

ORIGINAL

MEMORANDUM



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AZ CORP COMMISSION
DOCKET CONTROL

TO: Docket Control

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

DATE: March 4, 2016

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

Attached is the Revised 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 Revised Staff Report with the Commission's Docket Control by 4:00 p.m. on or before March 14, 2016.

TMB:BCA:nr\ML

Originator: Brendan Aladi

Arizona Corporation Commission

DOCKETED

MAR 04 2016

DOCKETED BY

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

Mr. Steve Wene
Moyes Sellers & Hendericks LTD.
1850 North Central Avenue, Suite 1100
Phoenix, Arizona 85004

Mr. Bill McCabe, President
Picacho Peak Water Company
150 Louisiana NE
Albuquerque, NM 87108

Mr. Thomas M. Broderick
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Dwight Nodes
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**REVISED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

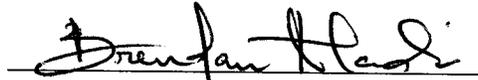
**PICACHO PEAK WATER COMPANY, INC.
DOCKET NO. W-02351A-11-0231**

APPLICATION FOR A PERMANENT RATE INCREASE

MARCH 4, 2016

STAFF ACKNOWLEDGMENT

The Revised Staff Report for Picacho Peak Water Company, Inc. ("Company") Docket No. W-02351A-11-0231, was the responsibility of the Staff member listed below. Brendan Aladi was responsible for the review and analysis of the Company's application for a permanent rate increase.

A handwritten signature in black ink, appearing to read "Brendan Aladi", is written over a horizontal line.

Brendan Aladi
Public Utilities Analyst

**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 ("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 worked 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.

On February 12, 2016, Staff docketed its Staff Report.

On February 25, 2016, PPWC filed a stipulated motion to amend case schedules. The Company and Staff seek to amend the case schedules allowing Staff to file a revised Staff Report by March 4, 2016. In order to correct Staff's original depreciation expense calculation and to update Staff's recommended revenue requirement and rate design accordingly.

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 a 15.47 percent operating margin. The Company's proposed fair value rate base ("FVRB") is \$58,712 the same as its original cost rate base ("OCRB"). The Company's proposed rates would increase the typical Ostrich Ranch 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 a \$10,486 or 20.89 percent increase over the test year revenue of \$50,201 to \$60,687. Staff's recommended revenue increase would produce an operating income of \$7,275 for an 11.99 percent operating margin. The Staff adjusted OCRB is \$58,202 the same as its FVRB. Staff's recommended rates would increase the typical Ostrich Ranch 3/4-inch meter bill with a

median usage of 25,200 gallons from \$139.66 to \$169.94, for an increase of \$30.28, or 21.7 percent as shown on Revised Schedule BCA-5.

RECOMMENDATIONS

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Revised 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. Staff recommends the Picacho Peak Water Company, as a compliance item in this case, notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
4. The Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category listed in Table B of the attached Engineering Report on a going forward basis.
5. The annual water testing expense of \$1,815 reported by the Company be used for purposes of this application.
6. The acceptance of the Company proposed service line and meter installation charges in Table C of the attached Engineering Report.
7. That 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.
8. The Company file an updated ADWR Compliance Status Report indicating that the Company is in compliance with ADWR requirements by December 31, 2016.
9. 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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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	\$15.00	\$10.00	\$20.00
Gallons In Minimum	0	0	0
3/4-inch Commodity Rate:			
Per 1,000 gallons:			
From 1 to 3,000 Gallons			
From 3,001 to 10,000 Gallons	\$3.05 *	\$3.50	\$3.00
Over 10,000 Gallons	\$4.58 *	\$5.25	\$4.00
	\$5.49 *	\$9.69	\$7.43

*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 – inch meter.

General Service 3/4 inch meter

Based on median usage of 25,200 gallons per month.	\$139.66	\$204.54	\$169.94
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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 a 15.47 percent operating margin. The Company's proposed fair value rate base ("FVRB") is \$58,712 the same as its original cost rate base ("OCRB"). The Company's proposed rates would increase the typical 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 and an operating loss of \$2,932, for no rate of return as shown on Revised Schedule BCA-1, page 1 of 3.

