

ORIGINAL



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MEMORANDUM

TO: Docket Control  
FROM: Steven M. Olea  
Director  
Utilities Division  
DATE: February 9, 2015

Arizona Corporation Commission

DOCKETED

FEB - 9 2015

DOCKETED BY	MR
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RE: STAFF REPORT FOR DRAGOON WATER COMPANY'S, APPLICATIONS FOR A FINANCING APPROVAL AND RATE INCREASE (DOCKET NOS. W-01917A-14-0312 & W-01917A-14-0313)

Attached is the Staff Report for Dragoon Water Company, Inc.'s applications for authorization of financing and a permanent rate increase. Staff recommends approval of the financing application using Staff's recommended amount and approval of the rate application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 20, 2015.

SMO:MJR:red/BH

Originator: Mary J. Rimback

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DOCKET CONTROL

Service List for: Dragoon Water Company, Inc.  
Docket Nos. W-01917A-14-0312 & W-01917A-14-0313

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

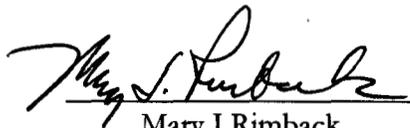
**DRAGON WATER COMPANY, INC.  
DOCKET NOS. W-01917A-14-0312 & W-01917A-14-0313**

**APPLICATIONS FOR A  
FINANCING APPROVAL  
AND  
A PERMANENT RATE INCREASE**

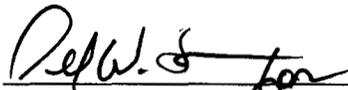
**FEBRUARY 9, 2015**

## STAFF ACKNOWLEDGMENT

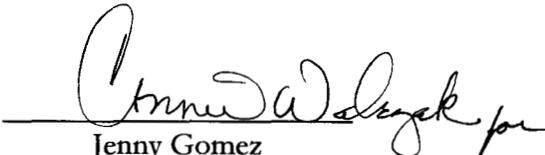
The Staff Report for Dragoon Water Company, Inc. ("Dragoon" or "Company") Docket Nos. W-01917A-14-0312 and W01917A-14-0313 is the responsibility of Staff members listed below. Mary J. Rimback was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, rate design and financial analysis. Dorothy Hains was responsible for the engineering and technical analysis. Jenny Gomez was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Mary J Rimback  
Public Utility Analyst



Dorothy Hains  
Utilities Engineer



Jenny Gomez  
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY**  
**DRAGON WATER COMPANY, INC.**  
**DOCKET NOS. W-01917A-14-0312 AND W-01917A-14-0313**

Dragoon Water Company, Inc. ("Dragoon" or "Company") is a for-profit Arizona "C" Corporation and a Class D public service corporation serving potable water to approximately 121 customers in the unincorporated community of Dragoon, which is located between Wilcox and Benson in Cochise County, about three miles southeast of Interstate 10.

On August 22, 2014, the Company filed an application for a financing approval. Concurrent with that filing, on August 22, 2014, Dragoon also filed an application for a permanent rate increase. On November 10, 2014, Staff filed a letter declaring the application sufficient. A Procedural Order dated December 1, 2014 consolidated the cases. On January 20, 2015, the Company filed a Notice of Change of authorized representative and noted that the Company had retained a consultant in the matter. A Procedural Order dated January 23, 2015, extended the date for the Staff Report to February 9, 2015.

The Company proposed operating revenue of \$132,936, an increase of \$39,615, or 42.45 percent, over test year revenue of \$93,321, to provide an \$11,746 operating income on its proposed \$158,252 fair value rate base ("FVRB") which is its original cost rate base ("OCRB"). The Company's proposed rates result in a 8.84 percent operating margin. The Company proposed rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer, with a median usage of 3,500 gallons, by \$24.59 or 55.31 percent from \$44.45 to \$69.04.

Staff recommends permanent rates that produce total operating revenue of \$107,058, an increase of \$13,737, or 14.72 percent, over test year revenue of \$93,321, to provide a 10.49 percent rate of return on the \$181,406 Staff-adjusted FVRB. Staff's recommended rates result in a 17.78 percent operating income of \$19,034 and a 17.78 percent operating margin. Staff's recommended rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer, with a median usage of 3,500 gallons, by \$7.05 or 15.86 percent from \$44.45 to \$51.50 without a loan surcharge.

The Company's financing application seeks approval for a \$26,000, non-specified term loan from Southwestern Utility Management Company, Inc. ("Southwestern"). Southwestern is the management company for Dragoon. The financing represents short-term financing for plant replacement and repairs. The Company signed a promissory note with Southwestern on October 10, 2013, expecting to repay the note in twelve months. The Company states that due to the Company's financial position it has been unable to repay the full amount of the promissory note. An amount of \$13,194 remained outstanding on the note at the end of the test year.

Cash flow from operations is insufficient to cover debt service on the existing and proposed loan; thus, in addition to Staff's recommended permanent rates, the Company would need an additional source of funds to meet its obligations. Staff determined that additional surcharge revenues of \$3,668 would be needed to provide the Company \$12,000 of uncommitted cash flow, resulting in a 2.19 Debt Service Coverage ("DSC"). Additional surcharge revenues of \$3,668 combined with Staff's recommended \$13,737 increase in permanent rates represent an 18.65 percent increase over test year revenues of \$93,321. The combined increase \$17,405 (\$13,737 + \$3,668) provides sufficient cash flow to meet obligations. A \$2.75 per 5/8 x 3/4-inch meter equivalent

monthly infrastructure improvement surcharge would provide the needed additional \$3,668 under Staff's assumed loan terms (5-year amortizing loan at 4.69 percent interest rate). The infrastructure improvement surcharge combined with Staff's recommended permanent rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer with a median usage of 3,500 gallons by \$9.80, or 22.04 percent, from \$44.45 to \$54.25 including the surcharge (Schedule MJR-5.2).

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule MJR-4.
- That the permanent rates in this matter not become effective until the first day of the month after the Company files with Docket Control, as a compliance item in this docket, a Certificate of Compliance Letter of Good Standing issued by the Arizona Department of Revenue.
- In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Authorizing the depreciation rates shown in Figure 6 of the Engineering Report.
- Granting the Company authorization to incur a 5-year amortizing loan in an amount not to exceed \$13,194 pursuant to a loan agreement with Southwestern at an interest rate not to exceed 4.69 percent.
- Granting the Company authorization to charge an infrastructure improvement surcharge to become effective concurrently with other rates authorized in this proceeding. Staff recommends the surcharge be \$2.75 per 5/8 x 3/4 inch meter, with the charge for larger meters to be based upon standard meter multipliers as shown on Schedule MJR-8. The surcharge will automatically cease upon full payment of the loan balance.
- Directing that upon Commission approval of the surcharge, the Company shall open an interest-bearing account into which all surcharge funds collected from customers will be deposited.
- Directing that the only disbursement of funds from this account will be principal and interest to pay Southwestern.
- Directing the Company notify the Commission, through Docket Control, within 15 days of loan being paid in full.

- Directing the Company to file its next general rate case no later than June 30, 2019, using a test year ending December 31, 2018.
- Authorizing Dragoon to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Dragoon, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
- That the Company coordinate its readings of its production and customer meters and file this data semiannually with Docket Control, as a compliance item in this docket. Staff further recommends that the first water use data report be filed by September 30, 2015.
- That the Company apply to Water Infrastructure Financing Authority for a Planning and Design Technical Assistance Program grant. This technical assistance grant would be used for an engineering analysis to seek a resolution of the Company's water loss problem.
- That the Company file a plan to fund the implementation of a water loss reduction project when the Company files its next rate application with the Commission. (See §D of the Engineering report for discussion and details.)
- That the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three 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 recommends a maximum of two BMPs may come from the "Public Awareness/Public 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. (See §L of the Engineering report for discussion and details.)

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## ATTACHMENT

Engineering Report.....	ATTACHMENT A
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**FACT SHEET**

**Company Statistics:**

**Current Rates:** Decision No. 65132 effective September 1, 2002.

**Type of Ownership:** C-Corporation.

**Location:** The Company's service area is located in the unincorporated community of Dragoon between Wilcox and Benson in Cochise County, Arizona, about three miles southeast of Interstate 10.

**Rates:**

Rate Application Docketed: August 22, 2014  
 Current Test Year Ended: December 31, 2013  
 Application Found Sufficient: November 10, 2014

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge (Based on a 5/8" X 3/4" meter)	\$32.00	\$53.10	\$36.00
Gallons in Minimum	0	0	0
<b>Commodity Charge:</b>			
Excess of minimum, charge per 1,000 gallons:			
0 to 3,000 Gallons	\$ 3.25	\$ 4.16	\$4.00
3,001 to 10,000 Gallons	\$ 5.40	\$ 6.91	\$7.00
Over 10,000 Gallons	\$ 6.80	\$ 8.32	\$8.50
Bulk water per 1,000 gallons	\$7.50	\$8.32	\$8.50
Typical residential bill based			
On median usage of 3,500 gallons	\$44.45	\$69.04	\$51.50

**Customers:**

Number of customers in the prior test year (12/31/2000):	104
Number of customers in the current test year (12/31/2013):	121
Current year customers by meter size: 5/8 X 3/4 – inches:	102
Seasonal customers:	zero

**FACT SHEET (CONT'D)**

Customer notification mailed	August 22, 2014
No. of customer complaints January 1, 2012 through February 1, 2015:	2
Percentage of complaints to customer base:	1.65%

## SUMMARY OF RATE FILING

The test year results, as adjusted by Staff, for Dragoon Water Company, Inc. (“Dragoon” or “Company”) show total operating revenue of \$93,321 and operating expenses of \$85,006 resulting in a \$8,315 operating income, to provide a 4.58 per cent rate of return on the \$181,406 Staff-adjusted original cost rate base (“OCRB”). Since the Company did not file reconstruction cost new information, Staff recommends recognizing a fair value rate base (“FVRB”) equal to the OCRB.

The Company proposed revenue of \$132,936, as shown on page P-19a of the application. The amount requested produces an increase of \$39,615 or 42.45 percent over test year revenue of \$93,321 to provide an \$11,746 operating income and a 7.42 percent rate of return on its proposed \$158,252 FVRB and OCRB. The Company’s proposed rates result in an 8.84 percent operating margin. The Company’s proposed rates would increase the typical monthly residential bill for a 5/8 x 3/4-inch meter customer, with a median usage of 3,500 gallons, by \$24.59 or 55.31 percent, from \$44.45 to \$69.04 (Schedule MJR-5.1).

Staff recommends permanent rates that produce total operating revenue of \$107,058, an increase of \$13,737 or 14.72 percent, over the test year revenue of \$93,321, to provide a \$19,034 operating income and a 10.49 percent rate of return on the \$181,406 Staff-adjusted FVRB and OCRB. Staff’s recommended rates result in a 17.78 percent operating margin. Under Staff’s recommended rate design for permanent rates, the typical monthly bill for a 5/8 x 3/4-inch meter customer with a median usage of 3,500 gallons would increase \$7.05, or 15.86 percent, from \$44.45 to \$51.50 (without a loan surcharge).

Dragoon is a small water provider, which serves the unincorporated community of Dragoon which is located between Wilcox and Benson in Cochise County, Arizona, about three miles southeast of Interstate 10. During the test year ended December 31, 2013, Dragoon provided water to 121 customers. Out of the total, 102 were served by 5/8 X 3/4 inch meters and 4 were served by 1-inch meters, the remaining customers are metered bulk water customers.

Dragoon’s business activities are currently managed through a contract with Southwestern Utility Company, Inc. (“Southwestern”). In addition to the services provided by Southwestern, the Company also contracts for taxes, legal and rate case consulting services as necessary.

## COMPANY BACKGROUND

Dragoon is a for-profit Arizona C-Corporation and a Class D public service corporation serving potable water to approximately 121 customers in the unincorporated community of Dragoon in Cochise County, Arizona. The certificate of convenience and necessity (“CC&N”) for the water system was granted in Decision No. 34779, dated October 1, 1963. Current rates were established in Decision No. 65132 effective September 1, 2002.

Dragoon filed both its application for a finance approval and an application for a permanent rate increase (“Application”) on August 22, 2014. A Procedural Order dated December 1, 2014, consolidated the rate and financing cases. Staff deemed the Company’s rate application sufficient

and notified Dragoon by letter on November 10, 2014. The Company mailed a rate application Notice to customers on August 28, 2014 and a financing application Notice to customers on November 4, 2014.

## CONSUMER SERVICES

A review of the Consumer Service records showed that for the period January 1, 2012, through February 1, 2015, 2 complaints were filed against the Company:

2012	1 Complaint – Curtailment questions
2013	-0-
2014	1 Complaint – Billing
2015	-0-

All complaints have been resolved and closed.

A review of the Company's billing format indicates that it is in compliance with the Arizona Administrative Code ("A.A.C.") R14-2-409(B)(2).

## COMPLIANCE ISSUES

The Company has no delinquent compliance items with the Arizona Corporation Commission ("ACC" or "Commission") Utilities Division. The Company is current on its property tax obligations.

## ENGINEERING ANALYSIS

Staff Engineer concludes that the emergency replacement of a well pump in Well No. 2, which was completed in September of 2013 in the amount of \$45,922 was a reasonable cost and the capital improvements at Well No. 2 listed in the Engineering report Table 5 were appropriate. An amount of \$13,149 of the \$45,922 cost is included in the Staff financing recommendation discussed later in this report. Details of Staff's review of the system are presented in the attached Staff Engineering Report.

