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BEFORE THE ARIZONA CORPORATION COMMISSION

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SUSAN BITTER SMITH - CHAIRMAN  
BOB STUMP  
BOB BURNS  
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2015 JUL 15 P 3: 52

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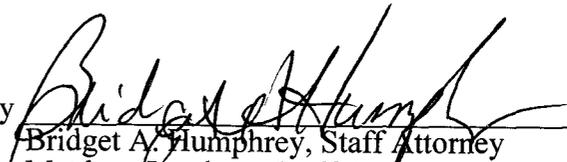
IN THE MATTER OF THE APPLICATION OF  
GRANITE MOUNTAIN WATER COMPANY,  
INC. FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02467A-14-0230

**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 Dorothy Hains in the above-referenced matter. **STAFF FURTHER NOTIFIES GRANITE MOUNTAIN 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 15<sup>th</sup> day of July, 2015.

By   
Bridget A. Humphrey, Staff Attorney  
Matthew Laudone, Staff Attorney  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Arizona Corporation Commission

DOCKETED

JUL 15 2015

DOCKETED BY

...



**ORIGINAL**

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

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

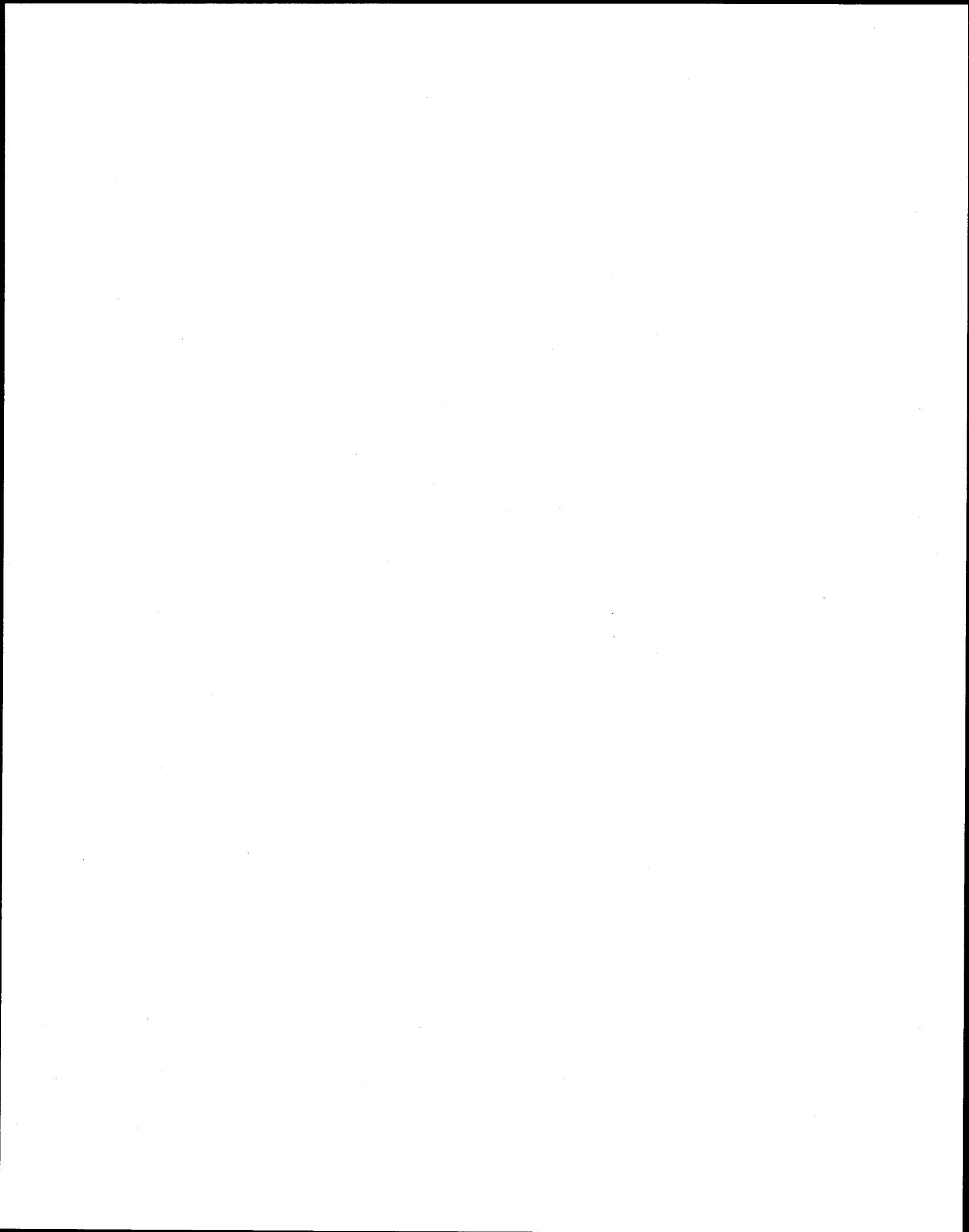
6 Copy of the foregoing mailed and/or emailed  
7 this 15<sup>th</sup> day of July, 2015, to:

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**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 )  
GRANITE MOUNTAIN WATER CO. INC. FOR )  
A RATE INCREASE. )  
\_\_\_\_\_ )

DOCKET NO W-02467A-14-0230

DIRECT

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

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**EXECUTIVE SUMMARY**  
**GRANITE MOUNTAIN WATER COMPANY INC.**  
**DOCKET NO. W-02467A-14-0230**

Granite Mountain Water Company Inc. ("Granite Mountain", "GM" or Company) is an Arizona for-profit Class C public service corporation engaged in providing water utility services to approximately 120 customers within Yavapai County, Arizona. Granite Mountain's current rates were approved in Decision No. 71869, dated September 1, 2010. The Company is located approximately three miles north of the City of Prescott off the Williamson Valley Road in Yavapai County. The water system is located in the Prescott Active Management Area.

On June 30, 2014, Chino Meadows II Water Company Inc. ("Chino Meadows" or "CM"), a regulated affiliate of Granite Mountain filed a rate increase application as ordered in Decision No. 72896. This 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 in order to eliminate further disputes related to cost allocations. Chino Meadows and Granite Mountain both used a 2013 test year.

The Company proposed a \$64,221, or 54.68 percent revenue increase from test year revenue of \$117,447 to \$181,668. The proposed revenue increase would produce an operating income of \$45,346 for an 8.03 percent rate of return on a proposed \$564,606 fair value rate base ("FVRB") which is also the proposed original cost rate base ("OCRB"). The Company is not requesting rates based on an operating margin. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons from \$41.21 to \$65.74, for an increase of \$24.53 or 59.53 percent, as shown on Schedule TBH GM-27.

The Utilities Division ("Staff") recommends an increase of \$68,399 or 58.30 percent revenue increase from a Staff adjusted test year revenue of \$117,320 to \$185,719. Staff's recommended revenue change would produce an operating income of \$34,625 for an 8.03 percent rate of return on a Staff adjusted OCRB of \$431,139, as shown on Schedule TBH GM-1. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons from \$41.21 to \$62.02, for an increase of \$20.81 or 50.51 percent, as shown on Schedule TBH GM-27.

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule TBH GM-26.
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 15<sup>th</sup> 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 Company employees be required to utilize detailed time sheets to trace and allocate payroll cost to each regulated and unregulated affiliate.
6. The Company be ordered to cease providing discounted water to owners, owner family members or employees and to appropriately collect revenues from every recipient of water service as previously ordered in Decision No. 71869.
7. A penalty be assessed to the Company pursuant to A.R.S. §§ 40-424 and 40-425 for the Company's failure to appropriately collect revenues as ordered in Decision No. 71869.
8. 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 Granite Mountain and all regulated and unregulated affiliates.
9. 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.
10. The Company file all documentation related to the WIFA Loan.

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 Granite  
22 Mountain Water Company Inc. ("Granite Mountain," "GM" or "Company") for a permanent  
23 rate increase. I will present Staff's testimony and schedules addressing rate base, operating  
24 revenues and expenses, revenue requirement and rate design. Ms. Dorothy Hains is  
25 presenting Staff's engineering analysis and related recommendations.

26

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 rates 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 twelve 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 describes the failure to appropriately collect revenue. Section  
18 X discusses notes receivable and notes payable. Section XI discusses rate design. Section XII  
19 discusses the service charges.

20

21 **II. BACKGROUND**

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

24 A. The Company is a Class D water system providing service to approximately 120 customers in  
25 Yavapai County, Arizona. Granite Mountain's current rates were approved in Decision No.  
26 71869, dated September 1, 2010. In Decision No. 71869, Granite Mountain was ordered to

1 address its inadequate storage capacity problem. The Company could either drill a  
2 replacement well for its existing Well No. 5, or construct and install a 110,000-gallon storage  
3 tank. In December 2010, the Company filed a financing application (W-02467A-10-0483) for  
4 a \$181,320 loan for water system improvements that included a replacement well for Well  
5 No. 5 and a new 50,000-gallon storage tank. Decision No. 72377 approved the Water  
6 Infrastructure Finance Authority (“WIFA”) financing in W-02467A-10-0483.

7  
8 The Company received project completion extensions on several occasions. Such extensions  
9 were addressed within the following Commission Decisions 72294, 73155, and 75031.  
10 Within Decision No. 75031, the Company was required to provide a copy of the Approval of  
11 Construction for the 50,000-gallon storage tank by September 25, 2015.

12  
13 On June 30, 2014, Chino Meadows II Water Company Inc. (“Chino Meadows” or “CM”), a  
14 regulated sister company of Granite Mountain filed a rate increase application as ordered in  
15 Decision No. 72896. The Decision required Granite Mountain to file its next general rate  
16 case using the same test year as is used in the next rate case for its sister utility Chino  
17 Meadows in order to eliminate further disputes related to cost allocations. Additionally,  
18 Chino Meadows and Granite Mountain have another sister utility, Antelope Lakes Water  
19 Company Inc. (“Antelope Lakes”).

20  
21 **Q. Please describe pertinent information provided with this application.**

22 A. On June 30, 2014, Granite Mountain filed a permanent rate case. On July 24, 2014 the initial  
23 application was found insufficient. On August 8, 2014 Staff filed a Notice of Filing for a time  
24 extension requested by the Company.

25

1           On August 25, 2014, the Company docketed its revised Application. On September 8, 2014,  
2           the Company docketed an Amended Current and Proposed Rates and Charges.<sup>1</sup> On  
3           September 18, 2014, the Company docketed Amended pages to the short form application.<sup>2</sup>  
4           The amended rate application requested funds to eliminate an operating loss, produce an  
5           operating income of \$53,499 from a requested rate of return of 8.03 percent, and to include  
6           post-test year plant additions in rate base.

7  
8           **Q. Did Staff's concurrent audit of these two unconsolidated rate case applications result**  
9           **in recommendations that flowed between the two filings so that, for example, a**  
10           **recommendation in the Granite Mountain case had to be accommodated in Staff's**  
11           **testimony and schedules in the Chino Meadows filing?**

12           **A.** Yes. This was especially true with regard to the recommendations being made by Staff that  
13           were subject to cost re-allocation considerations. Unfortunately this lengthened Staff's  
14           testimony in both dockets, and resulted in numerous cross-utility impact acknowledgments in  
15           both sets of testimony that I am supporting. Staff believes that if the Commission adopts  
16           Staff's recommendations regarding the development of a Code of Affiliate Conduct ("Code")  
17           for these regulated utilities and their regulated and unregulated affiliates, such efforts and  
18           cross-references can be avoided in future rate cases for these utilities.

---

<sup>1</sup> On September 17, 2014, the Company docketed an Amended Application with current and proposed rates and charges on Page 11.

<sup>2</sup> On September 18, 2014, the Company docketed an Amended Application due to understated test year revenues by \$12,174. The Amended Application replaced statements in support of rate request, utility plant in service, calculation of depreciation expense, and supplemental financial data comparative statement of income and expense and the supporting attachments. The following pages were amended: Pages 6, 15, 20, and 23.

1 **III. CONSUMER SERVICE**

2 **Q. Please provide a brief summary of customer complaints received by the Commission**  
3 **regarding Granite Mountain.**

4 A. Staff reviewed the Commission's records for the period January 1, 2012, through April 27,  
5 2015, and found that, there were no complaints in years 2012 to 2015. In 2015, there was  
6 one consumer comments filed opposing this rate case.

7  
8 **IV. COMPLIANCE**

9 **Q. Please provide a summary of the compliance status of Granite Mountain.**

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

13  
14 **V. SUMMARY OF PROPOSED REVENUES**

15 **Q. Please summarize Granite Mountain's proposals in this filing.**

16 A. The Company-proposed rates, as filed, produce total operating revenue of \$181,668, a  
17 \$64,221 (54.68 percent) increase, over the test year revenue of \$117,447, to provide a \$45,346  
18 operating income, and a 8.03 percent requested rate of return on an adjusted proposed  
19 \$564,606 fair value rate base ("FVRB") which is also the proposed original cost rate base  
20 ("OCRB"). The Company's proposed rates would increase the typical residential 5/8 x 3/4-  
21 inch meter bill with a median usage of 3,684 gallons from \$41.21 to \$65.74, for an increase of  
22 \$24.53 or 59.53 percent.

23  
24 **Q. Please summarize Staff's recommended revenue.**

25 A. Staff's recommended rates would produce total operating revenue of \$185,719, a \$68,399  
26 (58.30 percent) increase, from the Staff's adjusted test year revenue of \$117,320, to provide a

1           \$34,625 operating income and 8.03 percent rate of return on Staff's adjusted OCRB of  
2           \$431,139 as shown on Schedule TBH GM-1. Staff's recommended rates would increase the  
3           typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons from \$41.21  
4           to \$62.02, for an increase of \$20.81 or 50.51 percent.

5  
6           *Rate Base Adjustments*

7           **Q.     Please summarize Staff's rate base adjustments for Granite Mountain.**

8           A.     Post-Test Year Plant – This adjustment decreases Plant in Service by \$141,506 due to  
9           construction of the new 50,000-gallon storage tank that is not in service.

10  
11           Reclassify and Plant Additions to Appropriate Classifications – This adjustment for \$19,391  
12           increases plant in service for plant additions and reclassifications to the appropriate NARUC  
13           classifications.

14  
15           Unsupported Plant Treated as Contributions in Aid of Construction ("CIAC") – This  
16           adjustment increases CIAC by \$9,643 due to unsupported plant.

17  
18           Advances in Aid of Construction ("AIAC") Refunds – This adjustment decreases AIAC by  
19           \$2,235 to reflect Staff's adjustment of AIAC because the Company inadvertently missed the  
20           2013 payments. The missed payments were paid in 2014.

21  
22           Amortization of CIAC – This adjustment increases accumulated amortization of CIAC by  
23           \$976 to reflect the amortization of CIAC on the Staff-recommended CIAC additions.

24  
25           Accumulated Depreciation – This adjustment increases accumulated depreciation by \$5,552  
26           to reflect Staff's calculation based on Staff's recommended plant.

1           Cash Working Capital ("CWC") Allowance – This adjustment increases the allowance by  
2           \$634 to reflect calculation of the CWC allowance using Staff's recommend operating  
3           expenses.

4  
5           *Operating Income Adjustments*

6           **Q.    Please summarize Staff's operating income adjustments for Granite Mountain.**

7           A.    Unauthorized Surcharge – This adjustment decreases the operating other revenues for a  
8           surcharge not included in its tariff by \$127.

9  
10           Repairs and Maintenance – This adjustment decreases the operating expenses for repairs and  
11           maintenance and reclassifies it to post-test year plant by \$1,792.

12  
13           Office Supplies – This adjustment decreases the operating expenses for office supplies by  
14           \$1,727 for disallowed expenses.

15  
16           Contractual Services – This adjustment decreases the operating expenses for contractual  
17           services by \$7,531 for expenses reclassified to Construction Work in Progress (CWIP) and  
18           Rate Case expenses.

19  
20           Water Testing – This adjustment decreases the operating expenses for water testing by \$3,530  
21           for expenses reclassified to CWIP and to reflect Staff's recommended annual water testing  
22           costs.

23  
24           Transportation – This adjustment decreases the operating expenses for transportation  
25           expenses by \$900 for disallowed expenses.

26

1           Rate Case Expense – This adjustment increases operating expense by \$6,667 to reflect an  
2 appropriate amount for Granite Mountain.

3  
4           Allocations – The total of all the adjustments increases operating expenses by \$14,603. The  
5 adjustments impact thirteen expense classifications. The adjustments include reclassifications,  
6 disallowances and normalizations prior to the appropriate allocations.

7  
8           Depreciation Expense – This adjustment increases depreciation expense by \$10,372 to reflect  
9 application of Staff's recommended depreciation rates to Staff recommended plant amounts.

10  
11           Property Taxes – This adjustment decreases property taxes by \$529 to reflect application of  
12 the modified version of the Arizona Department of Revenue's property tax methodology that  
13 the Commission has consistently adopted.

14  
15           Test Year Income Taxes – This adjustment decreases test year income tax expense by \$4,998  
16 to reflect application of statutory state and federal income tax rates to Staff's adjusted taxable  
17 income.

18  
19 **VI. COST ALLOCATIONS**

20 **Q.     Please explain Granite Mountain's test year indirect expenses allocated from Chino**  
21 **Meadows.**

22 **A.**    Per the response provided to Staff in Data Request ("DR") CM TBH 1.42, the Company  
23 included ten categories of indirect expenses as follows: Purchased Power, Chemicals, Repairs  
24 and Maintenance, Office Supplies, Rent, Contractual Services, Transportation, Insurance -  
25 General Liability, Insurance – Health and Miscellaneous Expenses. Per DR GM TBH 1.13,  
26 these expenses were allocated to Granite Mountain based upon a ten percent allocation of

1 common costs. However, Per DR GM TBH 1.15, Rents were allocated to Granite Mountain  
2 at 20 percent in the test year.

3  
4 **Q. What percentage was the Company allocated by Chino Meadows in the test year?**

5 A. The percentages varied from 10 to 20 percent per various DR responses.

6  
7 **Q. Did the percentage allocated by Chino Meadows to the Company change?**

8 A. Yes. Per DR CM TBH 1.42, Chino Meadows allocated 12 percent for common costs, 20  
9 percent for rents and 16 percent for Salaries, Wages and Expenses – Officers in 2014.

10  
11 **Q. Please explain the impact of common indirect expense (costs) changes in the Chino  
12 Meadows Case (14-0231) and the impact to this case.**

13 A. Staff reclassified, disallowed, and/or normalized expenses in the Chino Meadows case that  
14 were then reallocated to unregulated affiliates and regulated affiliates based on a 4-factor  
15 allocation discussed below and are shown on Schedule TBH GM-20a through TBH GM-20g.

16  
17 **Q. Was a proper cost allocations ordered in a previous decision? If yes, please explain.**

18 A. Yes. Pursuant to Decision No. 72896, Chino Meadows and Granite Mountain were ordered  
19 to file their next general rate case using the same test year in order to eliminate further  
20 disputes related to cost allocation.

21  
22 **Q. What are the components of Staff's recommended 4-factor cost allocation?**

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

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

2 A. Staff recommends that 4-factor allocation be determined by utilizing all three regulated  
3 affiliated water utilities (Chino Meadows, Granite Mountain and Antelope Lakes) as shown  
4 on Schedule TBH GM-20e. Additionally, Staff also recommends that the indirect costs  
5 should be allocated to all three regulated affiliated water utilities.

6  
7 **Q. Please explain the results from using the four factors Staff recommends for allocation**  
8 **purposes.**

9 A. The resulting 4-factor allocations are as follows: Antelope Lakes is 2.95 percent, Chino  
10 Meadows is 70.12 percent and Granite Mountain is 26.93 percent as shown on Schedule TBH  
11 GM-20e.

12  
13 **Q. Did Staff identify any expenses that should not be allocated to Granite Mountain?**

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

15  
16 **Q. Did Staff identify any expenses paid directly by Granite Mountain that should have**  
17 **been included in the Corporate Allocations?**

18 A. Yes. Staff identified \$3,637 in expenses that should have been part of the 4-factor allocation  
19 and were paid by Granite Mountain. This allocation increases Repairs and Maintenance by  
20 \$1,820 and Transportation by \$1,817. This adjustment is then reallocated through Corporate  
21 Allocations and not included in Granite Mountain Direct as shown on Schedule TBH GM-  
22 20a Column Q.

23  
24 **Q. Why are Corporate Allocations required for transactions with Affiliates?**

25 A. As stated within the NARUC Guidelines, on transactions with Affiliates, "Allocations are  
26 important as there is an incentive to shift costs to regulated entities where recovery may be

1 more likely which would result in increased profits for the non-regulated entities.” This  
2 guideline stated that “Regulations are designed to prevent “cross subsidization” – one entity  
3 paying for costs that actually benefit another entity. Cross subsidization can occur between  
4 regulated entities as well as between regulated and non-regulated entities.”

5  
6 **Q. Based on the consideration discussed in the NARUC Guideline, does Staff**  
7 **recommend that the Company develop and then follow a formal written Code related**  
8 **to affiliate transactions?**

9 A. Yes.

10  
11 **Q. What is the purpose of a formal written Code?**

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

24

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

2 A. Staff is recommending the Code due to the ongoing issues with the Company and its  
3 regulated and unregulated affiliates. Throughout the review of the books and records of the  
4 Company, it is abundantly clear that until a proper code is written and adhered to by the  
5 Company the issues presented in my testimony will only continue. By following the Code,  
6 the Company should resolve the recurring issues discussed in my testimony. However, Staff  
7 recommends that the Commission provide the authority for Staff to immediately install an  
8 interim manager if the Company violates any part of the Code.

9  
10 **Q. Does Staff believe a formal written Code will suffice to resolve these recurring issues?**

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

15  
16 **VII. RATE BASE**

17 *Fair Value Rate Base*

18 *Rate Base – Plant Documentation*

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

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

24

1 **Q. During the audit, did Staff identify plant costs which Granite Mountain did not**  
2 **adequately support?**

3 A. Yes. Granite Mountain did not provide invoices to support \$96,432 in plant additions, as  
4 shown on Schedule TBH GM-5, line 26. Source documents are essential records for  
5 verifying plant costs. In the absence of supporting documentation, the Company's plant  
6 balances cannot be verified.

7  
8 **Q. Was there an abnormal or non-recurring event that affected the Company providing**  
9 **source documents and records during the audit?**

10 A. Yes, Granite Mountain, Chino Meadows and Affiliates had a fire in the office located at 2465  
11 West Shane Drive on December 14, 2011. Mr. Paul Levie provided a sworn statement in the  
12 application that the records located in the office and Accounts Payable records and invoices  
13 for (2008, 2009, 2010 and 2011) were destroyed in the fire.

14  
15 **Q. What does Staff typically recommend for inadequately supported plant?**

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

20  
21 **Q. Is Staff recommending that 100 percent of the cost be removed in this case?**

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

23  
24 **Q. What is Staff's recommended treatment for the inadequately supported plant in this**  
25 **case?**

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

1 **Q. Why is Staff altering its usual position in this case?**

2 A. There are three reasons Staff is recommending this treatment. First as previously noted, the  
3 Company's office experienced a fire in December 2011. A majority of the Company's  
4 records were destroyed by fire. Second, the Company has made an effort with its bank to  
5 obtain copies of cancelled checks and the Company provided numerous letters to the bank.  
6 The Company was able to obtain some of the requested records. Third, Staff's inspection  
7 verified that the plant did exist and costs were not overstated.

8

9 *Rate Base Summary*

10 **Q. Please summarize Staff's adjustment to Granite Mountain's rate base shown on**  
11 **Schedules TBH GM-3 and TBH GM-4.**

12 A. Staff audited the Company's rate base. Staff's adjustment to Granite Mountain's rate base  
13 resulted in a net decrease of \$133,466, from \$564,606 to \$431,139. This decrease was  
14 primarily due to Staff's adjustments to plant in service and accumulated depreciation  
15 associated with the plant. Staff's recommendation results from the six rate base adjustments  
16 as discussed below.

17

18 *Rate Base Adjustment No. 1 – Post-Test Year Plant in Service*

19 **Q. What did the Company propose for Post-Test Year Plant in Service?**

20 A. The Company proposed to complete water system improvements and construction on the  
21 replacement Well for Well No. 5 (Well No. 6), transmission and distribution mains, and the  
22 installation of the 50,000-gallon storage tank as ordered and approved for financing in  
23 Decision 72377. The Company's financing application for \$181,320 was approved in  
24 Decision 72377 for WIFA financing in W-02467A-10-0483. The Company stated in its  
25 application the estimated costs are as follows: Wells & Springs \$75,000, Storage Tanks

1           \$144,000 and Transmission and Distribution Mains \$30,000. The total estimated costs are  
2           \$249,000.

3  
4       **Q. Has the Company completed all of the proposed Post-Test Year Plant?**

5       A. No. The Construction of the 50,000-gallon storage tank is not complete. Therefore, Staff  
6       did not recognize any costs for the construction of this tank and those costs were moved to  
7       CWIP as shown on Schedule TBH GM-24.

8  
9       **Q. What Post-Test Year Plant was brought into service by the Company as ordered?**

10      A. The Company brought into service Well No. 6 that was a replacement well for Well No.5 and  
11      the transmission and distribution mains from Well No. 6 to the Company's existing water  
12      delivery system.

13  
14      **Q. What were the estimated costs for Well No. 6?**

15      A. In the application, the Company estimated the costs for Well No. 6 to be \$75,000. The costs  
16      consisted of \$25,000 for the existing well and \$50,000 for the easement per the Company's  
17      response to DR GM TBH 1.43. In the Company's response to DR GM TBH 1.34, the  
18      Company provided a copy of the recorded Granite Mountain Short Spur Easement between  
19      the Company and Sandia Properties LLC dated October 13, 2013 with the Yavapai County  
20      Recorder on May 29, 2014. Sandia Properties LLC is controlled by John and Shauna Duke,  
21      Mr. Paul Levie's daughter and son-in-law who acquired the property.

22  
23      **Q. Did the Company describe the well and land easement for Well No. 6? If yes, please  
24      explain.**

25      A. Yes. In the Company's response to DR GM TBH 1.35, a description of the easement is "The  
26      easement grants the Company use of the existing Well No. 6, an out building used as a well

1 house, access to the property (and Well No. 6), and the land rights needed to install a pipeline  
2 to connect Well No. 6 to the Company's existing distribution system.

3  
4 **Q. Does Staff accept the Company's allocation for the estimated expenses for Well No. 6**  
5 **of \$75,000? Please explain.**

6 A. Staff accepted the Company's allocation of \$25,000 for the Well No. 6 and well house. Staff  
7 does not accept the allocation of \$50,000 for the easement. The transaction between the  
8 Company and Sandia Properties LLC was not an arm's length transaction. Additionally,  
9 Jonathan and Shauna Duke purchased the property for \$155,000 and are seeking to recover  
10 nearly half through the negotiated agreement between the Company and Sandia Properties  
11 LLC. Furthermore, the rental home located at 2475 West Short Spur Trail is an investment  
12 property being managed by the Company's personnel at \$1,000 per month or \$12,000 per  
13 year.

