

ORIGINAL



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MEMORANDUM

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TO: Docket Control

2016 FEB 12 P 2:30

FROM: *fov* Thomas M. Broderick
Director
Utilities Division

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: February 12, 2016

RE: STAFF REPORT IN THE MATTER OF PICACHO PEAK WATER COMPANY, INC.'S RATE APPLICATION (DOCKET NO. W-02351A-11-0231)

Attached is the Staff Report for Picacho Peak Water Company, Inc.'s application for an increase in its rates. Staff recommends approval of the rate application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 25, 2016.

TMB:BCA:nr\ML

Originator: Brendan Aladi

Arizona Corporation Commission
DOCKETED

FEB 12 2016

DOCKETED BY *AL*

Service List for: Picacho Peak Water Company, Inc.
Docket No. W-02351A-11-0231

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

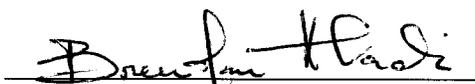
**PICACHO PEAK WATER COMPANY, INC.
DOCKET NO. W-02351A-11-0231**

APPLICATION FOR A PERMANENT RATE INCREASE

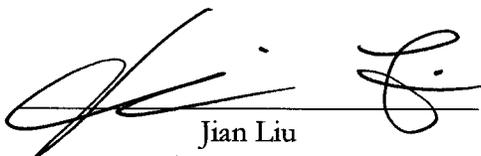
FEBRUARY 12, 2016

STAFF ACKNOWLEDGMENT

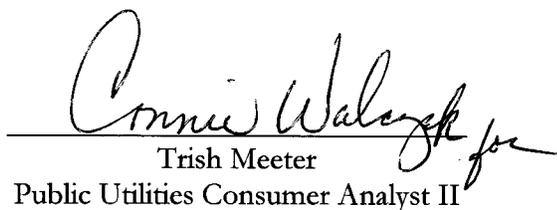
The Staff Report for Picacho Peak Water Company, Inc. ("PPWC" or "Company") Docket No. W-02351A-11-0231, was the responsibility of the Staff members listed below. Brendan Aladi was responsible for the review and analysis of the Company's application for a permanent rate increase. Jian Liu was responsible for the engineering and technical analysis. Trish Meeter was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.



Brendan Aladi
Public Utilities Analyst



Jian Liu
Utilities Engineer



Trish Meeter
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
PICACHO PEAK WATER COMPANY, INC.
DOCKET NO. W-02351A-11-0231**

On June 1, 2011, Picacho Peak Water Company ("PPWC" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for a permanent rate increase with a test year ending December 31, 2010, in Docket No. W-02351A-11-0231.

On October 14, 2011, the parties filed a Joint Stipulation to Suspend the Time Clock and Request for Procedural Order, noting that Staff became aware that PPWC is in discussions with the Arizona Department of Environmental Quality ("ADEQ") about compliance issues. Staff believed that these compliance issues needed to be resolved before Staff could evaluate the Application. The parties stipulated to a suspension of the time clock and procedural deadlines while PPWC and ADEQ work to resolve the Company's compliance issues.

On October 25, 2011, a Procedural Order was issued to suspend the time clock indefinitely and all filing deadlines until all compliance issues have been resolved.

On October 2, 2015, PPWC filed an amended application with a 2014 calendar test year.

The Company's water system is located near Interstate 10 and Picacho Peak State Park in Pinal County. PPWC has a certificated area covering approximately 4 square miles

PPWC is a class E non-profit Arizona public service corporation that provides potable water service to approximately 15 customers. However, the water system had 13 customers in the test year 2014.

PPWC proposed a \$19,500 or a 38.84 percent revenue increase over test year revenue of \$50,201 to \$69,701. The proposed revenue increase would produce an operating income of \$10,781 for an 18.36 percent rate of return on an original cost rate base ("OCRB") of \$58,712. The Company's proposed fair value rate base ("FVRB") is also \$58,712. The Company's proposed rates would increase the typical ostrich ranch/residential 3/4-inch meter bill with a median usage of 25,200 gallons from \$139.66 to \$204.54, for an increase of \$64.88, or 46.5 percent.

Staff recommends an \$11,365 or 22.64 percent increase over the test year revenue of \$50,201 to \$61,566. Staff's recommended revenue increase would produce an operating income of \$7,275 for an 11.82 percent operating margin. The Staff adjusted OCRB is \$58,202. Staff's FVRB is also \$58,202. Staff's recommended rates would increase the typical ostrich ranch/residential 3/4-inch meter bill with a median usage of 25,200 gallons from \$139.66 to \$172.52, for an increase of \$32.86, or 23.5 percent as shown on Schedule BCA-5.

RECOMMENDATIONS

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule BCA-4.
2. The Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
3. The Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category listed in Table B on a going forward basis.
4. The annual water testing expense of \$1,815 reported by the Company be used for purposes of this application.
5. The acceptance of the Company proposed service line and meter installation charges in Table C of the attached Engineering report.
6. The PPWC file each January, and July a report covering the previous six months that contains all activities regarding the ADEQ's compliance issues. The written report should continue until Staff receives notice that the PPWC water system is in total compliance with ADEQ regulations.
7. The Company file an updated ADWR Compliance Status Report indicating that the Company is in compliance with ADWR requirements by December 31, 2016.
8. The Company monitor the PPWC water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

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ATTACHMENT

Engineering Report.....	Attachment A
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FACT SHEET

Current Rates: Decision No. 70558 dated October 23, 2008.

Type of Ownership: Non-Profit Corporation

Location: The Company's service area is located near Interstate 10 and Picacho Peak State Park in Pinal County. PPWC has a certificated area covering approximately 4 square miles

Rate Application Docketed: June 1, 2011.

Amended Rate Application Docketed: October 2, 2015.

Current Test year Ended: December 31, 2014

Rates

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charges:			
3/4-inch meter -- Ostrich Ranch/Residential	\$15.00	\$10.00	\$20.00
Gallons In Minimum	0	0	0
3/4-inch Ostrich Ranch/Residential Commodity Rate:			
Per 1,000 gallons:			
From 1 to 3,000 Gallons	\$3.05 *	\$3.50	\$3.00
From 3,001 to 10,000 Gallons	\$4.58 *	\$5.25	\$4.00
Over 10,000 Gallons	\$5.49 *	\$9.69	\$7.60

*Prior Decision No.70558 did not assign commodity rates for 3/4-inch meters so the Company used 5/8-inch meter commodity rates, as a default for 3/4 meter.

