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MEMORANDUM

RECEIVED

2015 JUN -8 P 12: 51

AZ CORP COMMISSION
DOCKET CONTROL

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: June 8, 2015

RE: STAFF REPORT FOR LOMA LINDA ESTATES, INC. DBA LOMA LINDA WATER COMPANY, APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02211A-14-0419)

Attached is the Staff Report for Loma Linda Estates, Inc.'s application for a permanent rate increase. Staff recommends approval of the rate application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before June 26, 2015.

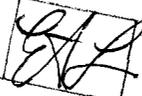
SMO:MJR:nr/ML

Originator: Mary J. Rimback

ORIGINAL

Arizona Corporation Commission
DOCKETED

JUN 08 2015

DOCKETED BY 

Service List for: Loma Linda Estates, Inc.
Docket No. W-02211A-14-0419

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**LOMA LINDA ESTATES, INC.
DOCKET NO. W-02211A-14-0419**

**APPLICATION FOR A
PERMANENT RATE INCREASE**

JUNE 8, 2015

STAFF ACKNOWLEDGMENT

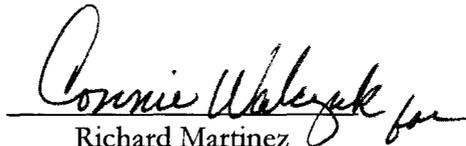
The Staff Report for Loma Linda Estates, Inc. ("Loma Linda" or "Company") Docket No. W-02211A-14-0419 is the responsibility of Staff members listed below. Mary J. Rimback was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Richard Martinez 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



Katrin Stukov
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
LOMA LINDA ESTATES, INC.
DOCKET NO. W-02211A-14-0419

Loma Linda Estates, Inc. ("Loma Linda" or "Company") is a for-profit Arizona "C" Corporation and a Class E public service corporation serving potable water to approximately 130 customers in an area approximately six miles southeast of the Town of Clifton in Greenlee County.

On December 24, 2014, the Company filed an application for a permanent rate increase. On April 20, 2015, Staff filed a letter declaring the application sufficient.

The Company proposed operating revenue of \$66,000, an increase of \$7,825, or 13.45 percent, over test year revenue of \$58,175, to provide a \$7,051 operating income on its proposed \$28,676¹ fair value rate base ("FVRB") which is its original cost rate base ("OCRB"). The Company's proposed revenues result in a cash flow of \$9,020, a 10.68 percent operating margin and a rate of return of 24.59 percent. 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 5,100 gallons, by \$4.76 or 15.86 percent from \$30.04 to \$34.80².

Staff recommends permanent rates that produce total operating revenue of \$67,321; an increase of \$8,629, or 14.70 percent, over Staff adjusted test year revenue of \$58,692, to provide \$5,675 operating income on the \$22,446 Staff adjusted FVRB. Staff's recommended rates result in a cash flow of \$9,020, an operating margin of 8.43 percent and a rate of return of 25.28 percent. 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 5,100 gallons, by \$4.84 or 16.11 percent from \$30.04 to \$34.88.

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule MJR-4.
- 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.
- Directing the Company to develop written procedures for capitalizing versus expensing of plant related expenditures.
- Directing the Company to maintain separate books and records for water Company operations.

¹ The Company docketed an amended application on March 26, 2015. The Company also provided Staff with excel files, which included the Company calculations for plant in service and accumulated depreciation.

² The Company proposed rates did not generate the proposed revenues

- Authorizing the depreciation rates shown in Table B of the Engineering Report.
- Directing Loma Linda, 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.
- Staff recommends approval of the Best Management Practices (“BMPs”) included as Attachment A in the Engineering Report
- Staff recommends that the Company notify its customers, in a form acceptable to Staff, of the BMPs 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 the actual costs associated with the BMPs implemented in its next general rate application.

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ATTACHMENT

Engineering Report.....	EXHIBIT A
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FACT SHEET

Company Statistics:

Current Rates: Decision No. 63750 effective July 1, 2001.

Type of Ownership: C-Corporation.

Location: The Company's service area is located approximately six miles southeast of the Town of Clifton in Greenlee County, Arizona

Rates:

Rate Application Docketed: December 24, 2014
Current Test Year Ended: December 31, 2013
Application Found Sufficient: April 20, 2015

	<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)	\$16.63	\$20.00	\$19.50
Gallons in Minimum	0	0	0
Commodity Charge: Excess of minimum, charge per 1,000 gallons:			
0 to 4,000 Gallons	\$2.37		
4,001 to 20,000 Gallons	\$3.57		
Over 20,000 Gallons	\$4.27		
0 to 4,000 Gallons		\$2.60	
4,001 to 18,000 Gallons		\$4.00	
Over 18,000 Gallons		\$5.00	
0 to 4,000 Gallons			\$2.50
4,001 to 12,000 Gallons			\$3.75
Over 12,000 Gallons			\$5.25
Bulk water per 1,000 gallons	N/T	N/T	\$5.25
Typical residential bill based On median usage of 5,100 gallons	\$30.04	\$34.80	\$34.88

Customers:

Number of customers in the prior test year (12/31/1999):	129
Number of customers in the current test year (12/31/2013):	130

FACT SHEET (CONT'D)

Current year customers by meter size:

5/8 X 3/4 – inch:	128
1 – inch:	2

Seasonal customers:	zero
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Customer notification mailed	December 23, 2013
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No of customers in opposition to rate increase	1
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No. of customer complaints January 1, 2012 through April 1, 2015:	1
--	---

Percentage of complaints to customer base:	.77%
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SUMMARY OF RATE FILING

The test year results, as adjusted by Staff, for Loma Linda Estates, Inc. ("Loma Linda" or "Company") show total operating revenue of \$58,692 and operating expenses of \$59,872 resulting in a \$1,180 operating loss, to provide no rate of return on the \$22,446 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 \$66,000, as shown on page 6 of the application. The amount requested produces an increase of \$7,825 or 13.45 percent over test year revenue of \$58,175 to provide a \$7,051 operating income and a 24.59 percent rate of return on its proposed \$28,676 FVRB and OCRB. The Company's proposed rates result in a 10.68 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 5,100 gallons, by \$4.76 or 15.86 percent, from \$30.04 to \$34.80 (Schedule MJR-5).

Staff recommends permanent rates that produce total operating revenue of \$67,321, an increase of \$8,629 or 14.70 percent, over the Staff adjusted test year revenue of \$58,692, to provide a \$5,675 operating income and a 25.28 rate of return on the \$22,446 Staff adjusted FVRB. Staff's recommended rates result in an 8.43 percent operating margin and a cash flow of \$9,020. 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 5,100 gallons would increase \$4.84, or 16.11 percent, from \$30.04 to \$34.88.

Loma Linda is a small water service provider, which serves a rural area six miles southeast of the Town of Clifton in Greenlee County, Arizona. During the test year ended December 31, 2013, Loma Linda provided water to 130 customers. Out of the total, 128 were served by 5/8 X 3/4 inch meters and two were served by 1-inch meters.

Loma Linda's business activities are currently managed by Mr. Bevan Barney. In addition, the Company's administrative functions are accomplished through a salaried employee. Part-time employees perform meter reading and repairs and maintenance.

COMPANY BACKGROUND

Loma Linda is a for-profit Arizona C-Corporation and a Class E public service corporation serving potable water to approximately 130 customers in a rural area six miles southeast of the Town of Clifton in Greenlee County, Arizona. The Certificate of Convenience and Necessity ("CC&N") for the water system was granted in Decision No. 42866, dated October 10, 1972. Current rates were established in Decision No. 63750 effective July 1, 2001.

Loma Linda filed an application for a permanent rate increase ("Application") on December 24, 2014. An amended application was filed on March 26, 2015. Staff deemed the Company's rate application sufficient and notified Loma Linda by letter on April 20, 2015. The Company mailed a rate application notice to customers on August 28, 2014.