14  
15 **Q. How did Staff determine a fair and reasonable value for the easement at 2475 West**  
16 **Short Spur Trail for Well No. 6?**

17 A. In the Company's response to DR GM TBH 3.4, the Company provided a copy of the  
18 County Appraisal conducted by Yavapai County's Appraisal Consultants dated February 2,  
19 2012. The appraisal was conducted to estimate the total compensation due the owners for a  
20 partial acquisition of the property by Yavapai County for right of way purposes. The  
21 appraisal<sup>3</sup> valued the subject property at \$1.00 (rd) per square foot. Staff Engineer  
22 determined the 12,200 square feet be designated as the easement for Well No. 6 (4,900 square  
23 feet for the well, pump house and on-site water mains an 7,300 square feet of land area is  
24 designated to road right of way use to access Well No. 6). A more complete description of  
25 the system is provided in the Engineering Report. Staff determined that \$12,200 for the

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<sup>3</sup> Per DR GM TBH 3.4 County Appraisal, Page 35.

1 easement based on the County Appraisal and Engineer Report as the area determined to be  
2 used and useful. Additionally, Staff included \$2,500 for a land survey and an additional  
3 appraisal paid by the Company in April 2015. Staff has requested a copy of a certified  
4 appraisal through DR's GM TBH 3.4 and GM TBH 6.1 and to date no appraisal has been  
5 provided by the Company.  
6

7 **Q. Did Staff disallow any costs for Well No. 6? Please explain.**

8 A. Yes. The Company provided a copy of a check (Check No. 5403) to Danny Levie dated  
9 December 31, 2013 for Construction Work in Progress for Well No. 5 in the amount of  
10 \$3,500. The check memo reads "for prep work and installing of 2 pipes, back hoe Bobcat  
11 and gradework at Short Spur Well". Additionally, the Company did not provide an invoice  
12 and the work was done through a verbal agreement. Staff has disallowed the \$3,500 for the  
13 Post-Test Year Plant of Well No. 6. Staff requested a copy of the cancelled check and the  
14 Company stated that Check No. 5403 was voided and the amount was offset to balance owed  
15 by Daniel Levie. Staff discusses this related party transaction below in Section - Related Party  
16 Transactions – Company Failed to Appropriately Collect Revenue. Staff disallowed these  
17 costs.  
18

19 **Q. What did Staff reclassify for Post-Test Year Plant?**

20 A. Staff reclassified the following: Land and Land Rights were increased by \$14,700, Structures  
21 & Improvements were increased by \$8,373, Wells & Springs decreased by \$44,065, Pumping  
22 Equipment increased by \$11,270, Solution Chemical Feeders increased by \$5,669, Storage  
23 Tanks decreased by \$144,000, Transmission and Distribution Mains increased by \$4,869,  
24 Services increased by \$81, Meters and Meter Installations increased by \$1,196 and Backflow  
25 Prevention Devices increased by \$402 as shown on Schedule TBH GM-5.  
26

1 **Q. Did the Company complete the Transmission and Distribution Mains estimated at**  
2 **\$30,000? Please explain.**

3 A. Yes. Staff increased Transmission and Distribution Mains by an additional \$4,869 due to the  
4 actual cost of \$34,869 as shown on Schedule TBH GM-5.

5  
6 **Q. How was the Post-Test Plant to be funded?**

7 A. The Company was authorized to incur debt through WIFA as proposed to complete water  
8 system improvements and construction on Well No. 6, transmission and distribution mains,  
9 and the installation of the 50,000-gallon storage tank as ordered and financing approved in  
10 Decision No. 72377. The Company's financing application for \$181,320 loan was approved  
11 in Decision No. 72377 for WIFA financing in W-02467A-10-0483. The remaining balance is  
12 to be covered by equity.

13  
14 **Q. Is Staff aware of any current issues with the loan with WIFA?**

15 A. WIFA has informed Staff that the Company is currently not being provided funds due to  
16 proper licensing issues through the Arizona Registrar of Contractors ("ROC"). The previous  
17 contractor was not a prime contractor with the ROC and is a Certified Water Operator with  
18 the Arizona Department of Environmental Quality ("ADEQ"). The current prime  
19 contractor performing the installation of the 50,000-gallon storage tank is licensed as an  
20 electrical contractor with the ROC.

21  
22 **Q. Did Staff receive a late filed response to Staff's data requests from the Company**  
23 **regarding post-test year plant?**

24 A. Yes. The Company provided written response and a copy of an appraisal report of an  
25 easement dated April 14, 2015 in response to Staff's DR 6.1 on July 10, 2015. Staff has not

1 had an opportunity to analyze this data or its impact on costs and plans to address them in its  
2 Surrebuttal Testimony.

3  
4 **Q. What is Staff's recommendation?**

5 A. Staff recommends that the Company provide the supporting documentation for the 50,000-  
6 gallon storage tank as ordered in previous decisions and additional recommendations in  
7 Staff's Engineering Report. Staff further recommends that the Company provided the  
8 required WIFA documentation as ordered in previous decisions.

9  
10 *Rate Base Adjustment No. 2 – Reclassify Plant and Plant Additions to Appropriate Classifications*

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

12 A. Yes, Staff adjusted the following: Storage Tanks in Acct. 330.1 reclassified \$36,913 to  
13 Structures & Improvements in Acct. 304; Wells & Springs in Acct. 307 increased in the  
14 amount of \$539 from expenses incurred during the test year; Pumping Equipment in Acct.  
15 310 reclassified \$912 to Power Equipment in Acct. 311; Water Treatment Equipment in Acct.  
16 No. 320 reclassified \$1,661 to Solution Chemical Feeders in Acct. No. 320.2; Distributions  
17 Reservoirs & Standpipes in Acct. 330 reclassified \$7,325 to Storage Tanks in Acct. 330.1;  
18 Distributions Reservoirs & Standpipes in Acct. 330 reclassified \$450 to Communication  
19 Equipment in Acct. 346; Storage Tanks in Acct. 330.1 reclassified \$6,700 to Communication  
20 Equipment in Acct. 346; Transportation Equipment in Acct. 341 increased by \$19,000 for a  
21 vehicle addition in the test year; and Tools in Acct. 343 was decreased in the amount of \$149  
22 as an expense.

23

1 *Rate Base Adjustment No. 3 – Unsupported Plant treated as CIAC*

2 **Q. Does Staff's Rate Base Adjustment No. 3 relate to the unsupported plant investments**  
3 **being treated as CIAC which was already discussed?**

4 A. Yes. Staff recommends treating 10 percent of the unsupported plant additions of \$96,432 as  
5 contributions and included \$9,643 in CIAC, as shown on Schedule TBH GM-7 line 28. The  
6 associated adjustment for the amortization of the CIAC for this plant is \$976.

7  
8 *Rate Base Adjustment No. 4 – AIAC Refunds*

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

10 A. No. The Company stated in response to DR GM TBH 1.19 that, due to employee error it  
11 inadvertently failed to make the required refunds during the test year. The Company made  
12 the required refunds in 2014.

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

15 A. Staff recommends an AIAC balance decrease by \$2,235 for refunds the Company  
16 inadvertently failed to make during the test year.

17  
18 *Rate Base Adjustment No. 5 – Accumulated Depreciation*

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

20 A. Yes.

21  
22 **Q. What is Staff's recommendation?**

23 A. Staff calculated the accumulated depreciation based on Staff's recommended plant  
24 adjustments. Staff's calculation of \$538,043 as shown on Schedule TBH GM-9 includes  
25 Staff's rate base adjustments summarized on Schedule TBH GM-4 and the associated  
26 additions or reductions to rate base.

1 *Rate Base Adjustment No. 6 – Cash Working Capital Allowance*

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

3 A. Cash working capital represents a required level of funding provided by investors for the  
4 purposes of paying operating expenses in advance of receiving recovery of such expense from  
5 customers through rates. The cash working capital allowance is a component of rate base  
6 that can be positive or negative.

7  
8 **Q. What is Granite Mountain proposing for the cash working capital allowance?**

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

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

14 A. Staff recommends a Cash Working Capital Allowance balance of \$11,296, a \$634 increase  
15 over the Company's proposed balance of \$10,662, as shown on Schedules TBH GM-4 and  
16 TBH GM-10.

17  
18 **VIII. OPERATING INCOME**

19 *Operating Income Summary*

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

22 A. As shown on Schedules TBH GM-11 and TBH GM-12, Staff's analysis resulted in test year  
23 revenues of \$117,320, expenses of \$136,234 and operating loss of \$18,914. The Company's  
24 application shows test year revenues of \$117,447, expenses of \$125,600 and an operating loss  
25 of \$8,153. Staff's recommendation results from the eleven operating income adjustments  
26 discussed below.

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

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

3 A. The Company proposed \$3,174 for other revenues.

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

6 A. Staff recommends decreasing test year other revenues by the amount of \$127, as shown on  
7 Schedule TBH GM-13. This adjustment decreases the operating other revenues for a  
8 surcharge not included in its tariff for \$127. Such revenues should not be recurring since this  
9 surcharge is not included in the Company's Commission-approved tariffs.

10

11 *Operating Income Adjustment No. 2 – Repairs and Maintenance*

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

13 A. Staff reclassified materials used to construct the culvert on the private road at the Short Spur  
14 property for Well No. 6 of \$3,292 and the payment of \$1,500 by the property owner adjacent  
15 to the property, as shown on Schedule TBH GM-14.

16

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

18 A. Staff recommends decreasing test year repairs and maintenance by \$1,792, as shown on  
19 Schedule TBH GM-14.

20

21 *Operating Income Adjustment No. 3 – Office Supplies*

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

23 A. Staff disallowed \$1,727 for Mr. Paul Levie's office phone for his property management and  
24 other affiliated companies, as shown on Schedule TBH GM-15.

25

1 *Operating Income Adjustment No. 4 – Contractual Services*

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

3 A. Staff reclassified expenses to Post Test Year Plant for engineering expenses for the  
4 transmission and distribution lines of \$3,500 for the and water testing of \$3,045 for the new  
5 well (Well No. 6). Staff reclassified the rate case expenses of \$986 to the appropriate  
6 classification. These adjustments are shown on Schedule TBH GM-16.

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

9 A. Staff recommends decreasing test year contractual services expenses by \$7,531, as shown on  
10 Schedule TBH GM-16.

11  
12 *Operating Income Adjustment No. 5 – Contract Services, Water Testing*

13 **Q. Please describe Staff's adjustments for Water Testing.**

14 A. Staff reclassified expenses to Post Test Year Plant for Well No. 6 for water testing expense to  
15 ADEQ for \$2,500 and CWIP for Storage Tank No. 3 for water testing expenses to ADEQ  
16 for \$1,800. Staff normalized the water testing costs to \$1,850.

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

19 A. Staff recommends decreasing test year contractual services – water testing expense by the  
20 amount of \$3,530, as shown on Schedule TBH GM-17. Staff's adjustments reflect the  
21 recommended annual water testing costs as shown on Staff's Engineering Report.

22  
23 *Operating Income Adjustment No. 6 – Transportation*

24 **Q. Please describe Staff's adjustments for Transportation.**

25 A. Staff disallowed gas reimbursement expenses to the Administrative Assistant of \$100 per  
26 month for a total of nine months. In response to DR GM TBH 2.13, the Company stated

1           “that the reimbursement was provided as an employee benefit due to the difficulty in finding  
2           administrative employees willing to drive to the Company’s office. Currently, both  
3           administrative staff positions are filled by employees that live in Chino Valley. Accordingly,  
4           this employee benefit is not currently offered.”

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

7       A.    Staff recommends decreasing test year transportation expense by the amount of \$900, as  
8           shown on Schedule TBH GM-18.

9  
10       *Operating Income Adjustment No. 7 – Rate Case Expenses*

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

12       A.    The Company originally proposed \$3,333 for the adjusted test year expense. The Company  
13           estimated that the combined rate case expense for Chino Meadows and Granite Mountain of  
14           \$50,000. For the filings the costs were allocated 20 percent to Granite Mountain \$10,000 and  
15           80 percent for Chino Meadows (\$40,000). The Company normalized the \$40,000 expense  
16           over 3 years. However, according to the Company’s supplemental response to Staff’s DR  
17           GM TBH 1.7, the Company is now claiming a combined rate case expense for Chino  
18           Meadows and Granite Mountain of \$75,000. The Company’s adjusted costs would be  
19           allocated at 40 percent to Granite Mountain (\$30,000) and 60 percent for Chino Meadows  
20           (\$45,000). The Company would normalize this \$30,000 expense over 3 years.

21  
22       **Q.    What is Staff’s recommendation?**

23       A.    Staff is recommending recognition of a rate case expense level of \$10,000, an increase of  
24           \$6,667 over the Company’s originally proposed amount of \$3,333.

25

1 *Operating Income Adjustment No. 8 – Cost Allocations*

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

3 A. Staff developed its recommended cost allocation based adjustments by a review of the  
4 Company's underlying expenses and based upon the application of the 4-factor cost  
5 allocations Staff is recommending. The resulting expense level changes were the result of  
6 expense reclassifications, expense level disallowances and expense level normalizations.  
7 Staff's adjustments to Chino Meadows impact these adjustments to Granite Mountain.  
8 Therefore, Staff will be referring the Chino Meadows' adjustments for its cost allocation  
9 based adjustments.

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 GM-20b. 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 Taxes?**

21 A. In response to Staff's DR GM TBH 1.24, the Company stated that the employee in this  
22 position works for all the affiliated water companies and also provides support related to Mr.  
23 Paul Levie's property management activities. Staff reclassified these expenses in order to  
24 reflect the cost allocations as shown on Schedule TBH GM-20f.

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 GM-20b 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 GM-20f.

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 for Chino Meadows, as shown on  
19 Schedules TBH GM-20b. Staff determined that Granite Mountain incurred expenses for  
20 Repairs and Maintenance of \$1,820 that need to be reclassified to be included in the cost  
21 allocations as shown on Schedule TBH GM-20b.

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 GM-20b.

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 from Chino Meadows that was misclassified to  
4 Office Supplies, as shown on Schedule TBH GM-20b.

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 GM-20b.

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 for Chino Meadows that was misclassified to  
13 Office Supplies, as shown on Schedule TBH GM-20b.

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

16 A. 501 North Highway 89, Chino Valley Arizona 86323 is owned by Mr. Dewey J. Levie, Mr.  
17 Paul Levie's 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's CM TBH  
22 1.30 and GM TBH 1.29, the monthly rent is \$1,250 for a total of \$15,000 per year to Mr.  
23 Dewey J. Levie. In the Company's response to DR's CM TBH 1.30d and GM 1.29d, "Chino  
24 Meadows is required to pay yearly rent of \$15,000 (\$1,250 per month). During the test year,  
25 the rent was 20 percent to Granite Mountain (\$3,000) and 80 percent to Chino Meadows  
26 (\$12,000). No other entities pay rent."

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's CM TBH 1.30 and GM TBH 1.29, Staff requested information regarding the  
18 address of the office building, owner of the office building and relationship to Mr. Paul Levie,  
19 rental agreements, number and names of all regulated and unregulated businesses that operate  
20 from the building, monthly rents for all businesses from the building, actual annual costs and  
21 the square footage 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 GM-  
13 20a.

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

17 A. In response to Staff's DR's CM TBH 1.30 and GM TBH 1.29, the Company stated the  
18 building contains 2,280 square feet.

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

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

24

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

2 A. Staff recommends increasing test year rent expenses by the amount of \$12,000, as shown on  
3 Schedule TBH GM-20b. Staff notes that the combined rent for both Chino Meadows and  
4 Granite Mountain is \$15,000. However, Staff allocates the rent expense using the 4-factor  
5 allocation as shown on Schedule TBH GM-20a.

6  
7 *Operating Income Adjustments – Contractual Services*

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

9 A. Staff reclassified the contractual services expense of \$500 for a land survey that is a direct  
10 expense for Granite Mountain, as shown on Schedule TBH GM-20b. Staff properly allocated  
11 the land survey as a direct expense to Granite Mountain as shown on Schedule TBH GM-5,  
12 line 18.

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

15 A. Staff recommends decreasing test year contractual services expenses by the amount of \$500,  
16 as shown on Schedule TBH GM-20b.

17  
18 *Operating Income Adjustments – Transportation*

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

20 A. Staff determined that Granite Mountain incurred expenses for Transportation of \$1,817 that  
21 are reclassified in order to be included in the cost allocations as shown on Schedule TBH  
22 GM-20b.

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

25 A. Staff recommends increasing test year transportation expenses by the amount of \$1,817, as  
26 shown on Schedule TBH GM-20b.

1 *Operating Income Adjustments – Miscellaneous*

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

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

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

17 A. Staff recommends decreasing test year miscellaneous expenses by the amount of \$3,397, as  
18 shown on Schedule TBH GM-20b.

19  
20 *Disallowances*

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

24 A. Yes. Staff disallowed expenses to each of the classifications listed above as shown on  
25 Schedule TBH GM-20c. Staff will discuss each separately. However, Staff will combine the  
26 discussions of the adjustments for Salaries, Wages and Payroll Taxes.

27

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

2 **Q. Who are the owners of Granite Mountain?**

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

4  
5 **Q. In addition to Granite Mountain, do Mr. and Mrs. Paul Levie own any other regulated**  
6 **utilities or unregulated affiliates?**

7 A. Yes. Mr. and Mrs. Paul Levie own Chino Meadows and Antelope Lakes Water Company,  
8 and they own numerous unregulated affiliated companies including rental properties.

9  
10 **Q. Did Staff inquire if employees of the water companies work for any unregulated**  
11 **companies of the owners; hours worked per week; and specific employees?**

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

13  
14 **Q. What details did Chino Meadows and Granite Mountain provide regarding its**  
15 **employees that also work for Mr. and Mrs. Paul Levie's unregulated affiliated**  
16 **companies?**

17 A. Chino Meadows' response to Staff's DR CM TBH 2.12h stated that the Administrative  
18 Assistant and Operations Manager positions provided support for Mr. and Mrs. Paul Levie's  
19 property management activities. The positions are not paid separately for these activities.  
20 Chino Meadows estimated that the Administrative Assistant position works up to 2 hours per  
21 week on property management activities. Chino Meadows estimated that the Operations  
22 Manager position works up to 4 hours per week on property management activities. Granite  
23 Mountain's response to Staff's DR GM TBH 2.5g stated that the Administrative Assistant  
24 position provided support for Mr. and Mrs. Paul Levie's property management activities. The  
25 positions are not paid separately for these activities. Granite Mountain estimated that the

1 Administrative Assistant position works up to 16 hours per week on property management  
2 activities.

3  
4 **Q. Did Granite Mountain provide support for the actual amount of labor expense that**  
5 **was directly incurred for Mr. and Mrs. Paul Levie's unregulated affiliated companies?**

6 A. No. Granite Mountain did not provide any time sheets that document the amount of time  
7 they spend working for the unregulated affiliated companies.

8  
9 **Q. Please describe Staff's disallowance adjustments for Salaries, Wages and Payroll**  
10 **Taxes.**

11 A. Staff disallowed the salaries, wages and payroll taxes based on the number of hours worked  
12 by Chino Meadows and Granite Mountain employees for Mr. Paul Levie's unregulated  
13 businesses. Staff disallowed \$17,444 for salaries and wages, and \$1,539 for payroll taxes  
14 associated with those salaries and wages, as shown on Schedule TBH GM-20c. Staff adjusted  
15 the test year salaries, wages and payroll taxes as shown on the Allocations for Salaries and  
16 Wages Calculation Schedule TBH GM-20f.

17  
18 *Operating Income Adjustments – Salaries and Wages - Officers*

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

21 A. Chino Meadows is proposing \$31,700<sup>4</sup> and Granite Mountain is proposing \$6,000 for the  
22 salary and wages of the Officers, Directors and Stockholders of the Company.

23  
24 **Q. Who were the payments paid to?**

25 A. Paul D. Levie P.C.

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<sup>4</sup> 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. How many businesses does Mr. Paul Levie operate or list as located at the business**  
2 **office as 501 North Highway 89, Chino Valley, Arizona 86323?**

3 A. According to DR's CM TBH 1.30 and GM TBH 1.29, Mr. Paul Levie operates thirteen  
4 businesses. Those businesses are: Chino Meadows, Granite Mountain, Antelope Lakes,  
5 Equestrian Development Corporation, Equestrian Construction, LLC, LL&M Development,  
6 LLC, Levie -Antelope Lakes Development Inc., CityofPrescott.com LLC, Paul D. and Rae  
7 Levie Living Trust, Paul D. and Rae Levie Family Corporation, The Levie Family  
8 Foundation, Levie Family Limited Partnership, and Levie Realty & Investment LLC.  
9 According to DR CM TBH 1.30, Mr. Paul Levie's following businesses are inactive business  
10 entities: Paul D. Levie Inc., Antelope Lakes Sewer, LLC, Raven Water Company, LLC, and  
11 Raven Sewer Company LLC.

12  
13 **Q. Does Mr. Paul Levie maintain a time sheet showing the number of hours per day**  
14 **spent working for each of his thirteen active business entities?**

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

17  
18 **Q. Did Chino Meadow or Granite Mountain provide support or documentation to**  
19 **support the \$31,700 charged to Chino Meadows or the \$6,000 charged to Granite**  
20 **Mountain?**

21 A. No, it did not.

22  
23 **Q. Did Chino Meadows and Granite Mountain provide an explanation on how the level**  
24 **of salary for Mr. Paul Levie was determined? If yes, please describe.**

25 A. Yes. The Company stated in DR's CM TBH 1.26h and GM TBH 1.25h, "Mr. Levie's  
26 compensation is based on an annual salary of \$76,800. As a half-time employee for Chino

1 Meadows and Granite Mountain. Mr. Levie was scheduled for \$38,400 in compensation for  
2 the test year.”  
3

4 **Q. What are Mr. Paul Levie’s duties as described by Chino Meadows in DR CM TBH**  
5 **1.26 and Granite Mountain in DR GM TBH 1.25?**

6 A. The duties are: supervision and management of company personnel; oversight of company  
7 operations; provision of strategic direction; review of company financial data including  
8 payables, receivable, revenue and expenses; provision of legal representation for Company;  
9 review of payroll and signing of checks; review and authorization of all vendor payments;  
10 acquisition, regulation and oversight of company loans and long-term debts; meeting with  
11 operations management to review capital program, address operational issues and ensure  
12 proper facilities and equipment are available; development and review of company processes  
13 and procedures to ensure regulatory compliance; and review and advise the Company on  
14 manuals such as employee handbook and emergency response manual.  
15

16 **Q. What are the duties of the Operations Manager<sup>5</sup>?**

17 A. The duties are: oversees and runs all daily operations; directs and assists administrative staff  
18 and field techs; manages day to day operation of the company’s facilities and personnel to  
19 ensure distribution of safe water to customer, provides customer services and assures  
20 compliance with regulatory requirements, manages Company’s capital projects, and reviews  
21 and authorizes vendor payments.  
22

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

24 A. Yes. Staff reviewed and adjusted the total number of hours worked based on the  
25 following:(1) thirteen businesses are operating from the office (2) no time sheets were

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<sup>5</sup> List of duties compiled from original application, responses by Chino Meadows to Staff’s DR’s CM TBH 1.25, CM TBH 2.12 and CM TBH 3.7.

1 maintained and no time study was conducted, (3) some of the duties appeared to duplicate  
2 the duties of another employee at the office, and (4) some of the time estimated seem high.  
3 Staff's adjusted hours are shown on Schedule TBH GM-20g and then adjusted for the  
4 additional salary increase of \$4,673 for the Operations Manager from \$50,683 in 2013 to  
5 \$55,356 in 2014.

6  
7 **Q. Please discuss Staff's recommended decrease of \$17,444 to salaries and wages expense**  
8 **for Officers, Directors and Stockholders, adjustment in further detail.**

9 A. Staff recommends removing \$11,761 in salaries and wages expense for Officers, Directors  
10 and Stockholders. Staff adjusted Chino Meadows and Granite Mountain's proposed amounts  
11 owing to Mr. Paul Levie due to the amount of time Staff was able to identify that Mr. Paul  
12 Levie was out of town. Staff adjusted one-third of the proposed salary based on the  
13 description of Mr. Paul Levie's duties in both Chino Meadows' and Granite Mountain's  
14 responses to DR's CM TBH 1.26g and GM TBH 1.25f. Additionally, Staff decreased Mr.  
15 Paul Levie's salary due to the increase for Operations Manager from 2013 to 2014. Chino  
16 Meadows provided the information about the increased duties in response to DR's CM TBH  
17 2.12 and CM TBH 3.7. The Operations Manager salary in 2013 was \$50,683 and in 2014 it  
18 was \$55,356 for an increase of \$4,673. Staff further recommends removing the \$4,673 in  
19 salaries and wages expense for Officers, Directors and Stockholders as shown on Schedule  
20 TBH GM-20g line 21. Staff decreased the same from the Mr. Paul Levie's salaries and wages  
21 to reflect the additional duties and responsibilities of the Operations Manager. Staff further  
22 recommends that Chino Meadows and Granite Mountain have available a time study (and  
23 underlying detailed time sheets) to evidence the amount of direct labor hours that Mr. Paul  
24 Levie spends on activities related to Chino Meadow and Granite Mountain for recovery of  
25 that expense in future rate cases.  
26

1 *Operating Income Adjustments – Purchased Power*

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

3 A. Staff disallowed the late fees of \$46 to Purchased Power, as shown on Schedule TBH GM-  
4 20c. While this is a small amount, ratepayers should not be responsible for any level of late  
5 fees when bills are not paid on a timely basis. Also other late fees were removed as part of  
6 other adjustments recommended by Staff.

7  
8 *Operating Income Adjustments – Repairs and Maintenance*

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

10 A. Staff disallowed transactions that were not needed in the provision of service such as repair  
11 material costs to personal residences or rental properties for \$124, as shown on Schedule  
12 TBH GM-20c.

13  
14 *Operating Income Adjustments – Office Supplies*

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

16 A. Staff disallowed transactions that were not needed in the provision of services. Staff removed  
17 \$44 for interest and late fees; \$1,888 for Mrs. Rae Levie's cell phone and charges, collect calls,  
18 Mr. Paul Levie's international call plan and international calls; \$218 for personal meals; \$524  
19 for miscellaneous personal expenses; and \$130 for expense outside the test year, as shown on  
20 Schedule TBH GM-20c. The total adjustment recommended by Staff is a decrease of \$2,804.

21  
22 *Operating Income Adjustments – Contractual Services*

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

24 A. Staff removed \$1,232 for legal fees non-recurring related to the office fire, as shown on  
25 Schedule TBH GM-20c.

1 *Operating Income Adjustments – Transportation*

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

3 A. Staff disallowed transactions that were not needed in the provision of services. Staff removed  
4 \$800 for gas reimbursements of \$100 per month for the administrative office employees;  
5 \$2,497 for several unsupported purchases of vehicle tires; \$2,229 for out of state gasoline  
6 purchases for Mr. Paul Levie; and \$1,854 for the bulk purchase of 530 gallons of gasoline  
7 delivered to Mr. Paul Levie's personal residence, as shown on Schedule TBH GM-20c.

8  
9 **Q. Did Chino Meadows provide additional information in support of these disallowed  
10 transportation expenses?**

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

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

19 A. Staff recommends decreasing test year transportation expenses in the amount of \$7,380, as  
20 shown on Schedule TBH GM-20c.

21  
22 *Operating Income Adjustments – Insurance – General Liability*

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

24 A. Staff removed \$1,058 for vehicle AZ-1 owned by an unregulated affiliated company per the  
25 Company's response to DR CM TBH 1.39, as shown on Schedule TBH GM-20c.