Typical Ostrich Ranch/Res. Bill
Analysis

	\$139.66	\$204.54	\$172.52
Based on median usage of 25,200 gallons			

Customers:

Number of customers in prior rate case (12/31/99): 14

Average number of customers in the current test year (12/31/14): 13

Current Test Year customers by meter size:

3/4-inch	12
1-inch	1

Seasonal customers: There is one 1-inch meter going into the RV Park with a maximum of 312 connections. In winter the RV Park uses a lot of water and it is usually empty during summer.

Customer notification: For rate application was filed on October 9, 2015.

Customer Complaints Concerning Rate Application: 2

Opinions – Rate Case Items - Other 1

SUMMARY OF RATE FILING

Picacho Peak Water Company ("PPWC" or "Company") proposed a \$19,500 or a 38.84 percent revenue increase over test year revenue of \$50,201 to \$69,701. The proposed revenue increase would produce an operating income of \$10,781 for an 18.36 percent rate of return on an original cost rate base ("OCRB") of \$58,712. The Company's proposed fair value rate base ("FVRB") is also \$58,712. The Company's proposed rates would increase the typical ostrich ranch/residential 3/4-inch meter bill with a median usage of 25,200 gallons from \$139.66 to \$204.54, for an increase of \$64.88, or 46.5 percent.

The test year results as adjusted by Utilities Division Staff ("Staff"), for PPWC reflects total operating revenue of \$50,201, an operating loss of \$5,394, for no rate of return as shown on Schedule BCA-1, page 1 of 3.

Staff recommends an \$11,365 or 22.64 percent increase over the test year revenue of \$50,201 to \$61,566. Staff's recommended revenue increase would produce an operating income of \$7,275 for an 11.82 percent operating margin. The Staff adjusted OCRB is \$58,202. Staff's FVRB is also \$58,202. Staff's recommended rates would increase the typical ostrich ranch/residential 3/4-inch meter bill with a median usage of 25,200 gallons from \$139.66 to \$172.52, for an increase of \$32.86, or 23.5 percent as shown on Schedule BCA-5.

According to the application, PPWC has very few customers and as a result, has a very limited revenue source. The Company has no typical residential customers.

BACKGROUND

On June 1, 2011, PPWC filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for a permanent rate increase with a test year ending December 31, 2010, in Docket No. W-02351A-11-0231.

On October 14, 2011, the parties filed a Joint Stipulation to Suspend the Time Clock and Request for Procedural Order, noting that Staff became aware that PPWC is in discussions with the Arizona Department of Environmental Quality ("ADEQ") about compliance issues. Staff believes that these compliance issues need to be resolved before Staff may evaluate the Application. The parties stipulated to a suspension of the time clock and procedural deadlines while PPWC and ADEQ work to resolve the Company's compliance issues.

On October 25, 2011, a Procedural Order was issued to suspend the time clock indefinitely and all filing deadlines until all compliance issues have been resolved¹.

On October 2, 2015, PPWC filed an amended application with a 2014 calendar test year.

¹ Procedural Order dated October 25, 2011.

CONSUMER SERVICES

Staff reviewed the Commission's records for the period beginning January 1, 2012, to November 23, 2015, and found two complaints and one opinion regarding the application. A notarized affidavit of mailing for the Customer Notice was filed on October 9, 2015.

COMPLIANCE

A check of the Utilities Division Compliance Section Database indicates that there is currently one delinquent item for PPWC. See Section D of the attached Engineering Report.

ENGINEERING ANALYSIS AND RECOMMENDATIONS

An inspection of the Company's water system was conducted by Jian Liu, Staff Engineer, accompanied by the Company's Certified Operator and Representative, Gary Boileau on January 19, 2016. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

RATE BASE

The Company did not propose a fair value rate base that differs from its original cost rate base. Staff's adjustments decreased the Company's proposed rate base by \$510, from \$58,712 to \$58,202 as shown on Schedule BCA-2, page 1.

Plant-in-Service

Staff made no plant-in-service adjustments.

Working Capital

Staff's adjustment A decreases cash working capital by \$510, from \$4,261 to \$3,751, as shown on Schedule BCA-2, pages 1 and 4.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

OPERATING INCOME STATEMENT

Operating Revenue

Staff made no operating revenue adjustments.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$1,073, from \$56,669 to \$55,595, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments are presented below.

Outside Services Expense – Adjustment A decreases outside services expense by \$4,080, from \$22,467 to \$18,387, as shown on Schedule BCA-3, page 1. This reflects the removal of \$4,080 in non-recurring, unsupported and out of test year legal expenses. Staff cannot set rates on these expenses going-forward.

Depreciation Expense – Adjustment B increases depreciation expense by \$884 from \$13,386 to \$14,270, as shown on Schedule BCA-3, pages 1 and 2. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Income Tax Expense – Adjustment D increases test year income tax expense by \$510, from negative \$510 to \$0, to reflect the removal of income tax expenses for a tax exempt organization, as shown on Schedule BCA-3, pages 1 and 3.

REVENUE REQUIREMENT

Staff recommends total annual operating revenue of \$61,566 as shown on Schedule BCA-3, page 1. Staff recommended revenue is an increase of \$11,365 or 22.64 percent over the test year revenue of \$50,201. Staff's recommended revenue would produce an operating income of \$7,275. Staff's recommended cash flow of \$21,545 results in an 11.82 percent operating margin as shown on Schedule BCA-1, page 1.

The Company requested a cash flow of \$24,167 as shown on Schedule BCA-1, page 1. Staff's recommendation provides sufficient cash flow to pay operating expenses and contingencies.

RATE DESIGN

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

The Company's current rate structure is comprised of three tiers, with a first-tier 1 to 3,000 - gallons; 3,001 to 10,000-gallons for the second-tier; and over 10,000-gallons for the third-tier. Its monthly minimum charges do not include any gallons. In this filing, the Company proposes to retain a three tiered rate structure, with a first-tier 1 to 3,000-gallons; 3,001 to 10,000-gallons for the second tier; and over 10,000-gallons for the third-tier.

The Company's proposed rates would increase the typical ostrich ranch/residential bill for customers with 3/4 - inch meter and a median usage of 25,200 gallons, from \$139.66 to \$204.54 for an increase of \$64.88, or 46.5 percent as shown on Schedule BCA-5.