Dragoon Water has an approved Backflow Prevention tariff on file with the ACC.

The Company's has an approved Curtailment tariff on file with the ACC.

## RATE BASE

Staff's four rate base adjustments result in a net increase to the Company's proposed rate base by \$23,152 from \$158,254 to \$181,406, as shown in Schedule MJR-2, page 1. Details of Staff's adjustments are explained below.

Plant Adjustment – In adjustment A, Staff decreased plant in the amount of \$7,291 as shown in Schedule MJR-2, page 2. The adjustment included changes to conform to the 2000 test year rate case Decision No. 65132. The test year included \$7,291 in post-test year plant, the Company included this amount in the beginning plant balances from the last test year and also included these as an addition in the 2001 year additions.

Accumulated Depreciation – In adjustment B, Staff decreased Accumulated Depreciation by \$36,855, from \$491,981 to \$455,126, as shown in Schedule MJR-2, page 3. Staff calculated an accumulated depreciation balance by adding depreciation expense for the years 2001-2013 using a ½-year convention for Additions and Retirements, and subtracting accumulated depreciation for recorded plant retirements.

Customer Security Deposits – In adjustment C, Staff decreased rate base in the amount of \$2,610 for the amount shown on the Company balance sheet as Customer Deposits.

Working Capital – In adjustment D, Staff included a cash working capital allowance of \$6,703 based on the formula method, as shown in Schedule MJR-2, page 1. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, and purchased power and expenses plus one twenty-fourth of purchased power and water expenses.

## **OPERATING INCOME**

Staff's eight operating income adjustments decrease the Company's proposed total operating expenses by \$26,963, from \$111,969 to \$85,006, as shown in Schedule MJR-3, page 1. Details of Staff's adjustments are discussed below.

Repairs and Maintenance – Adjustment A decreases the cost by \$5,086 to normalize the cost of repairs and maintenance to the average of five years of repairs and maintenance. (Staff reviewed the Company annual reports filed with the Commission and found that the costs vary considerably from year to year, Staff normalized to provide a more representative amount for the test year.)

Office Supplies and Expense – Adjustment B decreases the cost by \$2,370 to normalize the cost of office supplies and expense to the average of five years of office supplies and expense. (Staff reviewed the Company annual reports filed with the Commission and found that the costs vary considerably from year to year, Staff normalized to provide a more representative amount for the test year.)

Outside Services – Adjustment C decreases this account by \$12,600 to remove “draws” from the outside services account. The Company included in its application, check stubs marked draw. The draws were unsubstantiated by invoices or a contract for services. Other outside services were substantiated with invoices or contracts.

Water Testing – Adjustment D decreases water testing expenses by \$181 to reflect Staff's recommended amount of \$1,522. See Engineering Report.

Miscellaneous Expense – Adjustment F increases miscellaneous expenses by \$2,052 to normalize the expenses over five years. (Staff reviewed the Company annual reports filed with the Commission and found that the costs vary considerably from year to year, Staff normalized to provide a more representative amount for the test year.)

Depreciation – Adjustment G decreases this expense by \$16,586 from \$33,364 to \$16,778 to reflect application of Staff's recommended depreciation rates to Staff's recommended depreciable plant amounts, as shown in Schedule MJR-3, page 3.

Property Tax – Adjustment H increases this expense by \$1,858 to reflect Staff's application of the modified version of the Arizona Department of Revenue's ("ADOR") property tax methodology which the Commission has consistently adopted as shown in Schedule MJR-3, page 4.

Income Taxes – Adjustment I increases this expense by \$5,949 to allow for Staff calculated income taxes on the test year operating income as shown in MJR-3, page 5.

## REVENUE REQUIREMENT

Staff recommends total operating revenue from permanent rates of \$107,058, an increase of \$13,737, or 14.72 percent, over the test year revenue of \$93,321. Staff's recommended revenue provides a rate of return of 10.49 percent, an operating income of \$19,034, and a 17.78 percent operating margin as shown in Schedule MJR-1. Staff's recommended revenue is sufficient to cover operating and maintenance expense and to manage contingencies, but is not sufficient to provide debt service on the Company's proposed loan (see finance discussion below).

## RATE DESIGN

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

The present rate structure includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all meter sizes with break-over points at 3,000 gallons and 10,000 gallons for all meter sizes. The commodity rate per 1,000 gallons is \$3.25 up to 3,000 gallons, \$5.40 for 3,000 to 10,000 gallons and \$6.80 over 10,000 gallons. No gallons are included in the monthly minimum charge for any meter size.

The Company proposes a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all meter sizes with break-over points at 3,000 gallons and 10,000 gallons for all meter sizes. The proposed rates represent increases over present rates to both the monthly minimum charges and the commodity rates for all meter sizes. As proposed by the Company, the monthly minimum charge for a 5/8 x 3/4-inch meter would increase from \$32.00 to \$53.10. The Company's proposed rates would increase the typical residential bill, with a median usage of 3,500 gallons, by \$24.59 (55.31 percent), from \$44.45 to \$69.04, (Schedule MJR-5.1).

Staff recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters, and a two-tier commodity rate for larger meters. Staff recommends break-over points that increase by meter size. Under Staff's recommended rate design for permanent rates the typical monthly residential bill for a 5/8 x 3/4-inch meter customer with a median usage of 3,500 gallons would increase by \$7.05, or 15.86 percent, from \$44.45 to \$51.50 without a loan surcharge (Schedule MJR-5.1).

The Company proposes increases to all its service line and meter installation charges. Staff concurs with the Company increases to the service line and meter installation charges, as shown in Schedule MJR-4, page 2.

The Company proposes an increase of \$15 to \$30 for Non-Sufficient Funds ("NSF"). Staff recommends denial of the \$30 and recommends \$20, since this falls within the \$15-\$25 range generally supported by Staff.

The Company proposes to increase the meter re-read (If Correct) charge from \$15 to \$25. Staff recommends denial of the increase and recommends approval of a \$20 Meter Re-read (If Correct) charge. A \$20 charge falls within the range generally supported by Staff.

Staff recommends removal of the specific After Hours charges for Establishment (currently \$65), Re-establishment (currently \$50), and Reconnection (currently \$75). Staff agrees that an additional fee for service provided after normal business hours is appropriate when such service is at the customer's request. Such a tariff compensates the utility for additional expenses incurred from providing after hour services. Staff recommends approval of the \$35 After-Hour Service Charge (flat fee) proposed by the Company. Staff's recommended water system service charges are shown in Schedule MJR-4, page 2.

## **FINANCIAL ANALYSIS – LOAN AUTHORIZATION REQUEST**

### *Purpose and Description of the Requested Financing*

The requested financing is needed to cover emergency repair and replacements to Well No. 2. The emergency occurred in September of 2013 at a cost of \$45,922. The Company was unable to fund the entire cost and requested a short term loan from Southwestern. A promissory note between Southwestern and the Company was signed on October 10, 2013. The Company planned to repay the loan within twelve months, but was unable to do so as there was not enough cash flow provided by operations to cover the promissory note repayment terms. The financing application states that if the Commission approves this financing application, the parties will execute an addendum to the promissory note setting the term and schedule of payments.

Staff found the cost of the replacement of the failed pump in Well No. 2 was reasonable and that the capital improvements in Table 5 of the Engineering Report were appropriate.

Staff recommends that the financing application in the amount of \$13,194 (the unpaid balance of the \$26,000 short term loan) be approved and that the loan be amortized over 5 years at an interest rate of 4.688 (the rate of the Company's existing Water Infrastructure Financing Authority ("WIFA") loan as (shown in Schedule MJR-6.2A). As shown on MJR-6.2B, the annual debt service requirements (principal and interest) for a \$13,194 5-year loan at 4.688 percent interest rate is \$2,965. The incremental taxes are \$703. The total annual requirement is \$3,668.

#### *Debt Service Coverage and Cash Flow Analysis*

The Company has an existing WIFA loan with a balance of \$76,735 as of January 1, 2015. Staff calculated a 2.36 DSC for the existing loans using Staff's recommended permanent rates. (Schedule MJR 6.1). Staff also calculated a pro forma 2.01 Debt Service Coverage ("DSC") using Staff's recommended permanent rates, and the proposed \$13,194 loan as shown in Schedule MJR-6.1.

Staff's cash flow analysis on Schedule MJR 7, reflects that the recommended permanent rates produce a pro forma cash flow of \$12,000. However, the additional financing, if approved reduces the cash flow to \$9,155. Accordingly, the Company would need a source of funds other than that provided by permanent rates to meet all obligations associated with the proposed loan and cover operating expenses and an uncommitted cash flow of \$12,000 for contingencies. Staff recommends that an infrastructure improvement surcharge be approved to allow the Company to maintain a cash flow of \$12,000. Staff prepared the cash flow analysis presented in Schedule MJR-7 and determined that the Company would need additional funds of \$3,668, to meet debt service obligations of the new loan, plus incremental taxes. Staff's recommended \$107,058 permanent revenue combined with \$3,668 of infrastructure improvement surcharge revenue provides a 2.19 DSC as shown on Schedule MJR-6.1.

#### *Loan Surcharge*

A \$2.75 per month 5/8 x 3/4-inch meter equivalent infrastructure improvement surcharge would provide the \$2,965 plus incremental income taxes of \$703 of additional funds needed under Staff's assumed loan terms. The infrastructure surcharge combined with Staff's recommended permanent rates would increase the typical monthly residential bill for a 5/8 x 3/4-inch meter customer with a median usage of 3,500 gallons by \$9.80, or 22.04 percent, from \$44.45 to \$54.21 (Schedule MJR-5.2).

#### *Capital Structure*

As reported in its rate application, Dragoon's capital structure as of December 31, 2013, consisted of 0.0 percent short-term debt, 51.0 percent long-term debt, and 49.0 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$13,194, 5-year amortizing loan at 4.688 percent per annum, and it is composed of 10.56 percent short-term debt, 53.15 percent long-term debt and 36.29 percent equity.

## STAFF RECOMMENDATIONS

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule MJR-4.
- That the permanent rates in this matter not become effective until the first day of the month after the Company files with Docket Control, as a compliance item in this docket, a Certificate of Compliance Letter of Good Standing issued by the Arizona Department of Revenue.
- In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Authorizing the depreciation rates shown in Figure 6 of the Engineering Report.
- Granting the Company authorization to incur a 5-year amortizing loan in an amount not to exceed \$13,194 pursuant to a loan agreement with Southwestern at an interest rate not to exceed 4.69 percent.
- Granting the Company authorization to charge an infrastructure improvement surcharge to become effective concurrently with other rates authorized in this proceeding. Staff recommends the surcharge be \$2.75 per  $5/8 \times 3/4$  inch meter, with the charge for larger meters to be based upon standard meter multipliers as shown on Schedule MJR-8. The surcharge will automatically cease upon full payment of the loan balance.
- Directing that upon Commission approval of the surcharge, the Company shall open an interest-bearing account into which all surcharge funds collected from customers will be deposited.
- Directing that the only disbursement of funds from this account will be principal and interest to pay Southwestern.
- Directing the Company notify the Commission, through Docket Control, within 15 days of the loan being paid in full.
- Directing the Company to file its next general rate case no later than June 30, 2019, using a test year ending December 31, 2018.

- Authorizing Dragoon to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Dragoon, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
- That the Company coordinate its readings of its production and customer meters and file this data semiannually with Docket Control, as a compliance item in this docket. Staff further recommends that the first water use data report be filed by September 30, 2015.
- That the Company apply to Water Infrastructure Financing Authority for a Planning and Design Technical Assistance Program grant. This technical assistance grant would be used for an engineering analysis to seek a resolution of the Company's water loss problem.
- That the Company file a plan to fund the implementation of a water loss reduction project when the Company files its next rate application with the Commission. (See §D of the Engineering report for discussion and details.)
- That the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three 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 recommends a maximum of two BMPs may come from the "Public Awareness/Public 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. (See §L of the Engineering report for discussion and details.)