26

1 **Q. What is Chino Meadows proposing for general – liability insurance expenses?**

2 A. Chino Meadows proposed \$8,964 for the adjusted test year expense.

3  
4 **Q. Who is insured by Chino Meadows' proposed insurance – general liability policy?**

5 A. Chino Meadows' cost for general liability insurance policy includes the following named  
6 insured as provided in response to Staff's DR CM TBH 1.39: Granite Mountain Water  
7 Company, Antelope Lakes Water Company, Inc., Wineglass Water Company, Inc.,  
8 Equestrian Construction, LLC (For Automobile Coverage Only) , Equestrian Development  
9 Corp., Paul D. & Rae Levie Trust DTD 11/20/73, Levie-Antelope Lakes Development, Inc.,  
10 LL&M Development, LLC, Levie Family Limited Partnership, and Payette Heights  
11 Development Corp.

12  
13 **Q. Did Staff request an explanation about the insurance policy and why it included  
14 regulated and unregulated affiliated companies and why the policy was paid  
15 exclusively by Chino Meadows and Granite Mountain?**

16 A. Yes. Staff requested in DR CM TBH 2.2, costs for each company, cost of auto insurance, an  
17 explanation why the General Liability Insurance was billed for and paid by Chino Meadows  
18 and Granite Mountain, requested documentation about reimbursements back to Chino  
19 Meadows and the number of years the policy was billed and paid by Chino Meadows. Chino  
20 Meadows stated there is no breakdown for each insured due to the blanket policy.

21  
22 **Q. What is Staff's recommendation?**

23 A. Staff recommends decreasing test year expense in the amount of \$1,058, as shown on  
24 Schedule TBH GM-20c. Staff's adjustments reflect the removal of \$1,058 of the insurance  
25 for personal vehicle use costs for an unregulated company. Additionally, the unregulated  
26 affiliates should obtain a separate policy from the regulated water companies. A separate

1 policy would protect ratepayers from insurance cost increases that could result if a non-utility  
2 vehicle suffered a loss which increased future insurance premiums.

3  
4 *Operating Income Adjustments – Miscellaneous*

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

6 A. Staff recommends disallowance of \$1,559 for gifts; \$683 for food, beverages and similar  
7 costs; and \$60 for donations, as shown on Schedule TBH GM-20c, for a total reduction of  
8 \$2,301 from actual recorded test year miscellaneous expense.

9  
10 *Normalization*

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

13 A. Yes. Staff normalized expenses to each of classifications listed above as shown on Schedule  
14 TBH GM-20d. Staff will discuss each separately.

15  
16 *Operating Income Adjustments – Salaries and Wages*

17 **Q. What is Chino Meadows proposing for employee salary and wages expense?**

18 A. Chino Meadows is proposing \$211,665 for salaries and wages. The amount is composed of  
19 \$179,965 for the actual test year for all employees that include payroll taxes and a \$15,000<sup>6</sup>  
20 pro forma adjustment to reflect a salary increase. Chino Meadows states that \$31,700 is for  
21 the salary and wages of the Officers of the Company.

22

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<sup>6</sup> 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.

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

2 A. Granite Mountain is proposing \$38,942 for employee salaries and wages net of salaries and  
3 wages for Officers. The amount is composed of \$ 33,942 for actual test year expenses and a  
4 \$5,000<sup>7</sup> pro forma salary increase.

5  
6 **Q. What is the combined pro forma salary and wage increase for both Chino Meadows  
7 and Granite Mountain?**

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

10

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

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

21

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<sup>7</sup> 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. Please discuss Staff's recommended \$160,638 for salaries and wages expense and**  
2 **\$14,179 for payroll taxes in further detail.**

3 A. Staff's adjustments reflect the actual salaries for the Operations Manager and Administrative  
4 Assistants provided in responses to DR's CM TBH-2.12b, CM TBH 3.7 and GM TBH-2.5g.  
5 Staff's adjustments reflect the estimated salaries for the two field technicians with increases  
6 using the information provided by Chino Meadows to DR CM TBH 1.25. Based on the  
7 information provided, Staff determined that \$178,082 in salary and wages and \$15,718 in  
8 payroll taxes adjusted for the inclusion of any salary increases as shown on Schedule TBH  
9 GM-20f line 7. Staff adjusted the salaries, wages and payroll taxes for the Operations  
10 Manager and Administrative Assistants for hours worked for the unregulated affiliated  
11 companies as shown on Schedule TBH GM-20f Columns F and G. Staff adjusted the salaries  
12 and wages to \$160,638 and payroll taxes to \$14,179 in order to normalize these expenses for  
13 the test year.

14  
15 **Q. Please describe Staff's normalization adjustments for Salaries and Wages.**

16 A. Staff normalized salaries and wages by \$13,384 based on the current and estimated salaries  
17 and wages for the five employees of the water companies as shown on Schedule TBH GM-  
18 20f. Staff determined current and estimated hourly rates and wages based on a regular 40  
19 hour work week over a calendar year. Staff reclassified the payroll taxes and disallowed the  
20 salaries, wages and payroll taxes for the hours worked for the unregulated affiliated  
21 companies to determine the adjusted salaries, wages and payroll taxes for the test year as  
22 shown on Schedule TBH GM-20d.

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

25 A. Staff recommends an increase of \$13,834 for the test year salaries and wages expense as  
26 shown on Schedule TBH GM-20f, line 7.

1 *Operating Income Adjustments – Office Supplies*

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

3 A. Staff normalized service contract costs for arrangements that extended for more than one  
4 year. Staff divided the number of years by the total cost. Staff adjusted for the normalization  
5 of expenses by decreasing operating expenses by \$208, as shown on Schedule TBH GM-20d.

6  
7 *Operating Income Adjustments – Transportation*

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

9 A. Staff normalized the vehicle registrations fees by averaging over two years. Staff adjusted for  
10 the normalization of expenses by decreasing operating expenses by \$186, as shown on  
11 Schedule TBH GM-20d.

12  
13 *Operating Income Adjustments – Insurance – General Liability*

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

15 A. Staff normalized refunds received from the insurance company that applied to general liability  
16 expense. The refunds reduced the current amount for the general liability insurance. Staff  
17 adjusted for the normalization of expenses by increasing operating expenses by \$594, as  
18 shown on Schedule TBH GM-20d.

19  
20 *Cost Allocations*

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

25

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

3 A. Yes. Staff identified the following expenses: salaries and wages of \$17,444 and payroll taxes  
4 of \$1,539 for a total of \$18,892 due to the disallowance of hours working for Mr. Paul Levie's  
5 property management activities as shown on Schedule TBH GM-20c.

6  
7 **Q. What is the percentage for Antelope Lakes and Chino Meadows using Staff's**  
8 **recommended 4-factor cost allocation?**

9 A. Antelope Lakes' 4-factor allocation is 2.95 percent and Chino Meadows' 4-factor allocation is  
10 70.12 percent, as shown on Schedule TBH GM-20e.

11  
12 **Q. What is the percentage for Granite Mountain using Staff's recommended 4-factor cost**  
13 **allocation?**

14 A. Granite Mountain's 4-factor allocation is 26.93 percent, as shown on Schedule TBH GM-20e.

15  
16 **Q. What are the adjustments for cost allocations to Granite Mountain using Staff's**  
17 **recommended 4-factor cost allocation?**

18 A. Staff's cost allocations net of all adjustments for all thirteen expense categories totaling an  
19 increase of \$14,603 are as follows: Salaries and Wages increases by \$4,319, Salaries and Wages  
20 – Officers decreases by \$273, Purchased Power increases by \$356; Chemicals increases by  
21 \$80; Repairs and Maintenance decreases by \$7; Office Supplies decreases by \$974; Rent  
22 increases by \$3,030; Contractual Services increases by \$1,322; Transportation increases by  
23 \$1,301, Insurance – General Liability increases by \$882; Insurance – Health and Life increases  
24 by \$718; Miscellaneous increases by \$30; and Payroll Taxes increases by \$3,819, as shown on  
25 Schedule TBH GM-20a.

26

1 *Operating Income Adjustment No. 9 - Depreciation Expense*

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

3 A. The Company proposed \$27,096 for the adjusted test year depreciation expense.

4

5 **Q. Is the Company proposing different depreciation rates than those recommended by**  
6 **Staff in Decision No. 71869?**

7 A. Yes, the Company is proposing to change the pumping equipment rate from 12.5 percent to  
8 5.0 percent and transportation equipment from 20.0 percent to 15.0 percent as shown on  
9 Attachment 2 Supplemental Page 9. The Company stated in the application that the current  
10 depreciation rates caused Pumping Plant and Transportation accounts to become fully  
11 depreciated even though the underlying plant has significant useful life.

12

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

14 A. No. Staff recommends the depreciation rates as recommended in the Engineering Report.

15

16 **Q. Does Staff recommend any modifications to the Company's proposed depreciation**  
17 **expense calculation?**

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

21

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

23 A. Staff recommends \$37,468 for depreciation expense, an increase of \$10,372 from the  
24 Company's proposed amount, as shown on Schedule TBH GM-21.

25

1 *Operating Income Adjustment No. 10 - Property Tax Expense*

2 **Q. What is Granite Mountain proposing for Test Year Property Taxes?**

3 A. Granite Mountain is proposing \$5,052 for the adjusted test year property tax expense.

4  
5 **Q. Did Staff make adjustments for CWIP for the Property Tax Calculation?**

6 A. Staff adjusted the CWIP accounts as shown on Schedule TBH GM-24. The adjustment is  
7 included on Schedule TBH GM-22 Line 10.

8  
9 **Q. What is Staff's recommendation for test year Property Tax Expense?**

10 A. Staff recommends \$4,523 for test year property tax expense, a \$529 decrease to the  
11 Company's proposed amount, as shown on Schedule TBH GM-22. Staff further  
12 recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a  
13 factor for Property Tax Expense, as shown on Schedule TBH GM-2.

14  
15 *Operating Income Adjustment No. 11 - Income Taxes*

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

17 A. Yes. Staff applied the statutory state and federal income tax rates to Staff's test year taxable  
18 income. Income tax expenses for the test year and recommended revenues are shown on  
19 Schedule TBH GM-11.

20  
21 **IX. REVENUES NOT COLLECTED PROPERLY**

22 **Q. What was the Company ordered to do in Decision No. 71869 with respect to free and  
23 discounted water?**

24 A. In Decision No. 71869, the Commission determined that Granite Mountain lost significant  
25 revenues due to failing to properly monitor the meters on its system and intentionally  
26 providing free and discounted water to the owner's son and the owner's development and

1 ordered the Company to immediately cease providing water without charge and immediately  
2 cease providing water at a discounted rate. Additionally, the Company was ordered to  
3 provide water only in accordance with the rates and charges that have been specifically  
4 authorized by the Commission.

5

6 **Q. Please explain what Staff reviewed and observed during the course of the audit for**  
7 **those specific accounts from Decision No. 71869?**

8 A. Staff reviewed the account history from the date of the last decision through the test year to  
9 ensure that these accounts were being billed and collected properly. During the field visit on  
10 September 25, 2014, Staff went to every meter listed in the last decision to observe if the  
11 meters were operating properly.

12

13 **Q. During the course of the current audit, did Staff review all the customer accounts**  
14 **noted in Decision No. 71869<sup>8</sup> as receiving discounted or free water?**

15 A. Yes. There were accounts for individuals related to the owners of Granite Mountain.

16

17 **Q. Did Staff find any account activity discrepancies for those specific accounts from**  
18 **Decision No. 71869? If yes, please explain.**

19 A. Yes, Staff reviewed the account history from the date of the last decision through the test  
20 year and found that the Company failed to properly collect for the two accounts noted in  
21 Decision No. 71869. The accounts referred to as Daniel's Home Property (80.002.01) and  
22 Stables Property (80.001.02). These accounts belong to Daniel P. Levie, the son of the  
23 owners, Paul and Rae Levie.

24

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<sup>8</sup> Decision No. 71869, Page 15 Number Findings of Facts no.62 provides the list of meters unread and not billed properly (7 meters). Additionally, two meters were added that received free and discounted water Page 23 Number Findings of Facts no.84.

1 **Q. Please explain what Staff found on water account 80.002.01 – Daniel’s Home Property.**

2 A. Staff found that Daniel’s Home Property (Account 80.002.01) did not reflect any payments  
3 from December 2011 through the end of test year. However, the Company stated that the  
4 adjustment to remove \$1,564.42 on December 10, 2013 was at the direction of Mr. Paul Levie  
5 for a water leak and late fees. The account had abnormally high consumption in March 2013  
6 to April 2013. The balance due through the end of the test year with the adjustment reversed  
7 is \$7,265.68 as shown on Schedule TBH GM-24. The Company provided a copy of a check  
8 (Check No. 5403) to Danny Levie dated December 31, 2013 for Construction Work in  
9 Progress for Well No. 5 in the amount of \$3,500. The check memo reads “for prep work and  
10 installing of 2 pipes, back hoe Bobcat and gradework at Short Spur Well”. Additionally, the  
11 Company did not provide an invoice and the work was done through a verbal agreement.  
12 Staff has disallowed the \$3,500 for the Post-Test Year Plant of Well No. 6. Staff requested a  
13 copy of the cancelled check and the Company stated that Check No. 5403 was voided and the  
14 amount was offset to balance owed by Daniel Levie. Staff reviewed the account history and  
15 \$3,500 was placed on the account on January 7, 2014 and a payment of \$2,201.26 was paid by  
16 Mr. Paul Levie through Paul D. and Rae Levie Trust on January 10, 2014.

17  
18 **Q. Are the adjustments to water account 80.002.01 – Daniel’s Home Property**  
19 **appropriate?**

20 A. No.

21  
22 **Q. Please explain why these adjustments to water account 80.002.01 – Daniel’s Home**  
23 **Property are inappropriate.**

24 A. The adjustment for \$1,564.42 on December 10, 2013 was at the direction of Mr. Paul Levie  
25 for a water leak and late fees. This is not appropriate since it is metered water and therefore a  
26 discount provided more than eight months after the abnormally high usage. Additionally, this

1 is related party and unfair favoritism was provided to his son and Mr. Paul Levie since the  
2 payment came directly for the family trust. The adjustment for \$3,500 is not appropriate due  
3 to the misleading information provided by Company as to the payment to Daniel Levie for  
4 Post-Test Year Plant on Well No. 6 and the adjustment to his water account. This activity  
5 was not an arm's length transaction and was not properly documented for rate making  
6 purposes. Additionally, this activity is not proper or acceptable accounting practices  
7 according to Generally Accepted Accounting Principles.

8  
9 **Q. Please explain what Staff found on water account 80.001.02 – Stables Property.**

10 A. Staff found that Stables Property (Account 80.001.02) made only sporadic payments and has  
11 not been fully collected since September 2010. The balance due through the end of the test  
12 year is \$1,157.28 as shown on Schedule TBH GM-24.

13  
14 **Q. Did Staff find additional related party water accounts that were not properly collected?**  
15 **If yes, please explain.**

16 A. Yes. Due to the two accounts listed above, Staff reviewed all of the accounts receivable and  
17 found two additional accounts owned by Daniel Levie that were delinquent as well. Account  
18 81.002.01 is for the mobile homes on the Stables Property and did not make any payments  
19 from July 2011 through the end of test year. The balance at the end of the test year is  
20 \$7,759.51 as shown on Schedule TBH GM-25. A payment of \$7,759.51 was paid by Mr. Paul  
21 Levie through Paul D. and Rae Levie Trust on January 10, 2014. Account 80.012.00 for  
22 Daniel Levie did not make any payments from July 2011 through the end of test year. The  
23 balance at the end of the test year is \$1,186.88 as shown on Schedule TBH GM-25. A  
24 payment of \$1,186.88 was paid by Mr. Paul Levie through Paul D. and Rae Levie Trust on  
25 January 10, 2014.

1 **Q. Did the Company explain why these water accounts were not paid by Daniel Levie?**

2 A. Yes. The Company stated in response to DR GM TBH 2.9, "After investigation it was  
3 determined that the bill was being sent to Daniel Levie's home address in the Granite  
4 Mountain service area, a home occupied by Mr. Daniel Levie's ex-wife. Mr. Daniel Levie  
5 resides in Utah and did not receive a copy of the billings."

6  
7 **Q. After the issuance of Decision No. 71869, did the Company continue to improperly  
8 collect revenues? If yes, please explain.**

9 A. Yes. The Company did not properly collect revenues on four water accounts for Daniel  
10 Levie including the two from Decision No. 71869 as shown on Schedule TBH GM-25. Staff  
11 adjusted the revenue on account 80.002.01 for Daniel Levie. Staffs total adjusted revenue not  
12 properly collected at the end of the test year is \$17,369. There were 122 different occurrences  
13 of monthly billing statements on these four water accounts not properly collected, as shown  
14 on Schedule TBH GM-25.

15  
16 **Q. What is Staff's recommendation since the Company did not properly collect as  
17 ordered in Decision No. 71869?**

18 A. The Company appears to continue to show unwarranted favoritism towards accounts and  
19 Staff believes that the Company should again be directed NOT to engage in such self-  
20 dealings. Staff recommends that the Company be again ordered to cease providing  
21 discounted or free water and appropriately collecting revenues from every recipient of water  
22 from its system as ordered in Decision No. 71869. The Company has continually failed to  
23 adhere to the Commission's orders. Based on the number of occurrences, the related party  
24 favoritism and the self-serving transactions by the Company and family members, Staff  
25 recommends that the Commission impose a penalty to the Company at the maximum  
26 amount allowed pursuant to A.R.S. §§ 40-424 and 40-425 for the Company's failure to

1 appropriately collect revenues as ordered in Decision No. 71869. Staff recommends that the  
2 Company be put on notice that any future violations should be met with penalties as well. As  
3 noted, Staff is recommending that the Company develop, submit and precisely follow the  
4 provisions of a Code of Affiliate Conduct.

5  
6 **X. NOTES RECEIVABLE**

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

8 **Q. During the course of the current audit, did Staff find that Granite Mountain loaned**  
9 **funds to Associated/Affiliated Companies?**

10 A. Yes.

11  
12 **Q. Did Staff request additional information from the Company about Notes and Account**  
13 **Receivable from Associated/Affiliated Companies?**

14 A. Yes, in DR GM TBH 1.31.

15  
16 **Q. What information was provided by the Company in response to DR GM TBH 1.31?**

17 A. The Company's response to DR GM TBH 1.31 included a schedule of the amounts due from  
18 the affiliated companies and the amounts due through December 31, 2013<sup>9</sup>. The amounts  
19 due are as follows for the test year: Chino Meadows – Other \$19,891, Antelope Lakes \$8,782,  
20 GFL CMI Tract B Water Line \$15,196, PDL Trust \$15,000 and PDL Zooki on behalf on Mr.  
21 Paul Levie's son, Mr. Daniel Levie \$260. The total is \$59,129.

22  

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<sup>9</sup> Staff requested a detailed schedule by month from January 2010 to December 31, 2013. Company provided detailed schedule through December 31, 2013.

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 GM TBH 1.31b 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 Granite Mountain. Should Antelope Lakes provide funds to or on  
10 behalf of Granite Mountain, the intercompany balance would be reduced. The balance at the  
11 end of the test year was \$8,782."

12  
13 **Q. Did the Company explain the receivables due from Mr. Paul Levie and family**  
14 **members in response to DR GM TBH 1.31b?**

15 A. Yes. The Company stated that the following are due and payable upon demand by Granite  
16 Mountain. GFL CMI Tract B Water Line represents funds advanced to Desert Snow  
17 Construction on behalf of Mr. Paul Levie for a waterline serving property owned by Mr. Paul  
18 Levie. The property is not associated with any of the water utilities owned by Mr. Paul Levie.  
19 The advances to PDL Trust represent funds for Mr. Paul Levie's personal uses. The  
20 advances to PDL Zooki were on behalf of Mr. Paul Levie's son Daniel and these funds were  
21 billed to Granite Mountain in error.

22  
23 **Q. What is Staff's recommendation?**

24 A. Staff recommends that these considerations be incorporated as a part of the Code. Further,  
25 Staff is recommending that the Company make due and payable upon demand all balances  
26 due to the regulated water companies within one year from the Decision in this rate case.

1 Staff further recommends that the Company cease making any further personal loans or  
2 advances with Company funds.

3  
4 **XI. RATE DESIGN**

5 *Present Rate Design*

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

7 A. Present, Proposed, and Staff Recommended rate design are presented in Staff's Direct  
8 Testimony Schedule TBH GM-26. The present rates went into effect September 1, 2010.  
9 There are several meter sizes presently in use in the system. The 5/8 x 3/4-inch meter has a  
10 three-tiered commodity rate structure with break-over points at 4,000 and 10,000 gallons.  
11 The tier rates are \$4.40, \$6.60 and \$7.90 with a monthly minimum of \$25.00.

12  
13 *Company's Proposed Water Rate Design*

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

15 A. The Company proposes break-over points at 3,000 and 8,000 gallons for all meter sizes and  
16 increases the commodity tier rates from \$4.40 to \$6.80 (54.55 percent increase) for the first  
17 tier, from \$6.60 to \$10.00 (51.52 percent increase) for the second tier and from \$7.90 to  
18 \$12.00 (51.90 percent increase) for the third tier. Minimum Monthly charges are proposed to  
19 increase from \$25.00 to \$38.50 (54.0 percent increase) for the 5/8 x 3/4-inch meter.

20  
21 **Q. Did the Company propose any changes to Service Line and Meter Installation  
22 Charges?**

23 A. Yes. The Company proposes an increase to each meter size. Staff has reviewed the  
24 Company's proposed service line and meter installation charges and recommends approval of  
25 those charges, as shown on Schedule TBH GM-26.  
26

1 *Staff's Recommended Water Rate Design*

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

3 A. Staff recommends increases in the minimum monthly charge for all meter sizes. Staff  
4 recommends that the monthly minimum for the 5/8 x 3/4-inch of \$35.00. Staff recommends  
5 break-over points at 3,000 and 10,000 gallons for the 5/8 x 3/4-inch. Staff recommends an  
6 increase to commodity rates in all three tiers. First tier commodity rate would increase by  
7 \$2.10 (47.73 percent) from \$4.40 per 1,000 gallons to \$6.50 per 1,000 gallons. Second tier  
8 commodity rate would increase by \$4.40 (66.67 percent) from \$6.60 per 1,000 gallons to  
9 \$11.00 per 1,000 gallons. Third tier commodity rates would increase by \$8.20 (103.80  
10 percent) from \$7.90 per 1,000 gallons to \$16.10 per 1,000 gallons. The typical 5/8 x 3/4-inch  
11 meter bill with a median use of 3,684 gallons would increase by \$20.81 (50.51 percent) from  
12 \$41.21 to \$62.02. Staff's recommended rates are shown in Schedule TBH GM-26 and the  
13 typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Schedule TBH GM-27.

14  
15 **Q. Did Staff prepare a Schedule showing the average and median monthly bill for present  
16 rates, Company's proposed and Staff's recommended rates?**

17 A. Yes. Staff's Direct Testimony Schedule TBH GM-27 presents the average and median  
18 monthly bill for present rates, Company's proposed rates and Staff's recommended rates.

19  
20 **XII. SERVICE CHARGES**

21 **Q. Did the Company propose any changes to its Water System Service Charges?**

22 A. Yes. The Company proposes to establish an after hour service charge (at customer request)  
23 of \$25.00. The current charges are \$0 and will increase to \$25.00.

24  
25 **Q. Please provide a description of Staff's recommended Water System Service Charges.**

26 A. Staff's recommended water system service charges are shown in Schedule TBH GM-26.

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

2 A. Staff finds all the Company proposed Service Charges align with customary charges for  
3 similarly sized companies. Staff recommends the After Hour Service Charge (at customers  
4 request) increases from \$0 to \$25.00.