Record Keeping

Staff notes that the Company does not follow a consistent method of capitalizing versus expensing plant costs. The Company provided copies of expenditures over \$150 for the years 2001 through 2013. The Company, while providing copies of many expenditures over the thirteen years, could not always provide invoices for the amounts claimed in the application plant accounts. Staff notes that plant additions need to be supported by invoices. Staff recommends that the Company develop a procedure for accounting for plant items verses expensed items.

Separation of Accounting Records

The Company included expenditures for non-water company expenses in its application. Staff adjusted these based on the copies of bills presented. Staff recommends the Company keep separate accounts for non-water company expenses.

CONSUMER SERVICES

A review of the Consumer Service records showed that for the period January 1, 2012, through April 1, 2015, one complaint was filed against the Company. In 2013, one complaint was filed for a billing issue. The complaint has been resolved and is 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

An inspection of the system was performed by Staff on February 3, 2015. Staff was accompanied by Bevan Barney, the Company's manager and John Basteen Jr. certified operator. Staff Engineering Report was prepared by Katrin Stukov and is attached as Exhibit A.

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

Loma Linda has an approved Curtailment tariff on file with the ACC.

RATE BASE

Staff's four rate base adjustments result in a net decrease to the Company's proposed rate base by \$6,230 from \$28,676 to \$22,446, 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 \$1,300 as shown in Schedule MJR-2, page 2. The Company provided amended application schedules for plant in service and accumulated depreciation on March 26, 2015. Excel spreadsheets and invoices were provided to Staff for items over \$150 for years 2001 through 2013. Staff adjusted for unsupported or re-classified items as follows:

Increase Pumping Equipment \$1,127 to conform to the supporting documentation provided for 2003 additions.

Re-classify \$345 from Pressure Tanks to Storage Tanks to conform to last decision beginning balances.

Decrease Transmission & Distribution \$109 to conform to the supporting documentation provided for 2011 and 2013.

Decrease Meters and Meter Installations by \$2,318 to remove unsupported increases from 2003 of \$1,856 and 2012 of \$512 and to include invoices provided from 2008 additions of \$50.

Re-classify \$685 from Office Furniture & Equipment to Computers and Software.

Accumulated Depreciation – In adjustment B, Staff increased Accumulated Depreciation by \$6,545, from \$223,885 to \$230,430, 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 \$4,936 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 \$6,551 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 nine operating income adjustments increase the Company's proposed total operating loss by \$406, from \$774 to \$1,180, as shown in Schedule MJR-3, page 1. Details of Staff's

adjustments are discussed below.

Metered Water Revenue – Adjustment A increases Metered Water Revenue by \$517 to match billing determinants calculation.

Repairs and Maintenance – Adjustment B decreases the cost by \$2,990 to remove operating expenses for another water company, farm and ranch expenses of the owner and personal expenses of the owner.

Outside Services – Adjustment C increases this account by \$1,140 to include operator expense in outside services rather than water testing expenses.

Water Testing – Adjustment D decreases water testing expenses by \$423 to reflect Staff's recommended amount of \$1,119. See Engineering Report.

Transportation Expense – Adjustment E increases transportation expenses by \$2,519. The Company proposed a negative expense of \$596, which included a reimbursement of \$3,176 from Ashcreek Water Company and two full years of vehicle insurance premiums. Staff removed one year of insurance premiums in the amount of \$657.

Miscellaneous Expense – Adjustment F decreases miscellaneous expenses by \$512 for tax penalty and interest and a surety bond not related to the water company.

Depreciation – Adjustment G increases this expense by \$1,376 from \$1,969 to \$3,345 to reflect application of Staff's recommended depreciation rates to Staff's recommended depreciable plant amounts, as shown in Schedule MJR-3, page 3.

Taxes Other than Income – Adjustment H decreases this expense by \$697, to remove property taxes paid for non-water company property.

Income Taxes – Adjustment I increases this expense by \$510 to allow for Staff calculated income taxes on the test year operating loss as shown in MJR-3, page 5.

REVENUE REQUIREMENT

Staff recommends total operating revenue from permanent rates of \$67,321; an increase of \$8,629, or 14.70 percent, over the Staff adjusted test year revenue of \$58,692. Staff's recommended revenue provides an operating income of \$5,675 and an 8.43 percent operating margin and a cash flow of \$9,020 as shown in Schedule MJR-1. Staff did not derive the revenue requirement by applying a rate of return on rate base because the Company's extremely low rate base did not produce sufficient revenues for the Company's operating needs. Staff's recommended revenue is sufficient to cover operating and maintenance expense and to manage contingencies.

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 4,000 gallons and 20,000 gallons for all meter sizes. The commodity rate per 1,000 gallons is \$2.37 up to 4,000 gallons, \$3.57 for 4,001 to 20,000 gallons and \$4.27 over 20,000 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 4,000 gallons and 18,000 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 \$16.63 to \$20.00. The proposed commodity rates are \$2.60 per 1,000 gallons up to 4,000 gallons, \$4.00 for 4,000 to 18,000 gallons and \$5.00 for over 18,000 gallons. The Company's proposed rates would increase the typical residential bill, with a median usage of 5,100 gallons, by \$4.76 (15.86 percent), from \$30.04 to \$34.80, (Schedule MJR-5).

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, with break-over points at 4,000 gallons and 12,000 gallons. Staff recommends an increase in the commodity charge for a 5/8 x 3/4-inch from \$16.63 to \$19.50. Staff recommends commodity rates of \$2.50 per 1,000 gallons up to 4,000 gallons, \$3.75 from 4,000 to 12,000 gallons and \$5.25 over 12,000 gallons. Staff recommends a two-tier commodity rate for larger meters. 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 5,100 gallons would increase by \$4.84, or 16.11 percent, from \$30.04 to \$34.88. (Schedule MJR-5)

The Company's amended application proposed service line and meter installation charges different from those in the original application. The Company's amended application on March 26, 2015, proposes increases to all its service line and meter installation charges. Staff recommends increases to the service line and meter installation charges, as shown in Schedule MJR-4, page 2.

Other Service Charges

The Company's amended application proposed other services charges different from those in the original application.

The Company proposes increasing the late fee to \$25 from N/A. Staff recommends a late fee of \$3.00 per month late charge or 1.5 percent, whichever is higher.

Staff recommends removal of the specific After Hours charges for Establishment (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 a \$50 After-Hour Service Charge (flat fee) proposed by the Company. The After Hours Service Charge would be in addition to the normal service charge. Staff's recommended water system service charges are shown in Schedule MJR-4, page 3.

STAFF RECOMMENDATIONS

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule MJR-4.
- 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.
- Directing the Company to develop a written procedure for capitalizing versus expensing of plant related expenditures.
- Directing the Company to maintain separate books and records for the water Company.
- Authorizing the depreciation rates shown in Table B of the Engineering Report.
- Directing Loma Linda, 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.
- Staff recommends approval of the Best Management Practices ("BMPs") included as Attachment A in the Engineering Report
- Staff recommends that the Company notify its customers, in a form acceptable to Staff, of the BMPs 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 the actual costs associated with the BMPs implemented in its next general rate application.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$57,975	\$58,492	\$65,800	\$67,121
Unmetered Water Revenue	-	-	-	-
Surcharge				
Other Water Revenues	200	200	200	200
Total Operating Revenue	\$58,175	\$58,692	\$66,000	\$67,321
Operating Expenses:				
Operation and Maintenance	\$55,150	\$54,884	\$55,150	\$54,884
Depreciation	1,969	3,345	1,969	3,345
Taxes Other than Property and Income	697	-	697	-
Property Taxes	1,932	1,932	1,932	2,027
Income Tax	(799)	(289)	(799)	1,390
Total Operating Expense	\$58,949	\$59,872	\$58,949	\$61,646
Operating Income/(Loss)	(\$774)	(\$1,180)	\$7,051	\$5,675
Rate Base	\$28,676	\$22,446	\$28,676	\$22,446
Rate of Return - On Rate Base	N/M	N/M	24.59%	25.28%
Cash Flow	1,195	2,165	9,020	9,020
² Operating Margin	N/M	N/M	10.68%	8.43%