**Dragoon Water Company**

Docket Nos. W-01917A-14-0312 & W-01917A-14-0313

Test Year Ended December 31, 2013

Schedule MJR-1

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --		Rates Staff Recommended With Surcharge
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted	
Revenues:					
Metered Water Revenue	\$92,269	\$92,269	\$131,884	\$106,006	\$106,006
Unmetered Water Revenue	-	-	-	-	-
Surcharge					3,668
Other Water Revenues	1,052	1,052	1,052	1,052	1,052
<b>Total Operating Revenue</b>	<b>\$93,321</b>	<b>\$93,321</b>	<b>\$132,936</b>	<b>\$107,058</b>	<b>\$110,726</b>
Operating Expenses:					
Operation and Maintenance	\$80,191	\$62,006	\$80,191	\$62,006	\$62,006
Depreciation	33,364	16,778	33,364	16,778	16,778
Taxes Other than Property and Income	-	-	-	-	-
Property Taxes	3,230	5,088	4,601	5,338	5,404
Income Tax	(4,816)	1,133	3,033	3,902	4,538
<b>Total Operating Expense</b>	<b>\$111,969</b>	<b>\$85,006</b>	<b>\$121,190</b>	<b>\$88,024</b>	<b>\$88,727</b>
<b>Operating Income/(Loss)</b>	<b>(\$18,648)</b>	<b>\$8,315</b>	<b>\$11,746</b>	<b>\$19,034</b>	<b>\$21,999</b>
Rate Base	\$158,252	\$181,406	\$158,252	\$181,406	\$181,406
Rate of Return - On Rate Base	N/M	4.58%	7.42%	10.49%	12.13%
<sup>1</sup> Times Interest Earned Ratio (Pre-Tax)	N/M	2.41	3.76	5.84	5.90
<sup>2</sup> Debt Service Coverage Ratio (Pre-Tax)	-0.99	1.56	2.86	2.36	2.19
<sup>3</sup> Operating Margin	N/M	8.91%	8.84%	17.78%	19.87%

NOTES:

<sup>1</sup> The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

<sup>2</sup> The Debt Service Coverage Ratio (Pre-Tax)

<sup>3</sup> Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

**Dragoon Water Company**

Docket Nos. W-01917A-14-0312 & W-01917A-14-0313  
 Test Year Ended December 31, 2013

Schedule MJR-2  
 Page 1 of 3

**RATE BASE**

	----- Original Cost -----			
	Company	Adjustment		Staff
1 Plant in Service	\$719,353	(\$7,291)	A	\$712,062
2 Less:				
3 Accum. Depreciation	491,981	(36,855)	B	455,126
4				
5 <b>Net Plant</b>	<b>\$227,372</b>	<b>\$29,564</b>		<b>\$256,936</b>
6				
7 Less:				
8 Plant Advances	\$60,687	\$0		\$60,687
9 Customer Security Deposits	0	2,610	C	\$2,610
10				
11 Total Advances	\$60,687	\$2,610		\$63,297
12				
13 Contributions Gross	\$125,935	\$0		\$125,935
14 Less:				
15 Amortization of CIAC	106,999	0		106,999
16				
17 <b>Net CIAC</b>	<b>\$18,936</b>	<b>\$0</b>		<b>\$18,936</b>
18				
19 <b>Total Deductions</b>	<b>\$79,623</b>	<b>\$2,610</b>		<b>\$82,233</b>
20				
21 Plus:				
22 1/24 Power	\$524	\$0		\$524
23				
24 1/8 Operation & Maint.	9,981	(3,802)		6,179
25				
26 Inventory	0	0		0
27				
28 Prepayments	0	0		0
29				
30 <b>Total Additions</b>	<b>\$10,505</b>	<b>(\$3,802)</b>	D	<b>\$6,703</b>
31				
32 <b>Rate Base</b>	<b>\$158,254</b>	<b>\$23,152</b>		<b>\$181,406</b>

Explanation of Adjustment:

- A See Schedule MJR-2, Page 2 PLANT ADJUSTMENTS
- B See Schedule MJR-2, Page 3 ACCUMULATED DEPRECIATION ADJUSTMENTS
- C Decreases rate base for the amount of customer security deposits shown on the balance sheet.
- D The Company requested total working capital of \$10,505, but did not breakdown between Power and power and operating expenses, Staff calculated the cash working capital on Staff adjusted operating expenses

**PLANT ADJUSTMENT**

1

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	56,983	\$0	56,983
302 Franchises	0	0	0
303 Land & Land Rights	5,187	0	5,187
304 Structures & Improvements	29,114	0	29,114
307 Wells & Springs	56,182	(7,291)	48,891
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	235,097	0	235,097
320.1 Water Treatment Equipment	3,649	0	3,649
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs and Standpipe	96,107	0	96,107
330.1 Storage Tanks	0	0	0
330.2 Pressure Tanks	0	0	0
331 Transmission & Distribution Mains	217,077	0	217,077
333 Services	20,326	0	20,326
334 Meters & Meter Installations	29,098	0	29,098
335 Hydrants	633	0	633
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	4,045	0	4,045
340.1 Computers & Software	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	280	0	280
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	15,575	0	15,575
	0	0	0
<b>TOTALS</b>	<b>\$719,353</b>	<b>(\$7,291)</b>	<b>\$712,062</b>

	Company	Staff	Adjustment
307 <u>Wells &amp; Springs</u>	\$ 7,291	\$ -	<u>\$ (7,291)</u>

Explanation of Adjustment A:

Company placed in beginning balance and added in 2001, Decision No. 65132 allowed amount as Post Test Year plant.

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	Accumulated Depreciation Balances	Depreciation Rates		Per Staff	
		Decision No.	Per Company		
301	Organization	n/a	-	-	
302	Franchises	n/a	-	-	-
303	Land & Land Rights	n/a	-	-	
304	Structures & Improvements	3.33%	23,298	16,091	(7,207)
307	Wells & Springs	3.33%	29,714	30,335	621
310	Power Generation Equipment	5.00%	-	-	-
311	Pumping Equipment	12.50%	218,562	181,937	(36,625)
320	Water Treatment Equipment	0.00%	720	668	(52)
320.1	Water Treatment Plant	3.33%	-	-	-
320.2	Solution Chemical Feeders	20.00%	-	-	-
330	Dist. Reservoirs & Standpipes	0.00%	62,278	55,516	(6,762)
330.1	Storage Tanks	2.22%	-	-	-
330.2	Pressure Tanks	5.00%	-	-	-
331	Transmission & Distribution Main	2.00%	102,472	118,727	16,255
333	Services	3.33%	10,640	9,620	(1,020)
334	Meters & Meter Installation	8.33%	29,097	25,470	(3,627)
335	Hydrants	2.00%	248	143	(105)
336	Backflow Prevention Devices	6.67%	-	-	-
339	Other Plant & Misc Equipment	0.00%	-	-	-
340	Office Furniture & Equipment	6.67%	4,045	4,045	-
340.1	Computers & Software	20.00%	-	-	-
341	Transportation Equipment	20.00%	-	-	-
342	Stores Equipment	4.00%	-	-	-
343	Tools, Shop, & Garage Equipmt	5.00%	126	119	(7)
344	Laboratory Equipment	10.00%	-	-	-
345	Power Operated Equipment	5.00%	-	-	-
346	Communication Equipment	10.00%	\$ -	-	-
347	Miscellaneous Equipment	10.00%	-	-	-
309	Flowhead Meters	0.00%	-	-	-
348	Other Tangible Plant	2.50%	10781	12,454	1,673
			<u>\$ 491,981</u>	<u>455,126</u>	<u>\$ (36,855)</u>

Amount

Accumulated Depreciation - Per Company	\$491,981
Accumulated Depreciation - Per Staff	<u>455,126</u>
<b>Total Adjustment</b>	<b><u>(\$36,855)</u></b>

Explanation of Adjustment B:

To reflect plant adjustments, application of the authorized depreciation rates and removal of depreciation accrued on fully depreciated plant and to recognize retirements.

**Dragoon Water Company**

Docket Nos. W-01917A-14-0312 & W-01917A-14-0313

Test Year Ended December 31, 2013

Schedule MJR-3

Page 1 of 5

**STATEMENT OF OPERATING INCOME**

	Company Exhibit	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
461 Metered Water Revenue	\$92,269	(\$0) A	\$92,269
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	1,052	0	1,052
<b>Total Operating Revenue</b>	<b>\$93,321</b>	<b>(\$0)</b>	<b>\$93,321</b>
<b>Operating Expenses:</b>			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	1,040	\$0	1,040
615 Purchased Power	11,538	\$0	11,538
618 Chemicals	197	\$0	197
620 Repairs and Maintenance	9,143	(\$5,086) A	4,057
621 Office Supplies & Expense	3,614	(\$2,370) B	1,244
630 Outside Services	38,919	(\$12,600) C	26,319
635 Water Testing	1,703	(\$181) D	1,522
427.2 Customer Security Deposit Interest	146	\$0	146
650 Transportation Expenses	0	\$0	0
657 Insurance - General Liability	1,952	\$0	1,952
659 Insurance - Health and Life	0	\$0	0
666 Rate Case Expense	7,000	\$0	7,000
675 Miscellaneous Expense	4,939	\$2,052 E	6,991
403 Depreciation Expense	33,364	(\$16,586) F	16,778
408 Taxes Other Than Income	0	\$0	0
408.11 Property Taxes	3,230	\$1,858 G	5,088
409 Income Tax	(4,816)	\$5,949 H	1,133
<b>Total Operating Expenses</b>	<b>\$111,969</b>	<b>(\$26,963)</b>	<b>\$85,006</b>
<b>OPERATING INCOME/(LOSS)</b>			
	<b>(\$18,648)</b>	<b>\$26,963</b>	<b>\$8,315</b>

**Dragoon Water Company**

Docket Nos.W-01917A-14-0312 & W-01917A-14-0313

Test Year Ended December 31, 2013

Schedule MJR-3

Page 2 of 5

**STAFF ADJUSTMENTS**

A - REPAIRS AND MAINTENANCE - Per Company	\$9,143	
Per Staff	4,057	<u>(\$5,086)</u>
Normalize Repair and Maintenance 5-years average 2008-2012		
B - OFFICE SUPPLIES AND EXPENSES - Per Company	\$3,614	
Per Staff	1,244	<u>(\$2,370)</u>
Normalize Office Supplies and Expenses 5-years average 2008-2012		
C - OUTSIDE SERVICES - Per Company	\$38,919	
Remove Draws	(12,600)	
Per Staff	\$ 26,319	<u>(\$12,600)</u>
D - WATER TESTING - Per Company	\$1,703	
Per Staff	1,522	<u>(\$181)</u>
To recognize the average on-going water testing expenses.		
E - MISCELLANEOUS EXPENSES-Per Company	4,939	
Per Staff	6,991	<u>\$2,052</u>
Normalize Repair and Maintenance 5-years average 2008-2012		
F - DEPRECIATION - Per Company	\$33,364	
Per Staff	16,778	<u>(\$16,586)</u>
To reflect application of Staff's depreciation rates to Staff's depreciable plant balances by account.		
G - PROPERTY TAX - Per Company	\$3,230	
Per Staff	5,088	<u>\$1,858</u>
To reflect ADOR methodology for calculating property tax.		
H - INCOME TAXES - per Company	(\$4,816)	
Per Staff	1,133	<u>\$5,949</u>
To reflect allowance for C-Corporation Income taxes.		

OPERATING INCOME ADJUSTMENT D - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]	
1	Depreciation Expense	\$ 33,364	\$ (16,586)	\$ 16,778				
					235,097			
Line No.	ACCT NO.	DESCRIPTION	Company Proposed PLANT IN SERVICE BALANCE	STAFF PLANT BALANCE	Fully Depreciated Plant	STAFF DEPR. PLANT BALANCE	STAFF RECOMMENDED RATE	STAFF RECOMMENDED EXPENSE
1		<b>Plant In Service</b>						
2	301	Organization	\$ 6,983	6,983	\$ 6,983	\$ -	0.00%	\$ -
3	302	Franchises	-	-	-	-	0.00%	-
4	303	Land & Land Rights	5,187	5,187	5,187	-	0.00%	-
5	304	Structures & Improvements	29,114	29,114	-	29,114	3.33%	969
6	307	Wells & Springs	56,182	48,891	-	48,891	3.33%	1,628
7	310	Power Generating Equipment	-	-	-	-	5.00%	-
8	311	Pumping Equipment	235,097	235,097	151,032	84,065	12.50%	10,508
9	320.1	Water Treatment Plants	3,649	3,649	-	3,649	3.33%	122
10	320.2	Solution Chemical Feeders	-	-	-	-	20.00%	-
11	330	Dist. Reservoirs & Standpipes	96,107	96,107	-	96,107	2.22%	2,134
12	330.1	Storage Tanks	-	-	-	-	2.22%	-
13	330.2	Pressure Tanks	-	-	-	-	5.00%	-
14	331	Transmission & Distribution Mains	217,076	217,077	-	217,077	2.00%	4,342
15	333	Services	20,326	20,326	-	20,326	3.33%	677
16	334	Meters & Meter Installations	29,097	29,098	14,578	14,520	8.33%	1,210
17	335	Hydrants	633	633	-	633	2.00%	13
18	336	Backflow Prevention Devices	-	-	-	-	6.67%	-
19	339	Other Plant and Misc. Equipment	-	-	-	-	6.67%	-
20	340	Office Furniture & Equipment	4,045	4,045	4,045	-	6.67%	-
21	341	Transportation Equipment	-	-	-	-	20.00%	-
22	343	Tools Shop & Garage Equipment	280	280	-	280	5.00%	14
23	344	Laboratory Equipment	-	-	-	-	10.00%	-
24	345	Power Operated Equipment	-	-	-	-	5.00%	-
25	346	Communication Equipment	-	-	-	-	10.00%	-
26	347	Miscellaneous Equipment	-	-	-	-	10.00%	-
27	348	Other Tangible Plant	15,575	15,575	-	15,575	2.50%	389
28			-	-	-	-	-	-
29			-	-	-	-	-	-
30		Subtotal General	\$ 719,351	\$ 712,062	\$ 181,825	\$ 530,237		\$ 22,005
31		Less: Non-depreciable Account(s)	12,170	12,170	-	-		-
32		Depreciable Plant (L29-L30)	\$ 707,181	\$ 699,892		\$ 530,237		
33								
34		Contributions-in-Aid-of-Construction (CIAC)					\$ 125,955	
35		Weighted Average Depreciation/Amortization Rate					4.1500%	
36		Less: Amortization of CIAC (L32 x L33)						\$ 5,226
37		<b>Depreciation Expense - STAFF</b>						<b>\$ 16,778</b>
38								
39		<b>Pro Forma Depreciation Expense Calculation</b>						
40								
41		Plant in Service	\$ 712,062					
42		Less: Non-depreciable plant	12,170					
43		Fully depreciated plant	181,825					
44		Depreciable Plant	\$ 518,067					
45		Times: Staff weighted average depreciation rate	4.1500%					
46		Depreciation expense before amortization of CIAC	22,005					
47		Less: Amortization of CIAC	5,226					
48		<b>Test Year Depreciation - Staff</b>	<b>16,778</b>					
49		Depreciation expense - Company	33,364					
50		<b>Staff recommended adjustment</b>	<b>\$ (16,586)</b>					