5

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

7 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A]	[B]
		COMPANY ORIGINAL COST	STAFF ORIGINAL COST
1	Adjusted Rate Base	\$564,606	\$431,139
2	Adjusted Operating Income (Loss)	(\$8,153)	(\$18,914)
3	Current Rate of Return (L2 / L1)	-1.44%	-4.39%
4	Required Rate of Return	8.03%	8.03%
5	Required Operating Income (L4 * L1)	\$45,346	\$34,625
6	Operating Income Deficiency (L5 - L2)	\$53,499	\$53,539
7	Gross Revenue Conversion Factor	1.200411	1.277557
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$64,221	\$68,399
9	Adjusted Test Year Revenue	\$117,447	\$117,320
10	Proposed Annual Revenue (L8 + L9)	\$181,668	\$185,719
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	54.68%	58.30%

References:

Column [A]: Company Schedules A-1 Supplemental Page 1, Company's Schedule Supplemental Attachment No. 2 Page 2

Column [B]: Staff Schedules TBH GM-2, TBH GM-3, & TBH GM-15

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)	0.53%		
3	Revenues (L1 - L2)	99.47%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.20%		
5	Subtotal (L3 - L4)	78.27%		
6	Revenue Conversion Factor (L1 / L5)	127.76%		
<i>Calculation of Uncollectible Factor:</i>				
7	Unity	100.00%		
8	Combined Federal and State Tax Rate (Line 17)	20.10%		
9	One Minus Combined Income Tax Rate (L7 - L8)	79.90%		
10	Uncollectible Rate	0.66%		
11	Uncollectible Factor (L9 * L10)	0.53%		
<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)	15.00%		
16	Effective Federal Income Tax Rate (L14 * L15)	14.10%		
17	Combined Federal and State Income Tax Rate (L13 + L16)		20.10%	
<i>Calculation of Effective Property Tax Factor:</i>				
18	Unity	100.00%		
19	Combined Federal and State Income Tax Rate (L17)	20.10%		
20	One Minus Combined Income Tax Rate (L18 - L19)	79.90%		
21	Property Tax Factor	1.38%		
22	Effective Property Tax Factor (L20 * L21)		1.10%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17 + L22)			21.20%
24	Required Operating Income	\$34,625		
25	Adjusted Test Year Operating Income (Loss)	(18,914)		
26	Required Increase in Operating Income (L24 - L25)		\$53,539	
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$7,323		
28	Income Taxes on Test Year Revenue (Col. [A], L52)	(6,145)		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		13,469	
30	Recommended Revenue Requirement	\$185,719		
31	Uncollectible Rate (Line 10)	0.66%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	\$1,221		
33	Adjusted Test Year Uncollectible Expense	\$772		
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		449	
35	Property Tax with Recommended Revenue	\$5,465		
36	Property Tax on Test Year Revenue	4,523		
37	Increase in Property Tax Due to Increase in Revenue (L35 - L36)		942	
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$68,398	
<i>Calculation of Income Tax:</i>				
39	Revenue	\$117,320	\$68,399	\$185,719
40	Operating Expenses Excluding Income Taxes	142,380	1,391	143,770
41	Synchronized Interest (L56)	5,514		5,514
42	Arizona Taxable Income (L39 - L40 - L41)	(\$30,574)		\$36,434
43	Arizona State Income Tax Rate	6.00%		6.00%
44	Arizona Income Tax (L42 * L43)	(\$1,834)		\$2,186
45	Federal Taxable Income (L42 - L44)	(\$28,739)		\$34,248
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	(4,311)		5,137
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	0		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	(4,311)		5,137
52	Combined Federal and State Income Tax (L44 + L51)	(\$6,145)		\$7,323
53	Applicable Federal Income Tax Rate (Col. [C], L51 - Col. [A], L51) / [Col. [C], L45 - Col. [A], L45]			15.0000%
<i>Calculation of Interest Synchronization:</i>				
54	Rate Base	\$431,139		
55	Weighted Average Cost of Debt	1.279%		
56	Synchronized Interest (L45 * L46)	\$5,514		

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	[A]	[B]	ADJ NO.	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS		STAFF AS ADJUSTED
1	Plant in Service	\$1,095,441	(\$122,115)	1, 2	\$973,325
2	Less: Accumulated Depreciation	532,491	5,552	5	538,043
3	Net Plant in Service	\$562,950	(\$127,667)		\$435,282
	<u>LESS:</u>				
4	Advances in Aid of Construction (AIAC)	\$8,256	(\$2,235)	4	\$6,022
5	Service Line and Meter Advances	\$0	\$0		\$0
6	Contributions in Aid of Construction (CIAC)	\$0	\$9,643	3	\$9,643
7	Less: Accumulated Amortization	0	976	3	976
8	Net CIAC	\$0	\$8,668		\$8,668
9	Total Advances and Contributions	\$8,256	\$6,433		\$14,689
10	Customer Deposits	\$750	\$0		\$750
11	Accumulated Deferred Income Taxes	\$0	\$0		\$0
	<u>ADD: Working Capital</u>				
12	Cash Working Capital Allowance	10,662	634	6	11,296
13	<b>Total Rate Base</b>	<b>\$564,606</b>	<b>(\$133,466)</b>		<b>\$431,139</b>

References:

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

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	ACCT NO.	PLANT IN SERVICE Plant Description	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
			Company as Adjusted with Post-Test Plant	Adj No. 1 Post-Test Year Plant	ADJ No. 2 Reclass Plant to Appropriate Classifications	ADJ No. 3 Unsupported Plant Treated as CIAC	ADJ No. 4 AIAC not paid during Test Year	ADJ No. 5 Accumulated Depreciation	ADJ No. 6 Working Capital Allowance	STAFF AS ADJUSTED
			Ref: Sch TBH GM-5	Ref: Sch TBH GM-6	Ref: Sch TBH GM-7	Ref: Sch TBH GM-8	Ref: Sch TBH GM-9	Ref: Sch TBH GM-10		
1	301	Organization Cost	\$110	\$0	\$0	\$0	\$0	\$0	\$0	\$110
2	302	Franchises	0	0	0	0	0	0	0	0
3	303	Land and Land Rights	0	14,700	0	0	0	0	0	14,700
4	304	Structures and Improvements	21,608	8,373	36,913	0	0	0	0	66,894
5	307	Wells and Springs <sup>1</sup>	113,472	(44,065)	539	0	0	0	0	69,946
6	309	Supply Mains	0	0	0	0	0	0	0	0
7	310	Power Generation Equipment	0	0	912	0	0	0	0	912
8	311	Pumping Equipment	105,182	11,270	(912)	0	0	0	0	115,539
9	320	Water Treatment Equipment	1,661	0	(1,661)	0	0	0	0	0
10	320.1	Water Treatment Plants	0	0	0	0	0	0	0	0
11	320.2	Solution Chemical Feeders	416	5,669	1,661	0	0	0	0	7,745
12	330	Distribution Reservoirs and Standpipes	7,775	0	(7,775)	0	0	0	0	0
13	330.1	Storage Tanks <sup>2</sup>	250,705	(144,000)	(36,288)	0	0	0	0	70,417
14	330.2	Pressure Tanks	55,213	0	0	0	0	0	0	55,213
15	331	Transmission and Distribution Mains <sup>3</sup>	445,165	4,869	0	0	0	0	0	450,034
16	333	Services	55,853	81	0	0	0	0	0	55,934
17	334	Meters and Meter Installations	6,652	1,196	0	0	0	0	0	7,848
18	335	Hydrants	8,774	0	0	0	0	0	0	8,774
19	336	Backflow Prevention Devices	1,027	402	0	0	0	0	0	1,428
20	339	Other Plant and Miscellaneous Equipment	4,850	0	0	0	0	0	0	4,850
21	340	Office Furniture and Equipment	0	0	0	0	0	0	0	0
22	340.1	Computers and Software	3,500	0	0	0	0	0	0	3,500
23	341	Transportation Equipment	7,456	0	19,000	0	0	0	0	26,456
24	343	Tools, Shop, and Garage Equipment	149	0	(149)	0	0	0	0	0
25	344	Laboratory Equipment	0	0	0	0	0	0	0	0
26	345	Power Operated Equipment	5,000	0	0	0	0	0	0	5,000
27	346	Communication Equipment	853	0	7,150	0	0	0	0	8,003
28	347	Miscellaneous Equipment	0	0	0	0	0	0	0	0
29	348	Other Tangible Equipment	20	0	0	0	0	0	0	20
30		Rounding	0	0	1	0	0	0	0	1
31		<b>Total Plant in Service</b>	<b>\$1,095,441</b>	<b>(\$141,506)</b>	<b>\$19,391</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$973,325</b>
32		Less: Accumulated Depreciation	532,491	0	0	0	0	5,552	0	538,043
33		<b>Net Plant in Service</b>	<b>\$562,950</b>	<b>(\$141,506)</b>	<b>\$19,391</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$5,552)</b>	<b>\$0</b>	<b>\$435,282</b>
34										
35		<b>LESS:</b>								
36		Advances in Aid of Construction (AIAC)	\$8,256	\$0	\$0	\$0	(\$2,235)	\$0	\$0	\$6,022
37		Meter Deposits - Service Line & Meter Advances	0	0	0	0	0	0	0	0
38										
39		Contributions in Aid of Construction (CIAC)	\$0	\$0	\$0	\$9,643				\$9,643
40		Less: Accumulated Amortization of CIAC	0	0	0	976				976
41		Net CIAC	\$0	\$0	\$0	\$8,668	\$0	\$0	\$0	\$8,668
42										
43		<b>Total Advances and Net Contributions</b>	<b>\$8,256</b>	<b>\$0</b>	<b>\$0</b>	<b>\$8,668</b>	<b>(\$2,235)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$14,689</b>
44										
45		Customer Deposits	\$750	\$0	\$0	\$0				\$750
46		Accumulated Deferred Taxes	0	0	0	0				0
47										
48		<b>ADD: Working Capital</b>								
49		Prepayments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
50		Cash Working Capital Allowance	10,662	0	0	0	0	0	634	11,296
51		<b>Total Rate Base</b>	<b>\$564,606</b>	<b>(\$141,506)</b>	<b>\$19,391</b>	<b>(\$8,668)</b>	<b>\$2,235</b>	<b>(\$5,552)</b>	<b>\$634</b>	<b>\$431,139</b>

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR ("PTY") PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED WITH PTY PLANT	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 303 - Land and Land Rights	\$0	\$14,700	\$14,700
2	Acct No. 304 - Structures & Improvements	21,608	8,373	29,981
3	Acct No. 307 - Wells and Springs <sup>1</sup>	113,472	(44,065)	69,407
4	Acct No. 311 - Pumping Equipment	105,182	11,270	116,452
5	Acct No. 320.2 - Solution Chemical Feeders	416	5,669	6,085
6	Acct No. 330.1 - Storage Tanks <sup>2</sup>	250,705	(144,000)	106,705
7	Acct No. 331 - Transmission and Distribution Mains <sup>3</sup>	445,165	4,869	450,034
8	Acct No. 333 - Services	55,853	81	55,934
9	Acct No. 334 - Meters and Meter Installations	6,652	1,196	7,848
10	Acct No. 336 - Backflow Prevention Devices	1,027	402	1,428
11	<b>TOTAL PLANT RECLASSIFICATIONS</b>	<b>\$1,000,079</b>	<b>(\$141,506)</b>	<b>\$858,573</b>
12				
13				
14	<b>PLANT RECLASSIFICATIONS AND DISALLOWANCES</b>			
15				
16				
17	<b>DESCRIPTION</b>	<b>COMPANY AS FILED PTY PLANT</b>	<b>STAFF ADJUSTMENTS</b>	<b>STAFF AS ADJUSTED</b>
18	2013 Plant Addition, Acct No. 303 - Land Survey	\$0	\$500	\$500
19	2015 Plant Addition, Acct No. 303 - Land and Land Rights for Easements/Water Rights	0	14,200	14,200
20	Acct No. 303 - Land and Land Rights	0	14,700	14,700
21				
22	2013 Plant Addition, Acct No. 304 - Structures & Improvements	0	5,292	5,292
23	2013 Plant Removal (Disallowed), Acct No. 304 - Structures & Improvements	0	(3,500)	(3,500)
24	2014 Plant Addition, Acct No. 304 - Structures & Improvements	0	4,286	4,286
25	2015 Plant Addition, Acct No. 304 - Structures & Improvements	0	2,296	2,296
26	Acct No. 304 - Structures & Improvements	0	8,373	8,373
27				
28	2013 Plant Addition, Acct No. 307 - Wells and Springs	0	5,634	5,634
29	2014 Plant Addition, Acct No. 307 - Wells and Springs	0	126	126
30	2015 Plant Addition, Acct No. 307 - Wells and Springs - Reclassified and Adjusted Land <sup>1</sup>	75,000	(49,825)	25,175
31	Acct No. 307 - Wells and Springs	75,000	(44,065)	30,935
32				
33	2014 Plant Addition, Acct No. 311 - Pumping Equipment	0	11,270	11,270
34	2015 Plant Addition, Acct No. 311 - Pumping Equipment	0	403	403
35	Acct No. 311 - Pumping Equipment	0	11,270	11,270
36				
37	2014 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders <sup>4</sup>	0	4,574	4,574
38	2015 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders	0	1,095	1,095
39	Acct No. 320.2 - Solution Chemical Feeders	0	5,669	5,669
40				
41	2013 PTY Removal - Staff's Adjustment (\$144,000 included by Company) Not used and useful.	144,000	(144,000)	0
42	Acct No. 330.1 - Storage Tanks	144,000	(144,000)	0
43				
44	2013 Plant Addition, Acct No. 331 - Transmission and Distribution Mains	30,000	(24,700)	5,300
45	2014 Plant Addition, Acct No. 331 - Transmission and Distribution Mains	0	29,569	29,569
46	Acct No. 331 - Transmission and Distribution Mains	30,000	4,869	34,869
47				
48	2014 Plant Addition, Acct No. 333 - Services	0	81	81
49	Acct No. 333 - Services	0	81	81
50				
51	2014 Plant Additions, Acct No. 334 - Meters and Meter Installations	0	1,196	1,196
52	Acct No. 334 - Meters and Meter Installations	0	1,196	1,196
53				
54	2014 Plant Addition, Acct No. 336 - Backflow Prevention Devices	0	402	402
55	Acct No. 336 - Backflow Prevention Devices	0	402	402
56				
57	<b>Total</b>	<b>\$249,000</b>	<b>(\$141,506)</b>	<b>\$107,494</b>

<sup>1</sup> Company included \$75,000 for PTY Plant. Company provided an estimate in response to Data Request ("DR") GM TBH 1.50. \$50,000 for Easements and Water Rights (Land) and \$25,000 for Well.

<sup>2</sup> Company proposed PTY Plant for Acct. No. 330.1 - Storage Tanks \$144,000 For Storage Tank 3.

<sup>3</sup> Company proposed PTY Plant for Acct. No. 331 - Transmission & Distribution Mains \$30,000 from Well No. 6 to Transmission Lines.

<sup>4</sup> Vendor provided Staff an Invoice (RW Turner Sons Invoice 13535) totaling \$10,085.76 yet billed the Company \$9,567.62 due to a Change Order for the Pellet Coordinator (Credit of \$518.14).

**References:**

Column [A]: Company Schedules B-2 and Attachment No. 1, Supplemental Page 2.

Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.50

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

**RATE BASE ADJUSTMENT NO. 2 - RECLASSIFY PLANT TO APPROPRIATE CLASSIFICATIONS**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 304 - Structures & Improvements	\$21,608	\$36,913	\$58,520
2	Acct No. 307 - Wells & Springs	113,472	539	114,011
3	Acct No. 310 - Power Generation Equipment	0	912	912
4	Acct No. 311 - Pumping Equipment	105,182	(912)	104,270
5	Acct No. 320 - Water Treatment Equipment	1,661	(1,661)	0
6	Acct No. 320.2 - Solution Chemical Feeders	416	1,661	2,077
7	Acct No. 330 - Distr Reserv & Standpipes	7,775	(7,775)	0
8	Acct No. 330.1 - Storage Tanks	250,705	(36,288)	214,417
9	Acct No. 341 - Transportation Equipment	7,456	19,000	26,456
10	Acct No. 343 - Tools, Shop & Garage Equip	149	(149)	0
11	Acct No. 346 - Communication Equipment	853	7,150	8,003
12	Rounding	0	1	1
13	<b>TOTAL PLANT RECLASSIFICATIONS</b>	<b>\$509,276</b>	<b>\$19,391</b>	<b>\$528,667</b>
14				
15				
16	<b>PLANT RECLASSIFICATIONS</b>			
17				
18				
19	<b>DESCRIPTION</b>	<b>PLANT ADDITIONS</b>	<b>PLANT RECLASS</b>	<b>STAFF AS ADJUSTED</b>
20	2009 Plant Reclass, Acct No. 304 - Structures & Improvements	\$0	\$36,913	\$36,913
21	<b>Acct No. 304 - Structures &amp; Improvements</b>	0	36,913	36,913
22				
23	2013 Plant Reclass, Acct No. 307 - Wells & Springs	0	539	539
24	<b>Acct No. 307 - Wells &amp; Springs</b>	0	539	539
25				
26	2011 Plant Reclass, Acct No. 310 - Power Generation Equipment	0	912	912
27	<b>Acct No. 310 - Power Generation Equipment</b>	0	912	912
28				
29	2011 Plant Reclass, Acct No. 311 - Pumping Equipment	0	(912)	(912)
30	<b>Acct No. 311 - Pumping Equipment</b>	0	(912)	(912)
31				
32	2009 Plant Reclass, Acct No. 320 - Water Treatment Equipment	0	(1,661)	(1,661)
33	<b>Acct No. 320 - Water Treatment Equipment</b>	0	(1,661)	(1,661)
34				
35	2009 Plant Reclass, Acct No. 320.2 - Solution Chemical Feeders	0	1,661	1,661
36	<b>Acct No. 320.2 - Solution Chemical Feeders</b>	0	1,661	1,661
37				
38	2009 Plant Reclass, Acct No. 330 - Distr Reserv & Standpipes	0	(7,325)	(7,325)
39	2010 Plant Reclass, Acct No. 330 - Distr Reserv & Standpipes	0	(450)	(450)
40	<b>Acct No. 330 - Distr Reserv &amp; Standpipes</b>	0	(7,775)	(7,775)
41				
42	2009 Plant Reclass, Acct No. 330.1 - Storage Tanks	0	(29,588)	(29,588)
43	2010 Plant Reclass, Acct No. 330.1 - Storage Tanks	0	(6,700)	(6,700)
44	<b>Acct No. 330.1 - Storage Tanks</b>	0	(36,288)	(36,288)
45				
46	2013 Plant Addition, Acct No. 341 - Transportation Equipment	19,000	0	19,000
47	<b>Acct No. 341 - Transportation Equipment</b>	19,000	0	19,000
48				
49	2013 Plant Reclass, Acct No. 343 - Tools, Shop & Garage Equip	0	(149)	(149)
50	<b>Acct No. 343 - Tools, Shop &amp; Garage Equip</b>	0	(149)	(149)
51				
52	2010 Plant Reclass, Acct No. 346 - Communication Equipment	0	7,150	7,150
53	<b>Acct No. 346 - Communication Equipment</b>	0	7,150	7,150
54				
55	2013 Rounding	0	1	1
56	<b>Rounding</b>	0	1	1
57				
58	<b>Total</b>	<b>\$19,000</b>	<b>\$391</b>	<b>\$19,391</b>

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6

Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.3

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

**RATE BASE ADJUSTMENT NO. 3 - 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	\$9,643	\$9,643			
2	Amort of CIAC, Unsupported Plant Treated as CIAC	0	976	976			
3	Net CIAC, Unsupported Plant Treated as CIAC	\$0	\$8,668	\$8,668			
4							
5							
6	<b>UNSUPPORTED PLANT TREATED AS CIAC</b>						
7							
8		Plant Selected	Unsupported Plant	Staff			
9	DESCRIPTION	In Sample	Costs	as Adjusted			
10	2009 Plant Addition, Acct No. 304 - Structures & Improvements	\$0	\$33,057	\$33,057			
11	Acct No. 304 - Structures & Improvements Subtotal	0	33,057	33,057			
12							
13	2009 Plant Addition, Acct No. 330.1 - Storage Tanks	0	38,822	38,822			
14	2010 Plant Addition, Acct No. 330.1 - Storage Tanks	0	14,477	14,477			
15	Acct No. 330.1 - Storage Tanks Subtotal	0	53,299	53,299			
16							
17	2009 Plant Addition, Acct No. 331 - Transmission & Distribution Mains	0	2,961	2,961			
18	Acct No. 331 - Transmission & Distribution Mains Subtotal	0	2,961	2,961			
19							
20	2010 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders	0	416	416			
21	Acct No. 320.2 - Solution Chemical Feeders Subtotal	0	416	416			
22							
23	2010 Plant Addition, Acct No. 346 - Communication Equipment	0	6,700	6,700			
24	Acct No. 346 - Communication Equipment Subtotal	0	6,700	6,700			
25							
26	<b>TOTAL UNSUPPORTED PLANT</b>	<b>\$0</b>	<b>\$96,432</b>	<b>\$96,432</b>			
27							
28		<b>Total</b>		<b>\$96,432</b>			
29			<b>x</b>	<b>10%</b>			
30				<b>\$9,643</b>			
31							
32							
33	<b>CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT</b>						
34							
35	Year Added	Plant Additions	Unsupported Plant	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC
36	2009	Structures & Improvements	\$33,057	2013	3.5	3.33%	\$3,853
37	2009	Storage Tanks	38,822	2013	3.5	2.22%	3,016
38	2009	Trans. & Distr. Mains	2,961	2013	3.5	2.00%	207
39	2010	Solution Chemical Feeders	416	2013	2.5	20.00%	208
40	2010	Storage Tanks	14,477	2013	2.5	2.20%	796
41	2010	Communication Equip.	6,700	2013	2.5	10.00%	1,675
42		<b>Total</b>	<b>\$96,432</b>				<b>\$9,756</b>
43						<b>x</b>	<b>10%</b>
44							<b>\$976</b>

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6

Column [B]: Testimony, TBH

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

RATE BASE ADJUSTMENT NO. 4 - 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	\$8,256	\$0	\$8,256
2	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers	0	(2,235)	(2,235)
3	Total AIAC paid in 2014 for 2013 refunds due customers	\$8,256	(\$2,235)	\$6,022

References:

- Column [A]: Company's Application - Attachment No. 1 Supplemental Page 2
- Column [B]: Testimony, TBH, Company's response to DR's GM TBH 1.19 and GM TBH 2.6.
- Column [C]: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 5 - ACCUMULATED DEPRECIATION**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	\$532,491	\$5,552	\$ 538,043

References:  
 Column [A]: Company's Application - Attachment No. 1 Supplemental 5.1 - 5.6  
 Column [B]: Testimony, TBH, Company Data Request Responses  
 Column [C] Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 6 - CASH WORKING CAPITAL ALLOWANCE**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Cash Working Capital Allowance	\$10,662	\$634	\$11,296
2				
3	Operation & Maintenance*			\$87,264
4	Multiplied by		X	1/8
5				\$10,908
6				
7	Purchased Power & Purchased Water			\$9,306
8	Multiplied by		X	1/24
9				\$388
10				
11	<b>Total Cash Working Capital Allowance</b>			<b>\$11,296</b>
12				
13				

\* Less depreciation, taxes, purchased power and purchased water

References:

Column [A]: Company's Application Attachment No. 1 Supplemental Page 1

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

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

OPERATING INCOME - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

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 PROPOSED CHANGES	STAFF RECOMMENDED
	<b>REVENUES:</b>						
1	Metered Water Sales	\$114,273	\$0		\$114,273	\$68,399	\$182,672
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	3,174	(127)	1	\$3,047	0	3,047
4	<b>Total Revenues</b>	<b>\$117,447</b>	<b>(\$127)</b>		<b>\$117,320</b>	<b>\$68,399</b>	<b>\$185,719</b>
	<b>EXPENSES:</b>						
7	Salaries and Wages	\$38,942	\$4,319	8	\$43,261	\$0	\$43,261
8	Salaries and Wages - Officers	6,000	(273)		5,727	0	5,727
9	Employee Pensions & Benefits	0	0	8	0	0	0
10	Purchased Power	8,950	356	8	9,306	0	9,306
11	Fuel for Power Production	0	0		0	0	0
12	Chemicals	47	80	8	127	0	127
13	Repairs and Maintenance	4,339	(1,798)	2,8	2,541	0	2,541
14	Office Supplies & Expense	8,314	(2,701)	3,8	5,613	0	5,613
15	Contractual Services	11,353	(6,209)	4,8	5,144	0	5,144
16	Water Testing	5,380	(3,530)	5,8	1,850	0	1,850
17	Rents	0	3,030	8	3,030	0	3,030
18	Transportation Expenses	5,453	401	6,8	5,854	0	5,854
19	Insurance - General Liability	1,292	882	8	2,174	0	2,174
20	Insurance - Health and Life	0	718	8	718	0	718
21	Reg. Comm. Exp.	321	0		321	0	321
22	Reg. Comm. Exp. - Rate Case	3,333	6,667	7	10,000	0	10,000
23	Miscellaneous Expense	102	30	8	132	0	132
24	Bad Debt Expense	772	0		772	449	1,221
25	Depreciation Expense	27,096	10,372	9	37,468	0	37,468
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	5,052	(529)	10	4,523	942	5,465
28	Payroll Taxes	0	3,819	8	3,819	0	3,819
29	Income Taxes	(1,147)	(4,998)	11	(6,145)	13,469	7,323
30	Rounding	1	0		1	0	1
31	<b>Total Operating Expenses</b>	<b>\$125,600</b>	<b>\$10,634</b>		<b>\$136,234</b>	<b>\$14,859</b>	<b>\$151,094</b>
32							
33	<b>Operating Income (Loss)</b>	<b>(\$8,153)</b>	<b>(\$10,761)</b>		<b>(\$18,914)</b>	<b>\$53,540</b>	<b>\$34,625</b>

References:

- Column [A]: Company Application Attachment No. 2 Supplemental Page 1
- Column [B]: Schedule TBH GM-16
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules TBH GM-1 and TBH GM-2
- Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ NO. 1 Unauthorized Revenue Ref. Sch TBH GM-13	(C) ADJ NO. 2 Repairs and Maintenance Ref. Sch TBH GM-14	(D) ADJ NO. 3 Office Supplies Ref. Sch TBH GM-15	(E) ADJ NO. 4 Contractual Services Ref. Sch TBH GM-16	(F) ADJ NO. 5 Water Testing Ref. Sch TBH GM-17	(G) ADJ NO. 6 Transportation Ref. Sch TBH GM-18	(H) ADJ NO. 7 Rate Case Expense Ref. Sch TBH GM-19	(I) ADJ NO. 8 Allocations to Water Companies Ref. Sch TBH GM-20	(J) ADJ NO. 9 Depreciation Expense Ref. Sch TBH GM-21	(K) ADJ NO. 10 Property Taxes Ref. Sch TBH GM-22	(L) ADJ NO. 11 Income Tax Expense Ref. Sch TBH GM-23	(M) STAFF ADJUSTED
1	REVENUE	\$114,273	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$114,273
2	Metered Water Sales	0	0	0	0	0	0	0	0	0	0	0	0	0
3	Water Sales - Unmetered	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Other Operating Revenues	3,174	(127)	0	0	0	0	0	0	0	0	0	0	3,047
5	<b>Total Revenues</b>	\$117,447	(\$127)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$117,320
6	OPERATING EXPENSES:													
7	Salaries and Wages	\$38,942	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,319	\$0	\$0	\$0	\$43,261
8	Employee Pensions & Benefits	6,000	0	0	0	0	0	0	0	(273)	0	0	0	5,727
9	Purchased Power	8,950	0	0	0	0	0	0	0	0	0	0	0	0
10	Fuel for Power Production	0	0	0	0	0	0	0	0	356	0	0	0	9,306
11	Chemicals	47	0	0	0	0	0	0	0	80	0	0	0	0
12	Repairs and Maintenance	4,339	0	(1,792)	0	0	0	0	0	0	0	0	0	127
13	Office Supplies & Expense	8,314	0	0	(1,727)	0	0	0	0	(7)	0	0	0	2,541
14	Contractual Services	11,353	0	0	0	0	0	0	0	(974)	0	0	0	5,613
15	Water Testing	5,380	0	0	0	(7,531)	0	0	0	1,322	0	0	0	5,444
16	Rent	0	0	0	0	0	(3,330)	0	0	0	0	0	0	1,850
17	Transportation Expenses	5,453	0	0	0	0	0	0	0	3,030	0	0	0	3,030
18	Insurance - General Liability	1,292	0	0	0	0	0	(900)	0	1,301	0	0	0	5,854
19	Insurance - Health and Life	0	0	0	0	0	0	0	0	882	0	0	0	2,174
20	Reg Comm. Exp.	321	0	0	0	0	0	0	0	718	0	0	0	718
21	Reg Comm. Exp. - Rate Case	3,333	0	0	0	0	0	0	0	0	0	0	0	321
22	Miscellaneous Expenses	102	0	0	0	0	0	0	6,667	0	0	0	0	10,000
23	Bad Debt Expense	772	0	0	0	0	0	0	0	30	0	0	0	132
24	Depreciation Expense	27,096	0	0	0	0	0	0	0	0	0	0	0	772
25	Taxes Other Than Income	0	0	0	0	0	0	0	0	0	0	0	0	0
26	Property Taxes	5,052	0	0	0	0	0	0	0	0	0	0	0	37,468
27	Payroll Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
28	Income Taxes	(1,147)	0	0	0	0	0	0	0	0	0	0	0	4,523
29	Rounding	1	0	0	0	0	0	0	0	0	0	0	0	3,819
30	<b>Total Operating Expenses</b>	\$125,600	\$0	(\$1,792)	(\$1,727)	(\$7,531)	(\$3,530)	(\$900)	\$6,667	\$14,603	\$10,372	(\$529)	(4,998)	(\$136,234)
31	<b>Operating Income (Loss)</b>	(\$8,153)	(\$127)	\$1,792	\$1,727	\$7,531	\$3,530	\$900	(\$6,667)	(\$14,603)	(\$10,372)	\$529	\$4,998	(\$18,914)

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

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Other Revenue - Surcharge	\$3,174	(\$127)	\$3,047

References:

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

Column [B]: Testimony, TBH, DR GM TBH 1.31

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

OPERATING INCOME ADJUSTMENT NO. 2 - REPAIRS AND MAINTENANCE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Repairs and Maintenance	\$4,339	(\$1,792)	\$2,547
2				
3				
4				
5	<b>Repairs &amp; Maintenance</b>			
6	To reclass cost of culvert from expenses to P'TY Plant			
7	Payment for materials for culvert at Short Spur for new well		\$3,292	
8	Monies for half of the culvert for new well at Short Spur		(1,500)	
9	Total reclass to CWIP			(\$1,792)
10				