Staff's recommended rates would increase the typical ostrich ranch/residential 3/4-inch meter bill with a median usage of 25,200 gallons from \$139.66 to \$172.52, for an increase of \$32.86, or 23.5 percent as shown on Schedule BCA-5.

A discussion with Mr. Gary Boileau, the PPWC certified operator shows that the three 3/4-inch residential meters are located in the Ostrich Ranch, they are not residential meters, they are commercial meters. There is one 1-inch meter going into the RV Park with a maximum of 312 connections. In winter the RV Park uses a lot of water and it is usually empty during summer. The Company has no typical residential customers.

MISCELLANEOUS SERVICE CHARGES

Reconnection (Delinquent) Charge – The Company proposes to increase the reconnection (delinquent) service charge from \$25 to \$30. Staff agrees with a Reconnection (Delinquent) Charge of \$30.

Meter Re-read – The Company proposes to increase the meter re-read charge from \$10 to \$15. Staff agrees with a meter re-read charge of \$15.

Late Fee – The Company proposes to increase the late fee charge from one percent to 1.50 percent. Staff agrees with a late fee charge of 1.50 percent.

After Hours Service Charge – The Company proposes and Staff agrees to adding a new \$35 after hours charge. An additional fee for service provided after normal business hours is appropriate when such service is at the customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service.

Moreover, it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request or for the customer's convenience. For example, under Staff's proposal, a customer would be subject to a \$25 Establishment fee if it is done during normal business hours, but would pay an additional \$35 after-hours fee if the customer requested that the establishment be done after normal business hours.

Bulk Water Account Establishment – The Company proposed a new bulk water account establishment charge at \$25. Staff agrees with this charge.

SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested changes to its service line and meter installation charges as shown on Schedule BCA-4.

Staff has recommended service line and meter installation charges based upon an analysis of costs as discussed in the attached Engineering Report. Further, since the Company may at times

install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends separate service line and meter installation charges. Staff recommends approval of Staff's service line and meter installation charges are shown on Schedule BCA-4.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule BCA-4.
2. The Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
3. The Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category listed in Table B on a going forward basis.
4. The annual water testing expense of \$1,815 reported by the Company be used for purposes of this application.
5. The acceptance of the Company proposed service line and meter installation charges in Table C of the attached Engineering report.
6. The PPWC file each January, and July a report covering the previous six months that contains all activities regarding the ADEQ's compliance issues. The written report should continue until Staff receives notice that the PPWC water system is in total compliance with ADEQ regulations.
7. The Company file an updated ADWR Compliance Status Report indicating that the Company is in compliance with ADWR requirements by December 31, 2016.
8. The Company monitor the PPWC water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the

Picacho Peak Water Company, Inc.

Docket No. W-02351A-11-0231

Page 8

detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

SUMMARY OF FILING

Line No.	-- Present Rates --		Proposed		
	Company as Filed	Staff as Adjusted	Company as Filed	Staff Recommended as Adjusted	
1	Revenues:				
2	Metered Water Revenue	\$ 50,016	\$ 50,016	\$ 69,516	\$ 61,381
3	Unmetered Water Revenue	-	-	-	-
4	Other Water Revenues	185	185	185	185
5					
6	Total Operating Revenue	<u>\$ 50,201</u>	<u>\$ 50,201</u>	<u>\$ 69,701</u>	<u>\$ 61,566</u>
7					
8	Operating Expenses:				
9	Operation and Maintenance	\$ 40,014	\$ 35,933	\$ 40,014	\$ 35,933
10	Depreciation	13,386	14,270	13,386	14,270
11	Property & Other Taxes	3,054	3,054	4,129	3,198
12	Income Tax	(510)	-	666	-
13	Bad Debt Expense	\$ 725	\$ 725	\$ 725	\$ 889
14	Total Operating Expense	<u>\$ 56,669</u>	<u>\$ 53,982</u>	<u>\$ 58,920</u>	<u>\$ 54,290</u>
15					
16	Operating Income/(Loss)	<u>\$ (6,468)</u>	<u>\$ (3,781)</u>	<u>\$ 10,781</u>	<u>\$ 7,275</u>
17					
18					
19	Rate Base O.C.L.D.	\$ 58,712	\$ 58,202	\$ 58,712	\$ 58,202
20					
21	Rate of Return - O.C.L.D.	N/M	N/M	18.36%	12.50%
22					
25	Operating Margin	N/M	N/M	15.47%	11.82%
26					
27	Debt Service Coverage (DSC)	1.10	3.14	4.26	4.34
28					
29	Cash Flow (L10+ L16)	\$ 6,918	\$ 10,489	\$ 24,167	\$ 21,545

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

REVENUE REQUIREMENT CALCULATION

LINE NO.	DESCRIPTION	[A]	[B]
		COMPANY ORIGINAL COST	STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 58,712	\$ 58,202
2	Adjusted Operating Income (Loss)	\$ (6,468)	(\$3,781)
3	Current Rate of Return (L2 / L1)	-11.02%	-6.50%
4	Required Rate of Return (L5 / L1)	18.36%	12.50%
5	Required Operating Income	\$ 10,780	\$ 7,275
6	Operating Income Deficiency (L5 - L2)	\$ 17,248	\$ 11,056
7	Gross Revenue Conversion Factor	1.0000	1.0279
8	Required Revenue Increase (L7 * L6)	\$ 19,500	\$ 11,365
9	Adjusted Test Year Revenue	\$ 50,201	\$ 50,201
10	Proposed Annual Revenue (L8 + L9)	\$ 69,701	\$ 61,566
11	Required Increase in Revenue (%)	38.84%	22.64%
12	Operating Margin	15.47%	11.82%

References:

Column (A): Company's Application

Column (B): Staff Schedules OCRB, GRCF, TYOI

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	1.4442%			
3	Revenues (L1 - L2)	98.5558%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	1.2699%			
5	Subtotal (L3 - L4)	97.2859%			
6	Revenue Conversion Factor (L1 / L5)	1.027898			
24	Required Operating Income (Schedule BCA-3, Page 1)	\$ 7,275			
25	Adjusted Test Year Operating Income (Loss) (Schedule BCA-3, Page 1)	\$ (3,781)			
26	Required Increase in Operating Income (L24 - L25)		\$ 11,056		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ -			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ -			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ -		
30	Recommended Revenue Requirement (Schedule BCA-1, Page 2)	\$ 61,566			
31	Uncollectible Rate (Line 10)	1.44%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ 889			
33	Adjusted Test Year Uncollectible Expense	\$ 725			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ 164		
35	Property Tax with Recommended Revenue (Schedule BCA-3, Page 4)	\$ 3,198			
36	Property Tax on Test Year Revenue (Schedule BCA-3, Page 4)	\$ 3,054			
37	Increase in Property Tax Due to Increase in Revenue (Schedule BCA-3, Page 4)		\$ 144		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		<u>\$ 11,365</u>	\$ 0	
					STAFF
					Recommended
39	Revenue (Schedule BCA-3, Page 1)	Test Year \$50,201	\$ 11,365	\$ 61,566	
40	Operating Expenses Excluding Income Taxes	\$ 53,982	\$ 308	\$ 54,290	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L37- L38)	\$ (3,781)		\$ 7,275	

