



0000158978

MEMORANDUM

TO: Docket Control Center

FROM: Steven M. Olea
Director
Utilities Division

EA for SMO

ORIGINAL

DATE: December 19, 2014

RE: STAFF REPORT IN THE MATTER OF THE APPLICATION FOR NAVAJO WATER COMPANY, INC. FOR THE APPROVAL OF A RATE INCREASE (DOCKET NO. W-03511A-14-0304)

Attached is the Staff Report for the Navajo Water Company, Inc.'s application for approval of a rate increase. Staff recommends approval of a rate increase in accordance with Staff's recommendations.

SMO:BAB:tdp\RRM

Originator: Briton Baxter

Arizona Corporation Commission

DOCKETED

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Docket No. W-03511A-14-0304

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

NAVAJO WATER COMPANY, INC.

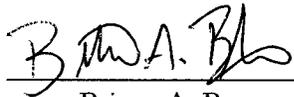
DOCKET NO. W-03511A-14-0304

APPLICATION FOR A PERMANENT RATE INCREASE

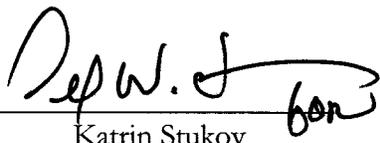
DECEMBER 19, 2014

STAFF ACKNOWLEDGMENT

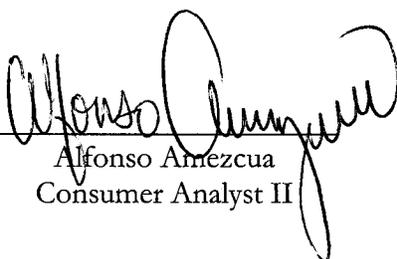
The Staff Report for Navajo Water Company, Inc. Docket No. W-03511A-14-0304, was the responsibility of the Staff members listed below. Briton Baxter was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Alfonso Amezcua was responsible for reviewing the Commission's records on the Company, with Commission rules/tariffs and reviewing customer complaints filed with the Commission.



Briton A. Baxter
Public Utility Analyst IV



Katrin Stukov
Utilities Engineer



Alfonso Amezcua
Consumer Analyst II

**EXECUTIVE SUMMARY
NAVAJO WATER COMPANY, INC.
DOCKET NO. W-03511A-14-0304**

Navajo Water Company, Inc. ("Navajo" or "Company") is a Class D water utility that provides potable water service to approximately 305 customers. The Company's three water systems are located around the City of Show Low in Navajo County, Arizona.

The Company proposed rates would increase revenue by \$69,627 or 70.16 percent over test year revenues of \$99,246 to \$168,873 which would result in an operating income of \$15,628. This equates to a 12.00 percent rate of return on the Company-proposed fair value rate base ("FVRB"), which is also its original cost rate base ("OCRB"), of \$130,225. The Company's proposed rates would yield a positive cash flow of \$30,539. Under the Company-proposed rates, the typical residential monthly bill (all test year customers had a 5/8 x 3/4-inch meters), with median use of 1,761 gallons, would increase from \$22.35 to \$39.60, an increase of \$17.25 or 77.2 percent.

Staff recommends rates that would increase revenue by \$55,017 or 55.43 percent over test year revenues of \$99,246 to \$154,263, which would result in an operating income of \$11,666. This equates to a 10.00 percent rate of return on Staff's adjusted OCRB of \$116,660. Staff's recommended rates would yield a positive cash flow of \$34,285. Under the Staff-recommended rate design, the typical residential monthly bill, with median use of 1,761 gallons, would increase from \$22.35 to \$33.35 an increase of \$11.00, or 49.2 percent.

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown in Schedule BAB-4.
2. In the future, the Company should be charged directly for expenses, such as the salaries and wages of the two system operators, chemicals, water testing, bad debts, etc. rather than these expenses being included in the management fee/allocation.
3. The Company use a 4-factor allocation to charge indirect costs.
4. The new rates approved in this case not be effective until the first day of the month after the Company files with Docket Control, as a compliance item in this docket, documentation from Arizona Department of Water Resources ("ADWR") indicating that Navajo's three water systems are compliant with departmental requirements governing water providers and/or community water systems.
5. The depreciation rates listed in Table B of the Engineering report.
6. Its service line and meter installation charges labeled "Staff's Recommendation" in Table C of the Engineering report.

7. Approval of the Best Management Practices (“BMPs”) included in attachment A. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.

8. The Company file with Docket Control as a compliance item in this docket, within three months of the effective date of the order in this matter, its Summer Pines 40,000 gallons storage tank replacement plan. Staff further recommends that the Company file with Docket Control as a compliance item in this docket within six months of the effective date of the order in this matter, a copy of the ADEQ Approval of Construction for the Summer Pines new storage tank with a minimum capacity of 40,000 gallons.

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Attachment

Engineering Report.....	Exhibit KS
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Fact sheet

Company Statistics:

Navajo Water Company, Inc. ("Navajo" or "Company") is a Class D public service corporation, providing potable water service to approximately 305 metered customers.

Navajo is a taxable "C" Corporation.

Rates:

Current rates: Decision No. 62361 dated March 6, 2000.

Permanent rate increase application filed: August 15, 2014.

Current test year ended: June 30, 2014.

The application became sufficient on October 10, 2014.

	<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	\$16.19	\$33.00	\$25.00
(Gallons included in the minimum)	0	0	0
Commodity Rates (Per 1,000 gallons above minimum)			
<u>5/8 x 3/4 meters</u>			
All usage	\$3.50	N/A	N/A
0 to 4,000 gallons	N/A	\$3.75	N/A
4,001 to 10,000 gallons	N/A	4.70	N/A
Over 10,000	N/A	5.55	N/A
0 to 3,000 gallons	N/A	N/A	\$4.50
3,001 to 9,000 gallons	N/A	N/A	5.90
Over 9,000	N/A	N/A	6.89
<i>Typical 5/8 x 3/4</i>			
Average use (3,044 gallons)	\$26.85	\$44.42	\$40.66
Median use (1,761 gallons)	\$22.35	\$39.60	\$32.92

Customers:

Average Number of customers in the current test year (6/30/14): 305

All customers are on the 5/8 x 3/4-inch meter, there are no other meter sizes in use.

Notifications:

Affidavit of mailing for the Customer Notification was filed on September 30, 2014.

Complaints:

Number of opinions filed against the rate increase application: 12.

Percentage of opinions to customer base: 3.93 percent.

SUMMARY OF FILING

Navajo Water Company, Inc. ("Navajo" or "Company") proposed a \$69,627 or a 70.16 percent increase over the test year revenue of \$99,246 to \$168,873. The Company's proposed revenue would result in operating income of \$15,628. This equates to a 12.00 percent rate of return on the Company-proposed fair value rate base ("FVRB"), which is also its original cost rate base ("OCRB"), of \$130,225. The Company's proposed rates would yield a positive cash flow of \$30,539. The Company's proposed rate increase would increase the typical residential 5/8 x 3/4-inch meter bill (all test year customers had a 5/8 x 3/4-inch meters) with a median usage of 1,761 gallons from \$22.35 to \$39.60, for an increase of \$17.25, or 77.2 percent.

The test year results as adjusted by Utilities Division Staff ("Staff") for the Company show total operating revenue of \$99,246, an operating loss of \$30,953 and a negative cash flow of \$8,335, as shown on Schedule BAB-1. The OCRB as adjusted by Staff is \$116,660.

Staff recommends a \$55,022 or a 55.44 percent increase over the test year revenue of \$99,246 to \$154,268. Staff's recommended revenues would result in an operating income of \$11,669. This equates to a 10.00 percent rate of return on Staff's adjusted OCRB of \$116,660. Staff's recommended rates would yield a positive cash flow of \$34,288. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 1,761 gallons from \$22.35 to \$32.92, for an increase of \$10.57, or 47.3 percent.

COMPANY BACKGROUND

On August 15, 2014, Navajo filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On October 10, 2014, Staff issued a Letter of Sufficiency. The Company is a Class D water provider authorized to provide water service in its certificated area located around Show Low, Arizona in Navajo County. Navajo is comprised of three separate systems. The Chaparral Pines system is four miles west of Show Low. The Laguna Estates system is seven miles northeast of Show Low. The Summer Pines system is two miles south of Show Low. During the test year ended June 30, 2014, the Company provided potable water service to an average of approximately 305 customers. The Company's customers are all residential users with 5/8 x 3/4-inch meters. The current permanent rates were authorized by Decision No. 62361 in March, 2000.

The Chaparral Pines system was acquired by Navajo in 1989 and the sale of its assets and the transfer of its Certificate of Convenience & Necessity ("CC&N") were approved by the Commission in Decision No. 56485, dated March 17, 1989. The Laguna Estates system was acquired by Navajo in 1983 with its initial rates and its CC&N being approved by the Commission in Decision No. 53766, dated October 5, 1983. The Summer Pines system was acquired by Navajo in 1981 with its initial rates and its CC&N being approved by the Commission in Decision No. 52520, dated October 6, 1981.

Navajo is a taxable "C" Corporation that is currently a wholly-owned subsidiary of JW Water Holdings, LLC ("JW Water"). JW Water purchased Navajo, Payson Water Co., Inc. ("Payson"), and Tonto Basin Water Co., Inc. ("Tonto Basin") from Brooke's Utilities through a Stock Purchase Agreement on June 1, 2013. JW Water is not regulated by the Commission and concurrently filed a rate application for Tonto Basin Water Co., Inc. Staff will address each application individually.

As a parent to Navajo, JW Water provides services such as water system operations, system maintenance, meter reading, record keeping, compliance filings and reporting, accounts payable, payroll, human resources, billing, etc. to Navajo, Payson, and Tonto Basin. All direct costs incurred on behalf of each company are charged directly to that company. For all indirect costs, JW Water allocates these costs based on the prior month's customer counts. On average for the test year, Navajo was allocated 13.19 percent, Payson was allocated 48.10 percent and Tonto Basin was allocated 38.71 percent.