References:

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

Column [B]: Testimony, TBH, DR GM TBH 1.31

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

OPERATING INCOME ADJUSTMENT NO. 3 - OFFICE SUPPLIES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Office Supplies	\$8,314	(\$1,727)	\$6,587
2				
3	<b>Office Supplies</b>			
4	Disallowed Expenses for Mr. Levie's Office Phone for Prop. Mgmt.		(\$1,727)	

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. 4 - CONTRACTUAL SERVICES**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services	\$11,353	(\$7,531)	\$3,822
2				
3				
4	<b>Contractual Services</b>			
5	Engineering Expenses - Reclass to CWIP	(\$3,500)		
6	New well testing on Short Spur - Reclass to CWIP	(3,045)		
7	Contact Labor for rate case preparation - Reclass to Rate Case Expenses	(345)		
8	Ariccor Watrr Solutions - Reclass to Rate Case Expenses	(641)		
9	Total Contractual Services Reclassification		(\$7,531)	

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 - WATER TESTING**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing	\$5,380	(\$3,530)	\$1,850
2				
3	<b>Reclassification of Water Testing Expenses</b>			
4	Well No. 6 ADEQ Expenses - Reclass to CWIP		(\$2,500)	
5	Storage Tank #3 ADEQ Expenses - Reclass to CWIP		(1,800)	
6	Total Water Testing Reclassification			(\$4,300)
7				
8	<b>Water Testing Costs Per Table 4 - Engineering Report</b>			
9	Actual Water Testing Costs		\$1,850	
10	Total Normalized Water Testing Costs			\$1,850
11				
12				

References:

- Column [A]: Company Application Attachment No. 2 Supplemental Page 1
- Column [B]: Testimony, TBH, Engineering Report in Exhibit 1
- Column [C]: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 6 - TRANSPORTATION**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expenses	\$5,453	(\$900)	\$4,553
2				
3	<b>Transportation</b>			
4	Disallowed Expenses for Gas Reimbursements	(\$900)	(\$900)	

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. 7 - RATE CASE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]	
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED	
1	Rate Case Expense	\$3,333	\$6,667	\$10,000	
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, Company's Responses to DR GM TBH 1.7 Supplemental & TBH DR GM TBH 1.7

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

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] STAFF ADJUSTMENTS		[C] STAFF AS ADJUSTED	[D] Chino Meadows as filed	[E] Original amount allocated to Granite Mountain	[F] Staff Adjustments		[G] Normalize	[H] Chino Meadows Direct	[I] Cost to be Allocated	[J] Portion allocated to unregulated Companies	[K] Amount allocated to unregulated Companies	[L] Amount allocated to regulated Companies	[M] Granite Mountain 4-factor allocation	[N] Amount to be allocated to Granite Mountain	[O] Granite Mountain Direct
		Reclassification	Disallowance																
1	Salaries and Wages	\$38,942	\$4,319	(273)	\$43,261		\$179,965	\$0	(\$15,718)	(\$17,444)	\$13,834	\$0	\$160,638	0%	\$0	\$160,638	26.93%	\$43,261	\$0
2	Salaries and Wages - Officers	6,000			6,000		31,700	6,000		(16,434)	0	0	21,266	0%	0	21,266	26.93%	\$5,727	0
3	Purchased Power	8,950		356	9,306		24,401	247		(46)	0	22,110	2,493	10%	249	2,244	26.93%	\$604	8,702
4	Chemicals	47			47		425	47		0	0	0	472	0%	0	472	26.93%	127	0
5	Repairs and Maintenance	4,339		(7)	4,332		8,899	633		(124)	(208)	2,159	8,530	0%	0	8,530	26.93%	2,297	2,035
6	Office Supplies & Expense	8,314		(974)	7,340		30,594	3,000		(2,804)	0	0	17,569	10%	1,757	15,812	26.93%	4,258	3,081
7	Rents	0			0		0	0		0	0	0	15,000	25%	3,750	11,250	26.93%	3,030	0
8	Contractual Services	11,353			11,353		11,457	490		(1,232)	0	3,489	6,726	0%	0	6,726	26.93%	1,811	10,863
9	Transportation Expenses	5,453			5,453		24,752	2,736		(186)	(186)	0	21,739	0%	0	21,739	26.93%	5,854	900
10	Insurance - General Liability	1,292			1,292		8,964	996		(1,058)	594	0	9,496	15%	1,424	8,072	26.93%	2,174	0
11	Insurance - Health and Life	102			102		8,848	245		0	0	2,903	2,963	10%	296	2,667	26.93%	718	0
12	Miscellaneous Expenses	0			0		0	0		(2,301)	0	0	490	0%	0	490	26.93%	132	0
13	Payroll Taxes	0			0		0	0		(1,539)	0	0	14,179	0%	0	14,179	26.93%	3,819	0
14	Total	\$84,792	\$14,603		\$99,395		\$332,672	\$16,678	(\$799)	(\$50,302)	\$14,034	\$30,661	\$281,562	0%	\$7,477	\$274,085	26.93%	\$73,813	\$25,582

References:  
 Column [A]: Company Application Attachment No. 2 Supplemental Page 1  
 Column [B]: Column [C] - Column [A]  
 Column [G]: Col [P] + Col [Q]  
 Column [D]: Chino Meadow Schedule TBH CM-14  
 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 Schedule TBH CM-20a, Co. [I]  
 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 GM-20e  
 Column [P]: Col [M] \* Col [N]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS RECLASSIFICATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] 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	<b>Salaries and Wages</b>			
16	Payroll taxes included as salaries and wages	(\$15,718)	(\$15,718)	
17				
18	<b>Repairs and Maintenance</b>			
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	<b>Office Supplies &amp; Expense</b>			
23	Rent - Misclassified as Office Supplies	(\$12,000)	(\$12,000)	
24				
25	<b>Rents</b>			
26	Rent - Misclassified as Office Supplies	\$12,000	\$12,000	
27				
28	<b>Contractual Services</b>			
29	Survey for Granite Mountain Well No. 6 Site	(\$500)	(\$500)	
30				
31	<b>Transportation Expenses</b>			
32	Amount originally booked to Granite Mountain to be included in the cost pool	\$1,817	\$1,817	
33				
34	<b>Miscellaneous Expenses</b>			
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	<b>Payroll Taxes</b>			
40	Payroll taxes included as salaries and wages	\$15,718	\$15,718	

**OPERATING INCOME ADJUSTMENT NO. 8 - 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	<b>Salaries and Wages</b>			
17	Non-regulated salaries and wages	(\$17,444)	(\$17,444)	
18				
19	<b>Salaries and Wages - Officers</b>			
20	Pay adjusted to reflect actual time worked	(\$11,761)		
21	Duties assigned to office manager	(4,673)	(16,434)	
22				
23	<b>Purchased Power</b>			
24	To adjust for late fees	(\$46)	(\$46)	
25				
26	<b>Repairs and Maintenance</b>			
27	To adjust for personal expense	(\$124)	(\$124)	
28				
29	<b>Office Supplies &amp; Expense</b>			
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	<b>Contractual Services</b>			
37	Legal Fees for Fire	(\$1,232)	(\$1,232)	
38				
39	<b>Transportation Expenses</b>			
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	<b>Insurance - General Liability</b>			
46	Remove Vehicle AZ-1 TBH 1.39 Unregulated Associated Co.	(\$1,058)	(\$1,058)	
47				
48	<b>Miscellaneous Expenses</b>			
49	Gifts	(\$1,559)		
50	Meals	(683)		
51	Donations	(60)	(\$2,301)	
52				
53	<b>Payroll Taxes</b>			
54	Non-regulated payroll taxes	(\$1,539)	(\$1,539)	

**OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS NORMALIZATION**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	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	<b>Salaries and Wages</b>			
17	Normalize salaries and benefits	\$13,834	\$13,834	
18				
19	<b>Office Supplies &amp; Expense</b>			
20	Normalize Carbonite over 3 years	(\$94)		
21	Normalize GoDaddy 5 year contract	(114)	(\$208)	
22				
23	<b>Transportation Expenses</b>			
24	Normalize Vehicle Registration for 2 years	(\$186)	(\$186)	
25				
26	<b>Insurance - General Liability</b>			
27	Normalize Insurance Policy adjustment for refunds	\$594	\$594	

**OPERATING INCOME ADJUSTMENT NO. 8 - 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	<b>Total</b>	<b>1,022</b>		<b>\$549,648</b>		<b>\$475,424</b>		<b>74,745</b>		<b>100.00%</b>

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-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of

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].

Granite Mountain Water Co., Inc.  
 Docket No. W-02467A-14-0230  
 Test Year Ended December 31, 2013

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS SALARIES & WAGES CALCULATION

LINE NO.	[A] 2014 Current Salaries	[B] 2014 Current or Estimated Hourly Rate	[C] 2014 Current or Estimated Salary and Wages	[D] 2014 Current or Estimated Payroll Taxes	[E] Non-Regulated Hours	[F] 2014 Non-Regulated Salary and Wages	[G] 2014 Non-Regulated Payroll Taxes	[H] Staff Adjusted Salaries and Wages	[I] Staff Adjusted Payroll Taxes
1	Barney <sup>2</sup>	\$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

<sup>1</sup> Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-2.12h, CM TBH-2.5 and GM TBH-2.5g.  
<sup>2</sup> Per TBH 1.25g. Barney \$13,000 bonuses to adjust pay to match responsibilities.

References:

- Column [A]: Company Schedule C-2
- Column [B]: Testimony, TBH
- Column [C]: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 8 - 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 <sup>1</sup> * 12 months	\$25,939
18	Less Additional Increase for Operations Manager from 2013 to 2014 <sup>2</sup>	(4,673)
19	<b>Adjusted Officers Salary</b>	<b>\$21,266</b>
20	<sup>1</sup> 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	<sup>2</sup> Operations Manager's Salary for 2013 was \$50,683 and for 2014 was \$55,356. The additional increase is \$4,673.	

References:

Column [A] : Per DRs CM TBH 1.26.g, CM TBH 2.12, CM TBH 3.7 and GM TBH 2.5

OPERATING INCOME ADJUSTMENT NO. 9 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
			PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$110	\$110	\$0	0.00%	\$0
2	302	Franchises	0	0	0	0.00%	0
3	303	Land and Land Rights	14,700	14,700	0	0.00%	0
4	304	Structures and Improvements	66,894	0	66,894	3.33%	2,228
5	307	Wells and Springs	69,946	0	69,946	3.33%	2,329
6	309	Supply Mains	0	0	0	2.00%	0
7	310	Power Generation Equipment	912	0	912	5.00%	18
8	311	Pumping Equipment	115,539	105,182	10,357	12.50%	518
9	320	Water Treatment Equipment					
10	320.1	Water Treatment Plants	0	0	0	3.33%	0
11	320.2	Solution Chemical Feeders	7,745	2,077	5,668	20.00%	189
12	330	Distribution Reservoirs and Standpipes					
13	330.1	Storage Tanks	70,417	0	70,417	2.22%	0
14	330.2	Pressure Tanks	55,213	0	55,213	5.00%	1,226
15	331	Transmission and Distribution Mains	450,034	0	450,034	2.00%	22,502
16	333	Services	55,934	0	55,934	3.33%	1,119
17	334	Meters and Meter Installations	7,848	0	7,848	8.33%	261
18	335	Hydrants	8,774	0	8,774	2.00%	731
19	336	Backflow Prevention Devices	1,428	0	1,428	6.67%	29
20	339	Other Plant and Miscellaneous Equipment	4,850	0	4,850	6.67%	323
21	340	Office Furniture and Equipment	0	0	0	6.67%	0
22	340.1	Computers and Software	3,500	0	3,500	20.00%	233
23	341	Transportation Equipment	26,456	0	26,456	20.00%	5,291
24	343	Tools, Shop, and Garage Equipment	0	0	0	5.00%	0
25	344	Laboratory Equipment	0	0	0	10.00%	0
26	345	Power Operated Equipment	5,000	0	5,000	5.00%	500
27	346	Communication Equipment	8,003	0	8,003	10.00%	400
28	347	Miscellaneous Equipment	0	0	0	10.00%	0
29	348	Other Tangible Equipment	20	20	0	0.00%	0
30		Rounding	1	0	1	0.00%	0
31		Total Plant	\$973,325	\$122,089	\$851,236		\$37,897
32							
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							
43							

	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.45%
	CIAC:	\$9,643
	Amortization of CIAC (Line 33 x Line 34):	\$429
	Depreciation Expense Before Amortization of CIAC:	\$37,897
	Less Amortization of CIAC:	429
	Test Year Depreciation Expense - Staff:	\$37,468
	Depreciation Expense - Company:	27,096
	<b>Staff's Total Adjustment:</b>	<b>\$10,372</b>

References:

- Column [A]: Schedule TBH GM-4
- Column [B]: From Column [A]
- Column [C]: Column [A] - Column [B]
- Column [D]: Engineering Staff Report
- Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$117,320	\$117,320
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$234,640	\$234,640
4	Staff Recommended Revenue, Per Schedule TBH-1	117,320	185,719
5	Subtotal (Line 4 + Line 5)	\$351,960	\$420,359
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$117,320	\$140,120
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$234,640	\$280,239
10	Plus: 10% of CWIP - Schedule TBH-24	5,451	5,451
11	Less: Net Book Value of Licensed Vehicles - Schedule TBH-19 Line 23	\$21,165	\$21,165
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$218,926	\$264,525
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	\$40,501	\$48,937
15	Composite Property Tax Rate	11.17%	11.17%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$4,523	\$0
17	Company Proposed Property Tax	\$5,052	
18	Staff Test Year Adjustment (Line 16-Line 17)	(\$529)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$5,465
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		4,523
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		942
22	Increase to Property Tax Expense		\$942
23	Increase in Revenue Requirement		\$68,399
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.38%

**OPERATING INCOME ADJUSTMENT NO. 11 - TEST YEAR INCOME TAXES**

LINE NO.	DESCRIPTION	(A)	(B)
	<i>Calculation of Income Tax:</i>	Test Year	
1	Revenue	\$117,320	
2	Less: Operating Expenses - Excluding Income Taxes	142,380	
3	Less: Synchronized Interest (L17)	5,514	
4	Arizona Taxable Income (L1- L2 - L3)	(\$30,574)	
5	Arizona State Income Tax Rate	6.000%	
6	Arizona Income Tax (L4 x L5)		(\$1,834)
7	Federal Taxable Income (L4 - L6)	(\$28,739)	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	(4,311)	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	0	
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		(\$4,311)
14	Combined Federal and State Income Tax (L6 + L13)		(\$6,145)
15			
16			
17	<i>Calculation of Interest Synchronization:</i>		
18	Rate Base	\$431,139	
19	Weighted Average Cost of Debt	1.279%	
20	Synchronized Interest (L16 x L17)	\$5,514	
21			
22			
23	Income Tax - Per Staff	(\$6,145)	
24	Income Tax - Per Company	(1,147)	
25	Staff Adjustment	(\$4,998)	

**PROPERTY TAX ADJUSTMENT NO. 1 - ADJUSTMENTS TO CONSTRUCTION WORK IN PROGRESS AND ADDITIONS FOR STORAGE TANK NO. 3**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Company Proposed Construction Work in Progress	\$8,591	\$45,918	\$54,509
2				
3	<b>Construction Work in Progress</b>			
	Well No. 6 - Disallowed Prep work and installing 2 pipes. back hoe Bobcat and gradework at Short Spur. No Support Provided by Company, Work performed by Daniel Levie, Check Cancelled and offset against his balance due on his water accounts outside of test year. Per DR TBH 3.10.		(\$3,500)	
4				
5	Reclass from Water Testing - Storage Tank #3 ADEQ Expenses		1,800	
6	Removal of expenses that were reclassified to GMWC Well #6		(89)	
7	Removal of Expenses from Well #5 Shane Dr.		(3,198)	
8	Building Permits Yavapai County 5/22/14		465	
9	Building Permits Yavapai County 6/18/14		415	
10	Reclass from Well No. 6 - Storage Tank #3 ADEQ Extension Expenses 2/9/2015 Draw No. 1 Dave Larson 9/12/2014 - Payment included in Invoice 32477.1 to		400	
11	Chapman Electrical 2/12/2015 as Misc. Pymt. Total \$12,600 for Draw 1 & 2.		6,300	
12	Draw No. 2 Dave Larson 9/19/2014 - Payment included in Invoice 32477.1 to Chapman Electrical 2/12/2015 as Misc. Pymt. Total \$12,600 for Draw 1 & 2.		6,300	
13	Chapman Electrical 1/20/2015 Invoice 32477		34,225	
14	Chapman Electrical 4/17/2015 Invoice 32477.1		2,800	\$45,918
15				
16	Total CWIP for Property Tax Calculation on TBH-22 Line 10		X 10%	\$ 5,451

References:

Column [A]: Company Balance Sheet Acct. No. 105

Column [B]: Testimony, TBH

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

RELATED PARTY TRANSACTIONS - COMPANY FAILED TO APPROPRIATELY COLLECT REVENUE PURSUANT TO DECISION 71869 (UNCOLLECTED RELATED PARTY TRANSACTIONS IN TEST YEAR)

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	[P]
Water Acc No.	Name on Account	Description	Balance P.3.1.12	Account Status	Water	Taxes	Surcharge	Penalty	Adjustments	Payments	Total	Staff Adjusted Revenues 2013	Staff Adjusted Balance Due 12/31/13	Date Range	# of Bills Not Appropriately Collected
80.002.01	Levie, Daniel P <sup>2</sup>		\$3,369.03	Active	\$2,873.68	\$208.53	\$3.03	\$811.41	(\$1,564.42)	\$0.00	\$2,332.23	\$3,688.12	\$7,265.68	11.13 to 12.31.13	24
81.002.01	Levie, Daniel P <sup>3</sup>		4,381.13	Active	2,386.77	157.77	2.30	831.54	0.00	0.00	3,378.38	3,220.61	\$7,759.51	11.13 to 12.31.13	29
80.001.02	Granite Mtn Stables <sup>4</sup>		428.15	Active	2,009.92	135.93	1.99	111.29	0.00	(1,530.00)	729.13	593.20	\$1,157.28	11.13 to 12.31.13	40
80.012.00	Levie, Daniel P <sup>5</sup>		244.38	Active	842.40	48.94	0.72	50.44	0.00	0.00	942.50	893.56	\$1,186.88	11.13 to 12.31.13	29
Totals			\$8,422.69		\$8,112.77	\$551.17	\$8.04	\$1,804.68	(\$1,564.42)	(\$1,530.00)	\$7,382.24	\$8,395.49	\$17,360.35		122

<sup>1</sup> Staff did not include any adjustments in the Adjusted Revenues.  
<sup>2</sup> Per Decision 71869 Page 23 Line 16, Identified as Daniel's Home Property. Adjustment for Water Leak and Late Fees GM TBH 2.9, Balance paid by Mr. Paul Levie \$5,701.26. However, DT GM TBH 3.10 states Check for \$2,201.26 and offset for \$3,500 for check to Mr. Daniel Levie for work on Culvert for \$3,500 Check 5403 (voided) in GM TBH 2.15. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 12/2011 to 11/2013.  
<sup>3</sup> Payment made by Mr. Paul Levie per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.  
<sup>4</sup> Per Decision 71869 Page 23 Line 17, Identified as Stables Property. Spontaneous Payments made in 5 payments through Test year. Not properly collected since 9/2010.  
<sup>5</sup> Payment made by Mr. Paul Levie per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.

References:  
 Column [A]: Company C-1  
 Column [B]: Testimony GM TBH 1.42, GM TBH 2.15, GM TBH 2.9, GM TBH 3.10, GM TBH 3.11  
 Column [C]: Column [A] + Column [B]

RATE DESIGN					
Monthly Usage Charge	Present Rates		Company Proposed Rates		Staff Recommended Rates
<u>Meter Size (All Classes):</u>					
5/8 x 3/4 Inch	\$ 25.00		\$ 38.50		\$ 35.00
3/4 Inch	37.50		57.75		52.50
1 Inch	62.50		96.25		87.50
1 1/2 Inch	125.00		192.50		175.00
2 Inch	200.00		308.00		280.00
3 Inch	400.00		616.00		560.00
4 Inch	625.00		962.50		875.00
6 Inch	1,250.00		1,925.00		1,750.00
<b>Commodity Charge - Per 1,000 Gallons</b>					
<u>5/8" x 3/4" Meter (Residential)</u>					
First 4,000 gallons	4.40		N/A		N/A
4,001 to 10,000 gallons	6.60		N/A		N/A
Over 10,000 gallons	7.90		N/A		N/A
First 3,000 gallons	N/A		6.80		N/A
3,001 to 8,000 gallons	N/A		10.00		N/A
Over 8,000 gallons	N/A		12.00		N/A
First 3,000 gallons	N/A		N/A		6.50
3,001 to 10,000 gallons	N/A		N/A		11.00
Over 10,000 gallons	N/A		N/A		16.10
<u>5/8" x 3/4" Meter (Commercial)</u>					
First 4,000 gallons	4.40		N/A		N/A
4,001 to 10,000 gallons	6.60		N/A		N/A
Over 10,000 gallons	7.90		N/A		N/A
First 3,000 gallons	N/A		6.80		N/A
3,001 to 8,000 gallons	N/A		10.00		N/A
Over 8,000 gallons	N/A		12.00		N/A
First 10,000 gallons	N/A		N/A		11.00
Over 10,000 gallons	N/A		N/A		16.10
<u>3/4" Meter (Residential)</u>					
First 4,000 gallons	4.40		N/A		N/A
4,001 to 10,000 gallons	6.60		N/A		N/A
Over 10,000 gallons	7.90		N/A		N/A
First 3,000 gallons	N/A		6.80		N/A
3,001 to 8,000 gallons	N/A		10.00		N/A
Over 8,000 gallons	N/A		12.00		N/A
First 3,000 gallons	N/A		N/A		6.50
3,001 to 10,000 gallons	N/A		N/A		11.00
Over 10,000 gallons	N/A		N/A		16.10
<u>3/4" Meter (Commercial)</u>					
First 4,000 gallons	4.40		N/A		N/A
4,001 to 10,000 gallons	6.60		N/A		N/A
Over 10,000 gallons	7.90		N/A		N/A
First 3,000 gallons	N/A		6.80		N/A
3,001 to 8,000 gallons	N/A		10.00		N/A
Over 8,000 gallons	N/A		12.00		N/A
First 10,000 gallons	N/A		N/A		11.00
Over 10,000 gallons	N/A		N/A		16.10

**RATE DESIGN CONT.**

<u>1" Meter (All Classes)</u>					
First 10,000 gallons	6.60		10.00		N/A
Over 10,000 gallons	7.90		12.00		N/A
First 15,000 gallons	N/A		N/A		11.00
Over 15,000 gallons	N/A		N/A		16.10
<u>1 1/2" Meter (All Classes)</u>					
First 20,000 gallons	6.60		10.00		N/A
Over 20,000 gallons	7.90		12.00		N/A
First 30,000 gallons	N/A		N/A		11.00
Over 30,000 gallons	N/A		N/A		16.10
<u>2" Meter (All Classes)</u>					
First 40,000 gallons	6.60		10.00		N/A
Over 40,000 gallons	7.90		12.00		N/A
First 50,000 gallons	N/A		N/A		11.00
Over 50,000 gallons	N/A		N/A		16.10
<u>3" Meter (All Classes)</u>					
First 144,000 gallons	6.60		10.00		N/A
Over 144,000 gallons	7.90		12.00		N/A
First 100,000 gallons	N/A		N/A		11.00
Over 100,000 gallons	N/A		N/A		16.10
<u>4" Meter (All Classes)</u>					
First 225,000 gallons	6.60		10.00		N/A
Over 225,000 gallons	7.90		12.00		N/A
First 150,000 gallons	N/A		N/A		11.00
Over 150,000 gallons	N/A		N/A		16.10
<u>6" Meter (All Classes)</u>					
First 450,000 gallons	6.60		10.00		N/A
Over 450,000 gallons	7.90		12.00		N/A
First 300,000 gallons	N/A		N/A		11.00
Over 300,000 gallons	N/A		N/A		16.10
<u>Construction/Standpipe</u>					
All Gallons	7.90		12.00		16.10
<u>Hydrant Meter by Meter Size</u>					
<u>(Not Individually Assigned)</u>					
All Usage, Per 1,000 Gallons	7.90		12.00		16.10



Typical Bill Analysis General Service 5/8 x 3/4-Inch Meter						
Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,411		\$ 58.51	\$ 93.01	\$ 34.50	58.96%
Median Usage	3,684		41.21	65.74	\$ 24.53	59.53%
<b>Staff Recommended</b>						
Average Usage	6,411		\$ 58.51	\$ 92.02	\$ 33.51	57.27%
Median Usage	3,684		41.21	62.02	\$ 20.81	50.51%
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	\$ 25.00	Minimum Charge	\$ 38.50	Minimum Charge	\$ 35.00
	1st Tier Rate	4.40	1st Tier Rate	6.80	1st Tier Rate	6.50
	1st Tier Breakover	4,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	6.60	2nd Tier Rate	10.00	2nd Tier Rate	11.00
	2nd Tier Breakover	10,000	2nd Tier Breakover	8,000	2nd Tier Breakover	10,000
	3rd Tier Rate	7.90	3rd Tier Rate	12.00	3rd Tier Rate	16.10
Gallons Consumption	Rates		Rates	Increase	Rates	Increase
-	\$ 25.00		\$ 38.50	54.00%	\$ 35.00	40.00%
1,000	29.40		45.30	54.08%	41.50	41.16%
2,000	33.80		52.10	54.14%	48.00	42.01%
3,000	38.20		58.90	54.19%	54.50	42.67%
4,000	42.60		68.90	61.74%	65.50	53.76%
5,000	49.20		78.90	60.37%	76.50	55.49%
6,000	55.80		88.90	59.32%	87.50	56.81%
7,000	62.40		98.90	58.49%	98.50	57.85%
8,000	69.00		108.90	57.83%	109.50	58.70%
9,000	75.60		120.90	59.92%	120.50	59.39%
10,000	82.20		132.90	61.68%	131.50	59.98%
11,000	90.10		144.90	60.82%	147.60	63.82%
12,000	98.00		156.90	60.10%	163.70	67.04%
13,000	105.90		168.90	59.49%	179.80	69.78%
14,000	113.80		180.90	58.96%	195.90	72.14%
15,000	121.70		192.90	58.50%	212.00	74.20%
16,000	129.60		204.90	58.10%	228.10	76.00%
17,000	137.50		216.90	57.75%	244.20	77.60%
18,000	145.40		228.90	57.43%	260.30	79.02%
19,000	153.30		240.90	57.14%	276.40	80.30%
20,000	161.20		252.90	56.89%	292.50	81.45%
25,000	200.70		312.90	55.90%	373.00	85.85%
30,000	240.20		372.90	55.25%	453.50	88.80%
35,000	279.70		432.90	54.77%	534.00	90.92%
40,000	319.20		492.90	54.42%	614.50	92.51%
45,000	358.70		552.90	54.14%	695.00	93.76%
50,000	398.20		612.90	53.92%	775.50	94.75%
75,000	595.70		912.90	53.25%	1,178.00	97.75%
100,000	793.20		1,212.90	52.91%	1,580.50	99.26%

# ATTACHMENT A

GRANITE MOUNTAIN WATER COMPANY, INC.  
Docket No. W-02467A-14-0230  
Response to Staff's First 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 1.34

---

Q. Land and Land Rights – Please provide all documents for any land and land rights for recent plant additions proposed for post-test year.

