

ORIGINAL

MEMORANDUM



TO: Docket Control

FROM: Thomas M. Broderick
Director
Utilities Division

to m. broderick

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL
2016 MAY 31 PM 3 36

DATE: May 31, 2016

RE: STAFF REPORT FOR OATMAN WATER COMPANY, LLC's APPLICATION FOR AN INCREASE IN ITS RATES (DOCKET NO. W-04069A-16-0080)

Attached is the Staff Report for Oatman Water Company, LLC's ("Oatman" or "Company") 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 June 10, 2016.

TMB:TDP:red/ML

Originator: Tanya Pitre

Arizona Corporation Commission
DOCKETED
MAY 31 2016
DOCKETED BY *TP*

Service List for: Oatman Water Company, LLC
Docket No. W-04069A-16-0080

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

OATMAN WATER COMPANY, LLC

DOCKET NO. W-04069A-16-0080

**APPLICATION FOR AN
INCREASE IN RATES**

MAY 31, 2016

STAFF ACKNOWLEDGMENT

The Staff Report for Oatman Water Company, LLC ("Oatman" or "Company") Docket No. W-04069A-16-0080 was the responsibility of the Staff members listed below. Tanya Pitre was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Michael Thompson was responsible for the engineering and technical analysis. Michael Buck was responsible for reviewing customer complaints filed with the Commission.



Tanya Pitre
Public Utilities Analyst I



Michael Thompson
Utilities Engineer – Water/Wastewater



Michael Buck
Consumer Analyst I

EXECUTIVE SUMMARY
OATMAN WATER COMPANY, LLC
DOCKET NO. W-04069A-16-0080

On March 3, 2016, Oatman Water Company, LLC (“Oatman” or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) for a permanent rate increase. On April 1, 2016, Staff filed a letter declaring the application sufficient.

Oatman is a class E for-profit Arizona public service corporation that provides water service to approximately 99 customers. The Company is located in the Town of Oatman approximately 40 miles west of Kingman, Arizona on US Highway Route 66.

Oatman proposed a revenue increase of \$32,985 or 70.16 percent over test year revenues of \$47,015 to \$80,000. The proposed revenue increase would produce an operating income of \$16,709 resulting in a 20.89 percent operating margin. The Company’s proposed original cost rate base (“OCRB”) is \$104,895. The Company’s proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 1,496 gallons from \$32.40 to \$56.22, for an increase of \$23.81, or 73.5 percent.

Staff recommends a revenue increase of \$48,272 or 102.67 percent over test year revenues of \$47,015 to \$95,287. Staff’s recommended revenue increase would produce an operating income of \$9,912 resulting in a 10.40 percent operating margin. Staff recommends an OCRB of \$61,353. Staff’s recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 1,496 gallons from \$32.40 to \$64.80, for an increase of \$32.40, or 100.0 percent.

Staff has discussed with Company representatives, the reasons Staff is recommending a higher rate increase than requested and Staff has been informed that the Company generally concurs with the basis for Staff’s rate increase recommendation.

Staff Recommends:

1. Approval of Staff’s recommended rates and charges as shown on Schedule TDP-4.
2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code (“A.A.C.”) Rule 14-2-409(D)(5).
3. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
4. That Oatman, 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 regularly scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
5. The annual water testing expenses of \$1,084 be used for purposes of this proceeding.

6. That the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, documentation demonstrating that its 2008 and 2013 System Water Plans have been submitted, and is in compliance with the Arizona Department of Water Resources (“ADWR”).
7. That Oatman install a sanitary seal and a security enclosure (fence or block wall) at Well No. 2.
8. That Oatman inspect and maintain its Well No. 1 production meter on a regular basis to ensure that reliable and accurate production figures can be obtained from the meter.
9. Staff further recommends, going forward, that monthly production figures from Well No. 1 be entered on the Water Use Data Sheet submitted with its corresponding Annual Report.
10. Staff further recommends that Oatman monitor its water system for a 12-month period to prepare a water loss report. Oatman should account for its Unbilled Authorized Consumption (gallons) and remove that quantity from the water loss calculation. If the reported water loss remains above 10 percent, Oatman shall submit a water loss reduction report containing a detailed analysis and plan to reduce its water loss to 10 percent or less. If Oatman believes it is not cost effective to reduce water loss to 10 percent or less, it shall submit a detailed cost benefit analysis to support its opinion. In no case shall Oatman continue to allow water loss to be greater than 15 percent. The water loss reduction report or the detailed cost benefit analysis, whichever is submitted, shall be docketed as a compliance item within 18 months from the effective date of an order issued in this proceeding.
11. Staff further recommends that Oatman use the Staff recommended depreciation rates listed in Table F of the attached Engineering Report.
12. Staff further recommends the service line and meter installation charges listed under “Staff’s Recommendations” in Table G of the attached Engineering Report be adopted.

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ATTACHMENT

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FACT SHEET

Company Statistics:

Current rates: Decision No. 63626 dated May 4, 2001.

Type of ownership: Limited Liability Company (“LLC”)

Location: Oatman is located in the Town of Oatman, Arizona approximately 40 miles west of Kingman, Arizona on US Highway Route 66.

Rates:

Permanent rate increase application filed: March 3, 2016.

Current test year ended: December 31, 2014.

Application found Sufficient: April 1, 2016.

Prior test year ended: March 31, 2000.

Monthly Charges:

	Current	Company Proposed	Staff Recommended
Minimum monthly charge:			
5/8 x 3/4 inch meter	<u>Rates</u> \$25.00	<u>Rates</u> \$45.00	<u>Rates</u> \$50.00
Commodity charge (per 1,000 gallons):			
From 0 to 3,000 gallons	\$4.95	\$ 7.50	\$9.90
From 3,001 to 9,000 gallons	6.95	10.00	13.90
9,000 and over	9.10	13.00	18.70
Typical 5/8 x 3/4 inch meter residential bill:			
Average use (26,437 gallons)	\$35.91	\$61.52	\$71.81
Median use (1,496 gallons)	32.40	56.22	0

Customers:

The average number of customers serviced by Oatman during the test year ended December 31, 2014: 99

Customer notification:

An Affidavit of Mailing was filed on March 18, 2016. Notice was mailed to 72 customers representing 98 hookups and hand delivered to the remaining customers on March 3, 2016.

Complaints and Opinions:

A review of Consumer Services database from January 1, 2013 to May 9, 2016, revealed the following:

2013 - 2016 - Zero Complaints

Opinions: Three, all opposed to the rate increase.

SUMMARY OF FILING

The test year results, as adjusted by Utilities Division Staff ("Staff"), for Oatman Water Company, LLC. ("Oatman" or "Company") shows total operating revenue of \$47,015 and an operating loss of \$32,071 on an original cost rate base ("OCRB") of \$61,353 for no rate of return as shown on Schedule TDP - 1, Page 1.

Oatman's proposed rates, as filed, would produce total operating revenue of \$80,000 and an operating income of \$16,709, for a 20.89 percent operating margin. The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill, with a median usage of 1,496 gallons from \$32.40 to \$56.22 for an increase of \$23.81 or 73.5 percent as shown on Schedule TDP - 5.

Staff's recommended rates would produce total operating revenue of \$95,287 and operating income of \$9,912, for a 10.40 percent operating margin. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential bill, with a median usage of 1,496 gallons from \$32.40 to \$64.80 for an increase of \$32.40 or 100.0 percent as shown on Schedule TDP - 5.

Staff has discussed with Company representatives, the reasons it is recommending a higher rate increase than requested and Staff has been informed that the Company generally concurs with the basis for Staff's rate increase recommendation.

COMPANY BACKGROUND

Oatman is a Limited Liability Company ("LLC") that provides water service in Arizona. The Company is located in Mohave County, in the Town of Oatman approximately 40 miles west of Kingman, Arizona on US Highway Route 66.

On March 3, 2016, Oatman filed an application with the Arizona Corporation Commission ("Commission") for a permanent rate increase. On April 1, 2016, Staff filed a letter declaring the application sufficient and classified the Company as a class E public service corporation.

The Company states that the requested rate relief is necessary to cover current operating expenses, bring its debt service ratio coverage in compliance, and provide a minimal return on investment.

CONSUMER SERVICES

Complaints and Opinions

A review of Consumer Services database from January 1, 2013 to May 9, 2016, revealed the following:

2013 - 2016 - Zero Complaints

Opinions: Three opinions opposed to the rate increase.

The Company submitted their bill format to Staff for review on May 6, 2016. It complies with Rules R14-2-409.B.2.a thru R14-2-409.B.2.j of the Arizona Administrative Code, Title 14, Chapter 2.

COMPLIANCE

A check of the Commission Compliance Database indicates that there are currently no delinquencies for Oatman. The Company is current on its property tax obligations.

The Corporations Division of the Commission reports on April 6, 2016, that the Company is in Good Standing.

The Company filed its 2014 Utilities Division Annual Report on December 4, 2015.

ENGINEERING ANALYSIS

Staff Engineer inspected the Company's plant facilities on April 14, 2016. The Oatman water system consists of one active groundwater well, one inactive groundwater well, one active storage tank, two inactive storage tanks, and 17,600 linear feet of water distribution main. A complete discussion of Staff's technical findings and recommendations and a description of the water system are provided in the attached Staff Engineering Report.

Staff recommends using the depreciation rates shown on Table F of the Staff Engineering Report.

Oatman has an approved Cross-Connection/Backflow Prevention tariff on file with the ACC, which became effective April 16, 2016.

Oatman has an approved Curtailment plan tariff on file with the ACC, which became effective May 20, 2016.

RATE BASE

Staff's rate base adjustments result in a net decrease to the Company's proposed rate base by \$43,542 from \$104,895 to \$61,353 as shown in Schedule TDP-2, page 1. Details of Staff's adjustments are presented below.

Plant in Service – Adjustment "A"

Other Intangibles – Adjustment "a" under plant in service removes the balance in this account of \$133,341 shown on TDP-2, page 2.1. Per discussion with the Company's Owner it was determined that the balance was a result of a reorganization in 2002. Staff requested invoices for this balance, but the Company was unable to provide any. Therefore, Staff removed the \$133,341 balance in unsupported plant costs, and the accounting entry does not appear to represent an investment needed to provide service to ratepayers.

