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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- SUSAN BITTER SMITH - CHAIRMAN
- BOB STUMP
- BOB BURNS
- DOUG LITTLE
- TOM FORESE

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
CHINO MEADOWS II WATER COMPANY, INC.
FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02370A-14-0231

**STAFF'S NOTICE OF FILING
DIRECT TESTIMONY AND NOTICE OF
INTENT TO SEEK PENALTIES
PURSUANT TO A.R.S. §§ 40-424 and
40-425**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Direct Testimony of Staff witnesses Teresa B. Hunsaker and Jian W. Liu in the above-referenced matter. **STAFF FURTHER NOTIFIES CHINO MEADOWS II WATER COMPANY, INC. THAT IT IS RECOMMENDING THE IMPOSITION OF PENALTIES UPON SAID COMPANY PURSUANT TO A.R.S. §§ 40-424 AND 40-425 AND INTENDS TO ADDRESS THE SAME AT THE TIME OF HEARING HEREIN, AT WHICH TIME SAID COMPANY SHOULD ALSO HAVE AN OPPORTUNITY TO BE HEARD THEREON. THE FACTUAL ALLEGATIONS SUPPORTING THE IMPOSITION OF PENALTIES ARE SET FORTH IN THE DIRECT TESTIMONEY OF TERESA B. HUNSAKER.**

RESPECTFULLY SUBMITTED this 15th day of July, 2015.

Arizona Corporation Commission

DOCKETED

JUL 15 2015

DOCKETED BY	
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By

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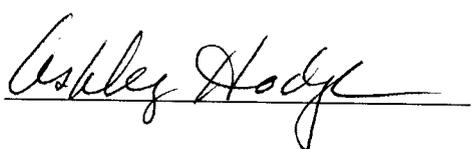
ORIGINAL

1 Original and thirteen (13) copies of
2 the foregoing filed this 15th day of
July, 2015, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
Phoenix, Arizona 85007

6 Copy of the foregoing mailed and/or emailed
7 this 15th day of July, 2015, to:

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SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

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DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

IN THE MATTER OF THE APPLICATION OF)
CHINO MEADOWS II WATER CO. INC. FOR)
A RATE INCREASE.)
_____)

DOCKET NO W-02370A-14-0231

DIRECT

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

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ATTACHMENTS

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EXHIBITS

<i>LoopNet</i> Commercial Leases in Chino Valley	Exhibit 1
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EXECUTIVE SUMMARY
CHINO MEADOWS II WATER COMPANY INC.
DOCKET NO. W-02370A-14-0231

Chino Meadows II Water Company Inc. ("Chino Meadows", "CM" or "Company") is an Arizona for-profit Class C public service corporation engaged in providing water utility services to approximately 900 customers within Yavapai County, Arizona. Chino Meadows current rates were approved in Decision No. 72896, dated February 21, 2012.

On June 30, 2014, the Company filed a rate increase application as ordered in Commission Decision No. 72896. The Decision required Chino Meadows to file its next general rate case using the same test year as that used in the next rate case for Granite Mountain Water Company Inc. ("Granite Mountain" or "GM") in order to eliminate further disputes related to cost allocations. Chino Meadows and Granite Mountain, in Docket No. W-02370A-14-0230, both used a 2013 test year.

The Company proposed a \$139,014, or 38.79 percent revenue increase over test year revenues of \$358,364 to \$497,378. The proposed revenue increase would produce an operating income of \$74,604 for a 15.0 percent requested operating margin. The Company is not requesting rates based on rate of return because the Company claims a rate increase calculated using a traditional return on rate base approach would not generate adequate revenue. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from \$26.45 to \$35.89, for an increase of \$9.44 or 35.69 percent.

Staff recommends that the Company's current rates remain the same because the Company's existing rates will produce a 15 percent operating margin, which is the level requested by the Company. Staff's recommended rates would produce total operating revenue of \$357,985, a \$0 (0.00 percent) increase, over the Staff's adjusted test year revenue of \$357,985 and adjusted test year expense of \$301,230, to produce a \$56,754 operating income and an operating margin of 15.85 percent as shown on Schedule TBH CM-1A. Staff's recommended rates would result in no change for the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons at \$26.45, as shown on Schedule TBH CM-25A.

Staff has developed an alternative rate recommendation based on traditional rate of return analysis. Staff's Alternative Recommendation results in a decrease in the current rates. These recommended rates would produce total operating revenue of \$299,772, a \$58,212 (16.26 percent) decrease, from the Staff's adjusted test year revenue of \$357,985, to provide a \$13,537 operating income and a 10.00 percent rate of return on Staff adjusted OCRB of \$135,369, as shown on Schedule TBH CM-1B. This recommendation results in a 4.52 percent operating margin. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from \$26.45 to \$21.16, for a decrease of \$5.29 or 20.01 percent, as shown on Schedule TBH CM-25B.

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule TBH CM-24A.
2. The Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

3. The Company be ordered to repay outstanding notes payable involving affiliates within one year. Further, Staff recommends the Company discontinue the practice of recording notes receivable involving affiliates for a period that exceeds one year without prior Commission approval. Further, Staff recommends that the Company refrain from making personal loans or advances with Company funds.
4. The Company provide an annual report of the accounting of all Corporate Cost Allocations. The reports should be reconciled to the amounts billed and paid by each regulated and unregulated affiliate company. This annual report should be filed in this docket by April 15th for the previous calendar year. Such filing requirement would cease with the filing of the Company's next rate case.
5. The Commission order the Company to use a 4-factor allocation method for indirect expenses between regulated affiliated companies in its next rate case, and the regulated water company employees be required to utilize detailed time sheets to trace and allocate payroll cost to each regulated and unregulated affiliate.
6. The Company develop and submit a Code of Affiliate Conduct related to affiliate activities and transactions, as discussed in Staff's Testimony within 90 days of an order approving new rates in this docket. Such Code of Affiliate Conduct would be applicable to Chino Meadows and all regulated and unregulated affiliates.
7. The Commission provide the authority for Staff to immediately install an interim manager if the Company violates any part of the Code of Affiliate Conduct.

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Teresa B. Hunsaker. I am a Public Utilities Analyst III working for the Arizona
4 Corporation Commission (“ACC” or “Commission”) in the Utilities Division (“Staff”). My
5 business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

8 A. In my capacity as a Public Utilities Analyst, I analyze and examine accounting, financial,
9 statistical and other information included in utility rate, financing and other applications. In
10 addition, I prepare written reports based on my analyses and present Staff’s recommendations
11 to the Commission on utility revenue requirements, rate design and other issues. I am also
12 responsible for testifying at formal hearings on these matters.

13
14 **Q. Please describe your educational background and professional experience.**

15 A. I received a Bachelor of Science Degree in Accounting from the University of Nevada, Las
16 Vegas and an Associate Degree in Business Management from Clark County Community
17 College. I attended the National Association of Regulatory Utility Commissioners
18 (“NARUC”) Utilities Rate School in San Diego in May 2014.

19
20 **Q. What is the scope of your testimony in this case?**

21 A. I am presenting Staff’s analysis and recommendations regarding the application of Chino
22 Meadows II Water Company Inc. (“Chino Meadows,” “CM” or “Company”) for a
23 permanent rate increase. I will present Staff’s testimony and schedules addressing rate base,
24 operating revenues and expenses, revenue requirement and rate design. Mr. Jian Liu is
25 presenting Staff’s engineering analysis and related recommendations.

1 **Q. What is the basis of your testimony and recommendations in this case?**

2 A. I performed a regulatory audit of the Company's application and records to determine
3 whether sufficient, relevant, and reliable evidence exists to support the Company's requested
4 rate increase. The regulatory audit consisted of examining and testing financial information,
5 accounting records, and other supporting documentation and verifying that the accounting
6 principles applied were in accordance with the Commission-adopted NARUC Uniform
7 System of Accounts ("USoA"). In preparing its case, Staff visited the Company's facilities to
8 conduct a plant inspection. Staff also reviewed previous rate and other Commission
9 decisions applicable to this Company and affiliated companies.

10

11 **Q. How is your testimony organized?**

12 A. My testimony is presented in eleven Sections. Section I is this introduction. Section II
13 provides a background of the Company. Section III is a summary of consumer service issues.
14 Section IV presents compliance status. Section V is a summary of proposed revenues.
15 Section VI describes cost allocations. Section VII describes the rate base adjustments and
16 recommendations. Section VIII describes the operating income adjustments and
17 recommendations. Section IX discusses notes receivable and notes payable. Section X
18 discusses rate design. Section XI discusses the service charges.

19

20 **II. BACKGROUND**

21 **Q. Please provide the relevant background information associated with the Company's**
22 **application for a rate increase.**

23 A. The Company is a Class C water system providing service to approximately 900 customers in
24 Yavapai County, Arizona. Chino Meadows' current rates were approved in Decision No.
25 72896, dated February 21, 2012. On June 30, 2014, the Company filed a rate increase
26 application as ordered in Decision No. 72896. Decision No. 72896 required the Company to

1 file its next general rate case using the same test year as is used in the next rate case for its
2 regulated sister utility Granite Mountain Water Company Inc. (“Granite Mountain” or “GM”)
3 in order to eliminate further disputes related to cost allocations. Pursuant to Decision No.
4 74384, Granite Mountain is required to file a permanent rate case application using a test year
5 ending December 31, 2013, no later than June 30, 2014. Additionally, Chino Meadows has
6 another sister utility, Antelope Lakes Water Company Inc. (“Antelope Lakes”).
7

8 **Q. Please describe pertinent information provided with this application.**

9 A. On June 30, 2014, Chino Meadows and Granite Mountain filed permanent rate cases using a
10 test year ending December 31, 2013. The Chino Meadows rate application requested funds
11 to cover an operating loss; produce an operating income of \$74,803¹, plus additional funding
12 to cover increasing and fluctuating costs, to deal with emergencies or other contingencies,
13 and to attract new capital for system improvements. On July 24, 2014 the initial application
14 was found insufficient.

15
16 On August 25, 2014, the Company docketed its revised Application. On September 8, 2014,
17 the Company docketed Amended Current and Proposed Rates and Charges, and Amended
18 Current and Proposed Service Charges.² On September 18, 2014, the Company docketed
19 Second Amended pages to the short form application.³

¹ The narrative accompanying the application indicated the rate increase was needed to provide the Company an Operating Margin of 15 percent.

² On September 17, 2014, the Company docketed an Amended Application due to understated test year revenues by \$2,688.06. The Amended Application replaced the narrative description of application for rate adjustment, statements in support of rate request, current and proposed rates and charges, comparative statement of income and expense and the supporting attachments.

³ The following pages were amended: Pages 6, 13A, 13B, 14, 18, 19, 22 and 23. This was the Second Amendment to Pages 6 and 19. The Second Amended application replaced statements in support of rate request, plant additions and retirements by year, plant summary, water use data sheet, comparative statement of income and expense, balance sheet, and supplemental financial data.

1 **Q. Did Staff's concurrent audit of these two unconsolidated rate case applications result**
2 **in recommendations that flowed between the two filings so that, for example, a**
3 **recommendation in the Granite Mountain case had to be accommodated in Staff's**
4 **testimony and schedules in the Chino Meadows filing?**

5 A. Yes. This was especially true with regard to the recommendations being made by Staff that
6 were subject to cost re-allocation considerations. Unfortunately this lengthened Staff's
7 testimony in both dockets, and resulted in numerous cross-utility impact acknowledgments in
8 both sets of testimony that I am supporting. Staff believes that if the Commission adopts
9 Staff's recommendations regarding the development of a Code-of-Affiliate Conduct that
10 would be applicable to both of these regulated utilities and all regulated and unregulated
11 affiliates, such efforts and cross-references can be avoided in future rate case filings docketed
12 by these utilities.

13
14 **III. CONSUMER SERVICE**

15 **Q. Please provide a brief summary of customer complaints received by the Commission**
16 **regarding Chino Meadows.**

17 A. Staff reviewed the Commission's records for the period January 1, 2012, through January 23,
18 2015, and found that, there were no complaints in years 2012 and 2013; for year 2014, there
19 was one complaint regarding quality of service; and for year 2015, there were no complaints.
20 All complaints have been resolved and closed. In 2014, there were two Consumer
21 Comments filed opposing this rate case.

1 **IV. COMPLIANCE**

2 **Q. Please provide a summary of the compliance status of Chino Meadows.**

3 A. A review of the Commission's Compliance database indicates that there are currently no
4 delinquencies for the Company. The Company is current on its property and sales tax
5 payments.

6
7 **V. SUMMARY OF PROPOSED REVENUES**

8 **Q. Please summarize Chino Meadows' proposals in this filing.**

9 A. The Company-proposed rates, as filed, produce total operating revenue of \$497,378, a
10 \$139,014 (38.79 percent) increase, over the test year revenue of \$358,364, to provide a
11 \$74,604 operating income. The Company asserts that its requested rate increase will provide
12 a 15.0 percent operating margin. The Company is not requesting a rate of return on a
13 proposed \$171,398 fair value rate base ("FVRB") which is also the proposed original cost rate
14 base ("OCRB") because the Company claims a rate increase calculated using a traditional
15 return on rate base approach would not generate adequate revenue. The Company's
16 proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median
17 usage of 3,469 gallons from \$26.45 to \$35.89, for an increase of \$9.44 or 35.69 percent.

18
19 **Q. Please summarize Staff's recommended revenue.**

20 A. Staff recommends that the Company's current rates remain the same because the Company's
21 existing rates will produce more than a 15 percent operating margin, which is the level
22 requested by the Company. Staff's recommended rates will produce total operating revenue
23 of \$357,985, a \$0 (0.00 percent) increase, over the Staff's adjusted test year revenue of
24 \$357,985 and adjusted test year expense of \$301,230, to produce a \$56,754 operating income
25 and an operating margin of 15.85 percent as shown on Schedule TBH CM-1A. Staff's

1 recommended rates would result in no change for the typical residential 5/8 x 3/4-inch meter
2 bill with a median usage of 3,469 gallons at \$26.45, as shown on Schedule TBH CM-25A.

3
4 *Staff's Alternative Recommendation*

5 Staff has developed an alternative rate recommendation based on traditional rate of return
6 analysis. Staff's Alternative Recommendation results in a decrease in the current rates. These
7 recommended rates would produce total operating revenue of \$299,772, a \$58,212 (16.26
8 percent) decrease, from the Staff's adjusted test year revenue of \$357,985, to provide a
9 \$13,537 operating income and a 10.00 percent rate of return on Staff adjusted OCRB of
10 \$135,369, as shown on Schedule TBH CM-1B. This recommendation results in a 4.52
11 percent operating margin. Staff's recommended rates would decrease the typical residential
12 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from \$26.45 to \$21.16, for a
13 decrease of \$5.29 or 20.01 percent, as shown on Schedule TBH CM-25B.

14
15 *Rate Base Adjustments*

16 **Q. Please summarize Staff's rate base adjustments for Chino Meadows.**

17 A. Unsupported Plant Treated as Contributions in Aid of Construction ("CIAC") – This
18 adjustment increases CIAC by \$4,276 due to unsupported plant.

19
20 CIAC for Plant Paid with Insurance Proceeds – This adjustment increased CIAC by \$6,130
21 due to funds received from insurance proceeds less amortization for the Office fire.

22
23 Advances in Aid of Construction ("AIAC") Refunds – This adjustment decreases AIAC by
24 \$3,649 to reflect Staff's adjustment of AIAC because the Company inadvertently missed the
25 2013 payments. The missed payments were paid in 2014.

26

1 Amortization of CIAC – This adjustment increases accumulated amortization of CIAC by
2 \$805 to reflect the amortization of CIAC on the Staff-recommended CIAC additions.

3
4 Reclassify and Plant Additions to Appropriate Classifications – This adjustment for \$8,689
5 increases plant in service for plant additions and reclassifications to the appropriate NARUC
6 classifications.

7
8 Plant Not Used and Useful – This adjustment removes \$55,703 for plant that has been
9 determined to not be used and useful.

10
11 Removal of Plant Additions – This adjustment decreases the Plant Additions by \$1,000
12 reflecting adjustments for items that should not be included in plant.

13
14 Accumulated Depreciation – This adjustment decreases accumulated depreciation by \$33,636
15 to reflect Staff's calculation based on Staff's recommended plant.

16
17 Cash Working Capital ("CWC") Allowance – This adjustment decreases the allowance by
18 \$15,699 to reflect calculation of the CWC allowance using Staff's recommend operating
19 expenses. In the future, Staff will require a lead-lag or similar study to support its cash
20 working capital allowance.

21
22 *Operating Income Adjustments*

23 **Q. Please summarize Staff's operating income adjustments for Chino Meadows.**

24 A. Surcharge – This adjustment decreases the operating other revenues for a surcharge not
25 included in its tariff by \$379.

26

1 Water Testing – This adjustment increases the operating expenses for water testing by \$37 to
2 reflect Staff's recommended annual water testing costs.

3
4 Rate Case Expense – This adjustment increases operating expense by \$1,667 to reflect an
5 appropriate amount for Chino Meadows.

6
7 Bad Debt – This adjustment increases operating expense by \$2,843 to reflect an error in the
8 pro-forma adjustment by the Company (\$4,990 actual less \$1,990 Company pro-forma) less
9 collection fees of \$157.

10
11 Allocations – The total of all the adjustments decreases operating expenses by \$109,821. The
12 adjustments impact thirteen expense classifications. The adjustments include reclassifications,
13 disallowances and normalizations prior to the appropriate allocations.

14
15 Depreciation Expense – This adjustment decreases depreciation expense by \$1,509 to reflect
16 application of Staff's recommended depreciation rates to Staff recommended plant amounts.

17
18 Property Taxes – This adjustment decreases property taxes by \$976 to reflect application of
19 the modified version of the Arizona Department of Revenue's property tax methodology that
20 the Commission has consistently adopted.

21
22 Test Year Income Taxes – This adjustment increases test year income tax expense by \$23,628
23 to reflect application of statutory state and federal income tax rates to Staff's adjusted taxable
24 income.

1 **VI. COST ALLOCATIONS**

2 **Q. Please provide the Company's test year indirect expenses included in its cost**
3 **allocation.**

4 A. Per the response provided to Staff in Data Request ("DR") CM TBH 1.42, the Company
5 included ten categories of indirect expenses as follows: Purchased Power, Chemicals, Repairs
6 and Maintenance, Office Supplies, Rent, Contractual Services, Transportation, Insurance -
7 General Liability, Insurance - Health and Miscellaneous Expenses.

8
9 **Q. Please describe the Company's test year cost allocation methods.**

10 A. Per DR CM TBH 1.42, the Rent Expense during the test year was allocated to Chino
11 Meadows for 80 percent and to Granite Mountain for 20 percent. This allocation method is
12 directed by management. Operating Expenses during the test year were allocated to Chino
13 Meadows for 90 percent and to Granite Mountain for 10 percent. This allocation method is
14 based on the number of customers. Employee Salaries and Wages during the test year were
15 allocated to Chino Meadows for 83 percent and to Granite Mountain for 17 percent. This
16 allocation method is due to payroll software limitations; the Company allocated one
17 employee's salary directly to Granite Mountain. The resulting allocation for the test year was
18 \$164,965 to Chino Meadows and \$33,942 to Granite Mountain. Per DR's CM TBH 1.26 and
19 CM TBH 1.42, Officer, Director and Stockholder Salary and Wages, the companies intended
20 to allocate 80 percent to Chino Meadows and 20 percent to Granite Mountain. However, the
21 actual test year booked allocation was \$31,700 to Chino Meadows and \$6,000 to Granite
22 Mountain which is approximately 84 percent to Chino Meadows and 16 percent to Granite
23 Mountain.

1 **Q. Please describe the changes to the Company's current cost allocation methods.**

2 A. Per DR CM TBH 1.42, the Company changed the indirect Operating Expenses allocated to
3 Chino Meadows to 88 percent and to Granite Mountain to 12 percent based on actual end of
4 year customer counts.

5
6 **Q. Please describe the Staff's recommended cost allocation method.**

7 A. Both Chino Meadows and Granite Mountain paid a majority of the direct costs associated
8 with their respective water companies. Chino Meadows paid a majority of the indirect
9 expenses that were then allocated to Granite Mountain in an annual end of year
10 reimbursement to Chino Meadows. However, there were a number of indirect expenses paid
11 directly by Granite Mountain that were not adjusted through the allocations from Chino
12 Meadows. Staff allocated these indirect costs paid by Granite Mountain in the total for
13 indirect expenses to be allocated. Staff allocated the indirect expenses to thirteen expense
14 classifications.

15
16 In order for Staff to determine the amount to reallocate to all affiliates as shown on Schedule
17 TBH CM-19a, Staff began with the Company's proposed expenses as filed in Column D;
18 Second Step: Staff added back the original amount of the prior allocation to Granite
19 Mountain for test year expenses in Column E; Third Step: Staff reclassified expenses to the
20 appropriate classification and allocated expenses that Granite Mountain incurred that should
21 be part of the allocation as shown on Schedule TBH CM-19b in Column F; Fourth Step:
22 Staff disallowed expenses not appropriate for rate making purposes as shown on Schedule
23 TBH CM-19c in Column G; Fifth Step: Staff normalized expenses as shown on Schedule
24 TBH CM-19d in Column H.

25

1 Staff continued with the Sixth Step: Staff removed all direct expenses as shown on Schedule
2 TBH CM-19a in Column I; Seventh Step: Staff added Column D through Column H Less
3 Column I to determine the Costs to be Allocated as shown on Schedule TBH CM-19a
4 Column J; Eighth Step: Staff determined the portions due from unregulated affiliates, as
5 shown on Schedule TBH CM-19a Column K; Ninth Step: Staff determined the costs to be
6 allocated to the unregulated affiliates, as shown on Schedule TBH CM-19a Column L; Tenth
7 Step: Staff determined the costs to be allocated to the regulated water affiliates, as shown on
8 Schedule TBH CM-19a Column M.

9
10 Staff applied the 4-factor allocation in the Eleventh Step: Chino Meadows 4-factor allocation
11 of 70.12 percent, as shown on Schedule TBH CM-19a Column N; Twelfth Step: Staff then
12 applied Chino Meadows' 4-factor allocation from TBH CM-19e at 70.12 percent to costs to
13 determine the amount to be allocated to the Company as shown on Schedule TBH CM-19a
14 Column P; Final Step: The total of the direct expenses in Column I and the amount allocated
15 to Chino Meadows in Column P are then adjusted to the amount the Company filed in its
16 application as shown on Schedule TBH CM-19a in Column C.

17
18 **Q. What are the components of Staff's recommended 4-factor cost allocation?**

19 A. Staff recommends using a 4-factor allocation that including the average number of customers,
20 net plant in service, total annual revenue and total annual gallons pumped in thousands. Each
21 of the four individual factors would then be given equal weight under Staff's
22 recommendation.

23
24 **Q. Which affiliates will be included in the development of the 4-factor cost allocations?**

25 A. Staff recommends that the 4-factor allocation be determined by utilizing all three regulated
26 affiliated water utilities (Chino Meadows, Granite Mountain and Antelope Lakes) as shown

1 on Schedule TBH CM-19e. Additionally, Staff also recommends that the indirect costs
2 should be allocated to all three regulated affiliated water utilities.

3
4 **Q. Please explain the results from using the four factors Staff recommends for allocation**
5 **purposes.**

6 A. The resulting 4-factor allocations are as follows: Antelope Lakes is 2.95 percent, Chino
7 Meadows is 70.12 percent and Granite Mountain is 26.93 percent as shown on Schedule TBH
8 CM-19e.

9
10 **Q. Did Staff identify any expenses that should not be allocated to Chino Meadows?**

11 A. Yes. Staff identified expenses it has deemed improper for rate making purposes.

12
13 **Q. Did Staff identify any expenses paid directly by Granite Mountain that should have**
14 **been included in the Corporate Allocations?**

15 A. Yes. Staff identified \$3,637 in expenses that should have been part of the 4-factor allocation
16 and were paid by Granite Mountain. This allocation increased Repairs and Maintenance by
17 \$1,820 and Transportation by \$1,817. This adjustment is then reallocated through Corporate
18 Allocations.

19
20 **Q. Why are Corporate Allocations required for transactions with Affiliates?**

21 A. As stated within the NARUC Guidelines, transactions with Affiliates, "Allocations are
22 important as there is an incentive to shift costs to regulated entities where recovery may be
23 more likely which would result in increased profits for the non-regulated entities." This
24 guideline stated that "Regulations are designed to prevent "cross subsidization" – one entity
25 paying for costs that actually benefit another entity. Cross subsidization can occur between
26 regulated entities as well as between regulated and non-regulated entities."