Staff recommends a \$10,486 or 20.89 percent increase over the test year revenue of \$50,201 to \$60,687. Staff's recommended revenue increase would produce an operating income of \$7,275 for an 11.99 percent operating margin. The Staff adjusted OCRB is \$58,202 the same as its FVRB. Staff's recommended rates would increase the typical monthly 3/4-inch meter bill with a median usage of 25,200 gallons from \$139.66 to \$169.94, for an increase of \$30.28, or 21.7 percent as shown on Revised 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 believed that these compliance issues needed 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 worked 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.

On February 12, 2016, Staff docketed its Staff Report.

¹ Procedural Order dated October 25, 2011.

On February 25, 2016, PPWC filed a stipulated motion to amend case schedules. The Company and Staff seek to amend the case schedules allowing Staff to file a revised Staff Report on March 4, 2016.

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 and E 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 Revised 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 Revised 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 \$3,535, from \$56,669 to \$53,133, as shown on Revised 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 Revised 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 \$35 from \$13,386 to \$13,421, as shown on Revised 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. Staff acknowledges that this is an immaterial adjustment but chose to include this change since Staff's revised Staff Report was generated primarily to correct the level of annualized depreciation expense captured in the original Staff Report.

Income Tax Expense – Adjustment C 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 Revised Schedule BCA-3, pages 1 and 3.

REVENUE REQUIREMENT

Staff recommends total annual operating revenue of \$60,687 as shown on Revised Schedule BCA-3, page 1. Staff recommended revenue is an increase of \$10,486 or 20.89 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 \$20,697 results in an 11.99 percent operating margin as shown on Revised Schedule BCA-1, page 1.

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

RATE DESIGN

Revised 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 the same three tiered rate structure.

The Company's proposed rates would increase the typical monthly bill for the 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 Revised Schedule BCA-5.

Staff's recommended rates would increase the typical 3/4-inch meter bill with a median usage of 25,200 gallons from \$139.66 to \$169.94, for an increase of \$30.28, or 21.7 percent as shown on Revised 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 and have been classified as residential 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 Revised 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 Revised Schedule BCA-4.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Revised 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. Staff recommends the Picacho Peak Water Company, as a compliance item in this case, notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
4. The Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category listed in Table B of the attached Engineering Report on a going forward basis.
5. The annual water testing expense of \$1,815 reported by the Company be used for purposes of this application.
6. The acceptance of the Company proposed service line and meter installation charges in Table C of the attached Engineering Report.
7. That 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.

8. The Company file an updated ADWR Compliance Status Report indicating that the Company is in compliance with ADWR requirements by December 31, 2016.
9. 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.

SUMMARY OF FILING

Line No.	-- Present Rates --		Proposed		Staff
	Company as Filed	Staff as Adjusted	Company as Filed	Recommended as Adjusted	
1	Revenues:				
2	Metered Water Revenue	\$ 50,016	\$ 50,016	\$ 69,516	\$ 60,502
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>\$ 60,687</u>
7					
8	Operating Expenses:				
9	Operation and Maintenance	\$ 40,014	\$ 35,933	\$ 40,014	\$ 35,933
10	Depreciation	13,386	13,421	13,386	13,421
11	Property & Other Taxes	3,054	3,054	4,129	3,181
12	Income Tax	(510)	-	666	-
13	Bad Debt Expense	\$ 725	\$ 725	\$ 725	\$ 876
14	Total Operating Expense	<u>\$ 56,669</u>	<u>\$ 53,133</u>	<u>\$ 58,920</u>	<u>\$ 53,412</u>
15					
16	Operating Income/(Loss)	<u>\$ (6,468)</u>	<u>\$ (2,932)</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%	11.99%
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	\$ 20,697

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)	(\$2,932)
3	Current Rate of Return (L2 / L1)	-11.02%	-5.04%
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	\$ 10,208
7	Gross Revenue Conversion Factor	1.0000	1.0273
8	Required Revenue Increase (L7 * L6)	\$ 19,500	\$ 10,486
9	Adjusted Test Year Revenue	\$ 50,201	\$ 50,201
10	Proposed Annual Revenue (L8 + L9)	\$ 69,701	\$ 60,687
11	Required Increase in Revenue (%)	38.84%	20.89%
12	Operating Margin	15.47%	11.99%