A. Please see attached file GM TBH 1-34 Attachment - Land and Land Rights.pdf.

When recorded mail to:  
Granite Mountain Water Co. Inc.  
PO Box 350  
Chino Valley AZ 86323



## Granite Mountain Short Spur Easement

This grant of easement was made on the 30<sup>th</sup> day of October 2013 by Sandia Properties LLC, a limited liability company duly organized pursuant to the Laws of the state of Utah, 160 S. Viewcrest Drive, Bountiful, Utah 84010, Grantor, by and through its Managing Member unto Granite Mountain Water Company. An Arizona Corporation grantee, encompassing the property set Forth in exhibit "A" here to attached.

Sandia Properties, LLC.

  
\_\_\_\_\_  
Johnathan Duke  
Managing Member

STATE OF UTAH )

ss.

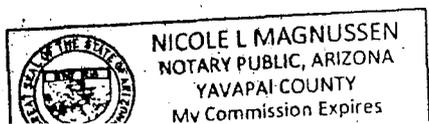
County of )

On this 30<sup>th</sup> day of October 2013, before me, the undersigned, Notary Public in and for said State, personally appeared Jonathan Duke, proved to me to be the person whose name is subscribed above, and acknowledge that he executed the same.

WITNESS MY HAND AND OFFICIAL SEAL

My Commission Expires: 11/3/17

  
\_\_\_\_\_  
Notary Public



NEXUS SOUTHWEST, LLC  
REGISTERED LAND SURVEYORS



212 S. Marina St. • Prescott, Arizona 86303  
Phone 928-778-5101 • Fax 928-778-9321 • [info@nexus-sw.net](mailto:info@nexus-sw.net)

## EASEMENT DESCRIPTION

An easement, located within the Southeast Quarter of Section 30, Township 15 North, Range 2 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

**ALL** of that certain parcel, described in instrument recorded in Book 4936 of Official Records, Page 54, on file in the Yavapai County Recorder's Office, Yavapai County, Arizona,

**EXCEPTING THEREFROM THE FOLLOWING DESCRIBED PORTION OF SAID PARCEL:**

Commencing at the most Northeasterly corner of the above described parcel;

Thence, North 64°00'30" West, a distance of 121.05 feet, along the North property line of the above described parcel;

Thence, South 25°59'30" West, a distance of 20.00 feet, to the **POINT OF BEGINNING;**

Thence, South 19°00'29" East, a distance of 20.98 feet;

Thence, South 70°59'31" West, a distance of 30.00 feet;

Thence, South 19°00'29" East, a distance of 40.00 feet;

Thence, South 30°29'40" West, a distance of 78.41 feet;

Thence, North 64°00'29" West, a distance of 123.46 feet;

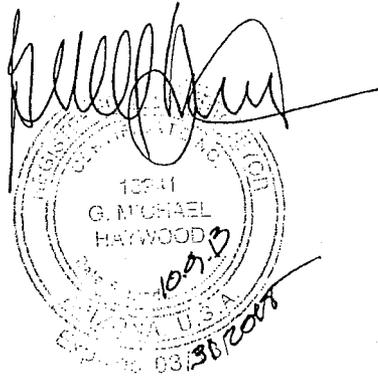
October 9, 2013

Job # 13-014

Granite Mtn Homesites, Short Spur Trail, Well #6 Esmnt Page 1 of 2

Thence, North 30°29'40" East, a distance of 142.94 feet;

Thence, South 64°00'29" East, a distance of 96.48 feet, to the **POINT OF BEGINNING.**

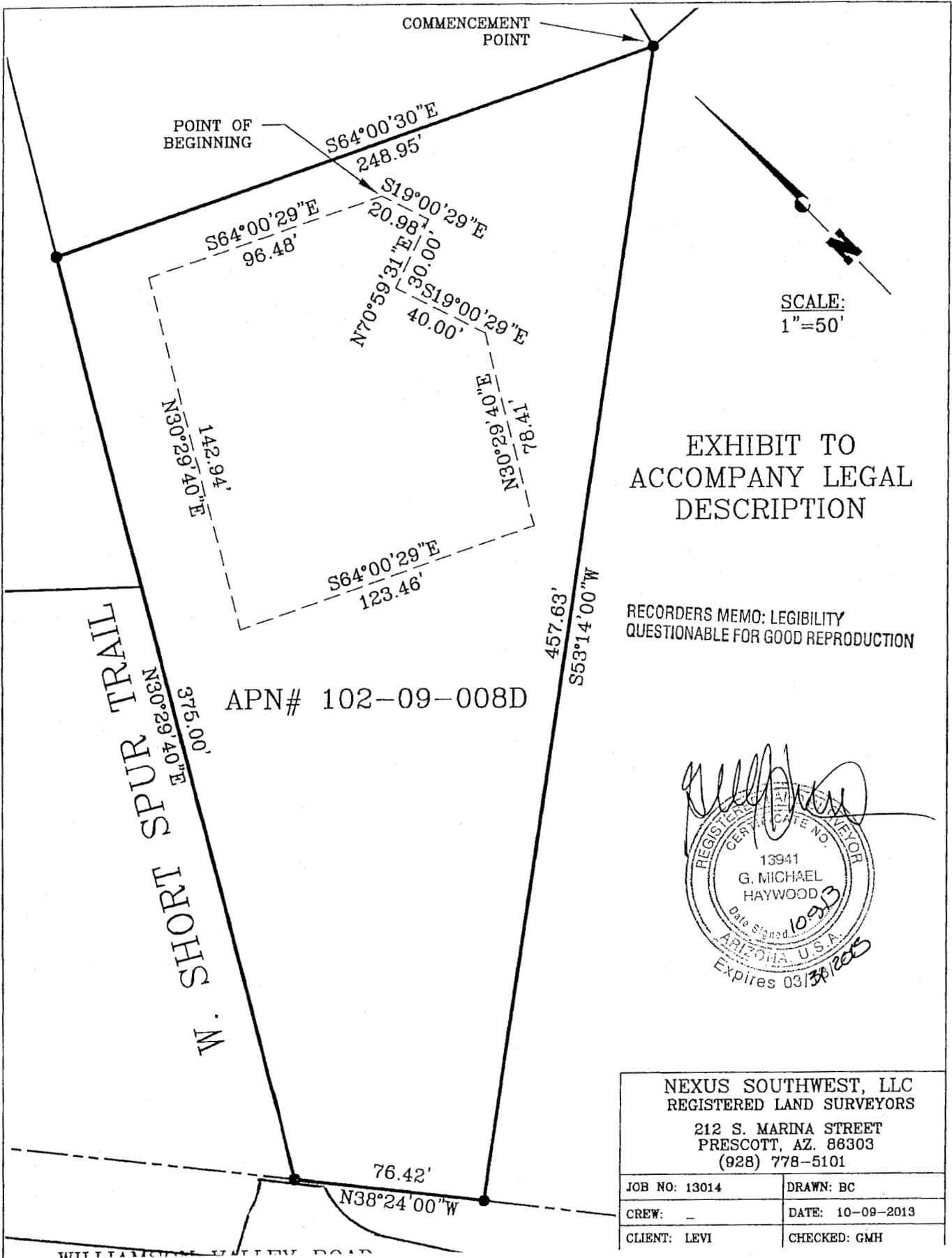


ALSO EXCEPTED THEREFROM THE SHORT SPUR EASEMENT DESCRIPTION BEING THAT PARCEL DESCRIPTION PREPARED BY DAVA & ASSOCIATES #102-09-008D- RIGHT OF WAY CONTAINING 2986 SQUARE FEET.

October 9, 2013

Job # 13-014

Granite Mtn Homesites, Short Spur Trail, Well #6 Esmnt Page 2 of 2



COMMENCEMENT POINT

POINT OF BEGINNING

SCALE:  
1"=50'

EXHIBIT TO  
ACCOMPANY LEGAL  
DESCRIPTION

RECORDERS MEMO: LEGIBILITY  
QUESTIONABLE FOR GOOD REPRODUCTION

APN# 102-09-008D



NEXUS SOUTHWEST, LLC REGISTERED LAND SURVEYORS 212 S. MARINA STREET PRESCOTT, AZ. 86303 (928) 778-5101	
JOB NO: 13014	DRAWN: BC
CREW: -	DATE: 10-09-2013
CLIENT: LEVI	CHECKED: GMH

ALSO EXCEPTED THEREFROM THE SHORT SPUR EASEMENT DESCRIPTION BEING THAT PARCEL DESCRIPTION PREPARED BY DAVA & ASSOCIATES #102-09-008D- RIGHT OF WAY CONTAINING 2986 SQUARE FEET.

EXHIBIT "A"

DAVA & ASSOCIATES, INC.

PLANNING • ENGINEERING • SURVEYING

310 E. Union Street, Prescott, AZ 86303

(928) 778-7587

102-09-008D RIGHT-OF-WAY

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

**BEGINNING** at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southwesterly boundary of said parcel, and the northeast right-of-way of said Williamson Valley Road, North 37°57'59" West, 76.39 feet to the most westerly corner of said parcel;

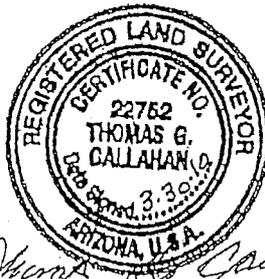
thence, along the northwesterly boundary of said parcel, North 30°55'41" East, 29.00 feet;

thence, departing the northwesterly boundary of said parcel, South 49°12'25" East, 89.85 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office;

thence, along the southeasterly boundary of said parcel, South 53°41'45" West, 44.59 feet to the **POINT OF BEGINNING**.

This description yields 2,986 square feet.

I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.

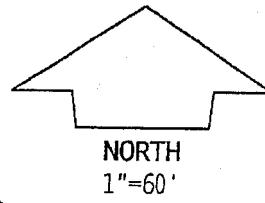


*Thomas G. Callahan*  
EXPIRES 6/30/2011

# EXHIBIT

A PORTION OF SECTION 30  
T. 15 N., R. 2 W., G. & S. R. M.,  
YAVAPAI COUNTY, ARIZONA

RECORDERS MEMO: LEGIBILITY  
QUESTIONABLE FOR GOOD REPRODUCTION



102-09-008H

APN  
102-09-008D

WILLIAMSON VALLEY ROAD

RIGHT-OF-WAY  
DESCRIBED

P.O.B.

**DAYA & ASSOCIATES, INC.**  
310 EAST UNION STREET  
PRESCOTT, ARIZONA 86303  
928-778-7587

555WVR2\DWG\COP\DESCRIPTIONS\WVR-154.DWG TMS 03/01/2010  
SEE 555WVR2\WORD\DESCRIPTIONS\WVR-154.DSC.DOC

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

**Response provided by:** Arden Barney  
**Title:** Operations Manager  
**Address:** 501 N Hwy 89  
Chino Valley, AZ 86323  
**Data Request Number:** TBH 1.43

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Q. Well No. 6 – Please explain or provide the following:

- a. Please provide the complete and full information regarding the costs of acquiring Well No. 6 and the costs of the easements necessary for its use as a production well.
  - b. Please provide an explanation of supporting documentation for Well No. 6 and the easements for access to Well No. 6 and the manner in which the value of each was determined.
- A. a. On October 30, 2013, the Company acquired an easement over the property where Well No. 6 is located. The easement grants the Company use of the existing Well No. 6, an out building used as a well house, access to the property (and Well No. 6), and the land rights needed to install a pipeline to connect Well No. 6 to the Company's existing distribution system. The easement also provides sufficient space to allow for the possibility that a future well be drilled within the easement to replace an existing grandfathered well within 600 feet. The Company has agreed to pay \$75,000 for the easement.
- b. In response to TBH 1.34, the Company provided the recorded easement agreement. As shown in the easement agreement, the Company has an easement over the entire parcel, except an excluded portion where an existing house is located.

The value was determined through negotiations with John and Shauna Duke, Mr. Levie's daughter and son-in-law who acquired the underlying property in December of 2012 from the Federal National Mortgage Association. The total negotiated purchase price for the easement is \$75,000 payable within 15 days after the Company places the well into service. The Company has allocated \$50,000 for the easement and \$25,000 for the existing well.

In agreeing to the \$75,000 purchase price, the Company took into consideration the following:

- The difficulty in finding suitable sites within Granite's service area to drill potable wells that will produce an adequate quantity and quality of water.
- The fact that Well No. 6 is known to provide water of suitable quantity and quality for use as a potable water supply.
- The lack of other suitable and available parcels within Granite's service area with an existing well of suitable quantity and quality for use as a potable water supply.

GRANITE MOUNTAIN WATER COMPANY, INC.

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Response to Staff's First Set of Data Requests

- The lack of other suitable and available parcels within Granite's service area to drill a well of suitable quantity and quality for use as a potable water supply.
- The Company's inability to finance the purchase a well or well site in advance of placing the well into service and obtaining regulatory recovery.
- The Company's inability to finance the full purchase price of the property on which Well No. 6 was located, particularly in the short time frame available to close a purchase of the bank owned property.
- The willingness of the Duke's to purchase the bank owned property containing the existing Well No. 6 and grant an easement to Granite Mountain that substantially devalues the underlying property.
- The willingness of the Dukes to grant the easement at a significant discount to the full purchase price and market value of the property.
- The willingness of the Dukes to accept deferred payment terms for the value of the easement more closely aligned with the Company's ability to finance and recover the costs of the easement.
- The comparable cost of drilling and developing a new well.
- The price paid by the Duke's for the underlying property.
- The market value of the property, including the existing well.

Based on the foregoing considerations, the Company determined that \$75,000 represented a fair market value for the easement, including use of the existing well, out buildings and other beneficial uses of the easement land available to the Company.

# ATTACHMENT C

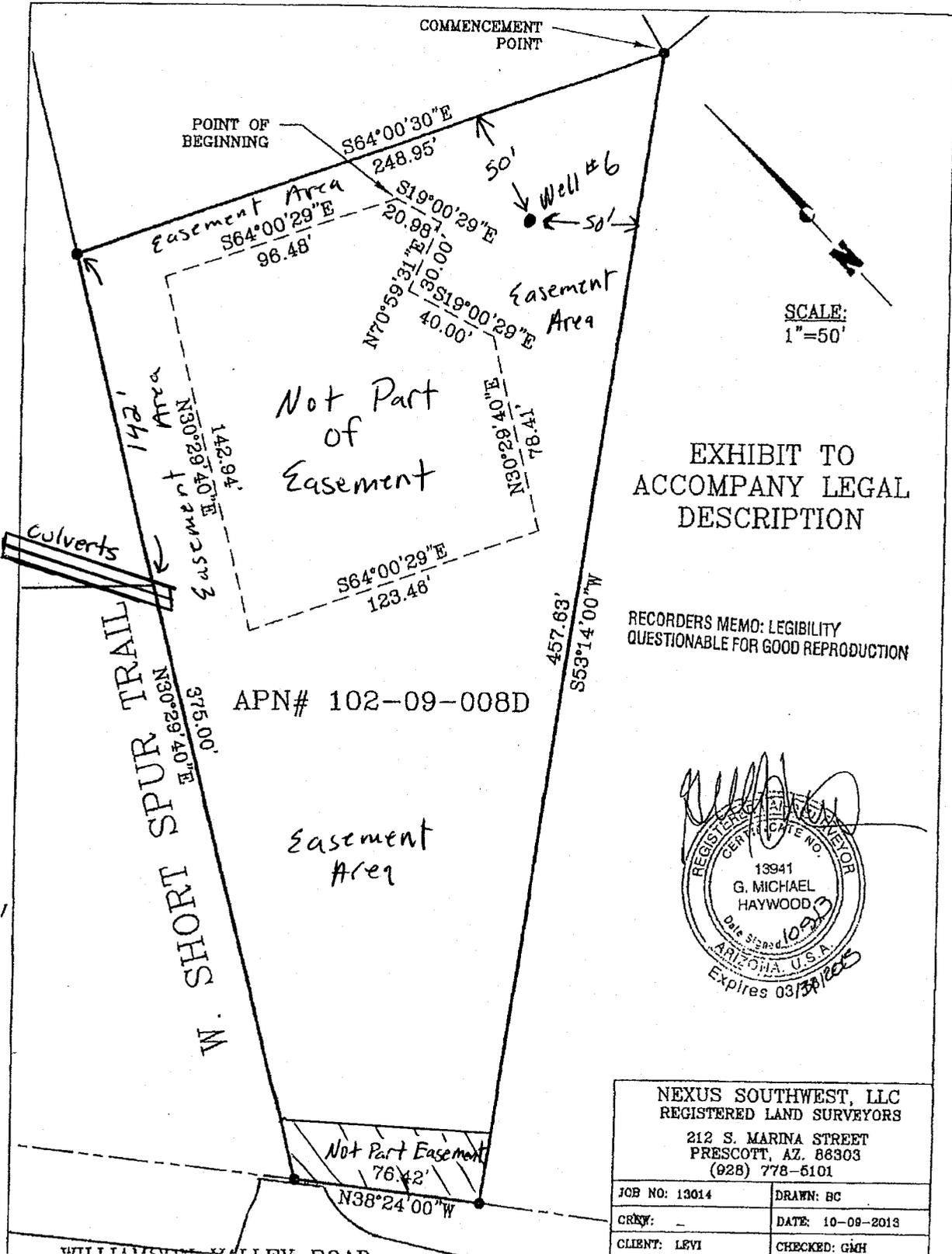
GRANITE MOUNTAIN WATER COMPANY, INC.  
Docket No. W-02467A-14-0230  
Response to Staff's Fifth Set of Data Requests

**Response provided by:** Arden Barney  
**Title:** Operations Manager  
**Address:** 501 N Hwy 89  
Chino Valley, AZ 86323  
**Data Request Number:** TBH 5.1

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- TBH 5.1 Post-Test Year Plant – Construction Work in Progress at 2475 West Short Spur Trail (Parcel No. 102-09-008D) – Please answer and/or provide the requested information for the following:
- a. Per identify the following: Well No. 6 location, outline the easement for Well No. 6 and the culvert location on the attached survey map (Attachment A) provided in TBH 1.34.
- A.
- a. See File GM TBH 5-1 Attachment - Easement Map.pdf.

ATTACHMENT A



# ATTACHMENT D

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

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- 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.

# ATTACHMENT E

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

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- 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, Nicolole 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.

# ATTACHMENT F

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 2.9

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Q. Specific Account History from Data Request TBH 1.42 Daniels' Home Property (per Decision 71869 Pg. 23, Line 16) David P. Levie Account 80.002.01 – Please answer and/or provide the requested information for the following:

- a. Please provide the complete customer history for this account from January 2010 to October 2014.
- b. Please explain all billing adjustments specifically the adjustment done on December 31, 2013 to this account. See Attachment A.
- c. Please explain why this account for water services was not terminated for failure to make the appropriate payments (No payments in the test year). The beginning balance on this account in the test year is \$3,369.03 and the ending balance at the end of the test year is \$5,701.26 (Balance without billing adjustments done on December 31, 2013 is \$7,265.68). See Attachment A.
- d. Please explain the Company's contact with Customers with abnormally high usage water consumption. Specifically, the above mentioned account's high usage in March 2013 and April 2013. The increase from February 2013 to March 2013 is 94,440 gallons and from February 2013 to April to 2013 is 131,060 gallons. See Attachment A.
- e. Please identify the name of the employees by month that read this meter in the test year.

A.

- a. See file GM TBH 2-9 Attachment - Customer History Daniel Levie 8000201.pdf for the requested history.
- b. The \$1,564.42 adjustment was made at the direction of Mr. Paul D. Levie to remove late fees and adjust for a water leak. Once the adjustment was recorded, Mr. Paul D. Levie paid the balance of \$5,701.26, bringing the account current.
- c. During the test year the Company was not following procedure for shut off's for Granite Mountain Water Company. When new employee (Christine Nelson) was hired and was being trained by Pam Harbeson, she was told by the former employee not to perform shut-offs in Granite Mountain, but she was not given an explanation as to why. After a few months the new employee questioned this procedure and began to look through the accounts and noticed multiple past due bills. The matter was brought to the attention of the Operations Manager at which time she was notified that that proper procedure was not being followed and that notification and shut-offs

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

should be done every month. At that time, the Company sent out late notices to all delinquent accounts and began collecting monies that were due.

In regards to this specific account, it was brought to Paul D. Levie's attention that this bill had not been paid. After investigation it was determined that the bill was being sent to Daniel Levie's home address in the Granite Mountain service area, a home occupied by Mr. Daniel Levie's ex-wife. Mr. Daniel Levie resides in Utah and did not receive a copy of the billings. After discussion between Paul D. Levie and Danny Levie, it was decided that Mr. Paul D. Levie would be responsible for paying the bill.

Due to the fact that late notices/shuts off were not being sent, Mr. Daniel Levie did not receive copies of the bills and the miscommunication between Paul Levie and Daniel Levie this bill was not brought current until January 2014.

- d. Normal procedure is as follows: When entering meter reads Caselle is programmed to beep with a warning if the meter read is a noticeable amount higher or lower than the previous bill at which time the admin assistant creates a service order requesting the Field Tech to re-read the meter and check for any leaks at the meter. If the meter read is correct a phone call is made to the customer and a follow up letter is sent regarding a possible leak on the customer's property.
- e. Meter reading is performed by a pair of employees each month. One Field Tech reads the meter and the other writes it down to ensure that the meters are read correctly. The pair of employees reading the meters during the test year is as follows.

January-	Denny Lopez Arden Barney
February-	Denny Lopez Arden Barney
March-	Denny Lopez Arden Barney
April-	Denny Lopez Arden Barney
May-	Denny Lopez Nathan Pallaehne
June-	Denny Lopez Nathan Pallaehne
July-	Denny Lopez Alan Feitcher
August-	Denny Lopez Alan Feitcher
Sept.-	Denny Lopez Alan Feitcher
Oct.-	Denny Lopez Alan Feitcher
Nov.-	Denny Lopez Alan Feitcher
Dec.-	Denny Lopez Alan Feitcher

# ATTACHMENT G

GRANITE MOUNTAIN WATER COMPANY, INC.  
Docket No. W-02467A-14-0230  
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 1.31

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- 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 GM TBH 1-31 Attachment – Account Detail Receivable Assoc Company.pdf for the requested schedule.
- b. 146.03- Due from CMII Water Co- Other – 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 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. Chino Meadows is not required to make any payments to Granite Mountain. Should Chino Meadows provide funds to or on behalf of Granite Mountain, the intercompany balance would be reduced. The balance at the end of the test year was \$19,891.00.
- 146.04- Due from ALWC (Antelope Lakes Water Co) - This account represents funds paid on behalf of 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 Granite Mountain. Should Antelope Lakes provide funds to or on behalf of Granite Mountain, the intercompany balance would be reduced. The balance at the end of the test year was 8,782.46.

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's First Set of Data Requests

146.08- Due GFL CMI Tract B Water Line – This account represent funds advanced to Desert Snow Construction on behalf of Mr. Levie. 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 Granite Mountain. The balance at the end of the test year was 15,195.58.

146.10- Due from PDL trust - This account represent funds advanced to or on behalf of Mr. Levie. The funds were for personal use. The balance is due and payable upon demand by Granite Mountain. The balance at the end of the test year was 15,000.00

146.11- Due from Zooki - This account represent funds advanced on behalf of Mr. Levie's son, Daniel P. Levie. The funds covered expenses for office support provided to Mr. Levie by an outside contractor that were billed to Granite Mountain in error. The balance is due and payable upon demand by Granite Mountain. The balance at the end of the test year was 260.00.