OPERATING INCOME ADJUSTMENT H - PROPERTY TAXES--C-CORP

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED	[C] STAFF W/SURCHARGE
	Staff Adjusted Test Year Revenues - 2012	\$ 93,321	\$ 93,321	\$ 93,321
1	Weight Factor	2	2	2
2	Subtotal (Line 1 * Line 2)	\$ 186,642	\$ 186,642	186,642
4a	Staff Adjusted Test Year Revenues - 2013	93,321		
4b	Staff Recommended Revenue, Per Schedule MJR-1		107,058	110,726
5	Subtotal (Line 4 + Line 5)	\$ 279,963	\$ 293,700	297,368
6	Number of Years	3	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 93,321	\$ 97,900	99,123
8	Department of Revenue Multiplier	2	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 186,642	\$ 195,800	198,246
10	Plus: 10% of CWIP -		-	-
11	Less: Net Book Value of Licensed Vehicles		-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 186,642	\$ 195,800	198,246
13	Assessment Ratio	18.5%	18.5%	18.5%
14	Assessment Value (Line 12 * Line 13)	34,529	\$ 36,223	\$ 36,675
15	Composite Property Tax Rate (Company Property Tax ÷ Assessment Value)	14.7355%	14.7355%	14.7355%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 5,088		
17	Company Proposed Property Tax	3,230		
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 1,858		
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 5,338	\$ 5,404
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 5,088	\$ 5,338
21	Increase/(Decrease) to Property Tax Expense		\$ 250	\$ 67
22	Increase/(Decrease) to Property Tax Expense		\$ 250	\$ 67
23	Increase in Revenue Requirement		13,737	3,668
24	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.817384%	1.817384%

References:

Col [A]: Company  
Col [B]: Staff Report

C-Corp Tax Calculation

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)		
18	Required Operating Income (Schedule Summary Schedule 1)	\$	19,034						
19	Adjusted Test Year Operating Income (Loss) (Schedule 1)	\$	8,315						
20	Required Increase in Operating Income (L18 - L19)			\$	10,719				
21	Income Taxes on Recommended Revenue (Col. (D), L43)	\$	3,902						
22	Income Taxes on Test Year Revenue (Col. (B), L43)	\$	1,133						
23	Required Increase in Revenue to Provide for Income Taxes (L21 - L22)			\$	2,768				
24	Recommended Revenue Requirement (Schedule MJR-1)	\$	107,058						
25	Uncollectible Rate (Line 10)		0.0000%						
26	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$	-						
27	Adjusted Test Year Uncollectible Expense	\$	-						
28	Required Increase in Revenue to Provide for Uncollectible Exp. (L26 - L27)			\$	-				
30	Property Tax with Recommended Revenue (Schedule C-Prop Taxes L19)	\$	5,338						
31	Property Tax on Test Year Revenue (Schedule C-Prop Taxes L20)	\$	5,088						
32	Increase in Property Tax Due to Increase in Revenue (L30-31)			\$	250				
	Total Required Increase in Revenue (L21 + L24 + L29 + L32)		\$	13,737					
	<i>Calculation of Income Tax:</i>								
		Test Year		Staff Recommended		Staff Pro Forma W/Debt W/O Surcharge	Staff Pro Forma W/Debt W/Surcharge		
33	Revenue (Schedule MJR-1 and MJR-7)	\$	93,321	\$	13,737	\$	107,058	\$	110,726
34	Operating Expenses Excluding Income Taxes	\$	83,873	\$	-	\$	84,123	\$	84,123
35	Synchronized Interest MJR 6.1	\$	3,927	\$	3,927	\$	4,495	\$	4,495
36	Arizona Taxable Income (L33 - L34 - L35)	\$	5,521	\$	19,009	\$	18,441	\$	22,109
37	Arizona State Income Tax Rate		6.50%		6.50%		6.50%		6.50%
38	Arizona Income Tax (L36 x L37)			\$	359	\$	1,199	\$	1,437
39	Federal Taxable Income (L36 - L38)	\$	5,162	\$	17,773	\$	17,243	\$	20,672
40	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$	774	\$	2,666	\$	2,586	\$	3,101
41	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$	-	\$	-	\$	-	\$	-
42	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$	-	\$	-	\$	-	\$	-
43	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$	-	\$	-	\$	-	\$	-
44	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$	-	\$	-	\$	-	\$	-
45	Total Federal Income Tax	\$	774	\$	2,666	\$	2,586	\$	3,101
46	Combined Federal and State Income Tax (L38 + L45)	\$	1,133	\$	2,666	\$	3,785	\$	4,538
47	Applicable Federal Income Tax Rate [Col. (D), L45 - Col. (B), L45] / [Col. (C), L39 - Col. (A), L39]						15.0%		

**RATE DESIGN**

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$32.00	\$53.10	\$ 36.00
3/4" Meter	48.00	79.65	54.00
1" Meter	80.00	132.75	90.00
1 1/2" Meter	160.00	265.50	180.00
2" Meter	256.00	424.80	288.00
3" Meter	512.00	849.60	576.00
4" Meter	800.00	1,327.50	900.00
6" Meter	1,600.00	2,655.00	1,800.00
Bulk Water pipe per 1,000 gallons	7.50	8.32	8.50
Gallons Included in Minimum	0	0	0

Commodity Rate Charge--Company Commodity rates as ADJUSTED 7/22/2013

5/8" x 3/4" Meter

Company

Tier 1	From 0 to 3,000 gallons	3.25	4.16	4.00
Tier 2	From 3,001 to 10,000 gallons	5.40	6.91	7.00
Tier 3	Over 10,000 gallons	6.80	8.32	8.50

3/4" Meter

Company

Tier 1	From 0 to 3,000 gallons	3.25	4.16	4.00
Tier 2	From 3,001 to 10,000 gallons	5.40	6.91	7.00
Tier 3	Over 10,000 gallons	6.80	8.32	8.50

1" Meter

Company

Tier 1	From 0 to 3,000 gallons	3.25	4.16	
Tier 2	From 3,001 to 10,000 gallons	5.40	6.91	
Tier 3	Over 10,000 gallons	6.80	8.32	

Staff

Tier 1	First 15,000 gallons			7.00
Tier 2	Over 15,000 gallons			8.50

1 1/2" Meter

Company

Tier 1	From 0 to 3,000 gallons	3.25	4.16	
Tier 2	From 3,001 to 10,000 gallons	5.40	6.91	
Tier 3	Over 10,000 gallons	6.80	8.32	

Staff

Tier 1	First 25,000 gallons			7.00
Tier 2	Over 25,000 gallons			8.50

2" Meter

Company

Tier 1	From 0 to 3,000 gallons	3.25	4.16	
Tier 2	From 3,001 to 10,000 gallons	5.40	6.91	
Tier 3	Over 10,000 gallons	6.80	8.32	

Staff

Tier 1	First 45,000 gallons			7.00
Tier 2	Over 45,000 gallons			8.50

3" Meter

Company

Tier 1	From 0 to 3,000 gallons	3.25	4.16	
Tier 2	From 3,001 to 10,000 gallons	5.40	6.91	
Tier 3	Over 10,000 gallons	6.80	8.32	

Staff

Tier 1	First 90,000 gallons			7.00
Tier 2	Over 90,000 gallons			8.50

4" Meter

Company

Tier 1	From 0 to 3,000 gallons	3.25	4.16	
Tier 2	From 3,001 to 10,000 gallons	5.40	6.91	
Tier 3	Over 10,000 gallons	6.80	8.32	

Staff

Tier 1	First 120,000 gallons			7.00
Tier 2	Over 120,000 gallons			8.50

**RATE DESIGN**

*6" Meter*

*Company*

Tier 1	From 0 to 3,000 gallons	3.25	4.16
Tier 2	From 3,001 to 10,000 gallons	5.40	6.91
Tier 3	Over 10,000 gallons	6.80	8.32

*Staff*

Tier 1	First 300,000 gallons	7.00
Tier 2	Over 300,000 gallons	8.50

Service Line and Meter Installation Charges

	Current Total Meter & Service Line Installation Charges	Company Proposed Service Line Charges	Company Proposed Meter Installation Charges	Company Proposed Total	Staff Recommende d Service Line Charges	Staff Recommended Meter Installation Charges	Staff Recommended Total
1" Meter	530	495	315	810	\$495	315	810
1½" Meter	775	550	525	1,075	\$550	525	1,075
2" (Turbine)	1,375	830	1,045	1,875	\$830	1,045	1,875
2" (Compound)	1,375	830	1,890	2,720	\$830	1,890	2,720
3" (Turbine)	1,975	1,045	1,670	2,715	\$1,045	1,670	2,715
3" (Compound)	1,975	1,165	2,545	3,710	\$1,165	2,545	3,710
4" (Turbine)	3,040	1,490	2,670	4,160	\$1,490	2,670	4,160
4" (Compound)	3,040	1,670	3,645	5,315	\$1,670	3,645	5,315
6" (Turbine)	5,635	2,210	5,025	7,235	\$2,210	5,025	7,235
6" (Compound)	5,635	2,330	6,920	9,250	\$2,330	6,920	9,250
Over 6-inch	N/A	At Cost	At Cost	At Cost		At Cost	At Cost

Service Charges

Establishment	\$55.00	\$55.00	\$55.00
Establishment (After Hours)	65.00	N/A	N/A
Re-establishment (after hours) additional	50.00	N/A	N/A
Reconnection (Delinquent)	65.00	65.00	65.00
Reconnection (after hours)	75.00	N/A	N/A
Meter Test (If Correct)	50.00	50.00	50.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	30.00	20.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	15.00	25.00	20.00
Late Fee	1.50%	1.50%	1.50%
After Hours Service Charge	NT	35.00	35.00

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

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

\* Per Commission Rules (R14-2-403.B)  
 \*\* Months off system times the minimum (R14-2-403.D)  
 \*\*\* 1.5% on the unpaid balance per month  
 \*\*\*\* 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Typical Bill Analysis (without Staff Surcharge for Loan)

General Service 5/8 x 3/4-Inch Meter

	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
1					
Average Usage	5,400	\$ 54.71	\$ 82.16	\$ 27.45	50.18%
Median Usage	3,500	44.45	69.04	\$ 24.59	55.31%

Staff Recommended (without Surcharge)

Average Usage	5,400	\$ 54.71	\$ 64.80	\$ 10.09	18.44%
Median Usage	3,500	44.45	51.50	\$ 7.05	15.86%

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

Gallons	Present	Company Proposed		Staff Recommended	
		Rates	%	Rates	%
		5/8 x 3/4 -Inch Meter		5/8 x 3/4 -Inch Meter	
Consumption		Rates	Increase	Rates	Increase
-	\$ 32.00	\$ 53.10	65.94%	\$ 36.00	12.50%
1,000	35.25	57.26	62.44%	40.00	13.48%
2,000	38.50	61.42	59.53%	44.00	14.29%
3,000	41.75	65.58	57.08%	48.00	14.97%
3,500	44.45	69.04	55.31%	51.50	15.86%
4,000	47.15	72.49	53.74%	55.00	16.65%
5,000	52.55	79.40	51.09%	62.00	17.98%
5,400	54.71	82.16	50.18%	64.80	18.44%
6,000	57.95	86.31	48.94%	69.00	19.07%
7,000	63.35	93.22	47.15%	76.00	19.97%
8,000	68.75	100.13	45.64%	83.00	20.73%
9,000	74.15	107.04	44.36%	90.00	21.38%
10,000	79.55	113.95	43.24%	97.00	21.94%
11,000	86.35	122.27	41.60%	105.50	22.18%
12,000	93.15	130.59	40.19%	114.00	22.38%
13,000	99.95	138.91	38.98%	122.50	22.56%
14,000	106.75	147.23	37.92%	131.00	22.72%
15,000	113.55	155.55	36.99%	139.50	22.85%
16,000	120.35	163.87	36.16%	148.00	22.97%
17,000	127.15	172.19	35.42%	156.50	23.08%
18,000	133.95	180.51	34.76%	165.00	23.18%
19,000	140.75	188.83	34.16%	173.50	23.27%
20,000	147.55	197.15	33.62%	182.00	23.35%
25,000	181.55	238.75	31.51%	224.50	23.66%
30,000	215.55	280.35	30.06%	267.00	23.87%
35,000	249.55	321.95	29.01%	309.50	24.02%
40,000	283.55	363.55	28.21%	352.00	24.14%
45,000	317.55	405.15	27.59%	394.50	24.23%
50,000	351.55	446.75	27.08%	437.00	24.31%
75,000	521.55	654.75	25.54%	649.50	24.53%
100,000	691.55	862.75	24.76%	862.00	24.65%

**Typical Bill Analysis (with Staff Surcharge)**  
 General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,400	\$ 54.71	\$ 82.16	\$ 27.45	50.18%
Median Usage	3,500	44.45	69.04	\$ 24.59	55.31%
<b>Staff Recommended (with Surcharge)</b>					
Average Usage	5,400	\$ 54.71	\$ 67.55	\$ 12.84	23.46%
Median Usage	3,500	44.45	54.25	\$ 9.80	22.04%