CONSUMER SERVICES

A review of the Commission's records from January 1, 2011 through current found:

2014 – Six complaints (one billing, one service and four quality of service) 12 opinions all opposed to the rate increase

2013 – Three complaints (two billing and one disc/term)

2012 – 19 complaints (five billing and 14 quality of service)

2011 – 17 complaints (one billing, one new service, one service, 12 quality of service and two disc/term)

All complaints have been resolved and closed.

The Company's affidavit of mailing "Customer Notification" was filed on September 30, 2014.

Navajo is in good standing with the Corporations Division of the Commission.

COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

The Company is current on its property and sales tax payments.

Navajo is currently not in compliance with Arizona Department of Water Resources ("ADWR"). The Company has failed to file its Annual Reports and System Water Plans.

ENGINEERING ANALYSIS

Staff inspected Navajo's plant facilities on October 22, 2014. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

RATE BASE

Staff's adjustments decreased the Company's proposed rate base by \$13,565, from \$130,225 to \$116,660, as shown on Schedule BAB-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Adjustment A increases plant in service by \$2,227, from \$443,062 to \$445,289, as shown on Schedule BAB-2, page 2. Adjustment A consists of the following:

Electric Pumping Equipment – Adjustment “a” increases the Electric Pumping Equipment account by \$1,831, from \$113,433 to \$115,264, as shown on Schedule BAB-2, pages 2 and 3. Staff's adjusted amount reflects the correct amount per supporting documentation.

Distribution Reservoirs & Standpipes – Adjustment “b” has a zero net impact on rate base. This adjustment decreases the distribution reservoirs & standpipes account by \$60,347, from \$60,347 to \$0, and increases the storage tank account by \$40,231 from \$0 to \$40,231 and increases the pressure tank account by \$20,116 from \$0 to \$20,116 as shown on Schedule BAB-2, pages 2 and 3. The Company should not have recorded a balance in this account; instead the storage and pressure tanks should be recorded in the more detailed accounts which are depreciated at different rates. The balances were adjusted according to the Company's response to Staff's Data Request (“DR”) BAB 2.18.

Meters & Meter Installations – Adjustment “c” increases the meters & meter installations account by \$396, from \$44,561 to \$44,957, as shown on Schedule BAB-2, pages 2 and 3. Staff's adjusted amount reflects the four new meters that were installed in the test year per the Company's response to Staff DR KS 1.4.

Staff's Engineering Report describes the three Navajo systems. The Chaparral Pines system consists of one well, one storage tank, one pressure tank, a booster pump, mains, 87 meters, a block pump house and fencing. The Laguna Estates system consists of one well, one storage tank, one pressure tank, a booster pump, mains, 33 meters, and fencing. The Summer Pines system consists of two wells, one storage tank, one pressure tank, two booster pumps, mains, 243 meters, a wood frame pump house and fencing.¹

¹ See Engineering Report, Exhibit KS, pages 4, 9-10 and 6-7 respectively for more details.

Based on the forgoing, Staff recommends the Commission determine for ratemaking purposes, that the Company's Plant in Service is \$445,289.

OTHER RATE BASE ITEMS

Contribution in Aid of Construction

Adjustment B increases contributions in aid of construction ("CIAC") by \$42,271, from \$6,428 to \$48,699, as shown on Schedule BAB-2, pages 1 and 4. Staff's adjusted amount reflects the fact that the Company does not have access to the supporting documentation for the plant additions since the last rate case, with a test year of 1998, other than the current test year which is the first year of operation under JW Water. As a result, to be consistent with the treatment received by Payson in Decision No. 74567, Staff recommends that 30 percent of the unsupported plant additions since 1999, be treated as a CIAC for rate making purposes.

Amortization of Contribution in Aid of Construction

Adjustment C increases the amortization of CIAC by \$28,652, from \$1,050 to \$29,702, as shown on Schedule BAB-2, pages 1 and 5. Staff's adjusted amount reflects the amortization of the CIAC added in Adjustment B due to the fact that the Company does not have access to the supporting documentation for the plant additions since the last rate case.

Working Capital

Adjustment D decreases the Company's proposed operations and maintenance portion of cash working capital by \$2,173 from \$14,762 to \$12,589. The Company calculated a working capital allowance, consisting of cash working capital using the formula method which is 1/24 of purchased power expense and 1/8 of operations and maintenance expense using proposed expenses in its calculation. Staff's calculation used the same formula after giving consideration to the adjusted test year expenses as shown on Schedule BAB-2, pages 1 and 5.

STATEMENT OF OPERATING INCOME

Staff's nine operating expense adjustments result in a net decrease to the Company's proposed total operating loss by \$8,338, from \$39,212 to \$30,874, as shown on Schedule BAB-3, pages 1-6. Details of Staff's adjustments are discussed below.

Operating Expenses

Staff's adjustments to the Company's operating expenses resulted in a net decrease of \$8,338, from \$138,458 to \$130,120, as shown on Schedule BAB-3, page 1. Details of Staff's adjustments are presented below.

Cost allocations – JW Water Holdings, as the parent to Navajo, provides services such as accounts payable, payroll, billing, etc. to the Company and is allocating these indirect costs across 12 expense categories on the income statement. The allocation of the indirect costs were based on the prior month's customer counts; however, Staff recommends that allocations such as these, be based on a weighting of four separate factors that more accurately reflect all of the cost drivers. In this case, Staff recommends the use of customer counts, net plant in service, operating expenses, and number of systems in operation. Staff recommends using customer counts as one of the factors because services such as billing and meter reading are driven by the number of customers in each company. Staff recommends using net plant in service as the second factor, because the amount of plant in service has a direct impact on the amount of work required to keep each system running in comparison to the other systems. The third factor that Staff recommends is operating expenses because the more expenses there are for a particular company, the more accounting functions that will be required to process and pay vendors. The fourth factor that Staff recommends is the number of systems. Payson has eight separate systems, Navajo has three, and Tonto Basin has five. The number of systems impacts the costs due to the time and amount of resources like fuel that it takes to get to a particular system for activities such as system monitoring, repairs or meter reading. Each of the four individual factors would then be given equal weight under Staff's recommendation.

Using just the customer counts, JW Water allocated on average 13.19 percent of the indirect costs to Navajo in the test year. However, as shown on Schedule BAB-3, page 6 Staff's recommended 4-factor allocation would result in 11.94 percent of these costs being allocated to Navajo. Due to materiality considerations, Staff does not recommend adjusting all 12 of the operating and maintenance expense categories impacted by using the revised 4-factor allocation rate. Staff recommends only the adjustments included in the following discussion as noted.

Salaries and Wages – Adjustment A decreases salaries and wages expense by \$15,738, from \$15,738 to \$0, as shown on Schedule BAB-3, pages 1 and 2. The salaries and wages are included in the administrative fee of \$13.31 per customer per month charged as an outside service. Including an allocation for salaries would result in a double counting of these expenses. The rate payers should not be asked to pay the same expenses twice.

Chemicals – Adjustment B decreases chemicals expense by \$407, from \$714 to \$307, as shown on Schedule BAB-3, pages 1 and 2. This adjustment reflects Staff's recalculation of chemicals expense as a result of using the recommended 4-factor allocation method.

Outside Services – Adjustment C increases outside services expense by \$1,071 from \$63,361 to \$64,432, as shown on Schedule BAB-3, pages 1 and 2. This adjustment reflects Staff's recalculation of outside services expense as a result of using the recommended 4-factor allocation method.

Water Testing – Adjustment D decreases water testing expense by \$359, from \$2,738 to \$2,379 as shown on Schedule BAB-3, pages 1 and 2. The water testing expense category is adjusted to reflect Staff's estimated annual average water testing expenses, including MAP fees.²

² See Staff Engineering Report, Exhibit KS, pages 11 and 12 for more details.

Rents – Adjustment E decreases rents expense by \$538, from \$6,033 to \$5,495 as shown on Schedule BAB-3, pages 1 and 2. This adjustment reflects Staff's recalculation of rents expense as a result of using the recommended 4-factor allocation method.

Transportation Expense – Adjustment F decreases transportation expense by \$418, from \$5,274 to \$4,856, as shown on Schedule BAB-3, pages 1 and 2. This adjustment reflects Staff's recalculation of transportation expense as a result of using the recommended 4-factor allocation method.

Depreciation – Adjustment G increases depreciation expense by \$7,708, from \$14,911 to \$22,619, as shown on Schedule BAB-3, pages 1 and 3. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended depreciable plant balances and offset by the amortization of CIAC.

Property Taxes – Adjustment H decreases property tax expense by \$1,549, from \$4,239 to \$2,690, as shown on Schedule BAB-3, pages 1 and 4. This adjustment reflects Staff's recalculation of property tax expense.

Income Taxes – Adjustment I increases income tax expense by \$1,892, from a negative \$9,865 to a negative \$7,973, as shown on Schedule BAB-3, pages 1 and 5. This adjustment reflects Staff's recalculation of income tax expense.

REVENUE REQUIREMENT

The Company's rate base is \$116,660. Staff recommends a \$55,022, or a 55.44 percent, increase over the Staff adjusted test year revenue of \$99,246 to \$154,268. Staff's recommended revenues would result in an operating income of \$11,669 for a 10.00 percent rate of return as shown on Schedule BAB-1. Staff's total revenue requirement of \$154,268, provides the Company with sufficient cash flow to meet normal operating expenses and to fund other contingencies. In recent filings, Staff has been recommending a rate of return in the range of 9.5 to 9.8 percent. For the current case, Staff has rounded the rate of return to an even 10.00 percent.

RATE DESIGN

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

Navajo's proposed rate structure includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate with break-over points at 4,000 and 10,000 gallons for all meter sizes. Under the Company-proposed rates, the typical residential monthly bill (all test year customers had a 5/8 x 3/4-inch meters), with median use of 1,761 gallons from \$22.35 to \$39.60, for an increase of \$17.25, or 77.2 percent, as shown on Schedule BAB-5.