ORIGINAL COST RATE BASE/FAIR VALUE

	----- Original Cost -----		Staff
	Company	Adjustment	
Plant in Service	\$ 220,442	\$ -	\$ 220,442
Less:			
Accum. Depreciation	163,160	-	163,160
Net Plant	\$ 57,282	\$ -	\$ 57,282
Less:			
Customer Security Deposit	100	-	100
Plant Advances (ALAC)	-	-	-
Less: ALAC Refunds	-	-	-
Net ALAC	-	-	-
Total Advances	-	-	-
Contributions Gross	17,405	-	17,405
Less:			
Amortization of CIAC	14,427	-	14,427
Net CIAC	2,978	-	2,978
Total Deductions	\$ 3,078	\$ -	\$ 3,078
Plus:			
1/24 Power	247	-	247
1/8 Operation & Maint.	4,261	(510) A	3,751
Inventory	-	-	-
Prepayments	-	-	-
Total Additions	\$ 4,508	\$ (510)	\$ 3,998
Rate Base	\$ 58,712	\$ (510)	\$ 58,202

Explanation of Adjustment:

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization Costs	\$ -	\$ -	\$ -
302 Franchise Costs	-	-	-
303 Land & Land Rights	500	-	500
304 Structures & Improvements	3,158	-	3,158
307 Wells & Springs	8,475	-	8,475
311 Electric Pumping Equipment	45,303	-	45,303
320 Water Treatment Equipment	-	-	-
320.1 Water Treatment Plants	-	-	-
320.2 Solutions & Feeders	48,408	-	48,408
320.3 Arsenic Remediation Plant	-	-	-
330 Distribution Reservoirs & Standpipes	-	-	-
330.1 Storage Tank	42,311	-	42,311
330.2 Pressure Tanks	-	-	-
331 Transmission & Distribution Mains	59,401	-	59,401
333 Services	450	-	450
334 Meters & Meter Installations	4,857	-	4,857
335 Hydrants	-	-	-
336 Backflow Prevention Devices	7,579	-	7,579
339 Other Plant & Misc. Equip.	-	-	-
340 Office Furniture & Fixtures	-	-	-
340.1 Computer & Software	-	-	-
341 Transportation Equipment	-	-	-
342 Store Equipment	-	-	-
343 Tools & Work Equipment	-	-	-
344 Laboratory Equipment	-	-	-
345 Power Operated Equipment	-	-	-
345 Communications Equipment	-	-	-
347 Miscellaneous Equipment	-	-	-
348 Other Intangibles	-	-	-
105 C.W.I.P.	-	-	-
TOTALS	<u>\$ 220,442</u>	<u>\$ -</u>	<u>\$ 220,442</u>

Explanation of Adjustment:

CIAC Amortization Adjustment

Amortization Rate 2.50%

	CIAC Adds	CIAC Cumulative	Amortization Annual	Amortization Cumulative
Balance per Decision 64000		\$ 17,405.00		\$ 10,946.00
2007	-	17,405.00	435.13	11,381.13
2008	-	17,405.00	435.13	11,816.25
2009	-	17,405.00	435.13	12,251.38
2010	-	17,405.00	435.13	12,686.50
2011	-	17,405.00	435.13	13,121.63
2012	-	17,405.00	435.13	13,556.75
2013	-	17,405.00	435.13	13,991.88
2014	-	17,405.00	435.13	14,427.00
Test Year end 12/31/2014		\$ 17,405.00		14,427.00
		Increase to amortization	\$ 3,481.00	
Net CIAC 12/31/14				\$ 2,978.00

STAFF RATE BASE ADJUSTMENTS

A -	WORKING CAPITAL (1/8 operation & Maint exp.) Per Company	\$	4,261	
	Per Staff		3,751	\$ (510)
			<hr/>	<hr/>

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

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted	Staff Recommended
Revenues:				
461 Metered Water Revenue	\$ 50,016	\$ -	\$ 50,016	\$ 11,365
460 Unmetered Water Revenue	\$ -	\$ -	\$ -	\$ -
474 Other Water Revenues	\$ 185.00	\$ -	\$ 185	\$ 185
Total Operating Revenue	\$ 50,201	\$ -	\$ 50,201	\$ 11,365
Operating Expenses:				
601 Salaries and Wages	\$ -	\$ -	\$ -	\$ -
610 Purchased Water	\$ -	\$ -	\$ -	\$ -
615 Purchased Power	\$ 5,926	\$ -	\$ 5,926	\$ 5,926
618 Chemicals (Media)	\$ -	\$ -	\$ -	\$ -
620 Repairs and Maintenance	\$ 4,648	\$ -	\$ 4,648	\$ 4,648
620.1 Arsenic Media Expense	\$ -	\$ -	\$ -	\$ -
621 Office Supplies & Expense	\$ -	\$ -	\$ -	\$ -
630 Outside Services	\$ 22,467	\$ (4,080) A	\$ 18,387	\$ 18,387
635 Water Testing	\$ 1,815	\$ -	\$ 1,815	\$ 1,815
641 Rents	\$ -	\$ -	\$ -	\$ -
650 Transportation Expenses	\$ -	\$ -	\$ -	\$ -
657 Insurance - General Liability	\$ 1,314	\$ -	\$ 1,314	\$ 1,314
659 Insurance - Health and Life	\$ -	\$ -	\$ -	\$ -
666 Regulatory Commission Expense - Rate Case	\$ 3,750	\$ -	\$ 3,750	\$ 3,750
675 Miscellaneous Expense	\$ 94	\$ -	\$ 94	\$ 94
403 Depreciation Expense	\$ 13,386	\$ 884 B	\$ 14,270	\$ 14,270
408 Taxes Other Than Income	\$ -	\$ -	\$ -	\$ -
408.11 Property Taxes	\$ 3,054	\$ -	\$ 3,054	\$ 144
409 Income Tax	\$ (510)	\$ 510 C	\$ -	\$ -
Bad Debt Expense	\$ 725	\$ -	\$ 725	\$ 164
Total Operating Expenses	\$ 56,669	\$ (2,687)	\$ 53,982	\$ 308
OPERATING INCOME/(LOSS)	\$ (6,468)	\$ 2,687	\$ (3,781)	\$ 11,056
				\$ 7,275

Explanation of Adjustment:

A - OUTSIDE SERVICES - Per Company	\$ 22,467	
Per Staff	18,387	\$ (4,080)

To remove non recurring, unsupported and out of test year legal expenses going forward in the test year.