1 **Q. Based on the consideration discussed in the NARUC Guideline, does Staff**
2 **recommend that the Company develop and then follow a formal written Code of**
3 **Affiliate Conduct related to affiliate transactions?**

4 A. Yes.

5
6 **Q. What is the purpose of a formal written Code of Affiliate Conduct (“Code”)?**

7 A. The formal written Code of Affiliate Conduct is meant to complement and clarify affiliate
8 transactions. The purpose of this Code is to govern all operational and financial activities and
9 relationships with and among the parent, owners, family members and all affiliates (regulated
10 and unregulated). This Code assures the separation of the traditional roles of the regulated
11 utilities and unregulated affiliates. This Code will develop the cost allocation through a cost
12 allocation manual that includes time keeping for all employees. The Code would address
13 valuing transactions for purchases or sales as well as goods and services provided to or
14 among affiliates. Competitive bidding practices should be included in the Code. Financial
15 arrangements between affiliates (regulated and unregulated) whether as notes receivable or
16 notes payable would need to be addressed in the Code. The Company should develop and
17 submit its proposed formal written policy or agreement for the Code to Staff but the scope
18 and structure must be acceptable to Staff.

19
20 **Q. Why is Staff recommending a formal written Code?**

21 A. Staff is recommending the Code due to the ongoing issues with the Company and its
22 regulated and unregulated affiliates. Throughout the review of the books and records of the
23 Company, it is abundantly clear that until a proper code is written and adhered to by the
24 Company the issues presented in my testimony will only continue. By following the Code the
25 Company should resolve the recurring issues discussed in my testimony. However, Staff

1 recommends that the Commission provide the authority for Staff to immediately place an
2 interim manager if the Company violates any part of the Code.

3
4 **Q. Does Staff believe a formal written Code will suffice to resolve these recurring issues?**

5 A. If the Company follows the Code, yes. However, because the Company has a history of
6 failing to comply with similar Commission orders, Staff is recommending that it be
7 authorized to appoint an Interim Manager if it determines the Company violates any part of
8 the Code.

9
10 **VII. RATE BASE**

11 *Fair Value Rate Base*

12 *Rate Base – Plant Documentation*

13 **Q. Are plant costs required to be supported?**

14 A. Yes. The Arizona Administrative Code § R14-2-411(D) (1) states, “Each utility shall keep
15 general and auxiliary accounting records reflecting the cost of its properties....and all other
16 accounting and statistical data necessary to give complete and authentic information as to its
17 properties....” (Emphasis added.)

18
19 **Q. During the audit, did Staff identify plant costs which Chino Meadows did not
20 adequately support?**

21 A. Yes. Chino Meadows did not provide invoices to support \$42,759 in plant additions, as
22 shown on Schedule TBH CM-5, line 22. Source documents are essential records for verifying
23 plant costs. In the absence of supporting documentation, the Company’s plant balances
24 cannot be verified.

25

26

1 **Q. Was there an abnormal or non-recurring event that affected the Company providing**
2 **source documents and records during the audit?**

3 A. Yes, Chino Meadows and Affiliates had a fire in the office located at 2465 W. Shane Drive on
4 December 14, 2011. Mr. Paul Levie provided a sworn statement in the application that the
5 records located in the office and Accounts Payable records and invoices for (2008, 2009, 2010
6 and 2011) were destroyed in the fire.

7
8 **Q. What does Staff typically recommend for inadequately supported plant?**

9 A. Staff typically recommends that 100 percent of the cost be removed from rate base. It is the
10 Company's responsibility to support its claimed costs. If unsupported costs are not removed,
11 ratepayers are at risk of paying a return on plant values that may be overstated or on plant
12 items that may not exist.

13
14 **Q. Is Staff's recommendation that 100 percent of the cost be removed in this case?**

15 A. No. Staff is not making that recommendation.

16
17 **Q. What is Staff's recommended treatment for the inadequately supported plant in this**
18 **case?**

19 A. Staff is recommending that 10 percent of unsupported plant in service be offset with CIAC.

20
21 **Q. Why is Staff Altering its usual position in this case?**

22 A. There are three reasons Staff is recommending this treatment. First as previously noted, the
23 Company's office experienced a fire in December 2011. A majority of the Company's
24 records were destroyed by fire. Second, the Company has made an effort with its bank to
25 obtain copies of cancelled checks and the Company provided numerous letters to the bank.

1 The Company was able to obtain some of the requested records. Third, Staff's inspection
2 verified that the plant did exist and costs were not overstated.

3
4 *Rate Base Summary*

5 **Q. Please summarize Staff's adjustment to Chino Meadows' rate base shown on**
6 **Schedules TBH CM-3 and TBH CM-4.**

7 A. Staff's adjustment to Chino Meadows' rate base resulted in a net decrease of \$36,029, from
8 \$171,398 to \$135,369. This decrease was primarily due to Staff's adjustments to plant in
9 service and accumulated depreciation associated with the plant. Staff's recommendation
10 results from the eight rate base adjustments as discussed below.

11
12 *Rate Base Adjustment No. 1 – Unsupported Plant Treated as CIAC*

13 **Q. Does Staff's Rate Base Adjustment No. 1 relate to the unsupported plant investments**
14 **being treated as CIAC which was already discussed?**

15 A. Yes. Staff recommends treating 10 percent of the unsupported plant additions of \$42,759 as
16 contributions and include \$4,276 in CIAC, as shown on Schedule TBH CM-5 line 26. The
17 associated adjustment for the amortization of the CIAC for this plant is \$192.

18
19 *Rate Base Adjustment No. 2 – CIAC for Plant paid with Insurance Proceeds*

20 **Q. Did the Company write off utility plant that remains in service?**

21 A. Yes. The Company did not properly maintain its records in accordance with the NARUC
22 USoA, and it inadvertently offset the insurance proceeds for plant reimbursed after the office
23 fire in December 2011 resulting in the write-off of plant in service. The Company should
24 have added plant addition to plant in service.

1 **Q. Why is Staff treating this plant as CIAC?**

2 A. According to NARUC Guidelines, plant paid with insurance proceeds should be treated as
3 CIAC. Staff recommends the plant be added in the year the plant was put into use.

4
5 **Q. What is Staff's recommendation?**

6 A. Staff recommends increasing CIAC by \$6,130 for the Computers and Software purchased to
7 replace equipment destroyed in the December 2011 office fire as shown on Schedule TBH
8 CM-6. The plant is added on Schedule TBH CM-8, line 21. The associated adjustment for
9 the amortization of the CIAC for this plant is \$613.

10

11 *Rate Base Adjustment No. 3 – ALAC Refunds*

12 **Q. Did the Company properly refund the AIAC obligations in the test year?**

13 A. No. The Company stated in DR CM TBH 1.18 that, due to employee error turnover, it
14 inadvertently failed to make the required refunds during the test year. The Company made
15 the required refunds in 2014.

16

17 **Q. What is Staff's recommendation?**

18 A. Staff recommends an AIAC balance decrease by \$3,649 for refunds the Company
19 inadvertently failed to make during the test year.

20

21 *Rate Base Adjustment No. 4 – Reclassify Plant and Plant Additions to Appropriate Classifications*

22 **Q. Did Staff reclassify plant in accordance with Decision 72896?**

23 A. Yes, Staff reclassified and moved \$6,406 from Water Treatment Equipment in Acct. 320 to
24 the appropriate sub-category of Solution Chemical Feeders in Acct. 320.2. Staff reclassified
25 and moved \$51,684 from account Distribution Reservoirs and Standpipes in Acct. 330 to the

1 appropriate sub-account number of Storage Tanks in the amount of \$36,415 and Pressure
2 Tanks in the amount of \$15,269.

3
4 **Q. Did Staff reclassify or add other plant in service in this case?**

5 A. Yes, Staff reclassified and moved \$4,782 from Computers & Software in Acct. 340.1 to
6 Office Furniture in Acct. 340 and increased by \$1,752 from Fire Related Expenses in 2012
7 for Office Furniture for a total adjustment of \$6,534. Staff included \$6,130 in Computers &
8 Software Acct. 340.1 due to equipment cost previously expensed and offset by insurance
9 proceeds as noted on Schedule TBH CM-6. Staff reclassified and moved \$854 from
10 Computers & Software in Acct. 340.1 to Communications Equipment in Acct. 346. Staff
11 reclassified and moved \$3,975 from Communications Equipment in Acct. 346 to
12 Miscellaneous Equipment in Acct. 347. Staff reclassified and moved \$539 from expenses
13 adjusted for on Schedule TBH CM-20 to Wells & Springs in Acct. 307. Staff reversed the
14 Company's adjusting entry removing \$268 from Transmission & Distribution Mains in Acct.
15 331.

16
17 *Rate Base Adjustment No. 5 – Plant Retirements*

18 **Q. Did the Company retire plant in service due to the Office fire in December 2011?**

19 A. No, the Company did not retire plant in service due to the Office fire in accordance with
20 NARUC Guidelines.

21
22 **Q. Does Staff recommend the retirement of plant destroyed due to an Office fire in
23 December 2011?**

24 A. Yes, Staff removed \$9,346 from Office Furniture and Equipment in Acct. 340 as shown on
25 Schedule TBH CM-9 Line 16 and \$5,608 from Communication Equipment in Acct. 346 as

1 shown on Schedule TBH CM-9 Line 19. Staff adjusted accumulated depreciation for this
2 plant on Schedule TBH CM-11.

3
4 **Q. Did the Company retire plant in service that is no longer used and useful?**

5 A. No, the Company did not retire transportation equipment no longer owned by the Company.
6 In response to DR CM TBH 1.38, the Company provided a schedule of all vehicles and listed
7 the following as no longer owned by the Company: 1998 Ford Ranger Truck (\$11,287), 2000
8 Ford Ranger Truck (\$5,350), Pre-1995 Unidentified Vehicles (\$4,103), 1975 Ford Water
9 Truck (\$7,500) and 1999 Ford Truck (\$12,509).

10
11 **Q. What is Staff's recommendation?**

12 A. Staff recommends removing \$55,703 from plant in service due to retirements, as shown on
13 Schedule TBH CM-9. Staff recommends that the Company retire items that are no longer
14 used and useful in a timely manner.

15
16 *Rate Base Adjustment No. 6 – Removal of Plant Additions*

17 **Q. Did the Company purchase a John Deere riding lawn mower from a private party**
18 **during the test year?**

19 A. Yes, the Company purchased a riding lawn mower for \$1,000 from a private party.

20
21 **Q. Did the Company transfer this plant to Granite Mountain?**

22 A. No. In response to Staff's DR CM TBH 2.7, the Company stated that Chino Meadows still
23 owns the riding lawn mower.

24

1 **Q. Why did Staff remove this plant addition for the John Deere riding lawn mower?**

2 A. Staff removed the plant addition due to the Company already owning a new riding lawn
3 mower that was purchased in October 2012. Additionally, Staff during the site visit with the
4 Operation Manager on September 25, 2014, stated the John Deere riding lawn mower was
5 stored in the Owner's garage and used solely by Granite Mountain. Staff determined the
6 riding lawn mower intended uses could not be supported and therefore was removed.

7

8 **Q. What is Staff's recommendation?**

9 A. Staff removed \$1,000 from plant additions for Power Operated Equipment in Acct. 345.
10 Staff further recommends that unsupported or personal expenses not be paid by the
11 Company.

12

13 *Rate Base Adjustment No. 7 – Accumulated Depreciation*

14 **Q. Did Staff make any adjustments for Accumulated Depreciation?**

15 A. Yes.

16

17 **Q. What is Staff's recommendation?**

18 A. Staff calculated the accumulated depreciation based on Staff's recommended plant
19 adjustments. Staff's calculation of \$636,937 as shown on Schedule TBH CM-11 includes
20 Staff's rate base adjustments summarized on Schedule TBH CM-4 and the associated
21 additions or reductions to rate base.

22

23 *Rate Base Adjustment No. 8 – Cash Working Capital Allowance*

24 **Q. What is Cash Working Capital?**

25 A. Cash working capital represents a required level of funding provided by investors for the
26 purposes of paying operating expenses in advance of receiving recovery of such expense from

1 customers through rates. The cash working capital allowance is a component of rate base that
2 can be positive or negative.

3

4 **Q. What is Chino Meadows proposing for the cash working capital allowance?**

5 A. The Company proposes a cash working capital allowance based on the formula method, i.e.,
6 one-twenty-fourth of purchased water and purchased electric power expense and one-eighth
7 of other operating and maintenance expenses.

8

9 **Q. What is Staff's recommendation?**

10 A. Staff recommends a Cash Working Capital Allowance balance of \$27,780, a \$15,699 decrease
11 over the Company's proposed balance of \$43,479, as shown on Schedules TBH CM-4 and
12 TBH CM-12. But Staff notes that in the future, Staff will require a lead-lag or similar study to
13 support its cash working capital allowance.

14

15 **VIII. OPERATING INCOME**

16 *Operating Income Summary*

17 **Q. What are the results of Staff's analysis of test year revenues, expenses, and operating
18 income?**

19 A. As shown on Schedules TBH CM-13A, TBH CM-13B and TBH CM-14, Staff's analysis
20 resulted in test year revenues of \$357,985, expenses of \$301,230 and operating income of
21 \$56,754. The Company's application shows test year revenues of \$358,364, expenses of
22 \$385,362 and an operating loss of \$26,998. Staff's recommendation results from the eight
23 operating income adjustments discussed below.

24

1 *Operating Income Adjustment No. 1 – Surcharge - Other Revenue*

2 **Q. What is the Company proposing for other revenues?**

3 A. The Company proposed \$12,744 for other revenues.
4

5 **Q. What is Staff's recommendation?**

6 A. Staff recommends decreasing test year revenue by the amount of \$379, as shown on Schedule
7 TBH CM-15. This adjustment decreases the operating other revenues for a surcharge not
8 included in its tariff for \$379. Such revenues should not be recurring since this surcharge is
9 not included in the Company's Commission-approved tariffs.
10

11 *Operating Income Adjustment No. 2 – Contract Services, Water Testing*

12 **Q. What is the Company proposing for contract services for testing?**

13 A. The Company proposed \$4,791 for the adjusted test year expense.
14

15 **Q. What is Staff's recommendation?**

16 A. Staff recommends increasing test year expense by the amount of \$37, as shown on Schedule
17 TBH CM-16. Even though this adjustment is small, Staff is capturing this adjustment in
18 order to reflect the recommended annual water testing costs as shown on Staff's Engineering
19 Report.
20

21 *Operating Income Adjustment No. 3 – Rate Case Expenses*

22 **Q. What is the Company proposing for rate case expenses?**

23 A. The Company proposed \$13,333 for the adjusted test year expense. The Company estimated
24 that the combined rate case expense for Chino Meadows and Granite Mountain of \$50,000.
25 For the filings the costs were allocated 20 percent to Granite Mountain for \$10,000 and 80
26 percent for Chino Meadows for \$40,000. The Company normalized the \$40,000 expense

1 over 3 years. However, according to the Company's supplemental response to Staff's DR
2 CM TBH 1.5, the Company is now claiming a combined rate case expense for Chino
3 Meadows and Granite Mountain of \$75,000. The Company's adjusted costs would be
4 allocated at 40 percent to Granite Mountain for \$30,000 and 60 percent for Chino Meadows
5 for \$45,000. The Company would normalize this \$45,000 expense over 3 years.
6

7 **Q. What is Staff's recommendation?**

8 A. Staff is recommending recognition of a rate case expense level of \$15,000, an increase of
9 \$1,667 over the Company's originally proposed amount of \$13,333.
10

11 *Operating Income Adjustment No. 4 – Bad Debt Expense*

12 **Q. What is the Company proposing for bad debt expense?**

13 A. The Company proposed \$1,990 for the adjusted test year expense.
14

15 **Q. Did Staff make any adjustments to the Company pro forma adjustments for bad debt
16 expense?**

17 A. Yes.
18

19 **Q. What are those adjustments and why?**

20 A. Staff's adjustments reflect pro forma corrections for errors made by the Company of \$2,843.
21 The Company's original adjustment was to reclassify the bad debt expense from
22 miscellaneous to bad debt expense for a decrease of 1,990. Staff reviewed the general ledger
23 and determined the total bad debt expense was actually \$4,990 a difference of \$3,000. Staff
24 reclassified the collection fees from miscellaneous expense to bad debt expense for a decrease
25 of \$157. The net result of Staff's adjustments to the Company's pro forma adjustments is an

1 increase of \$2,843. Staff reviewed the last four years of actual bad debt expenses. The
2 amount for the test year appears to be reasonable.
3

4 *Operating Income Adjustment No. 5 – Cost Allocations*

5 **Q. How did Staff develop its Cost Allocation based adjustments?**

6 A. Staff developed its recommended cost allocation based adjustments by a review of the
7 Company's underlying expenses and based upon the application of the 4-factor cost
8 allocations Staff is recommending. The resulting expense level changes were the result of
9 expense reclassifications, expense level disallowances and expense level normalizations.
10

11 *Reclassifications*

12 **Q. Did Staff reclassify expenses for Salaries and Wages, Repairs and Maintenance, Office**
13 **Supplies, Rent, Contractual Services, Transportation, Miscellaneous and Payroll**
14 **Taxes?**

15 A. Yes. Staff reclassified expenses to each of the classifications listed above as shown on
16 Schedule TBH CM-19b. Staff will discuss each separately. However, Staff will combine the
17 discussions of the adjustments for Salaries, Wages and Payroll Taxes.
18

19 **Operating Income Adjustments – Salaries, Wages and Payroll Taxes**

20 **Q. Why did Staff include adjustments related to Salaries, Wages and Payroll?**

21 A. In response to Staff's DR GM TBH 1.24, the Company stated the position works for all the
22 affiliated water companies and also provides support related to Mr. Paul Levie's property
23 management activities. Staff reclassified these expenses in order to reflect the cost allocations
24 as shown on Schedule TBH CM-19f.
25

1 **Q. Does Staff agree with the Company's current allocation method for salaries, wages**
2 **and payroll taxes between Chino Meadows and Granite Mountain?**

3 A. No. The Company stated that 40 percent of this employee's salary was paid by Granite
4 Mountain. However, Staff recommends that the test year's salary and wages be determined
5 using the 4-factor cost allocation method.

6

7 **Q. Please describe Staff's reclassification adjustment to Salaries and Wages for Payroll**
8 **Taxes.**

9 A. Staff reclassified payroll taxes of \$15,718, resulting in a decrease to Salaries and Wages as
10 shown on Schedule TBH CM-19b Line 16. Staff's reclassification of payroll taxes is based on
11 actual and estimated payroll taxes reflecting a reasonable salary and salary increase. Staff
12 adjusted the test year salaries, wages and payroll taxes as shown on the Allocations for Salaries
13 and Wages Calculation Schedule TBH CM-19f.

14

15 *Operating Income Adjustments - Repairs and Maintenance*

16 **Q. Please describe Staff's reclassification adjustments related to Repairs and**
17 **Maintenance expenses.**

18 A. Staff reclassified expenses to plant in service for \$539 and the plant should be capitalized and
19 depreciated, as shown on Schedules TBH CM-19b and TBH CM-20. Staff determined that
20 Granite Mountain incurred expenses for Repairs and Maintenance of \$1,820 that need to be
21 reclassified to be included in the cost allocations as shown on Schedule TBH CM-19b.

22

23 **Q. What is Staff's recommendation?**

24 A. Staff recommends increasing test year repairs and maintenance expenses by the amount of
25 \$1,281, as shown on Schedule TBH CM-19b.

26

1 *Operating Income Adjustments – Office Supplies*

2 **Q. Please describe Staff's reclassification adjustments for Office Supplies.**

3 A. Staff reclassified the rent expense of \$12,000 that was misclassified to Office Supplies, as
4 shown on Schedule TBH CM-19b.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends decreasing test year office supplies expenses by the amount of \$12,000, as
8 shown on Schedule TBH CM-19b.

9
10 *Operating Income Adjustments – Rent*

11 **Q. Please describe Staff's reclassification adjustments for Rent.**

12 A. Staff reclassified the rent expense of \$12,000 that was misclassified to Office Supplies, as
13 shown on Schedule TBH CM-19b.

14
15 **Q. Where is the administrative office located and who owns the property?**

16 A. 501 N Hwy 89, Chino Valley AZ 86323 is owned by Mr. Dewey J. Levie, Mr. Paul Levie's
17 son.

18
19 **Q. How much is the full rent for the administrative office and allocation to Chino
20 Meadows and Granite Mountain?**

21 A. Per the rental agreement dated December 15, 2011, provided in response to DR CM TBH
22 1.30, the monthly rent is \$1,250 for a total of \$15,000 per year to Mr. Dewey J. Levie. In the
23 Company's response to DR CM TBH 1.30d, "Chino Meadows is required to pay yearly rent
24 of \$15,000 (\$1,250 per month). During the test year, the rent was 20 percent to Granite
25 Mountain (\$3,000) and 80 percent to Chino Meadows (\$12,000). No other entities pay rent."

26

1 **Q. Did the administration offices and water company employees support Mr. Paul**
2 **Levie's property management activities?**

3 A. Yes. According to the Company's response to DR CM TBH 1.14 and DR GM TBH 1.15 on
4 Shared Facilities Allocations, the administration office supports Mr. Paul Levie's property
5 management activities. In addition to the office space, the administrative water company
6 employees support Mr. Paul Levie's property management activities.

7
8 **Q. Did Staff research local office space commercial lease/rental information for**
9 **comparative and market prices?**

10 A. Yes. Staff researched current leases available in Chino Valley using the website *Loopnet* on
11 November 4, 2014 and May 12, 2015. According to the website, the market rates on an
12 annual basis are approximately \$7,600 for a space of 756 to 950 square feet space. The
13 market price ranges from \$8 to \$10 per square foot per year. Staff has provided the May 12,
14 2015 information in Exhibit 1.

15
16 **Q. Did Staff request information regarding the business office of the Company?**

17 A. Yes in DR CM TBH 1.30, Staff requested information regarding the address of the office
18 building, owner of the office building and relationship to Mr. Paul Levie, rental agreements,
19 number and names of all regulated and unregulated businesses that operate from the building,
20 monthly rents for all businesses from the building, actual annual costs and the square footage
21 of the building.

22

1 **Q. Did Staff estimate the square footage of the building occupied by the Company's**
2 **employees allocated to the water companies?**

3 A. Yes. Staff estimated that 75 percent of the office space is occupied by the Company's
4 employees allocated to the water companies. Additionally, Staff has allocated this percentage
5 through the 4-factor allocation methodology.

6
7 **Q. Did Staff allocate a percentage of the square footage of the building to unregulated**
8 **affiliated companies?**

9 A. Yes, based upon observation made during the office visits on September 25, 2014, December
10 10, 2014 and January 25, 2015. Staff estimated that 25 percent of the office space is occupied
11 by the unregulated affiliated businesses as well as the office for Mr. Dewey J. Levie. Staff has
12 disallowed this percentage through the 4-factor allocation as shown on Schedule TBH CM-
13 19a.

14
15 **Q. What did the Company provide for the square footage of the building located at 501 N**
16 **Hwy 89, Chino Valley AZ 86323?**

17 A. In response to Staff's DR CM TBH 1.30, the Company stated the building contains 2,280
18 square feet.

19
20 **Q. What is the lease cost per square foot per year for the building located at 501 N Hwy**
21 **89, Chino Valley AZ 86323 based on the current lease agreement?**

22 A. Based on the current annual rent of \$15,000 per year for the building contains 2,280 square
23 feet, the lease amount per square foot per year is approximately \$6.58 per square foot.

24

1 **Q. Based on the market in Chino Valley, Is the amount per square foot per year**
2 **reasonable? Is the amount of square footage used by the regulated companies**
3 **reasonable?**

4 A. Yes, the amount per square foot per year is reasonable. However, 25 percent of the building
5 is being used by the unregulated affiliated companies as shown on Schedule TBH CM-19a.
6

7 **Q. What is Staff's recommendation?**

8 A. Staff recommends increasing test year rent expenses by the amount of \$12,000, as shown on
9 Schedule TBH CM-19b. Staff notes that the combined rent for both Chino Meadows and
10 Granite Mountain is \$15,000. However, Staff will allocate the rent expense using the 4-factor
11 allocation as shown on Schedule TBH CM-19a.
12

13 *Operating Income Adjustments – Contractual Services*

14 **Q. Please describe Staff's reclassification adjustments for Contractual Services.**

15 A. Staff reclassified the contractual services expense of \$500 for a land survey that is a direct
16 expense for Granite Mountain, as shown on Schedule TBH CM-19b. Staff properly allocated
17 the land survey as a direct expense on Granite Mountain's schedules.
18

19 **Q. What is Staff's recommendation?**

20 A. Staff recommends decreasing test year contractual services expenses by the amount of \$500,
21 as shown on Schedule TBH CM-19b.
22

1 *Operating Income Adjustments – Transportation*

2 **Q. Please describe Staff's reclassification adjustments for Transportation.**

3 A. Staff determined that Granite Mountain incurred expenses for Transportation of \$1,817 that
4 are reclassified in order to be included in the cost allocations as shown on Schedule TBH
5 CM-19b.

6
7 **Q. What is Staff's recommendation?**

8 A. Staff recommends increasing test year transportation expenses by the amount of \$1,817, as
9 shown on Schedule TBH CM-19b.