Staff recommends a rate structure that includes a lower monthly minimum charge to place more of the revenue increase in the commodity rates. Because the Company is going from a flat commodity rate to a 3-tiered rate structure, Staff recommends break-over points of 2,000 and 8,000 for 5/8 x 3/4-inch meters with increasing break-over points as meter size increases. Under the Staff-recommended rate design, the typical residential monthly bill, with median use of 1,761 gallons from \$22.35 to \$32.92, for an increase of \$10.57, or 47.3 percent, as shown on Schedule BAB-5.

MISCELLANEOUS SERVICE CHARGES

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. As such, Staff recommends that the Company's current Service Establishment (After Hours) of \$35.00 and Service Re-establishment (After Hours) of \$30.00 charges be eliminated and instead an After Hours Service charge, at the customer request (after hours) be added at \$35.00. Otherwise, Staff agrees with the Company's proposed service charges.

SERVICE LINE AND METER INSTALLATION CHARGES

The Company did not request changes to its service line and meter installation charges as shown on page 16 of the Engineering Report.

The Company's current charges are lower than Staff's customary range of charges. After discussion with Staff, the Company agreed to the lower end of Staff's customary range of charges. Also, 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 as discussed in the Engineering Report. Staff recommends approval of Staff's service line and meter installation charges as shown on Schedule BAB-4.

STAFF RECOMMENDATIONS

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown in Schedule BAB-4.
2. In the future, the Company should be charged directly for expenses, such as the salaries and wages of the two system operators, chemicals, water testing, bad debts, etc. rather than these expenses being included in the management fee/allocation.
3. The Company use a 4-factor allocation to charge indirect costs.

4. The new rates approved in this case not be effective until the first day of the month after the Company files with Docket Control, as a compliance item in this docket, documentation from Arizona Department of Water Resources (“ADWR”) indicating that Navajo’s three water systems are compliant with departmental requirements governing water providers and/or community water systems.
5. The depreciation rates listed in Table B of the Engineering report.
6. Its service line and meter installation charges labeled “Staff’s Recommendation” in Table C of the Engineering report.
7. Approval of the Best Management Practices (“BMPs”) included in attachment A. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.
8. The Company file with Docket Control as a compliance item in this docket, within three months of the effective date of the order in this matter its, Summer Pines 40,000 gallons storage tank replacement plan. Staff further recommends that the Company file with Docket Control as a compliance item in this docket within six months of the effective date of the order in this matter, a copy of the ADEQ Approval of Construction for the Summer Pines new storage tank with a minimum capacity of 40,000 gallons.

SUMMARY OF FILING

	Present Rates		Proposed	Recommended
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$97,782	\$97,782	\$167,409	\$152,804
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,464	1,464	1,464	1,464
Total Operating Revenue	\$99,246	\$99,246	\$168,873	\$154,268
Operating Expenses:				
Operation and Maintenance	\$129,173	\$112,784	\$129,173	\$112,784
Depreciation	14,911	22,619	14,911	22,619
Property & Other Taxes	4,239	2,690	5,230	4,182
Income Tax	(9,865)	(7,973)	3,931	3,014
Total Operating Expense	\$138,458	\$130,120	\$153,245	\$142,598
Operating Income/(Loss)	(\$39,212)	(\$30,874)	\$15,628	\$11,669
Rate Base O.C.L.D.	\$130,225	\$116,660	\$130,225	\$116,660
Rate of Return - O.C.L.D.	N/M	N/M	12.00%	10.00%
Cash Flow	(\$24,301)	(\$8,255)	\$30,539	\$34,288

Note: N/M means that the calculation is not meaningful.

ORIGINAL COST RATE BASE

	----- Original Cost -----		Staff
	Company	Adjustment	
Plant in Service	\$443,062	\$2,227 A	\$445,289
Less:			
Accum. Depreciation	316,491	0	316,491
Net Plant	\$126,571	\$2,227	\$128,798
Less:			
Plant Advances	\$0	\$0	\$0
Meter Deposits	6,233	0	6,233
Total Advances	\$6,233	\$0	\$6,233
Contributions Gross	\$6,428	\$42,271 B	\$48,699
Less:			
Amortization of CIAC	1,050	28,652 C	29,702
Net CIAC	\$5,378	\$13,619	\$18,997
Total Deductions	\$11,611	\$13,619	\$25,230
Plus:			
1/24 Power	\$503	\$0	\$503
1/8 Operation & Maint.	\$14,762	(\$2,173) D	\$12,589
Inventory	\$0	\$0	\$0
Prepayments	\$0	\$0	\$0
Total Additions	\$15,265	(\$2,173)	\$13,092
Rate Base	\$130,225	(\$13,565)	\$116,660

Explanation of Adjustment:

- A - For Rate Base adjustment A, see Sch BAB-2, page 2
- B - For Rate Base adjustment B, see Sch BAB-2, page 4
- C - For Rate Base adjustment C, see Sch BAB-2, pages 4-5
- D - For Rate Base adjustment D, see Sch BAB-2, page 6

PLANT ADJUSTMENT

Line No.	Acct. No.	Description	Company Exhibit	Adjustment	Staff Adjusted
1	301	Organization Costs	\$0	\$0	\$0
2	302	Franchise Costs	0	0	0
3	303	Land & Land Rights	10,050	0	10,050
4	304	Structures & Improvements	11,511	0	11,511
5	307	Wells & Springs	21,353	0	21,353
6	310	Power Generation Equipment	0	0	0
7	311	Electric Pumping Equipment	113,433	1,831 a	115,264
8	320	Water Treatment Equipment	0	0	0
9	320.1	Water Treatment Plants	0	0	0
10	320.2	Solutions & Feeders	0	0	0
11	320.3	Arsenic Remediation Plant	0	0	0
12	330	Distribution Reservoirs & Standpipes	60,347	(60,347) b	0
13	330.1	Storage Tank	0	40,231 b	40,231
14	330.2	Pressure Tanks	0	20,116 b	20,116
15	331	Transmission & Distribution Mains	123,642	0	123,642
16	333	Services	47,963	0	47,963
17	334	Meters & Meter Installations	44,561	396 c	44,957
18	335	Hydrants	0	0	0
19	336	Backflow Prevention Devices	0	0	0
20	339	Other Plant & Misc. Equip.	0	0	0
21	340	Office Furniture & Fixtures	143	0	143
22	340.1	Computer & Software	0	0	0
23	341	Transportation Equipment	0	0	0
24	342	Store Equipment	0	0	0
25	343	Tools & Work Equipment	703	0	703
26	344	Laboratory Equipment	0	0	0
27	345	Power Operated Equipment	0	0	0
28	346	Communications Equipment	1,709	0	1,709
29	347	Miscellaneous Equipment	0	0	0
30	348	Other Intangibles	7,647	0	7,647
31	105	C.W.I.P.	0	0	0
32		TOTALS	\$443,062	\$2,227 A	\$445,289

Explanation of Adjustment:

- a - For Rate Base adjustment a, see Sch BAB-2, page 3
- b - For Rate Base adjustment b, see Sch BAB-2, page 3
- c - For Rate Base adjustment c, see Sch BAB-2, page 3

STAFF PLANT ADJUSTMENT

a. Electric Pumping Equipment	Per Company	\$113,433	
	Per Staff	115,264	<u>\$1,831</u>

The Company proposed an increase of \$4,756, however, the invoices included in the application supported an increase of \$6,587, a difference of \$1,831.

b. Distribution Reservoirs & Standpipes	Per Company	\$60,347	
	Per Staff	0	<u>(\$60,347)</u>

b. Storage Tank	Per Company	\$0	
	Per Staff	40,231	<u>\$40,231</u>

b. Pressure Tanks	Per Company	\$0	
	Per Staff	20,116	<u>\$20,116</u>

The Company was incorrectly reporting storage and pressure tank investments in account number 330, instead of the more detailed 330.1 and 330.2 account numbers which are depreciated at different rates. To correctly account for the tanks, the Company stated in response to Staff DR BAB 2.18 that two-thirds of the balance of the distribution reservoirs & standpipes account are storage tanks with the remaining being pressure tanks.

c. Meters & Meter Installations	Per Company	\$44,561	
	Per Staff	44,957	<u>\$396</u>

In response to Staff DR KS1.4, the Company provided information that showed they installed four new meters at a total cost of \$396 that was not included in the application.

STAFF RATE BASE ADJUSTMENTS

B. Contributions-in-Aid-of-Construction (CIAC)

Per Company \$6,428
Per Staff 48,699
\$42,271

To reflect Staff's calculation of unsupported plant treated as CIAC.

Act. No.	Description	Unsupported Plant Costs
304	Structures & Improvements	\$3,431
311	Pumping Equipment	79,855
330.1	Storage Tank	6,104
330.2	Pressure Tanks	3,052
331	Transmission & Distrib. Mains	12,774
333	Services	178
334	Meters & Meter Installations	26,152
346	Communication Equipment	1,709
348	Other Tangible Plant	7,647
		\$140,902
		X 30%
		<u>\$42,271</u>

C. Amortization of CIAC

Per Company \$1,050
Per Staff 29,702
\$28,652

To reflect Staff's calculation of amortization of CIAC on unsupported plant.