OPERATING INCOME ADJUSTMENT D - DEPRECIATION EXPENSE

OPERATING EXPENSE ADJUSTMENTS (Cont.)

B - DEPRECIATION - Per Company \$ 13,386
Per Staff 14,270 \$ 884

To reflect application of Staff's recommended depreciation rates to Staff's recommended plant, by account.

Pro Forma Annual Depreciation Expense:

NO.	NO.	DESCRIPTION	UTILITY PLANT IN SERVICE BALANCES	FULLY/NON-DEPRECIABLE PLANT BALANCES	DEPRECIABLE PLANT IN SERVICE	RATE	EXPENSE
Plant In Service							
1	301	Organization Costs	\$ -	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Costs	-	-	-	0.00%	-
3	303	Land & Land Rights	500	500	-	0.00%	-
4	304	Structures & Improvements	3,158	-	3,158	3.33%	105
5	307	Wells & Springs	8,475	8,475	-	3.33%	-
6	311	Electric Pumping Equipment	45,303	30,110	15,193	12.50%	1,899
7	320	Water Treatment Equipment	-	-	-	-	-
8	320.1	Water Treatment Plants	-	-	-	3.33%	-
9	320.2	Solutions & Feeders	48,408	-	48,408	20.00%	9,682
10	320.3	Arsenic Remediation Plant	-	-	-	-	-
11	330	Distribution Reservoirs & Standpipes	-	-	-	2.22%	-
12	330.1	Storage Tank	42,311	-	42,311	5.00%	2,116
13	330.2	Pressure Tanks	-	-	-	2.00%	-
14	331	Transmission & Distribution Mains	59,401	-	59,401	3.33%	1,978
15	333	Services	450	450	-	8.33%	-
16	334	Meters & Meter Installations	4,857	2,940	1,917	2.00%	38
17	335	Hydrants	-	-	-	6.67%	-
18	336	Backflow Prevention Devices	7,579	6,603	976	6.67%	65
19	339	Other Plant & Misc. Equip.	-	-	-	6.67%	-
20	340	Office Furniture & Fixtures	-	-	-	20.00%	-
21	340.1	Computer & Software	-	-	-	20.00%	-
22	341	Transportation Equipment	-	-	-	4.00%	-
23	342	Store Equipment	-	-	-	5.00%	-
24	343	Tools & Work Equipment	-	-	-	10.00%	-
25	344	Laboratory Equipment	-	-	-	5.00%	-
26	345	Power Operated Equipment	-	-	-	10.00%	-
27	345	Communications Equipment	-	-	-	10.00%	-
28	347	Miscellaneous Equipment	-	-	-	0.00%	-
29	348	Other Intangibles	-	-	-	0.00%	-
30							
31		Subtotal General	\$ 220,442	\$ 49,078	\$ 171,364		\$ 15,883
32							
33		Composite Depreciation Rate(Depreciation Expense / Depreciable Plant)					9.27%
34							
35		Contribution in aid of Construction (CIAC)					17,405.00
		Less: Fully Amortized CIAC					-
							17,405.00
32		Amortization of Contributions					1,613.19
33							
34		Depreciation Expense Before Amortization of CIAC					15,883
35		Less: Amortization of CIAC					1,613.19
36		Test Year Depreciation Expense - Staff					14,270
37		Depreciation Expense - Company					13,386
38		Staff's Total Adjustment					\$ 884

OPERATING EXPENSE ADJUSTMENTS

C -	INCOME TAX - Per Company	\$	(510)	
	Per Staff		-	\$ 510
			<hr/>	<hr/>

To reflect Staff's calculation of the income tax obligation on Staff's adjusted test year taxable income.

RATE DESIGN

Monthly Usage Charge - Residential	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" x 3/4" Meter	\$ 15.00	\$ 10.00	\$ 20.00
3/4" Meter	\$ 15.00	\$ 10.00	\$ 20.00
1" Meter	\$ 37.50	\$ 25.00	\$ 25.00
1½" Meter	\$ 75.00	\$ 50.00	\$ 50.00
2" Meter	\$ 120.00	\$ 80.00	\$ 80.00
3" Meter	\$ 240.00	\$ 160.00	\$ 160.00
4" Meter	\$ 375.00	\$ 250.00	\$ 250.00
6" Meter	\$ 750.00	\$ 500.00	\$ 500.00
Monthly Usage Charge - Commercial			
5/8" x 3/4" Meter	\$ 138.00	\$ 125.00	\$ 125.00
3/4" Meter	\$ 138.00	\$ 140.00	\$ 125.00
1" Meter	\$ 345.00	\$ 350.00	\$ 200.00
1½" Meter	\$ 690.00	\$ 425.00	\$ 425.00
2" Meter	\$ 1,425.00	\$ 825.00	\$ 825.00
3" Meter	\$ 2,208.00	\$ 1,500.00	\$ 1,500.00
4" Meter	\$ 3,450.00	\$ 2,500.00	\$ 2,500.00
6" Meter	\$ 6,900.00	\$ 4,000.00	\$ 4,000.00
Commodity Rates			
5/8 x 3/4" Meter - Residential			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
First 3,000 Gallons	\$ 3.05	\$ 3.50	\$ 3.00
From 3,001 to 10,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 10,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
5/8 x 3/4" & 3/4" Meter - Commercial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 10,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 10,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
3/4" Meter - Residential			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 3,000 Gallons	Decision does not contain 3/4-inch meter commodity rates	\$ 3.50	\$ 3.00
3,000 to 10,000 Gallons	Decision does not contain 3/4-inch meter commodity rates	\$ 5.25	\$ 4.00
Over 10,000 Gallons	Decision does not contain 3/4-inch meter commodity rates	\$ 9.69	\$ 7.60
3/4" Meter - Commercial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 10,000 Gallons	Decision does not contain 3/4-inch meter commodity rates	\$ 5.25	\$ 4.00
Over 10,000 Gallons	Decision does not contain 3/4-inch meter commodity rates	\$ 9.69	\$ 7.60
1" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 15,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 15,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
1-1/2" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 20,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 20,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
2" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 25,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 25,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
3" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 70,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 70,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
4" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 250,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 250,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
6" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons	-	-	-
Up to 800,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 800,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
Bulk Water			
Up to 25,000 Gallons	\$ 5.49	\$ 5.25	\$ 7.60
Over 25,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60