Present & Proposed Rates  
 General Service 5/8 x 3/4-Inch Meter

Gallons	Present Rates	Company Proposed		Staff Recommended	
		Rates	Increase %	Rates	Increase %
-	\$ 32.00	\$ 53.10	65.94%	\$ 38.75	21.08%
1,000	35.25	57.26	62.44%	42.75	21.27%
2,000	38.50	61.42	59.53%	46.75	21.42%
3,000	41.75	65.58	57.08%	50.75	21.55%
3,500	44.45	69.04	55.31%	54.25	22.04%
4,000	47.15	72.49	53.74%	57.75	22.47%
5,000	52.55	79.40	51.09%	64.75	23.21%
5,400	54.71	82.16	50.18%	67.55	23.46%
6,000	57.95	86.31	48.94%	71.75	23.81%
7,000	63.35	93.22	47.15%	78.75	24.30%
8,000	68.75	100.13	45.64%	85.75	24.72%
9,000	74.15	107.04	44.36%	92.75	25.08%
10,000	79.55	113.95	43.24%	99.75	25.39%
11,000	86.35	122.27	41.60%	108.25	25.36%
12,000	93.15	130.59	40.19%	116.75	25.33%
13,000	99.95	138.91	38.98%	125.25	25.31%
14,000	106.75	147.23	37.92%	133.75	25.29%
15,000	113.55	155.55	36.99%	142.25	25.27%
16,000	120.35	163.87	36.16%	150.75	25.26%
17,000	127.15	172.19	35.42%	159.25	25.24%
18,000	133.95	180.51	34.76%	167.75	25.23%
19,000	140.75	188.83	34.16%	176.25	25.22%
20,000	147.55	197.15	33.62%	184.75	25.21%
25,000	181.55	238.75	31.51%	227.25	25.17%
30,000	215.55	280.35	30.06%	269.75	25.14%
35,000	249.55	321.95	29.01%	312.25	25.12%
40,000	283.55	363.55	28.21%	354.75	25.11%
45,000	317.55	405.15	27.59%	397.25	25.10%
50,000	351.55	446.75	27.08%	439.75	25.09%
75,000	521.55	654.75	25.54%	652.25	25.06%
100,000	691.55	862.75	24.76%	864.75	25.04%

**LONG TERM DEBT FINANCIAL ANALYSIS**

Test Year Income Statement, Capital Structure and Pro Forma Based on Audit  
Including Immediate Effects of the Proposed Debt

**INCOME STATEMENT**

		Pro Forma Permanent Rates	Incremental Without Surcharge	Pro Forma W New Financing W/O Surcharge	Incremental With Surcharge	Pro Forma W New Financing W/Surcharge
Operating Revenue:	g	\$107,058		\$107,058		\$ 107,058
Operating Expenses:						
Purchased Water/Pumping Power		12,578		12,578		12,578
Admin. & General		43,652		43,652		43,652
Maintenance & Testing		5,776		5,776		5,776
Depreciation	d	16,778		16,778		16,778
Property Taxes		5,338	0.00	5,338	67	5,404
Other taxes		-		-		-
Income Taxes C-Corp	f	3,902	(116)	3,785	636	4,538
Total Operating Expense		\$88,024	(\$116)	\$87,908	703	\$ 88,727
Operating Income	a	\$19,034	\$116	\$19,151	(\$703)	\$ 18,331
Loan Surcharge	b	\$0		-	3,668	3,668
Interest Expense	c	3,927	\$567	4,495		4,495
Net Income		\$15,107	(\$451)	\$14,656	\$2,965	\$ 13,837
Principal Repayment	e	12,912	\$2,398	15,310	\$2,398	15,310
Reserve/Replacement Deposit (e)		3,368		3,368		3,368
<sup>1</sup> TIER (Times Interest Earned Ratio)						
[(a) + (b) + (f)] ÷ (c)		5.84		5.10		5.90
<sup>2</sup> DSC (Debt Service Coverage)						
[(a) + (b) + (d) + (f)] ÷ [(c) + (e)]		2.36		2.01		2.19
<sup>3</sup> CCR (Cash Coverage Ratio)						
[(a) + (b) + (d) + (f)] ÷ (c)		10.11		8.84		9.64
<sup>4</sup> Operating Margin						
[(a) + (b)] ÷ [(b) + (g)]		17.78%		17.89%		19.87%

**CAPITAL STRUCTURE**

Short-term Debt	\$12,912	10.0%	\$15,310	10.56%
Long-term Debt	63,824	49.4%	\$ 77,018	53.15%
Common Equity	\$52,588	40.7%	\$52,588	36.29%
Total Capital	\$129,324	100.0%	\$144,916	100.0%

<sup>1</sup> The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

<sup>2</sup> The Debt Service Coverage Ratio represents the ratio of cash available for debt servicing to interest and principal.

<sup>3</sup> The Cash Coverage Ratio represents the amount of cash available to pay interest expense

<sup>4</sup> Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

**TERMS OF EXISTING WIFA LOAN**

**Terms and Conditions**

Loan Amount	\$218,305
Term (No. of Years)	20.00
Combined Interest & Fee Rate	
Interest Rate Index	3.00%
Subsidy Rate Index	156.25%
Combined Interest & Fee Rate	4.69%
Coverage Requirement	20.00%
Debt Service Reserve Requirement	\$16,839.60
Number of Years Debt Service Reserve Funded	5

**Monthly Fixed payment to WIFA**

*Years 1 through 5*

Monthly Fixed Payments to WIFA	\$1,403.30
Monthly Debt Service Reserve Deposit	\$280.66
Monthly Replacement Fund Deposit	\$0.00
Total Monthly Fixed Payment	\$1,683.96

*Years 6 through 20*

Monthly Fixed Payments to WIFA	\$1,403.30
Monthly Debt Service Reserve Deposit	0.00
Monthly Replacement Fund Deposit	\$ 280.66
Total Monthly Fixed Payment	\$1,683.96

**Annual Fiscal Impact**

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$16,839.60	\$3,367.92	\$0.00	\$20,207.52
2	16,839.60	3,367.92	0.00	20,207.52
3	16,839.60	3,367.92	0.00	20,207.52
4	16,839.60	3,367.92	0.00	20,207.52
5	16,839.60	3,367.92	0.00	20,207.52
6	16,839.60	0.00	3,367.92	20,207.52
7	16,839.60	0.00	3,367.92	20,207.52
8	16,839.60	0.00	3,367.92	20,207.52
9	16,839.60	0.00	3,367.92	20,207.52
10	16,839.60	0.00	3,367.92	20,207.52
11	16,839.60	0.00	3,367.92	20,207.52
12	16,839.60	0.00	3,367.92	20,207.52
13	16,839.60	0.00	3,367.92	20,207.52
14	16,839.60	0.00	3,367.92	20,207.52
15	16,839.60	0.00	3,367.92	20,207.52
16	16,839.60	0.00	3,367.92	20,207.52
17	16,839.60	0.00	3,367.92	20,207.52
18	16,839.60	0.00	3,367.92	20,207.52
19	16,839.60	0.00	3,367.92	20,207.52
20	16,839.60	0.00	3,367.92	20,207.52
21	0.00	0.00	0.00	0.00
22	0.00	0.00	0.00	0.00
23	0.00	0.00	0.00	0.00
24	0.00	0.00	0.00	0.00
25	0.00	0.00	0.00	0.00
26	0.00	0.00	0.00	0.00
27	0.00	0.00	0.00	0.00
28	0.00	0.00	0.00	0.00
29	0.00	0.00	0.00	0.00
30	0.00	0.00	0.00	0.00
	\$336,792.00	\$16,839.60	\$50,518.80	\$404,150.40

**TERMS OF PROPOSED LOAN**

**Terms and Conditions**

Loan Amount	\$13,194
Term (No. of Years)	5.00
Combin Interest Rate	4.69%

**Monthly Fixed payment to Southwestern Utility Management Company, Inc.**

*Years 1 through 5*

Monthly Fixed Payments to Southwestern Utility Management Company, Inc.	\$247.11
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**Annual Fiscal Impact**

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$2,965.27	\$0.00	\$0.00	\$2,965.27
2	2,965.27	0.00	0.00	2,965.27
3	2,965.27	0.00	0.00	2,965.27
4	2,965.27	0.00	0.00	2,965.27
5	2,965.27	0.00	0.00	2,965.27
6	0.00	0.00	0.00	0.00
7	0.00	0.00	0.00	0.00
8	0.00	0.00	0.00	0.00
9	0.00	0.00	0.00	0.00
10	0.00	0.00	0.00	0.00
11	0.00	0.00	0.00	0.00
12	0.00	0.00	0.00	0.00
13	0.00	0.00	0.00	0.00
14	0.00	0.00	0.00	0.00
15	0.00	0.00	0.00	0.00
16	0.00	0.00	0.00	0.00
17	0.00	0.00	0.00	0.00
18	0.00	0.00	0.00	0.00
19	0.00	0.00	0.00	0.00
20	0.00	0.00	0.00	0.00
21	0.00	0.00	0.00	0.00
22	0.00	0.00	0.00	0.00
23	0.00	0.00	0.00	0.00
24	0.00	0.00	0.00	0.00
25	0.00	0.00	0.00	0.00
26	0.00	0.00	0.00	0.00
27	0.00	0.00	0.00	0.00
28	0.00	0.00	0.00	0.00
29	0.00	0.00	0.00	0.00
30	0.00	0.00	0.00	0.00
	<b>\$14,826.33</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$14,826.33</b>

**CASH FLOW ANALYSIS**

Line No.	Staff Recommended W/O Proposed Loan	Pro Forma Incremental W/New Financing	Pro Forma With Proposed Loan W/O Surcharge	Pro Forma Incremental W/Surcharge	Pro Forma With Proposed Loan W/Surcharge
<b>Cash Inflows</b>					
1 461 Metered Water Revenue	\$106,006		\$106,006		106,006
460 Unmetered Water Revenue	-		-		-
1 474 Other Water Revenues	1,052		1,052		1,052
2 Revenue - Surcharge for 2.57 DSC (\$12,000 Cash Flow)	-		-	3,668	3,668
3 Total Revenue	107,058		107,058	3,668	110,726
<b>Cash Outflows</b>					
4 601 Salaries and Wages	-		-		-
5 610 Purchased Water	1,040		1,040		1,040
6 615 Purchased Power	11,538		11,538		11,538
7 618 Chemicals	197		197		197
8 620 Repairs and Maintenance	4,057		4,057		4,057
9 621 Office Supplies & Expense	1,244		1,244		1,244
10 630 Outside Services	26,319		26,319		26,319
11 635 Water Testing	1,522		1,522		1,522
12 427.2 Customer Security Deposit Interest	146		146		146
13 650 Transportation Expenses	-		-		-
14 657 Insurance - General Liability	1,952		1,952		1,952
15 659 Insurance - Health and Life	-		-		-
16 666 Rate Case Expense	7,000		7,000		7,000
17 675 Miscellaneous Expense	6,991		6,991		6,991
18 403 Depreciation Expense	16,778		16,778		16,778
19 408 Taxes Other Than Income	-		-		-
20 408.11 Property Taxes	5,338		5,338	67	5,404
21 409 Income Tax	3,902	(116)	3,785	636	4,538
22 Total Expenses	88,024	(116)	87,908	703	88,727
23 Operating Income	19,034	116	19,151	2,965	21,999
24 Plus: Depreciation Expense	16,778		16,778		16,778
25 Less: Loan Payment Interest	3,927	567	4,495	567	4,495
26 Less: Loan Payment Principal	12,912	2,398	15,310	2,398	15,310
27 AIAC Refunds	3,605		3,605		3,605
28 Cash Flow from Operations before existing WIFA Reserve	15,368	(2,849)	12,519	2,965	15,368
29 WIFA Reserve (20% of Principal and Interest)	3,368		3,368		3,368
30 Cash Flow from Operations after existing WIFA Reserve	12,000	(2,849)	9,152	2,965	12,000
Operating Income	19,034	116	19,151	2,965	21,999
Less Loan Interest (existing WIFA and proposed financing)	(3,927)	(567)	(4,495)	(567)	(4,495)
Net Income	15,107	(451)	14,656	2,398	17,505
Rate of Return on Rate Base	10.49%		10.56%		12.13%
Operating Margin	17.78%		17.89%		19.87%
Operating Margin after WIFA Interest	14.11%		13.69%		15.81%

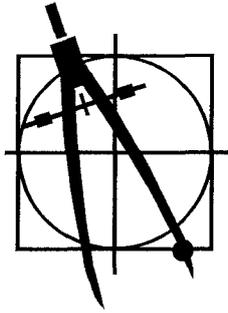
**CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT**

**Infrastructure Surcharge Based on AWWA Meter Multiplier**

	Additional Revenue Required for:		Surcharge	Incremental Taxes	
	Debt Service:	2.19			
1	Cash Flow:	\$ 12,000	\$ 2,965	\$ 703	\$ 3,668
	<b>Total Equivalent Annual Bills</b>				<b>1,336</b>
	5/8"x 3/4" Meter Surcharge Amount	\$3,668 / x 1.0 =			\$ 2.75
	3/4" Meter Surcharge Amount	\$3,668 / x 1.5 =			\$ 4.12
	1" Meter Surcharge Amount	\$3,668 / x 2.5 =			\$ 6.87
	1 1/2" Meter Surcharge Amount	\$3,668 / x 5.0 =			\$ 13.73
	2" Meter Surcharge Amount	\$3,668 / x 8.0 =			\$ 21.97
	3" Meter Surcharge Amount	\$3,668 / x 16.0 =			\$ 43.95
	4" Meter Surcharge Amount	\$3,668 / x 25.0 =			\$ 68.67
	6" Meter Surcharge Amount	\$3,668 / x 50.0 =			\$ 137.34

Meter Size	Number of Customers <sup>1</sup>	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	102	1	102	1,218	\$ 2.75	\$ 32.96	\$ 3,346
3/4" Meter	-	1.5	-	-	4.12	\$ 49.44	\$ -
1" Meter	4	2.5	10	118	6.87	\$ 82.40	\$ 323
1 1/2" Meter	-	5	-	-	13.73	\$ 164.81	\$ -
2" Meter	-	8	-	-	21.97	\$ 263.69	\$ -
3" Meter	-	16	-	-	43.95	\$ 527.38	\$ -
4" Meter	-	25	-	-	68.67	\$ 824.03	\$ -
6" Meter	-	50	-	-	137.34	\$ 1,648.06	\$ -
<b>TOTAL</b>	<b>105</b>		<b>111</b>	<b>1,336</b>			<b>\$ 3,668</b>

<sup>1</sup> As of Test Year.