Act. No.	Description	Year placed into service	Unsupported Plant Costs	Number of Interim Years	Depreciation Rate	Amortization of CIAC
304	Structures & Improvements	1999	\$799	14.5	3.33%	\$386
311	Pumping Equipment	1999	7,379	14.5	12.50%	7,379
330.1	Storage Tank	1999	1,754	14.5	2.22%	565
330.2	Pressure Tanks	1999	877	14.5	5.00%	636
334	Meters & Meter Installations	1999	4,697	14.5	8.33%	4,697
348	Other Tangible Plant	1999	7,647	14.5	5.00%	5,544
311	Pumping Equipment	2000	5,123	13.5	12.50%	5,123
330.1	Storage Tank	2000	408	13.5	2.22%	122
330.2	Pressure Tanks	2000	204	13.5	5.00%	138
331	Transmission & Distrib. Mains	2000	2,628	13.5	2.00%	710
334	Meters & Meter Installations	2000	2,928	13.5	8.33%	2,928
311	Pumping Equipment	2001	9,162	12.5	12.50%	9,162
330.1	Storage Tank	2001	3,749	12.5	2.22%	1,040
330.2	Pressure Tanks	2001	1,875	12.5	5.00%	1,172
331	Transmission & Distrib. Mains	2001	6,367	12.5	2.00%	1,592
334	Meters & Meter Installations	2001	6,080	12.5	8.33%	6,080
311	Pumping Equipment	2002	1,496	11.5	12.50%	1,496
330.1	Storage Tank	2002	193	11.5	2.22%	49
330.2	Pressure Tanks	2002	96	11.5	5.00%	55
331	Transmission & Distrib. Mains	2002	3,779	11.5	2.00%	869
334	Meters & Meter Installations	2002	1,295	11.5	8.33%	1,241
311	Pumping Equipment	2003	4,289	10.5	12.50%	4,289
334	Meters & Meter Installations	2003	1,991	10.5	8.33%	1,741
346	Communication Equipment	2003	1,709	10.5	10.00%	1,709
311	Pumping Equipment	2004	483	9.5	12.50%	483
334	Meters & Meter Installations	2004	707	9.5	8.33%	559
334	Meters & Meter Installations	2005	2,428	8.5	8.33%	2,428
311	Pumping Equipment	2006	7,794	7.5	12.50%	7,307
334	Meters & Meter Installations	2006	1,435	7.5	8.33%	897
311	Pumping Equipment	2007	5,595	6.5	12.50%	4,546
333	Services	2007	178	6.5	12.50%	145
334	Meters & Meter Installations	2007	2,278	6.5	8.33%	1,233
304	Structures & Improvements	2008	2,632	5.5	3.33%	482
311	Pumping Equipment	2008	5,051	5.5	12.50%	3,473
334	Meters & Meter Installations	2008	155	5.5	8.33%	71
311	Pumping Equipment	2009	17,830	4.5	12.50%	10,029
334	Meters & Meter Installations	2009	861	4.5	8.33%	323
311	Pumping Equipment	2010	7,563	3.5	12.50%	3,309
334	Meters & Meter Installations	2010	63	3.5	8.33%	18
311	Pumping Equipment	2011	541	2.5	12.50%	169
334	Meters & Meter Installations	2011	58	2.5	8.33%	12
311	Pumping Equipment	2012	5,718	1.5	12.50%	1,072
334	Meters & Meter Installations	2012	780	1.5	8.33%	97
311	Pumping Equipment	2013	1,831	0.5	12.50%	114
334	Meters & Meter Installations	2013	396	0.5	8.33%	16
						\$95,507
						X 30%
						<u>\$28,652</u>

D. WORKING CAPITAL (1/8 OPERATION & MAINT EXP)

Per Company \$14,762
Per Staff 12,589
(\$2,173)

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

STATEMENT OF TEST YEAR OPERATING INCOME

Line No.	Acct. No.	Description	[A] Company Exhibit	[B] Staff Adjustments	[C] Staff Adjusted	[D] Staff Adjustments	[E] Staff Recommended
Revenues:							
1	461	Metered Water Revenue	\$97,782	\$0	\$97,782	\$55,022	\$152,804
2	460	Unmetered Water Revenue	0	0	0		0
3	474	Other Water Revenues	1,464	0	1,464		1,464
4		Total Operating Revenue	\$99,246	\$0	\$99,246	\$55,022	\$154,268
Operating Expenses:							
7	601	Salaries and Wages	\$15,738	(\$15,738) A	\$0		\$0
8	610	Purchased Water	0	0	0		0
9	615	Purchased Power	12,072	0	12,072		12,072
10	618	Chemicals	714	(407) B	307		307
11	620	Repairs and Maintenance	10,052	0	10,052		10,052
12	621	Office Supplies & Expense	3,342	0	3,342		3,342
13	630	Outside Services	63,361	1,071 C	64,432		64,432
14	635	Water Testing	2,738	(359) D	2,379		2,379
15	641	Rents	6,033	(538) E	5,495		5,495
16	650	Transportation Expenses	5,274	(418) F	4,856		4,856
17	657	Insurance - General Liability	734	0	734		734
18	659	Insurance - Health and Life	261	0	261		261
19	666	Regulatory Commission Expense - Rate Case	5,000	0	5,000		5,000
20	675	Miscellaneous Expense	3,465	0	3,465		3,465
21	403	Depreciation Expense	14,911	7,708 G	22,619		22,619
22	408	Taxes Other Than Income	0	0	0		0
23	408.11	Property Taxes	4,239	(1,549) H	2,690	1,491	4,182
24	670	Bad Debt Expense	389	0	389		389
25	409	Income Tax	(9,865)	1,892 I	(7,973)	10,987	3,014
26		Total Operating Expenses	\$138,458	(\$8,338)	\$130,120	\$12,479	\$142,598
29		OPERATING INCOME/(LOSS)	(\$39,212)	\$8,338	(\$30,874)	\$42,543	\$11,669

STAFF ADJUSTMENTS

A	SALARIES AND WAGES - Per Company	\$15,738	
	Per Staff	0	(\$15,738)

Adjustment reflects Staff's removal of the allocated salaries and wages that are included in the management fee included in the outside services expense line item.

B	CHEMICALS - Per Company	\$714	
	Per Staff	307	(\$407)

Adjustment reflects Staff's use of the recommended 4-factor cost allocation method.

C	OUTSIDE SERVICES - Per Company	\$63,361	
	Per Staff	64,432	\$1,071

Adjustment reflects Staff's use of the recommended 4-factor cost allocation method.

D	WATER TESTING - Per Company	\$2,738	
	Per Staff	2,379	(\$359)

To reflect Staff's calculation of water testing expense.

E	RENTS - Per Company	\$6,033	
	Per Staff	5,495	(\$538)

Adjustment reflects Staff's use of the recommended 4-factor cost allocation method.

F	TRANSPORTATION EXPENSE - Per Company	\$5,274	
	Per Staff	4,856	(\$418)

Adjustment reflects Staff's use of the recommended 4-factor cost allocation method.

STAFF ADJUSTMENTS (Cont.) - DEPRECIATION EXPENSE

G	DEPRECIATION - Per Company	\$14,911	
	Per Staff	22,619	\$7,708

To reflect Staff's calculation of deprecation expense.

Line No.	Acct. No.	Description	[A] Utility Plant in Service Balances	[B] Fully/Non-Depreciable Plant Balances	[C] Depreciable Plant In Service	[D] Deprec. Rate	[E] Depreciation Expense
Plant In Service							
1	301	Organization Costs	\$0	\$0	\$0	0.00%	\$0
2	302	Franchise Costs	0	0	0	0.00%	0
3	303	Land & Land Rights	10,050	0	10,050	0.00%	0
4	304	Structures & Improvements	11,511	0	11,511	3.33%	383
5	307	Wells & Springs	21,353	0	21,353	3.33%	711
6	311	Electric Pumping Equipment	115,264	0	115,264	12.50%	14,408
7	320	Water Treatment Equipment					
8	320.1	Water Treatment Plants	0	0	0	3.33%	0
9	320.2	Solutions & Feeders	0	0	0	20.00%	0
10	320.3	Arsenic Remediation Plant					
11	330	Distribution Reservoirs & Standpipes	0	0	0		0
12	330.1	Storage Tank	40,231	0	40,231	2.22%	893
13	330.2	Pressure Tanks	20,116	0	20,116	5.00%	1,006
14	331	Transmission & Distribution Mains	123,642	0	123,642	2.00%	2,473
15	333	Services	47,963	0	47,963	3.33%	1,597
16	334	Meters & Meter Installations	44,957	0	44,957	8.33%	3,745
17	335	Hydrants	0	0	0	2.00%	0
18	336	Backflow Prevention Devices	0	0	0	6.67%	0
19	339	Other Plant & Misc. Equip.	0	0	0	6.67%	0
20	340	Office Furniture & Fixtures	143	0	143	20.00%	29
21	340.1	Computer & Software	0	0	0	20.00%	0
22	341	Transportation Equipment	0	0	0	20.00%	0
23	342	Store Equipment	0	0	0	4.00%	0
24	343	Tools & Work Equipment	703	0	703	5.00%	35
25	344	Laboratory Equipment	0	0	0	10.00%	0
26	345	Power Operated Equipment	0	0	0	5.00%	0
27	346	Communications Equipment	1,709	0	1,709	10.00%	171
28	347	Miscellaneous Equipment	0	0	0	10.00%	0
29	348	Other Intangibles	7,647	0	7,647	0.00%	0
30		Subtotal General	\$437,642	\$0	\$445,289		\$25,451
31							
32		Less: Amortization of Contributions			\$48,699	5.82%	\$2,832
33							
34		Staff Recommended Depreciation Expense					\$22,619
35		Company Proposed Depreciation Expense					14,911
36		Increase/(Decrease) to Depreciation Expense					\$7,708

STAFF ADJUSTMENTS (Cont.) - PROPERTY TAXES

H	PROPERTY TAXES - Per Company	\$4,239	
	Per Staff	2,690	(\$1,549)

To reflect Staff's calculation of property tax expense.