Unclassified Plant – Adjustment “b” under plant in service increases this account by \$27,855, as shown on Schedule TDP-2, page 2.1. Staff’s adjusted amount reflects the \$27,855 plant balance adopted in Decision No. 63626 and reflects no plant additions or retirements in the intervening years since the test year in the prior rate proceeding.

Accumulated Depreciation – Adjustment “B”

This adjustment decreases accumulated depreciation by \$53,283, from \$113,062 to \$59,779, as shown on Schedule TDP-2, page 1 and TDP-2, page 3.

Staff calculated the ending balance of accumulated depreciation by utilizing the ending plant balances and accumulated depreciation by plant account from the last rate case (Docket No. W-01079A-00-0852), reflecting plant additions, no recorded retirements identified by Staff or the Company, and by applying the Commission’s previously approved depreciation rates.

Working Capital – Adjustments “C” and “D”

Staff’s adjustments C and D increases cash working capital by \$8,661, as shown on Schedule TDP-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 tested and accepted the Company’s total test year operating revenue of \$47,015.

Operating Expenses

Staff’s six adjustments to operating expenses resulted in a net decrease of \$15,795 as shown on Schedule TDP - 3, page 1. Details of Staff’s adjustments are presented below.

Salaries and Wages – Adjustment A increases this expense by \$17,500, from \$0 to \$17,500 as shown on Schedule TDP – 3, pages 1 and 2, to reflect Staff’s recommended expense level.

Staff believes that the Owner/Operator of Oatman is entitled to receive a reasonable annual salary for the work performed. The Company responded to Staff’s data request, stating what duties are performed and made its recommendation based on the Company’s response.

Water Testing – Adjustment B increases this account by \$191, from \$893 to \$1,084 as shown on Schedule TDP – 3, pages 1 and 2, to reflect Staff Engineer’s recommended expense level.

Rate Case Expense – Adjustment C increases this account from \$0 to \$820 as shown on Schedule TDP-3, pages 1 and 2. The Company did not propose an amount for rate case expense in the original application. During the course of the audit the owner indicated that he would like to recover rate case expense. In response to Staff's data request TDP 1-10, the Company provided documentation to support rate case expense of \$4,100. Staff typically normalizes rate case expense using three to five years. The Company's last rate case was approximately 14 years ago, therefore, Staff normalized the \$4,100 using five years resulting in annual rate case expense of \$820.

Depreciation Expense – Adjustment D increases this account by \$2,211, from \$6,173 to \$8,384, as shown on Schedule TDP – 3, pages 1 and 3, to reflect application of Staff's recommended depreciation rates¹ to Staff's recommended plant balances.²

Property Tax Expense – Adjustment E decreases this account by \$330, from \$2,483 to \$2,153 as shown on Schedule TDP-3, pages 1 and 4, to reflect property taxes calculated using Staff's modified Arizona Department of Revenue methodology.

Income Tax Expense – Adjustment F adjusted the reported income tax expense by \$4,597, from \$0 to (\$4,597) to reflect Staff's calculation of the income tax obligation on Staff's adjusted test year reported loss, as shown on Schedule TDP – 1, page 3.

REVENUE REQUIREMENT

The rates for the Oatman water system have not been increased in the past fourteen years. The owner of Oatman must service a \$163,500 WIFA loan, and as previously noted, the owner is also providing bookkeeping and management services at no cost.

Staff's recommended operating revenue of \$95,287, provides the Company with sufficient cash flow to pay operating expenses, contingencies, principal interest and loan reserve payments on its existing Water Infrastructure Financing Authority of Arizona ("WIFA") loan. Staff's revenue requirement will allow the Company to meet the minimum 1.2 debt service coverage ("DSC") ratio required by WIFA.

RATE DESIGN

Schedule TDP-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 break-over of 3,000 gallons; 10,000-gallons for the second-tier; and over 10,000-gallons for the third-tier. The Company proposes to retain a three tiered rate structure. Staff agrees with the Company to maintain a three tiered rate structure for its rates and to keep the tier break-over points as proposed in its application.

¹ Shown on Table F of the attached Engineering Report

² Shown on Schedule TDP - 2, page 2.2

Miscellaneous Service Charges

The Company has proposed changes to its miscellaneous service charges. Staff recommends adoption of the Company proposed increases to the following miscellaneous service charges:

- Establishment Charge – an increase from \$20 to \$30.
- Reconnection (Delinquent) – increase from \$20 to \$30.
- Meter Test (if correct) – increase from \$10 to \$25.

Staff has recommended a different amount than that proposed by the Company for the following miscellaneous service charges:

- Meter Reread (if correct) – The Company has proposed a change from \$5 to \$20. Staff recommends a charge of \$15 due to limited service area.
- NSF Check – The Company has proposed a change from \$20 to \$25. Staff recommends a charge of \$20. The Company is unable to provide support for the increase request.

Late Payment Penalty – The Company currently has no approved Late Payment Penalty charge and has proposed a fee of \$25. Staff recommends a charge of \$10.

Deferred Payment Plan – The Company currently has no approved Deferred Payment Plan Charge and is proposing to add a charge of 2 percent per rule R14-2-409.(G). Staff agrees with the Company's proposed charge.

After Hours Service Call Charge – The Company currently has no approved After Hours Service Call Charge and has proposing a charge of \$50. Staff recommends a charge of \$40.

SERVICE LINE AND METER INSTALLATION CHARGES

Oatman has proposed changes to its existing service line and meter installation charges. The installation charges, listed in Table G of the attached Engineering report, are refundable advances. Oatman's proposed service line and meter installation charges include only the total charges. The individual service line and meter installation charges were not included. Since Oatman may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Staff recommends that the charges listed under "Staff's Recommendation" in Table G of the attached Engineering be adopted.

STAFF RECOMMENDATIONS:

1. Approval of Staff's recommended rates and charges as shown on Schedule TDP-4.
2. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).

3. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
4. That Oatman, 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 regularly scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
5. The annual water testing expenses of \$1,084 be used for purposes of this proceeding.
6. That the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, documentation demonstrating that its 2008 and 2013 System Water Plans have been submitted, and is in compliance with the Arizona Department of Water Resources (“ADWR”).
7. That Oatman install a sanitary seal and a security enclosure (fence or block wall) at Well No. 2.
8. That Oatman inspect and maintain its Well No.1 production meter on a regular basis to ensure that reliable and accurate production figures can be obtained from the meter.
9. Staff further recommends, going forward, that monthly production figures from Well No.1 be entered on the Water Use Data Sheet submitted with its corresponding Annual Report.
10. Staff further recommends that Oatman monitor its water system for a 12-month period to prepare a water loss report. Oatman should account for its Unbilled Authorized Consumption (gallons) and remove that quantity from the water loss calculation. If the reported water loss remains above 10 percent, Oatman shall submit a water loss reduction report containing a detailed analysis and plan to reduce its water loss to 10 percent or less. If Oatman believes it is not cost effective to reduce water loss to 10 percent or less, it shall submit a detailed cost benefit analysis to support its opinion. In no case shall Oatman continue to allow water loss to be greater than 15 percent. The water loss reduction report or the detailed cost benefit analysis, whichever is submitted, shall be docketed as a compliance item within 18 months from the effective date of an order issued in this proceeding.
11. Staff further recommends that Oatman use the Staff recommended depreciation rates listed in Table F of the attached Engineering Report.

12. Staff further recommends the service line and meter installation charges listed under “Staff’s Recommendations” in Table G of the attached Engineering Report be adopted.

SUMMARY OF FILING

	Company as Filed	Staff as Adjusted	Company Proposed	Staff Recommended
Revenues:				
Metered Water Revenue	\$46,916	\$46,916	\$79,901	\$95,188
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	99	99	99	99
Total Operating Revenue	\$47,015	\$47,015	\$80,000	\$95,287
Operating Expenses:				
Operation and Maintenance	\$54,635	\$73,146	\$54,635	\$73,146
Depreciation	6,173	8,384	6,173	8,384
Property & Other Taxes	2,483	2,153	2,483	2,889
Income Tax	0	(4,597)	0	956
Total Operating Expense	\$63,291	\$79,086	\$63,291	\$85,375
Operating Income/(Loss)	(\$16,276)	(\$32,071)	\$16,709	\$9,912
Rate Base O.C.L.D.	\$104,895	\$61,353	\$104,895	\$61,353
Operating Margin	N/M	N/M	20.89%	10.40%
Total Annual WIFA Loan Principle and Interest Payments				\$12,478
DSC Ratio				
Before Tax: (Depr Exp + Inc Tax + Oper Inc) ÷ (Principal & Interest on L.T. Debt)				1.54
After Tax: (Depr Exp + Oper Inc) ÷ (Principal & Interest on L.T. Debt) [WIFA]				1.47

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

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A]	[B]
		COMPANY ORIGINAL COST	STAFF ORIGINAL COST
1	Adjusted Rate Base	\$104,895	\$61,353
2	Adjusted Operating Income (Loss)	(\$16,276)	(\$32,071)
3	Current Rate of Return (L2 / L1)	-15.52%	-52.27%
4	Required Rate of Return	15.93%	16.16%
5	Required Operating Income (L4 * L1)	\$16,709	\$9,912
6	Operating Income Deficiency (L5 - L2)	\$32,985	\$41,983
7	Gross Revenue Conversion Factor	1.0000	1.1498
8	Required Revenue Increase (L7 * L6)	\$32,985	\$48,272
9	Adjusted Test Year Revenue	\$47,015	\$47,015
10	Proposed Annual Revenue (L8 + L9)	\$80,000	\$95,287
11	Required Increase in Revenue (%)	70.16%	102.67%

