommends that the MAP water sampling and testing expenses be moved from “Taxes Other Than Income” (Account No. 408) to “Water Testing” (Account No. 635).