Line No.	Description	[A]	[B]
		Staff As Adjusted	Staff Recommended
1	Staff Adjusted Test Year Revenues	\$99,246	\$154,268
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$198,492	\$308,535
4	Staff Recommended Revenue	99,246	154,268
5	Subtotal (Line 4 + Line 5)	\$297,738	\$462,803
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$99,246	\$154,268
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$198,492	\$308,535
10	Plus: 10% of CWIP	0	0
11	Less: Net Book Value of Licensed Vehicles	0	0
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$198,492	\$308,535
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	\$36,721	\$57,079
15	Composite Property Tax Rate - Obtained from ADOR	7.32600%	7.32600%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$2,690	
17	Company Proposed Property Tax	4,239	
18	Staff Test Year Adjustment (Line 16 - Line 17)	(\$1,549)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$4,182
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		2,690
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$1,491
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$1,491
23	Increase in Revenue Requirement		\$55,022
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		2.710620%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
Line 21: Line 19 - Line 20

STAFF ADJUSTMENTS (Cont.) - INCOME TAXES

I	INCOME TAX - Per Company	(\$9,865)	
	Per Staff	(7,973)	\$1,892

To reflect Staff's calculation of income tax expense.

Line No.	Description	[A]	[B]
		Staff As Adjusted	Staff Recommended
<i>Calculation of Income Tax:</i>			
1	Revenue (Schedule BAB-3, Col.[C and E], Line 4	\$99,246	\$154,268
2	Operating Expenses Excluding Income Taxes	138,093	139,584
3	Rate Base (Schedule BAB-2)	116,660	116,660
4	Weighted Average Cost of Debt	0.0000%	0.0000%
5	Synchronized Interest	0	0
6	Arizona Taxable Income (L1 - L2 - L5)	(38,847)	14,683
7	Arizona State Income Tax Rate	6.5000%	6.5000%
8	Arizona Income Tax (L6 * L7)	(\$2,525)	\$954
9	Federal Taxable Income (L6 - L8)	(36,322)	13,729
10	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	(5,448)	2,059
11	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	0	0
12	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	0	0
13	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	0	0
14	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	0	0
15	Total Federal Income Tax	(5,448)	2,059
16	Combined Federal and State Income Tax (L35 + L42)	(\$7,973)	\$3,014

STAFF ADJUSTMENTS (Cont.) - 4-FACTOR ALLOCATION

Line No.	Company	[A] Customer count	[B] Customer count %	[C] Net Plant in service	[D] Net Plant in service %	[E] Operating expenses	[F] Operating expenses %	[G] Number of systems	[H] Number of systems %	[I] 4-factor %
1	Navajo	301	13.16%	\$112,393	6.35%	\$80,284	9.52%	3	18.8%	11.94%
2	Payson	1,101	48.12%	962,632	54.41%	346,604	41.10%	8	50.0%	48.41%
3	Tonto Basin	886	38.72%	694,289	39.24%	416,380	49.38%	5	31.3%	39.65%
4	Total	2,288		\$1,769,314		\$843,268		16		100.00%

References:

Column [A]: The Customer counts are from December 2013, provided in response to Staff DR BAB-3.5.

Column [B]: Column [A] / Line 4.

Column [C]: From the 2013 annual reports. Staff used the annual reports as it is the most recent, consistently prepared data for all three companies.

Column [D]: Column [C] / Line 4.

Column [E]: From the 2013 annual reports. Staff used the annual reports as it is the most recent, consistently prepared data for all three companies.

Column [F]: Column [E] / Line 4.

Column [G]: From the 2013 annual reports. Staff used the annual reports as it is the most recent, consistently prepared data for all three companies.

Column [H]: Column [G] / Line 4.

Column [I]: Average of Columns [B, D, F, and H].

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" x 3/4" Meter	\$16.19	\$33.00	\$25.00
3/4" Meter	24.29	49.50	41.50
1" Meter	40.48	82.50	74.50
1 1/2" Meter	80.95	165.00	157.00
2" Meter	129.52	264.00	256.00
3" Meter	242.85	528.00	520.00
4" Meter	404.75	825.00	817.00
6" Meter	809.50	1,650.00	1,642.00
Commodity Rates			
<u>5/8 x 3/4" & 3/4" Meter - Residential</u>			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
Per 1,000 Gallons	\$3.50		
First 4,000 Gallons		\$3.75	
From 4,001 to 10,000 Gallons		4.70	
Over 10,000 Gallons		5.55	
			\$4.50
From 2,001 to 8,000 Gallons			5.90
Over 8,000 Gallons			6.89
<u>3/4" Meter - Commercial & Industrial</u>			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
Per 1,000 Gallons	\$0.00		
First 4,000 Gallons		\$0.00	
From 4,001 to 10,000 Gallons		0.00	
Over 10,000 Gallons		0.00	
First 2,000 Gallons			\$4.50
From 2,001 to 8,000 Gallons			5.90
Over 8,000 Gallons			6.89
<u>1" - Residential, Commercial & Industrial</u>			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
First 20,000 Gallons	\$0.00	\$0.00	\$5.90
Over 20,000 Gallons	0.00	0.00	6.89
<u>1 1/2" - Residential, Commercial & Industrial</u>			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
First 50,000 Gallons	\$0.00	\$0.00	\$5.90
Over 50,000 Gallons	0.00	0.00	6.89
<u>2" - Residential, Commercial & Industrial</u>			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
First 80,000 Gallons	\$0.00	\$0.00	\$5.90
Over 80,000 Gallons	0.00	0.00	6.89

RATE DESIGN Con't			
3" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
First 150,000 Gallons	\$0.00	\$0.00	\$5.90
Over 150,000 Gallons	0.00	0.00	6.89
4" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
First 300,000 Gallons	\$0.00	\$0.00	\$5.90
Over 300,000 Gallons	0.00	0.00	6.89
6" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
First 500,000 Gallons	\$0.00	\$0.00	\$5.90
Over 500,000 Gallons	0.00	0.00	6.89

Service Line and Meter Installation Charges	Present Rates			Company Proposed Rates			Staff Recommended Rates		
	Service Line	Meter Charge	Total Charge	Service Line	Meter Charge	Total Charge	Service Line	Meter Charge	Total Charge
5/8" x 3/4" Meter	\$0	\$0	\$430	\$0	\$0	\$430	\$415	\$105	\$520
3/4" Meter	0	0	480	0	0	480	415	205	620
1" Meter	0	0	550	0	0	550	465	265	730
1½" Meter	0	0	775	0	0	775	520	475	995
2" Meter	0	0	1,305	0	0	1,305	800	995	1,795
3" Meter	0	0	1,815	0	0	1,815	1,015	1,620	2,635
4" Meter	0	0	2,860	0	0	2,860	1,430	2,570	4,000
6" Meter	0	0	5,275	0	0	5,275	2,150	4,925	7,075
Service Charges									
Establishment			\$25.00			\$25.00			\$25.00
Establishment (After Hours)			35.00			35.00			0.00
Reconnection (Delinquent)			20.00			20.00			20.00
Reconnection (After Hours)			30.00			30.00			0.00
After-Hours Service Charge			0.00			0.00			35.00
Meter Test (If Correct)			20.00			25.00			25.00
Deposit			*			*			*
Deposit Interest			*			*			**
Re-Establishment (Within 12 Months)			**			**			****
NSF Check			17.50			17.50			17.50
Deferred Payment			1.5%			1.5%			***
Late Payment Penalty			1.5%			1.5%			***
Meter Re-Read (If Correct)			10.00			25.00			25.00
<p>* Per Commission Rule A.A.C. R-14-2-403(B)(7). ** Per Commission Rule A.A.C. R-14-2-403(B)(3). *** 1.50% of unpaid monthly balance. **** Month off system times the monthly minimum A.A.C. R14-2-403(D).</p> <p>In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule A.A.C. 14-2-409D(5).</p>									

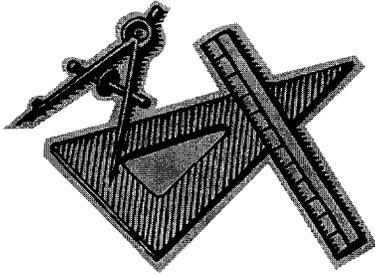
TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 305

<u>Company Proposed</u>	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	3,044	\$26.85	\$44.42	\$17.57	65.4%
Median Usage	1,761	\$22.35	\$39.60	\$17.25	77.2%
<u>Staff Recommend</u>					
Average Usage	3,044	\$26.85	\$40.16	\$13.31	49.6%
Median Usage	1,761	\$22.35	\$32.92	\$10.57	47.3%

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

<u>Gallons Consumption</u>	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
0	\$16.19	\$33.00	103.8%	\$25.00	54.4%
1,000	19.69	36.75	86.6%	29.50	49.8%
2,000	23.19	40.50	74.6%	34.00	46.6%
3,000	26.69	44.25	65.8%	39.90	49.5%
4,000	30.19	48.00	59.0%	45.80	51.7%
5,000	33.69	52.70	56.4%	51.70	53.5%
6,000	37.19	57.40	54.3%	57.60	54.9%
7,000	40.69	62.10	52.6%	63.50	56.1%
8,000	44.19	66.80	51.2%	69.40	57.0%
9,000	47.69	71.50	49.9%	76.29	60.0%
10,000	51.19	76.20	48.9%	83.18	62.5%
15,000	68.69	103.95	51.3%	117.63	71.2%
20,000	86.19	131.70	52.8%	152.08	76.4%
25,000	103.69	159.45	53.8%	186.53	79.9%
50,000	191.19	298.20	56.0%	358.78	87.7%
75,000	278.69	436.95	56.8%	531.03	90.5%
100,000	366.19	575.70	57.2%	703.28	92.1%
125,000	453.69	714.45	57.5%	875.53	93.0%
150,000	541.19	853.20	57.7%	1,047.78	93.6%
175,000	628.69	991.95	57.8%	1,220.03	94.1%
200,000	716.19	1,130.70	57.9%	1,392.28	94.4%



**Engineering Report For
Navajo Water Company
Docket No. W-03511A-14-0304 (Rates)
November 3, 2014**

SUMMARY

Conclusions

1. The Arizona Department of Environmental Quality (“ADEQ”) has reported that the Navajo Water Company, Inc.’s (“Company” or “Navajo”) three water systems are currently delivering water that meets water quality standards required by 40 CFR141 (National Primary Drinking Water Standards) and Arizona Administrative Code, Title 18, and Chapter 4.
2. The Company’s water systems have adequate well production and storage capacities to serve its present customer base and a reasonable level of growth.
3. The Company’s water systems are not located in an Arizona Department of Water Resources (“ADWR”) designated Active Management Area. ADWR has determined that all three water systems are not in compliance with ADWR requirements, as the Company failed to file its Annual Reports and System Water Plans.
4. Navajo is in compliance with the Arizona Corporation Commission Compliance Database at this time.
5. Navajo has an approved curtailment plan tariff.
6. Navajo has an approved backflow prevention tariff.