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	[A]	[B]	[C]
<i>Calculation of Gross Revenue Conversion Factor</i>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 12)	0.0000%		
3	Revenues (L1 - L2)	100.0000%		
4	Combined Federal and State Income Tax and Property Tax Rate (L29)	13.0288%		
5	Subtotal (L3 - L4)	86.9712%		
6	Revenue Conversion Factor (L1 / L5)	1.14980628		
7				
<i>Calculation of Uncollectible Factor</i>				
8	Unity	100.0000%		
9	Combined Federal and State Tax Rate (L21)	11.6809%		
10	One Minus Combined Income Tax Rate (L9 - L10)	88.3191%		
11	Uncollectible Rate	0.0000%		
12	Uncollectible Factor (L11 * L12)	0.0000%		
13				
14				
<i>Calculation of Effective Tax Rate</i>				
15	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
16	Arizona State Income Tax Rate	2.5900%		
17	Federal Taxable Income (L16 - L17)	97.4100%		
18	Applicable Federal Income Tax Rate (L69 Col [C])	9.3326%		
19	Effective Federal Income Tax Rate (L18 * L19)	0.09090909		
20	Combined Federal and State Income Tax Rate (L17 + L20)	11.6809%		
21				
22				
<i>Calculation of Effective Property Tax Factor</i>				
23	Unity	100.0000%		
24	Combined Federal and State Income Tax Rate (L21)	11.6809%		
25	One Minus Combined Income Tax Rate (L24 - L25)	88.3191%		
26	Property Tax Factor	1.5262%		
27	Effective Property Tax Factor (L26 * L27)	1.3479%		
28	Combined Federal and State Income Tax and Property Tax Rate (L21 + L28)	13.0288%		
29				
30				
31				
32				
33	Required Operating Income	\$9,912		
34	Adjusted Test Year Operating Income (Loss)	(32,071)		
35	Required Increase in Operating Income (L33 - L34)	\$41,983		
36				
37	Income Taxes on Recommended Revenue (Col. [C], L66)	\$956		
38	Income Taxes on Test Year Revenue (Col. [A], L66)	(4,597)		
39	Required Increase in Revenue to Provide for Income Taxes (L37 - L38)	\$5,553		
40				
41	Recommended Revenue Requirement	\$95,287		
42	Uncollectible Rate (L11)	0.0000%		
43	Uncollectible Expense on Recommended Revenue (L41 * L42)	\$0		
44	Adjusted Test Year Uncollectible Expense	0		
45	Required Increase in Revenue to Provide for Uncollectible Exp.	\$0		
46				
47	Property Tax with Recommended Revenue	\$2,889		
48	Property Tax on Test Year Revenue	2,153		
49	Increase in Property Tax Due to Increase in Revenue (L47 - L48)	\$737		
50				
51	Total Required Increase in Revenue (L35 + L39 + L45 + L49)	\$48,272		
52				
53				
54				
55				

	[A]	[B]	[C]
56	<i>Calculation of Income Taxes</i>		
57	Test Year		Staff Recommended
58	Revenue	\$47,015	\$95,287
59	Operating Expenses Excluding Income Taxes	83,682	84,419
60	Synchronized Interest (L75)	2,684	2,684
61	Arizona Taxable Income (L57 - L59 - L58)	(\$39,351)	\$8,184
62	Arizona State Effective Income Tax Rate (see work papers)	2.5900%	2.5900%
63	Arizona Income Tax (L60 * L61)	(\$1,019)	\$212
64	Federal Taxable Income (L60 - L62)	(\$38,332)	\$7,972
65	Federal Tax Rate (see work papers)	9.3326%	9.3326%
66	Federal Tax	(3,577)	744
67	Combined Federal and State Income Tax (L62 + L65)	(\$4,597)	\$956
68			
69			
70			
71			
72	<i>Calculation of Interest Synchronization</i>		
73	Rate Base	\$61,353	
74	Weighted Average Cost of Debt	4.3750%	
75	Synchronized Interest (L73 * L74)	\$2,684	

ORIGINAL COST RATE BASE/FAIR VALUE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$217,957	(\$105,486) A	\$112,471
Less:			
Accum. Depreciation	113,062	(53,283) B	59,779
Net Plant	\$104,895	(\$52,203)	\$52,692
Less:			
Plant Advances	\$0	\$0	\$0
Accumulated Deferred Income Taxes	0	0	0
Total Advances	\$0	\$0	\$0
Contributions Gross	\$0	\$0	\$0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	\$0	\$0	\$0
Total Deductions	\$0	\$0	\$0
Plus: Working Capital			
Purchased Power & Water	\$0	\$241 C	\$241
Operation & Maintenance	\$0	\$8,419 D	\$8,419
Inventory	\$0	\$0	\$0
Prepayments	\$0	\$0	\$0
Total Additions	\$0	\$8,661	\$8,661
Rate Base	\$104,895	(\$43,542)	\$61,353

Explanation of Adjustment:

- A- See Schedule TDP-2, page 2
- B- See Schedule TDP-2, page 3
- C- See Schedule TDP-2, page 4
- D- See Schedule TDP-2, page 4

PLANT ADJUSTMENT

Line No.	Acct. No.	Description	Company Exhibit	Adjustment	Staff Adjusted
1	301	Organization Costs	\$0	\$0	\$0
2	302	Franchise Costs	0	0	0
3	303	Land & Land Rights	0	0	0
4	304	Structures & Improvements	0	0	0
5	307	Wells & Springs	0	0	0
6	310	Power Generation Equipment	0	0	0
7	311	Electric Pumping Equipment	0	0	0
8	320	Water Treatment Equipment	0	0	0
9	320	Water Treatment Plants	0	0	0
10	320	Solutions & Feeders	0	0	0
11	320	Point-of-Use Treatment Devices	0	0	0
12	330	Distribution Reservoirs & Standpipes	0	0	0
13	330	Storage Tank	48,029	0	48,029
14	330	Pressure Tanks	0	0	0
15	331	Transmission & Distribution Mains	0	0	0
16	333	Services	0	0	0
17	334	Meters & Meter Installations	0	0	0
18	335	Hydrants	0	0	0
19	336	Backflow Prevention Devices	0	0	0
20	339	Other Plant & Misc. Equip.	0	0	0
21	340	Office Furniture & Fixtures	0	0	0
22	340	Computer & Software	1,587	0	1,587
23	341	Transportation Equipment	35,000	0	35,000
24	342	Store Equipment	0	0	0
25	343	Tools & Work Equipment	0	0	0
26	344	Laboratory Equipment	0	0	0
27	345	Power Operated Equipment	0	0	0
28	346	Communications Equipment	0	0	0
29	347	Miscellaneous Equipment	0	0	0
30	348	Other Intangibles	133,341	(133,341) a	0
31		Unclassified Plant	0	27,855 b	27,855
32		TOTALS	\$217,957	\$ (105,486) A	\$112,471

Explanation of Adjustment:

- a- To remove the Company's unsupported plant balance.
as shown on Schedule TDP-2, P 2.2
- b- To reflect the beginning balance per the Staff Report in Decision No. 63626
as shown on Schedule TDP-1, P. 2.1

PLANT RECONSTRUCTION							
Line	Acct.		Per	2002	2003	2004	Staff
No.	No.	Description	Decision	Plant Addition	Plant Addition	Plant Addition	Total
			No. 63626	Truck	Tank	Computer Equip	Plant
1	301	Organization Costs	\$0	\$0	\$0	\$0	\$0
2	302	Franchise Costs	0	0	0	0	0
3	303	Land & Land Rights	0	0	0	0	0
4	304	Structures & Improvements	0	0	0	0	0
5	307	Wells & Springs	0	0	0	0	0
6	310	Power Generation Equipment	0	0	0	0	0
7	311	Electric Pumping Equipment	0	0	0	0	0
8	320	Water Treatment Equipment	0	0	0	0	0
9	320	Water Treatment Plants	0	0	0	0	0
10	320	Solutions & Feeders	0	0	0	0	0
11	320	Point-of-Use Treatment Devices	0	0	0	0	0
12	330	Distribution Reservoirs & Standpipes	0	0	0	0	0
13	330	Storage Tank	0	0	48,029	0	48,029
14	330	Pressure Tanks	0	0	0	0	0
15	331	Transmission & Distribution Mains	0	0	0	0	0
16	333	Services	0	0	0	0	0
17	334	Meters & Meter Installations	0	0	0	0	0
18	335	Hydrants	0	0	0	0	0
19	336	Backflow Prevention Devices	0	0	0	0	0
20	339	Other Plant & Misc. Equip.	0	0	0	0	0
21	340	Office Furniture & Fixtures	0	0	0	0	0
22	340	Computer & Software	0	0	0	1,587	1,587
23	341	Transportation Equipment	0	35,000	0	0	35,000
24	342	Store Equipment	0	0	0	0	0
25	343	Tools & Work Equipment	0	0	0	0	0
26	344	Laboratory Equipment	0	0	0	0	0
27	345	Power Operated Equipment	0	0	0	0	0
28	346	Communications Equipment	0	0	0	0	0
29	347	Miscellaneous Equipment	0	0	0	0	0
30	348	Other Intangibles	0	0	0	0	0
31		Unclassified Plant	27,855	0	0	0	27,855
32			\$27,855	\$35,000	\$48,029	\$1,587	\$112,471

RATE BASE ADJUSTMENT B - ACCUMULATED DEPRECIATION
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	Per Company	Adjustment	Per Staff
Accumulated Depreciation	\$113,062	(\$53,283)	\$59,779

LINE NO.	ACCT. NO.	DESCRIPTION	[A] AMOUNT	[B] DEPRECIATION RATE	[C] NO. OF INTERVENING YEARS	[D] ACCUMULATED DEPRECIATION (Col A x B x C)
1	348	Other Tangible Plant	\$133,341	3.33%	12.00	\$53,283

STAFF RATE BASE ADJUSTMENTS

C - WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company	\$ -	
Per Staff	241	<u>\$241</u>
To reflect Staff's calculation of working capital based upon Staff's recommendations for purchased power and purchased water.		
D - WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company	\$ -	
Per Staff	8,419	<u>\$8,419</u>
To reflect Staff's calculation of working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power, purchased water, depreciation expense & taxes).		