NOTES:

¹ Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----			Staff
	Company ¹	Adjustment		
1 Plant in Service	\$253,857	(\$1,300)	A	\$252,557
2				
3 Less:				
4 Accum. Depreciation	223,885	6,545	B	230,430
5				
6 Net Plant	\$29,972	(\$7,845)		\$22,127
7				
8 Less:				
9 Plant Advances	\$1,296	\$0		\$1,296
10 Customer Security Deposits	0	4,936	C	\$4,936
11				
12 Total Advances	\$1,296	\$4,936		\$6,232
13				
14 Contributions Gross	\$0	\$0		\$0
15 Less:				
16 Amortization of CIAC	0	0		0
17				
18 Net CIAC	\$0	\$0		\$0
19				
20 Total Deductions	\$1,296	\$4,936		\$6,232
21				
22 Plus:				
23 1/24 Power	\$0	\$155	D	\$155
24				
25 1/8 Operation & Maint.	0	6,397	D	6,397
26				
27 Inventory	0	0		0
28				
29 Prepayments	0	0		0
30				
31 Total Additions	\$0	\$6,551		\$6,551
32				
33 Rate Base	\$28,676	(\$6,230)		\$22,446

¹Staff notes the company provided an amended application of plant and accumulated depreciation, via a printed copy and an excel spreadsheet. The excel spread sheet showed accumulated depreciation totalling \$223,885.

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 Loma Linda did not request a cash working capital allowance. Staff calculated a cash working capital allowance using Staff adjusted operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
1			
2	301 Organization	\$ -	\$ -
3	302 Franchises	2,741	2,741
4	303 Land & Land Rights	-	-
5	304 Structures & Improvements	5,930	5,930
6	307 Wells & Springs	24,192	24,192
7	310 Power Generated Equipment	-	-
8	311 Pumping Equipment	17,364	1,127 A 18,491
9	320.1 Water Treatment Equipment	-	-
10	320.2 Solution Chemical Feeders	-	-
11	330 Distribution Reservoirs and Standpipe	-	-
12	330.1 Storage Tanks	12,992	345 B 13,337
13	330.2 Pressure Tanks	9,194	(345) B 8,849
14	331 Transmission & Distribution Mains	120,464	(109) C 120,355
15	333 Services	15,343	- 15,343
16	334 Meters & Meter Installations	14,283	(2,318) D 11,965
17	335 Hydrants	-	-
18	336 Backflow Prevention Devices	-	-
19	339 Other Plant and Misc. Equipment	-	-
20	340 Office Furniture & Equipment	685	(685) E -
21	340.1 Computers & Software	-	685 E 685
22	341 Transportation Equipment	29,825	- 29,825
23	343 Tools Shop & Garage Equipment	-	-
24	344 Laboratory Equipment	-	-
25	345 Power Operated Equipment	-	-
26	346 Communication Equipment	-	-
27	347 Miscellaneous Equipment	844	- 844
28	348 Other Tangible Plant	-	-
29		-	-
30			
31	TOTALS	\$253,857	(\$1,300) \$252,557
32			
33			
34			
35	<i>Explanation of Adjustment:</i>	Company	Staff Adjustment
36			
37	A) 311 Pumping Equipment	\$ 17,364	\$ 18,491
38	2003 invoices provided		\$ 1,127
39			
40	B) 330 Storage Tanks	\$ 12,992	\$ 13,337
41	Re-classify beginning balance		\$ 345
42			
43	B) 330 Pressure Tanks	\$ 9,194	\$ 8,849
44	Re-classify beginning balance		\$ (345)
45			
46	C) 331 Transmission & Distribution Mains	\$ 120,464	\$ 120,355
47	2011 expense item		\$ (465)
48	2013 invoices provided		\$ 356
49			
50	D) 334 Meters & Meter Installations	\$ 14,283	\$ 11,965
51	Staff removed 2003 meter unsupporte		\$ (1,850)
52	2008 invoices provided		\$ 31
53	Staff removed 2012 meters unsupporte		\$ (512)
54			
55	E) 340 Office Furniture & Equipment	\$ 685	\$ -
56	Staff reclassified to computer equipmer		\$ (685)
57			
58	E) 340 Computers & Software	\$ -	\$ 685
59	Staff reclassified from Office Furnitur		\$ 685
60		\$ 174,982	\$ 173,682 \$ (1,300)

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Accumulated Depreciation</u>	Depreciation Rates	Per	
	<u>Balances</u>	Decision No. 60408	Per Company	Per Staff
301	Organization	n/a	-	-
302	Franchises	n/a	-	-
303	Land & Land Rights	n/a	-	-
304	Structures & Improvements	3.33%	4,226	4,621
307	Wells & Springs	3.33%	24,192	24,192
310	Power Generation Equipment	5.00%	-	-
311	Pumping Equipment	12.50%	16,611	17,483
320	Water Treatment Equipment	0.00%	-	-
320.1	Water Treatment Plant	3.33%	-	-
320.2	Solution Chemical Feeders	20.00%	-	-
330	Dist. Reservoirs & Standpipes	0.00%	-	-
330.1	Storage Tanks	2.22%	9,967	10,651
330.2	Pressure Tanks	5.00%	9,194	8,849
331	Transmission & Distribution Main	2.00%	101,754	106,498
333	Services	3.33%	15,343	15,343
334	Meters & Meter Installation	8.33%	10,832	11,439
335	Hydrants	2.00%	-	-
336	Backflow Prevention Devices	6.67%	-	-
339	Other Plant & Misc Equipment	0.00%	-	-
340	Office Furniture & Equipment	6.67%	430	-
340.1	Computers & Software	20.00%	-	685
341	Transportation Equipment	20.00%	29,825	29,825
342	Stores Equipment	4.00%	-	-
343	Tools, Shop, & Garage Equipt	5.00%	-	-
344	Laboratory Equipment	10.00%	-	-
345	Power Operated Equipment	5.00%	-	-
346	Communication Equipment	10.00%	669	0
347	Miscellaneous Equipment	10.00%	844	844
348	Other Tangible Plant	2.50%	0	-
			<u>\$ 223,885</u>	<u>\$ 230,430</u>
				<u>\$ 6,545</u>

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$223,885
Accumulated Depreciation - Per Staff	<u>230,430</u>
Total Adjustment	<u><u>\$6,545</u></u>

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.

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$57,975	\$517 A	\$58,492
460 Unmetered Water Revenue	-	-	-
474 Other Water Revenues	200	-	200
Total Operating Revenue	\$58,175	\$517	\$58,692
Operating Expenses:			
601 Salaries and Wages	34,132	-	34,132
610 Purchased Water	-	-	-
615 Purchased Power	3,711	-	3,711
618 Chemicals	-	-	-
620 Repairs and Maintenance	5,387	(2,990) B	2,397
621 Office Supplies & Expense	914	-	914
630 Outside Services	300	1,140 C	1,440
635 Water Testing	1,542	(423) D	1,119
427.2 Customer Security Deposit Interest	-	-	-
641 Rents	6,000	-	6,000
650 Transportation Expenses	(596)	2,519 E	1,923
657 Insurance - General Liability	1,953	-	1,953
659 Insurance - Health and Life	-	-	-
666 Rate Case Expense	-	-	-
675 Miscellaneous Expense	1,807	(512) F	1,295
403 Depreciation Expense	1,969	1,376 G	3,345
408 Taxes Other Than Income	697	(697) H	-
408.11 Property Taxes	1,932	-	1,932
409 Income Tax	(799)	510 I	(289)
Total Operating Expenses	58,949	923	59,872
OPERATING INCOME/(LOSS)	(\$774)	(\$406)	(\$1,180)