10
11 *Operating Income Adjustments – Miscellaneous*

12 **Q. Please describe Staff's reclassification adjustments for Miscellaneous.**

13 A. Staff's adjustments reflect pro forma corrections for errors made by the Company of \$3,397.
14 The Company's original adjustments were to reclassify the interest paid on customer deposits
15 from interest expense to miscellaneous expense as shown on Attachment No. 2 Supplemental
16 Page 5 for an increase of \$554 and to reclassify the bad debt expense from miscellaneous to
17 bad debt expense for a decrease of \$1,990. The net result of the Company's pro forma
18 adjustments is a decrease to miscellaneous expenses of \$1,435, and the Company's proposed
19 expense of \$8,848. Staff reviewed the general ledger and determined the total bad debt
20 expense was actually \$4,990, a difference of \$3,000. Staff reversed the interest expense
21 adjustments made by the Company of \$554 and reclassified the collection fees for bad debt
22 expenses from miscellaneous expense of \$157. The net result of Staff's adjustments for the
23 Company's pro forma adjustments is a decrease of \$3,397 as shown on Schedule TBH CM-
24 19b.

25

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends decreasing test year miscellaneous expenses by the amount of \$3,397, as
3 shown on Schedule TBH CM-19b.

4
5 *Disallowances*

6 **Q. Did Staff disallow expenses for Salaries and Wages, Salaries and Wages – Officers,**
7 **Purchased Power, Repairs and Maintenance, Office Supplies, Contractual Services,**
8 **Transportation, Insurance – General Liability, Miscellaneous and Payroll Taxes?**

9 A. Yes. Staff disallowed expenses to each of the classifications listed above as shown on
10 Schedule TBH CM-19c. Staff will discuss each separately. However, Staff will combine the
11 discussions of the adjustments for Salaries, Wages and Payroll Taxes.

12
13 *Operating Income Adjustments – Salaries, Wages and Payroll Taxes*

14 **Q. Who are the owners of Chino Meadows?**

15 A. Mr. and Mrs. Paul and Rae Levie.

16
17 **Q. In addition to Chino Meadows, do Mr. and Mrs. Paul Levie own any other regulated**
18 **utilities or unregulated affiliates?**

19 A. Yes. Mr. and Mrs. Paul Levie own Granite Mountain and Antelope Lakes Water Company,
20 and they own numerous unregulated affiliated companies including rental properties.

21
22 **Q. Did Staff inquire if employees of the water companies work for any unregulated**
23 **companies of the owners; hours worked per week; and specific employees?**

24 A. Yes. Staff requested this information in DR CM TBH 2.12h and DR GM TBH 2.5g.
25

1 **Q. What details did Chino Meadows and Granite Mountain provide regarding its**
2 **employees that also work for Mr. and Mrs. Paul Levie's unregulated affiliated**
3 **companies?**

4 A. Chino Meadows' response to Staff's DR CM TBH 2.12h stated that the Administrative
5 Assistant and Operations Manager positions provided support for Mr. and Mrs. Paul Levie's
6 property management activities. The positions are not paid separately for these activities.
7 Chino Meadows estimated that the Administrative Assistant position works up to 2 hours per
8 week on property management activities. Chino Meadows estimated that the Operations
9 Manager position works up to 4 hours per week on property management activities. Granite
10 Mountain's response to Staff's DR GM TBH 2.5g stated that the Administrative Assistant
11 position provided support for Mr. and Mrs. Paul Levie's property management activities. The
12 positions are not paid separately for these activities. Granite Mountain estimated that the
13 Administrative Assistant position works up to 16 hours per week on property management
14 activities.

15
16 **Q. Did Chino Meadows provide support for the actual amount of labor expense that was**
17 **directly incurred for Mr. and Mrs. Paul Levie's unregulated affiliated companies?**

18 A. No. Chino Meadows did not provide any time sheets that document the amount of time they
19 spend working for the unregulated affiliated companies.

20
21 **Q. Please describe Staff's disallowance adjustments for Salaries, Wages and Payroll**
22 **Taxes.**

23 A. Staff disallowed the salaries, wages and payroll taxes based on the number of hours worked
24 by Chino Meadows and Granite Mountain employees for Mr. Paul Levie's unregulated
25 businesses. Staff disallowed \$17,444 for salaries and wages; and \$1,539 for payroll taxes
26 associated with those salaries and wages, as shown on Schedule TBH CM-19c. Staff adjusted

1 the test year salaries, wages and payroll taxes as shown on the Allocations for Salaries and
2 Wages Calculation Schedule TBH CM-19f.

3
4 *Operating Income Adjustments – Salaries and Wages - Officers*

5 **Q. What is Chino Meadows and Granite Mountain proposing for employee salary and**
6 **wages expense for Officers, Directors and Stockholders?**

7 A. The Company is proposing \$31,700⁴ and Granite Mountain is proposing \$6,000 for the salary
8 and wages of the Officers, Directors and Stockholders of the Company.

9
10 **Q. Who were the payments paid to?**

11 A. Paul D. Levie P.C.

12
13 **Q. How many businesses does Mr. Paul Levie operate or lists the business office as 501**
14 **N Hwy 89, Chino Valley AZ 86323?**

15 A. According to DR CM TBH 1.30, Mr. Paul Levie operates thirteen businesses. Those
16 businesses are: Chino Meadows, Granite Mountain, Antelope Lakes, Equestrian
17 Development Corporation, Equestrian Construction, LLC, LL&M Development, LLC, Levie
18 –Antelope Lakes Development Inc., CityofPrescott.com LLC, Paul D. and Rae Levie Living
19 Trust, Paul D. and Rae Levie Family Corporation, The Levie Family Foundation, Levie
20 Family Limited Partnership, and Levie Realty & Investment LLC. According to DR CM
21 TBH 1.30, Mr. Paul Levie's following businesses are inactive business entities: Paul D. Levie
22 Inc., Antelope Lakes Sewer, LLC, Raven Water Company, LLC, and Raven Sewer Company
23 LLC.

24

⁴ In response to DR CM TBH 1.26h, Mr. Paul Levie's total salary is \$38,400 in compensation for the test year. However, the allocation was \$31,700 for Chino Meadows at 84% and \$6,000 for Granite Mountain at 16% for a total of \$37,700.

1 **Q. Does Mr. Paul Levie maintain a time sheet showing the number of hours per day**
2 **spent working for each of his thirteen active business entities?**

3 A. No. Mr. Paul Levie does not maintain time sheets that document the amount of time he
4 spends each day working on each of his thirteen active business entities.

5
6 **Q. Did Chino Meadow or Granite Mountain provide support or documentation to**
7 **support the \$31,700 charged to Chino Meadows or the \$6,000 charged to Granite**
8 **Mountain?**

9 A. No, it did not.

10
11 **Q. Did the Company provide an explanation on how the level of salary for Mr. Paul**
12 **Levie's was determined? If yes, please describe.**

13 A. Yes. The Company stated in DR CM TBH 1.26h, "Mr. Levie's compensation is based on an
14 annual salary of \$76,800. As a half-time employee for Chino Meadows and Granite
15 Mountain. Mr. Levie was scheduled for \$38,400 in compensation for the test year."

16
17 **Q. What are Mr. Paul Levie's duties as described by Chino Meadows?**

18 A. The duties are: supervision and management of company personnel; oversight of company
19 operations; provision of strategic direction; review of company financial data including
20 payables, receivable, revenue and expenses; provision of legal representation for Company;
21 review of payroll and signing of checks; review and authorization of all vendor payments;
22 acquisition regulation and oversight of company loans and long-term debts; meeting with
23 operations management to review capital program and address operational issues and
24 ensuring that proper facilities and equipment are available; development and review of
25 company processes and procedures to ensure regulatory compliance; and revision and

1 advisement of Company on manuals such as employee handbook and emergency response
2 manual.

3
4 **Q. What are the duties of the Operations Manager⁵?**

5 A. The duties are: oversees and runs all daily operations; directs and assists administrative staff
6 and field techs; manages day to day operation of the company's facilities and personnel to
7 insure distribution of safe water to customer, provides customer services and compliance
8 with regulatory requirements, manages Company's capital projects, review and authorizes
9 vendor payments.

10
11 **Q. Did Staff make any adjustment to the total number of hours worked?**

12 A. Yes. Staff reviewed the total number of hours worked and given that (1) thirteen businesses
13 are operating from the office (2) no time sheets were maintained and no time study was
14 conducted, (3) some of the duties appeared to duplicate the duties of another employee at the
15 office, and (4) some of the time estimated seem high. Staff's adjusted hours are shown on
16 Schedule TBH CM-19g and then adjusted for the additional salary increase of \$4,673 for the
17 Operations Manager from \$50,683 in 2013 to \$55,356 in 2014.

18
19 **Q. Please discuss Staff's recommended decrease of \$17,444 to salaries and wages expense
20 for Officers, Directors and Stockholders, adjustment in further detail.**

21 A. Staff recommends removing \$11,761 in salaries and wages expense for Officers, Directors
22 and Stockholders. Staff adjusted the Company's proposed amount due to Mr. Paul Levie due
23 to the amount of time Staff was able to identify that Mr. Paul Levie was out of town. Staff
24 adjusted one-third of the proposed salary based on the description of Mr. Paul Levie's duties
25 in the Company's response to DR CM TBH 1.26g. Additionally, Staff decreased Mr. Paul

⁵ List of duties compiled from original application, responses by the Company to Staff's DR's CM TBH 1.25, CM TBH 2.12 and CM TBH 3.7.

1 Levie's salary due to the increase for Operations Manager from 2013 to 2014. The Company
2 provided the information about the increased duties in response to DR's CM TBH 2.12 and
3 CM TBH 3.7. The Operations Manager salary in 2013 was \$50,683 and in 2014 \$55,356 with
4 an increase of \$4,673. Staff further recommends removing the \$4,673 in salaries and wages
5 expense for Officers, Directors and Stockholders as shown on Schedule TBH CM-19g Line
6 21. Staff decreased the same from the Mr. Paul Levie's salaries and wages to reflect the
7 additional duties and responsibilities of the Operations Manager. Staff further recommends
8 that Chino Meadows have available a time study (and underlying detailed time sheets) to
9 evidence the amount of direct labor hours that Mr. Paul Levie spends on activities related to
10 Chino Meadow and Granite Mountain for recovery of that expense in future rate cases.

11
12 **Q. Did Staff, in a previous rate case, recommend a time study (and underlying detailed**
13 **time sheets) for Mr. Paul Levie? If so, please provide the docket number(s).**

14 A. Yes. In Docket No., W-02370A-10-0519, Staff recommended that Chino Meadows have
15 available a time study (and underlying detailed time sheets) to evidence the amount of direct
16 labor hours that Mr. Paul Levie spends on activities related to Chino Meadows for recovery
17 of that expense in future rate cases.

18
19 *Operating Income Adjustments – Purchased Power*

20 **Q. Please describe Staff's disallowance adjustments for Purchased Power.**

21 A. Staff disallowed the late fees of \$46 to Purchased Power, as shown on Schedule TBH CM-
22 19c. While this is a small amount, ratepayers should not be responsible for any level of late
23 fees when bills are not paid on a timely basis. Also other late fees were removed as part of
24 other adjustments recommended by Staff.

25

1 *Operating Income Adjustments – Repairs and Maintenance*

2 **Q. Please describe Staff's disallowance adjustments for Repairs and Maintenance.**

3 A. Staff disallowed transactions that were not needed in the provision of service such as repair
4 material costs to personal residences or rental properties for \$124, as shown on Schedule
5 TBH CM-19c.

6
7 *Operating Income Adjustments – Office Supplies*

8 **Q. Please describe Staff's disallowance adjustments for Office Supplies.**

9 A. Staff disallowed transactions that were not needed in the provision of services. Staff removed
10 \$44 for interest and late fees; \$1,888 for Mrs. Rae Levie's cell phone and charges, collect calls,
11 Mr. Paul Levie's international call plan and international calls; \$218 for personal meals; \$524
12 for miscellaneous personal expenses; and \$130 for expense outside the test year, as shown on
13 Schedule TBH CM-19c. The total adjustment recommended by Staff is a decrease of \$2,804.

14
15 *Operating Income Adjustments – Contractual Services*

16 **Q. Please describe Staff's disallowance adjustments for Contractual Services.**

17 A. Staff removed \$1,232 for legal fees non-recurring related to the office fire, as shown on
18 Schedule TBH CM-19c.

19
20 *Operating Income Adjustments – Transportation*

21 **Q. Please describe Staff's disallowance adjustments for Transportation.**

22 A. Staff disallowed transactions that were not needed in the provision of services. Staff removed
23 \$800 for gas reimbursements of \$100 per month for the administrative office employees;
24 \$2,497 for several unsupported purchases of vehicle tires; \$2,229 for out of state gasoline
25 purchases for Mr. Paul Levie; and \$1,854 for the bulk purchase of 530 gallons of gasoline
26 delivered to Mr. Paul Levie's personal residence, as shown on Schedule TBH CM-19c.

1 **Q. Did the Company provide additional information in support of these disallowed**
2 **transportation expenses?**

3 A. Yes. The Company stated that it no longer provides the gas reimbursement to employees.
4 Staff requested support for the tires in Staff's DR CM TBH 3.4d and the Company stated it
5 was unable to locate the requested receipts. According to the Company's response to Staff's
6 DR CM TBH 3.4(g), the Company stated, "Mr. Levie maintains a bulk fuel tank at his home
7 office location. Fuel from the tank is used for Mr. & Mrs. Levie's vehicles. The Company
8 estimates the one-half of the fuel was used for business purposes."
9

10 **Q. What is Staff's recommendation?**

11 A. Staff recommends decreasing test year transportation expenses in the amount of \$7,380, as
12 shown on Schedule TBH CM-19c.
13

14 **Operating Income Adjustments – Insurance – General Liability**

15 **Q. Please describe Staff's disallowance adjustments for Insurance - General Liability.**

16 A. Staff removed \$1,058 for vehicle AZ-1 owned by an unregulated affiliated company per the
17 Company's response to DR CM TBH 1.39, as shown on Schedule TBH CM-19c.
18

19 **Q. What is the Company proposing for general – liability insurance expenses?**

20 A. The Company proposed \$8,964 for the adjusted test year expense.
21

22 **Q. Who is insured by the Company's proposed insurance – general liability policy?**

23 A. The Company's cost for general liability insurance policy includes the following named
24 insured as provided in response to Staff's DR CM TBH 1.39: Granite Mountain Water
25 Company, Antelope Lakes Water Company, Inc., Wineglass Water Company, Inc.,
26 Equestrian Construction, LLC (For Automobile Coverage Only) , Equestrian Development

1 Corp., Paul D. & Rae Levie Trust DTD 11/20/73, Levie-Antelope Lakes Development, Inc.,
2 LL&M Development, LLC, Levie Family Limited Partnership, and Payette Heights
3 Development Corp.

4
5 **Q. Did Staff request an explanation about the insurance policy and why it included**
6 **regulated and unregulated affiliated companies and why the policy was paid**
7 **exclusively by Chino Meadows and Granite Mountain?**

8 A. Yes. Staff requested in DR CM TBH 2.2, costs for each company, cost of auto insurance, an
9 explanation why the General Liability Insurance was billed for and paid by the Company and
10 Granite Mountain, requested documentation about reimbursements back to Company and
11 the number of years the policy was billed and paid by the Company. The Company stated
12 there is no breakdown for each insured due to the blanket policy.

13
14 **Q. What is Staff's recommendation?**

15 A. Staff recommends decreasing test year expense in the amount of \$1,058, as shown on
16 Schedule TBH CM-19c. Staff's adjustments reflect the removal of \$1,058 of the insurance
17 for personal vehicle use costs for an unregulated company. Additionally, the unregulated
18 affiliates should obtain a separate policy from the regulated water companies. A separate
19 policy would protect ratepayers from insurance cost increases that could result if a non-utility
20 vehicle suffered a loss which increased future insurance premiums.

21
22 *Operating Income Adjustments – Miscellaneous*

23 **Q. What recommendation is Staff making regarding miscellaneous expenses?**

24 A. Staff recommends disallowance of \$1,559 for gifts; \$683 for food, beverages and similar
25 costs; and \$60 for donations, as shown on Schedule TBH GM-20c, for a total reduction of
26 \$2,301 from actual recorded test year miscellaneous expense.

1 *Normalization*

2 **Q. Did Staff normalize expenses for Salaries and Wages, Office Supplies, Transportation,**
3 **and Insurance – General Liability?**

4 A. Yes. Staff normalized expenses to each of classifications listed above as shown on Schedule
5 TBH CM-19d. Staff will discuss each separately.

6
7 *Operating Income Adjustments – Salaries and Wages*

8 **Q. What is the Company proposing for employee salary and wages expense?**

9 A. The Company is proposing \$211,665 for salaries and wages. The amount is composed of
10 \$179,965 for the actual test year for all employees that include payroll taxes and a \$15,000⁶
11 pro forma adjustment to reflect a salary increase. The Company states that \$31,700 is for the
12 salary and wages of the Officers of the Company.

13
14 **Q. What is Granite Mountain proposing for salaries and wages expense?**

15 A. Granite Mountain is proposing \$38,942 for employee salaries and wages net of salaries and
16 wages for Officers. The amount is composed of \$33,942 for actual test year expenses and a
17 \$5,000⁷ pro forma salary increase.

18
19 **Q. What is the combined pro forma salary and wage increase for both Chino Meadows**
20 **and Granite Mountain?**

21 A. The combined pro forma salary and wage increase is \$20,000. Chino Meadow has been
22 allocated 75 percent (\$15,000) and Granite Mountain 25 percent (\$5,000).

23

⁶ In Chino Meadows' application, Attachment No. 2 Supplemental Page 4 for Income Statement Adjustment IS-2 the total 2014 increase in employee salary is \$20,000 with 75% percentage allocated to Chino Meadows.

⁷ In Granite Mountain's application, Attachment No. 2 Supplemental Page 5 for Income Statement Adjustment IS-2 the total 2014 increase in employee salary is \$20,000 with 25% percentage allocated to Granite Mountain.

1 **Q. Are test year expenses representative of average salaries and wages expenses for**
2 **Chino Meadows and Granite Mountain? Please explain.**

3 A. No. Chino Meadows test year expenses included two employees final paychecks that are
4 outside normal salaries expenses, \$13,000 bonus for the Operations Manager to adjust pay to
5 match responsibilities, \$4,000 for other employee bonuses, and several incremental increases
6 for the Administrative Assistant and temporary employees. Granite Mountain test year
7 expenses included one final paycheck that is outside normal salaries expenses, a \$2,500 bonus
8 for the retired Administrative Assistant and \$1,000 for other employee bonuses. The
9 employee for Granite Mountain worked for the Company for 25 years and retired from the
10 water companies in October 2013.

11
12 **Q. Please discuss Staff's recommended \$160,638 for salaries and wages expense and**
13 **\$14,179 for payroll taxes in further detail.**

14 A. Staff's adjustments reflect the actual salaries for the Operations Manager and Administrative
15 Assistants provided in responses to DR's CM TBH-2.12b, CM TBH 3.7 and GM TBH-2.5g.
16 Staff's adjustments reflect the estimated salaries for the two field technicians with increases
17 using the information provided by the Company to DR CM TBH 1.25. Based on the
18 information provided, Staff determined that \$178,082 in salary and wages and \$15,718 in
19 payroll taxes adjusted for the inclusion of any salary increases as shown on Schedule TBH
20 CM-19f Line 7. Staff adjusted the salaries, wages and payroll taxes for the Operations
21 Manager and Administrative Assistants for hours worked for the unregulated affiliated
22 companies as shown on Schedule TBH CM-19f Columns F and G. Staff adjusted the salaries
23 and wages to \$160,638 and payroll taxes to \$14,179 in order to normalize these expenses for
24 the test year.

25

1 **Q. Please describe Staff's normalization adjustments for Salaries and Wages.**

2 A. Staff normalized salaries and wages by \$13,384 based on the current and estimated salaries
3 and wages for the five employees of the water companies as shown on Schedule TBH CM-
4 19f. Staff determined current and estimated hourly rates and wages based on a regular 40
5 hour work week over a calendar year. Staff reclassified the payroll taxes and disallowed the
6 salaries, wages and payroll taxes for the hours worked for the unregulated affiliated
7 companies to determine the adjusted salaries, wages and payroll taxes for the test year as
8 shown on Schedule TBH CM-19d.

9
10 **Q. What is Staff's recommendation?**

11 A. Staff recommends an increase of \$13,834 for the test year salaries and wages expense as
12 shown on Schedule TBH CM-19f, Line 7.

13
14 *Operating Income Adjustments – Office Supplies*

15 **Q. Please describe Staff's normalization adjustments for Office Supplies.**

16 A. Staff normalized service contract costs for arrangements that extended for more than one
17 year. Staff divided the number of years by the total cost. Staff adjusted for the normalization
18 of expenses by decreasing operating expenses by \$208, as shown on Schedule TBH CM-19d.

19
20 *Operating Income Adjustments – Transportation*

21 **Q. Please describe Staff's normalization adjustments for Transportation.**

22 A. Staff normalized the vehicle registrations fees by averaging over two years. Staff adjusted for
23 the normalization of expenses by decreasing operating expenses by \$186, as shown on
24 Schedule TBH CM-19d.

25

1 *Operating Income Adjustments – Insurance – General Liability*

2 **Q. Please describe Staff's normalization adjustments for Insurance – General Liability.**

3 A. Staff normalized refunds received from the insurance company that applied to general liability
4 expense. The refunds reduced the current amount for the general liability insurance. Staff
5 adjusted for the normalization of expenses by increasing operating expenses by \$594, as
6 shown on Schedule TBH CM-19d.

7
8 *Cost Allocations*

9 Cost Allocations – This adjustment allocates indirect expenses paid by Chino Meadows
10 directly to Granite Mountain. Staff recommends use of a 4-factor allocation be utilized by all
11 three regulated affiliated water companies (Chino Meadows, Granite Mountain and Antelope
12 Lakes) and by the unregulated affiliated companies.

13
14 **Q. Has Staff identified additional expenses that should be allocated to the unregulated
15 affiliated companies? If so, please explain.**

16 A. Yes. Staff identified the following expenses: salaries and wages of \$17,444 and payroll taxes
17 of \$1,539 for a total of \$18,892 due to the disallowance of hours working for Mr. Paul Levie's
18 property management activities as shown on Schedule TBH CM-19c.

19
20 **Q. What is the percentage for Antelope Lakes and Granite Mountain using Staff's
21 recommended 4-factor cost allocation?**

22 A. Antelope Lakes' 4-factor allocation is 2.95 percent and Granite Mountain's 4-factor allocation
23 is 26.93 percent, as shown on Schedule TBH CM-19e.

24

1 **Q. What is the percentage for Chino Meadows using Staff's recommended 4-factor cost**
2 **allocation?**

3 A. Chino Meadows's 4-factor allocation is 70.12 percent, as shown on Schedule TBH CM-19e.
4

5 **Q. What are the adjustments for cost allocations to Chino Meadows using Staff's**
6 **recommended 4-factor cost allocation?**

7 A. Staff's cost allocations net of all adjustments for all thirteen expense categories totaling a
8 decrease of \$109,821 are as follows: Salaries and Wages decreases by \$67,325, Salaries and
9 Wages – Officers decreases by \$16,788, Purchased Power decreases by \$718; Chemicals
10 decreases by \$94; Repairs and Maintenance decrease by \$759; Office Supplies decreases by
11 \$19,506; Rent increases by \$7,889; Contractual Services decreases by \$3,252; Transportation
12 decreases by \$9,509, Insurance – General Liability decreases by \$3,304; Insurance – Health
13 and Life decreases by \$797; Miscellaneous decreases by \$5,601; and Payroll Taxes increases by
14 \$9,942, as shown on Schedule TBH CM-19a.
15

16 *Operating Income Adjustment No. 6 - Depreciation Expense*

17 **Q. What is the Company proposing for depreciation expense?**

18 A. The Company proposed \$20,394 for the adjusted test year depreciation expense.
19

20 **Q. Is the Company proposing different depreciation rates than those recommended by**
21 **Staff in Decision No. 72896?**

22 A. Yes, the Company is proposing to change the pumping equipment rate from 12.5 percent to
23 5.0 percent and transportation equipment from 20.0 percent to 15.0 percent as shown on
24 Attachment 2 Supplemental Page 8. The Company stated in the application that the current
25 depreciation rates caused Pumping Plant and Transportation accounts to become fully
26 depreciated even though the underlying plant has significant useful life.

1 **Q. Does Staff agree with the Company's proposed depreciation rates?**

2 A. No. Staff recommends the depreciation rates as recommended in Table B of the Engineering
3 Report.

4
5 **Q. Does Staff recommend any modifications to the Company's proposed depreciation
6 expense calculation?**

7 A. Yes. Staff calculated depreciation expense by applying its recommended depreciation rates
8 (the same rates adopted by the Commission in the prior rate case) to its recommended plant
9 balances.

10

11 **Q. What is Staff's recommendation?**

12 A. Staff recommends \$18,885 for depreciation expense, a \$1,509 reduction from the Company's
13 proposed amount, as shown on Schedule TBH CM-20.