RATE DESIGN

Monthly Usage Charge - Residential	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" x 3/4" Meter	\$ 15.00	\$ 10.00	\$ 20.00
3/4" Meter	\$ 15.00	\$ 10.00	\$ 20.00
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1½" Meter	\$ 75.00	\$ 50.00	\$ 50.00
2" Meter	\$ 120.00	\$ 80.00	\$ 80.00
3" Meter	\$ 240.00	\$ 160.00	\$ 160.00
4" Meter	\$ 375.00	\$ 250.00	\$ 250.00
6" Meter	\$ 750.00	\$ 500.00	\$ 500.00
Monthly Usage Charge - Commercial			
5/8" x 3/4" Meter	\$ 138.00	\$ 125.00	\$ 125.00
3/4" Meter	\$ 138.00	\$ 140.00	\$ 125.00
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Commodity Rates			
5/8 x 3/4" Meter - Residential			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
First 3,000 Gallons	\$ 3.05	\$ 3.50	\$ 3.00
From 3,001 to 10,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 10,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
5/8 x 3/4" & 3/4" Meter - Commercial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 10,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 10,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
3/4" Meter - Residential			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 3,000 Gallons	Decision does not contain 3/4-inch meter commodity rates	\$ 3.50	\$ 3.00
3,000 to 10,000 Gallons		\$ 5.25	\$ 4.00
Over 10,000 Gallons		\$ 9.69	\$ 7.60
3/4" Meter - Commercial			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 10,000 Gallons	Decision does not contain 3/4-inch meter commodity rates	\$ 5.25	\$ 4.00
Over 10,000 Gallons		\$ 9.69	\$ 7.60
1" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 15,000 Gallons	\$ 4.58		\$ 4.00
Over 15,000 Gallons	\$ 5.49		\$ 7.60
Up to 10,000 Gallons		\$ 5.25	
Over 10,000 Gallons		\$ 9.69	
1-1/2" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 20,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 20,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
2" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 25,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 25,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
3" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 70,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 70,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
4" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 250,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 250,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
6" - Meter (All Classes)			
Gallons Included in Minimum	-	-	-
Excess of Minimum - per 1,000 Gallons			
Up to 800,000 Gallons	\$ 4.58	\$ 5.25	\$ 4.00
Over 800,000 Gallons	\$ 5.49	\$ 9.69	\$ 7.60
Bulk Water			
Up to 25,000 Gallons	\$ 5.49	\$ 5.25	\$ 7.60
Over 25,000 Gallons		\$ 9.69	

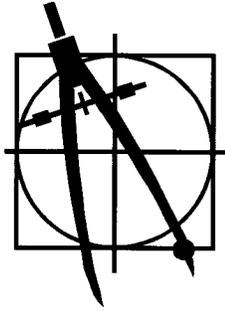
TYPICAL BILL ANALYSIS
General Service 3/4 - Inch Meter-Ostrich Ranch/ Residential

Average Number of Customers: 3

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	28,875	\$ 159.83	\$ 240.15	\$ 80.32	50.3%
Median Usage	25,200	\$ 139.66	\$ 204.54	\$ 64.88	46.5%
Staff Recommend					
Average Usage	28,875	\$ 159.83	\$ 200.45	\$ 40.62	25.4%
Median Usage	25,200	\$ 139.66	\$ 172.52	\$ 32.86	23.5%

Present & Proposed Rates (Without Taxes)
General Service 3/4 - Inch Meter-Ostrich Ranch/ Residential

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$ 15.00	\$ 10.00	-33.3%	\$ 20.00	33.3%
1,000	18.05	13.50	-25.2%	23.00	27.4%
2,000	21.10	17.00	-19.4%	26.00	23.2%
3,000	24.15	20.50	-15.1%	29.00	20.1%
4,000	28.73	25.75	-10.4%	33.00	14.9%
5,000	33.31	31.00	-6.9%	37.00	11.1%
6,000	37.89	36.25	-4.3%	41.00	8.2%
7,000	42.47	41.50	-2.3%	45.00	6.0%
8,000	47.05	46.75	-0.6%	49.00	4.1%
9,000	51.63	52.00	0.7%	53.00	2.7%
10,000	56.21	57.25	1.9%	57.00	1.4%
15,000	83.66	105.70	26.3%	95.00	13.6%
20,000	111.11	154.15	38.7%	133.00	19.7%
25,000	138.56	202.60	46.2%	171.00	23.4%
25,200	144.05	212.29	47.4%	178.60	24.0%
28,875	149.54	221.98	48.4%	186.20	24.5%
50,000	275.81	444.85	61.3%	361.00	30.9%
75,000	413.06	687.10	66.3%	551.00	33.4%
100,000	550.31	929.35	68.9%	741.00	34.7%
125,000	687.56	1,171.60	70.4%	931.00	35.4%
150,000	824.81	1,413.85	71.4%	1,121.00	35.9%
175,000	962.06	1,656.10	72.1%	1,311.00	36.3%
200,000	1,099.31	1,898.35	72.7%	1,501.00	36.5%



**Engineering Report For:
Picacho Peak Water Company
Application for a Rate Increase
Docket No. W-02351A-11-0231**

By Jian W. Liu

January 26, 2016

EXECUTIVE SUMMARY

CONCLUSIONS:

1. The Arizona Department of Environmental Quality ("ADEQ") reported that the Picacho Peak Water Company ("PPWC" or "Company") Public Water System ("PWS") No.11-038, is NOT in compliance. ADEQ cannot determine if the Company is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code ("A.A.C."), Title 18, Chapter 4. (ADEQ Compliance Status Report dated January 19, 2016, See Section C for details).
2. The Company is located in the Tucson Active Management Area ("AMA") and is subject to Arizona Department of Water Resources ("ADWR") AMA reporting and conservation requirements. ADWR reported that Company is not in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated December 31, 2015, See Section E for details).
3. A check with the Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Compliance Section showed that there is one delinquent compliance item for the Company. (ACC Compliance Section Email dated January 6, 2016, See Section D for details).
4. PPWC has approved Curtailment Plan Tariff on file with the Commission.
5. The Company reported 14 customers in 2006. PPWC water system had 13 customers in test year 2014. Therefore, Staff expects that the Company will have little or no growth in the foreseeable future.