STAFF ADJUSTMENTS

A - METERED REVENUE- Per Company	\$57,975	
Per Staff	58,492	\$517
<hr/>		
To increase to Billing Determinants Revenue		
B - REPAIRS AND MAINTENANCE EXPENSE - Per Company	\$5,387	
Add twelfth month of repairs and maintenance	\$110	
Remove annual fees	(260.00)	
Remove expenses for Ashcreek Water	(382.55)	
Remove expenses for Farm	(452.39)	
Remove personal or ?	(1,110.62)	
Remove Plant items	(\$994)	
Add reimbursement for bond	\$100	
Per Staff	2,397	(\$2,990)
<hr/>		
To Remove non-water Company expenses and Plant items and an extra year of insurance premium.		
C - OUTSIDE SERVICES-Per Company	\$300	
Per Staff	1,440	\$1,140
<hr/>		
To recognize Operator Fees.		
D - WATER TESTING - Per Company	\$1,542	
Per Staff	1,119	(\$423)
<hr/>		
To recognize the average on-going water testing expenses.		
E - TRANSPORTATION EXPENSE - Per Company	(\$596)	
Reimbursement from Ashcreek Water Company current and Prior years transportation expenses	\$3,176	
Extra year of insurance premiums	(\$657)	
Per Staff	1,923	\$2,519
<hr/>		
To Remove Reimbursement incorrectly credited to transportation expenses and an extra year of insurance premium.		
F - MISCELLANEOUS EXPENSES-Per Company	1,807	
Tax penalty and interest	(412)	
Surety Bond	(100)	
Per Staff	1,295	(\$512)
<hr/>		
Remove tax penalty & interest charges and Surety Bond		
G - DEPRECIATION - Per Company	\$1,969	
Per Staff	3,345	\$1,376
<hr/>		
To reflect application of Staff's depreciation rates to Staff's depreciable plant balances by account.		
H - TAXES OTHER THAN INCOME- per Company	\$697	
Per Staff	0	(\$697)
<hr/>		
To remove property taxes for non-water company property.		
I - INCOME TAXES - per Company	(\$799)	
Per Staff	(289)	\$510
<hr/>		
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	\$ 1,969	\$ 1,376	\$ 3,345				
					18,491			
Line No.	ACCT NO.	DESCRIPTION	Company Proposed PLANT IN SERVICE BALANCE	STAFF PLANT BALANCE	Non-Depreciable Fully Depreciated Plant	STAFF DEPR. PLANT BALANCE	STAFF RECOMMENDED RATE	STAFF RECOMMENDED EXPENSE
1	Plant In Service							
2	301	Organization	\$ -	-	\$ -	-	0.00%	\$ -
3	302	Franchises	2,741	2,741	2,741	-	0.00%	-
4	303	Land & Land Rights	-	-	-	-	0.00%	-
5	304	Structures & Improvements	5,930	5,930	-	5,930	3.33%	197
6	307	Wells & Springs	24,192	24,192	24,192	-	3.33%	-
7	310	Power Generating Equipment	-	-	-	-	5.00%	-
8	311	Pumping Equipment	17,364	18,491	15,690	2,801	12.50%	350
9	320.1	Water Treatment Plants	-	-	-	-	3.33%	-
10	320.2	Solution Chemical Feeders	-	-	-	-	20.00%	-
11	330	Dist. Reservoirs & Standpipes	-	-	-	-	2.22%	-
12	330.1	Storage Tanks	12,992	13,337	-	13,337	2.22%	296
13	330.2	Pressure Tanks	9,194	8,849	8,849	-	5.00%	-
14	331	Transmission & Distribution Mains	120,464	120,355	-	120,355	2.00%	2,407
15	333	Services	15,343	15,343	15,343	-	3.33%	-
16	334	Meters & Meter Installations	14,283	11,965	10,832	1,133	8.33%	94
17	335	Hydrants	-	-	-	-	2.00%	-
18	336	Backflow Prevention Devices	-	-	-	-	6.67%	-
19	339	Other Plant and Misc. Equipment	-	-	-	-	6.67%	-
20	340	Office Furniture & Equipment	685	-	-	-	6.67%	-
	340.1	Computers & Software	-	685	685	-	-	-
21	341	Transportation Equipment	29,825	29,825	29,825	-	20.00%	-
22	343	Tools Shop & Garage Equipment	-	-	-	-	5.00%	-
23	344	Laboratory Equipment	-	-	-	-	10.00%	-
24	345	Power Operated Equipment	-	-	-	-	5.00%	-
25	346	Communication Equipment	-	-	-	-	10.00%	-
26	347	Miscellaneous Equipment	844	844	844	-	10.00%	-
27	348	Other Tangible Plant	-	-	-	-	2.50%	-
28			-	-	-	-	-	-
29			-	-	-	-	-	-
30		Subtotal General	\$ 253,857	\$ 252,557	\$ 109,001	\$ 143,556		\$ 3,345
31		Less: Non-depreciable Account(s)	-	-	-	-		\$ 3,036
32		Depreciable Plant (L29-L30)	\$ 253,857	\$ 252,557	-	\$ 143,556		\$ 309
33								
34		Contributions-in-Aid-of-Construction (CIAC)						
35		Weighted Average Depreciation/Amortization Rate					\$ 2.3302%	
36		Less: Amortization of CIAC (L32 x L33)						
37		Depreciation Expense - STAFF						\$ 3,345
38								
39		Pro Forma Depreciation Expense Calculation						
40								
41		Plant in Service	\$ 252,557					
42		Less: Non-depreciable plant	2,741					
43		Fully depreciated plant	109,001					
44		Depreciable Plant	\$ 140,815					
45		Times: Staff weighted average depreciation rate	2.3302%					
46		Depreciation expense before amortization of CIAC	3,345					
47		Less: Amortization of CIAC	-					
48		Test Year Depreciation - Staff	3,345					
49		Depreciation expense - Company	1,969					
50		Staff recommended adjustment	\$ 1,376					

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

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
	Staff Adjusted Test Year Revenues - 2013	\$ 58,692	\$ 58,692
1	Weight Factor	2	2
2	Subtotal (Line 1 * Line 2)	\$ 117,383	\$ 117,383
3	Staff Adjusted Test Year Revenues - 2013	58,692	
4	Staff Recommended Revenue, Per Schedule MJR-1		67,321
5	Subtotal (Line 4 + Line 5)	\$ 176,075	\$ 184,704
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 58,692	\$ 61,568
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 117,383	\$ 123,136
10	Plus: 10% of CWIP -		
11	Less: Net Book Value of Licensed Vehicles		-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 117,383	\$ 123,136
13	Assessment Ratio	18.5%	18.5%
14	Assessment Value (Line 12 * Line 13)	21,716	\$ 22,780
15	Composite Property Tax Rate (Company Property Tax ÷ Assessment Value)	8.8967%	8.8967%
16			
17	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 1,932	
18	Company Proposed Property Tax	1,932	
19			
20	Staff Test Year Adjustment (Line 16-Line 17)	\$ -	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 2,027
22	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 1,932
23	Increase/(Decrease) to Property Tax Expense		\$ 95
24			
25	Increase/(Decrease) to Property Tax Expense		\$ 95
26	Increase in Revenue Requirement		8,629
27	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.097262%
28			
29			
30			
31			
32			
33	<u>References:</u>		
34	Col [A]: Company		
35	Col [B]: Staff Report		
36			
37	Tax Id No. 908-60-900-7		