14

15 *Operating Income Adjustment No. 7 - Property Tax Expense*

16 **Q. What is Chino Meadows proposing for Test Year Property Taxes?**

17 A. Chino Meadows is proposing \$18,670 for the adjusted test year property tax expense.

18

19 **Q. What is Staff's recommendation for test year Property Tax Expense?**

20 A. Staff recommends \$17,694 for test year property tax expense, a \$976 decrease from the
21 Company's proposed amount, as shown on Schedule TBH CM-21. Staff further
22 recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a
23 factor for Property Tax Expense, as shown on Schedule TBH CM-2.

24

1 *Operating Income Adjustment No. 8 - Income Taxes*

2 **Q. Did Staff make an adjustment to test year Income Tax Expense?**

3 A. Yes. Staff applied the statutory state and federal income tax rates to Staff's test year taxable
4 income. Income tax expenses for the test year and recommended revenues are shown on
5 Schedules TBH CM-13A and TBH CM-13B.

6
7 **IX. NOTES RECEIVABLE AND NOTES PAYABLE**

8 *Notes/Accounts Receivable to Associated/Affiliated Companies*

9 **Q. During the course of the current audit, did Staff find that Chino Meadows loaned**
10 **funds to Associated/Affiliated Companies?**

11 A. Yes.

12
13 **Q. Did Staff request additional information from the Company about Notes and Account**
14 **Receivable from Associated/Affiliated Companies?**

15 A. Yes, in DR CM TBH 1.33.

16
17 **Q. What information was provided by the Company in response to DR CM TBH 1.33?**

18 A. The Company's response to DR CM TBH 1.33 included a schedule of the amounts due from
19 the affiliated companies and the amounts due through December 31, 2014⁸. The amounts
20 due are as follows for the test year: Antelope Lakes Water \$1,385, Desert Snow Construction
21 on behalf of Mr. Paul Levie \$16,067, PDL Zooki on behalf of Mr. Paul Levie's son, Mr.
22 Daniel Levie \$104, and PDL Inc. on behalf of Mr. Paul Levie \$ 1,500. The total is \$19,056.

23

⁸ Staff requested a detailed schedule by month from January 2010 to December 31, 2013. Company provided detailed schedule through December 31, 2014.

1 **Q. Did the Company explain the receivable due from Antelope Lakes at the end of the**
2 **test year?**

3 A. Yes. The Company's response to DR CM TBH 1.33b stated with regards to the Antelope
4 Lake Water balance that "The balance is not a receivable in a traditional sense. The balance
5 would be properly characterized as an intercompany balance, similar as to what would be
6 recorded between a parent holding company and utility subsidiary companies or between
7 utility subsidiary company when cash is transferred from one utility subsidiary to the parent
8 holding company or another utility subsidiary and vice versa. Antelope Lakes is not required
9 to make any payments to Chino Meadows. Should Antelope Lakes provide funds to or on
10 behalf of Chino Mountain⁹, the intercompany balance would be reduced. The balance at the
11 end of the test year was \$2,230."¹⁰

12
13 **Q. Based on the information provided in DR CM TBH-1.33b, what detailed information**
14 **was provided for the increase to the December 31, 2014 balance of \$2,230 for Antelope**
15 **Lakes?**

16 A. The detailed information provided four monthly transfers due totaling \$785 and one check to
17 APS for \$60. The total loan to Antelope Lakes increased by \$845.

18
19 **Q. Did the Company explain the receivables due from Mr. Paul Levie and family**
20 **members in response to DR CM TBH 1.33b?**

21 A. Yes. The Company stated that the amount for Desert Snow Construction was funds
22 advanced to Mr. Paul Levie for a waterline serving property owned by Mr. Paul Levie. The
23 property is not associated with any of the water utilities owned by Mr. Paul Levie. The
24 advances to PDL Zooki were on behalf of Mr. Paul Levie's son Daniel. The Company's

⁹ There is no Chino Mountain perhaps the Company meant Chino Meadows

¹⁰ This is the balance due on December 31, 2014. Staff determined that \$1,385 was due at the end of the test year. Additional receivable were incurred in 2014 of \$845.18.

1 response states the balance is due and payable upon demand by Chino Meadows. The
2 advances to Mr. Paul Levie represent funds due for personal uses. The Company's response
3 states the balance is due and payable upon demand by Chino Meadows.

4

5 **Q. What is Staff's recommendation?**

6 A. Staff recommends that these considerations be incorporated as a part of the Code of Affiliate
7 Conduct. Further, Staff is recommending that the Company make due and payable upon
8 demand all balances due to the regulated water companies within in one year from the
9 Decision in the rate case. Staff further recommends that the Company cease making any
10 further personal loans or advances with Company funds.

11

12 *Notes/Accounts Payable to Associated/Affiliated Companies*

13 **Q. During the course of the audit, did Staff find that Chino Meadows received funds**
14 **from Associated/Affiliated Companies?**

15 A. Yes.

16

17 **Q. Did Staff request additional information from the Company about Notes and Account**
18 **Payable to Associated/Affiliated Companies?**

19 A. Yes, in DR CM TBH 1.34.

20

21 **Q. What information was provided by the Company in response to DR CM TBH 1.34?**

22 A. The Company's response to DR CM TBH 1.34 included a schedule to the amounts due to
23 affiliated companies and the amounts payable through December 31, 2013. The payable
24 amounts due are as follows for the test year: PDL – Mr. Paul Levie \$5,000, Equestrian
25 Construction, LLC \$11,609, Granite Mountain Water Company – GMWC \$19,891. The total

1 is \$36,500. The Company stated that the amount due to Equestrian Construction, LLC was
2 recorded in error.

3
4 **Q. Did the Company explain the payables in response to DR CM TBH 1.34b?**

5 A. Yes. The Company stated the following: Payable to PDL (Paul D. Levie) of \$5,000; Payable
6 to Equestrian Construction was recorded in error; and the Payable to Granite Mountain of
7 \$19,891 for various expenses. The Company states that "2234.01 – Due to PDL (Paul D.
8 Levie) – This account represents funds paid on behalf of Chino Meadows by Mr. Levie. The
9 payments were related to fire loss expenses incurred in January 2012. The balance at the end
10 of the test year was \$5,000.00."

11
12 **Q. Based on the information provided in DR CM TBH-1.34b, what detailed information
13 was provided about the Payable to PDL (Paul D. Levie) for \$5,000?**

14 A. Staff reviewed the general ledger provided by the Company in response to Staff's DR CM
15 TBH 1.3. The payable is for \$5,000 for a payment to Blain Hayes – Ask my Accountant
16 (Check no. 6343). The payment was expensed to the below the line item expense category
17 4426.01 - Miscellaneous Non-Utility Expense. This expense was not reviewed for rate
18 making purposes. However, a journal entry removed it from a notes receivable to a notes
19 payable. The information provided by the Company conflicts with the information in the
20 general ledger.

21
22 **Q. What did Staff conclude about the payment of \$5,000 to Blain Hayes and the
23 Company's classification to Notes Payable?**

24 A. Staff concludes that the expense is properly categorized as a below the line item expense and
25 therefore funds from Mr. Paul Levie as a Notes Receivable.

26

1 **Q. Did the Company provide the specific authorization by the Commission for any**
2 **indebtedness in response to DR CM TBH 1.34c?**

3 A. No. The Company states "The entries and balances in this account do not denote long-term
4 indebtedness. Accordingly, the Company has not requested authorization by the Arizona
5 Corporation Commission for indebtedness payable at periods of more than twelve months
6 pursuant to ARS 40-301-B for an entry or balance in this account."

7
8 **Q. Does Staff agree with the Company's response to Staff's DR CM TBH 1.34b?**

9 A. No. Staff does not agree with the Company. The Company should obtain the Commission
10 approval to incur debt pursuant to ARS § 40-301-B.

11
12 **Q. What is Staff's recommendation?**

13 A. Staff recommends that these considerations be incorporated as a part of the Code of Affiliate
14 Conduct. Further, Staff recommends that the Company pay all balances due within 24
15 months of the Decision in this case. Staff further recommends pursuant to A.R.S. §40-301-B,
16 that the Company obtain specific authorization by the Commission for indebtedness payable
17 at periods of more than twelve months. Staff further recommends that the Notes Payable to
18 PDL (Paul D. Levie) for \$5,000 be reclassified as a Notes Receivable due from PDL (Paul D.
19 Levie).

20
21 **X. RATE DESIGN**

22 *Present Rate Design*

23 **Q. Please provide an overview of the Company's present rates.**

24 A. Present, Proposed, and Staff Recommended rate design are presented in Staff's Direct
25 Testimony Schedule TBH CM-24. The present rates went into effect March 1, 2012. There
26 is one meter size presently in use in the system: 5/8 x 3/4-inch. The 5/8 x 3/4-inch meter

1 has a three-tiered commodity rate structure with break-over points at 3,000 and 8,000 gallons.

2 The tier rates are \$2.40, \$3.20 and \$4.20 with a monthly minimum of \$17.75.

3
4 *Company's Proposed Water Rate Design*

5 **Q. Please provide an overview of the Company's proposed rate increases.**

6 A. The Company proposes to maintain the existing break-over points for all meter sizes and
7 increases the commodity tier rates from \$2.40 to \$3.50 (a 45.8 percent increase) for the first
8 tier, from \$3.20 to \$5.10 (a 59.4 percent increase) for the second tier and from \$4.20 to \$6.50
9 (a 54.8 percent increase) for the third tier. Minimum Monthly charges are proposed to
10 increase from \$17.75 to \$23.00 (29.6 percent increase) for the 5/8 x 3/4-inch meter.

11
12 **Q. Did the Company propose any changes to Service Line and Meter Installation**
13 **Charges?**

14 A. Yes. The Company proposes an increase to each meter size. Staff has reviewed the
15 Company's proposed service line and meter installation charges and recommends approval of
16 those charges, as shown on Schedule TBH CM-24.

17
18 **XI. STAFF'S RECOMMENDED WATER RATE DESIGN**

19 **Q. Please provide a description of Staff's recommended rate design.**

20 A. Staff recommends no increases in the minimum monthly charge for any of the meter sizes.
21 Staff recommends that the monthly minimum for the 5/8 x 3/4-inch of \$17.75 remain in
22 effect. Staff recommends maintaining the break-over points contained in present rates for
23 the smaller meter sizes. Staff recommends no increase to any of commodity rates in the three
24 tiers. First tier commodity tier rate would remain at \$2.40 per 1,000 gallons. Second tier
25 commodity tier rate would remain at \$3.20 per 1,000 gallons. Third tier commodity rates
26 would remain at \$4.20 per 1,000 gallons. Staff's recommended rates would result in no

1 change for the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469
2 gallons at \$26.45. Staff's recommended rates are shown in Schedule TBH CM-24A and the
3 typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Schedule TBH CM-25A.

4
5 *Staff's Alternative Recommendation*

6 **Q. Please provide a description of Staff's recommended rate design for Staff's Alternative**
7 **Recommendation.**

8 A. Staff recommends decreases in the minimum monthly charge for all meter sizes. Staff
9 recommends that the monthly minimum for the 5/8 x 3/4-inch of \$13.75. Staff recommends
10 maintaining the break-over points contained in present rates for the smaller meter sizes. Staff
11 recommends a decrease to commodity rates in all three tiers. First tier commodity tier rate
12 would decrease by \$0.40 (16.67 percent) from \$2.40 per 1,000 gallons to \$2.00 per 1,000
13 gallons. Second tier commodity tier rate would decrease by \$0.20 (6.25 percent) from \$3.20
14 per 1,000 gallons to \$3.00 per 1,000 gallons. Third tier commodity rates would decrease by
15 \$0.20 (4.76 percent) from \$4.20 per 1,000 gallons to \$4.00 per 1,000 gallons. The typical 5/8
16 x 3/4-inch meter bill with a median use of 3,469 gallons would decrease by \$5.29 (20.01
17 percent) from \$26.45 to \$21.16. Staff's recommended rates are shown in Schedule TBH CM-
18 24B and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Schedule
19 TBH CM-25B.

20

1 **Q. Did Staff prepare schedules showing the average and median monthly bill for present**
2 **rates, Company's proposed and Staff's recommended and alternative rates?**

3 A. Yes. Staff's Direct Testimony Schedules presents Staff's recommended rates on TBH CM-
4 25A and Staff's Alternative Recommendation on TBH CM-25B. These schedules present the
5 average and median monthly bill for present rates, Company's proposed rates and Staff's
6 recommended rates for each alternative recommendation.

7

8 **XI. SERVICE CHARGES**

9 **Q. Did the Company propose any changes to Other Service Charges?**

10 A. Yes. The Company proposes an increase to Reconnection (Delinquent) from \$30.00 to
11 \$35.00 and Meter Test (if correct) from \$20.00 to \$30.00.

12

13 **Q. Does Staff recommend the changes proposed by the Company to Other Service**
14 **Charges? If no, please explain.**

15 A. No. Staff recommends the Reconnection (Delinquent) charge remain at \$30.00. Staff
16 recommends the Meter Test (if correct) increase from \$20.00 to \$25.00. Consumer Services
17 will test meters for the Company at no charge.

18

19 **Q. Please provide a description of Staff's recommended Water System Service Charges.**

20 A. Staff's recommended water system service charges are shown in Schedules TBH CM-24A and
21 TBH CM-24B.

22

23 **Q. What is Staff's recommendation?**

24 A. Staff finds all the Company proposed Service Charges align with customary charges for
25 similarly sized companies. Staff recommends the Reconnection (Delinquent) charge remain at
26 \$30.00 and the Meter Test (if correct) increases from \$20.00 to \$25.00.

1 **Q. Does this conclude your testimony?**

2 A. Yes, it does.

REVENUE REQUIREMENT - STAFF'S RECOMMENDATION

LINE NO.	DESCRIPTION	[A]	[B]
		COMPANY	STAFF
1	Adjusted Rate Base	\$171,398	\$135,369
2	Adjusted Operating Income (Loss)	(\$26,998)	\$56,754
3	Current Rate of Return (L2 / L1)	-15.75%	41.93%
4	Required Operating Income (L3 * L1)	\$74,604	\$56,754
5	Operating Income Deficiency (L4 - L2)	\$101,603	\$0
6	Gross Revenue Conversion Factor	1.3682	1.3470
7	Increase (Decrease) In Gross Revenue (L6 * L5)	\$139,014	\$0
8	Adjusted Test Year Revenue	\$358,364	\$357,985
9	Proposed Annual Revenue (L7 + L8)	\$497,378	\$357,985
10	Required Increase/(Decrease in Revenue) (%) (L8/L9)	38.79%	0.00%

References:

Column [A]: Company Application 2nd Amended Page 6 and Attachment No. 3 Page 1 Amended.
Column [B]: Staff Schedules TBH CM-2, TBH CM-3, & TBH CM-13A.

REVENUE REQUIREMENT - STAFF'S ALTERNATIVE RECOMMENDATION

LINE NO.	DESCRIPTION	[A]	[B]
		COMPANY	STAFF
1	Adjusted Rate Base	\$171,398	\$135,369
2	Adjusted Operating Income (Loss)	(\$26,998)	\$56,754
3	Current Rate of Return (L2 / L1)	-15.75%	41.93%
4	Required Rate of Return	43.53%	10.00%
5	Required Operating Income (L4 * L1)	\$74,604	\$13,537
6	Operating Income Deficiency (L5 - L2)	\$101,603	(\$43,218)
7	Gross Revenue Conversion Factor	1.3682	1.3470
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$139,014	(\$58,212)
9	Adjusted Test Year Revenue	\$358,364	\$357,985
10	Proposed Annual Revenue (L8 + L9)	\$497,378	\$299,772
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	38.79%	-16.26%

References:

Column [A]: Company Application 2nd Amended Page 6 and Attachment No. 3 Page 1 Amended.
Column [B]: Staff Schedules TBH CM-2, TBH CM-3, & TBH CM-13B

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
<i>Calculation of Gross Revenue Conversion Factor:</i>				
1	Revenue	100.00%		
2	Uncollectible Factor (Line 11)	1.03%		
3	Revenues (L1 - L2)	98.97%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	24.73%		
5	Subtotal (L3 - L4)	74.24%		
6	Revenue Conversion Factor (L1 / L5)	134.70%		
<i>Calculation of Uncollectible Factor:</i>				
7	Unity	100.00%		
8	Combined Federal and State Tax Rate (Line 17)	23.47%		
9	One Minus Combined Income Tax Rate (L7 - L8)	76.53%		
10	Uncollectible Rate	1.35%		
11	Uncollectible Factor (L9 * L10)	1.03%		
<i>Calculation of Effective Tax Rate:</i>				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.00%		
13	Arizona State Income Tax Rate	6.00%		
14	Federal Taxable Income (L12 - L13)	94.00%		
15	Applicable Federal Income Tax Rate (Line 53)	18.58%		
16	Effective Federal Income Tax Rate (L14 * L15)	17.47%		
17	Combined Federal and State Income Tax Rate (L13 + L16)		23.47%	
<i>Calculation of Effective Property Tax Factor:</i>				
18	Unity	100.00%		
19	Combined Federal and State Income Tax Rate (L17)	23.47%		
20	One Minus Combined Income Tax Rate (L18 - L19)	76.53%		
21	Property Tax Factor	1.65%		
22	Effective Property Tax Factor (L20 * L21)		1.26%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17 + L22)			24.73%
24	Required Operating Income	\$13,537		
25	Adjusted Test Year Operating Income (Loss)	56,754		
26	Required Increase in Operating Income (L24 - L25)		(\$43,218)	
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$3,406		
28	Income Taxes on Test Year Revenue (Col. [A], L52)	16,656		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(13,251)	
30	Recommended Revenue Requirement	\$299,772		
31	Uncollectible Rate (Line 10)	1.35%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	\$4,043		
33	Adjusted Test Year Uncollectible Expense	\$4,833		
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		(790)	
35	Property Tax with Recommended Revenue	\$16,734		
36	Property Tax on Test Year Revenue	17,694		
37	Increase in Property Tax Due to Increase in Revenue (L35 - L36)		(959)	
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		(\$58,217)	
<i>Calculation of Income Tax:</i>				
39	Revenue	\$357,985	(\$58,213)	\$299,772
40	Operating Expenses Excluding Income Taxes	284,574	(1,745)	282,829
41	Synchronized Interest (L56)	0		0
42	Arizona Taxable Income (L39 - L40 - L41)	73,411		16,943
43	Arizona State Income Tax Rate	6.00%		6.00%
44	Arizona Income Tax (L42 * L43)	4,405		1,017
45	Federal Taxable Income (L42 - L44)	69,006		15,927
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	7,500		2,389
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	4,751		0
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	0		0
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	0		0
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	0		0
51	Total Federal Income Tax	12,251		2,389
52	Combined Federal and State Income Tax (L44 + L51)	16,656		3,406
53	Applicable Federal Income Tax Rate (Col. [C], L51 - Col. [A], L51) / [Col. [C], L45 - Col. [A], L45]			18.5807%
<i>Calculation of Interest Synchronization:</i>				
54	Rate Base	\$135,369		
55	Weighted Average Cost of Debt	0.00%		
56	Synchronized Interest (L45 * L46)	\$0		

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Plant in Service	\$843,924	(\$48,014)	\$795,910
2	Less: Accumulated Depreciation	670,573	(33,636)	636,937
3	Net Plant in Service	\$173,351	(\$14,378)	\$158,973
	<i>LESS:</i>			
4	Advances in Aid of Construction (AIAC)	\$13,219	(\$3,649)	\$9,571
6	Contributions in Aid of Construction (CIAC)	31,478	10,406	41,884
7	Less: Accumulated Amortization	11,005	805	11,810
8	Net CIAC	\$20,473	\$9,601	\$30,074
9	Total Advances and Contributions	33,692	5,952	39,644
10	Customer Deposits	11,740	0	11,740
	<i>ADD: Working Capital</i>			
12	Cash Working Capital Allowance	43,479	(15,699)	27,780
13	Total Rate Base	\$171,398	(\$36,029)	\$135,369

References:

Column [A], Company Application - Attachment No.1 Supplemental Page 1
Column [B]: Schedule TBH CM-4
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 1 - UNSUPPORTED PLANT TREATED AS CIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]			
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED			
1	CIAC, Unsupported Plant Treated as CIAC	\$0	\$4,276	\$4,276			
2	Amort of CIAC, Unsupported Plant Treated as CIAC	0	192	192			
3	Net CIAC, Unsupported Plant Treated as CIAC	\$0	\$4,084	\$4,084			
4							
5							
6	UNSUPPORTED PLANT TREATED AS CIAC						
7							
8		Plant Selected	Unsupported Plant	Staff			
9	DESCRIPTION	In Sample	Costs	as Adjusted			
10	2011 Plant Addition, Acct No. 310 - Power Generation Equipment	\$0	\$5,300	\$5,300			
11	Acct No. 310 - Power Generation Equipment Subtotal	0	5,300	5,300			
12							
13	2011 Plant Addition, Acct No. 331 - Transmission & Distribution Mains	0	36,353	36,353			
14	Acct No. 331 - Transmission. & Distrib. Mains Subtotal	0	36,353	36,353			
15							
16	2010 Plant Addition, Acct No. 340.1 - Computers & Software	0	782	782			
17	Acct No. 340.1 - Computers & Software Subtotal	0	782	782			
18							
19	2010 Plant Addition, Acct No. 343 - Tools, Shop & Garage Equipment	0	324	324			
20	Acct No. 343 - Tools, Shop & Garage Equipment Subtotal	0	324	324			
21							
22	TOTAL UNSUPPORTED PLANT	\$0	\$42,759	\$42,759			
23							
24		Total		\$42,759			
25			x	10%			
26				\$4,276			
27							
28							
29	CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT						
30							
31	Year Added	Plant Additions	Unsupported Plant	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC
32	2011	Power Generation	\$5,300	2013	1.5	5.00%	\$398
33	2011	Trans & Distr	36,353	2013	1.5	2.00%	1,091
34	2010	Computers & Software	782	2013	2.5	20.00%	391
35	2010	Tools, Shop & Garage	324	2013	2.5	5.00%	41
36	Total		\$42,759				\$1,920
37						x	10%
38							\$192

References:

Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.3

Column [B]: Testimony, TBH

Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - CIAC FOR PLANT PAID FOR WITH INSURANCE PROCEEDS

LINE NO.	DESCRIPTION	[A]	[B]	[C]			
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED			
1	CIAC for 2012 Plant Addition, Acct No. 340.1 - Computers & Software Offset by Insurance Proceeds	\$0	\$6,130	\$6,130			
2	Total CIAC on Acct. No. 340.1 - Computers & Software from Insurance Proceeds	0	6,130	6,130			
3							
4	Company Proposed Amort of CIAC Related to Insurance Proceeds for Fire	0	0	0			
5	Amort. Of CIAC on Insurance Proceeds for Computers & Software	0	613	613			
6	Total Amortization of CIAC	0	613	613			
7							
8	Net CIAC	\$0	\$5,517	\$5,517			
9							
10	CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT						
11							
12	Year Added	Plant Additions	Plant from Insurance Proceeds	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC
13		Computers & Software	\$6,130	2012	0.5	20.00%	\$613
14		Total	\$6,130				\$613
15							
16							
17							

References:

Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.4

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - AIAC REFUNDS NOT RECOGNIZED IN TEST YEAR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction	\$13,219	\$0	\$13,219
2	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers	0	(3,649)	(3,649)
3	Total AIAC paid in 2014 for 2013 refunds due customers	\$13,219	(\$3,649)	\$9,571

References:

- Column [A]: Company Application - Attachment No. 1 - Supplemental Page 2
- Column [B]: Testimony, TBH, Company's response to DR's CM TBH 1.18 and CM TBH 2.10.
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - RECLASSIFY AND PLANT ADDITIONS TO APPROPRIATE CLASSIFICATIONS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 307 - Wells & Springs	\$27,448	\$539	\$27,987
2	Acct No. 320 - Water Treatment Equipment	6,406	(6,406)	0
3	Acct No. 320.2 - Solution Chemical Feeders	0	6,406	6,406
4	Acct No. 330 - Distribution Reservoirs & Standpipes	51,684	(51,684)	0
5	Acct No. 330.1 - Storage Tanks	0	36,415	36,415
6	Acct No. 330.2 - Pressure Tanks	0	15,269	15,269
7	Acct No. 331 - Transmission & Distribution Mains	304,674	268	304,942
8	Acct No. 340 - Office Furniture & Equipment	9,346	6,534	15,880
9	Acct No. 340.1 - Computers & Software	10,107	494	10,601
10	Acct No. 346 - Communication Equipment	25,929	(3,121)	22,808
11	Acct No. 347 - Miscellaneous Equipment	0	3,975	3,975
12	TOTAL PLANT RECLASSIFICATIONS	\$435,594	\$8,689	\$444,283
13				
14	PLANT RECLASSIFICATIONS			
15				
16		PLANT ADDITIONS	PLANT RECLASS	STAFF AS ADJUSTED
17	2012 Plant Reclass Acct No. 340 - Office Furniture & Equipment - Reclass from Computers	\$0	\$4,782	\$4,782
18	2012 Plant Reclass, Acct No. 340 - Office Furniture & Equipment - Reclass from Fire Related Expenses	0	1,752	1,752
19	Acct No. 340 - Office Furniture & Equipment Subtotal	0	6,534	6,534
20				
21	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Offset by Insurance Proceeds	0	6,130	6,130
22	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Reclass to Office Equip.	0	(4,782)	(4,782)
23	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Reclass to Communication	0	(854)	(854)
24	Acct No. 340.1 - Computer & Software Subtotal	0	494	494
25				
26	2012 Plant Reclass, Acct No. 346 - Communication Equipment	0	(3,975)	(3,975)
27	2012 Plant Reclass, Acct No. 346 - Communication Equipment - Reclass from Computer & Software	0	854	854
28	Acct No. 346 - Communication Equipment Subtotal	0	(3,121)	(3,121)
29				
30	2012 Plant Additions, Acct No. 347 - Miscellaneous Equipment	3,975	0	3,975
31	Acct No. 347 - Miscellaneous Equipment Subtotal	3,975	0	3,975
32				
33	2013 Plant Reclass, Acct No. 307 - Wells & Springs - Reclass from expenses	0	539	539
34	Acct No. 307 - Wells & Springs Subtotal	0	539	539
35				
36	2010 Plant Reclass Acct No. 320 - Water Treatment Equipment	0	(6,406)	(6,406)
37	Acct No. 320 - Water Treatment Equipment Subtotal	0	(6,406)	(6,406)
38				
39	2010 Plant Reclass Acct No. 320.2 - Solution Chemical Feeders	0	6,406	6,406
40	Acct No. 320.1 - Solution Chemical Feeders Subtotal	0	6,406	6,406
41				
42	2010 Plant Reclass Acct No. 330 - Distribution Reservoirs & Standpipes	0	(51,684)	(51,684)
43	Acct No. 330 - Distribution Reservoirs & Standpipes Subtotal	0	(51,684)	(51,684)
44				
45	2010 Plant Reclass Acct No. 330.1 - Storage Tanks	0	36,415	36,415
46	Acct No. 330.1 - Storage Tanks Subtotal	0	36,415	36,415
47				
48	2010 Plant Reclass Acct No. 330.2 - Pressure Tanks	0	15,269	15,269
49	Acct No. 330.2 - Pressure Tanks Subtotal	0	15,269	15,269
50				
51	2013 Plant Reclass Acct No. 331 - Transmission & Distribution Mains - Removal of AJE	0	268	268
52	Acct No. 331 - Transmission & Distribution Mains Subtotal	0	268	268
53				
54	TOTAL	\$3,975	\$4,714	\$8,689

References:

Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.5
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - PLANT NOT USED AND USEFUL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 340 - Office Furniture & Equipment	\$9,346	(\$9,346)	\$0
2	Acct No. 341 - Transportation Equipment	96,569	(40,749)	55,820
3	Acct No. 346 - Communication Equipment	25,929	(5,608)	20,321
4				
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	DESCRIPTION	STAFF AS ADJUSTED
	2012 Fire Acct No. 340 - Office Furniture & Equipment	
	Opening Balance Items	\$3,513
	Office Computer	2,683
	Printer	355
	Office Computer	1,950
	Fax Machine	120
	Book Case	101
	Office Desk	624
	Total Office Furniture & Equipment	\$9,346
	2013 Acct No. 341 - Transportation Equipment	
	1998 Ford Service Truck	\$11,287
	2000 Ford Ranger	5,350
	Pre 1995 - Unidentified Vehicles	4,103
	1975 Ford Water Truck	7,500
	1999 Ford Truck	12,509
	Total Transportation Equipment	\$40,749
	2012 Fire Acct No. 346 - Communication Equipment	
	Office Computer and Software	\$3,453
	Printer	109
	Laser Printer	472
	Caselle Support	660
	CPU Backup	103
	Network Router	87
	Memory Cards	281
	Memory Cards	444
	Total Communication Equipment	\$5,608

References:

- Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.1 - 6.5
- Column [B]: Testimony, TBH
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - REMOVAL OF PLANT ADDITIONS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct. 345 Power Operated Equipment Unsupported Non-Company Use	\$31,461	(\$1,000)	\$30,461

References:

- Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.5
- Column [B]: Testimony, TBH
- Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 7 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$670,573	(\$33,636)	\$636,937

References:

Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.5

Column [B]: Testimony, TBH, Company Data Request Responses

Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 8 - CASH WORKING CAPITAL ALLOWANCE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Cash Working Capital Allowance	\$43,479	(\$15,699)	\$27,780
2				
3	Operation & Maintenance*			\$214,330
4	Multiplied by		X	1/8
5				\$26,791
6				
7	Purchased Power & Purchased Water			\$23,723
8	Multiplied by		X	1/24
9				\$989
10				
11	Total Cash Working Capital Allowance			\$27,780
12				
13				

* Less depreciation, taxes, purchased power and purchased water

References:

- Column [A]: Company Application - Attachment No. 1 Supplemental Page 7
- Column [B]: Testimony, TBH, Company Data Request Responses
- Column [C] Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF'S RECOMMENDATION

LINE NO.	DESCRIPTION	[A]	[B]	ADJ NO.	[C]	[D]	[E]
		COMPANY TEST YEAR AS FILED	STAFF TEST YEAR ADJUSTMENTS		STAFF TEST YEAR AS ADJUSTED	STAFF RECOMMENDED CHANGES	STAFF RECOMMENDED
	<u>REVENUES:</u>						
1	Metered Water Sales	\$345,620	\$0		\$345,620		\$345,620
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	12,744	(379)	1	12,365	0	12,365
4	Total Revenues	\$358,364	(\$379)		\$357,985	\$0	\$357,985
5							
6	<u>EXPENSES:</u>						
7	Salaries and Wages	\$179,965	(\$67,325)	5	\$112,640	\$0	\$112,640
8	Salaries and Wages - Officers	31,700	(16,788)	5	14,912	0	14,912
9	Employee Pensions & Benefits	0	0		0	0	0
10	Purchased Water	40	0		40	0	40
11	Purchased Power	24,401	(718)	5	23,683	0	23,683
12	Chemicals	425	(94)	5	331	0	331
13	Repairs and Maintenance	8,899	(759)	5	8,140	0	8,140
14	Office Supplies & Expense	30,594	(19,506)	5	11,088	0	11,088
15	Contractual Services	11,457	(3,252)	5	8,205	0	8,205
16	Water Testing	4,791	37	2	4,828	0	4,828
17	Rents	0	7,889	5	7,889	0	7,889
18	Transportation Expenses	24,752	(9,509)	5	15,243	0	15,243
19	Insurance - General Liability	8,964	(3,304)	5	5,660	0	5,660
20	Insurance - Health and Life	2,667	(797)	5	1,870	0	1,870
21	Reg. Comm. Exp.	445	0		445	0	445
22	Reg. Comm. Exp. - Rate Case	13,333	1,667	3	15,000	0	15,000
23	Miscellaneous Expense	8,848	(5,601)	5	3,247	0	3,247
24	Bad Debt Expense	1,990	2,843	4	4,833	0	4,833
25	Depreciation Expense	20,394	(1,509)	6	18,885	0	18,885
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	18,670	(976)	7	17,694	0	17,694
28	Payroll Taxes	0	9,942	5	9,942	0	9,942
29	Income Taxes	(6,972)	23,628	8	16,656	0	16,656
30	Rounding	(1)	0		(1)	0	(1)
31	Total Operating Expenses	\$385,362	(\$84,132)		\$301,230	\$0	\$301,230
32							
33	Operating Income (Loss)	(\$26,998)	\$83,752		\$56,754	\$0	\$56,754

References:

- Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
- Column [B]: Schedule TBH CM-14
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules TBH CM-1A and TBH CM-2
- Column [E]: Column [C] + Column [D]

OPERATING INCOME - TEST YEAR AND STAFF'S ALTERNATIVE RECOMMENDATION

LINE NO.	DESCRIPTION	[A]	[B]	ADJ NO.	[C]	[D]	[E]
		COMPANY TEST YEAR AS FILED	STAFF TEST YEAR ADJUSTMENTS		STAFF TEST YEAR AS ADJUSTED	STAFF RECOMMENDED CHANGES	STAFF RECOMMENDED
	<u>REVENUES:</u>						
1	Metered Water Sales	\$345,620	\$0		\$345,620	(\$58,213)	\$287,407
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	12,744	(379)	1	12,365	0	12,365
4	Total Revenues	\$358,364	(\$379)		\$357,985	(\$58,213)	\$299,772
	<u>EXPENSES:</u>						
7	Salaries and Wages	\$179,965	(\$67,325)	5	\$112,640	\$0	\$112,640
8	Salaries and Wages - Officers	31,700	(16,788)	5	14,912	0	14,912
9	Employee Pensions & Benefits	0	0		0	0	0
10	Purchased Water	40	0		40	0	40
11	Purchased Power	24,401	(718)	5	23,683	0	23,683
12	Chemicals	425	(94)	5	331	0	331
13	Repairs and Maintenance	8,899	(759)	5	8,140	0	8,140
14	Office Supplies & Expense	30,594	(19,506)	5	11,088	0	11,088
15	Contractual Services	11,457	(3,252)	5	8,205	0	8,205
16	Water Testing	4,791	37	2	4,828	0	4,828
17	Rents	0	7,889	5	7,889	0	7,889
18	Transportation Expenses	24,752	(9,509)	5	15,243	0	15,243
19	Insurance - General Liability	8,964	(3,304)	5	5,660	0	5,660
20	Insurance - Health and Life	2,667	(797)	5	1,870	0	1,870
21	Reg. Comm. Exp.	445	0		445	0	445
22	Reg. Comm. Exp. - Rate Case	13,333	1,667	3	15,000	0	15,000
23	Miscellaneous Expense	8,848	(5,601)	5	3,247	0	3,247
24	Bad Debt Expense	1,990	2,843	4	4,833	(790)	4,043
25	Depreciation Expense	20,394	(1,509)	6	18,885	0	18,885
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	18,670	(976)	7	17,694	(959)	16,734
28	Payroll Taxes	0	9,942	5	9,942	0	9,942
29	Income Taxes	(6,972)	23,628	8	16,656	(13,251)	3,406
30	Rounding	(1)	0		(1)	4	3
31	Total Operating Expenses	\$385,362	(\$84,132)		\$301,230	(\$14,996)	\$286,234
32							
33	Operating Income (Loss)	(\$26,998)	\$83,752		\$56,754	(\$43,217)	\$13,537

References:

- Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
- Column [B]: Schedule TBH CM-14
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules TBH CM-1B and TBH CM-2
- Column [E]: Column [C] + Column [D]

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Schedule TBH CM-15

OPERATING INCOME ADJUSTMENT NO. 1 - UNAUTHORIZED SURCHARGE - OTHER REVENUE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Surcharge - Other Revenue	\$12,744	(\$379)	\$12,365

References:

Column [A]: Chino Meadows general ledger provided in DR CM TBH 1.3

Column [B]: Testimony

Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Schedule TBH CM-16

OPERATING INCOME ADJUSTMENT NO. 2 - WATER TESTING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing	\$4,791	\$37	\$4,828

References:

Column [A]: Company Application - Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH, Engineering Report

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE

LINE NO.	DESCRIPTION	[A]	[B]	[C]	
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED	
1	Rate Case Expense	\$13,333	\$1,667	\$15,000	
2					
3					
4					
5					
6					
7	Company	Rate Case Expense as filed	Staff Adjusted Rate Case Expense	Difference	Normalize over 3 years
8	Chino Meadows	\$40,000	\$45,000	\$5,000	\$1,667
9	Granite Mountain	10,000	30,000	20,000	6,667
10	Total	\$50,000	\$75,000	\$25,000	\$8,333

References:

- Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
- Column [B]: Testimony, DR'S CM TBH 1.5 Supplemental & CM TBH 2.5
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - BAD DEBT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expenses	\$1,990	\$2,843	\$4,833
2				
3				
4				
5				
6	Reclassification			
7	To correct for bad debt expenses included in miscellaneous expenses			\$3,000
8	To adjust for bad debts recovered and collection fees included in miscellaneous expenses			(157)
9	Total adjustment			<u>\$2,843</u>

Test Year Revenue \$358,364

Average Write-Off Rate 1.3486%

Notes: Company included in Misc expenses. Staff reviewed the last four years of actual bad debt expenses. The Company stated that the total was an typo error (\$3,000). The amount appears to be reasonable.

2010	4,687.50
2011	5,484.76
2012	4,017.55
2013	4,832.79

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] STAFF ADJUSTMENTS		[C] STAFF AS ADJUSTED		[D] Company as filed	[E] Original amount allocated to Granite Mountain	[F] Staff Adjustments		[G] Disallowance	[H] Normalize	[I] Chino Meadows Direct	[J] Cost to be Allocated	[K] Portion allocated to unregulated affiliate companies	[L] Amount allocated to unregulated affiliate companies	[M] Amount allocated to regulated companies	[N] Chino Meadows 4-factor allocation	[O] Amount to be allocated to Chino Meadows
		Reclassification	Disallowance	Disallowance	Normalize															
1	Salaries and Wages	\$179,965		(\$67,325)		\$112,640								\$0	\$160,638	0%	\$0	\$160,638	70.12%	\$112,640
2	Salaries and Wages - Officers	31,700		(16,788)		14,912		6,000		(7,444)		13,834		0	21,266	0%	0	21,266	70.12%	14,912
3	Purchased Power	24,401		(718)		23,683		247		(46)				22,110	10%	249	2,244	70.12%	1,573	
4	Chemicals	425		(94)		331		47						472	0%	0	472	70.12%	331	
5	Repairs and Maintenance	8,899		(759)		8,140		633		(124)				2,159	0%	0	8,530	70.12%	5,982	
6	Office Supplies & Expense	30,594		(19,506)		11,088		1,988		(2,804)		(208)		0	17,569	10%	1,757	15,812	70.12%	11,088
7	Rents	0		7,889		7,889		3,000		0				3,489	25%	3,750	11,250	70.12%	7,889	
8	Contractual Services	11,457		(3,252)		8,205		490		(1,232)				0	15,000	0%	0	15,000	70.12%	10,500
9	Transportation Expenses	24,752		(9,509)		15,243		900		(7,380)		(186)		6,726	0%	0	6,726	70.12%	4,716	
10	Insurance - General Liability	8,964		(3,304)		5,660		2,736		(1,058)		594		0	21,739	15%	1,424	21,739	70.12%	15,243
11	Insurance - Health and Life	2,667		(797)		1,870		296		0		0		0	2,963	10%	296	8,072	70.12%	5,660
12	Miscellaneous Expenses	8,848		(5,601)		3,247		245		(2,301)				2,903	0%	0	490	2,667	70.12%	1,870
13	Payroll Taxes	0		9,942		9,942		0		(1,539)				0	14,179	0%	0	14,179	70.12%	9,942
14	Total	\$332,672		(\$109,821)		\$222,851		\$16,678		(\$50,362)		\$14,034		\$30,661	\$281,562		\$7,477	\$274,085		\$192,190
15																				
16																				
17																				
18																				
19																				
20																				
21	Salaries and Wages	\$179,965		(\$15,718)		164,247		\$0						0	\$160,638	0%	\$0	\$160,638	70.12%	\$112,640
22	Salaries and Wages - Officers	31,700		(16,434)		15,266		6,000		(17,444)		13,834		0	21,266	0%	0	21,266	70.12%	14,912
23	Purchased Power	24,401		0		24,401		247		(46)				22,110	10%	249	2,244	70.12%	1,573	
24	Chemicals	425		0		425		47		0				472	0%	0	472	70.12%	331	
25	Repairs and Maintenance	8,899		1,281		10,180		633		(124)				2,159	0%	0	8,530	70.12%	5,982	
26	Office Supplies & Expense	30,594		(12,000)		18,594		1,988		(2,804)		(208)		0	17,569	10%	1,757	15,812	70.12%	11,088
27	Rents	0		12,000		12,000		3,000		0				3,489	25%	3,750	11,250	70.12%	7,889	
28	Contractual Services	11,457		(500)		10,957		490		(1,232)				0	15,000	0%	0	15,000	70.12%	10,500
29	Transportation Expenses	24,752		1,817		26,569		900		(7,380)		(186)		6,726	0%	0	6,726	70.12%	4,716	
30	Insurance - General Liability	8,964		0		8,964		2,736		(1,058)		594		0	21,739	15%	1,424	21,739	70.12%	15,243
31	Insurance - Health and Life	2,667		0		2,667		296		0		0		0	2,963	10%	296	8,072	70.12%	5,660
32	Miscellaneous Expenses	8,848		(3,397)		5,451		245		(2,301)				2,903	0%	0	490	2,667	70.12%	1,870
33	Payroll Taxes	0		9,942		9,942		0		(1,539)				0	14,179	0%	0	14,179	70.12%	9,942
	Total	\$332,672		(\$799)		\$331,873		\$16,678		(\$50,362)		\$14,034		\$30,661	\$281,562		\$7,477	\$274,085		\$192,190

References:
 Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
 Column [B]: Column [C] - Column [A]
 Column [C]: Col [I] + Col [P]
 Column [D]: Company Schedule C-2
 Column [E]: Chino Meadows general ledger provided in DR CM TBH 1.3
 Column [F]: Schedule TBH CM-19b
 Column [G]: Schedule TBH CM-19c
 Column [H]: Schedule TBH CM-19d
 Column [I]: Chino Meadows general ledger provided in DR CM TBH 1.3
 Column [J]: Col [D] + Col [E] + Col [F] + Col [G] + Col [H] - Col [I]
 Column [K]: Testimony, TBH
 Column [L]: Col [J] * Col [K]
 Column [M]: Col [J] - Col [L]
 Column [N]: Schedule TBH CM-19e
 Column [O]: Col [M] * Col [N]

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS RECLASSIFICATIONS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Salaries and Wages	\$179,965	(\$15,718)	\$164,247
2	Salaries and Wages - Officers	31,700	0	31,700
3	Purchased Power	24,401	0	24,401
4	Chemicals	425	0	425
5	Repairs and Maintenance	8,899	1,281	10,180
6	Office Supplies & Expense	30,594	(12,000)	18,594
7	Rents	0	12,000	12,000
8	Contractual Services	11,457	(500)	10,957
9	Transportation Expenses	24,752	1,817	26,569
10	Insurance - General Liability	8,964	0	8,964
11	Insurance - Health and Life	2,667	0	2,667
12	Miscellaneous Expenses	8,848	(3,397)	5,451
13	Payroll Taxes	0	15,718	15,718
14				
15	Salaries and Wages			
16	Payroll taxes included as salaries and wages - Schedule TBH CM-19f Line 7	(\$15,718)	(\$15,718)	
17				
18	Repairs and Maintenance			
19	To reclass expense to plant	(\$539)		
20	Amount originally booked to Granite Mountain to be included in the cost pool	1,820	\$1,281	
21				
22	Office Supplies & Expense			
23	Rent - Misclassified as Office Supplies	(\$12,000)	(\$12,000)	
24				
25	Rents			
26	Rent - Misclassified as Office Supplies	\$12,000	\$12,000	
27				
28	Contractual Services			
29	Survey for Granite Mountain Well No. 6 Site	(\$500)	(\$500)	
30				
31	Transportation Expenses			
32	Amount originally booked to Granite Mountain to be included in the cost pool	\$1,817	\$1,817	
33				
34	Miscellaneous Expenses			
35	To correct for bad debt expenses included in miscellaneous expenses	(\$3,000)		
36	Adjustment - Less Security Deposits Corrections	(554)		
37	To adjust for bad debts recovered and collection fees included in miscellaneous expenses	157	(\$3,397)	
38				
39	Payroll Taxes			
40	Payroll taxes included as salaries and wages - Schedule TBH CM-19f Line 7	\$15,718	\$15,718	

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS DISALLOWED

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Salaries and Wages	\$179,965	(\$17,444)	\$162,521
2	Salaries and Wages - Officers	31,700	(16,434)	15,266
3	Purchased Power	24,401	(46)	24,355
4	Chemicals	425	0	425
5	Repairs and Maintenance	8,899	(124)	8,775
6	Office Supplies & Expense	30,594	(2,804)	27,790
7	Rents	0	0	0
8	Contractual Services	11,457	(1,232)	10,225
9	Transportation Expenses	24,752	(7,380)	17,372
10	Insurance - General Liability	8,964	(1,058)	7,906
11	Insurance - Health and Life	2,667	0	2,667
12	Miscellaneous Expenses	8,848	(2,301)	6,547
13	Payroll Taxes	0	(1,539)	(1,539)
14				
15				
16	Salaries and Wages			
17	Unregulated salaries and wages - Schedule TBH CM-19f Line 7	(\$17,444)	(\$17,444)	
18				
19	Salaries and Wages - Officers			
20	Pay adjusted to reflect actual time worked	(\$11,761)		
21	Duties assigned to office manager	(4,673)	(16,434)	
22				
23	Purchased Power			
24	To adjust for late fees	(\$46)	(\$46)	
25				
26	Repairs and Maintenance			
27	To adjust for personal expense	(\$124)	(\$124)	
28				
29	Office Supplies & Expense			
30	Interest and Late Fees	(\$44)		
31	Mrs. Levie Phone & Charges, Collect Calls, Paul International Call & Plan	(1,888)		
32	Meals	(218)		
33	Miscellaneous Personal Expenses	(524)		
34	2010 Expense	(130)	(\$2,804)	
35				
36	Contractual Services			
37	Legal Fees for Fire	(\$1,232)	(\$1,232)	
38				
39	Transportation Expenses			
40	Gas Reimbursement \$100 per month - Company no longer providing	(\$800)		
41	Personal Use Purchases - Tires	(2,497)		
42	Out of State Gasoline Purchase	(2,229)		
43	Bulk Delivery of Gasoline to Paul's Home (530 gallons)	(1,854)	(\$7,380)	
44				
45	Insurance - General Liability			
46	Remove Vehicle AZ-1 DR CM TBH 1.39 Unregulated Associated Co.	(\$1,058)	(\$1,058)	
47				
48	Miscellaneous Expenses			
49	Gifts	(\$1,559)		
50	Meals	(683)		
51	Donations	(60)	(\$2,301)	
52				
53	Payroll Taxes			
54	Non-regulated payroll taxes - Schedule TBH CM-19f Line 7	(\$1,539)	(\$1,539)	

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS NORMALIZATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries and Wages	\$179,965	\$13,834	\$193,799
2	Salaries and Wages - Officers	31,700	0	31,700
3	Purchased Power	24,401	0	24,401
4	Chemicals	425	0	425
5	Repairs and Maintenance	8,899	0	8,899
6	Office Supplies & Expense	30,594	(208)	30,386
7	Rents	0	0	0
8	Contractual Services	11,457	0	11,457
9	Transportation Expenses	24,752	(186)	24,566
10	Insurance - General Liability	8,964	594	9,558
11	Insurance - Health and Life	2,667	0	2,667
12	Miscellaneous Expenses	8,848	0	8,848
13	Payroll Taxes	0	0	0
14				
15				
16	Salaries and Wages			
17	Normalize salaries and benefits	\$13,834	\$13,834	
18				
19	Office Supplies & Expense			
20	Normalize Carbonite over 3 years	(\$94)		
21	Normalize GoDaddy 5 year contract	(114)	(\$208)	
22				
23	Transportation Expenses			
24	Normalize Vehicle Registration for 2 years	(\$186)	(\$186)	
25				
26	Insurance - General Liability			
27	Normalize Insurance Policy adjustment for refunds	\$594	\$594	

OPERATING INCOME ADJUSTMENT NO. 5 - 4-FACTOR ALLOCATION CALCULATION

		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
Line No.	Company	Customer Count	Customer Count %	Net Plant in Service	Net Plant in Service %	Total Annual Revenue	Operating Expenses %	Total Annual Gallons Pumped	Gallons Pumped %	4-factor %
1	Antelope Lakes	2	0.20%	\$62,347	11.34%	\$613	0.13%	95	0.13%	2.95%
2	Chino Meadows	899	87.96%	173,351	31.54%	357,364	75.17%	64,140	85.81%	70.12%
3	Granite Mountain	121	11.84%	313,950	57.12%	117,447	24.70%	10,510	14.06%	26.93%
4	Total	1,022		\$549,648		\$475,424		74,745		100.00%

References:

Column [A]: The Customer counts for Chino Meadows and Granite Mountain the applications; and for Antelope Lakes, the 2013 Annual Report, p. 12 as of 12/31/2013

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

Column [C]: The Net Plant in service information for Chino Meadows and Granite Mountain are from the applications & Schedule TBH CM-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of 12/31/2013

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

Column [E]: The Total Annual Revenue information for Chino Meadows and Granite Mountain are from the applications; the information for Antelope Lakes, is from the 2013 Annual Report, p. 8 as of 12/31/2013

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

Column [G]: The Total Annual Gallons Pumped information for Chino Meadows and Granite Mountain is from the application; the information for Antelope Lakes, is from the 2013 Annual Report on Revised Balance Sheet, p. 12 as of 12/31/2013

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

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

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS SALARIES & WAGES CALCULATION

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
LINE NO.	2014 Current Salaries	2014 Current or Estimated Hourly Rate	2014 Current or Estimated Salary and Wages	2014 Current or Estimated Payroll Taxes	Unregulated ¹ Hours %	2014 Unregulated Salary and Wages	2014 Unregulated Payroll Taxes	Staff Adjusted Salaries and Wages	Staff Adjusted Payroll Taxes
1	Barney ²	\$26.61	\$55,356	\$4,670	10%	\$5,536	\$467	\$49,821	\$4,203
2	Nelson	14.50	30,160	2,714	5%	1,508	136	28,652	2,579
3	Lopez	17.50	36,400	3,276				36,400	3,276
4	Feichter	14.50	30,160	2,714				30,160	2,714
5	Magnussen	12.50	26,000	2,340	40%	10,400	936	15,600	1,404
6	Rounding	0.00	5	3				5	3
7	Total		\$178,082	\$15,718		\$17,444	\$1,539	\$160,638	\$14,179
8	¹ Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-1.25, CM TBH-2.12h, GM TBH-2.5 and GM TBH-2.5g.								
9									
10	² Per DR CM TBH 1.25g. Barney \$13,000 bonuses to adjust pay to match responsibilities.								