**Granite Mountain Water Co., Inc.**  
**Account QuickReport**  
As of December 31, 2013

Type	Date	Num	Name	Memo	Split	Amount	Balance
<b>146.00 · Receivable-Associated Companies</b>							
<b>146.02 · Chino Meadows II</b>							
Check	01/13/2010		Chino Meadows II ...	Loan to cover Payroll Tax Liabilities	131.01 · Chec...	2,000.00	45,110.58
Deposit	02/19/2010		Chino Meadows II ...	Payment of Loan from CMWC 12/22/09	131.01 · Chec...	-6,000.00	6,000.00
Deposit	02/19/2010		Chino Meadows II ...	Payment of Loan from CMWC 01/13/10	131.01 · Chec...	-2,000.00	2,000.00
Check	04/21/2011	1579	Chino Meadows II ...	Loan to CM for Main Line Extension Rhonda to Cot...	131.01 · Chec...	13,353.00	13,353.00
Deposit	08/02/2011		Chino Meadows II ...	Repayment of Loan for Center St Ext (McMains)	131.04 · Natio...	-13,353.00	0.00
Total 146.02 · Chino Meadows II							
<b>146.03 · Due from CMII Water Co</b>							
<b>146.031 · Due from ML</b>							
Check	01/12/2012	5008	Bob's Complete Aut...	1996 Ford-Due from ML-Clutch Bushing, Clutch Li...	131.04 · Natio...	868.25	0.00
Deposit	12/19/2012	9408...	Matthew Lauterbach	Loan for Auto Repairs	131.04 · Natio...	-868.25	868.25
Total 146.031 · Due from ML							
<b>146.03 · Due from CMII Water Co - Other</b>							
Check	10/13/2011		Chino Meadows II ...	Transfer from GM to CM to cover Accts Payable	131.04 · Natio...	10,000.00	0.00
Deposit	10/26/2011		Chino Meadows II ...	Reim. for Tnsfr from GM to CM for Acct Payable	131.04 · Natio...	-10,000.00	10,000.00
Check	12/12/2011	1729	Western Sales Man...	2005 Chevy 2500HD VIN: 19bgc24u6se269326	131.04 · Natio...	9,245.75	9,245.75
Check	12/21/2011		Counter	Registration & Title 2005 Chevy C2500HD Service ...	131.04 · Natio...	257.91	9,503.66
Check	12/21/2011		Counter	(3) Vehicle Title Replacements after Fire	131.04 · Natio...	12.00	9,515.66
Check	01/12/2012	5008	Bob's Complete Aut...	2005 Chevy-Pitman Arm, Outer Tie Rod End, Eng ...	131.04 · Natio...	1,104.07	10,619.73
Check	01/12/2012	5009	Advanced Info Syst...	Inv 9110 Dec 2011 Billing	131.04 · Natio...	342.15	10,961.88
Check	01/12/2012	5010	Postmaster	Postage Dec 2011 Billing	131.04 · Natio...	354.72	11,316.60
Check	01/12/2012	5011	AZCOM Systems	Inv 1520 Setup phone lines at new office	131.04 · Natio...	380.00	11,696.60
Check	01/20/2012	5016	Bennett Oil	Acct 263 Inv 93277 01/15/12	131.04 · Natio...	426.06	12,122.66
Check	01/20/2012	5019	Hill Brothers Chemi...	Inv 4356308 (12) 13-gal 12.5% Chlorine	131.04 · Natio...	381.08	12,503.74
Check	01/24/2012	5021	Staples	CMII Fire Loss Office Supplies	131.04 · Natio...	5,357.33	17,861.07
Check	01/24/2012	5022	Craig A Marks PLC	Due CMII-Rate Case 10.30hrs Legal Services	131.04 · Natio...	3,654.53	21,515.60
Check	01/24/2012	5023	Aracor Water Solutio...	Due CMII-Rate Case 6.4hrs Consultant Fees	131.04 · Natio...	1,184.00	22,699.60
Check	03/05/2012	5045	Chino Investments I...	Acct CHINMEA MiniEx/Trash Pump Shop Break	131.04 · Natio...	299.05	22,998.65
Check	03/05/2012	5046	Granite Portables	Inv 3760 Mar 2012	131.04 · Natio...	50.94	23,049.59
Check	03/05/2012	5047	Bennett Oil	Acct 263 Inv 94251 02/29/12	131.04 · Natio...	431.12	23,480.71
Check	03/05/2012	5048	Citibank	CitiTravel 11.99; Cocos 59.68	131.04 · Natio...	71.67	23,552.38
Check	03/05/2012	5049	Verizon Wireless	Acct 971562076-00001 Mar 2012	131.04 · Natio...	282.45	23,834.83
Check	03/05/2012	5050	CenturyLink	Acct 928-717-2616F 2112 Mar 2012	131.04 · Natio...	13.98	23,848.81
Check	03/05/2012	5051	CenturyLink	Acct J-520-111-1922 537M Mar 2012	131.04 · Natio...	387.88	24,236.69
Check	03/05/2012	5051	Arizona Office Tech...	Cust 300960 Inv 01U982 Mar 2012	131.04 · Natio...	32.51	24,269.20
Check	03/05/2012	5052	Staples	Acct 601110005034798 Mar 2012	131.04 · Natio...	1,361.60	25,630.80
Check	03/21/2012	5062	American Express	Costco-Storage Boxes -Fire	131.04 · Natio...	295.08	25,925.88
Check	03/21/2012	5062	American Express	Costco-Replacement Checks -Fire	131.04 · Natio...	835.15	26,761.03
Check	03/21/2012	5062	American Express	Costco-Replacement Deposit Slips -Fire	131.04 · Natio...	220.58	26,981.61
Check	03/21/2012	5062	American Express	Costco-Office Supplies -Fire	131.04 · Natio...	738.90	27,720.51
Check	03/21/2012	5062	American Express	USPS-Stamps for Office -Fire	131.04 · Natio...	532.00	28,252.51
Check	03/21/2012	5062	American Express	Paypal-NARUC Chart of Accts -Fire	131.04 · Natio...	18.00	28,270.51
Check	03/21/2012	5062	American Express	Stamps.com-Postage	131.04 · Natio...	100.00	28,370.51
Check	03/21/2012	5062	American Express	Highway Tech-(4) Type 2 Barricades	131.04 · Natio...	262.44	28,632.95
Check	03/21/2012	5062	American Express	Cocos-File Cabinets Meal -Fire	131.04 · Natio...	25.71	28,658.66
Check	03/21/2012	5062	American Express	Markets West-(5)Blk Fire File, (3) Beig Lat File Ca...	131.04 · Natio...	1,639.50	30,298.16

**Granite Mountain Water Co., Inc.**  
**Account QuickReport**  
 As of December 31, 2013

11:15 AM  
 11/10/14  
 Accrual Basis

Type	Date	Num	Name	Memo	Split	Amount	Balance
Check	03/21/2012	5062	American Express	Walgreens-Ink Refill -Fire	131.04 · Natio...	29.83	30,327.99
Check	03/21/2012	5062	American Express	Samsung-Paul's Cell Charger -Fire	131.04 · Natio...	32.01	30,360.00
Check	03/21/2012	5062	American Express	Costco-Office Supplies -Fire	131.04 · Natio...	133.02	30,493.02
Check	03/21/2012	5062	American Express	National Office Liq-(4)Vert Legal File, (1)Blk Stora...	131.04 · Natio...	650.34	31,143.36
Check	03/21/2012	5062	American Express	Highway Tech-Lights Judy/Porcupine Break per CV	131.04 · Natio...	131.23	31,274.59
Check	03/21/2012	5062	American Express	Costco-Office Supplies -Fire	131.04 · Natio...	203.43	31,478.02
Check	03/21/2012	5062	American Express	Walgreens-Ink for HP Photosmart Printer -Fire	131.04 · Natio...	52.95	31,530.97
Check	03/21/2012	5062	American Express	Amazon-Warming Lights for 2005 Chevy 2500HD	131.04 · Natio...	156.00	31,686.97
Check	03/21/2012	5062	American Express	Staples-HP Photosmart Printer -Fire	131.04 · Natio...	65.77	31,752.74
Check	03/21/2012	5062	American Express	Stamps.com-Postage Fee	131.04 · Natio...	24.99	31,777.73
Deposit	10/12/2012	5529		Reimb for Exp related to Office Fire	131.04 · Natio...	-31,777.73	0.00
Check	11/09/2012	Electr...	Chino Meadows II ...	GM to CM to cover Insurance Premium	131.04 · Natio...	10,891.00	10,891.00
Check	11/14/2012	Electr...	Chino Meadows II ...	GM to CM to cover Management Fee	131.04 · Natio...	30,000.00	40,891.00
Deposit	12/27/2012		Chino Meadows II ...	Reimb for Exp Related to Insurance Prem & Mngt ...	131.04 · Natio...	-21,000.00	19,891.00
Total 146.03 · Due from CMII Water Co - Other							19,891.00
Total 146.03 · Due from CMII Water Co							19,891.00
<b>146.04 · Due from ALWC</b>							
General Jou...	09/14/2010	m1091...		Reclassify Loan from EQ to ALWC	234.01 · Due t...	-15,885.00	23,915.00
Check	07/15/2011	Electr...	Antelope Lakes Wa...	Transfer to Cover Expenses	131.04 · Natio...	500.00	8,030.00
Check	01/20/2012	5018	APS	Acct 301644289 Dec 2011/Jan 2012 ALWC	131.04 · Natio...	252.46	8,530.00
Total 146.04 · Due from ALWC							-15,132.54
<b>146.08 · Due GFL CMI Tract B Water Line</b>							
Total 146.08 · Due GFL CMI Tract B Water Line							15,195.58
<b>146.09 · Due from DPL</b>							
Check	07/09/2010	1422	Bennett Oil	Inv 50596 Fuel	131.01 · Chec...	2,429.87	0.00
Check	07/09/2010	1423	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	2,429.87
Check	08/04/2010	1435	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	2,179.87
Check	08/26/2010	1445	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	1,929.87
Check	09/23/2010	1459	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	1,679.87
Check	10/25/2010	1478	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	1,429.87
Check	11/18/2010	1495	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	1,179.87
Check	02/24/2011	1541	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	929.87
Check	03/24/2011	1554	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	679.87
Check	04/21/2011	1571	Daniel P. Levie	Reimb Fuel	131.01 · Chec...	-250.00	429.87
Check	05/25/2011	1605	Daniel P. Levie	Final Reim Fuel	131.01 · Chec...	-179.87	179.87
Total 146.09 · Due from DPL							0.00
<b>146.10 · Due from PDL Trust</b>							
Check	08/30/2011	1668	Paul D. Levie Trust	Loan to PDL Trust	131.04 · Natio...	5,000.00	0.00
General Jou...	12/31/2013	JFL		Reflect Payment for personal item	ask my accou...	10,000.00	5,000.00
Total 146.10 · Due from PDL Trust							15,000.00

11:15 AM

11/10/14

Accrual Basis

**Granite Mountain Water Co., Inc.**  
**Account QuickReport**  
 As of December 31, 2013

Type	Date	Num	Name	Memo	Split	Amount	Balance
146.11 · Due from Zooki Check	06/28/2013	5298	Saundra Wellington	Office Support Zooki	131.04 · Natio...	260.00	0.00
Total 146.11 · Due from Zooki						260.00	260.00
Total 146.00 · Receivable-Associated Companies						14,018.46	59,129.04
<b>TOTAL</b>						<b>14,018.46</b>	<b>59,129.04</b>

The screenshot shows the LoopNet website interface for searching commercial leases in Chino Valley, AZ. The browser address bar shows the URL: <http://loopnet.com>. The search bar is set to "For Lease" in "Chino Valley, AZ".

**Search Results Summary:**

- 4 Selected (CLEAR) | Watch Properties | Create Report
- Sort: Show Rent | 11 - 7 of 7 Listings (7 Bldg)

**Property Listings:**

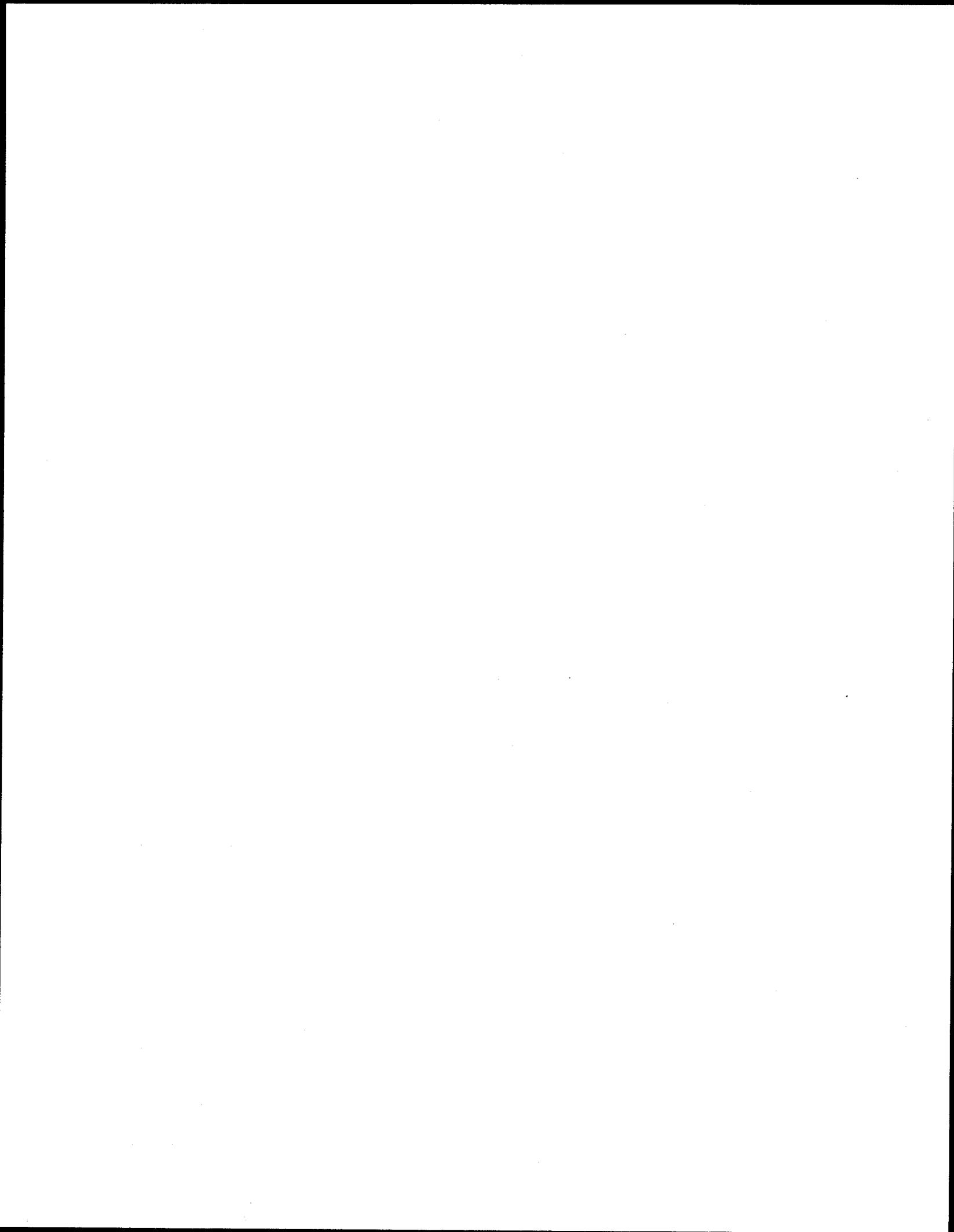
Property Name	Location	Size	Lease Rate	Spaces	Property Type
High traffic area in Chino Valley	Chino Valley, AZ	452 - 4,896 SF	\$8 /SF/Year	1 Space	Special Purpose (Other)
CHINO VALLEY PROFESSIONAL PLAZA	Chino Valley, AZ	756 - 1,680 SF	\$10 /SF/Year	3 Spaces	Office Building
100 N State Route 89	Chino Valley, AZ	950 SF	\$8 /SF/Year	2 Spaces	Office Building
SHOWROOM, OFFICE & WAREHOUSE, CHINO VALLEY AZ	Chino Valley, AZ	3,200 - 4,800 SF	\$5 - \$7 /SF/Year	2 Spaces	Office Showroom

**Search Filters (Left Panel):**

- Lease Rate: \$/SF (0.00 to [Go])
- Space Avail. (SQFT): 0 to [Go]
- Keywords: [Go]
- Property Types:
  - Industrial
  - Office
  - Retail
  - Land
  - Special Purpose

**Right Panel:**

- Be the Featured Local Broker (with profile picture)
- Your Ad Here: Target active tenants and investors in your market
- Learn More
- LoopNet logo



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 )  
GRANITE MOUNTAIN WATER COMPANY, )  
INC. FOR APPROVAL OF A RATE INCREASE )  
\_\_\_\_\_ )

DOCKET NO. W-02467A-14-0230

DIRECT

TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

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1     **INTRODUCTION**

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

3     A.     My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix,  
4            Arizona 85007.

5  
6     **Q.     By whom and in what position are you employed?**

7     A.     I am employed by the Arizona Corporation Commission (“Commission” or “ACC”) as a  
8            Utilities Engineer - Water/Wastewater in the Utilities Division.

9  
10    **Q.     How long have you been employed by the Commission?**

11    A.     I have been employed by the Commission since January 1998.

12  
13    **Q.     What are your responsibilities as a Utilities Engineer - Water/Wastewater?**

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

20  
21    **Q.     How many companies have you analyzed for the Utilities Division?**

22    A.     I have analyzed more than 90 companies fulfilling these various responsibilities for  
23            Commission Utilities Division Staff (“Staff”).

24  
25    **Q.     Have you previously testified before this Commission?**

26    A.     Yes, I have testified on numerous occasions before this Commission.

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

2 A. I graduated from the University of Alabama in Birmingham in 1987 with a Bachelor of  
3 Science degree in Civil Engineering.

4  
5 **Q. Briefly describe your pertinent work experience.**

6 A. Before my employment with the Commission, I was an Environmental Engineer for the  
7 Arizona Department of Environmental Quality ("ADEQ") for ten years. Prior to that time, I  
8 was an Engineering Technician with C. F. Hains, Hydrology in Northport, Alabama for  
9 approximately five years.

10  
11 **Q. Please state your professional membership, registrations, and licenses.**

12 A. I have been a registered Civil Engineer in Arizona since 1990. I am a member of the  
13 American Society of Civil Engineering, American Water Works Association and Arizona  
14 Water Association.

15  
16 **PURPOSE OF TESTIMONY**

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

18 A. My assignment was to provide Staff's engineering evaluations for the subject Granite  
19 Mountain Water Company, Inc. ("Granite Mountain") rate proceeding.

20  
21 **Q. What is the purpose of your testimony in this proceeding?**

22 A. The purpose of my testimony is to present the findings of Staff's engineering evaluation of  
23 the operations for Granite Mountain Water Company, Inc. ("Granite Mountain" of "the  
24 Company"). The findings are contained in the Engineering Report that I have prepared for  
25 this proceeding. The report is included as Exhibit DMH-1 in this pre-filed testimony.

26

1 **ENGINEERING REPORT**

2 **Q. Would you briefly describe what was involved in preparing your Engineering Report**  
3 **for this rate proceeding?**

4 A. After reviewing the application, I physically inspected the Granite Mountain water system to  
5 evaluate the operation and to determine if any plant items were not used and useful. I  
6 contacted ADEQ to determine if the water system was in compliance with the Safe Drinking  
7 Water Act. I also contacted the Arizona Department of Water Resources ("ADWR") to  
8 determine if the water systems were in compliance with ADWR's requirements governing  
9 water providers and/or community water systems. After I obtained information from  
10 Granite Mountain regarding water plant improvements, permits, chemical testing expenses,  
11 water usage data, post-test year projects, and tariff modifications, I analyzed that information.  
12 Based on all the above, I prepared the attached Engineering Report for Granite Mountain.

13  
14 **Q. Please describe the information contained in your Engineering Report for Granite**  
15 **Mountain.**

16 A. The Report is divided into three general sections: 1) *Executive Summary*, 2) *Engineering Report*  
17 *Discussion*, and 3) *Engineering Report Exhibits*. *The Engineering Report Discussion* is further divided  
18 into eleven subsections: A) Purpose of Report; B) Location of System; C) Description of  
19 System; D) Water Usage; E) Growth Projection; F) ADEQ Compliance; G) ADWR  
20 Compliance; H) ACC compliance; I) Water Testing Expenses; J) Depreciation Rates; and K)  
21 Other Issues. These subsections provide information about the water plant serving Granite  
22 Mountain.

23

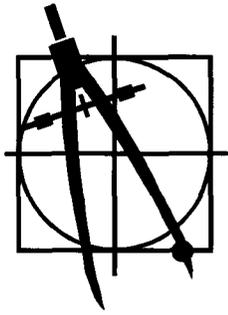
1 **CONCLUSIONS AND RECOMMENDATIONS**

2 **Q. What are Staff's conclusions and recommendations regarding the operations of the**  
3 **water and wastewater systems?**

4 **A.** Staff's conclusions and recommendations for Granite Mountain are contained in the  
5 Executive Summary of the attached Engineering Report.

6  
7 **Q. Does this conclude your direct testimony?**

8 **A.** Yes, it does.



**Engineering Report  
Granite Mountain Water  
Company, Inc.  
By Dorothy Hains, P. E.  
Docket Nos. W-02467A-14-0230  
(Rates)**

**July 15, 2015**

**EXECUTIVE SUMMARY**

**Recommendations:**

1. Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Staff (“Staff”) recommends that Granite Mountain Water Company (“Granite Mountain” or “the Company”) use depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category, as delineated in Exhibit 6. (See §J and Exhibit 6 for a discussion and a tabulation of the recommended rates.)
2. Staff recommends approval of the meter and service line installation charges listed in Table 5 under the columns labeled “Company Proposed/Staff Recommended”. (See §K of report for discussion and details.)
3. Staff recommends that annual water testing costs of \$1,850 be used for purposes of this rate proceeding. (See §I and Table 4 for discussion and details.)
4. Staff recommends that Granite Mountain file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three (3) Best Management Practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

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

5. Staff recommends that Granite Mountain file a copy of the Approval of Construction (“AOC”) for the new 50,000 gallon storage tank with Docket Control as a compliance item in this docket within 90 days of the tank being placed in service. (See §K of report for discussion and details.)

6. Staff recommends that Mr. Levie transfer ownership of inactive Well No. 2 to Granite Mountain. Staff further recommends that Granite Mountain file an Affidavit stating that the ownership of Well No. 2 has been transferred to the Company. Staff further recommends that the Affidavit be filed within 90 days of the effective date of the Commission order in this matter. (See §K of report for discussion and details.)

**Conclusions:**

1. A check of the Compliance Section database indicated that Granite Mountain has no delinquency (per ACC database compliance check dated April 15, 2015). (See §H of report for discussion and details.)
2. The Company is in compliance with Arizona Department of Environmental Quality ("ADEQ") water quality standards and is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4 (Safe Drinking Water Regulations). (See §F of report for discussion and details.)
3. The Company is located in the Arizona Department of Water Resources ("ADWR") Prescott Active Management Area. Staff received a Compliance Status Report from ADWR for Granite Mountain on July 22, 2014. In its report, ADWR states that the Company is compliant with departmental requirements governing water providers and/or community water systems. (See §G of report for discussion and details.)
4. The Company had a non-accountable water loss of 7.11 percent during the test year which is within the 10 percent allowable limit. (See §D of report for discussion and details.)
5. Staff concludes that the Company has adequate production and storage capacity to serve its existing customer base and reasonable growth. (See §C of report for discussion and details.)
6. The Company has approved Backflow and Curtailment Tariffs on file with the Commission. (See §K of report for discussion and details.)
7. Staff concludes the Company will have sufficient control over its water supply to ensure that it will be able to serve its customers. (See §K of report for discussion and details.)
8. To prevent storm water runoff from flooding the Well No. 6 site, Granite Mountain installed two culverts under Short Spur Trail crossing approximately 180 feet southwest from the Well No. 6. Staff recommends that the expenses for culvert installation be classified to Structure and Improvements Account No. 304, when Well No. 6 becomes used and useful. (See §K of report for discussion and details.)

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**ENGINEERING REPORT  
GRANITE MOUNTAIN WATER COMPANY, INC.  
DOCKET NO. W-02467A-14-0230 (RATES)**

**A. PURPOSE OF REPORT**

This report was prepared in response to the application of Granite Mountain Water Company, Inc. ("Granite Mountain" or "Company") with the Arizona Corporation Commission ("ACC" or "Commission") for a rate increase. The ACC Utilities Division Staff ("Staff") performed an engineering review and analysis of the subject application. The results of Staff's review and analysis are presented in this report.

On September 25, 2014, Dorothy Hains, Staff Engineer, conducted an inspection of the Company's system, accompanied by Teresa Hunsaker (Staff Accountant) and Arden Barney (Company's Manager). On January 21, 2015, Staff conducted a follow-up inspection with Mr. Barney regarding the status of certain post test year plant additions. On March 24, 2015, Staff conducted a second follow-up inspection with Mr. Barney regarding post-test year plant.

**B. LOCATION OF SYSTEM**

The Company is located approximately 6 miles northeast of the City of Prescott in Yavapai County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission-regulated companies in Yavapai County and in the immediate area. The Company serves an area approximately three quarters of a square mile in size that includes portions of Sections 30 and 31, of Township 15 North, Range 2 West.

**C. DESCRIPTION OF SYSTEM**

*I. System Description*

The system is regulated under Arizona Department of Environmental Quality ("ADEQ") Public Water System ("PWS") No. 13-150. The Company owns and operates a water system that consists of three active wells, two storage tanks, a booster pump station and a distribution system. The wells are approximately 300 feet apart on Shane Drive. A detailed listing of the Company's water system facilities is as follows:

**Table 1 Plant Facility and Well Data (in PWS No. 13-150)**

Active Well Data

Well No.	Arizona Department of Water Resource ("ADWR") No. (55-)	Pump (HP)	Yield (GPM)	Casing Size (in inches)	Casing Depth (in ft.)	(Meter Size inches)	Year drilled	ownership	location
3	554078	15	8 <sup>1</sup>	6	500	3	1996	Granite Mtn Water	Willison Valley Rd/Shane Dr. (near 2465 Shane Dr.)
4	511771	15	35	6	362	2	2004	Granite Mtn Water	Willison Valley Rd/Shane Dr. (near 2465 Shane Dr.)
6 (Short Spur Well)	210719 <sup>2</sup>	10	17 <sup>2</sup> (maximum)	5	340	2	2006	Granite Mtn Water	2475 Short Spur Trail
TOTAL			60						

Notes:

1. Per the Company this well production has declined. The production varies from 22 GPM to 8 GPM; the pumping rate at static water level is 8 GPM.
2. This well has been in service since May 2015, ADWR requirements limit this well's production to 17 GPM.

Inactive Well Data

Well No.	ADWR No. (55-)	Pump (HP)	Yield (GPM)	Casing Size (in inches)	Casing Depth (in ft.)	(Meter Size inches)	Year drilled	ownership	location
2	511301 <sup>1</sup>	n/a	n/a	6	275	n/a	1985	Paul Levie	2728 W Boone Ct.
1	502453	½	10	7	340	n/a	1982	Ray Dewey	2626 W Levie Lane
5	622083	n/a:	n/a	n/a	n/a	n/a	1986	Paul Levie	2465 Shane Dr.

Notes:

1. Well No. 2 is used to monitor the ground water elevation. (See Section K below for further decision.)

Active Storage Tanks and Pump Station

Capacity (Gallons)	Size (in feet)	Quantity	Location
11,700	16' in Height 11' in Diameter	1	Intersection of Levie Lane & Rainmaker Rd
50,000	16' in height	1	Intersection of Levie Lane & Rainmaker Rd
Total: 61,700 gallons			
2,000 (pressure tank)		1	Intersection of Levie Lane & Rainmaker Rd
	3-HP booster pumps	2	Intersection of Levie Lane & Rainmaker Rd

Inactive Storage Tank

Capacity (Gallons)	Size (in feet)	Quantity	Location
50,000	n/a	1	Intersection of Levie Lane & Rainmaker Rd
Total 50,000 gallons			

Distribution Mains

Diameter (inches)	Material	Length (feet)
2	polyvinyl chloride ("PVC")	708
4	PVC	16,114
6	PVC	19,098

Meters

Size (inches)	Quantity
5/8 x 3/4	100
3/4	0
1	40
1½	0
2	1
3 (comp)	0
3 (turbo)	0
4 (comp)	0
4 (turbo)	0
6 (turbo)	0
Total	141

*II. System Analysis*

The Company served approximately 120 metered customers in 2013 during the test year; the majority of which are residential. Staff concludes that the system has adequate production and storage capacity to serve the existing customer base and reasonable growth. See discussion in Section K regarding post-test year plant additions.

**D. WATER USAGE**

Table 2 summarizes water usage in the Company's Certificate of Convenience and Necessity ("CC&N") service area. Exhibit 4 is a graph that shows water consumption data in gallons per day ("GPD") per customer for the system during the test year.

**Table 2 Water Usage in the System (Granite Mountain)**

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in GPD/customer)
Jan 13	122	534,000	615,000	0	141
Feb 13	119	392,000	444,000	0	118
Mar 13	122	660,000	736,000	0	175
Apr 13	123	1,015,000	1,082,000	0	275
May 13	122	1,131,000	1,178,000	0	299
Jun 13	122	1,236,000	1,313,000	0	338
Jul 13	124	1,075,000	1,179,000	0	280
Aug 13	121	1,098,000	1,130,000	0	293
Sep 13	122	716,000	753,000	0	196
Oct 13	120	859,000	894,000	0	231
Nov 13	121	508,000	566,000	0	140
Dec 13	121	539,000	620,000	0	144
total		9,763,000	10,510,000	0	
Average					144

*I. Water Sold*

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 144 GPD per customer, a high use of 338 GPD per customer, and a low use of 118 GPD per customer. The highest total monthly use occurred in June, when a total of 1,236,000 gallons were sold to 122 customers. The lowest total monthly use occurred in February, when 392,000 gallons were sold to 119 customers.

*II. Non-account Water*

Non-account water should be 10 percent or less. The Company reported 9,763,000 gallons sold and 10,510,000 gallons pumped, resulting in a water loss of 7.11 percent, which is within the acceptable limit of 10 percent.

**E. GROWTH PROJECTION**

Based on the service meter data contained in the Company’s annual reports, the number of customers increased from 40 at the end of 1999 to 121 at the end of 2013, which results in an average growth rate of 7 additional customers per year for the period. Based on the linear regression analysis, the number of customers could grow to 148 by end of 2018. The following table summarizes both actual and projected growth in the Company’s certificated service area.