C-Corp Tax Calculation

LINE NO.	DESCRIPTION	(A)	(B)	(C)
1	<u>Calculation of Gross Revenue Conversion Factor:</u>			
2	Revenue	100.0000%		
3	Uncollectible Factor (Line 14)	0.0000%		
4	Revenues (L1 - L2)	100.0000%		
5	Combined Federal and State Income Tax and Property Tax Rate (Line 30)	20.5564%		
6	Subtotal (L3 - L4)	79.4436%		
7	Revenue Conversion Factor (L1 / L5)	1.258754		
8				
9	<u>Calculation of Uncollectible Factor:</u>			
10	Unity	100.0000%		
11	Combined Federal and State Tax Rate (Line 22)	19.68%		
12	One Minus Combined Income Tax Rate (L11 - L12)	80.33%		
13	Uncollectible Rate	0.0000%		
14	Uncollectible Factor (L9 * L10)	0.0000%		
15				
16	<u>Calculation of Effective Tax Rate:</u>			
17	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
18	Arizona State Income Tax Rate	5.5000%		
19	Federal Taxable Income (L17 - L18)	94.5000%		
20	Applicable Federal Income Tax Rate (Line 72)	15.0000%		
21	Effective Federal Income Tax Rate (L19 x L20)	14.1750%		
22	Combined Federal and State Income Tax Rate (L18 +L21)		19.68%	
23				
24	<u>Calculation of Effective Property Tax Factor</u>			
25	Unity	100.00%		
26	Combined Federal and State Income Tax Rate (L22)	19.68%		
27	One Minus Combined Income Tax Rate (L25-L26)	80.33%		
28	Property Tax Factor (MJR-W17, L27)	1.10%		
29	Effective Property Tax Factor (L27*L28)	0.88%		
30	Combined Federal and State Income Tax and Property Tax Rate (L22+L29)		20.56%	
31				
32				
33	Required Operating Income (Schedule Summary Schedule MJR-1)	\$ 5,675		
34	Adjusted Test Year Operating Income (Loss) (Schedule MJR-1)	\$ (1,181)		
35	Required Increase in Operating Income (L33 - L34)		\$ 6,856	
36				
37	Income Taxes on Recommended Revenue (Col. C, L65)	\$ 1,390		
38	Income Taxes on Test Year Revenue (Col. A, L65)	\$ (289)		
39	Required Increase in Revenue to Provide for Income Taxes (L37 - L38)		\$ 1,679	
40				
41	Recommended Revenue Requirement (Schedule MJR-1)	\$ 67,321		
42	Uncollectible Rate (Line 13)	0.0000%		
43	Uncollectible Expense on Recommended Revenue (L41 * L42)	\$ -		
44	Adjusted Test Year Uncollectible Expense	\$ -		
45	Required Increase in Revenue to Provide for Uncollectible Exp. (L43 - L45)		\$ -	
46	Property Tax with Recommended Revenue (Schedule C-Prop Taxes L19)	\$ 2,027		
47	Property Tax on Test Year Revenue (Schedule C-Prop Taxes L20)	\$ 1,932		
48	Increase in Property Tax Due to Increase in Revenue (L46-47)		\$ 95	
49				
50	Total Required Increase in Revenue (L35 + L39 + L45 + L48)		\$ 8,629	Staff
51	<u>Calculation of Income Taxes:</u>			
52	Revenue (Schedule MJR-1)	\$ 58,692	\$ 8,629	\$ 67,321
53	Operating Expenses Excluding Income Taxes	\$ 60,162	\$ -	\$ 60,256
54	Synchronized Interest	\$ -	\$ -	\$ -
55	Arizona Taxable Income (L52 - L53 - L54)	\$ (1,470)	\$ -	\$ 7,065
56	Arizona State Income Tax Rate	5.50%		5.50%
57	Arizona Income Tax (L36 x L37)	\$ (81)		\$ 389
58	Federal Taxable Income (L55 - L57)	\$ (1,389)		\$ 6,676
59	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (208)		\$ 1,001
60	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -		\$ -
61	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -
62	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -
63	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -
64	Total Federal Income Tax	\$ (208)		\$ 1,001
65	Combined Federal and State Income Tax (L57 + L64)	\$ (289)		\$ 1,390
66				

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$16.63	\$20.00	19.50
3/4" Meter	17.79	22.00	29.25
1" Meter	19.77	23.00	48.75
1 1/2" Meter	27.23	30.00	97.50
2" Meter	36.01	39.00	156.00
3" Meter	57.48	60.00	312.00
4" Meter	96.75	100.00	487.50
6" Meter	193.65	210.00	975.00
Bulk Water pipe per 1,000 gallons	N/T	N/T	5.25
Gallons Included in Minimum	0	0	0

Commodity Rate Charge

5/8" x 3/4" Meter

Company

Tier 1	From 0 to 4,000 gallons	2.37	
Tier 2	From 4,001 to 20,000 gallons	3.57	
Tier 3	Over 20,000 gallons	4.27	

Company

Tier 1	From 0 to 4,000 gallons	2.60	
Tier 2	From 4,001 to 18,000 gallons	4.00	
Tier 3	Over 18,000 gallons	5.00	

Staff

Tier 1	From 0 to 3,000 gallons		2.50
Tier 2	From 3,001 to 12,000 gallons		3.75
Tier 3	Over 12,000 gallons		5.25

3/4" Meter

Company

Tier 1	From 0 to 4,000 gallons	2.37	
Tier 2	From 4,001 to 20,000 gallons	3.57	
Tier 3	Over 20,000 gallons	4.27	

Company

Tier 1	From 0 to 4,000 gallons	2.60	
Tier 2	From 4,001 to 18,000 gallons	4.00	
Tier 3	Over 18,000 gallons	5.00	

Staff

Tier 1	From 0 to 3,000 gallons		2.50
Tier 2	From 3,001 to 10,000 gallons		3.75
Tier 3	Over 10,000 gallons		5.25

1" Meter

Company

Tier 1	From 0 to 4,000 gallons	2.37	
Tier 2	From 4,001 to 20,000 gallons	3.57	
Tier 3	Over 20,000 gallons	4.27	

Company

Tier 1	From 0 to 4,000 gallons	2.60	
Tier 2	From 4,001 to 18,000 gallons	4.00	
Tier 3	Over 18,000 gallons	5.00	

Staff

Tier 1	First 15,000 gallons		3.75
Tier 2	Over 15,000 gallons		5.25

1 1/2" Meter

Company

Tier 1	From 0 to 4,000 gallons	2.37	
Tier 2	From 4,001 to 20,000 gallons	3.57	
Tier 3	Over 20,000 gallons	4.27	

Company

Tier 1	From 0 to 4,000 gallons	2.60	
Tier 2	From 4,001 to 18,000 gallons	4.00	
Tier 3	Over 18,000 gallons	5.00	

Staff

Tier 1	First 25,000 gallons		3.75
Tier 2	Over 25,000 gallons		5.25
			3.75
			5.25

RATE DESIGN

2" Meter

Company

Tier 1	Tier 1 From 0 to 4,000 gallons	2.37
Tier 2	Tier 2 From 4,001 to 20,000 gallons	3.57
Tier 3	Tier 3 Over 20,000 gallons	4.27

Company

Tier 1	From 0 to 4,000 gallons	2.60
Tier 2	From 4,001 to 18,000 gallons	4.00
Tier 3	Over 18,000 gallons	5.00

Staff

Tier 1	First 45,000 gallons	3.75
Tier 2	Over 45,000 gallons	5.25

3" Meter

Company

Tier 1	Tier 1 From 0 to 4,000 gallons	2.37
Tier 2	Tier 2 From 4,001 to 20,000 gallons	3.57
Tier 3	Tier 3 Over 20,000 gallons	4.27

Company

Tier 1	From 0 to 4,000 gallons	2.60
Tier 2	From 4,001 to 18,000 gallons	4.00
Tier 3	Over 18,000 gallons	5.00

Staff

Tier 1	First 90,000 gallons	3.75
Tier 2	Over 90,000 gallons	5.25

4" Meter

Company

Tier 1	Tier 1 From 0 to 4,000 gallons	2.37
Tier 2	Tier 2 From 4,001 to 20,000 gallons	3.57
Tier 3	Tier 3 Over 20,000 gallons	4.27