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)	1.2108%			
5	Subtotal (L3 - L4)	97.3450%			
6	Revenue Conversion Factor (L1 / L5)	1.027275			
24	Required Operating Income (Schedule BCA-3, Page 1)	\$ 7,275			
25	Adjusted Test Year Operating Income (Loss) (Schedule BCA-3, Page 1)	\$ (2,932)			
26	Required Increase in Operating Income (L24 - L25)		\$ 10,208		
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)	\$ 60,687			
31	Uncollectible Rate (Line 10)	1.44%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ 876			
33	Adjusted Test Year Uncollectible Expense	\$ 725			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ 151		
35	Property Tax with Recommended Revenue (Schedule BCA-3, Page 4)	\$ 3,181			
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)		\$ 127		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 10,486	\$ -	
		<u>Test Year</u>		<u>STAFF</u>	
39	Revenue (Schedule BCA-3, Page 1)	\$50,201	\$ 10,486	\$ 60,687	
40	Operating Expenses Excluding Income Taxes	\$ 53,133	\$ 278	\$ 53,412	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L37- L38)	\$ (2,932)		\$ 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 (AIAC)	-	-	-
Less: AIAC Refunds	-	-	-
Net AIAC	-	-	-
Total Advances	-	-	-
Contributions Gross	17,405	-	17,405
Less:			
Amortization of CLAC	14,427	-	14,427
Net CLAC	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	\$ 220,442	\$ -	\$ 220,442

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		<u>3,751</u>	<u>\$ (510)</u>

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	\$ 10,486
460 Unmetered Water Revenue	\$ -	\$ -	\$ -	\$ -
474 Other Water Revenues	\$ 185.00	\$ -	\$ 185	\$ -
Total Operating Revenue	\$ 50,201	\$ -	\$ 50,201	\$ 10,486
Operating Expenses:				
601 Salaries and Wages	\$ -	\$ -	\$ -	\$ -
610 Purchased Water	\$ -	\$ -	\$ -	\$ -
615 Purchased Power	\$ 5,926	\$ -	\$ 5,926	\$ -
618 Chemicals (Media)	\$ -	\$ -	\$ -	\$ -
620 Repairs and Maintenance	\$ 4,648	\$ -	\$ 4,648	\$ -
620.1 Arsenic Media Expense	\$ -	\$ -	\$ -	\$ -
621 Office Supplies & Expense	\$ -	\$ -	\$ -	\$ -
630 Outside Services	\$ 22,467	\$ (4,080) A	\$ 18,387	\$ -
635 Water Testing	\$ 1,815	\$ -	\$ 1,815	\$ -
641 Rents	\$ -	\$ -	\$ -	\$ -
650 Transportation Expenses	\$ -	\$ -	\$ -	\$ -
657 Insurance - General Liability	\$ 1,314	\$ -	\$ 1,314	\$ -
659 Insurance - Health and Life	\$ -	\$ -	\$ -	\$ -
666 Regulatory Commission Expense - Rate Case	\$ 3,750	\$ -	\$ 3,750	\$ -
675 Miscellaneous Expense	\$ 94	\$ -	\$ 94	\$ -
403 Depreciation Expense	\$ 13,386	\$ 35 B	\$ 13,421	\$ -
408 Taxes Other Than Income	\$ -	\$ -	\$ -	\$ -
408.11 Property Taxes	\$ 3,054	\$ -	\$ 3,054	\$ 127
409 Income Tax	\$ (510)	\$ 510 C	\$ -	\$ -
Bad Debt Expense	\$ 725	\$ -	\$ 725	\$ 151
Total Operating Expenses	\$ 56,669	\$ (3,535)	\$ 53,133	\$ 278
OPERATING INCOME/(LOSS)	\$ (6,468)	\$ 3,535	\$ (2,932)	\$ 10,208