References:

Column [A]: Company Application - Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

LINE NO.	DESCRIPTION	[A]	
		Officer Salary	Hours worked per month
1	Supervision and management of company personnel		12
2	Oversight of company operations		6
3	Provide strategic direction		6
4	Review company financial data including payables, receivable, revenue and expenses		12
5	Provide legal representation for Company		8
6	Review payroll and sign checks		4
7	Review and authorize all vendor payments		4
8	Acquire regulate and oversee company loans and long-term debts		8
9	Meeting with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available		20
10	Develop and review company processes and procedures to ensure regulatory compliance		8
11	Review & advise Company on manuals such as employee handbook & emergency response manual		1
12	Total Monthly Hours		89
13			
14	Less hours out of town (33 percent of the total monthly hours)		29.37
15	Adjusted Hours		59.63
16			
17	Adjusted Hours * \$36.25 ¹ * 12 months		\$25,939
18	Less Additional Increase for Operations Manager from 2013 to 2014 ²		(4,673)
19	Adjusted Officers Salary		\$21,266
20	¹ Based on Annual Salary of Mr. Levie (Half Time Employee) \$31,700 for Chino Meadows and \$6,000 for Granite Mountain =		
21	\$37,700. Annual Salary / 1,040 hours per year (52 weeks x 20 hours per week) = Hourly Rate of \$36.25		
22	² Operations Manager's Salary for 2013 was \$50,683 and for 2014 was \$55,356. The additional increase is \$4,673.		

References:

- Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
- Column [B]: Column [C] - Column [A]
- Column [C]: As calculated by Staff on line 24
- Column [D] : Per DRs CM TBH 1.26.g, CM TBH 2.12 and CM TBH 3.7

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX

LINE NO.	PROPERTY TAX CALCULATION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$357,985	\$357,985
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$715,969	\$715,969
4	Staff Recommended Revenue, Per Schedule TBH CM-1	357,985	299,772
5	Subtotal (Line 4 + Line 5)	\$1,073,954	\$1,015,741
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$357,985	\$338,580
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$715,969	\$677,161
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$715,969	\$677,161
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	132,454	125,275
15	Composite Property Tax Rate	13.36%	13.36%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$17,694	
17	Company Proposed Property Tax	18,670	
18	Staff Test Year Adjustment (Line 16-Line 17)	(\$976)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$16,734
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		17,694
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		(959)
22	Increase to Property Tax Expense		(\$959)
23	Increase in Revenue Requirement		(\$58,213)
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.65%

References:

Line 15: Composite Tax Rate line 28 of the Company's proforma Adjustment No. 7 in Attachment No. 2, Supplemental page 9 Amended.

Line 17: Company 2nd Amended Application page 19.

Line 21: Line 19 - Line 20

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A]	[B]
	<i>Calculation of Income Tax:</i>	Test Year	
1	Revenue	\$357,985	
2	Less: Operating Expenses - Excluding Income Taxes	284,574	
3	Less: Synchronized Interest (L17)	0	
4	Arizona Taxable Income (L1- L2 - L3)	\$73,411	
5	Arizona State Income Tax Rate	6.000%	
6	Arizona Income Tax (L4 x L5)		\$4,405
7	Federal Taxable Income (L4 - L6)	\$69,006	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	7,500	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	4,751	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	0	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	0	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	0	
13	Total Federal Income Tax		12,251
14	Combined Federal and State Income Tax (L6 + L13)		\$16,656
	<i>Calculation of Interest Synchronization:</i>		
15	Rate Base	\$135,369	
16	Weighted Average Cost of Debt	0.00%	
17	Synchronized Interest (L16 x L17)	\$0	
18			
19	Income Tax - Per Staff	\$16,656	
20	Income Tax - Per Company	(6,972)	
	Staff Adjustment	\$23,628	

REFERENCES:

Line 18: Adjusted Income Tax - Company's proforma Adjustment No. 8 in Attachment No. 2, Supplemental page 10 Amended Line 32.
Line 17: Company 2nd Amended Application page 19.
Line 21: Line 19 - Line 20

CASH FLOW ANALYSIS

LINE NO.	CASH FLOWS	[A]	[B]	[C]
		Company 2013 Test Year Income Statement As Filed	Staff's Recommendation Cash Flow from Operations	Staff's Alternative Recommendation Cash Flow from Operations
1	Cash Inflows			
2	Metered Water Sales	\$345,620	\$345,620	\$287,407
3	Water Sales - Unmetered	0	0	0
4	Other Operating Revenues	12,744	12,365	12,365
5	Total Revenues	\$358,364	\$357,985	\$299,772
6				
7	Cash Outflows			
8	Salaries and Wages	\$179,965	\$112,640	\$112,640
9	Salaries and Wages - Officers	31,700	14,912	14,912
10	Employee Pensions & Benefits	0	0	0
11	Purchased Water	40	40	40
12	Purchased Power	24,401	23,683	23,683
13	Chemicals	425	331	331
14	Repairs and Maintenance	8,899	8,140	8,140
15	Office Supplies & Expense	30,594	11,088	11,088
16	Contractual Services	11,457	8,205	8,205
17	Water Testing	4,791	4,828	4,828
18	Rents	0	7,889	7,889
19	Transportation Expenses	24,752	15,243	15,243
20	Insurance - General Liability	8,964	5,660	5,660
21	Insurance - Health and Life	2,667	1,870	1,870
22	Reg. Comm. Exp.	445	445	445
23	Reg. Comm. Exp. - Rate Case	13,333	15,000	15,000
24	Miscellaneous Expense	8,848	3,247	3,247
25	Bad Debt Expense	1,990	4,833	4,043
26	Depreciation Expense	20,394	18,885	18,885
27	Taxes Other Than Income	0	0	0
28	Property Taxes	18,670	17,694	16,734
29	Payroll Taxes	0	9,942	9,942
30	Income Taxes	(6,972)	16,656	3,406
31	Rounding	(1)	(1)	3
32	Total Expenses	\$385,362	\$301,230	\$286,234
33				
34	Operating Income	(\$26,998)	\$56,754	\$13,537
35				
36	Plus: Depreciation Expense	20,394	18,885	18,885
37	Cash Flow from Operations	(\$6,604)	\$75,640	\$32,423

RATE DESIGN - STAFF'S RECOMMENDATION				
Monthly Usage Charge	Present Rates		Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>				
5/8 x 3/4 Inch	\$ 17.75		\$ 23.00	\$ 17.75
3/4 Inch	26.63		34.50	26.63
1 Inch	44.38		57.50	44.38
1 1/2 Inch	88.75		115.00	88.75
2 Inch	142.00		184.00	142.00
3 Inch	266.25		368.00	266.25
4 Inch	443.75		575.00	443.75
6 Inch	887.50		1,150.00	887.50
<u>Commodity Charge - Per 1,000 Gallons</u>				
<u>5/8" x 3/4" Meter (Residential)</u>				
First 3,000 gallons	2.40		3.50	2.40
3,001 to 8,000 gallons	3.20		5.10	3.20
Over 8,000 gallons	4.20		6.50	4.20
<u>5/8" x 3/4" Meter (Commercial)</u>				
First 3,000 gallons	2.40		3.50	2.40
3,001 to 8,000 gallons	3.20		5.10	3.20
Over 8,000 gallons	4.20		6.50	4.20
<u>3/4" Meter (Residential)</u>				
First 3,000 gallons	2.40		3.50	2.40
3,001 to 8,000 gallons	3.20		5.10	3.20
Over 8,000 gallons	4.20		6.50	4.20
<u>3/4" Meter (Commercial)</u>				
First 3,000 gallons	2.40		3.50	N/A
3,001 to 8,000 gallons	3.20		5.10	N/A
Over 8,000 gallons	4.20		6.50	N/A
First 8,000 gallons	N/A		N/A	3.20
Over 8,000 gallons	N/A		N/A	4.20
<u>1" Meter (All Classes)</u>				
First 3,000 gallons	2.40		3.50	N/A
3,001 to 8,000 gallons	3.20		5.10	N/A
Over 8,000 gallons	4.20		6.50	N/A
First 10,000 gallons	N/A		N/A	3.20
Over 10,000 gallons	N/A		N/A	4.20
<u>1 1/2" Meter (All Classes)</u>				
First 3,000 gallons	2.40		3.50	N/A
3,001 to 8,000 gallons	3.20		5.10	N/A
Over 8,000 gallons	4.20		6.50	N/A
First 20,000 gallons	N/A		N/A	3.20
Over 20,000 gallons	N/A		N/A	4.20
<u>2" Meter (All Classes)</u>				
First 3,000 gallons	2.40		3.50	N/A
3,001 to 8,000 gallons	3.20		5.10	N/A
Over 8,000 gallons	4.20		6.50	N/A
First 40,000 gallons	N/A		N/A	3.20
Over 40,000 gallons	N/A		N/A	4.20

3" Meter (All Classes)					
First 3,000 gallons	2.40			3.50	N/A
3,001 to 8,000 gallons	3.20			5.10	N/A
Over 8,000 gallons	4.20			6.50	N/A
First 100,000 gallons	N/A			N/A	3.20
Over 100,000 gallons	N/A			N/A	4.20
4" Meter (All Classes)					
First 30,000 gallons	N/A			5.10	N/A
Over 30,000 gallons	N/A			6.50	N/A
First 180,000 gallons	N/A			N/A	3.20
Over 180,000 gallons	N/A			N/A	4.20
6" Meter (All Classes)					
First 30,000 gallons	N/A			5.10	N/A
Over 30,000 gallons	N/A			6.50	N/A
First 300,000 gallons	N/A			N/A	3.20
Over 300,000 gallons	N/A			N/A	4.20
Hydrant Meter (Not Individually Assigned)					
All Usage, Per 1,000 Gallons	4.20			6.50	4.20

Other Service Charges					
Establishment	\$ 25.00			\$ 25.00	\$ 25.00
Reconnection (Delinquent)	30.00			35.00	30.00
After Hour Service Charge (Flat Rate)	25.00			25.00	25.00
Meter Test (If Correct)	20.00			30.00	25.00
Deposit	*			*	*
Deposit Interest	*			*	*
Reestablishment (within 12 months)	**			**	**
NSF Check	20.00			20.00	20.00
Deferred Payment (per month)	1.50%			1.50%	1.50%
Meter Re-Read (if Correct)	15.00			15.00	15.00
Late Payment Fee (per month)	1.50%			1.50%	1.50%
Moving Customer Meter at Customer Request	N/A			*** @ cost	*** @ cost

Monthly Service Charge for Fire Sprinklers					
4" or Smaller	****			****	****
6"	****			****	****
8"	****			****	****
10"	****			****	****
Larger than 10"	****			****	****

* Per Commission Rule A.A.C. R14-2-403(B).
 ** Months off the system times the Monthly Usage Charge, per A.A.C. R14-2-403(D).
 *** All items billed at cost shall include labor, materials, parts, overheads and all applicable taxes.
 **** 2.00 percent of the Monthly Usage Charge for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges							
Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
5/8 x 3/4 Inch	\$ 501.00	\$ 450.00	\$ 150.00	\$ 600.00	\$ 450.00	\$ 150.00	\$ 600.00
3/4 Inch	575.00	450.00	250.00	700.00	450.00	250.00	700.00
1 Inch	650.00	575.00	300.00	875.00	575.00	300.00	875.00
1 1/2 Inch	427.00	675.00	500.00	1,175.00	675.00	500.00	1,175.00
2 Inch	1,572.00	1,000.00	1,500.00	2,500.00	1,000.00	1,500.00	2,500.00
3 Inch	2,400.00	1,300.00	2,000.00	3,300.00	1,300.00	2,000.00	3,300.00
4 Inch	3,516.00	1,800.00	3,500.00	5,300.00	1,800.00	3,500.00	5,300.00
6 Inch	6,916.00	2,800.00	6,000.00	8,800.00	2,800.00	6,000.00	8,800.00
Over 6 Inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

RATE DESIGN - STAFF'S ALTERNATIVE RECOMMENDATION					
Monthly Usage Charge	Present Rates		Company Proposed Rates		Staff Recommended Rates
<u>Meter Size (All Classes):</u>					
5/8 x 3/4 Inch	\$ 17.75		\$ 23.00		\$ 13.75
3/4 Inch	26.63		34.50		20.63
1 Inch	44.38		57.50		34.38
1 1/2 Inch	88.75		115.00		68.75
2 Inch	142.00		184.00		110.00
3 Inch	266.25		368.00		220.00
4 Inch	443.75		575.00		343.75
6 Inch	887.50		1,150.00		687.50
<u>Commodity Charge - Per 1,000 Gallons</u>					
<u>5/8" x 3/4" Meter (Residential)</u>					
First 3,000 gallons	2.40		3.50		2.00
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
<u>5/8" x 3/4" Meter (Commercial)</u>					
First 3,000 gallons	2.40		3.50		2.00
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
<u>3/4" Meter (Residential)</u>					
First 3,000 gallons	2.40		3.50		2.00
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
<u>3/4" Meter (Commercial)</u>					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 8,000 gallons	N/A		N/A		3.00
Over 8,000 gallons	N/A		N/A		4.00
<u>1" Meter (All Classes)</u>					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 10,000 gallons	N/A		N/A		3.00
Over 10,000 gallons	N/A		N/A		4.00
<u>1 1/2" Meter (All Classes)</u>					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 20,000 gallons	N/A		N/A		3.00
Over 20,000 gallons	N/A		N/A		4.00
<u>2" Meter (All Classes)</u>					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 40,000 gallons	N/A		N/A		3.00
Over 40,000 gallons	N/A		N/A		4.00

3" Meter (All Classes)					
First 3,000 gallons	2.40			3.50	N/A
3,001 to 8,000 gallons	3.20			5.10	N/A
Over 8,000 gallons	4.20			6.50	N/A
First 100,000 gallons	N/A			N/A	3.00
Over 100,000 gallons	N/A			N/A	4.00
4" Meter (All Classes)					
First 30,000 gallons	N/A			5.10	N/A
Over 30,000 gallons	N/A			6.50	N/A
First 180,000 gallons	N/A			N/A	3.00
Over 180,000 gallons	N/A			N/A	4.00
6" Meter (All Classes)					
First 30,000 gallons	N/A			5.10	N/A
Over 30,000 gallons	N/A			6.50	N/A
First 300,000 gallons	N/A			N/A	3.00
Over 300,000 gallons	N/A			N/A	4.00
Hydrant Meter (Not Individually Assigned)					
All Usage, Per 1,000 Gallons	4.20			6.50	4.00

Other Service Charges					
Establishment	\$ 25.00			\$ 25.00	\$ 25.00
Reconnection (Delinquent)	30.00			35.00	30.00
After Hour Service Charge (Flat Rate)	25.00			25.00	25.00
Meter Test (If Correct)	20.00			30.00	25.00
Deposit	*			*	*
Deposit Interest	*			*	*
Reestablishment (within 12 months)	**			**	**
NSF Check	20.00			20.00	20.00
Deferred Payment (per month)	1.50%			1.50%	1.50%
Meter Re-Read (if Correct)	15.00			15.00	15.00
Late Payment Fee (per month)	1.50%			1.50%	1.50%
Moving Customer Meter at Customer Request	N/A			*** @ cost	*** @ cost

Monthly Service Charge for Fire Sprinklers					
4" or Smaller	****			****	****
6"	****			****	****
8"	****			****	****
10"	****			****	****
Larger than 10"	****			****	****

* Per Commission Rule A.A.C. R14-2-403(B).
 ** Months off the system times the Monthly Usage Charge, per A.A.C. R14-2-403(D).
 *** All items billed at cost shall include labor, materials, parts, overheads and all applicable taxes.
 **** 2.00 percent of the Monthly Usage Charge for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges							
Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
5/8 x 3/4 Inch	\$ 501.00	\$ 450.00	\$ 150.00	\$ 600.00	\$ 450.00	\$ 150.00	\$ 600.00
3/4 Inch	575.00	450.00	250.00	700.00	450.00	250.00	700.00
1 Inch	650.00	575.00	300.00	875.00	575.00	300.00	875.00
1 1/2 Inch	427.00	675.00	500.00	1,175.00	675.00	500.00	1,175.00
2 Inch	1,572.00	1,000.00	1,500.00	2,500.00	1,000.00	1,500.00	2,500.00
3 Inch	2,400.00	1,300.00	2,000.00	3,300.00	1,300.00	2,000.00	3,300.00
4 Inch	3,516.00	1,800.00	3,500.00	5,300.00	1,800.00	3,500.00	5,300.00
6 Inch	6,916.00	2,800.00	6,000.00	8,800.00	2,800.00	6,000.00	8,800.00
Over 6 Inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

Typical Bill Analysis - STAFF'S RECOMMENDATION						
General Service 5/8 x 3/4-Inch Meter						
Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,931		\$ 31.13	\$ 43.35	\$ 12.22	39.25%
Median Usage	3,469		26.45	35.89	\$ 9.44	35.69%
Staff Recommended						
Average Usage	4,931		\$ 31.13	\$ 31.13	\$ -	0.00%
Median Usage	3,469		26.45	26.45	\$ -	0.00%
Present & Proposed Rates (Without Taxes)						
General Service 5/8 x 3/4-Inch Meter						
	Present		Company Proposed	%	Staff Recommended	%
	5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
	Minimum Charge	\$ 17.75	Minimum Charge	\$ 23.00	Minimum Charge	\$ 17.75
	1st Tier Rate	2.40	1st Tier Rate	3.50	1st Tier Rate	2.40
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	3.20	2nd Tier Rate	5.10	2nd Tier Rate	3.20
	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000
	3rd Tier Rate	4.20	3rd Tier Rate	6.50	3rd Tier Rate	4.20
Gallons Consumption	Rates		Rates	Increase	Rates	Increase
-	\$ 17.75		\$ 23.00	29.58%	\$ 17.75	0.00%
1,000	20.15		26.50	31.51%	20.15	0.00%
2,000	22.55		30.00	33.04%	22.55	0.00%
3,000	24.95		33.50	34.27%	24.95	0.00%
4,000	28.15		38.60	37.12%	28.15	0.00%
5,000	31.35		43.70	39.39%	31.35	0.00%
6,000	34.55		48.80	41.24%	34.55	0.00%
7,000	37.75		53.90	42.78%	37.75	0.00%
8,000	40.95		59.00	44.08%	40.95	0.00%
9,000	45.15		65.50	45.07%	45.15	0.00%
10,000	49.35		72.00	45.90%	49.35	0.00%
11,000	53.55		78.50	46.59%	53.55	0.00%
12,000	57.75		85.00	47.19%	57.75	0.00%
13,000	61.95		91.50	47.70%	61.95	0.00%
14,000	66.15		98.00	48.15%	66.15	0.00%
15,000	70.35		104.50	48.54%	70.35	0.00%
16,000	74.55		111.00	48.89%	74.55	0.00%
17,000	78.75		117.50	49.21%	78.75	0.00%
18,000	82.95		124.00	49.49%	82.95	0.00%
19,000	87.15		130.50	49.74%	87.15	0.00%
20,000	91.35		137.00	49.97%	91.35	0.00%
25,000	112.35		169.50	50.87%	112.35	0.00%
30,000	133.35		202.00	51.48%	133.35	0.00%
35,000	154.35		234.50	51.93%	154.35	0.00%
40,000	175.35		267.00	52.27%	175.35	0.00%
45,000	196.35		299.50	52.53%	196.35	0.00%
50,000	217.35		332.00	52.75%	217.35	0.00%
75,000	322.35		494.50	53.40%	322.35	0.00%
100,000	427.35		657.00	53.74%	427.35	0.00%

Typical Bill Analysis - STAFF'S ALTERNATIVE RECOMMENDATION						
General Service 5/8 x 3/4-Inch Meter						
Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,931		\$ 31.13	\$ 43.35	\$ 12.22	39.25%
Median Usage	3,469		26.45	35.89	\$ 9.44	35.69%
Staff Recommended						
Average Usage	4,931		\$ 31.13	\$ 25.54	\$ (5.59)	-17.95%
Median Usage	3,469		26.45	21.16	\$ (5.29)	-20.01%
Present & Proposed Rates (Without Taxes)						
General Service 5/8 x 3/4-Inch Meter						
	Present		Company Proposed	%	Staff Recommended	%
	5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
	Minimum Charge	\$ 17.75	Minimum Charge	\$ 23.00	Minimum Charge	\$ 13.75
	1st Tier Rate	2.40	1st Tier Rate	3.50	1st Tier Rate	2.00
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	3.20	2nd Tier Rate	5.10	2nd Tier Rate	3.00
	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000
	3rd Tier Rate	4.20	3rd Tier Rate	6.50	3rd Tier Rate	4.00
Gallons Consumption	Rates		Rates	Increase	Rates	Increase
-	\$ 17.75		\$ 23.00	29.58%	\$ 13.75	-22.54%
1,000	20.15		26.50	31.51%	15.75	-21.84%
2,000	22.55		30.00	33.04%	17.75	-21.29%
3,000	24.95		33.50	34.27%	19.75	-20.84%
4,000	28.15		38.60	37.12%	22.75	-19.18%
5,000	31.35		43.70	39.39%	25.75	-17.86%
6,000	34.55		48.80	41.24%	28.75	-16.79%
7,000	37.75		53.90	42.78%	31.75	-15.89%
8,000	40.95		59.00	44.08%	34.75	-15.14%
9,000	45.15		65.50	45.07%	38.75	-14.17%
10,000	49.35		72.00	45.90%	42.75	-13.37%
11,000	53.55		78.50	46.59%	46.75	-12.70%
12,000	57.75		85.00	47.19%	50.75	-12.12%
13,000	61.95		91.50	47.70%	54.75	-11.62%
14,000	66.15		98.00	48.15%	58.75	-11.19%
15,000	70.35		104.50	48.54%	62.75	-10.80%
16,000	74.55		111.00	48.89%	66.75	-10.46%
17,000	78.75		117.50	49.21%	70.75	-10.16%
18,000	82.95		124.00	49.49%	74.75	-9.89%
19,000	87.15		130.50	49.74%	78.75	-9.64%
20,000	91.35		137.00	49.97%	82.75	-9.41%
25,000	112.35		169.50	50.87%	102.75	-8.54%
30,000	133.35		202.00	51.48%	122.75	-7.95%
35,000	154.35		234.50	51.93%	142.75	-7.52%
40,000	175.35		267.00	52.27%	162.75	-7.19%
45,000	196.35		299.50	52.53%	182.75	-6.93%
50,000	217.35		332.00	52.75%	202.75	-6.72%
75,000	322.35		494.50	53.40%	302.75	-6.08%
100,000	427.35		657.00	53.74%	402.75	-5.76%

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's First Set of Data Requests

Response provided by: Ray L. Jones

Title: Consultant

Address: 18835 North Thompson Peak Parkway, Suite 215
Scottsdale, AZ 85255

Data Request Number: TBH 1.42

- Q. Allocations – For each shared expense or cost included in the revenue requirement that has been allocated (e.g. office space rental, labor, transportation, insurance, etc.), please provide the following:
- a. Identify the cost, i.e., provide a descriptive name.
 - b. The basis of the allocation (e.g. number of customers)
 - c. The actual calculation used to make the allocation.
- A. Four major categories of expense were allocated between Chino Meadows and Granite Mountain during the test year, as follows.

- Rent Expense
- Operating Expenses
- Employee Salaries and Wages
- Officer, Director and Stockholder Salary and Wages

For each major category of expense a detailed response to parts a, b and c are as follows:

Rent Expense – This expense is the cost to rent the shared business office and is discussed in detail in the Company's response to TBH 1.30. The total rent paid for the test year was \$15,000. During the test year, the rent was allocated 20 percent to Granite Mountain (\$3,000) and 80 percent to Chino Meadows (\$12,000). The allocation was as directed by management.