Company

Tier 1	From 0 to 4,000 gallons	2.60
Tier 2	From 4,001 to 18,000 gallons	4.00
Tier 3	Over 18,000 gallons	5.00

Staff

Tier 1	First 120,000 gallons	3.75
Tier 2	Over 120,000 gallons	5.25

6" Meter

Company

Tier 1	Tier 1 From 0 to 4,000 gallons	2.37
Tier 2	Tier 2 From 4,001 to 20,000 gallons	3.57
Tier 3	Tier 3 Over 20,000 gallons	4.27

Company

Tier 1	From 0 to 4,000 gallons	2.60
Tier 2	From 4,001 to 18,000 gallons	4.00
Tier 3	Over 18,000 gallons	5.00

Staff

Tier 1	First 300,000 gallons	3.75
Tier 2	Over 300,000 gallons	5.25

RATE DESIGN

Service Line and Meter Installation Charges

	Current Total Meter & Service Line Installation Charges	Company Proposed Total	Staff Recommended Service Line Charges	Staff Recommended Meter Installation Charges	Staff Recommended Total
5/8" x 3/4" Meter	\$ 430	\$ 700	\$ 415	\$ 105	\$ 520
3/4 inch Meter	\$ 460	\$ 800	\$ 415	\$ 205	\$ 620
1" Meter	\$ 511	\$ 900	\$ 465	\$ 265	\$ 730
1 1/4" Meter	\$ 704	\$ 1,200	\$ 520	\$ 475	\$ 995
2" (Turbine)	\$ 931	\$ 1,795	\$ 800	\$ 995	\$ 1,795
2" (Compound)	\$ 1,209	\$ 2,640	\$ 800	\$ 1,840	\$ 2,640
3" (Turbine)	\$ 1,486	\$ 2,635	\$ 1,015	\$ 1,620	\$ 2,635
3" (Compound)	\$ 1,994	\$ 3,630	\$ 1,135	\$ 2,495	\$ 3,630
4" (Turbine)	\$ 2,501	\$ 4,000	\$ 1,430	\$ 2,570	\$ 4,000
4" (Compound)	\$ 3,754	\$ 5,155	\$ 1,610	\$ 3,545	\$ 5,155
6" (Turbine)	\$ 5,006	\$ 7,075	\$ 2,150	\$ 4,925	\$ 7,075
6" (Compound)	\$ 6,948	\$ 9,090	\$ 2,270	\$ 6,820	\$ 9,090
Over 6-inch	N/A	At Cost		\$ 2,270	At Cost

Service Charges	Present Charges	Proposed Charges	
		Company	Staff
Establishment	\$40.00	\$50.00	\$50.00
Establishment (After Hours)	75.00	N/T	N/A
Reconnection (Delinquent)	40.00	50.00	50.00
Meter Test (If Correct)	40.00	40.00	40.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	25.00	25.00	25.00
Deferred Payment	1.00%	1.00%	1.00%
Meter Re-Read (If Correct)	35.00	35.00	35.00
Late Fee	N/T	\$ 25.00	\$3 per month or 1.5 %, whichever is higher
After Hours Service Charge	NT	50.00	50.00

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)

*** 1.00% 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.

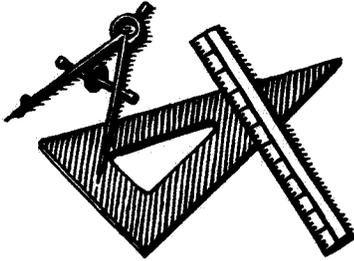
Typical Bill Analysis

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

	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,800	\$ 36.11	\$ 41.60	\$ 5.49	15.22%
Median Usage	5,100	30.04	34.80	\$ 4.76	15.86%
Staff Recommended					
Average Usage	6,800	\$ 36.11	\$ 41.25	\$ 5.14	14.25%
Median Usage	5,100	30.04	34.88	\$ 4.84	16.11%

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

Gallons	Present	Company Proposed		Staff Recommended	
		Rates	Increase %	Rates	Increase %
Consumption		5/8 x 3/4 -Inch Meter	5/8 x 3/4 -Inch Meter	5/8 x 3/4 -Inch Meter	
		Rates	Rates Increase	Rates Increase	
-	\$ 16.63	\$ 20.00	20.26%	\$ 19.50	17.26%
1,000	19.00	22.60	18.95%	22.00	15.79%
2,000	21.37	25.20	17.92%	24.50	14.65%
3,000	23.74	27.80	17.10%	27.00	13.73%
3,500	24.93	29.10	16.75%	28.88	15.85%
4,000	26.11	30.40	16.43%	30.75	17.77%
5,000	29.68	34.40	15.90%	34.50	16.24%
5,100	30.04	34.80	15.86%	34.88	16.11%
6,800	36.11	41.60	15.22%	41.25	14.25%
7,800	39.68	45.60	14.93%	45.00	13.42%
8,800	43.25	49.60	14.69%	48.75	12.73%
9,800	46.82	53.60	14.49%	52.50	12.14%
10,800	50.39	57.60	14.32%	56.25	11.64%
11,800	53.96	61.60	14.17%	60.00	11.20%
12,800	57.53	65.60	14.04%	64.95	12.91%
13,800	61.10	69.60	13.92%	70.20	14.90%
14,800	64.67	73.60	13.82%	75.45	16.68%
15,800	68.24	77.60	13.72%	80.70	18.27%
16,800	71.81	81.60	13.64%	85.95	19.70%
17,800	75.38	85.60	13.56%	91.20	20.99%
18,800	78.95	90.40	14.51%	96.45	22.17%
19,800	82.52	95.40	15.61%	101.70	23.25%
20,800	86.65	100.40	15.87%	106.95	23.43%
25,800	108.00	125.40	16.12%	133.20	23.34%
30,800	129.35	150.40	16.28%	159.45	23.27%
35,800	150.70	175.40	16.39%	185.70	23.23%
40,800	172.05	200.40	16.48%	211.95	23.19%
45,800	193.40	225.40	16.55%	238.20	23.17%
50,800	214.75	250.40	16.60%	264.45	23.15%
75,800	321.50	375.40	16.77%	395.70	23.08%
100,800	428.25	500.40	16.85%	526.95	23.05%



**Engineering Report For
Loma Linda Estates, Inc.
Docket No. W-02211A-14-0419 (Rates)
March 23, 2015**

SUMMARY

Conclusions

1. The Arizona Department of Environmental Quality (“ADEQ”) reported that the Loma Linda Water Company’s (“Loma Linda” or “Company”) water system is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
2. The Company’s water 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 system is not located in an Arizona Department of Water Resources (“ADWR”) designated Active Management Area. ADWR has determined that Loma Linda water system is compliant with departmental requirements governing water providers and/or community water systems.
4. The Company is in compliance with the Arizona Corporation Commission (“ACC” or “Commission”) Compliance Database at this time.
5. The Company has an approved curtailment plan tariff.
6. The Company has an approved backflow prevention tariff.

Recommendations

1. Commission Utilities Staff (“Staff”) recommends its annual water testing expense estimate of \$1,119 be used for this proceeding.
2. Staff recommends the depreciation rates listed in Table B.
3. Staff recommends its service line and meter installation charges labeled “Staff’s Recommendation” in Table C.
4. 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.

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I. INTRODUCTION AND LOCATION OF COMPANY

On December 24, 2014, Loma Linda Water Company, Inc. ("Company" or "Loma Linda") 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.

Loma Linda provides water service to approximately 130 connections in an area approximately 6 miles southeast of the Town of Clifton in Greenlee County.

The Company's plant facilities were visited on February 3, 2015, by Frank Smaila, Staff Engineer, in the accompaniment of Bevan Barney, the Company's manager and John Basteen Jr., certified operator.