RECOMMENDATIONS:

1. Staff recommends that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category listed in Table B on a going forward basis.
2. Staff recommends the annual water testing expense of \$1,815 reported by the Company be used for purposes of this application.

3. Staff recommends acceptance of the Company proposed service line and meter installation charges listed in Table C.
4. Staff recommends that the PPWC file each January, and July a report covering the previous six months that contains all activities regarding the ADEQ's compliance issues. The written report should continue until Staff receives notice that the PPWC water system is in total compliance with ADEQ regulations.
5. Staff recommends the Company file an updated ADWR Compliance Status Report indicating that the Company is in compliance with ADWR requirements by December 31, 2016.
6. Staff recommends that the Company monitor the PPWC water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

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FIGURES

County Map.....	FIGURE 1
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A. INTRODUCTION AND LOCATION OF COMPANY

On June 1, 2011, Picacho Peak Water Company (“PPWC” or “Company” or “Picacho”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) to decrease its rates with a test year ending December 31, 2010, in Docket No. W-02351A-11-0231. On October 14, 2011, the parties filed a Joint Stipulation to Suspend Time Clock and Request for Procedural Order, noting that Staff became aware that Picacho is in discussions with the Arizona Department of Environmental Quality (“ADEQ”) about compliance issues. Staff believed that these compliance issues needed to be resolved before Staff evaluated the Application. The parties stipulated to a suspension of the time clock and procedural deadlines while Picacho and ADEQ work to resolve the Company’s compliance issues. The procedural order was issued to suspend the time clock indefinitely and all filing deadlines until all compliance issues had been resolved¹.

On October 2, 2015, PPWC filed an amended application with a 2014 test year.

The Company’s water system is located near Interstate 10 and Picacho Peak State Park in Pinal County. PPWC has a certificated area covering approximately 4 square miles. Figure 1 shows the location of Picacho Peak Water Company within Pinal County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on January 19, 2016 by Jian Liu, Staff Utilities Engineer, in the accompaniment of Gary Boileau, certified operator of the water system.

It consists of one active well, one 40,000 gallon storage tank, one pressure tank, booster pumps, nine Point-of-Use (“POU”) devices and a distribution system.

(Tabular Description of Water System)

	Well Data	
	Well No 1	Well No 2 (Not in-service)
ADWR ID No.	55-623405	55-623406
Casing Size	12 inch	12 inch
Casing Depth	350 ft	475 ft
Pump Size	10 Hp	10 Hp
Pump Yield	64 gal/min	82 gal/min

¹ Procedural Order dated October 25, 2011.

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
		5,000	1	7.5	2
40,000	1			10	1
Total 40,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
N/A	N/A	5/8x3/4		NA
		3/4	14	
		1	1	
		1.5		
		2		
		Total	15	

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

ADEQ has determined that the Picacho Peak water system, ADEQ Public Water System (“PWS”) No.11-038, is NOT in compliance. ADEQ cannot determine if the Company is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code (“A.A.C.”), Title 18, Chapter 4. (ADEQ Compliance Status Report dated January 19, 2016).

PPWC has a history of ongoing exceedances of the Maximum Contaminant Level (“MCL”) for nitrate. POU treatment was installed in July 2009, requiring three samples per year from the distribution system reflecting treatment. In 2013, the number of required samples were increased to nine samples every six months collected from POU units in the distribution system. The nitrate levels ranged from 0.72 to 10 mg/L (the MCL is 10 mg/L) from the most recent samples collected between January 1, 2015 and June 30, 2015. PPWC needs to address the performance issues at the individual units (e.g., perform maintenance on the units, and/or change out the media on the unit that had a result of 10 mg/L before the unit exceeds the MCL).

Staff recommends that the PPWC file each January, and July a report covering the previous six months that contains all activities regarding the ADEQ compliance issues. The written report should continue until Staff receives notice that the PPWC water system is in total compliance with ADEQ regulations.

D. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

A check with the Utilities Division Compliance Section showed that there is one delinquent item. (ACC Compliance Section Email dated January 6, 2016).

DOCKET: W-02351A-07-0319 DECISION NO: 70558

ACTION: File each January and July, a report covering the previous six months that contains all activities regarding the ADEQ Consent Order, as well as a report regarding steps taken to recreate the mapping data for the distribution system. Picacho Peak Water Company, Inc. shall continue to file bi-annual report until such time as its water system is found by ADEQ to be in total compliance, as defined herein, with its regulations.

COMPLIANCE DUE DATE: 1/31/2015

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

The Company is located within the Tucson Active Management Area (“AMA”) and the ADWR does not report that the Company has any compliance issues with its monitoring and reporting requirements.

PPWC’s service area is located in the ADWR Tucson Active Management Area (“AMA”) and is subject to ADWR AMA reporting and conservation requirements. ADWR reported that the Company is not in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated December 31, 2015).

Staff recommends the Company file an updated ADWR Compliance Status Report indicating that the Company is in compliance with ADWR requirements by December 31, 2016.

F. WATER TESTING EXPENSES

The Company reported a total water testing expense of \$1,815 during the test year. Staff reviewed the reported amount and supporting documentations and invoices provided by the Company. Staff recommends the annual water testing expense of \$1,815 reported by the Company be used for purposes of this application.

G. WATER USE

Non-account water should be 10 percent or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A

water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

The water use data reported by PPWC is invalid for the test year 2014 because of meter malfunctions, meter misreads, and line leaks.

Staff recommends that the Company monitor the PPWC water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

H. GROWTH

The Company reported 14 customers in 2006. PPWC water system had 13 customers in test year 2014. Therefore, Staff expects that the Company will have little or no growth in the foreseeable future.

I. DEPRECIATION RATES

Staff recommends that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category listed in Table B on a going forward bases.