STATEMENT OF TEST YEAR OPERATING INCOME

Line No.	Acct. No.	Description	[A] Company Exhibit	[B] Staff Adjustments	[C] Staff Adjusted	[D] Staff Adjustments	[E] Staff Recommended
1		Revenues:					
2	461	Metered Water Revenue	\$46,916	\$0	\$46,916	\$48,272	\$95,188
3	460	Unmetered Water Revenue	0	0	0	0	0
4	474	Other Water Revenues	99	0	99	0	99
5		Total Operating Revenue	\$47,015	\$0	\$47,015	\$48,272	\$95,287
6							
7		Operating Expenses:					
8	601	Salaries and Wages	\$0	\$17,500	A \$17,500		\$17,500
9	610	Purchased Water	0	0	0		0
10	615	Purchased Power	5,791	0	5,791		5,791
11	618	Chemicals	236	0	236		236
12	620	Repairs and Maintenance	14,029	0	14,029		14,029
13	621	Office Supplies and Expense	1,020	0	1,020		1,020
14	630	Outside Services	19,200	0	19,200		19,200
15	635	Water Testing	893	191	B 1,084		1,084
16	641	Rents	12,000	0	12,000		12,000
17	650	Transportation Expenses	0	0	0		0
18	657	Insurance - General Liability	0	0	0		0
19	659	Insurance - Health and Life	0	0	0		0
20	666	Regulatory Commission Expense - Rate Cas	0	820	C 820		820
21	670	Bad Debt Expense	0	0	0		0
22	675	Miscellaneous Expense	1,466	0	1,466		1,466
23	403	Depreciation Expense	6,173	2,211	D 8,384		8,384
24	408	Taxes Other Than Income	0	0	0		0
25	408.11	Property Taxes	2,483	(330)	E 2,153	737	2,889
26	409	Income Tax	0	(4,597)	F (4,597)	5,553	956
27		Total Operating Expenses	\$63,291	\$15,795	\$79,086	\$6,289	\$85,375
28							
29							
30		OPERATING INCOME/(LOSS)	(\$16,276)	(\$15,795)	(\$32,071)	\$41,983	\$9,912

STAFF ADJUSTMENTS

A - SALARIES AND WAGES - Per Company	\$0	
Per Staff	17,500	\$17,500

Description	Per Company Response to DR No. 1-3	Adjustment	Per Staff	
Meter Reading	\$ 2,400	\$ (1,200)	\$ 1,200	per year
Billing	2,400	(1,200)	1,200	per year
Accounting	6,000	0	6,000	per year
ACC Annual Report	600	(200)	400	per year
Banking	1,200	(600)	600	per year
Bill Paying	1,200	(600)	600	per year
Ordering Supplies	1,200	(600)	600	per year
Administrative/Regulatory Interface	6,000	(2,400)	3,600	per year
Maintenance backup	2,400	0	2,400	per year
Other (customer service)	2,400	(1,500)	900	per year
Totals	\$ 25,800	\$ (8,300)	\$ 17,500	per year

This adjustment increases salaries and wages expense by \$17,500 to reflect Staff's recommended salaries and wages expense as discussed in detail in the attached Staff report.

B - WATER TESTING - Per Company	\$893	
Per Staff	1,084	\$191
	#N/A	#N/A

This adjustment increases water testing expense by \$191 to reflect Staff's recommended water testing expense as discussed in greater detail in the attached Engineering Report.

C - RATE CASE EXPENSE - Per Company	\$0	
Per Staff	820	\$820

Staff recommended Rate Case expense	\$	4,100	Per Data Request TDP 1-10
Normalized using 5 years		5	
	\$	820	

This adjustment increases rate case expense by \$820 to reflect Staff's recommended expense level.

STAFF ADJUSTMENTS CONTINUED

D - DEPRECIATION EXPENSE-Per Company	\$6,173	
Per Staff	<u>8,384</u>	<u>\$2,211</u>

To reflect Staff's calculation of depreciation expenses shown on Schedule TDP-3, Page 3 of 4

E - PROPERTY TAXES-Per Company	\$2,483	
Per Staff	<u>2,153</u>	<u>(\$330)</u>

To reflect Staff's calculation of property taxes as shown on Schedule TDP-3, Page 5 of 5

F - INCOME TAX-Per Company	\$0	
Per Staff	<u>(4,597)</u>	<u>(\$4,597)</u>

To reflect Staff's calculation of income taxes as shown on Schedule TDP-2, Page 1 of 2

OPERATING INCOME ADJUSTMENT D - DEPRECIATION EXPENSE

Line No.	Acct. No.	Description	[A] Utility Plant in Service Balances	[B] Fully/Non-Depreciable Plant Balances	[C] Depreciable Plant In Service	[D] Deprec. Rate	[E] Depreciation Expense
Plant In Service							
1	301	Organization Costs	\$0	\$0	\$0	0.00%	\$0
2	302	Franchise Costs	0	\$0	0	0.00%	0
3	303	Land & Land Rights	0	\$0	0	0.00%	0
4	304	Structures & Improvements	0	\$0	0	3.33%	0
5	307	Wells & Springs	0	\$0	0	3.33%	0
6	310	Power Generation Equipment	0	\$0	0	5.00%	0
7	311	Electric Pumping Equipment	0	\$0	0	12.50%	0
8	320	Water Treatment Equipment	0				
9	320.1	Water Treatment Plants	0	\$0	0	3.33%	0
10	320.2	Solutions & Feeders	0	\$0	0	20.00%	0
11	320.3	Point-of-Use Treatment Devices	0	\$0	0	10.00%	0
12	330	Distribution Reservoirs & Standpipes	0				
13	330.1	Storage Tank	48,029	\$0	48,029	2.22%	1,066
14	330.2	Pressure Tanks	0	\$0	0	5.00%	0
15	331	Transmission & Distribution Mains	0	\$0	0	2.00%	0
16	333	Services	0	\$0	0	3.33%	0
17	334	Meters & Meter Installations	0	\$0	0	8.33%	0
18	335	Hydrants	0	\$0	0	2.00%	0
19	336	Backflow Prevention Devices	0	\$0	0	6.67%	0
20	339	Other Plant & Misc. Equip.	0	\$0	0	6.67%	0
21	340	Office Furniture & Fixtures	0	\$0	0	6.67%	0
22	340.1	Computer & Software	1,587	\$0	1,587	20.00%	317
23	341	Transportation Equipment	35,000	\$0	35,000	20.00%	7,000
24	342	Store Equipment	0	\$0	0	4.00%	0
25	343	Tools & Work Equipment	0	\$0	0	5.00%	0
33		Subtotal General	<u>\$112,471</u>	<u>\$27,855</u>	<u>\$84,616</u>		<u>\$8,384</u>
34							
35							
36		Contribution(s) in Aid of Construction (Gross)	\$0				
37		Less: Non Amortizable Contribution(s)	0				
38		Fully Amortized Contribution(s)	<u>0</u>				
39		Amortizable Contribution(s)	\$0				
40		Times: Staff Proposed Amortization Rate	<u>7.45%</u>				
41		Amortization of CIAC	\$0				\$0
42		Less: Amortization of Contributions					
43							
44		Staff Recommended Depreciation Expense					\$8,384
45		Company Proposed Depreciation Expense					<u>6,173</u>
46		Increase/(Decrease) to Depreciation Expense					<u>\$2,211</u>

OPERATING INCOME ADJUSTMENT E - PROPERTY TAXES

Line No.	Description	[A]	[B]
		Staff As Adjusted	Staff Recommended
1	Staff Adjusted Test Year Revenues	\$47,015	\$47,015
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$94,030	\$94,030
4	Staff Recommended Revenue	47,015	95,287
5	Subtotal (L4 + L5)	\$141,045	\$189,317
6	Number of Years	3	3
7	Three Year Average (L5 / L6)	\$47,015	\$63,106
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (L7 * L8)	\$94,030	\$126,211
10	Plus: 10% of CWIP	0	0
11	Less: Net Book Value of Licensed Vehicles	0	0
12	Full Cash Value (L9 + L10 - L11)	\$94,030	\$126,211
13	Assessment Ratio	18.00%	18.00%
14	Assessment Value (L12 * L13)	\$16,925	\$22,718
15	Composite Property Tax Rate - Obtained from ADOR	12.71826%	12.71826%
16	Staff Test Year Adjusted Property Tax Expense (L14 * L15)	\$2,153	
17	Company Proposed Property Tax	2,483	
18	Staff Test Year Adjustment (L16 - L17)	(\$330)	
19	Property Tax - Staff Recommended Revenue (L14 * L15)		\$2,889
20	Staff Test Year Adjusted Property Tax Expense (L16)		2,153
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$737
22	Increase in Property Tax Due to Increase in Revenue Requirement (L21)		\$737
23	Increase in Revenue Requirement		\$48,272
24	Increase in Property Tax Per Dollar Increase in Revenue (L22 / L23)		1.526192%

RATE DESIGN			
Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" x 3/4" Meter	\$25.00	\$45.00	\$50.00
3/4" Meter	29.00	50.00	55.00
1" Meter	34.00	60.00	65.00
1 1/2" Meter	49.00	80.00	85.00
2" Meter	87.00	120.00	125.00
3" Meter	124.00	160.00	165.00
4" Meter	191.00	225.00	255.00
6" Meter	358.00	400.00	425.00
8" Meter	0.00	0.00	500.00
10" Meter	0.00	0.00	600.00
Commodity Rates			
5/8 x 3/4" & 3/4" Meter - Residential			
Excess of Minimum - per 1,000 Gallons			
From 0 to 3,000 Gallons	\$4.95	\$7.50	\$9.90
From 3,001 to 9,000 Gallons	6.95	10.00	13.90
Over 9,000 Gallons	9.10	13.00	18.70
3/4" Meter - Commercial & Industrial			
Excess of Minimum - per 1,000 Gallons			
From 0 to 3,000 Gallons	N/A	N/A	\$9.90
From 3,001 to 9,000 Gallons	N/A	N/A	13.90
Over 9,000 Gallons	N/A	N/A	18.70
1" - Residential, Commercial & Industrial			
Excess of Minimum - per 1,000 Gallons			
From 0 to 9,000 Gallons	N/A	N/A	\$13.90
Over 9,000 Gallons	N/A	N/A	18.70
1 1/2" - Residential, Commercial & Industrial			
Excess of Minimum - per 1,000 Gallons			
From 0 to 9,000 Gallons	N/A	N/A	\$13.90
Over 9,000 Gallons	N/A	N/A	18.70
2" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 0 to 9,000 Gallons	N/A	N/A	\$13.90
Over 9,000 Gallons	N/A	N/A	18.70
3" - Residential, Commercial & Industrial			
Excess of Minimum - per 1,000 Gallons			
From 0 to 9,000 Gallons	N/A	N/A	\$13.90
Over 9,000 Gallons	N/A	N/A	18.70
4" - Residential, Commercial & Industrial			
Excess of Minimum - per 1,000 Gallons			
From 0 to 9,000 Gallons	N/A	N/A	\$13.90
Over 9,000 Gallons	N/A	N/A	18.70
6" - Residential, Commercial & Industrial			
Excess of Minimum - per 1,000 Gallons			
From 0 to 9,000 Gallons	N/A	N/A	\$13.90
Over 9,000 Gallons	N/A	N/A	18.70
8" - Residential, Commercial & Industrial			
Excess of Minimum - per 1,000 Gallons			
From 0 to 9,000 Gallons	N/A	N/A	\$13.90
Over 9,000 Gallons	N/A	N/A	18.70
10" - Residential, Commercial & Industrial			
Excess of Minimum - per 1,000 Gallons			
From 0 to 9,000 Gallons	N/A	N/A	\$13.90
Over 9,000 Gallons	N/A	N/A	18.70