**Engineering Report  
 Dragoon Water Company  
 Prepared By  
 Dorothy Hains, P. E.  
 Docket Nos. W-01917A-14-0313  
 (Rates)  
 Docket Nos. W-01917A-14-0312  
 (Financing)**

**February 9, 2015**

**EXECUTIVE SUMMARY**

**Recommendations:**

1. Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Staff (“Staff”) recommends estimated annual water testing costs of \$1,522 for Dragoon Water Company, Inc. (“Dragoon” or “Company”). (See §I and Table 4 for discussion and details.)
2. Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners category, as delineated in Figure 6. (See §J and Figure 6 for a discussion and a tabulation of the recommended rates.)
3. Staff recommends approval of the meter and service line installation charges listed under the columns labeled “Staff Recommendation” in Table 6. (See §L of report for discussion and details.)
4. Staff recommends that the Company coordinate when it reads its production and customer meters and file this data semiannually with Docket Control, as a compliance item in this docket. Staff further recommends that the first water use data report be filed by September 30, 2015. Staff further recommends that the Company apply to the Water Infrastructure Finance Authority (“WIFA”) for a Planning and Design Technical Assistance Program grant. This technical assistance grant would be used for an engineering analysis to seek a resolution of the Company’s water loss problem. Staff further recommends that the Company file a plan to fund the implementation of a water loss reduction project when the Company files its next rate application with the Commission. (See §D for discussion and details.)
5. Dragoon does not have approved Best Management Practices (“BMP”) tariffs on file with the Commission. Staff recommends that Dragoon file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three (3) 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 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. (See §L of report for discussion and details.)

### **Conclusions:**

1. A check of the Commission’s Compliance Section database dated September 10, 2014, indicated that Dragoon had no ACC delinquent compliance items. (See §H of report for discussion and details.)
2. Dragoon is not in any Arizona Department of Water Resources (“ADWR”) Active Management Area. Staff received a Compliance Status Report from ADWR for Dragoon on September 12, 2014. In its report, ADWR stated that the Company is compliant with departmental requirements governing water providers and/or community water systems. (See §G of report for discussion and details.)
3. In a Compliance Status Report dated October 3, 2014, Arizona Department of Environmental Quality reported that Dragoon had no major deficiencies and was 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. (See §F of report for discussion and details.)
4. Dragoon has adequate production and storage capacities to support its existing customer base and reasonable growth. (See §C of report for discussion and details.)
5. Staff concludes, based on its field inspection, that the expenses for capital improvement for Well No. 2 listed in Table 5 are reasonable. (See §K of report for discussion and details.)
6. Dragoon has approved cross connection and curtailment tariffs on file with the Commission. (See §L of report for discussion and details.)
7. Dragoon had a 24.2 percent water loss during the test year. The Company claims that it is not cost effective for it to reduce water loss to below 10 percent. In the past ten year period Dragoon has reported annual water losses both above and below the 10 percent threshold, and even negative water losses, which calls into question the validity of the water use data being reported by the Company. It appears that Dragoon has not been recording its water use data correctly.

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**A. PURPOSE OF REPORT**

This report was prepared in response to the applications filed by Dragoon Water Company, Inc. (“Dragoon” or “Company”) with the Arizona Corporation Commission (“ACC” or “Commission”) to increase its water rates and for authority to incur long term debt in the amount of \$26,000. The ACC Utilities Division Staff (“Staff”) performed an engineering review and analysis of the subject application. The results of Staff’s review and analysis is presented in this report.

An inspection of the Company’s system was conducted by Dorothy Hains, Staff Engineer (Staff), accompanied by Mary Rimback (Staff Accountant), Keith Dojanquez (Manager of Southwestern Utility Management) and Mathew England (Operator and Supervisor of Southwestern Utility Management) on December 3, 2014.

**B. LOCATION OF THE COMPANY**

The Company serves the unincorporated community of Dragoon, which is located between Wilcox and Benson in Cochise County, about three miles southeast of Interstate 10. Figure 1 describes the Certificate of Convenience and Necessity (“CC&N”) area of Dragoon, and Figure 2 describes the location of Dragoon relative to other regulated water utilities serving in the area. The CC&N area includes portions of Sections 13, 14 and 24 in Township 16 South (“T16S”) and Range 22 East (“R22E”) and Sections 18 and 19 in T16S and R23E and part of Section 36 of T15S and R22E.

**C. DESCRIPTION OF SYSTEM**

*I. System Description*

Dragoon’s system is regulated under Arizona Department of Environmental Quality (“ADEQ”) Public Water System (“PWS”) No. 02-015. Dragoon operates a system containing two wells, two storage tanks, four pressure tanks, and a distribution system to serve approximately 121 customers during the test year ending December 2013. A detailed plant facility description is as follows:

**Table 1 Plant Facility and Well Data (Dragoon) (in PWS #02-015)**

Active Drinking Water Wells

ADWR No.	Well #	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-631739	1	1958	12	760	3	15	55	4832 5 <sup>th</sup> St. (E Sully Dr.), Dragoon
55-631738	2	1967	12	987	4	30	200	N. Leed Ave & Johnson Ave

Active Storage, Pumping

Location	Structure or equipment	Capacity
In Well #1 Site (4832 5 <sup>th</sup> St/E Sully Dr.)	Pressure Tank	One 2,000 gallon tank
	Storage Tank	One 40,000 gal steel tank (16' deep)
	Booster pump station	Two 5-HP booster pumps
In Well #2 Site (N. Leed Ave & Johnson Ave)	Pressure tank (surge tank)	One 5,000 gallon tank
	Storage tank	One 15,000 gal steel tank (12' deep)
	Pressure tanks	Two 5,000 gal pressure tanks
	Booster pump station (low pressure)	Two 10-HP pumps
	Booster pump station (high pressure)	Two 7.5-HP pumps,
	Near "The Thing"	Booster pump station
	Storage tank	50-gallon air tank

Distribution Mains in Dragoon CC&N Area

Diameter (inches)	Material	Length (feet)
2	Polyvinyl chloride (PVC) C900	890
3	Asbestos Cement (AC)	2,830
4	AC	4,030
6	AC	600
3	PVC C900	16,418
6	PVC C900	8,860
4	PVC	560
2	PVC	560

Meters in Dragoon CC&N Area

Size (inches)	Quantity
5/8 x 3/4	122
3/4	0
1	20
1 1/2	0
2	2
3	0
4	0
8	0

*II. System Analysis*

The water system has a total source capacity of 255 gallons per minute (“GPM”) and storage capacity of 65,000 gallons that are adequate to serve the present customer base and reasonable growth.

**D. WATER USAGE**

Table 2 summarizes water usage in the Dragoon CC&N area. Figure 4 is a graph that shows water consumption data in gallons per day per connection for the Dragoon system for the test year ending in December 2013.

**Table 2 Water Usage in Dragoon CC&N Area**

Month	Number of Customers	Monthly Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in gpd/customer)
Jan 13	119	537,000	576,000	0	146
Feb 13	120	688,000	747,000	0	205
Mar 13	121	516,000	548,000	0	138
Apr 13	114	645,000	669,000	0	189
May 13	115	831,000	853,000	0	233
Jun 13	121	1,112,000	1,138,000	0	306
Jul 13	121	1,112,000	1,321,000	0	296
Aug 13	121	789,000	1,114,000	0	210
Sep 13	120	771,000	1,062,000	29,000	214
Oct 13	117	629,000	977,000	0	173
Nov 13	119	857,000	890,000	0	240
Dec 13	121	587,000	612,000	0	156
total		9,074,000	11,938,000	29,000	
Average					209

*I. Water Sold*

Based on information provided by the Company, the calculated highest use is 306 gallons per day (“GPD”) per customer in June and the lowest is 138 GPD per customer in March. The average water usage was 209 GPD per customer. Water use for the test year of 2013 is presented in Figure 3.

*II. Non-account Water*

Non-account water should be 10 percent or less. The Company reported 9,074,000 gallons sold and 11,967,000<sup>1</sup> gallons pumped and purchased, resulting in a water loss of 24.2 percent which exceeds the acceptable limit of 10 percent.

<sup>1</sup> 11,938,000 gallons (pumped water) and 29,000 gallons (purchased water) total 11,967,000 gallons.

In Decision No. 65132, the Commission ordered Dragoon to reduce its water loss to less than 15 percent by December 31, 2003, and “in the event Dragoon is unable to reduce water losses to 10 percent or less, shall file with its next rate case, an explanation of why such reduction is not cost effective.” On October 10, 2014, Dragoon filed a document in which it explained why water loss reduction to less than 10 percent is not cost effective.

Staff evaluated the water usage data in Dragoon’s Annual Reports from 2003 to 2013. The results are listed in the table below:

Year	Calculated Water Loss (in %)
2003	33.36
2004	8.49
2005	8.63
2006	7.96
2007	25.07
2008	11.88
2009	16.63
2010	-57.31
2011	-16.27
2012	-18.83
2013	24.2

In its October 10, 2014, filing the Company claims that it is cheaper to do nothing and continue to pay the added pumping and chemical costs than to repair and replace leaking or malfunctioning plant. In the past ten year period, Dragoon has reported annual water losses both above and below the 10 percent threshold, and even negative water losses, which calls into question the validity of the water use data being reported by the Company. It appears that Dragoon has not been recording its water use data correctly.

Staff recommends that the Company coordinate when it reads its production and customer meters and file this data semiannually with Docket Control, as a compliance item in this docket. Staff further recommends that the first water use data report be filed by September 30, 2015. Staff further recommends that the Company apply to the Water Infrastructure Finance Authority (“WIFA”) for a Planning and Design Technical Assistance Program grant. This technical assistance grant would be used for an engineering analysis to seek a resolution of the Company’s water loss problem. Staff further recommends that the Company file a plan to fund the implementation of a water loss reduction project when the Company files its next rate application with the Commission.

#### **E. GROWTH PROJECTION**

Figure 4 depicts the customer growth using linear regression analysis. The numbers of service connections were obtained from annual reports submitted to the Commission. At the end of the test year December 2013, the Company had 121 customers and it is projected that this system could have approximately 124 customers by December 2018. The following table summarizes Staff’s projected growth.

**Table 3 Actual and Projected Growth (Dragoon)**

Year	Nos. of Customers	
2005	130	Reported
2006	142	Reported
2007	142	Estimated
2008	144	Reported
2009	128	Reported
2010	127	Reported
2011	127	Reported
2012	123	Reported
2013	121	Reported
2014	127	Estimated
2015	126	Estimated
2016	126	Estimated
2017	125	Estimated
2018	124	Estimated

**F. ADEQ COMPLIANCE**

ADEQ has reported in a Compliance Status Report dated October 3, 2014, that Dragoon’s water system operating under PWS No. 02-015 had no major deficiencies and is 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.)

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

Dragoon is not in any Active Management Area. Staff received a Compliance Status Report from ADWR for Dragoon on September 12, 2014. In its report ADWR reported that Dragoon is compliant with departmental requirements governing water providers and/or community water systems.

**H. ACC COMPLIANCE**

A check of the Commission’s Compliance Section database dated September 10, 2014, indicated that the Company had no ACC delinquent compliance items.

**I. WATER TESTING EXPENSES**

Dragoon reported its water testing expense at \$1,703 for the test year. Staff has reviewed Dragoon’s reported expense amount and has recalculated these expenses. Staff recommends that Staff’s water testing expense of \$1,552 be used for this proceeding.

Dragoon is subject to mandatory participation in the ADEQ Monitoring Assistance Program (“MAP”). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.
2. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs would dramatically increase. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented on an annualized basis.
3. MAP fees were based on the ADEQ MAP invoice for calendar year 2013.

Table 4 shows Staff's estimated annual monitoring expense.

**Table 4 Water Testing Cost (Dragoon - PWS #02-015)**

Monitoring -- 2 wells & 2 POEDs (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological -- monthly	\$25	72	\$1,800	\$600
Inorganics -- Priority Pollutants	\$300	MAP	MAP	MAP
Radiochemical -- (1/ 4 yr)	\$60	MAP	MAP	MAP
Phase II and V:				
IOC's, SOC's, VOC's	\$2,805	MAP	MAP	MAP
Nitrites	\$25	MAP	MAP	MAP
Nitrates -- annual	\$25	MAP	MAP	MAP
Asbestos -- per 9 years	\$180	2 1/3	MAP	MAP
Lead & Copper -- annual*	\$40	5	\$200	\$66.67
TTHM/HHAs <sup>1</sup>	\$265	3	\$795	\$265
Maximum chlorine residual levels	\$0	72	\$0	\$0
MAP Fee				\$620.08
<b>Total</b>				<b>\$1,551.75</b>

Note: Turner Lab charges \$110/unit for testing TTHM and \$155/unit for testing HHAs.