Table B. Depreciation Rates

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
301	Organization	----	0.00
302	Franchises	----	0.00
303	Land and Land Rights	----	0.00
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.00
320.3	Point-of-Use Treatment Devices	10	10.00
320.4	Point-of-Use Media	0.5	200
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc. Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	See Note 2	See Note 2

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

J. CURTAILMENT PLAN TARIFF

PPWC has approved Curtailment Plan Tariff on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company requested permission to change its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's recommended range for these charges. Staff recommends acceptance of the Company proposed charges in Table C.

Table C. Service Line and Meter Installation Charges

Meter Size	Current service line charges	Current meter charges	Current Total Charges	Company proposed/Staff recommended service line charges	Company proposed/Staff recommended meter charges	Company proposed/Staff recommended Total Charges
5/8 x3/4-inch	385	135	\$520	\$445	\$155	\$600
3/4-inch	385	215	\$600	\$445	\$255	\$700
1-inch	435	255	\$690	\$495	\$315	\$810
1-1/2-inch	470	465	\$935	\$550	\$525	\$1075
2-inch - Turbine	630	965	\$1595	\$830	\$1045	\$1,875
2-inch - Compound	630	1690	\$2320	\$830	\$1,890	\$2,720
3-inch - Turbine	805	1470	\$2275	\$1045	\$1,670	\$2,715
3-inch - Compound	845	2265	\$3110	\$1165	\$2,545	\$3,710
4-inch - Turbine	1170	2350	\$3520	\$1,490	\$2,670	\$4,160
4-inch - Compound	1230	3245	\$4475	\$1,670	\$3,645	\$5,315
6-inch - Turbine	1730	4545	\$6275	\$2,210	\$5,025	\$7,235
6-inch - Compound	1770	6280	\$8050	\$2,330	\$6,920	\$9,250
Over 6-inch	N/A	N/A	N/A	At Cost	At Cost	At Cost

PINAL COUNTY

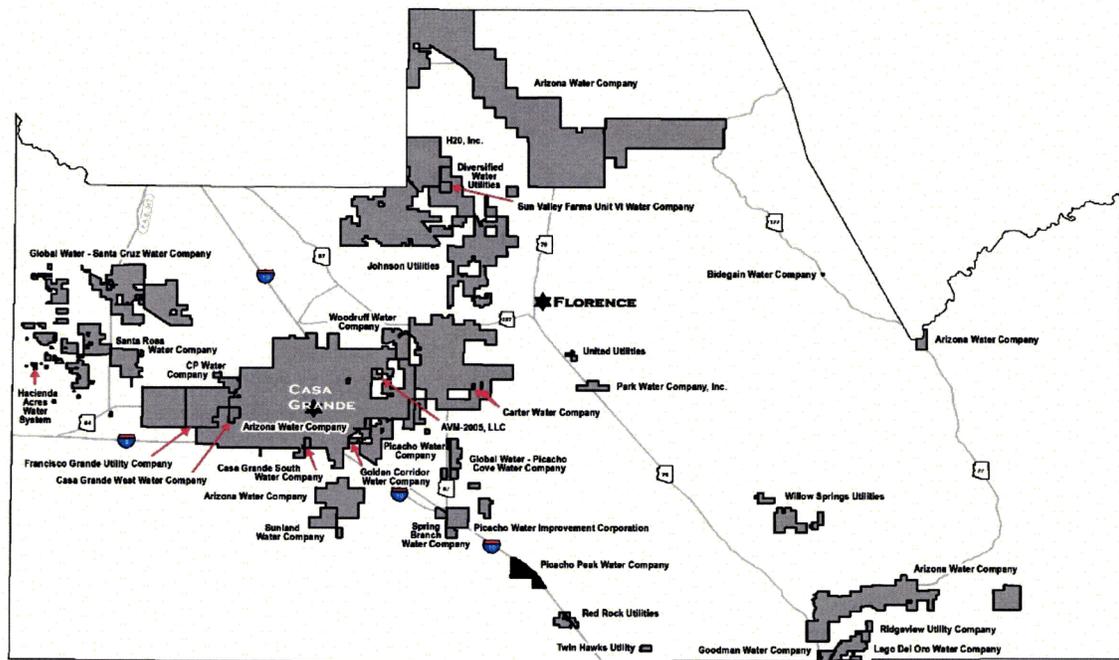


Figure 1: COUNTY MAP

PINAL COUNTY

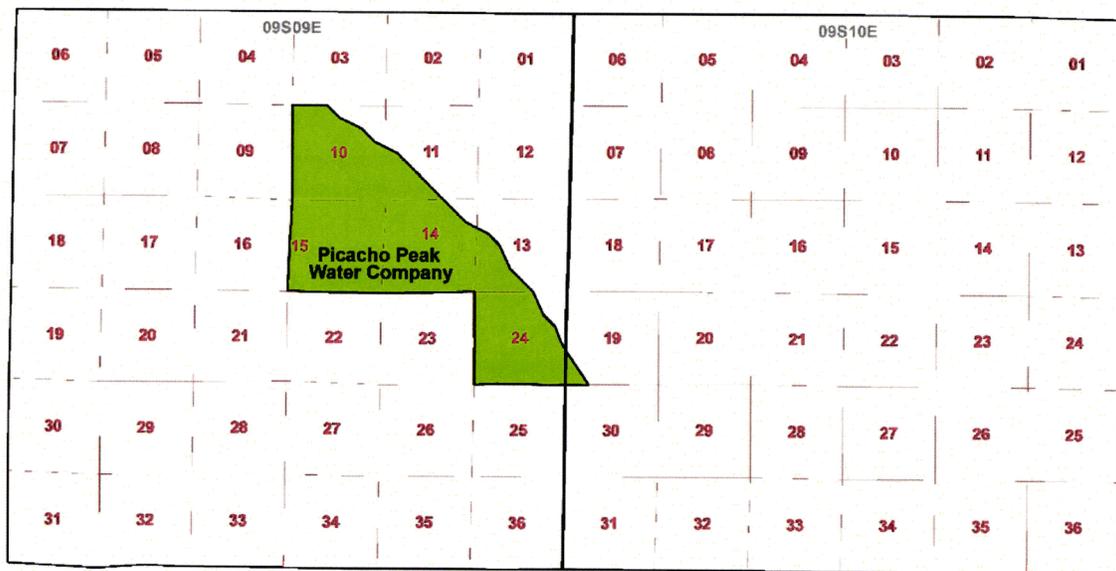


Figure 2: CERTIFICATED AREA