Recommendations

1. Staff recommends the new rates approved in this case not be effective until the first day of the month after the Company files with Docket Control, as a compliance item in this docket, documentation from Arizona Department of Water Resources (“ADWR”) indicating that Navajo’s three water systems are compliant with departmental requirements governing water providers and/or community water systems.
2. Staff recommends its annual water testing expense estimate of \$2,379 be used for this proceeding.
3. Staff recommends the depreciation rates listed in Table B.

4. Staff recommends its service line and meter installation charges labeled "Staff's Recommendation" in Table C.
5. Staff recommends approval of the Best Management Practices ("BMPs") included in attachment A. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.
6. The Summer Pines storage tank has deteriorated beyond repair and needs to be replaced. Staff recommends that the Company file with Docket Control as a compliance item in this docket within three month of the effective date of the order in this matter its Summer Pines 40,000 gallons storage tank replacement plan. Staff further recommends that the Company file with Docket Control as a compliance item in this docket within six month of the effective date of the order in this matter, a copy of the ADEQ Approval of Construction for the Summer Pines new storage tank with a minimum capacity of 40,000 gallons.

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I. INTRODUCTION AND LOCATION OF COMPANY

On August 15, 2014, Navajo Water Company, Inc. ("Company" or "Navajo") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission"). The Commission Utilities Division Staff ("Staff") engineering review and analysis of the application is presented in this report.

Navajo provides water service to over 300 connections in the vicinity of Show Low in Navajo County. The Company operates the following three separate water systems: Chaparral Pines, Summer Pines and Laguna Estates.

The Company's plant facilities were visited on October 22, 2014, by Staff of Commission Utilities Division, in the accompaniment of Shaun Stouder, certified operator for the Company.

Figure 1 shows the location of the Company within Navajo County and Figure 2 delineates the Company's certificated area which covers approximately 276 acres (approximately 0.4 square mile).

Figure 1

NAVAJO COUNTY

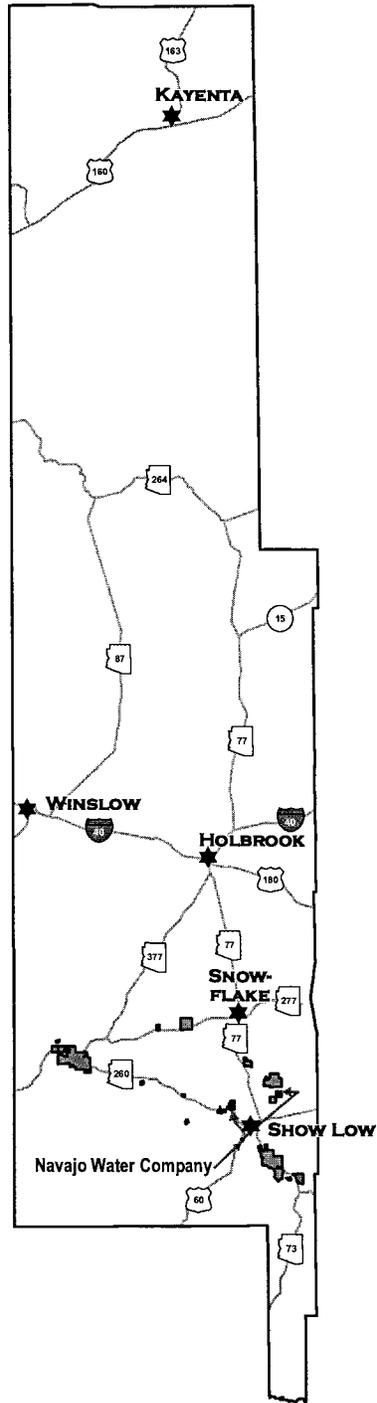
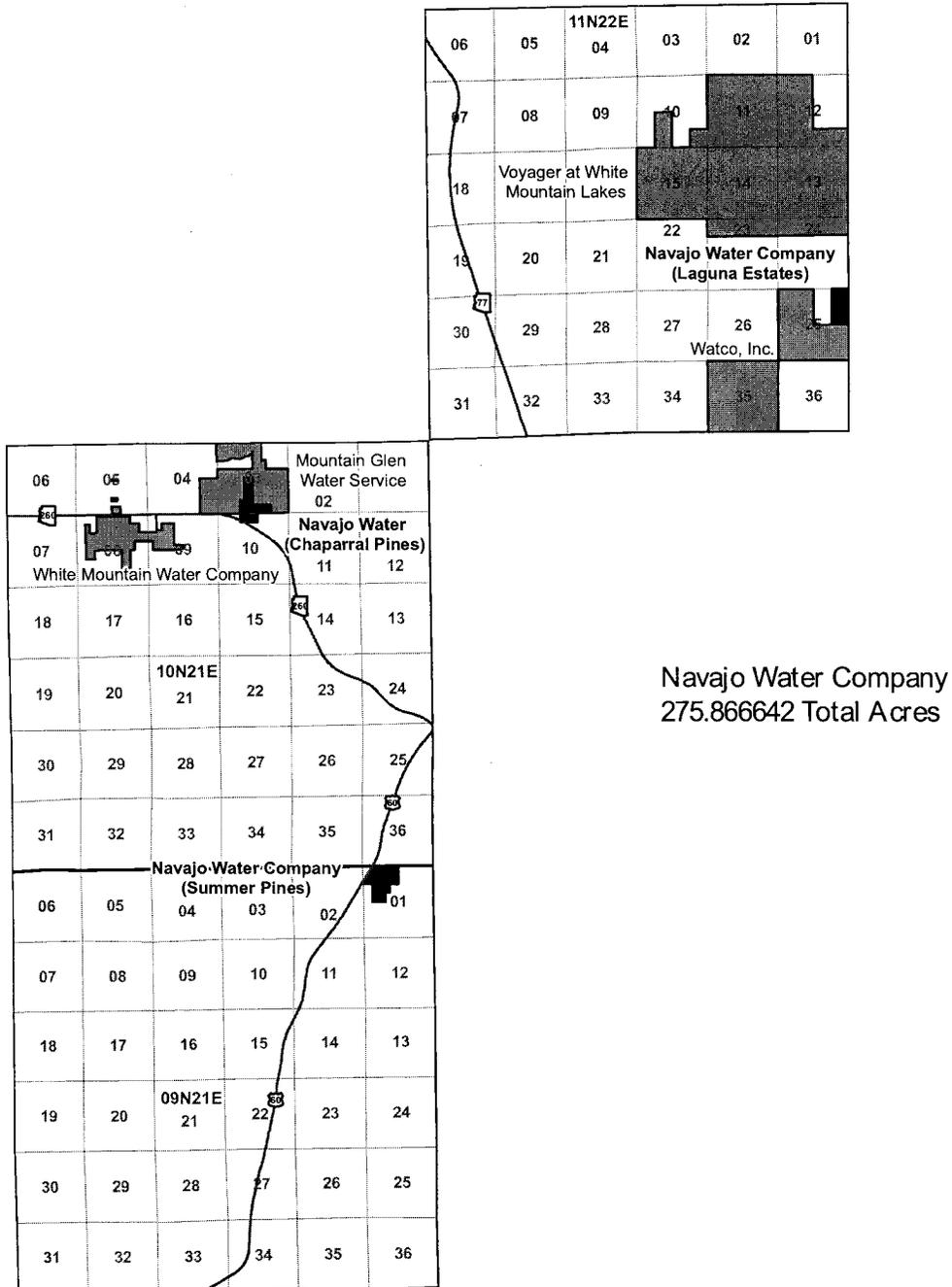


Figure 2

NAVAJO COUNTY



II. WATER SYSTEMS

1. Chaparral Pines

A. Description of the Water System

This system is composed of one well, one storage tank, one booster pump, one pressure tank and a distribution system. A water system plant facilities summary¹ is tabulated below:

Well

ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-601671	5	38	305	6	2	1969

Storage Tank

Capacity (gallons)	Quantity
20,000	1

Pressure Tank

Booster Pumps

Capacity (gallons)	Quantity	Capacity (HP)	Quantity
1,000	1	5	1

Mains

Customer Meters

Fire Hydrants

Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
4	PVC	7,990	5/8x3/4	87	0

Components

Other

390 feet Fence	Remote Tank Level Monitoring Device
1-10'x 12'Block Pump House	

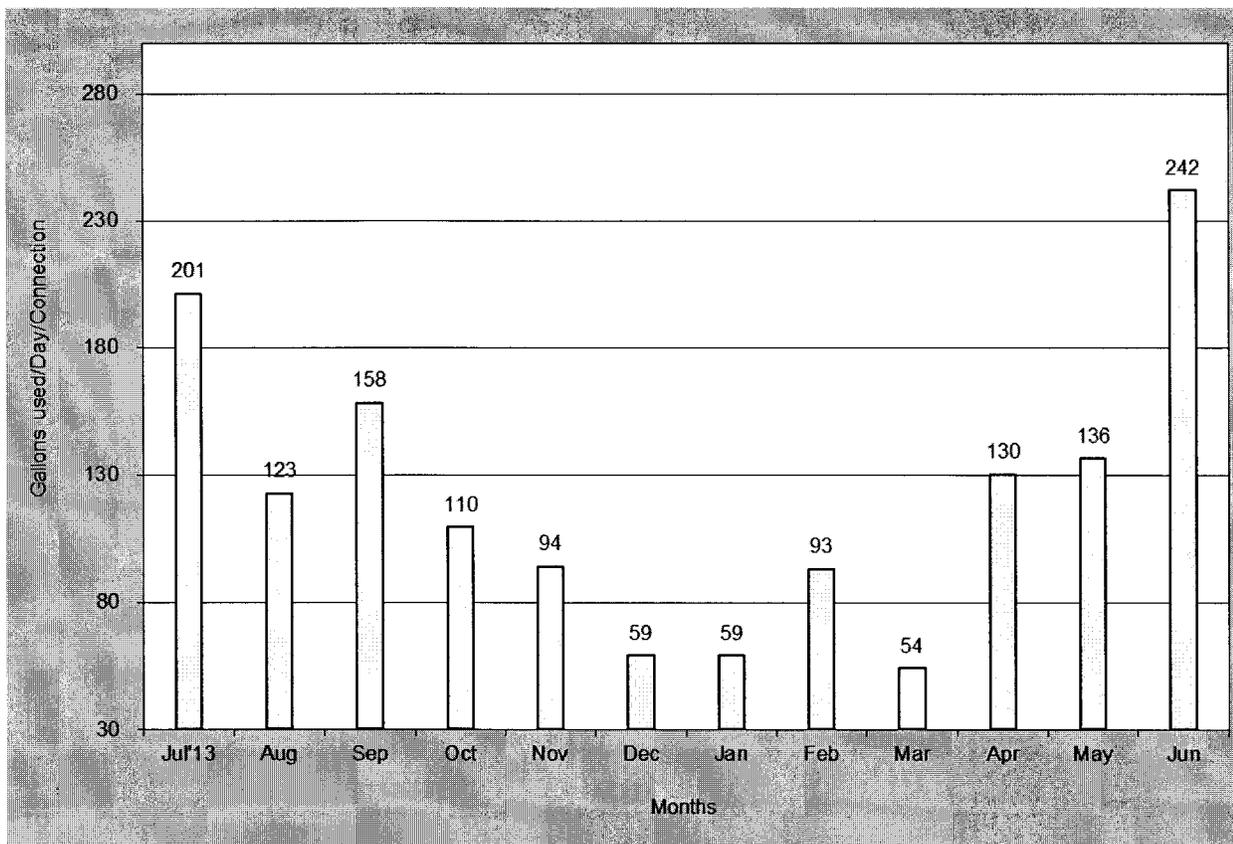
¹ Per Company's responses and site visit

B. Water Use

Water Sold:

Figure 3 represents the Chaparral Pines water consumption data provided by the Company in its water use data sheet for the test year ending June 30, 2014. Customer consumption included a high monthly water use of 242 gallons per day (“GPD”) per connection in June, and the low water use was 54 GPD per connection in January. The system average annual use was 122 GPD per connection.

Figure 3 Water Use (Chaparral Pines)



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.

The Company reported 3,264,000 gallons pumped and 3,431,000 gallons sold for the test year. In its response to data requests (KS-1.3), the Company acknowledged discrepancies in gallons pumped reported in Water Use Data and explained that the gallons pumped data was inaccurate, as a result of a

malfunctioning well meter. The Company estimates the cost of replacing the old 2-inch well meter at approximately \$1,000.

Due to the unknown gallons pumped during the test year, Staff used reported Water Use Data from the Company's 2012 Annual Report. The Company reported 4,001,000 gallons pumped and 3,674,000 gallons sold from January 2012 through December 2012, resulting in a water loss of 8.2 percent. This percentage is within the acceptable limit of 10 percent.

C. System Analysis

Based on the water use data provided by the Company for the Test Year, Staff concludes that the Chaparral Pines system's well production capacity of 38 GPM and storage capacity of 20,000 gallons is adequate to serve the present customer base and reasonable growth.

D. Growth

Based on customer data obtained from the Company's Annual Reports it appears that the Chaparral Pines system has actually lost connections. According to the Company no measurable customer growth is expected. A listing of the number of connections at the end of each year from 2009 to 2013 is tabulated below:

2009	2010	2011	2012	2013
77	79	79	77	76

2. *Summer Pines*

A. Description of the Water System

This system is composed of two wells, one storage tank (see note below), two booster pumps, one pressure tank and a distribution system.

A water system plant facilities summary² is tabulated below:

ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Well			Year Drilled
			Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	
55-623894	3	10	290	6	1	1982
55-623891	10	29	565	8	2 ³	1967

² Per Company's responses and site visit

³ Meter was replaced in 2014.

Storage Tank	
Capacity (gallons)	Quantity
40,000	1
Note: The storage tank has deteriorated beyond repair and needs to be replaced.	

Pressure Tank		Booster Pumps ⁴	
Capacity (gallons)	Quantity	Capacity (HP)	Quantity
2,000	1	7.5	1
		5	1

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
3 & 4	AC/PVC	40,330	5/8x3/4	243	0

Components	Other
600 feet of 6' Chain Link Security Fence	Remote Tank Level Monitoring Device
10'x10' Wood Frame Pump House	

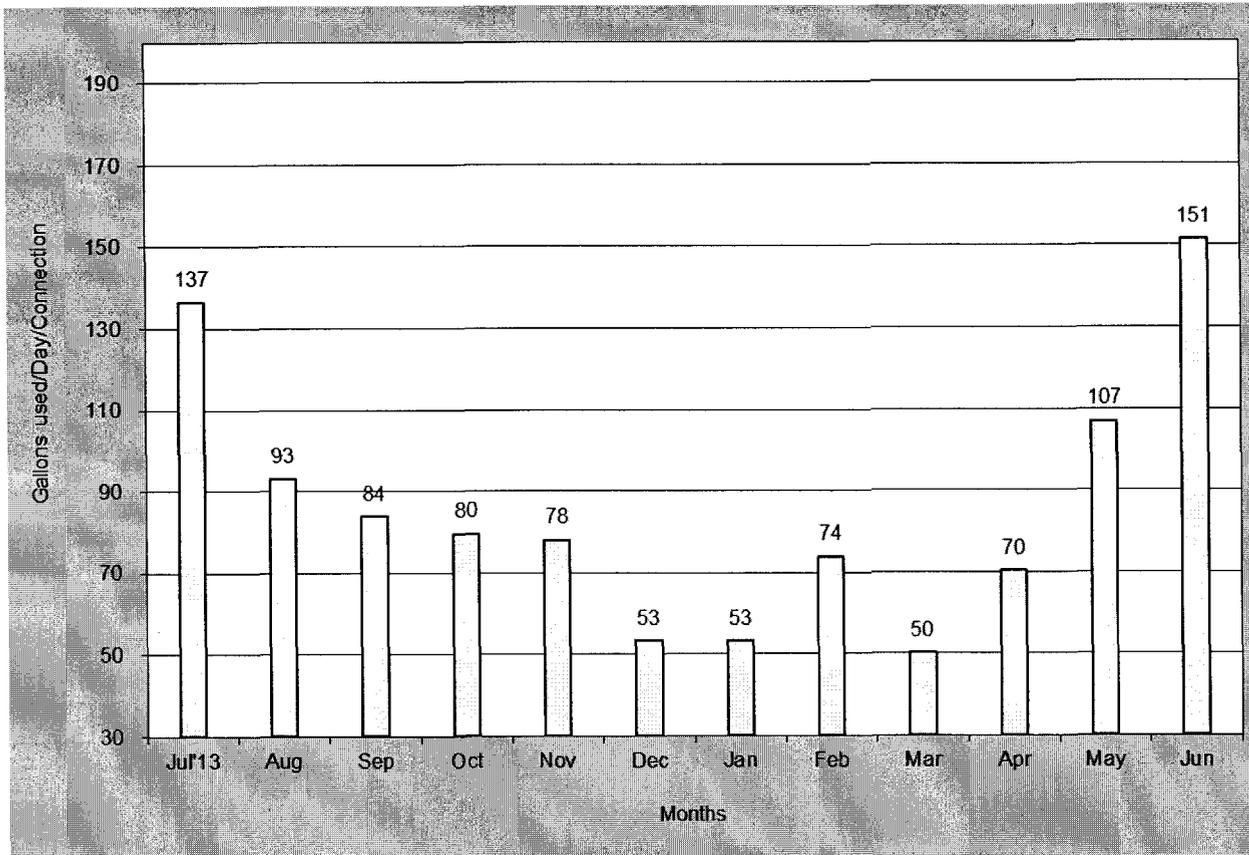
B. Water Use

Water Sold:

Figure 4 represents the Summer Pines water consumption data provided by the Company in its water use data sheet for the test year ending June 30, 2014. Customer consumption included a high monthly water use of 151 gallons per day ("GPD") per connection in June, and the low water use was 50 GPD per connection in March. The system average annual use was 86 GPD per connection.

⁴ Booster pumps were replaced in 2014.

Figure 4 Water Use (Summer Pines)



Non-account Water:

For Summer Pines, the Company reported 7,669,000 gallons pumped and 6,508,000 gallons sold for the test year, resulting in a non-account water of 15 percent. In its e-mail, dated October 7, 2014, the Company explained that the gallons pumped data was inaccurate, as a result of a malfunctioning 2-inch well meter, which was replaced in late February or early March of 2014. Based on updated Water Use Data from April 2014 through September 2014, the Company reported 5,101,194 gallons pumped and 4,780,652 gallons sold, resulting in a water loss of 6.3 percent. This percentage is within the acceptable limit of 10 percent.

C. System Analysis

Based on the water use data provided by the Company for the Test Year, Staff concludes that the Summer Pines system's total well production capacity of 39 GPM and storage capacity of 40,000 gallons is adequate to serve the present customer base and reasonable growth.