RATE DESIGN									
Service Line and Meter Installation Charges	Present Rates			Company Proposed Rates			Staff Recommended Rates		
		Meter	Total			Total	Service	Meter	Total Charge
5/8" x 3/4" Meter	\$0.00	\$0.00	\$375	\$0.00	\$0.00	\$625	\$475	\$150	\$625
3/4" Meter	0.00	0.00	435	0.00	0.00	725	475	250	725
1" Meter	0.00	0.00	510	0.00	0.00	850	550	300	850
1 1/2" Meter	0.00	0.00	740	0.00	0.00	1,115	610	505	1,115
2" Meter	0.00	0.00	1,300	0.00	0.00	1,950	920	1,030	1,950
3" Meter	0.00	0.00	1,855	0.00	0.00	2,850	1,260	1,590	2,850
4" Meter	0.00	0.00	2,870	0.00	0.00	4,380	1,640	2,668	4,308
6" Meter	0.00	0.00	5,375	0.00	0.00	7,500	2,475	5,025	7,500
Service Charges									
Establishment			\$20.00			\$30.00			\$30.00
Establishment (After Hours)			30.00			N/A			N/A
After Hours Service Charge (At customers req)			N/A			50.00			40.00
Reconnection (Delinquent)			20.00			30.00			30.00
Meter Test (If Correct)			10.00			25.00			25.00
Deposit			*			*			*
Deposit Interest			*			*			*
Re-Establishment (Within 12 Months)			**			**			**
NSF Check			20.00			25.00			20.00
Deferred Payment (R14-2-409.G)			0%			2%			2%
Meter Re-Read (If Correct)			5.00			20.00			15.00
Late Payment Penalty			N/A			25.00			10.00
<p>* Per Commission Rule A.A.C. R-14-2-403(B)(7).</p> <p>** Month off system times the monthly minimum A.A.C. R14-2-403(D).</p> <p>In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule A.A.C. 14-2-409D(5).</p>									

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4-Inch Meter

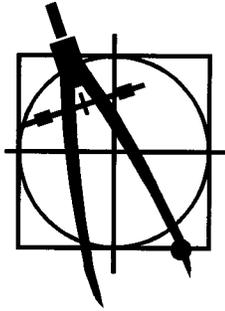
Average Number of Customers: 98

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,203	\$ 35.91	\$ 61.52	\$ 25.62	71.3%
Median Usage	1,496	\$ 32.40	\$ 56.22	\$ 23.81	73.5%

Staff Recommend	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,203	\$ 35.91	\$ 71.81	\$ 35.91	100.0%
Median Usage	1,496	\$ 32.40	\$ 64.80	\$ 32.40	100.0%

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

Gallons	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase	
Minimum Charge	\$25.00	\$45.00	80.0%	\$50.00	100.0%	
1st Tier Rate	\$4.95	\$7.50	50.9%	\$9.90	100.0%	
1st Tier Break-over	3,000	3,000	0.0%	3,000	100.0%	
2nd Tier Rate	\$6.95	\$10.00	44.5%	\$13.90	100.0%	
2nd Tier Break-over	9,000	9,000	0.0%	9,000	100.0%	
3rd Tier Rate	\$9.10	\$13.00	42.9%	\$18.70	100.0%	
Consumption	Rates	Rates	Increase	Rates	Increase	
	0	\$25.00	\$45.00	80.0%	\$50.00	100.0%
	1,000	29.95	52.50	75.3%	59.90	100.0%
	2,000	34.90	60.00	71.9%	69.80	100.0%
	3,000	39.85	67.50	69.4%	79.70	100.0%
	4,000	46.80	77.50	65.6%	93.60	100.0%
	5,000	53.75	87.50	62.8%	107.50	100.0%
	6,000	60.70	97.50	60.6%	121.40	100.0%
	7,000	67.65	107.50	58.9%	135.30	100.0%
	8,000	74.60	117.50	57.5%	149.20	100.0%
	9,000	81.55	127.50	56.3%	163.10	100.0%
	10,000	90.65	140.50	55.0%	181.80	100.6%
	15,000	136.15	205.50	50.9%	275.30	102.2%
	20,000	181.65	270.50	48.9%	368.80	103.0%
	25,000	227.15	335.50	47.7%	462.30	103.5%
	50,000	454.65	660.50	45.3%	929.80	104.5%
	75,000	682.15	985.50	44.5%	1,397.30	104.8%
	100,000	909.65	1,310.50	44.1%	1,864.80	105.0%
	125,000	1,137.15	1,635.50	43.8%	2,332.30	105.1%
	150,000	1,364.65	1,960.50	43.7%	2,799.80	105.2%
	175,000	1,592.15	2,285.50	43.5%	3,267.30	105.2%
	200,000	1,819.65	2,610.50	43.5%	3,734.80	105.2%



**ENGINEERING REPORT FOR
Oatman Water Company, LLC
Docket No. W-04069A-16-0080 (Rates)**

By Michael Thompson, P. E.

May 5, 2016

EXECUTIVE SUMMARY

CONCLUSIONS

1. The Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division Staff (“Utilities Staff” or “Staff”) concludes that the Oatman Water Company, LLC (“Oatman” or “Company”) water system has adequate production and storage capacity to serve the present customer base and any reasonable growth.
2. Oatman does not expect an increase in customer growth within the next two (2) to five (5) years (2016 – 2020).
3. Oatman’s Certificate of Convenience and Necessity (“CC&N”), granted in Decision No. 64832, covers an area totaling approximately 0.25 square-miles (160.41 acres).
4. The Arizona Department of Environmental Quality (“ADEQ”) regulates the Oatman water system under ADEQ Public Water System Identification (“PWS ID”) No. 04-08-001. On February 12, 2014, ADEQ inspected the water system. According to the inspection report, no major deficiencies were found in the operation, maintenance, or certified operator status of the water system.
5. ADEQ Drinking Water Compliance Status Report (“CSR”), dated April 26, 2016, indicates that the Oatman water system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
6. Well No. 2 (Arizona Department of Water Resources (“ADWR”) No. 55-598600) is inactive and disconnected from the water system, and therefore not used and useful.
7. Storage tanks No.1 (55,000 gallons) and No. 2 (5,000 gallons) are disconnected from the water system, and are therefore not used and useful.
8. The Oatman service area is not located within an Active Management Area (“AMA”).

9. ADWR has reported that Oatman is currently non-compliant with departmental requirements governing water providers and/or community water systems regarding the non-submittal of its 2008 and 2013 Water System Plans.
10. Oatman's monthly production figures for the test year were not included on the Water Use Data Sheet submitted with its rate relief application. Accordingly, water loss could not be determined.
11. According to the Commission's Utilities Division Compliance Section database, Oatman's water system currently has no delinquent Commission compliance items.
12. Oatman has approved Cross-Connection/Backflow Prevention and Curtailment Tariffs on file with the Commission.
13. Oatman has three (3) Best Management Practice ("BMP") Tariffs on file with the Commission. The three (3) BMP's will become effective June 2, 2016.

RECOMMENDATIONS

1. Staff recommends the annual water testing expenses of \$1,084 be used for purposes of this proceeding.
2. Staff recommends that Oatman file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, documentation demonstrating that its 2008 and 2013 System Water Plans have been submitted, and is in compliance with ADWR.
3. Staff further recommends that Oatman post the correct ADWR well identification number (ADWR No. 55-535054) at Well Site No. 1.
4. Staff further recommends that Oatman replace the Well No. 2 transmission main, as well as installing a sanitary seal and security enclosure (fence or block wall), and posting the well identification number at Well Site No. 2.
5. Staff further recommends that Oatman post the ADWR well identification number (ADWR No. 55-598600) at Well Site No.2.
6. Staff further recommends that Oatman inspect and maintain its Well No.1 production meter on a daily basis to ensure that reliable and accurate production figures can be obtained from the meter.
7. Staff further recommends, going forward, that monthly production figures from Well No.1 be entered on the Water Use Data Sheet submitted with its corresponding Annual Report.
8. Staff further recommends that Oatman monitor its water system for a 12-month period to prepare a water loss report. Oatman should account for its Unbilled Authorized Consumption (gallons) and remove that quantity from the water loss calculation. If the reported water loss remains above 10 percent, Oatman shall submit a water loss reduction

report containing a detailed analysis and plan to reduce its water loss to 10 percent or less. If Oatman believes it is not cost effective to reduce water loss to 10 percent or less, it shall submit a detailed cost benefit analysis to support its opinion. In no case shall Oatman continue to allow water loss to be greater than 15 percent. The water loss reduction report or the detailed cost benefit analysis, whichever is submitted, shall be docketed as a compliance item within 18 months from the effective date of an order issued in this proceeding.

9. Staff further recommends that Oatman use the Staff recommended depreciation rates listed in Table F.
10. Staff further recommends the service line and meter installation charges listed under "Staff's Recommendations" in Table G be adopted.