Explanation of Adjustment:

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

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 13,421 \$ 35

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	-	-	-	0.00%	-
4	304	Structures & Improvements	500	500	3,158	0.00%	-
5	307	Wells & Springs	3,158	-	-	3.33%	105
6	311	Electric Pumping Equipment	8,475	8,475	-	3.33%	-
7	320	Water Treatment Equipment	45,303	30,110	15,193	12.50%	1,899
8	320.1	Water Treatment Plants	-	-	-	3.33%	-
9	320.2	Solutions & Feeders	48,408	-	48,408	20.00%	9,682
	320.3	Point-of-Use Treatment Device	-	-	-	10.00%	-
	320.4	Point-of-Use Media	-	-	-	200.00%	-
10	330	Distribution Reservoirs & Standpipes	-	-	-	-	-
11	330.1	Storage Tank	42,311	-	42,311	2.22%	939
12	330.2	Pressure Tanks	-	-	-	5.00%	-
13	331	Transmission & Distribution Mains	59,401	-	59,401	2.00%	1,188
14	333	Services	450	450	-	3.33%	-
15	334	Meters & Meter Installations	4,857	2,940	1,917	8.33%	160
16	335	Hydrants	-	-	-	2.00%	-
17	336	Backflow Prevention Devices	7,579	6,603	976	6.67%	65
18	339	Other Plant & Misc. Equip.	-	-	-	6.67%	-
19	340	Office Furniture & Fixtures	-	-	-	6.67%	-
20	340.1	Computer & Software	-	-	-	20.00%	-
21	341	Transportation Equipment	-	-	-	20.00%	-
22	342	Store Equipment	-	-	-	4.00%	-
23	343	Tools & Work Equipment	-	-	-	5.00%	-
24	344	Laboratory Equipment	-	-	-	10.00%	-
25	345	Power Operated Equipment	-	-	-	5.00%	-
26	346	Communications Equipment	-	-	-	10.00%	-
27	347	Miscellaneous Equipment	-	-	-	10.00%	-
28	348	Other Intangibles	-	-	-	0.00%	-
29							
30							
31		Subtotal General	<u>\$ 220,442</u>	<u>\$ 49,078</u>	<u>\$ 171,364</u>		<u>\$ 14,038</u>
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Contribution in aid of Construction (CIAC) 17,405
Less: Fully Amortized CIAC -
17,405
Multiplied by CIAC Amortization Rate (From Line 47) 3.54%
Amortization of CIAC \$ 617

Depreciation Expense Before Amortization of CIAC 14,038
Less: Amortization of CIAC 617
Test Year Depreciation Expense - Staff 13,421
Depreciation Expense - Company 13,386
Staff's Total Adjustment \$ 35

Calculation of Amortization of CIAC Rate (Depre Exp./Depre Plant)= \$4,356/\$122,956=3.54%
Depre. Exp. On CIAC Funded Plant (\$14,038-\$9,682)=\$4,356

Depreciable Plant Funded with CIAC (\$171,364-\$48,408)=\$122,956
The \$48,000 was funded with WIFA loan so Staff removed it from CIAC calculation

OPERATING EXPENSE ADJUSTMENTS

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

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	\$ 125.00	\$ 125.00
1" Meter	\$ 345.00	\$ 200.00	\$ 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	\$ 7.43
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	\$ 7.43
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	\$ 7.43
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	\$ 7.43
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		\$ 7.43
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	\$ 7.43
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	\$ 7.43
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	\$ 7.43
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	\$ 7.43
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	\$ 7.43
Bulk Water			
Up to 25,000 Gallons	\$ 5.49	\$ 5.25	\$ 7.43
Over 25,000 Gallons		\$ 9.69	