Operating Expenses – The following operating expense accounts were allocated during the test year.

CHINO MEADOWS II WATER CO., INC.
 DOCKET NO. W-02370A-14-0231
 Response to Staff's First Set of Data Requests

Account
6615.06 · Gas for Office
6615.07 · Power for Office
6618.01 · Chlorine
6620.20- Shop Supplies (Misc)
6620.13 · Shop Tools
6620.19 · Equipment Repair
6620.21 · Water Main Break/Repair Supplie
6620.00 · Materials & Supplies
6630.01 · AIS Bill Processing
6650.00 · Transportation
6655.00 · Insurance - General Liability
6659.02 · State Fund
6675.07 · Gifts
6675.10 · Meals
6675.15 · Licenses & Permits
6621.03 · Postage
6621.00 · Office Supplies & Expense

During the test year, these accounts were allocated 10 percent to Granite Mountain and 90 percent to Chino Meadows. The allocation is based on number of customers. Note: the allocation has been updated to 12 percent to Granite Mountain and 88 percent to Chino meadows for 2014, based on actual end of test year customer counts.

Employee Salary and Wages – Due to payroll software limitations, salaries are allocated using a method where one employee's salary is charged to Granite Mountain with all other employees being charged to Chino Meadows. The resulting allocation for the test year was \$33,942 to Granite Mountain and \$164,965 to Chino Meadows. The results in an approximately 17 percent allocation to Granite Mountain with 83 percent being allocated to Chino Meadows.

Officer, Director and Stockholder Salary and Wages – This expense is discussed in detail in the Company's response to TBH 1.26. During the test year, the companies intended to allocate 80% of Mr. Levie's salary to Chino Meadows and 20% to Granite Mountain, based on an estimate of time spent working for each company. However, the actual booked allocation was \$31,700 to Chino Meadows and \$6,000 to Granite Mountain, approximating an 84% / 16% allocation.

CHINO MEADOWS II WATER CO., INC.
 DOCKET NO. W-02370A-14-0231
 Response to Staff's First Set of Data Requests

Response provided by: Ray L. Jones

Title: Consultant

Address: 18835 North Thompson Peak Parkway, Suite 215
 Scottsdale, AZ 85255

Data Request Number: TBH 1.26

- Q. Officer, Director, and Stockholder Salary and Wage Information – General information was provided in the application to support \$37,865.80 for Arden Barney. Please answer and/or provide the requested information for the following:
- a. A schedule of the names, titles, and annual salaries of all officer's, director's, and stockholder's actual payroll expenses and employee benefits by account charged for the test year.
 - b. Job descriptions which identify the job duties performed by each officer, director or stockholder and whether or not these officer, director or stockholder worked for any related companies.
 - c. A schedule showing the actual payroll expenses and employee benefits (with all pay and benefits identified separately) by officer, director or stockholder and NARUC account recorded for the test year.
 - d. A schedule that reconciles the difference in the total adjusted salaries for Officers and Directors of \$31,700 and the \$37,865.80 supported in the application.
 - e. Identify any incentive pay or bonuses paid during the test year.
 - f. Please state whether or not the officers, directors, and stockholders use time sheets to document the hours worked. If so, please provide the time sheets for each individual during the test year.
 - g. Please state the approximate number of hours each officer, director, and stockholder worked each month during the test year. As part of your response, please state the activity and the number of hours spent on that activity.
 - h. If the pay of the officers, directors, and stockholders is not based on time sheets please provide explain how you determined the level of salary for these individuals.
- A.
- a. Mr. Paul Levie was the only officer, director or stockholder paid for services during the test year. Mr. Levie was paid \$31,700 for his services during the test year. No additional employee benefits were provided.
 - b. The Company does not maintain formal job descriptions for its positions. The duties of Mr. Levie is summarized as follows:
 Manage all aspects of the utility including having ultimate responsibility for operations, planning, financing and strategic direction, including supervision and management of company personnel, provision of legal services, review of payroll, sign checks for payroll and accounts payable, project management, review of fiduciary responsibilities including accounts payable and accounts receivable, meeting with operations management to address concerns, equipment repair

CHINO MEADOWS II WATER CO., INC.
 DOCKET NO. W-02370A-14-0231
 Response to Staff's First Set of Data Requests

and/or water plant facilities, acquire regulate and oversee company loans and long-term debts, ensure that proper equipment and procedures are in place to adequately supply drinking water, review & advise on manuals such as employee handbook & emergency response manual.

Mr. Levie works for Chino Meadows, Granite Mountain and Antelope Lakes. However, he is paid separately by Granite Mountain and is not compensated by Antelope Lakes. Mr. Levie does not work for any other companies; however, as more fully discussed in the Company's response to TBH 1.30, Mr. Levie does manage a portfolio of property interests, including rental properties. Mr. Levie's compensation paid by Chino Meadows is based exclusively on his work for Chino Meadows and takes into consideration that Mr. Levie works less than full-time for Chino Meadows.

- c. Mr. Levie was paid a flat fee of \$31,700.00 for his services. The cost was charged to NARUC account 603.
- d. There is no difference to reconcile. The amount charged to Account 603 was \$31,700 for Mr. Levie.
- e. Mr. Levie did not receive a bonus.
- f. Mr. Levie does not use a time sheet.
- g. Mr. Levie's representative monthly work schedule is as follows:

Activity	Hours
Supervision and management of company personnel	12
Oversight of company operations	6
Provide strategic direction	6
Review company financial data including payables, receivables, revenue and expenses	12
Provide legal representation for Company	8
Review payroll and sign checks	4
Review and authorize all vendor payments	4
Acquire regulate and oversee company loans and long-term debts	8
Meetings with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available	20
Develop and review company processes and procedures to ensure regulatory compliance	8
Review and advise Company on manuals such as employee handbook and emergency response manual	1

Note: This schedule includes all time spent working for both Chino Meadows and Granite Mountain. As discussed below, it is estimated that 80% of the time is attributable to Chino Meadows and 20% of the time is attributable to Granite Mountain.

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's First Set of Data Requests

- h. Mr. Levie's compensation is based on an annual salary of \$76,800. As a half-time employee for Chino Meadows and Granite Mountain, Mr. Levie was scheduled for \$38,400 in compensation for the test year. Due to an accounting oversight, the actual pay to Mr. Levie was only \$37,700 during the test year. During the test year, the companies intended to allocate 80% of Mr. Levie's salary to Chino Meadows and 20% to Granite Mountain. However, the actual booked allocation was \$31,700 to Chino Meadows and \$6,000 to Granite Mountain, approximating an 84% / 16% allocation.

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's Second Set of Data Requests

Response provided by: Christine Nelson
Title: Admin Assistant
Address: 501 N Hwy 89
Chino Valley, AZ 86323
Data Request Number: TBH 2.12

- Q. Salaries and Wages Expenses – Please answer and/or provide the requested information for the following:
- a. Please explain the payroll bonus provided to Allan R. Feichter on Check 6349 for \$1,000 on December 11, 2013.
 - b. Please explain the payroll bonus provided to Christine E. Nelson on Check 6350 for \$1,500 on December 11, 2013.
 - c. Please explain the payroll bonus provided to b on Check 6351 for \$1,500 on December 11, 2013.
 - d. Please explain the payroll bonus provided to Arden Wayne Barney on Check 6376 for \$13,000 on December 23, 2013.
 - e. Please provide a schedule by employee, date and the amount of bonuses paid by the Company for the past 5 years.
 - f. Are any of the employees related to any of the officers, board member or family member of the officers of the Company?
 - g. Please explain the allocation of one employee on the payroll for the Granite Mountain instead of the direct labor hours being allocated by employee for each company.
 - h. Please state whether any of the employees of the Company work for any unregulated companies of the owners during their work shifts during the test year? Please provide support if the unregulated companies paid the Company's employees for the same time periods during the test year. If the unregulated company did not pay such employees, please state amount of time per week by unregulated company and by each employee.
 - i. Please explain the hourly timekeeping for direct labor hours worked by employee for each company.
- A.
- a. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Allan R. Feichter was paid a bonus.
 - b. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Christine E. Nelson was paid a bonus.
 - c. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Denny N. Lopez was paid a bonus.
 - d. Mr. Barney's bonus was paid to reflect the appropriate annual compensation for the position of Operations Manager to which Mr. Barney was promoted in May of 2013.

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's Second Set of Data Requests

The bonus was paid in lieu of increasing Mr. Barney's rate of pay at the time of promotion.

- e. See file CM TBH 2-12 Attachment – Bonus Schedule.pdf for the requested schedule.
- f. No employees are related to any of the officers, board member or family member of the officers of the Company.
- g. As discussed in the Company's response to TBH 1.42, due to payroll software limitations, salaries are allocated using a method where one employee's salary is charged to Granite Mountain with all other employees being charged to Chino Meadows. The resulting allocation for the test year was \$33,942 to Granite Mountain and \$164,965 to Chino Meadows. The results in an approximately 17 percent allocation to Granite Mountain with 83 percent being allocated to Chino Meadows. The Company feels this resulting allocation of salaries provides an adequate allocation of payroll expense between the two companies.
- h. As discussed in the Company's response to TBH 1.25, the Administrative Assistant and Operations Manager positions allocated to Chino Meadows, provides support related to Mr. Levie's property management activities. The positions are not paid separately for these activities. It is estimated that for the Administrative Assistant up to 2 hours per week is spent on property management activities. It is estimated that for the Operations Manager position up to 4 hours per week is spent on property management activities.
- i. The Company is not sure it understands this question. Salaries are allocated as discussed in the answer to part g. The Company did create job codes in Quickbooks and on its timecards for various companies. The intent of these codes was to allow for detailed allocation of payroll costs between companies. However, the Company discovered that due to Quickbooks software limitations, using the job costing function of Quickbooks to allocate payroll between companies would require significant ongoing accounting and reconciliation effort that was beyond its staff capabilities.

GRANITE MOUNTAIN WATER COMPANY, INC.
Docket No. W-02467A-14-0230
Response to Staff's Second Set of Data Requests

Response provided by: Christine Nelson
Title: Admin Assistant
Address: 501 N Hwy 89
Chino Valley, AZ 86323
Data Request Number: TBH 2.5

- Q. Salaries and Wages Expenses – Please answer and/or provide the requested information for the following:
- a. Please explain the payroll bonus provided to Jeanette Myrick on Check 5389 for \$2,500 on December 11, 2013. Additionally, please explain why a bonus is provided to an employee that is no longer with the Company.
 - b. Please explain the payroll bonus provided to Nicole Magnussen on Check 5390 for \$1,000 on December 11, 2013.
 - c. Please provide a schedule by employee, date and the amount of bonuses paid by the Company for the past 5 years.
 - d. Are any of the employees related to any of the officers, board member or family member of the officers of the Company?
 - e. Does Nikki Magnussen (Administrative Assistant) perform the same duties as the previous employee Jeanette Myrick (Bookkeeper/Administrative Assistant)? If not, please explain what duties are different.
 - f. Please explain the allocation of one employee on the payroll for the Company instead of the direct labor hours being allocated by employee for each company.
 - g. Please state whether any of the employees of the Company work for any unregulated companies of the owners during their work shifts during the test year? Please provide support if the unregulated companies paid the Company's employees for the same time periods during the test year. If the unregulated company did not pay such employees, please state amount of time per week by unregulated company and by each employee.
- A.
- a. Jeanette Myrick worked for the Company for 25 years and retired from the Company in October 2013. Paul Levie authorized the bonus for work performed through October of 2013 and in recognition of many years of valued service to the Company.
 - b. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Niclolle Magnussen was paid a bonus.
 - c. See file [GM TBH 2-5 Attachment – Bonus Schedule.pdf](#) for the requested schedule.
 - d. No employees are related to any of the officers, board member or family member of the officers of the Company.
 - e. Yes she performed the same duties.
 - f. As discussed in the Company's response to TBH 1.40, due to payroll software limitations, salaries are allocated using a method where one employee's salary is

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's Second Set of Data Requests

charged to Granite Mountain with all other employees being charged to Chino Meadows. The resulting allocation for the test year was \$33,942 to Granite Mountain and \$164,965 to Chino Meadows. The results in an approximately 17 percent allocation to Granite Mountain with 83 percent being allocated to Chino Meadows. The Company feels this resulting allocation of salaries provides an adequate allocation of payroll expense between the two companies.

- g. As discussed in the Company's response to TBH 1.24, the Administrative Assistant position allocated to Granite Mountain, provides support related to Mr. Levie's property management activities. The position is not paid separately for these activities. It is estimated that up to 16 hours per week is spent on property management activities.

CHINO MEADOWS II WATER CO., INC.
 DOCKET NO. W-02370A-14-0231
 Response to Staff's First Set of Data Requests

Response provided by: Ray L. Jones

Title: Consultant

Address: 18835 North Thompson Peak Parkway, Suite 215
 Scottsdale, AZ 85255

Data Request Number: TBH 1.33

Q. Notes/Accounts Receivable from Associated Companies – Referring to the Balance Sheet, Page 21 Acct. No. 146. Please provide explain and provide the following:

- a. Please provide a detailed schedule by month from January 2010 to December 2013. The detailed schedule should include the date, amount, check number, associated company, purpose of the note/accounts receivable, payment information and the balance due at the end of each month.
 - b. Please provide specific details for the amounts due from each specific associated company at the end of the test year.
- A. a. See file CM TBH 1-33 Attachment – Account Detail Receivable Assoc Company.pdf for the requested schedule.
- b. 1146.03- Loan-Antelope Lakes Water - This account represents funds paid to Antelope Lakes for various categories of expenses incurred by Antelope Lakes. The balance is not a receivable in the traditional sense. The balance would be more properly characterized as an intercompany balance, similar as to what would be recorded between a parent holding company and utility subsidiary companies or between utility subsidiary companies when cash is transferred from one utility subsidiary to the parent holding company or another utility subsidiary and vice versa. Antelope Lakes is not required to make any payments to Chino Meadows. Should Antelope Lakes provide funds to or on behalf of Chino Mountain, the intercompany balance would be reduced. The balance at the end of the test year was 2,230.18.

1146.05 - Loan-Desert Snow Construction & 1146.06 - Loan-GFL CMI Tract B Water Line – This accounts represent funds advanced to Desert Snow Construction on behalf of Mr. Levie. The majority of the funds paid for a waterline serving property owned by Mr. Levie. The property is within the Town of Chino Valley water service area and is not associated with any of the water utilities owned by Mr. Levie. The balance is due and payable upon demand by Chino Meadows. The balance at the end of the test year was 16,066.82.

1146.09 – Loan PDL Zooki - This account represent funds advanced on behalf of Mr. Levie's son, Daniel P. Levie. The balance is due and payable upon demand by Chino Meadows. The balance at the end of the test year was 104.02.

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's First Set of Data Requests

1146.15 Due from PDL Inc. - This account represent funds advanced to Mr. Levie. The funds were for personal use. The balance is due and payable upon demand by Chino Meadows. The balance at the end of the test year was 1,500.00

Chino Meadows II Water Co., Inc.
Account QuickReport
 As of December 31, 2014

4:44 PM
 12/17/14
 Accrual Basis

Type	Date	Num	Name	Memo	Split	Amount	Balance		
1146.00 - Receivable-Associated Companies									
1146.03 - Loan-Antelope Lakes Water									
Check	08/16/2012	Electronic	Antelope Lakes Water Co. Inc.	Loan to Cover 2011 Tax Preparation	1131.04 · Nati...	385.00	31,504.47		
Check	02/07/2013	Electronic	Antelope Lakes Water Co. Inc.	Funds to Cover Annual Reports & Expenses	1131.04 · Nati...	500.00	500.00		
Check	03/17/2014	Trans	Antelope Lakes Water Co. Inc.	Funds to cover monthly expenses	1131.04 · Nati...	100.00	1,385.00		
Check	04/04/2014	Trans	Antelope Lakes Water Co. Inc.	Funds to cover monthly expenses	1131.04 · Nati...	100.00	1,485.00		
Check	05/27/2014	TRANS	Antelope Lakes Water Co. Inc.	Funds to cover monthly expenses	1131.04 · Nati...	200.00	1,585.00		
Check	06/17/2014	TRANS	Antelope Lakes Water Co. Inc.	Funds to cover monthly expenses	1131.04 · Nati...	385.00	1,785.00		
Check	07/23/2014	6790	APS	Acc#301644289 Antelope Lakes Pump	1131.04 · Nati...	2,170.00	2,170.00		
Total 1146.03 · Loan-Antelope Lakes Water							2,230.18	2,230.18	
1146.04 - Loan-GBSI									
Check	03/09/2010	2818	City of Prescott	Ticket 298533 2/12/10 .77 tons	1131.02 · Che...	48.49	15,000.00		
Check	03/09/2010	2818	City of Prescott	Ticket 298629 2/12/10 .85 tons	1131.02 · Che...	53.53	15,048.49		
Check	03/09/2010	2818	City of Prescott	Ticket 298862 2/13/10 1.55 tons	1131.02 · Che...	97.62	15,102.02		
Check	03/09/2010	2818	City of Prescott	Ticket 298884 2/13/10 .21 tons	1131.02 · Che...	13.23	15,199.64		
Check	05/24/2010	2956	American Express	Damage Hinge Bars when Forklift loaded by GBSI bent them.	1131.02 · Che...	112.49	15,212.87		
Deposit	03/21/2012	11134		Pay back of GBSI Loan Check #11134	1131.04 · Nati...	-15,325.36	15,325.36		
Total 1146.04 · Loan-GBSI							0.00	0.00	
1146.05 - Loan-Desert Snow Construction									
Check	01/12/2010	2711	City of Prescott	Past Due for Desert Snow Oct 09	1131.02 · Che...	62.35	808.88		
Total 1146.05 · Loan-Desert Snow Construction							62.35	871.23	
1146.06 - Loan-GFL CMI Track B Water Line									
Total 1146.06 · Loan-GFL CMI Track B Water Line								15,195.59	15,195.59
1146.07 - Loan-World Biz Op									
Check	04/08/2011	3562	Citibank	Agent Fee-Adventure Travel-PA	1131.02 · Che...	20.00	0.00		
Check	04/08/2011	3562	Citibank	Agent Fee-Adventure Travel-PA	1131.02 · Che...	30.00	20.00		
Check	04/08/2011	3562	Citibank	US Airways-PA	1131.02 · Che...	364.40	50.00		
Check	04/08/2011	3562	Citibank	US Airways-PA	1131.02 · Che...	450.60	414.40		
Check	04/08/2011	3562	Citibank	Sunoco-PA	1131.02 · Che...	21.87	865.00		
Check	04/08/2011	3562	Citibank	Days INN-Horsham, PA	1131.02 · Che...	158.68	886.87		
Check	04/08/2011	3562	Citibank	Thrifty Car Rental-PA	1131.02 · Che...	169.86	1,045.55		
Deposit	05/06/2011	10056	Paul D. Levie Trust	Payment	1131.02 · Che...	-1,682.81	1,215.41		
Check	05/06/2011	3605	Paul D. Levie Trust	Reim Overpayment of Acct 1146.07	1131.02 · Che...	467.40	-467.40		
Total 1146.07 · Loan-World Biz Op							0.00	0.00	
1146.08 - Granite Mountain Water									
General Journal	12/31/2012	ml		Due from GMWC for 2012 Reimbursable Expenses	6615.07 · Pow...	23,988.31	0.00		
Deposit	12/31/2012			Reimb for 2012 Expenses	1131.04 · Nati...	-23,988.31	23,988.31		
Total 1146.08 · Granite Mountain Water							0.00	0.00	
1146.09 - Loan PDL Zooki									
Check	05/10/2013	5937	Citibank	City Express Las Vegas, NV	1131.04 · Nati...	52.01	0.00		
Check	06/20/2013	5991	Citibank	City Express Las Vegas, NV	1131.04 · Nati...	52.01	52.01		
Total 1146.09 · Loan PDL Zooki							104.02	104.02	

4:44 PM
 12/17/14
 Accrual Basis

Chino Meadows II Water Co., Inc.
Account QuickReport
 As of December 31, 2014

Type	Date	Num	Name	Memo	Split	Amount	Balance
1146.15 · Due from PDL Inc General Journal	12/31/2013	JLF		Reclassify Payment to PDL Inc	2232.00 · Not...	1,500.00	0.00
Total 1146.15 · Due from PDL Inc						1,500.00	1,500.00
Total 1146.00 · Receivable-Associated Companies						-11,603.45	19,901.02
TOTAL						-11,603.45	19,901.02

CHINO MEADOWS II WATER CO., INC.
 DOCKET NO. W-02370A-14-0231
 Response to Staff's First Set of Data Requests

Response provided by: Ray L. Jones

Title: Consultant

Address: 18835 North Thompson Peak Parkway, Suite 215
 Scottsdale, AZ 85255

Data Request Number: TBH 1.34

- Q. Notes/Payable to Associated Companies – Referring to the Balance Sheet, Page 22 Acct. No. 234. Please provide explain and provide the following:
- a. Please provide a detailed schedule by month from January 2010 to December 2013. The detailed schedule should include the date, amount, check number, associated company, purpose of the note/accounts receivable, payment information and the balance due at the end of each month.
 - b. Please provide specific details for the amounts due to each specific associated company at the end of the test year.
 - c. Please provide the specific authorization by the Arizona Corporation Commission for indebtedness payable at periods of more than twelve months pursuant to ARS 40-301-B.
- A. a. See file CM TBH 1-34 Attachment – Account Detail Payable Assoc Comp.pdf for the requested schedule.
- b. **2234.01-** Due to PDL (Paul D. Levie) - This account represents funds paid on behalf of Chino Meadows by Mr. Levie. The payments were related to fire loss expenses incurred in January 2012. The balance at the end of the test year was \$5,000.00.

2234.02- Due to Equestrian Construction, LLC - This amount due was recorded in error. There was no balance due at the end to the test year.

2234.06- Payable to GMWC - This account represents funds paid on behalf of Chino Meadows for various categories of expenses incurred by Chino Meadows in November of 2012. The balance is not a payable in the traditional sense. The balance would be more properly characterized as an intercompany balance, similar to what would be recorded between a parent holding company and utility subsidiary companies or between utility subsidiary companies when cash is transferred from one utility subsidiary to the parent holding company or another utility subsidiary and vice versa. Chino Meadows is not required to make any payments to Granite Mountain. Should Chino Meadows provide funds to or on behalf of Granite Mountain or transfer funds to Granite Mountain, the intercompany balance would be reduced. The balance at the end of the test year was \$19,891.00.
 - c. The entries and balances in this account do not denote long-term indebtedness. Accordingly, the Company has not requested authorization by the Arizona Corporation Commission for indebtedness payable at periods of more than twelve months pursuant to ARS 40-301-B for any entry or balance in this account.