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A. INTRODUCTION, LOCATION, AND CERTIFICATE OF CONVENIENCE & NECESSITY

Rate Application

On March 3, 2016, Oatman Water Company, LLC (“Oatman” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) for approval of a rate increase, with a test year ending December 31, 2014, in Docket No. W-04069A-16-0080. Oatman’s current rates were approved in Commission Decision No. 63626, dated May 4, 2001.

Location of Company

The Oatman water system shown in Figure 1, located in the figure section of this report, is a groundwater-based system serving Oatman, Arizona. Oatman is located in the Town of Oatman approximately 40 miles west of Kingman, Arizona on US Highway Route 66. Oatman, a wholly owned subsidiary of Americana Investments, is a Class E public utility water company that provides service to approximately 100 metered connections.¹

Certificate of Convenience and Necessity (“CC&N”)

Tom Reed Gold Mines (“TRGM”) was the original owner of the water company. In 1964, Americana Investments dba Oatman Water Company purchased TRGM, and as part of the purchase was obligated to take ownership and operate the water company. On November 27, 2001, Americana Investment dba Oatman Water Company submitted an application for the transfer of its assets and CC&N to Oatman. In Decision No. 64832, dated May 16, 2002, Oatman was granted the CC&N. The service area bounded by its CC&N, which covers approximately 160.41 acres (0.25 square miles), is shown in Figure 2.

B. DESCRIPTION OF THE WATER SYSTEM²

Oatman was visited on April 14, 2016, by Staff Utilities Engineer, Michael Thompson. During the field inspection, Mr. Thompson was accompanied by Company representative Mr. Stephen Anderson (Owner & Manager). Mr. Jeffrey L. Wileman, Oatman’s certified operator of record, did not attend the site visit.³

The Oatman water system consists of one (1) active groundwater well (Well No. 1), one (1) inactive groundwater well (Well No. 2), one (1) active storage tank (50,000 gallons), two (2) inactive storage tanks (55,000 gallons & 5,000 gallons), and 17,600 linear feet (“lf”) of water distribution main.

¹ Per water use data submitted with the application.

² The description of the water systems is based on one, or a combination of, the following sources: 1) Company’s Application, 2) Information contained in the Company’s Response to Staff Data Requests and, 3) Information collected during Staff’s site visit.

³ Mr. Wileman is certified with the Arizona Department of Environmental Quality (“ADEQ”) as a Grade 3 Water Distribution System Operator, a Grade 2 Water Treatment Plant Operator, a Grade 3 Wastewater Collection System Operator, and a Grade 4 Wastewater Treatment Plant Operator. Mr. Wileman’s ADEQ Operator Identification No. is OP009137, with an expiration date of October 31, 2017.

Well No. 1 (The Arizona Department of Water Resources (“ADWR”) No. 55-535054)⁴ was drilled in April 1992 to replace a non-productive well (ADWR No. 55-532007) drilled in July 1991. In March 1993, Well No. 1 underwent modifications to its casing and perforation locations. Well No. 1 currently yields approximately 20 gallons per minute (“gpm”) or 28,800 gallons per day (“gpd”). ADWR identification number posted at the well site (ADWR No. 55-536054) is incorrect. The correct ADWR number is 55-535054. Staff recommends that Oatman post the correct ADWR identification number (ADWR No. 55-535054) at Well Site No.1.

Well No. 2 (ADWR No. 55-598600) was drilled in 2003. Prior to drilling Well No. 2, two (2) other wells (ADWR Nos. 55-595743 & 55-595744) were drilled in December 2002. Unfortunately, both wells were determined to be non-productive, and therefore abandoned, resulting in the drilling of a third well, Well No. 2. In 2004, an excessive rain storm caused a mine shaft near Well No. 2 to cave-in. As a result, a portion of the well transmission main, which was buried over the mine shaft, was destroyed from the cave-in rendering the well inoperable. Additionally, a sanitary seal (concrete slab), and a security enclosure (fence or block wall) with the posted ADWR identification number were never installed at the well site. Currently the well is (off-line/inactive) not used and useful. Oatman has indicated that it will replace the destroyed transmission main in order to bring the well back on-line. Bringing Well No. 2 on-line is primarily driven from: 1) the potential need for a blending source to blend with Well No. 1. (See I. Other Issues, 5. Unregulated Contaminant Monitoring Rule); and, 2) the need for an alternate source should Well No. 1 fail, or its production decreases rendering it unable to meet demand. Staff recommends that Oatman take measures to replace the Well No. 2 transmission main, as well as installing a sanitary seal and security enclosure (fence or block wall), and posting the ADWR identification number at Well No. 2.

Table A. Oatman Water System Active Well								
Well ID	ADWR Well ID	Pump (hp)	Pump Yield (gpm)	Pump Yield (gpd)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
(S) Well No. 1	55-535054	5	20	83,520	483	5	2	1992
Total			118	169,920				

(S) Indicates Submersible Well, hp indicates horsepower, gpm indicates gallons per minute, and (gpd) indicates gallons per day

Table B. Oatman Water System Inactive Well								
Well ID	ADWR Well ID	Pump (hp)	Pump Yield (gpm)	Pump Yield (gpd)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
(S) Well No. 2	55-598600	Unknown	Unknown	Unknown	Unknown	Unknown	None	2003
Total			Unknown	Unknown				

(S) Indicates Submersible Well, hp indicates horsepower, gpm indicates gallons per minute, and (gpd) indicates gallons per day

⁴ ADWR refers to the Arizona Department of Water Resources. The ADWR No. is the identification number assigned to a well by ADWR.

The Oatman water system has one (1) active storage tank, an elevated 50,000 gallon storage tank that “floats” on the distribution system (i.e. an elevated storage tank feeds and pressurizes the distribution system water mains via gravity). Construction of the 50,000 gallon storage tank began in May 2002 and brought into operation on October 31, 2002. The storage tank was constructed to replace two (2) deteriorated storage tanks Nos.1 and 2 (55,000 gallons and 5,000 gallons, respectively). The two deteriorated tanks are disconnected from the water system, and therefore no longer used and useful.

Table C. Oatman Storage Tanks		
Storage Tank	Storage Tank	
	Quantity	Gallons
Storage Tank No. 3 (Active)	1	50,000
Storage Tank No. 1 (Inactive – Not Used or Useful)	1	55,000
Storage Tank No. 2 (Inactive – Not Used or Useful)	1	5,000
Total	1 – Active 2 – Inactive	

Table D. Oatman Treatment Equipment & Structures		
Treatment Equipment		Structures
Equipment	Quantity	
Ultra-Violet Light Treatment Device	1	Chain Link Fence & Electrical Panel located at Well No. 1
		Electrical Panel located at Well No. 2
		Storage/Maintenance Building (25' x 30') – Houses the Ultra-Violet Light Treatment Device and Replacement/Repair Parts

C. WATER USE

1) *Water Sold – Oatman Water System*

The average daily water consumption (gallons used) per connection that the Oatman water system experienced each month during the test year is graphically illustrated in Figure 4. Customer consumption included an average daily high water usage of 100 gpd per connection (100 connections) in July 2014, and an average daily low water usage of 62 gpd per connection (101 connections) in November 2014. The average daily water usage during the twelve-month period was 83 gpd per connection. Oatman reported that its water system recorded 3,001,000 gallons of water sold during the test year.

2) *Non-Revenue Water*⁵

The American Water Works Association (“AWWA”) no longer uses the term Unaccounted for Water. The term has been abandoned by the AWWA primarily because it has been deemed imprecise, inconsistent, and an unreliable performance measure. Instead, the AWWA employs the term Non-Revenue water. The term Non-Revenue water is defined to reflect the distributed volume of water that is not reflected in customer billings. Non-Revenue water (the difference between the gallons of water produced and sold) is specifically defined as the sum of Unbilled Authorized Consumption (water for firefighting, flushing, etc.) plus Water Loss. Water Loss is defined as the sum of Apparent Losses (customer & company meter inaccuracies, unauthorized consumption or theft, and systematic data handling errors), plus Real Losses (system leakage and storage tank overflows).

Water Loss should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and water produced by the source. A water balance/audit will allow a water company to identify water and revenue losses due to system leakage, storage tank overflows, meter inaccuracies, data handling errors, and any non-metered water use such as theft and flushing.

Oatman’s monthly production figures for the test year were not included on the Water Use Data Sheet submitted with its rate relief application. Accordingly, water loss could not be determined. Oatman has indicated that the highly mineralized water (hard water) from the aquifer interferes with the operation of the Well No. 1 production meter causing inaccurate production results. Hence, the lack of monthly production figures.

Staff recommends that Oatman inspect and maintain its Well No.1 production meter on a daily basis to ensure that reliable and accurate production figures can be obtained from the meter. Staff further recommends, going forward, that monthly production figures from Well No.1 be entered on the Water Use Data Sheet submitted with its corresponding Annual Report. Staff further recommends that Oatman monitor its water system for a 12-month period to prepare a water loss report. Oatman should account for its Unbilled Authorized Consumption (gallons) and remove that quantity from the water loss calculation. If the reported water loss remains above 10 percent, Oatman shall submit a water loss reduction report containing a detailed analysis and plan to reduce its water loss to 10 percent or less. If Oatman believes it is not cost effective to reduce water loss to 10 percent or less, it shall submit a detailed cost benefit analysis to support its opinion. In no case shall Oatman continue to allow water loss to be greater than 15 percent. The water loss reduction report or the detailed cost benefit analysis, whichever is submitted, shall be docketed as a compliance item within 18 months from the effective date of an order issued in this proceeding.

3) *Water System Analysis*

During the peak month, July 2014, the Oatman water system was serving 97 connections when Oatman reported 300,000 gallons of water sold. Average daily demand for the month of July

⁵ International Water Association (“IWA”)/AWWA Water Audit Method – Copyright 2012 AWWA, Water Loss Control Terms Defined – Copyright 2012 AWWA, and Water Audits & Loss Control Programs – AWWA M36 Manual.

2014 was determined to be 9,677 gpd, while average daily demand per connection was determined to be 100 gpd. Staff concludes that the Oatman water system has adequate production and storage capacity to serve the present customer base and any reasonable growth.

D. GROWTH

The town of Oatman, as described in the rate relief application, is an old mining town on route 66 in Mohave County. It is a tourist town attracting visitors from Laughlin, NV, Bullhead City, AZ or travelers driving on Route 66. Oatman serves residents and the retail businesses (including two (2) restaurants & one (1) bar).