D. Growth

Based on customer data obtained from the Company's Annual Reports it appears that the Summer Pines system has actually lost connections. According to the Company no measurable customer growth is expected. A listing of the number of connections at the end of each year from 2009 to 2013 is tabulated below:

2009	2010	2011	2012	2013
207	207	204	197	205

3. *Laguna Estates*A. Description of the Water System

This system is composed of one well, one storage tank, one booster pump, one pressure tank and a distribution system. A water system plant facilities summary⁵ is tabulated below:

Well

ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-646524	5	25	600	8	1 ⁶	unknown

Storage Tank		Pressure Tank		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
10,000	1	2,000	1	5	1

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
4	PVC	7,498	5/8x3/4	33	0
6	PVC	1,310			

Components	Other
380 Feet of 6'Chain Link Security Fence	Remote Tank Level Monitoring Device

⁵ Per Company's responses and site visit

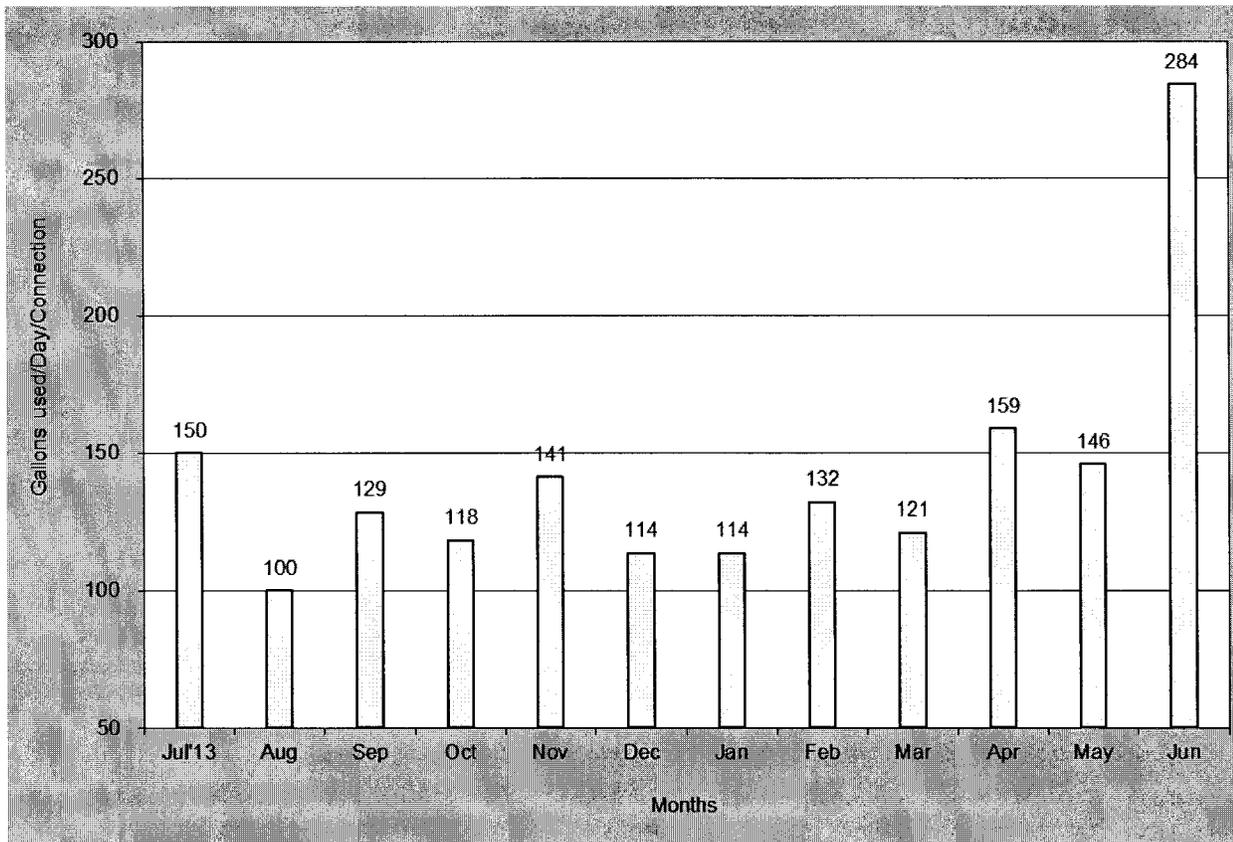
⁶ Meter was rebuilt on October 22, 2014.

B. Water Use

Water Sold:

Figure 5 represents Laguna Estates water consumption data provided by the Company in its water use data sheet for the test year ending June 30, 2014. Customer consumption included a high monthly water use of 284 gallons per day (“GPD”) per connection in June, and the low water use was 100 GPD per connection in August. The system average annual use was 142 GPD per connection.

Figure 5 Water Use (Laguna Estates)



Non-account Water:

For Laguna Estates the Company reported 1,088,000 gallons pumped and 1,073,000 gallons sold for the test year, resulting in a non-account water of 1.4 percent. This percentage is within acceptable limit of 10 percent.

C. System Analysis

Based on the water use data provided by the Company for the Test Year, Staff concludes that the Laguna Estates system’s well production capacity of 25 GPM and storage capacity of 10,000 gallons is adequate to serve the present customer base and reasonable growth.

D. Growth

Based on customer data obtained from the Company's Annual Reports it appears that the Laguna Estates system has actually lost connections. According to the Company no measurable customer growth is expected. A listing of the number of connections at the end of each year from 2009 to 2013 is tabulated below:

2009	2010	2011	2012	2013
24	22	23	20	21

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

Compliance

ADEQ has reported that the Company's three water systems are currently delivering water that meets water quality standards required by 40 CFR141(National Primary Drinking Water Standards) and Arizona Administrative Code, Title 18, and Chapter 4.⁷

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 \$2,738 for the test year. Staff has reviewed the Company's water testing expense and has recalculated the testing costs based on tests required by ADEQ by system⁸. Staff's estimated average annual water testing expenses for the Chaparral Pines is \$723, for Summer Pines \$1,085 and for Laguna Estates \$571.⁹

Table A lists Staff's annual monitoring expense estimate totaling \$2,379 (which includes MAP expenses totaling \$1,569, rounded) for all three systems.

⁷ Per ADEQ Compliance Status Reports dated August 21, 2014.

⁸ Per ADEQ last Inspection Reports.

⁹ The ADEQ MAP invoice for the 2014 Calendar Year was \$453, rounded for Chaparral Pines, \$815, rounded for Summer Pines and \$ 301, rounded for Laguna Estates.

Table A. Water Testing Cost

Monitoring	Chaparral Pines			Summer Pines			Laguna Estates			Total
	Cost per Sample	No of samples per year	Average Annual Cost	Cost per Sample	No of samples per year	Average Annual Cost	Cost per Sample	No of samples per year	Average Annual Cost	
Total coliform	\$15	15	\$225	\$15	15	\$225	\$15	15	\$225	
Lead & Copper	\$27	5/3-yrs	\$45	\$27	5/3-yrs	\$45	\$27	5/3-yrs	\$45	
MAP	MAP	MAP	\$453	MAP	MAP	\$815	MAP	MAP	\$301	
Total			\$723			\$1,085			\$571	\$2,379

Staff recommends its annual water testing expense estimate of \$2,379 (which includes MAP expenses totaling \$1,569) for all three systems be used for this proceeding.

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

Navajo’s three systems are not located in an ADWR designated Active Management Area. According to ADWR compliance status reports, dated August 21, 2014, ADWR has determined that all three water systems are not in compliance with ADWR requirements, as the Company failed to file its Annual Reports and System Water Plans.

Staff recommends the new rates approved in this case not be effective until the first day of the month after the Company files with Docket Control, as a compliance item in this docket, documentation from Arizona Department of Water Resources (“ADWR”) indicating that Navajo’s three water systems are compliant with departmental requirements governing water providers and/or community water systems

V. ACC COMPLIANCE

On September 29, 2014, the Utilities Division Compliance Section noted that a check of the compliance database indicates that there are no delinquencies for Navajo. Therefore, Navajo is in compliance with the ACC Compliance Database at this time.

VI. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life per National Association of Regulatory Utility Commissioners (“NARUC”) plant category. These rates are presented in Table B and it is recommended that these depreciation rates be used.

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. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

VII. OTHER ISSUES

1. *Service Line and Meter Installation Charges*

Service line and meter installation charges are refundable advances. In its filing the Company did not request changes to its current service line and meter installation charges. The Company's current charges are lower than Staff's customary range of charges. After discussion with Staff, the Company agreed to the lower end of Staff's customary range of charges. Also, 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 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	\$430	\$430	\$415	\$105	\$520
3/4-inch	\$480	\$480	\$415	\$205	\$620
1-inch	\$550	\$550	\$465	\$265	\$730
1-1/2-inch	\$775	\$775	\$520	\$475	\$995
2-inch	\$1,305	\$1,305	\$800	\$995	\$1,795
3-inch	\$1,815	\$1,815	\$1,015	\$1,620	\$2,635
4-inch	\$2,860	\$2,860	\$1,430	\$2,570	\$4,000
6-inch	\$5,275	\$5,275	\$2,150	\$4,925	\$7,075

2. *Curtailment Plan Tariff*

Navajo has an approved curtailment plan tariff.

3. *Backflow Prevention Tariff*

Navajo has an approved backflow prevention tariff.

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

The Company does not have any approved BMP tariffs. According to responses to data requests (KS-1.5), the Company selected the following BMP's for implementation in its systems:

- Public Education Tariff
- Water Waste Investigations and Information Tariff – BMP 3.8
- Water System Tampering Tariff – BMP 5.2

Staff recommends approval of the BMPs listed in attachment A. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Water Waste Investigations and Information Tariff – BMP 3.8

PURPOSE

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

REQUIREMENTS

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

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

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Public Education Program Tariff

PURPOSE

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

REQUIREMENTS

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

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

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

WATER SYSTEM TAMPERING TARIFF – BMP 5.2

PURPOSE

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

REQUIREMENTS:

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

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