4:14 PM

11/21/14

Accrual Basis

Chino Meadows II Water Co., Inc.
Account QuickReport

As of December 31, 2013

Type	Date	Num	Name	Memo	Amount	Balance
2234.00 - Accts Payable-Assoc. Companies						6,000.00
2234.01 - Payable to PDL						0.00
General Journal	12/31/2011			Management Services for 2011	30,000.00	30,000.00
General Journal	01/05/2012	ml		Fire Investigations Service-Dallas C. Lane, CFI	5,000.00	35,000.00
General Journal	01/10/2012	ml		Purchase of Computers, Monitors, Router, Cables, Printer after Fire	3,853.83	38,853.83
General Journal	02/04/2012	ml		Purchase of Computers, Monitors, Cables, and Ext Hard Drive after Fire	2,276.65	41,130.48
Check	03/15/2012	5143	Paul D. Levie P.C.	Management Fee 2011	-30,000.00	11,130.48
Check	12/31/2012	5798	Paul D. Levie	Reimb-Purchase of Computers, Monitors, Router, Cables, Printer after Fire	-3,853.83	7,276.65
Check	12/31/2012	5798	Paul D. Levie	Reimb-Purchase of Computers, Monitors, Cables, and Ext Hard Drive after Fire	-2,276.65	5,000.00
Check	12/31/2012	5799	Paul D. Levie	Reimb for Fire Investigations Service-Dallas C. Lane, CFI	-5,000.00	0.00
General Journal	12/31/2013	JLF		Reclassify check to PDL for property	5,000.00	5,000.00
Total 2234.01 - Payable to PDL					5,000.00	5,000.00
2234.02 - Payable Equestrian Development						0.00
General Journal	06/28/2013		Equestrian Develo...	Reim for Office Fire Insurance Claim Proceeds for Property & Labor	11,608.82	11,608.82
Total 2234.02 - Payable Equestrian Development					11,608.82	11,608.82
2234.03 - Paul D. Levie, P.C.						0.00
General Journal	12/31/2010	jlf121...		Record Fees to PDL Entity	30,000.00	30,000.00
Check	01/01/2011	3481	Paul D. Levie P.C.	Management Fees 2010	-30,000.00	0.00
Total 2234.03 - Paul D. Levie, P.C.					0.00	0.00
2234.05 - Paul D. Levie Trust						0.00
Deposit	04/30/2012	4424	Paul D. Levie Trust	Short-Term Intercompany Acct to cover Property Tax Payment	4,000.00	4,000.00
Check	10/11/2012	5530	Paul D. Levie Trust	Reimb for Short-Term Loan to Pay 2011 Property Taxes	-4,000.00	0.00
Total 2234.05 - Paul D. Levie Trust					0.00	0.00
2234.06 - Payable to GMWC						6,000.00
Deposit	01/13/2010		Granite Mountain ...	Loan from GMWC cover Payroll Tax Liabilities	2,000.00	8,000.00
Check	02/19/2010	Elect...	Granite Mountain ...	Transfer to Repay Loan from 12/22/09 from GMWC	-6,000.00	2,000.00
Check	02/19/2010	Elect...	Granite Mountain ...	Transfer to Repay Loan from 01/13/10 from GMWC	-2,000.00	0.00
Deposit	04/25/2011	1579	Granite Mountain ...	Loan from Granite Mountain for Line Extension Project	13,353.00	13,353.00
Check	08/02/2011	Elect...	Granite Mountain ...	Transfer to Repay Loan from GMWC for Center St Ext (McMains)	-13,353.00	0.00
Deposit	10/13/2011		Granite Mountain ...	Transfer from GM to CM to cover Accts Payable	10,000.00	10,000.00
Check	10/26/2011	electr...	Granite Mountain ...	Reimb. for Transfer from GM to CM to cover Accts Payable	-10,000.00	0.00
General Journal	12/12/2011	ml		2005 Chevy 2500HD VIN: 1gbgc24u65e269326	9,245.75	9,245.75
General Journal	12/21/2011		Arizona Departme...	Registration & Title 2005 Chevy C2500HD Service Truck	257.91	9,503.66
General Journal	12/21/2011		Arizona Departme...	(3) Vehicle Title Replacements after Fire	12.00	9,515.66
General Journal	01/12/2012		Bob's Complete A...	2005 Chevy-Pitman Arm, Outer Tie Rod End, Eng Oil Cooler	1,104.07	10,619.73
General Journal	01/12/2012		Advanced Info Sys...	Inv 9110 Dec 2011 Billing	342.15	10,961.88
General Journal	01/12/2012		Postmaster	Postage Dec 2011 Billing	354.72	11,316.60
General Journal	01/12/2012		AZCOM Systems	Inv 1520 Setup phone lines at new office	380.00	11,696.60
General Journal	01/20/2012		Bennett Oil	Acct 263 Inv 93277 01/15/12	426.06	12,122.66
General Journal	01/20/2012		Hill Brothers Che...	Inv 4356308 (12) 13-gal 12.5% Chlorine	381.08	12,503.74
General Journal	01/24/2012		Staples	CMII Fire Loss Office Supplies	5,357.33	17,861.07
General Journal	01/24/2012		Craig A. Marks PLC	Rate Case 10.30hrs Legal Services	3,654.53	21,515.60
General Journal	01/24/2012		Aricor Water Solut...	Rate Case 6.4hrs Consultant Fees	1,184.00	22,699.60
General Journal	03/05/2012	ml		Due to GMWC Mar 2012	2,931.20	25,630.80
General Journal	03/21/2012	ml	Costco Wholesale	Storage Boxes-Fire	6,146.93	31,777.73
Check	10/11/2012	5529	Granite Mountain ...	Reim for Purchase of 2005 Chevy HD2500 Service Truck	-9,245.75	22,531.98
Check	10/11/2012	5529	Granite Mountain ...	Reim for Expenses Directly Related to Office Fire	-11,221.60	11,310.38
Check	10/11/2012	5529	Granite Mountain ...	Reim for CMII Operating Expenses-Loan for Accts Payable	-11,310.38	0.00
Deposit	11/09/2012		Granite Mountain ...	From GM to CM to cover Insurance Premium	10,891.00	10,891.00
Deposit	11/14/2012		Granite Mountain ...	From GM to CM to Pay Management Fee	30,000.00	40,891.00
Check	12/27/2012	Elect...	Granite Mountain ...	Reimb for Exp Related to Insurance Prem & Mngt Fee	-21,000.00	19,891.00
Total 2234.06 - Payable to GMWC					13,891.00	19,891.00
Total 2234.00 - Accts Payable-Assoc. Companies					30,499.82	36,499.82
TOTAL					30,499.82	36,499.82

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

IN THE MATTER OF THE APPLICATION OF)
CHINO MEADOWS II WATER COMPANY, INC.)
FOR APPROVAL OF A RATE INCREASE.)
_____)

DOCKET NO. W-02370A-14-0231

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

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ENGINEERING REPORTS	3
RECOMMENDATIONS AND CONCLUSIONS	3

EXHIBIT

Engineering Report for CHINO MEADOWS II WATER.....	JWL
--	-----

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Jian W. Liu. My place of employment is the Arizona Corporation Commission
4 ("ACC" or "Commission"), 1200 West Washington Street, Phoenix, Arizona 85007. My job
5 title is Water/Wastewater Engineer with the Commission's Utilities Division Staff ("Staff").
6

7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since October 2005.
9

10 **Q. Please list your duties and responsibilities.**

11 A. My main responsibilities are to inspect, investigate and evaluate water and wastewater
12 systems. This includes obtaining data, preparing reconstruction cost new and/or original cost
13 studies, investigative reports, interpreting rules and regulations, and suggesting corrective
14 action and providing technical recommendations on water and wastewater system
15 deficiencies. I also provide written and oral testimony in rate cases and other cases before the
16 Commission.
17

18 **Q. How many companies have you analyzed for the Utilities Division?**

19 A. I have analyzed approximately 50 companies fulfilling these various responsibilities for the
20 Commission's Utilities Division.
21

22 **Q. Have you previously testified before this Commission?**

23 A. Yes, I have testified before the Commission.
24
25
26

1 **Q. What is your educational background?**

2 A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University ("ASU").
3 I have a Master of Science Degree in Natural Science from ASU and a Master of Science
4 Degree in Civil Engineering from Institute of Rock & Soil Mechanics ("IRSM"), Academy of
5 Sciences, China.

6
7 **Q. Briefly describe your pertinent work experience.**

8 A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS Corporation as a
9 Civil and Environmental Engineer. In 2000, I joined the Arizona Department of
10 Environmental Quality ("ADEQ"). My responsibilities with ADEQ included review and
11 approval of water distribution systems, sewer distribution systems, and on-site wastewater
12 treatment facilities. I remained with ADEQ until transferring to the Commission in October
13 2005.

14
15 **Q. Please state your professional membership, registrations, and licenses.**

16 A. I am a licensed professional civil engineer in the State of Arizona.

17
18 **PURPOSE OF TESTIMONY**

19 **Q. What was your assignment in this rate proceeding?**

20 A. My assignment was to provide Staff's engineering evaluation of the subject rate proceeding. I
21 reviewed the Company's application and responses to data requests, and I inspected the water
22 system. This testimony and its attachments present Staff's engineering evaluation. The
23 findings of my engineering evaluation are contained in the Engineering Report that I have
24 prepared for this proceeding. The report is included as Exhibit JW1 in this pre-filed
25 testimony.

1 **ENGINEERING REPORT**

2 **Q. Please describe the information contained in your Engineering Report.**

3 A. The Report is divided into three general sections: 1) *Executive Summary*;
4 2) *Engineering Report Discussion*, and 3) *Engineering Report Exhibits*. The *Discussions* section for the
5 Water System can be further divided into ten subsections: A) Location of Company; B)
6 Description of the Water System; C) ADEQ Compliance; D) ACC Compliance; E) Arizona
7 Department Of Water Resources (“ADWR”) compliance; F) Water Testing Expenses, G)
8 Water Usage, H) Growth; I) Depreciation Rates; J) Other Issues.

9
10 **RECOMMENDATIONS AND CONCLUSIONS**

11 **Q. What are Staff's conclusions and recommendations regarding the Company's**
12 **operations?**

13 A. Staff's conclusions and recommendations regarding the Company's operations are contained
14 in the Executive Summary of the attached Engineering Report.

15
16 **Q. Does this conclude your Direct Testimony?**

17 A. Yes, it does.

EXHIBIT JWL

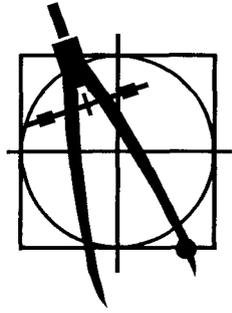
ENGINEERING REPORT FOR

CHINO MEADOWS II WATER CO., INC.

DOCKET NO. W-02370A-14-0231 (RATES)

JIAN W LIU

JULY 15, 2015



**Engineering Report for:
Chino Meadows II Water Company
for a Rate Increase
Docket No. W-02370A-14-0231 (Rates)**

**By: Jian W Liu
Utilities Engineer**

JULY 15, 2015

EXECUTIVE SUMMARY

CONCLUSIONS:

1. The Arizona Department of Environmental Quality (“ADEQ”) reported that the Chino Meadows II Water Company (“Chino Meadows” or “Company”) Public Water System (“PWS”) No. 13-079, 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. (ADEQ compliance status report dated October 28, 2014).
2. The Company is located in the Prescott Active Management Area (“AMA”) and is subject to Arizona Department of Water Resources (“ADWR”) AMA reporting and conservation requirements. ADWR reported that Chino Meadows is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 14, 2014).
3. A check with the Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated October 6, 2014).
4. Staff concludes that Chino Meadows has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.
5. The Company reported 60,730,000 gallons pumped and 52,423,000 gallons sold, resulting in a water loss of 13.68% for 2013.
6. Chino Meadows has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

RECOMMENDATIONS

1. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.
2. Staff recommends its average annual cost of \$4,828 be adopted for the water testing expense in this proceeding.
3. Staff recommends that the Service Line and Meter Installation Charges listed in Table C be adopted.
4. Staff recommends that Chino Meadows prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the cost benefit analysis shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding.

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FIGURES

County Map.....	FIGURE 1
Certificated Area.....	FIGURE 2

A. INTRODUCTION AND LOCATION OF COMPANY

Chino Meadows II Water Company (“Chino Meadows” or “Company”) has submitted an application with the Arizona Corporation Commission (“ACC” or “Commission”) for approval of a rate increase in Docket No. W-02370A-14-0231. Chino Meadows presently provides utility service to 908 water customers in Yavapai County, Arizona. Figure 1 shows the location of Chino Meadows within Yavapai County and Figure 2 shows the certificated area. The Commission Utilities Division Staff (“Staff”) engineering review and analysis of the pending application is presented in this report.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on December 9, 2014, by Jian Liu, Staff Utilities Engineer, and Teresa Hunsaker, Staff Public Utilities Analyst, in the accompaniment of Arden Barney of the Company.

The plant facilities consist of two active wells with total pumping capacity of 475 gallons per minute (“GPM”), four storage tanks with total storage capacity of 107,000 gallons, hydro-pneumatic pressure systems and distribution system serving 908 active connections during the test year of 2013. The detailed plant facility descriptions are as follows:

Well/Plant Data

ADWR ID No.	Pump HP	Pump GPM	Casing Depth(ft)	Casing Size(in)	Meter Size(in)	Year Drilled
55-552320	15	225	335	10	3	1995
55-613770	20	250	450	12	3	1982

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
67000	1	5,000	2	15	4
20000	1			25	1
10000	2				
Total 107,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	2,698			
		5/8x3/4	1,017	7
4	2,872	3/4		
6	70,214	1		
		1.5		
		2		
		3		
		4		
		Total	1,017	

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

ADEQ reported that the Chino Meadows drinking water system, Public Water System (“PWS”) No. 13-079, 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. (ADEQ compliance status report dated October 28, 2014).

D. ACC COMPLIANCE

A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated October 6, 2014).

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

Chino Meadows is located in the ADWR Prescott Active Management Area (“AMA”) and is subject to ADWR AMA reporting and conservation requirements. ADWR reported that Chino Meadows is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 14, 2014).

F. WATER TESTING EXPENSES

The Company is subject to mandatory participation in the ADEQ Monitoring Assistance Program (“MAP”). Participation in the MAP program is mandatory for water systems that serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$4,790.54 during the 2013 test year. Staff reviewed the Company’s reported testing expense and made certain adjustments to determine an average annual cost of \$4,828 as shown in Table A. Staff recommends an annual water testing expense of \$4,828 be used for purposes of this application.

Table A. Water Testing Cost

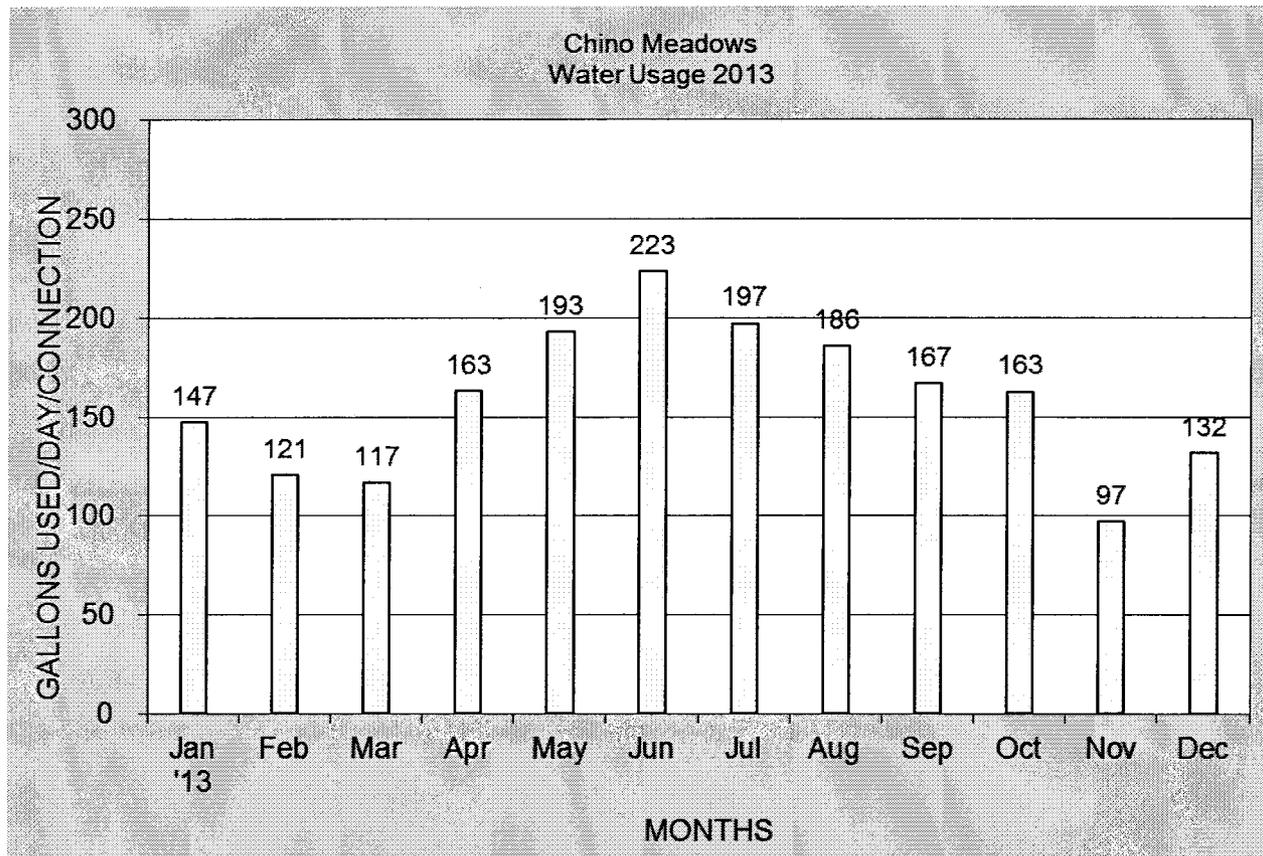
Monitoring	Cost per test	No. of test	Annual Expense
Total coliform – monthly	\$20	48	\$960
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$2,568
TTHMs and HAAs	\$380	2	\$760
Lead & Copper – annually	\$45	12	\$540
Total			\$4,828

Note: ADEQ’s MAP fee for the 2013 Calendar Year was \$2,568.14.

G. WATER USE

Water Sold

Based on information provided by the Company, water use for the test year 2013 is presented below. The high monthly domestic water use was 223 gal/day per service connection in June and the low monthly domestic water use was 97 gal/day per service connection in November. The average annual use was 159 gal/day per service connection.



Non-account Water

Non-account water should be 10% or less and never more than 15%. 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 water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 60,730,000 gallons pumped and 52,423,000 gallons sold, resulting in a water loss of 13.68% for 2013.

Staff recommends that Chino Meadows prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the cost benefit analysis shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding.

H. GROWTH

In December 2007, Chino Meadows's customer base was 901 customers. In December 2013, the Company had 908 customers. The Company estimates that Chino Meadows may have zero to two customers to be added per year.

Staff concludes that Chino Meadows has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

I. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
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.

J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS

Chino Meadows has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's recommended range for these charges. Staff recommends that the charges listed under the column heading "Company proposed & Staff Recommended" listed in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Sizes	Current Service Line Charges	Current * Meter Charges	Current Total Charges	Company Proposed & Staff Recommended Service Line Charges	Company Proposed & Staff Recommended * Meter Charges	Company Proposed & Staff Recommended Total Charges
5/8" x 3/4"	406	95	501	450	150	600
3/4"	413	162	575	450	250	700
1"	441	209	650	575	300	875
1-1/2"	395	321	716	675	500	1,175
2"	727	845	1,572	1,000	1,500	2,500
3"	952	1448	2,400	1,300	2,000	3,300
4"	1,310	2,206	3,516	1,800	3,500	5,300
6"	2,160	4,756	6,916	2,800	6,000	8,800

*Note: Meter charge includes meter box or vault.

Chino Meadows II Water Company
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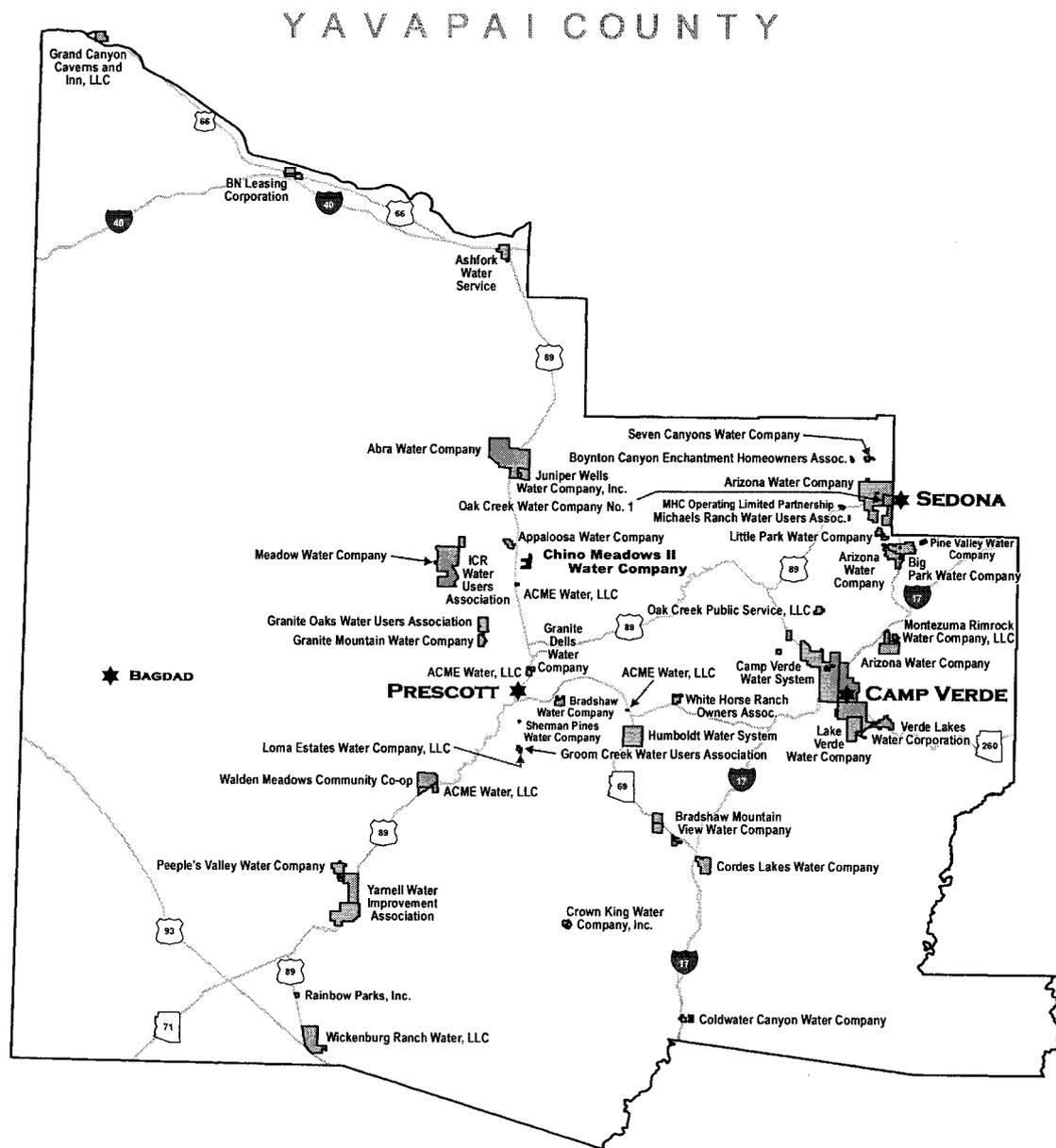


Figure 1: County Map

Chino Meadows II Water Company
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YAVAPAI COUNTY

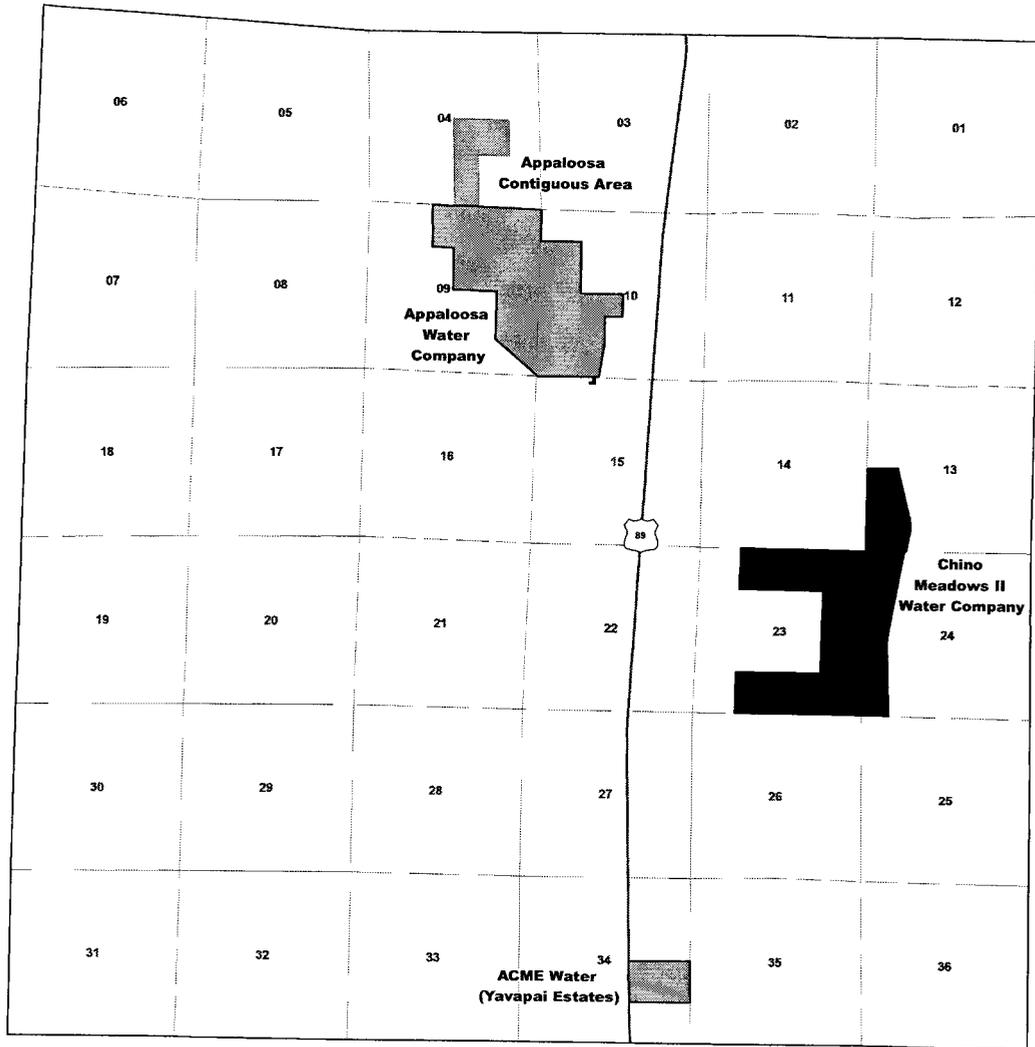


Figure 2: Certificated Area