Water testing expenses should be adjusted to the annual expense amount shown in Table 4 which totals \$1,552.

**J. DEPRECIATION RATES**

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Figure 6, and should be used to calculate the annual depreciation expense for the Company. Staff recommends that the depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category, as delineated in Figure 6 be used.

**K. FINANCING APPLICATION (DOCKET NO. W-01917A-0312)**

On August 21, 2014, Dragoon submitted a finance application for authority to incur long term debt in the amount of \$26,000 from Southwestern Utility Management, Inc. (“SWUM”) which manages Dragoon, to fund water system improvements. Included in its loan authorization request was \$45,922.37 to pay for the cost of replacing a 30-HP well pump in Well No. 2, which was completed in September 2013. In the Company’s Response to Data Request No. DH-1.11, Dragoon stated that the well pump replacement was for emergency repairs, and Dragoon also provided a copy of the repair invoice. Staff understands that SWUM loaned \$26,000 to Dragoon for a part of the \$45,900 pump replacement project. The summarized capital improvement is listed in the Table below:

**Table 5 Engineering Cost (Dragoon)**

Item	Cost (\$)	Staff Adjusted Cost (\$)
One Gould 6CHC-9 pump	2,866.43	2,866.43
One CP 30-HP motor	3,353.40	3,353.40
504 feet of 4” Sch 40 black pipe(@\$10.71/ft)	5,395.57	5,395.57
One 6” pump 7”x5” shroud	61.24	61.24
One 520’ Reel 6 wire (@\$3,083.67/unit)	3,083.67	3,083.67
Two of #6 4 wire splice (@\$10.37/unit)	20.74	20.74
Three of 4 80 D/I check valve (\$376.49/unit)	1,129.46	1,129.46
900’ of 8” 250# Certa-lok casing ((@\$26.8/ft)	24,120.00	24,120.00
Five of pull out existing pump and inspection(@\$650/unit)	875.00	875.00
One video well log (@ \$650/unit)	650.00	650.00
Six of PVC sleeve installation (@\$175/unit)	1,050.00	1,050.00
Five of pipe & 40-HP pump installation (@\$175/unit)	875.00	875.00
Tax (6.1%)	2,441.86	2,441.86
<b>Total</b>	<b>45,922.37</b>	<b>45,922.37</b>

Staff evaluated the information obtained from Staff’s field visit and concluded that the cost for well pump replacement work, at a total cost of \$45,922.37, was reasonable. Staff also concludes that the capital improvements at Well No. 2 listed in Table 5 were appropriate.

**L. OTHER ISSUES**

*I. Service Line and Meter Installation Charges<sup>2</sup>*

The Company has proposed to increase its Service Line and Meter Installation charges. The Company also proposes separate service line and meter installation charges via this rate application. The Company's proposed charges are within Staff's typical range for service line and meter installation charges. Therefore, Staff recommends approval of the Company's proposed charges. The charges listed in Table 6 under the columns labeled "Staff recommended" should be adopted.

**Table 6 Service Line and Meter Installation Charges (Dragoon)**

Meter Size	Current Total Meter & Service Line Installation Charges	Company Proposed Service Line Charges	Company Proposed Meter Charges	Company Proposed Total installation Charge	Staff Recommended (Service Line installation charge)	Staff Recommended (Meter installation charge)	Staff Recommended total charges
5/8 x 3/4-inch	\$400	\$445	\$155	\$600	\$445	\$155	\$600
3/4-inch	\$475	\$445	\$255	\$700	\$445	\$255	\$700
1-inch	\$550	\$495	\$315	\$810	\$495	\$315	\$810
1½-inch	\$775	\$550	\$525	\$1,075	\$550	\$525	\$1,075
2-inch (Turbine)	\$1,375	\$830	\$1,045	\$1,875	\$830	\$1,045	\$1,875
2-inch (Compound)	\$1,375	\$830	\$1,890	\$2,720	\$830	\$1,890	\$2,720
3-inch (Turbine)	\$1,975	\$1,045	\$1,670	\$2,715	\$1,045	\$1,670	\$2,715
3-inch (Compound)	\$1,975	\$1,165	\$2,545	\$3,710	\$1,165	\$2,545	\$3,710
4-inch (Turbine)	\$3,040	\$1,490	\$2,670	\$4,160	\$1,490	\$2,670	\$4,160
4-inch (Compound)	\$3,040	\$1,670	\$3,645	\$5,315	\$1,670	\$3,645	\$5,315
6-inch (Turbine)	\$5,635	\$2,210	\$5,025	\$7,235	\$2,210	\$5,025	\$7,235
6-inch (Compound)	\$5,635	\$2,330	\$6,920	\$9,250	\$2,330	\$6,920	\$9,250
Over 6-inch	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

*II. Curtailment Tariff*

The Company has an approved Curtailment Tariff on file with the Commission.

<sup>2</sup> Service line and meter installation charges are refundable advances.

*III. Cross Connection or Backflow Prevention Tariff*

The Company has an approved Cross Connection & Backflow Prevention Tariff on file with the Commission.

*IV. Best Management Practices (“BMP”) Tariffs*

Staff recommends that Dragoon file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three (3) 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 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.

FIGURE 1

Dragoon Water Certificate Service Area

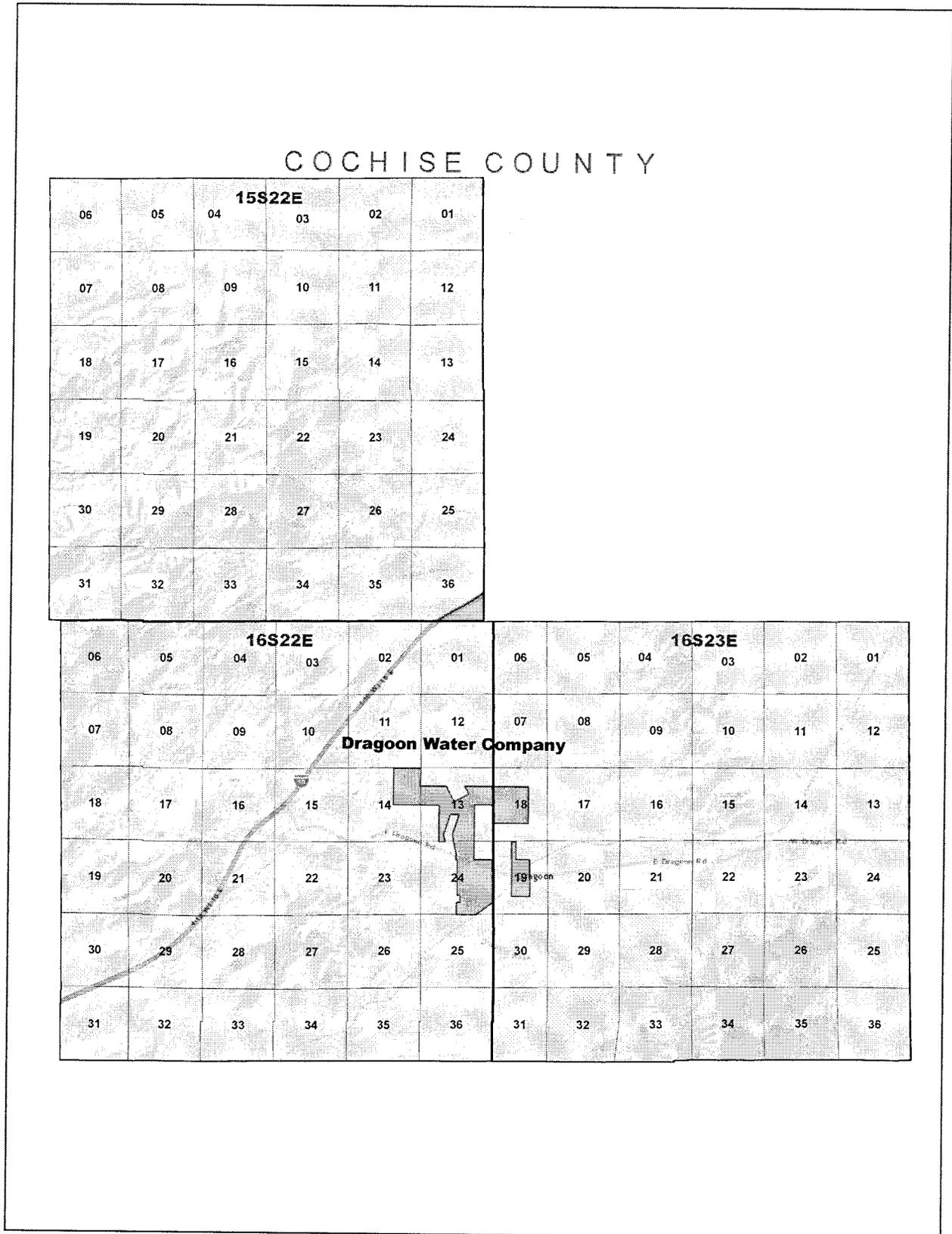


FIGURE 2.