Table E below, and Figure 5 located in the figure section of this report, show Oatman's customer growth (or lack thereof) based on service connection data from its past thirteen (13) Annual Reports (2002 thru 2014), and its projected growth (2015 thru 2020). From 2002 to 2012, Oatman's growth decreased by approximately forty five (45) connections (67.6 percent decrease). In 2014, Oatman's growth increased by approximately seven (7) connections. Due to the remote nature of the community, and the limited amount of land available for development Oatman projects growth to remain the same or decrease slightly within the next two (2) to five (5) years.

Table E. Oatman Actual and Projected Growth		
Month/Year	Number of Customers	Source
December – 2002	139	Annual Report
December – 2003	137	Annual Report
December – 2004	133	Annual Report
December – 2005	127	Annual Report
December – 2006	130	Annual Report
December – 2007	129	Annual Report
December – 2008	130	Annual Report
December – 2009	126	Annual Report
December – 2010	112	Annual Report
December – 2011	97	Annual Report
December – 2012	94	Annual Report
December – 2013	94	Annual Report
December – 2014	101	Annual Report
December – 2015	100	Projected
December – 2016	100	Projected
December – 2017	100	Projected
December – 2018	100	Projected
December – 2019	100	Projected
December – 2020	100	Projected

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

1) *Compliance Status*

ADEQ regulates the Oatman water system under ADEQ Public Water System Identification (“PWS ID”) No. 04-08-001. On February 12, 2014, ADEQ inspected the water system. According to the inspection report, no major deficiencies were found in the operation, maintenance, or certified operator status of the water system.

According to the ADEQ Drinking Water Compliance Status Report (“CSR”), dated April 26, 2016, the Oatman water system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2) *Water Monitoring and Testing Expenses*

In addition to Total Coliform and Lead & Copper testing, the Oatman water system is also subject to mandatory participation in the Monitoring Assistance Program (“MAP”).⁶ Oatman reported water testing expenses of \$893 during the test year.

The annual monitoring and testing expenses that were reviewed, evaluated, and recalculated by Staff are represented in Table E. The total estimated annual water testing expenses for the water system is \$1,084. Staff recommends water testing expenses of \$1,084 be used for purposes of this proceeding.

Table E. Oatman Water System Recommended Water Testing Expenses			
Water Test	Cost Per Test	Number of Tests	Annual Cost
Total Coliform	\$24	1/Month	\$288
Lead & Copper	\$48	10/3 Years	\$160
MAP			\$636*
Total			\$1,084

Note: *indicates MAP cost is based on 2016 invoice from ADEQ.

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

The Oatman service area is not located within an Active Management Area (“AMA”). According to the ADWR water provider compliance report, dated March 31, 2016, Oatman is non-compliant with departmental requirements governing water providers and/or community water systems, regarding the non-submittal of its System Water Plans.⁷ Staff recommends that Oatman file

⁶ The MAP is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

⁷ Per ADWR Water Provider Compliance Status Report, dated March 31, 2016, Oatman has not submitted its 2008 and 2013 System Water Plan update.

with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, documentation demonstrating that the System Water Plans have been submitted, and is in compliance with ADWR.

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check of the Utilities Division Compliance Section database showed that the Oatman water system has no delinquent Commission compliance items.⁸

H. DEPRECIATION RATES

Staff's typical and customary depreciation rates, which vary by National Association of Regulatory Utility Commissioners ("NARUC") plant categories, are illustrated in Table F. These rates represent typical and customary values within a range of anticipated equipment life. Staff recommends that Oatman use the depreciation rates listed under "Staff's Recommended Rates" in Table F.

Table F. Depreciation Rate Table – Oatman			
NARUC Acct. No.	Depreciable Plant	Staff Recommended Rates	
		Service Life (Years)	Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.50
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.00
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

⁸ Per Compliance Section email dated March 31, 2016

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	10	10.00

I. **OTHER ISSUES**

1) *Service Line and Meter Installation Charges*

Oatman has proposed changes to its existing service line and meter installation charges.⁹ The installation charges, listed in Table G, are refundable advances. Oatman's proposed service line and meter installation charges include only the total charges. The individual service line and meter installation charges were not included. Since Oatman may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Staff developed individual service line and meter installation charges using the Company's proposed total charges. Staff recommends that the charges listed under "Staff's Recommendation" in Table G be adopted.

Meter Size	Oatman Current Charges	Oatman Proposed Charges	Staff's Recommendations		
	Total Charges	Total Charges	Service Line Charges	Meter Charges	Total Charges
5/8 x 3/4-inch	\$375	\$625	\$475	\$150	\$625
3/4-inch	\$435	\$725	\$475	\$250	\$725
1-inch	\$510	\$850	\$550	\$300	\$850
1-1/2-inch	\$740	\$1,115	\$610	\$505	\$1,115
2-inch	\$1,300	\$1,950	\$920	\$1,030	\$1,950
3-inch	\$1,855	\$2,850	\$1,260	\$1,590	\$2,850
4-inch	\$2,870	\$4,380	\$1,640	\$2,668	\$4,308
6-inch	\$5,375	\$7,500	\$2,475	\$5,025	\$7,500

⁹ Oatman's current charges were approved in Decision No. 63626, effective May 4, 2001.

2) *Curtailment Tariff*

Oatman water system has an approved Curtailment Tariff on file with the Commission, which became effective May 20, 2016.

3) *Cross-Connection/Backflow Prevention Tariff*

Oatman has an approved Cross-Connection/Backflow Prevention Tariff on file with the Commission, which became effective April 16, 2016.

4) *Best Management Practices ("BMP") Tariff*

Oatman has three (3) Best Management Practice ("BMP") Tariffs on file with the Commission. The three (3) BMP's will become effective June 2, 2016.

5) *Third Unregulated Contaminant Monitoring Rule ("UCMR 3")*

The 1996 Safe Drinking Water Act ("SDWA") amendments require that once every five (5) years the Environmental Protection Agency ("EPA") issue a new list of no more than 30 unregulated contaminants to be monitored by public water systems ("PWS").

The UCMR 3 was published on May 2, 2012. UCMR 3 requires monitoring for 30 contaminants (twenty-eight (28) chemical and two (2) viruses) between 2013 and 2015. The monitoring provides a basis for future regulatory actions to protect public health.

Approximately 6,000 large and small PWSs participated in the UCMR 3, of which Oatman was a selected participant. The participating systems collect drinking water samples and have them tested for UCMR 3 contaminants. Since Oatman is a small water system, the EPA managed the Oatman system UCMR 3 monitoring/sampling, and also paid (one time basis) for Oatman's UCMR 3 testing costs. Oatman's test results revealed the presence of two (2) perfluorinated contaminants, perfluorooctanesulfonic acid ("PFOS") and perfluorooctanoic acid ("PFOA"). PFOS is a surfactant or emulsifier used in firefighting foam, alkaline cleaners, floor polish, and as a pesticide active ingredient for insect bait traps. The U.S. manufacture of PFOS was phased out in 2002. PFOA, also a surfactant or emulsifier, is used in fluoropolymers (such as Teflon), fire-fighting foams, cleaners, cosmetics, greases and lubricants, paints, polishes, adhesives, and photographic films. PFOA is still manufactured in the U.S. Evidence suggests that human exposure to the chemicals is linked to reduced birth weight, liver toxicity, gastrointestinal irritation, and effects on thyroid hormone levels.

EPA Headquarters has delayed the rollout of its final lifetime Health Advisory for PFOS/PFOA. Accordingly, the EPA is in the process of refining its communication strategy and related materials (official statement, fact sheet, & frequently asked questions ("FAQs")). In the meantime, the EPA (Region 9) has requested an update from Oatman with respect to its proposed mitigation plan (additional monitoring, well usage, source rotation, blending) for reducing the exposure to PFOS/PFOA in its water supply in the near-term. Region 9 has indicated that it expects the formal announcement for PFOS/PFOA to be released in May or June 2016.

In response to the Region 9 request, Oatman is currently making preparations for the additional monitoring/sampling/testing of its well for PFOS/PFOA. The additional test for the contaminants will cost Oatman approximately \$530.00. Should the test results confirm that PFOS/PFOA are present, Oatman intends to develop a blending plan for submittal to ADEQ. The blending plan would involve the blending of Well No. 1 (suspected contaminated well) and Well No.2 (currently off-line).

Currently, the EPA has not established a frequency (quarterly, semi-annual, or annual) for Oatman to monitor/sample/test for the contaminants. As such, Staff is unable to include the cost associated with testing for the presence of the contaminants in Oatman's testing expenses.