RATE DESIGN

Service Line and Meter Installation Charges	Present Rates	Company Proposed			Staff Recommended		
		Service Line	Meter	Chrg	Total	Service Line	Meter
5/8" x 3/4" Meter	\$ 520	\$ 445	\$ 155	\$ 600	\$ 445	\$ 155	\$ 600
3/4" Meter	\$ 600	\$ 445	\$ 255	\$ 700	\$ 445	\$ 255	\$ 700
1" Meter	\$ 690	\$ 495	\$ 315	\$ 810	\$ 495	\$ 315	\$ 810
1 1/2" Meter	\$ 935	\$ 550	\$ 525	\$ 1,075	\$ 550	\$ 525	\$ 1,075
2" Turbine Meter	\$ 1,595	\$ 830	\$ 1,045	\$ 1,875	\$ 830	\$ 1,045	\$ 1,875
2" Compound Meter	\$ 2,320	\$ 830	\$ 1,890	\$ 2,720	\$ 830	\$ 1,890	\$ 2,720
3" Turbine Meter	\$ 2,275	\$ 1,045	\$ 1,670	\$ 2,715	\$ 1,045	\$ 1,670	\$ 2,715
3" Compound Meter	\$ 3,110	\$ 1,165	\$ 2,545	\$ 3,710	\$ 1,165	\$ 2,545	\$ 3,710
4" Turbine Meter	\$ 3,520	\$ 1,490	\$ 2,670	\$ 4,160	\$ 1,490	\$ 2,670	\$ 4,160
4" Compound Meter	\$ 4,475	\$ 1,670	\$ 3,645	\$ 5,315	\$ 1,670	\$ 3,645	\$ 5,315
6" Turbine Meter	\$ 6,275	\$ 2,210	\$ 5,025	\$ 7,235	\$ 2,210	\$ 5,025	\$ 7,235
6" Compound Meter	\$ 8,050	\$ 2,330	\$ 6,920	\$ 9,250	\$ 2,330	\$ 6,920	\$ 9,250
Over 6"	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
Service Charges							
Establishment	\$ 25		\$ 25			\$ 25.00	
Bulk Water Account Establishment	N/A		\$ 25			\$ 25.00	
After Hours Service Charge	N/A		\$ 35			\$ 35.00	
Reconnection (Delinquent)	\$ 25		\$ 30			\$ 30.00	
Meter Test (If Correct)	\$ 25		\$ 25			\$ 25.00	
Deposit	*		*			*	
Deposit Interest	*		*			*	
Re-Establishment (Within 12 Months)	**		**			**	
NSF Check	\$ 25		\$ 25.00			\$ 25.00	
Deferred Payment	1.50%		1.50%			1.50%	
Meter Re-Read (If Correct)	\$ 10		\$ 15			\$ 15.00	
Late Fee	1%		1.50%			1.50%	
Establishment After Hours	\$ 35		N/A			N/A	
Reconnect (Delinquent) After hours	\$ 35		N/A			N/A	
Monthly Service Charge for Fire Sprinkler							
4" or Smaller	-		-			***	
6"	-		-			***	
8"	-		-			***	
10"	-		-			***	
Larger than 10"	-		-			***	
<p>* Per Commission Rules (R14-2-403.B) ** Months off system times the minimum (R14-2-403.D) *** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.</p>							

TYPICAL BILL ANALYSIS

General Service 3/4 - Inch Meter

Average Number of Customers: 3

Company Proposed	* Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
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					
	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	28,875	\$ 159.83	\$ 197.24	\$ 37.41	23.4%
Median Usage	25,200	\$ 139.66	\$ 169.94	\$ 30.28	21.7%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
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%	94.15	12.5%
20,000	111.11	154.15	38.7%	131.30	18.2%
25,000	138.56	202.60	46.2%	168.45	21.6%
25,200	144.05	212.29	47.4%	175.88	22.1%
28,875	149.54	221.98	48.4%	183.31	22.6%
50,000	275.81	444.85	61.3%	354.20	28.4%
75,000	413.06	687.10	66.3%	539.95	30.7%
100,000	550.31	929.35	68.9%	725.70	31.9%
125,000	687.56	1,171.60	70.4%	911.45	32.6%
150,000	824.81	1,413.85	71.4%	1,097.20	33.0%
175,000	962.06	1,656.10	72.1%	1,282.95	33.4%
200,000	1,099.31	1,898.35	72.7%	1,468.70	33.6%

* Average and Median usage levels are for Ostrich Farm customers.