LOCATION OF DRAGON WATER SERVICE AREA

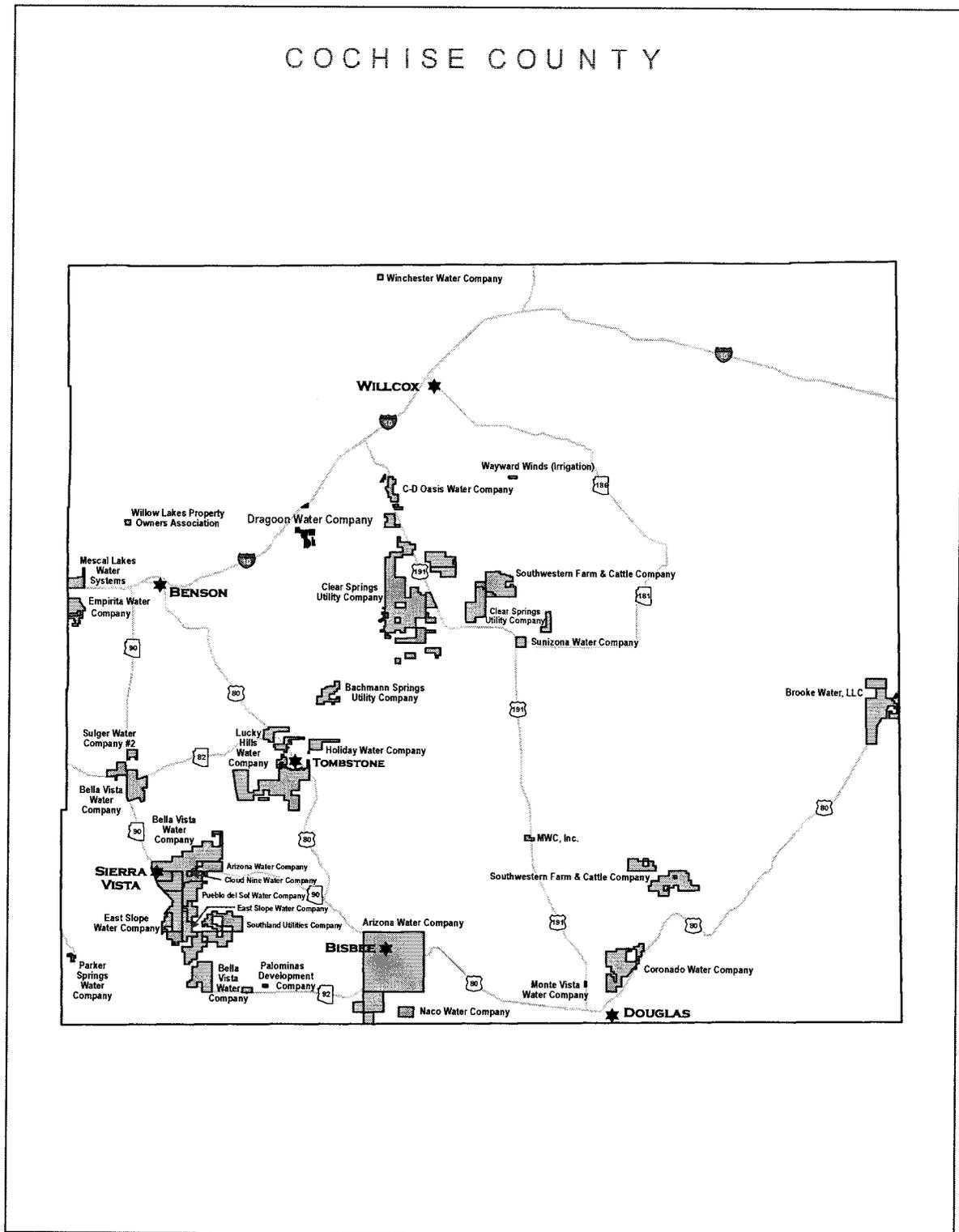


FIGURE 3 SYSTEMATIC DRAWING

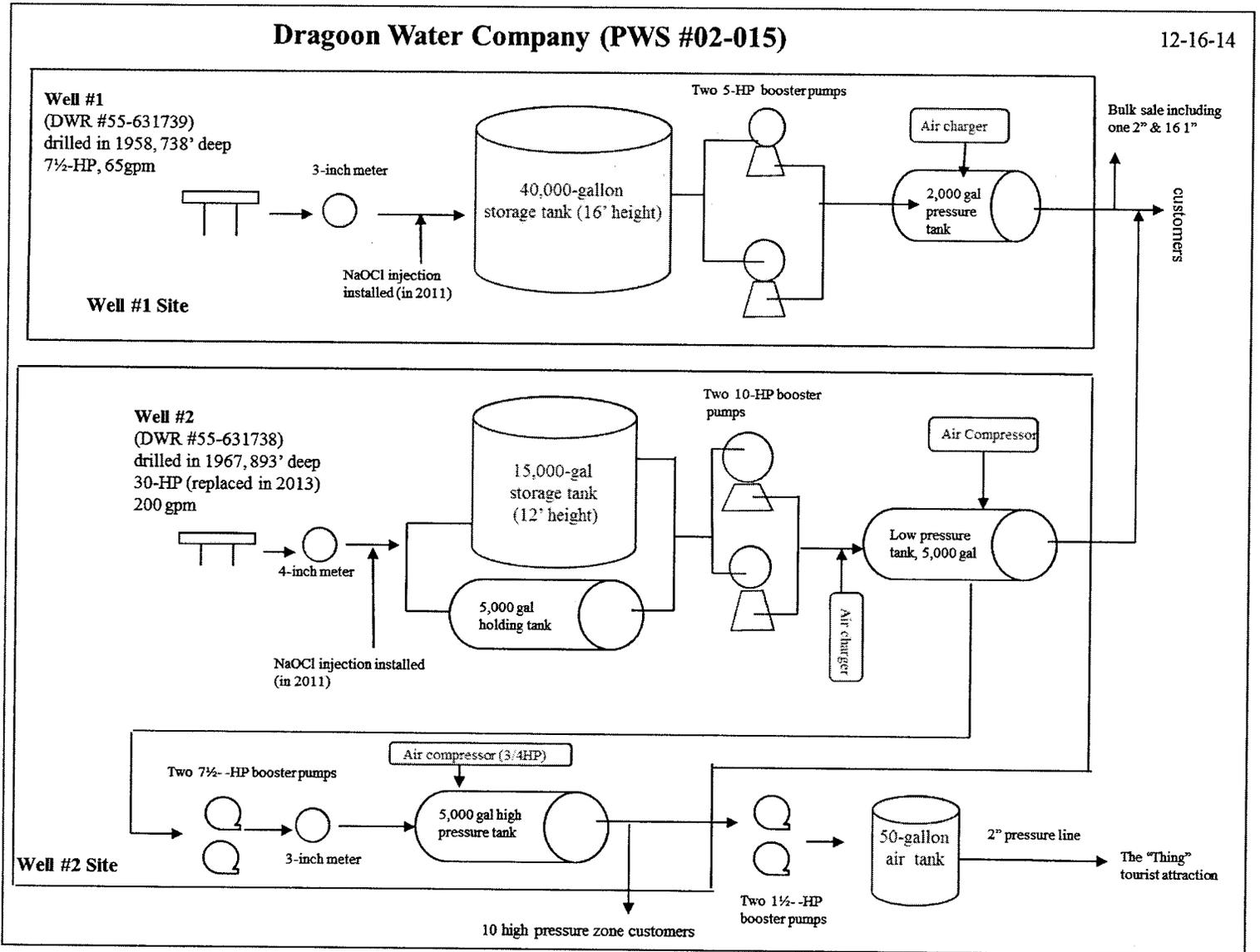


FIGURE 4

WATER USAGE IN DRAGOON WATER SERVICE AREA

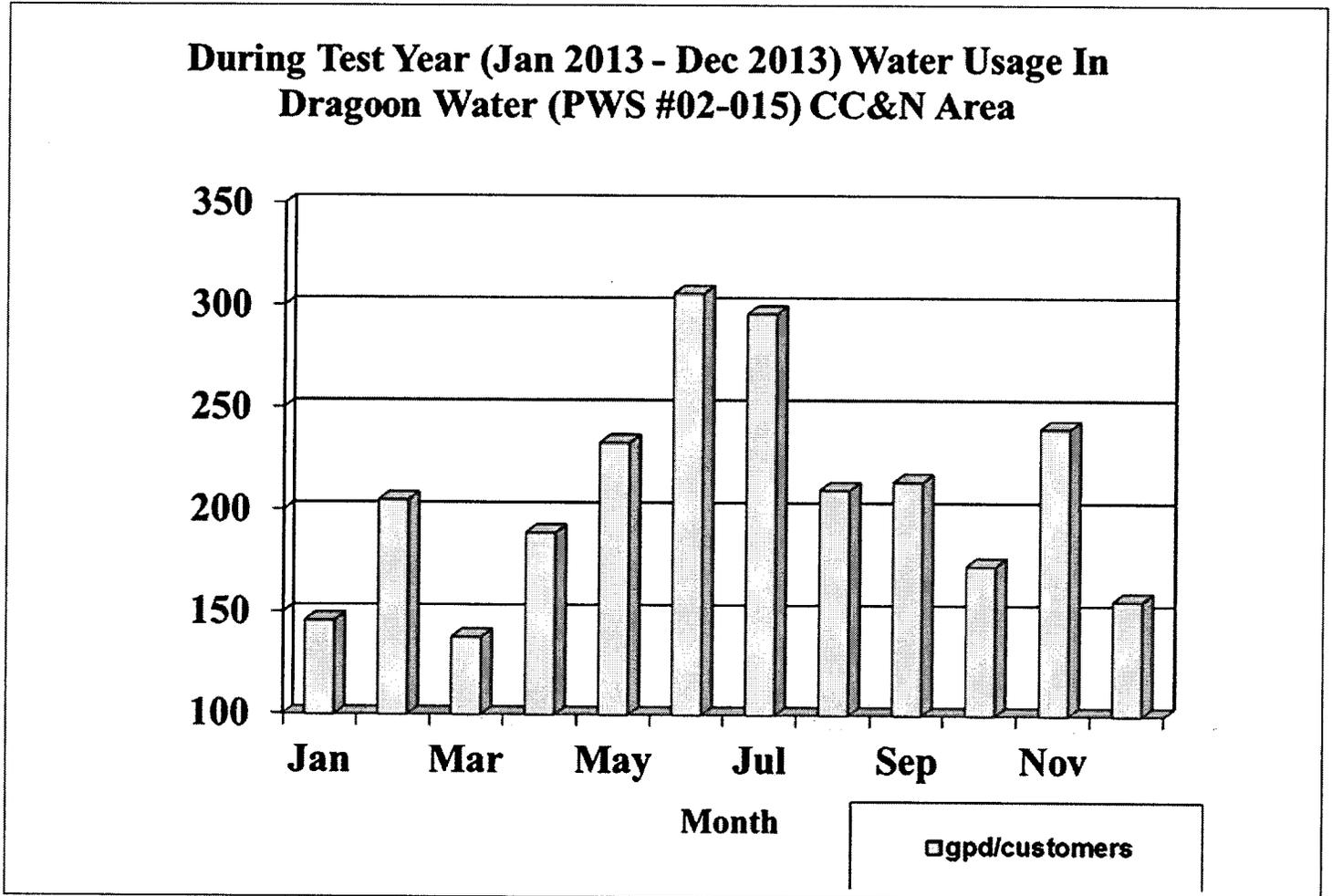
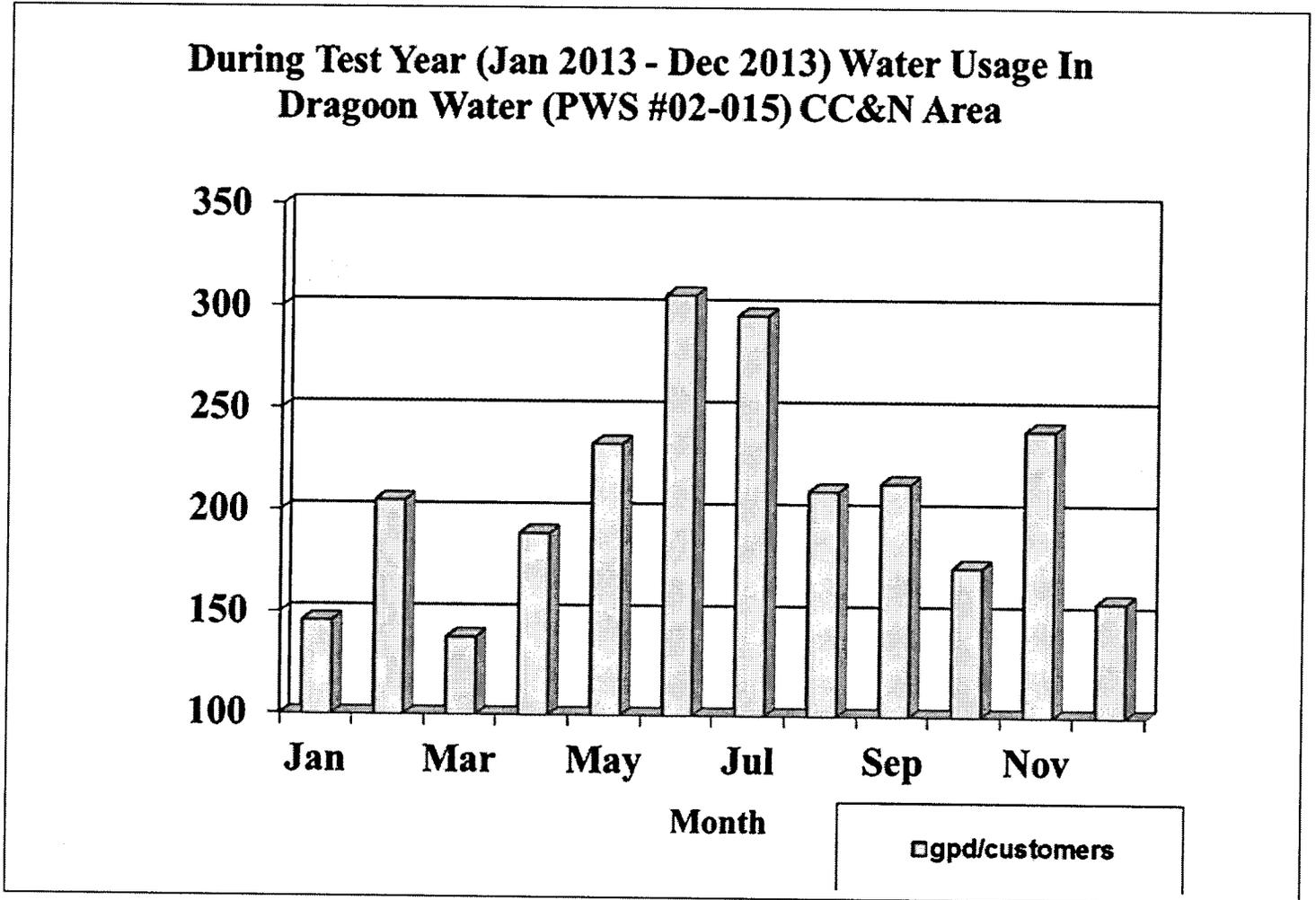


FIGURE 5

ACTUAL AND PROJECTED GROWTH IN DRAGOON WATER SERVICE AREA



**FIGURE 6**

**Water Depreciation Rates (Dragoon)**

Acct. No.	Depreciable Plant	Decision # 65132 (approved rate %)	Company proposed	Staff Recommended Rate (%)
301	Organization	0.00	N/A	0.00
302	Franchises	0.00	N/A	0.00
303	Land and Land Rights	0.00	N/A	0.00
304	Structures & Improvements	3.33	3.33	3.33
305	Collecting & Impounding Reservoirs	2.50	N/A	2.50
306	Lake, River, Canal Intakes	2.50	N/A	2.50
307	Wells & Springs	3.33	3.33	3.33
308	Infiltration Galleries	6.67	N/A	6.67
309	Raw Water Supply Mains	2.00	N/A	2.00
310	Power Generation Equipment	5.00	N/A	5.00
311	Pumping Equipment	12.5	12.5	12.5
320	Water Treatment Equipment		3.33	
320.1	Water Treatment Plants	3.33	N/A	3.33
320.2	Solution Chemical Feeders	20	N/A	20.0
330	Distribution Reservoirs & Standpipes		2.22	
330.1	Storage Tanks	2.22	N/A	2.22
330.2	Pressure Tanks	5.00	N/A	5.00
331	Transmission & Distribution Mains	2.00	2.00	2.00
333	Services	3.33	3.33	3.33
334	Meters	8.33	8.33	8.33
335	Hydrants	2.00	3.33	3.33
336	Backflow Prevention Devices	6.67	N/A	6.67
339	Other Plant & Misc Equipment	6.67	N/A	6.67
340	Office Furniture & Equipment	6.67	6.67	6.67
340.1	Computers & Software	20.00	N/A	20.00
341	Transportation Equipment	20.00	N/A	20.00
342	Stores Equipment	4.00	N/A	4.00
343	Tools, Shop & Garage Equipment	5.00	5.00	5.00
344	Laboratory Equipment	10.00	N/A	10.00
345	Power Operated Equipment	5.00	N/A	5.00
346	Communication Equipment	10.00	N/A	10.00
347	Miscellaneous Equipment	10.00	N/A	10.00
348	Other Tangible Plant	----	2.5	2.5