Figure 1 shows the location of the Company within Greenlee County and Figure 2 delineates the Company's certificated area which covers approximately 100 acres or 0.16 square mile.

Figure 1

GREENLEE COUNTY

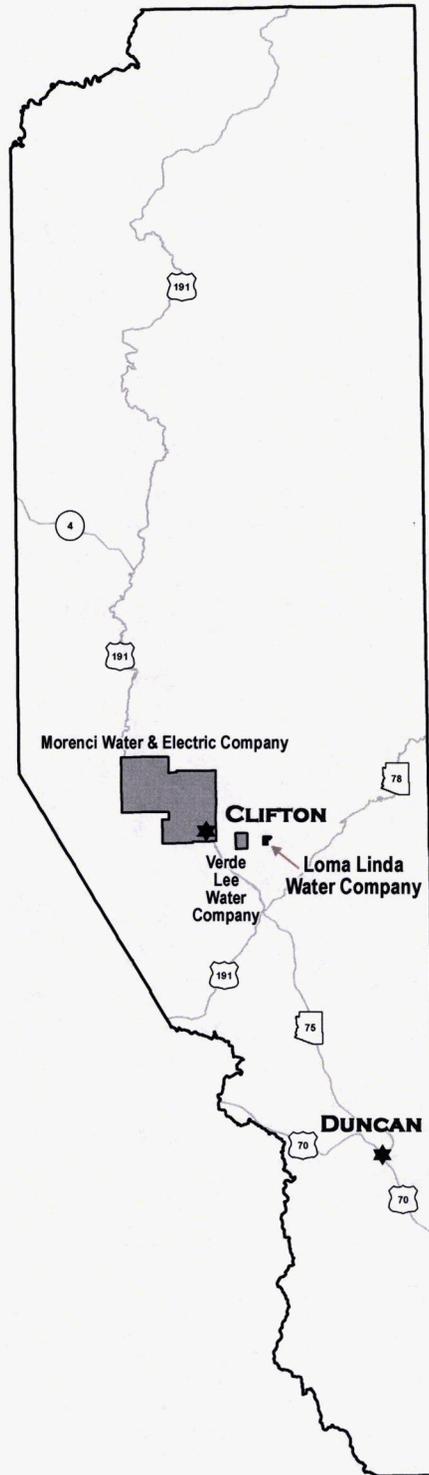
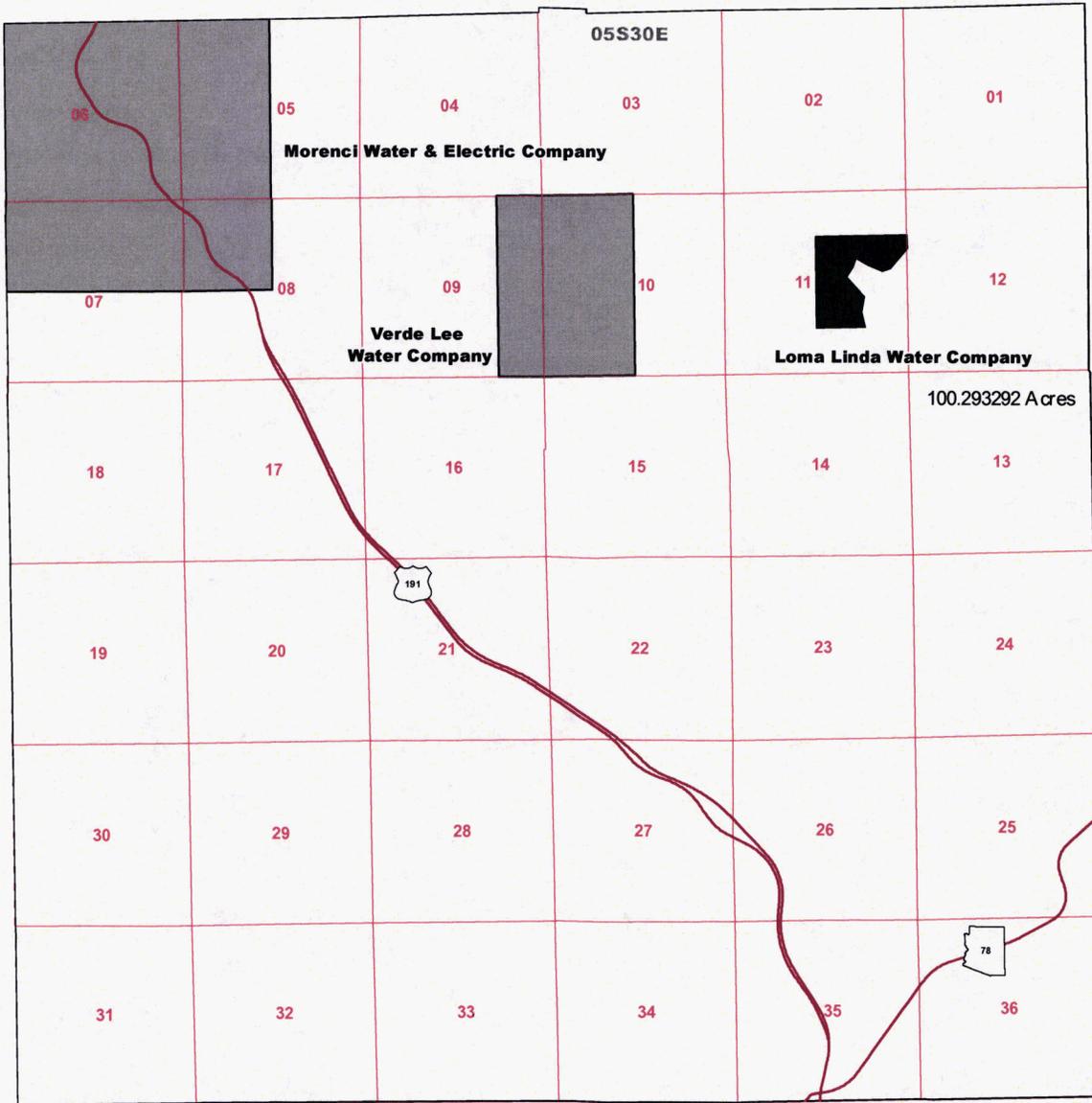


Figure 2

GREENLEE COUNTY



II. WATER SYSTEM

A. Description of the Water System

The water system is composed of two wells, three storage tanks, four booster pumps, three pressure tanks and a distribution system. A water system plant facilities summary is tabulated below:

Well

ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-626303	2	65	150	6	2	1978
55-626302	2	95	150	6	2	1978

Storage Tank

Capacity (gallons)	Quantity
10,000	3

Pressure Tank		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (HP)	Quantity
4,000	1	5	2
2,000	1	3	2
1,500	1		

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
4	PVC	5,625	5/8x3/4	132	0
6	PVC	8,700	1	2	