**Table 3 Actual and Projected Growth (Granite Mountain)**

Year	Nos. of Customers	
1999	40	Reported
2000	48	Reported
2001	44	Reported
2002	49	Reported
2003	59	Reported
2004	67	Reported
2005	81	Reported
2006	83	Reported
2007	96	Reported
2008	101	Reported
2009	98	Reported
2010	107	Reported
2011	117	Reported
2012	123	Reported
2013	121	Reported
2014	129	Reported
2015	134	Estimated
2016	139	Estimated
2017	144	Estimated
2018	148	Estimated

**F. ADEQ COMPLIANCE**

In an ADEQ Compliance Status Report dated April 9, 2015, ADEQ stated that the system (PWS No. 13-150) had no major deficiencies. ADEQ determined that the system was delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4 (Safe Drinking Water Regulations).

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

Granite Mountain is located in the Prescott Active Management Area (“AMA”) as designated by ADWR, and is subject to AMA reporting and conservation rules. Staff received a compliance status report from ADWR dated June 17, 2015, in which ADWR has determined that Granite Mountain Water Company, Inc. is currently in compliance with departmental requirements governing water providers and/or community water systems.

**H. ACC COMPLIANCE**

A check of the Compliance Section database indicated that Granite Mountain has no delinquency (per ACC database compliance check dated April 15, 2015). (See Section K for further discussion).

**I. WATER TESTING EXPENSES**

The Company reported its water testing expense at \$5,380 for the test year (this amount includes new source testing for Well No. 6 and ADEQ permit fee which should be reclassified in capital improvement accounts). The Company reported \$1,320 for water testing costs for 2012. Staff used the ADEQ Monitoring Assistance Program (“MAP”) to develop its testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.
2. The estimated water testing expenses represent a minimum cost based on no “hits” other than lead and copper, and assume compositing of well samples. If any constituents are found, then the testing costs could dramatically increase. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented on an annualized basis.
3. MAP fees were based on the ADEQ MAP invoice for calendar year 2014.
4. All monitoring expenses are based on Staff’s best knowledge of lab costs and methodology and one point of entry.

Table 4 shows Staff’s estimated annual monitoring expense.

**Table 4 Water Testing Cost**

Monitoring – 3 wells (2 POEs) (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological – monthly	\$23 <sup>1</sup>	108	\$2,484	\$828
Inorganics – Priority Pollutants	\$300	MAP	MAP	MAP
Radiochemical – (1/ 4 yr.)	\$60	MAP	MAP	MAP
Phase II and V:				
IOC’s, SOC’s, VOC’s	\$2,805	MAP	MAP	MAP
Nitrites	\$20	MAP	MAP	MAP
Nitrates – annual	\$40	12	MAP	MAP
Asbestos – per 9 years	\$180	2½	MAP	MAP

Lead & Copper – annual*	\$34 <sup>2</sup>	5	\$170	\$57
TTHM/HHAs – per 3 years	\$360 <sup>3</sup>	3	\$1,080	\$360
Maximum chlorine residual levels	\$0	72	\$0	\$0
MAP fees (annual)				\$540.41
Sample transport fee	\$65			\$65
Total				\$1,850 (rounded)

Notes:

1. Assumes Biological tests performed by Bradshaw Mountain Environmental.
2. Assumes these tests performed by Legend Lab.

Water testing expenses should be adjusted to the annual expense amount shown in Table 4, which totals \$1,850.

**J. DEPRECIATION RATES**

The Company requests to modify its approved depreciation rates, however, the Company did not provide supporting documentation. Therefore, Staff recommends denial of the Company's request. Staff further recommends the approval of Staff's typical and customary depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6. (See Exhibit 6 for a breakdown of the Company proposed rates and Staff recommends rates.)

**K. OTHER ISSUES**

*I. Service Line and Meter Installation Charges*

The Company has proposed to increase its Service Line and Meter Installation charges. The Company's proposed charges are within Staff's typical range for service line and meter installation charges. Therefore, Staff recommends approval of the Company's proposed charges. The charges listed in Table 5 under the columns labeled "Company Proposed/Staff Recommended" should be adopted.

**Table 5 Service Line and Meter Installation Charges**

Meter Size	Current Meter Charges (in \$)	Current Service Line Charges (in \$)	Current Total Charges (in \$)	Company Proposed/Staff Recommended Meter Charges (in \$)	Company Proposed/Staff Recommended Service Line Charges (in \$)	Company Proposed/Staff Recommended Total Charges (in \$)
5/8 x 3/4-inch	95	405	500	150	450	600
3/4-inch	162	413	575	250	450	700
1-inch	209	441	650	300	575	875
1½-inch	321	395	716	500	675	1,175

2-inch (Turbine)	N/A	N/A	N/A	N/A	N/A	N/A
2-inch (Compound)	845	727	1,572	1,500	1,000	2,500
3-inch (Turbine)	N/A	N/A	N/A	N/A	N/A	N/A
3-inch (Compound)	1,448	952	2,400	2,000	1,300	3,300
4-inch (Turbine)	N/A	N/A	N/A	N/A	N/A	N/A
4-inch (Compound)	2,206	1,310	3,516	3,500	1,800	5,300
6-inch (Turbine)	N/A	N/A	N/A	N/A	N/A	N/A
6-inch (Compound)	4,756	2,160	6,916	6,000	2,800	8,800
Over 6-inch	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

## II. Curtailment Tariff

The Company has an approved curtailment tariff on file with the Commission.

## III. Cross Connection or Backflow Tariff

The Company has an approved backflow prevention tariff on file with the Commission.

## IV. BMP Tariffs

Staff recommends that Granite Mountain file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three (3) BMPs in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

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

## V. Post-Test Year Plant

The Company includes three plant improvement items in its proposed post-test year plant additions: (1) Well No. 6 installation, (2) a new 6-inch main along Short Spur Trail connecting Well No. 6 with the main line at or near Williamson Valley Highway and (3) one 50,000 gallon storage tank. On March 24, 2015, when Staff conducted its last post-test year plant inspection, none of the new plant additions had been completed. On May 19, 2015, ADEQ has issued a Certificate of Approval of Construction ("AOC") for the installation for Well No. 6 and 620 feet of 6-inch PVC main. Therefore, Staff concludes that Well No. 6 and 6-inch main at or near Williamson Valley Highway are used and useful.

The Company is also in the process of installing a new 50,000 gallon storage tank; however, the construction is incomplete. The Company estimates the construction of the storage tank will be completed in September.

Staff recommends that Granite Mountain file a copy of the AOC for the new 50,000 gallon storage tank with Docket Control as a compliance item in this docket within 90 days of the tank being placed in service.

#### *VI. Requirements in Commission Decision No. 71869*

In Decision No. 71869, the Commission ordered Staff to determine if the Company has sufficient control over its water supply to ensure that all customers will be served. According to ADWR well ownership records, the Company's active wells (Well No. 3 and Well No. 4) have been registered to the Company.

Inactive Well No. 2 is registered to Mr. Paul Levie, not to the Company. Well No. 2 is used to monitor ground water depth at ADWR's request. Since customers have paid for the maintenance expenses associated with this ADWR monitoring well, Staff recommends that Mr. Levie transfer ownership of this well to the Company. Staff further recommends that the Company file an Affidavit stating that the ownership of Well No. 2 has been transferred to the Company within 90 days of the effective date of the Commission order in this matter.

The Company's tanks are located in the Public Utility Easement ("PUE") as recorded in Parcel No. 102-14-037. Paragraph D.9.B in Covenants, Conditions and Restrictions ("CC&R") for Granite Mountain Homesites Unit V, Phase I, Equestrian Development Corp defines the PUE. Staff concludes the Company will have sufficient control over its water supply to ensure that it will be able to serve its customers.

#### *VII. Post-test Year Project Expenses*

1. *Well No. 6 Land Site (Total Land Area 12,200 Square Feet Assessor Parcel Number ("APN") No. 102-09-008D)*

Based on the ADEQ's approved construction plan, 4,900 square feet of the total land area is designated as easement for the well, pump house and on-site water mains and 7,300 square feet of the land area is designated to road right-of-way use to access Well No. 6. The expenses for the easement should be reclassified to Land and Land Rights Account No. 303 from Well Account No. 307.

2. *Culverts*

To prevent storm water run-off from flooding the Well No. 6 site, the Company installed two 30 feet, 30-inch diameter galvanized culverts under Short Spur Trail crossing approximately 180' southwest from the Well No. 6. Staff recommends that the expenses for culvert installation be

classified to Structure and Improvements Account No. 304, when Well No. 6 becomes used and useful.

*VIII. Reclassification*

1. *Invoice No. 13535 from R W Tuner & Sons*

All expenses in the Invoice No. 13535 had been listed under NARUC Account No. 307 for Wells. Staff recommends reclassification as follows:

Amounts (\$)	Description of Plant item	Reclassified to NARUC Account No.	Reasons
4,200	Yaskawa variable frequency drive ("VFD") Nema 1	311 (Pumping Equipment)	VFD is an adjustable-speed drive used in electro-mechanical drive systems to control motor speed
1,196	2" water meter with coupling	334 (Meters)	This is a well meter.
80.96	1" pressure reducer	333 (Services)	The device is for a service connection to 2475 Short Spur Trail
1,792.00	B7B pellet chlorinator with pellets	320.2 (Solution Chemical Feeders)	This is a water treatment device.

2. *Invoice No. 13694 from R W Tuner & Sons*

Plant items in Invoice No. 13694 are related to a chlorine disinfection device; therefore, \$2,415.00 should be classified as plant in NARUC Account No. 320.2 (Solution Chemical Feeders).

FIGURE 1

Granite Mountain Certificate Service Area

**COUNTY:** *Yavapai*

**RANGE** 2 West

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
28	29	28	27	26	25
32	33	34	35	36	36

**TOWNSHIP** 15 North

-  U-2467 (1)  
Granite Mountain Water Compa
-  U-2539 (1)  
Granite Oaks Water Users Associ

FIGURE 2.

LOCATION OF GRANITE MOUNTAIN SERVICE AREA

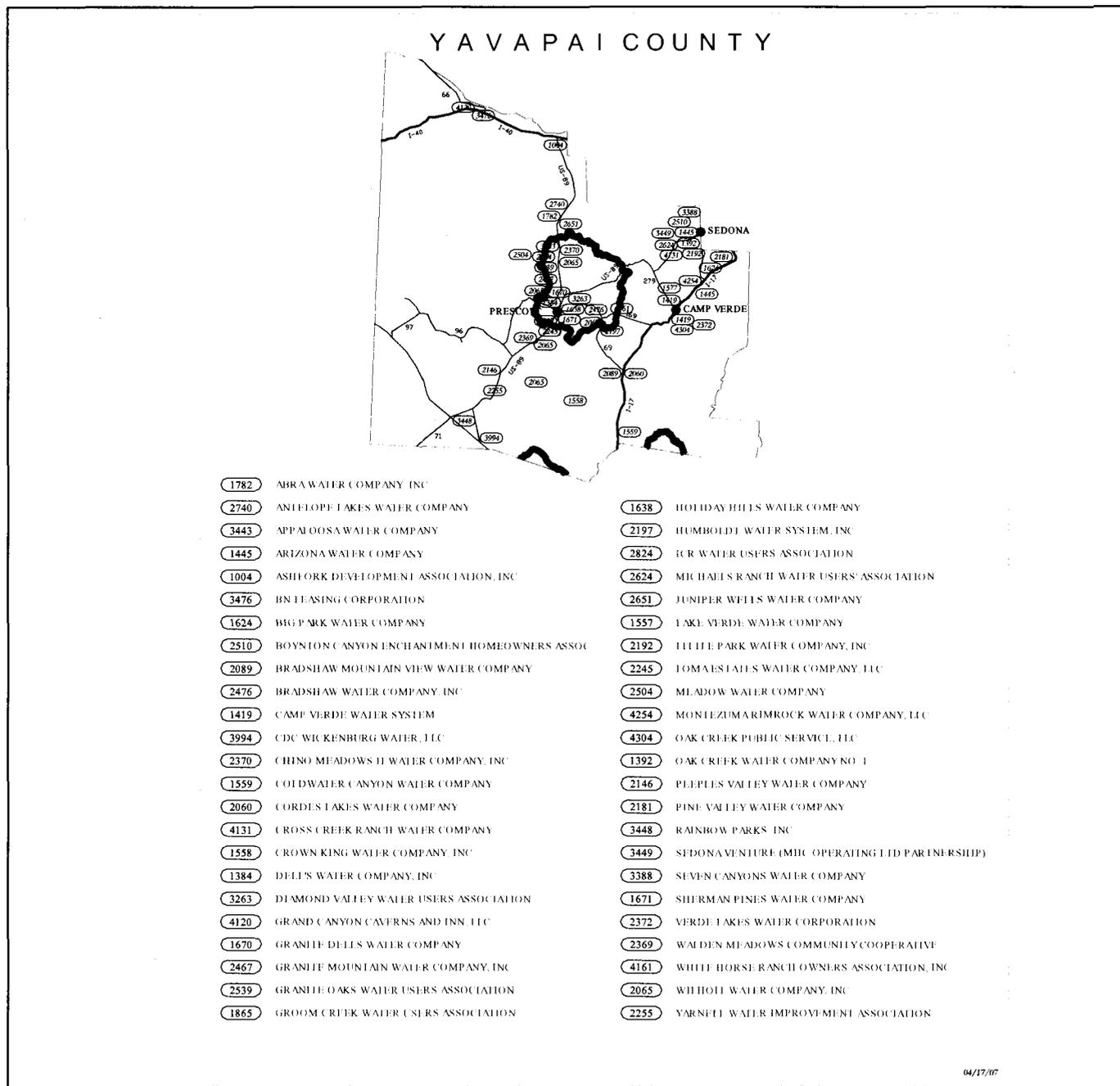


FIGURE 3  
 SYSTEMATIC DRAWING

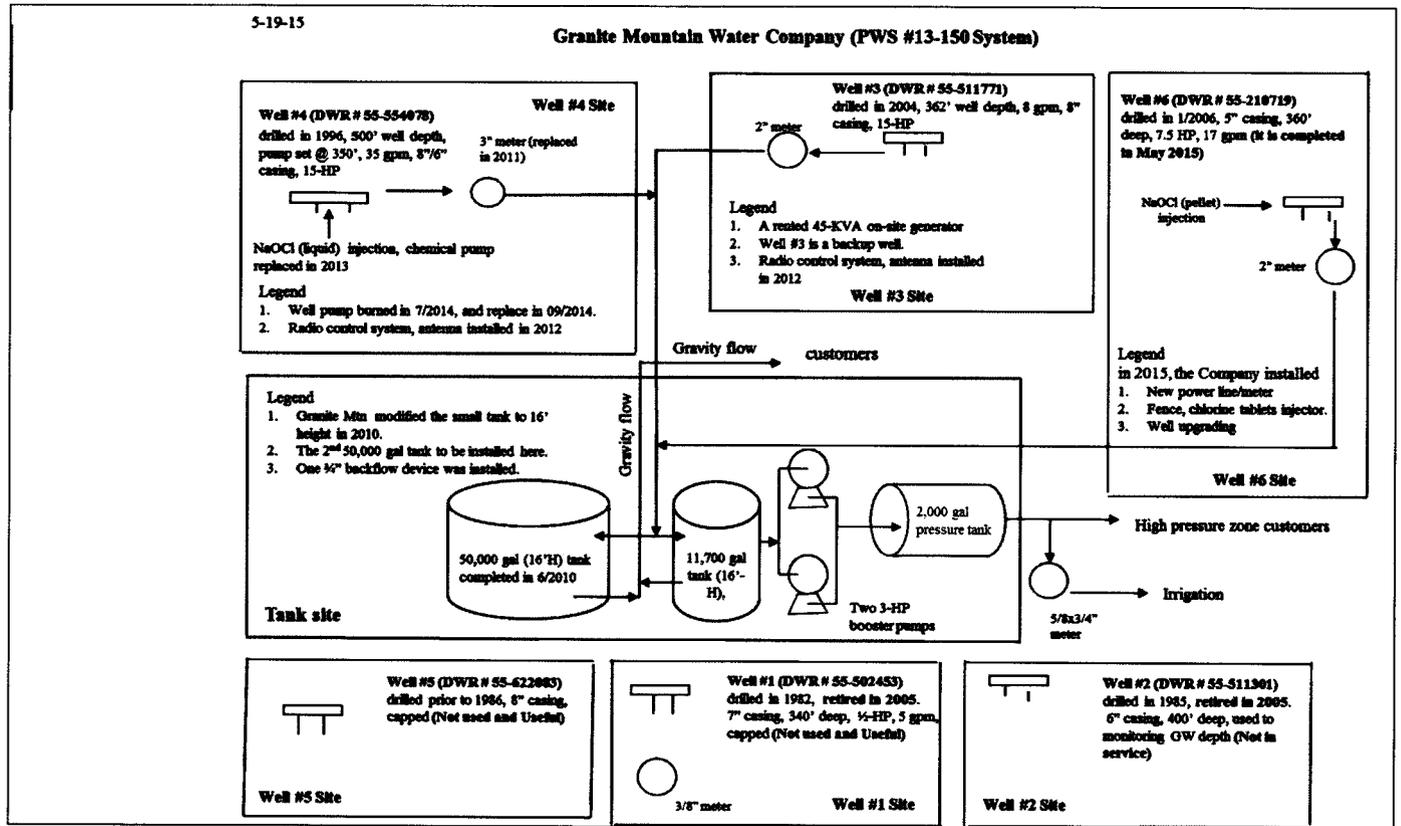


FIGURE 4

WATER USAGE ON THE GRANITE MOUNTAIN SERVICE AREA

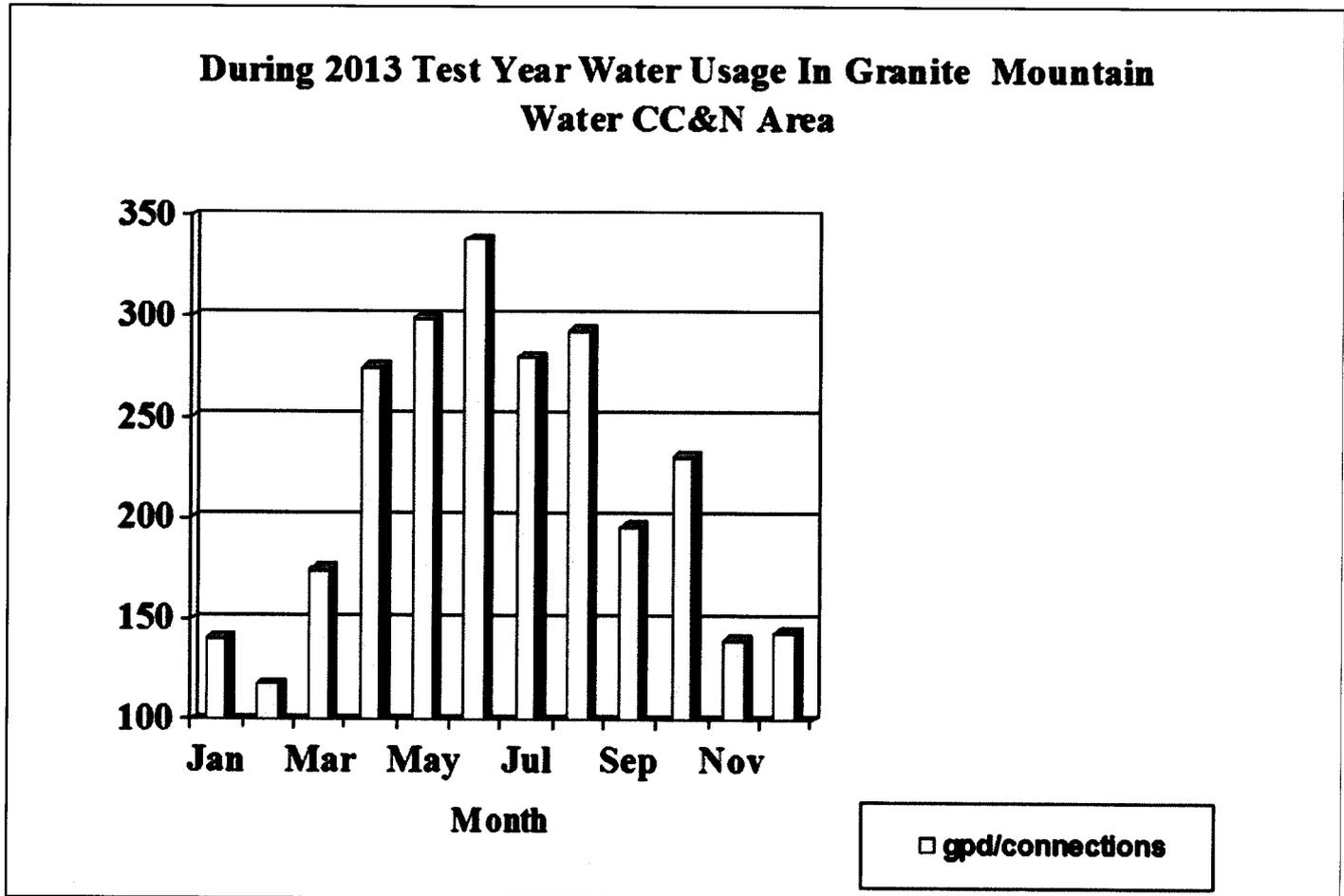


EXHIBIT 5

ACTUAL AND PROJECTED GROWTH IN GRANITE MOUNTAIN

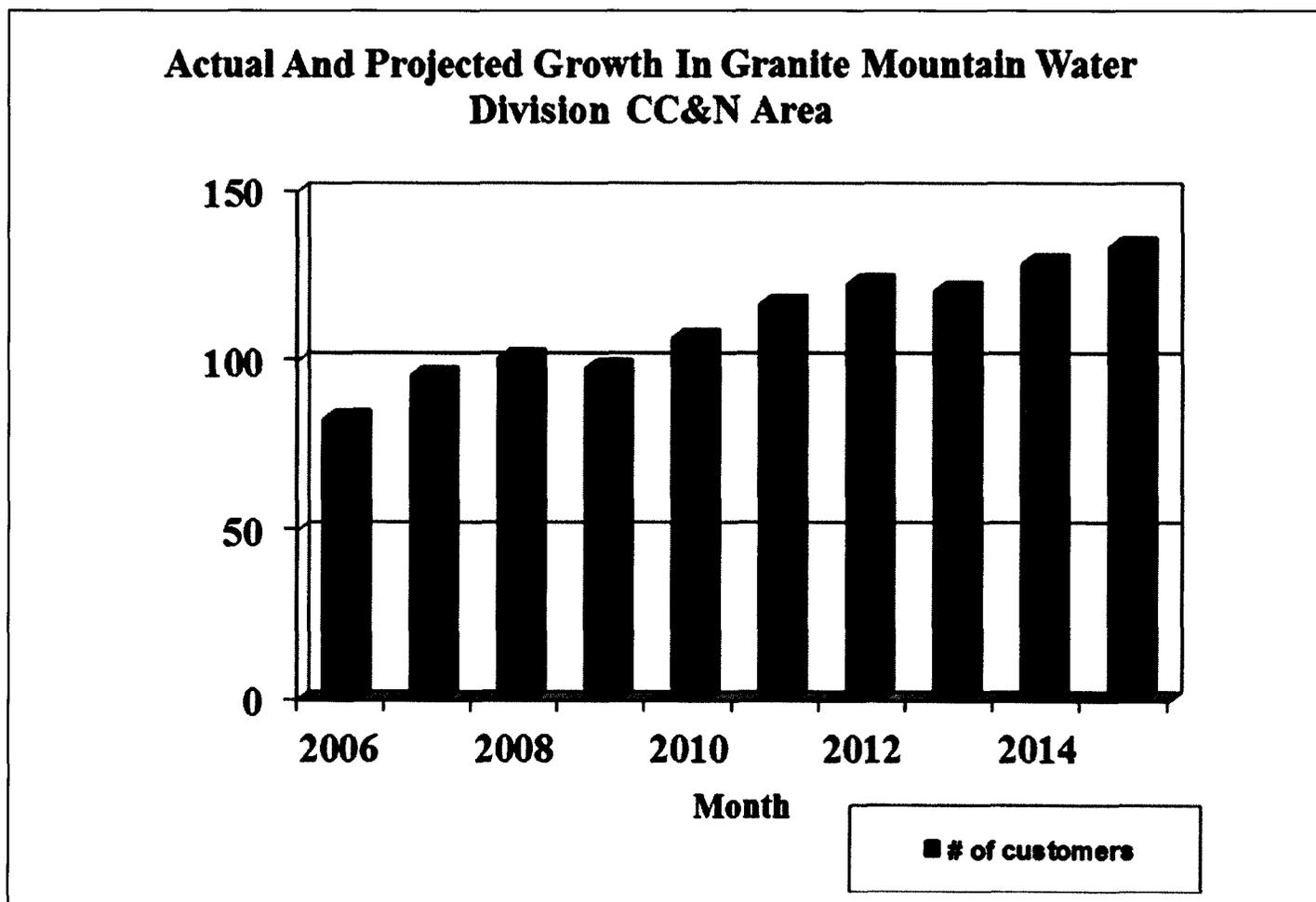


Exhibit 6

Water Depreciation Rates

Acct. No.	Depreciable Plant	Decision # 71869 (approved rate %)	Company proposed (rate %)	Staff Recommended Rate (%)
301	Organization Cost		0	0
302	Franchise Cost		0	0
303	Land and Land Rights		0	0
304	Structures & Improvements	3.33	3.33	3.33
305	Collecting & Impounding Reservoirs	2.50	2.50	2.50
306	Lake, River, Canal Intakes	2.50	2.50	2.50
307	Wells & Springs	3.33	3.33	3.33
308	Infiltration Galleries	6.67	6.67	6.67
309	Raw Water Supply Mains	2.00	2.00	2.00
310	Power Generation Equipment	5.00	5.00	5.00
311	Pumping Equipment	12.5	5.00	12.5
320	Water Treatment Equipment			
320.1	Water Treatment Plants	3.33	3.33	3.33
320.2	Solution Chemical Feeders	20.0	20.00	20.00
330	Distribution Reservoirs & Standpipes			
330.1	Storage Tanks	2.22	2.22	2.22
330.2	Pressure Tanks	5.00	5.00	5.00
331	Transmission & Distribution Mains	2.00	2.00	2.00
333	Services	3.33	3.33	3.33
334	Meters	8.33	8.33	8.33
335	Hydrants	2.00	2.00	2.00
336	Backflow Prevention Devices	6.67	6.67	6.67
339	Other Plant & Misc Equipment	6.67	6.67	6.67
340	Office Furniture & Equipment	6.67	6.67	6.67
340.1	Computers & Software	20.00	20.00	20.00
341	Transportation Equipment	20.00	15.00	20.00
342	Stores Equipment	4.00	4.00	4.00
343	Tools, Shop & Garage Equipment	5.00	5.00	5.00
344	Laboratory Equipment	10.00	10.00	10.00
345	Power Operated Equipment	5.00	5.00	5.00
346	Communication Equipment	10.00	10.00	10.00
347	Miscellaneous Equipment	10.00	10.00	10.00
348	Other Tangible Plant	---	20.00	10.00