Components

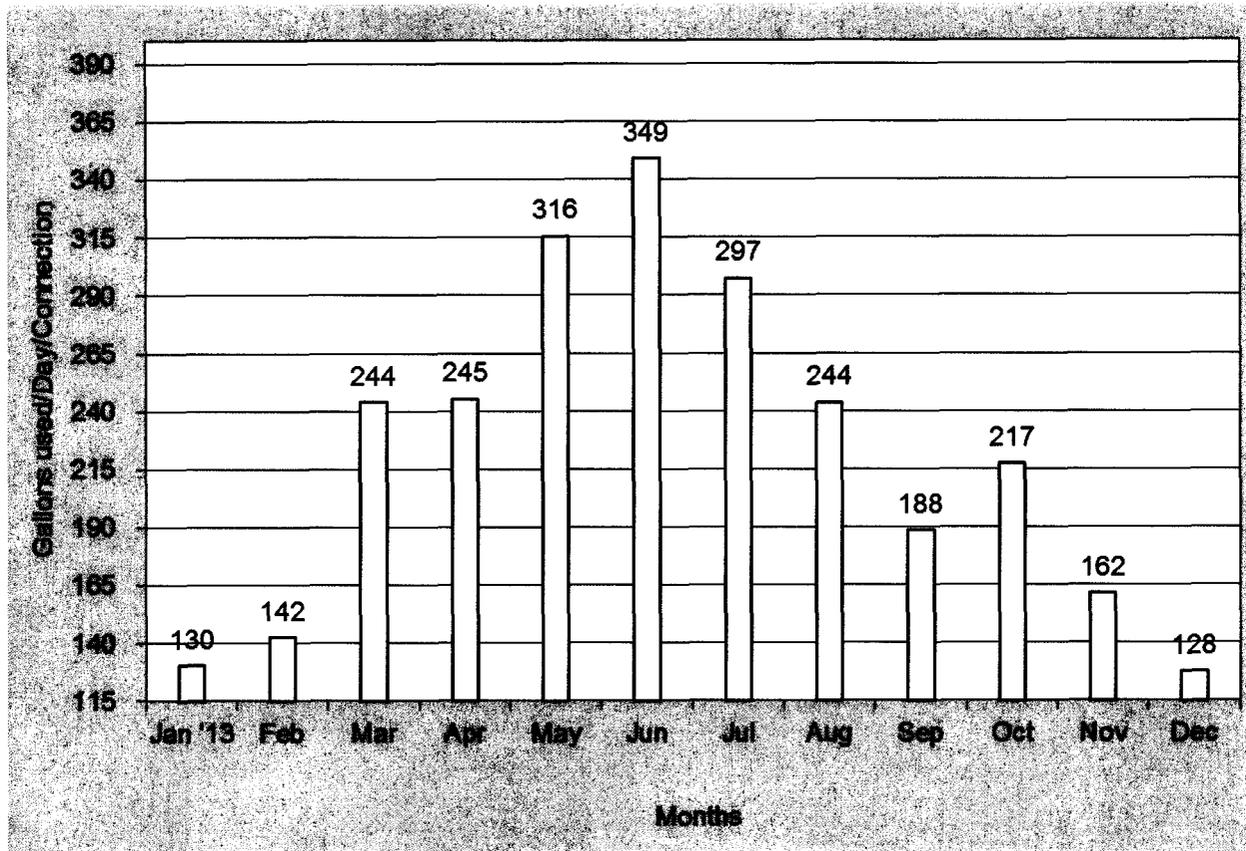
Pump House

B. *Water Use*

Water Sold:

Figure 3 represents the Loma Linda water consumption data provided by the Company in its water use data sheet for the test year ending December 31, 2013. Customer consumption included a high monthly water use of 349 gallons per day (“GPD”) per connection in June, and the low water use was 128 GPD per connection in December. The system average annual use was 222 GPD per connection.

Figure 3 Water Use



Non-account Water:

Non-account water should be 10 percent or less, and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

In its e-mail, dated February 9, 2015, the Company reported 11,801,881 gallons pumped, 10,502,901 gallons sold and 27,000 gallons of estimated beneficial non-revenue uses¹ for the test year, resulting in a water loss of 10.8 percent. This percentage is above the recommended threshold amount of 10 percent. The Company believes that much of this water loss is attributable to old inaccurate customer water meters. Loma Linda is adapting provisions of Meter Repair and/or Replacement Tariff (see Best Management Practices in this Report) and started testing and replacing these meters.

C. *System Analysis*

Based on the water use data provided by the Company for the Test Year, Staff concludes that the Loma Linda system's well total production capacity of 160 GPM and total storage capacity of 30,000 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 Loma Linda system has not experienced measurable growth. According to the Company no customer growth or decline 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
128	128	127	128	128

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

Compliance

Per ADEQ Compliance Status Report dated January 21, 2015, ADEQ reported that the Loma Linda water system is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

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 \$1,542 for the test year (including Operator Fees totaling \$1,140)². Staff has reviewed the Company's water testing expense and has recalculated the testing costs based on tests required by ADEQ. Staff's estimated average annual water testing expenses for the Company is \$1,119.

¹ Per Loma Linda's responses KS 1.1 b, the Company's beneficial non-revenue water use includes regular flushing of water lines.

² Operator fees should be reported separately from Water Testing in the "Outside Services" operating expenses account.

Table A lists Staff's annual monitoring expense estimate totaling \$1,119 (which includes MAP expenses totaling \$584, rounded).

Table A. Water Testing Cost

Monitoring	Cost per test	No. of test	Annual Expense
Total coliform – monthly	\$35	12	\$420
Lead & Copper – per 3 years	\$33	5	\$55
Nitrite/Nitrate	\$30	2	\$60
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$584
Total			\$1,119

Staff recommends an annual water testing expense of \$1,119 be used for purpose of this proceeding.

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

The Company's water system is not located in an ADWR designated Active Management Area. According to ADWR compliance status reports, dated February 6, 2015, ADWR has determined that Loma Linda water system is compliant with departmental requirements governing water providers and/or community water systems.

V. ACC COMPLIANCE

On February 9, 2015, the Utilities Division Compliance Section noted that a check of the compliance database indicates that there are no delinquencies for Loma Linda. Therefore, the Company 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 requested changes to its current service line and meter installation 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	\$700	\$415	\$105	\$520
3/4-inch	\$460	\$800	\$415	\$205	\$620
1-inch	\$511	\$900	\$465	\$265	\$730
1-1/2-inch	\$704	\$1,200	\$520	\$475	\$995
2-inch -Turbine	\$931	\$1,305	\$800	\$995	\$1,795
2-inch-Compound	\$1,209	-	\$800	\$1,840	\$2,640
3-inch-Turbine	\$1,486	-	\$1,015	\$1,620	\$2,635
3-inch-Compound	\$1,994	-	\$1,135	\$2,495	\$3,630
4-inch -Turbine	\$2,501	-	\$1,430	\$2,570	\$4,000
4-inch-Compound	\$3,754	-	\$1,610	\$3,545	\$5,155
6-inch -Turbine	\$5,006	-	\$2,150	\$4,925	\$7,075
6-inch-Compound	\$6,948	-	\$2,270	\$6,820	\$9,090

2. *Curtailment Plan Tariff*

The Company has an approved curtailment plan tariff.

3. *Backflow Prevention Tariff*

The Company 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-1.2), the Company selected the following BMP's for implementation in its systems:

- Water Waste Investigations and Information Tariff -- BMP 3.8
- Meter Repair and/or Replacement Tariff-BMP 4.2
- 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.

Attachment A

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: _____

Meter Repair and/or Replacement Tariff – BMP 4.2

PURPOSE

A program for the Company to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters for repair or replacement (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.2 Meter Repair and/or Replacement 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. On a systematic basis, the Company will inspect 100 percent of its 1-inch and smaller in-service water meters at least once every ten years for one of the following reasons (whichever occurs first):
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has registered 1,000,000 gallons of usage,
 - c. A meter has been in service for ten years.
2. Meters larger than 1-inch shall be inspected for one of the following reasons:
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has been in service for five years.
3. The inspection will be accomplished by having the meter pulled and having a Company Technician physically inspect each meter and its fittings for leaks, registers which may have become loose or are not properly attached to the meter and could be under-registering or other broken parts which need repair. In addition, meters shall be randomly selected for flow testing to identify potentially under-registering meters.
4. The Company shall also replace or reprogram any water meters that do not register in gallons. Upon the effective date of this tariff, the Company shall install all replacement meters with new:
 - a. 1-inch and smaller meters that register in 1 gallon increments,
 - b. 1-1/2-inch through 4-inch meters that register in 10 gallon increments, and
 - c. 6-inch and larger meters that register in 100 gallon increments.
5. The Company shall keep records of all inspected and replacement meters and make this information available to the Commission upon request.

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.