FIGURES

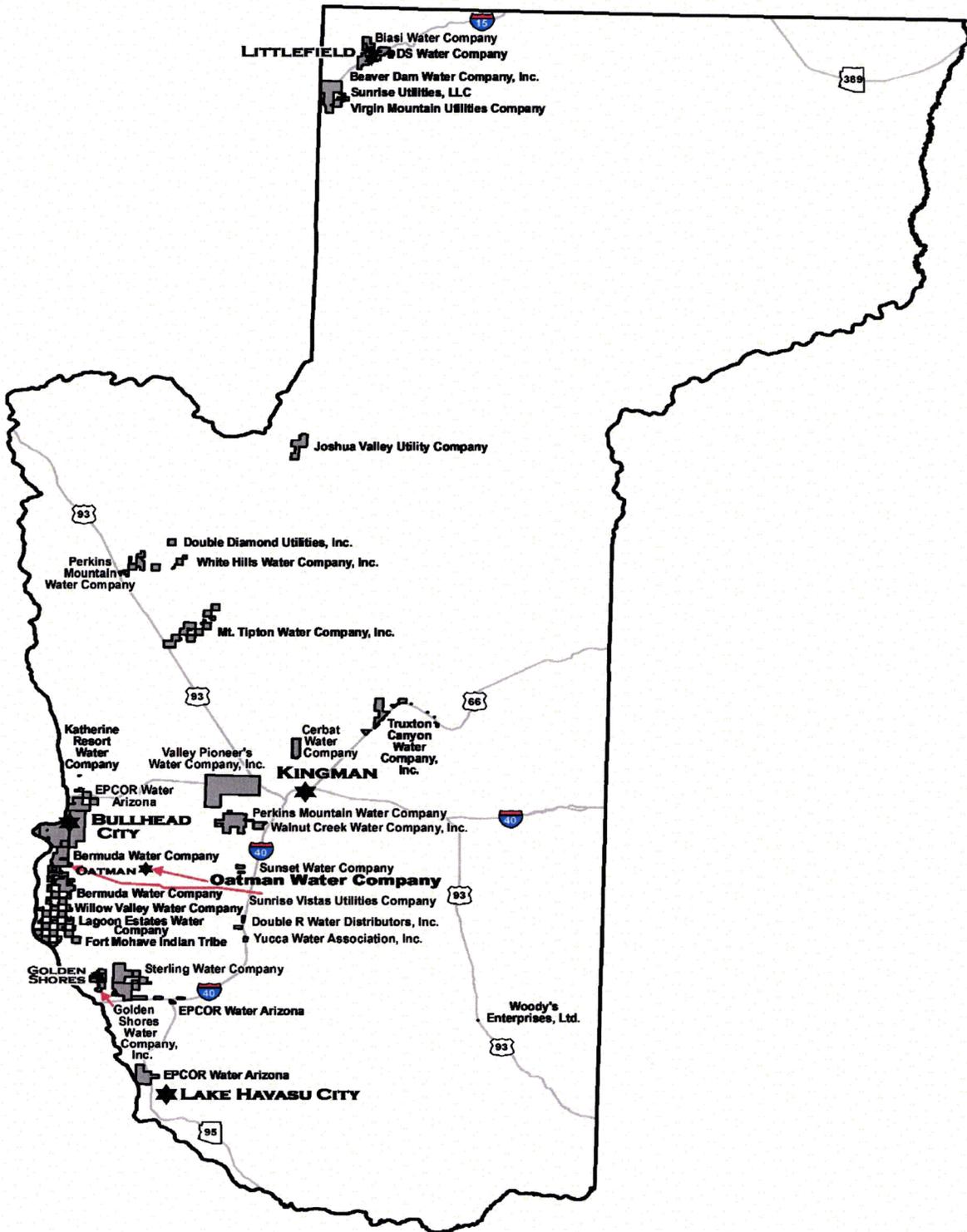


FIGURE 1 – MOHAVE COUNTY MAP

MOHAVE COUNTY

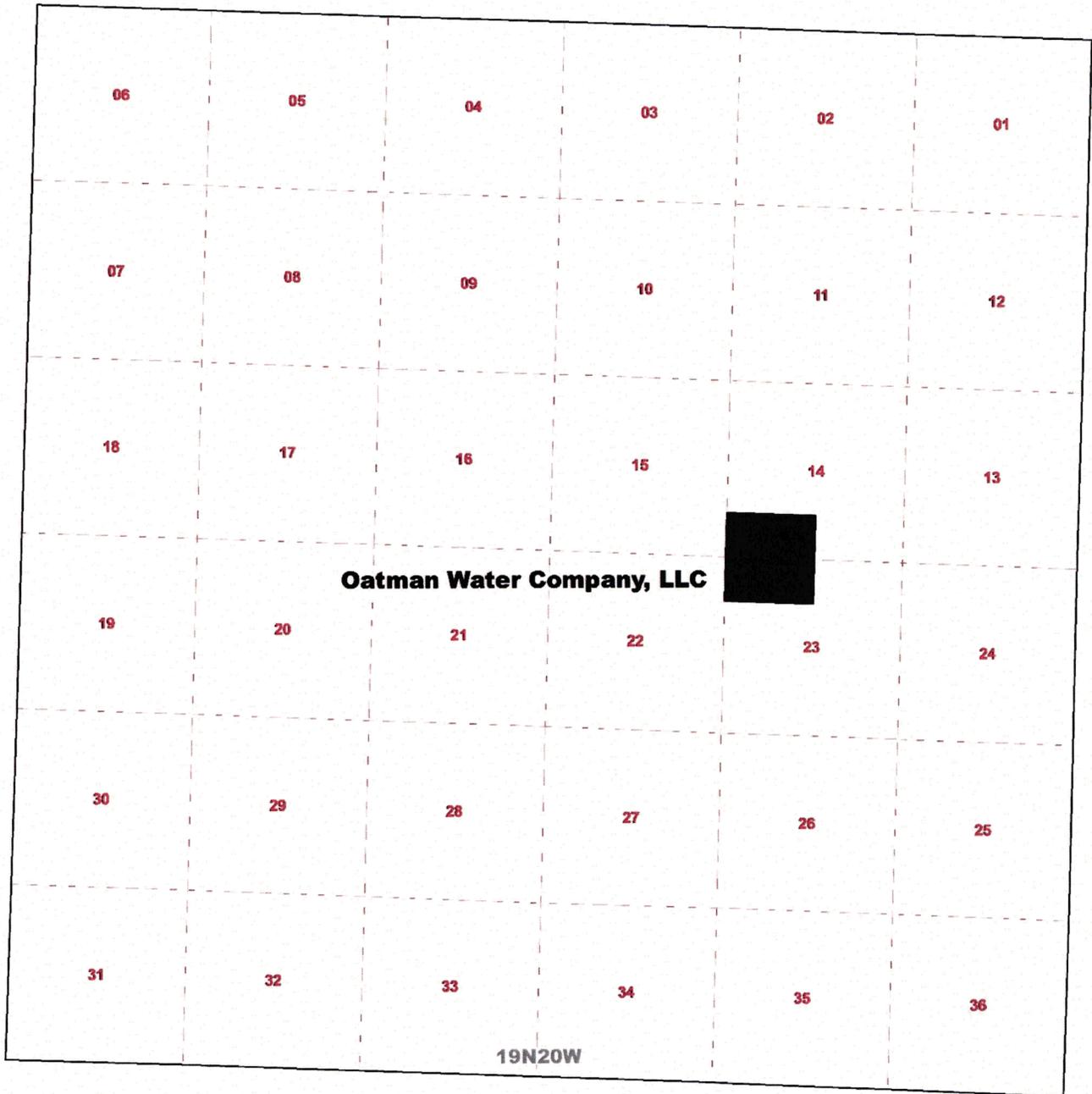


FIGURE 2 – OATMAN CERTIFICATED AREA

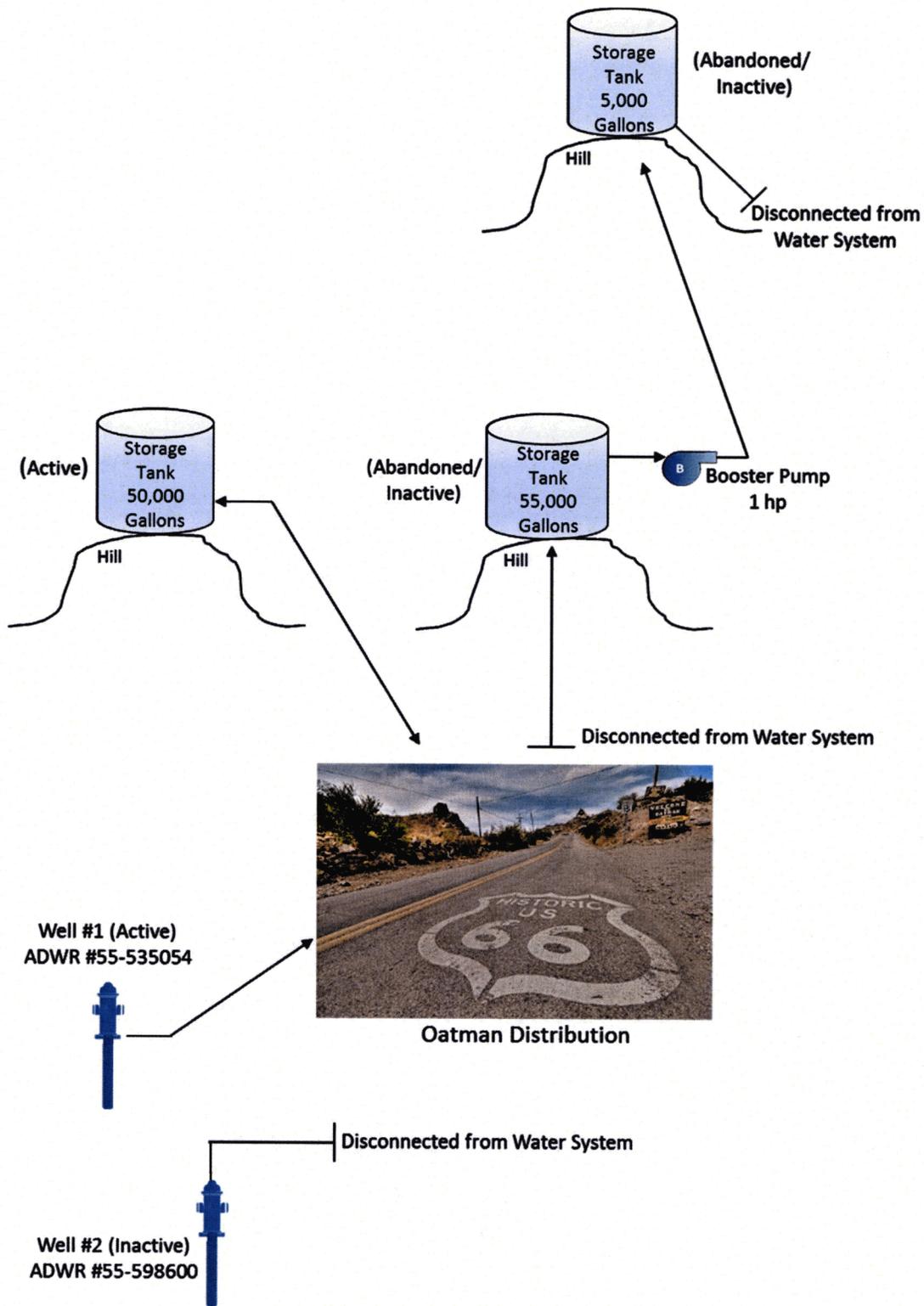


FIGURE 3 – OATMAN WATER SYSTEM

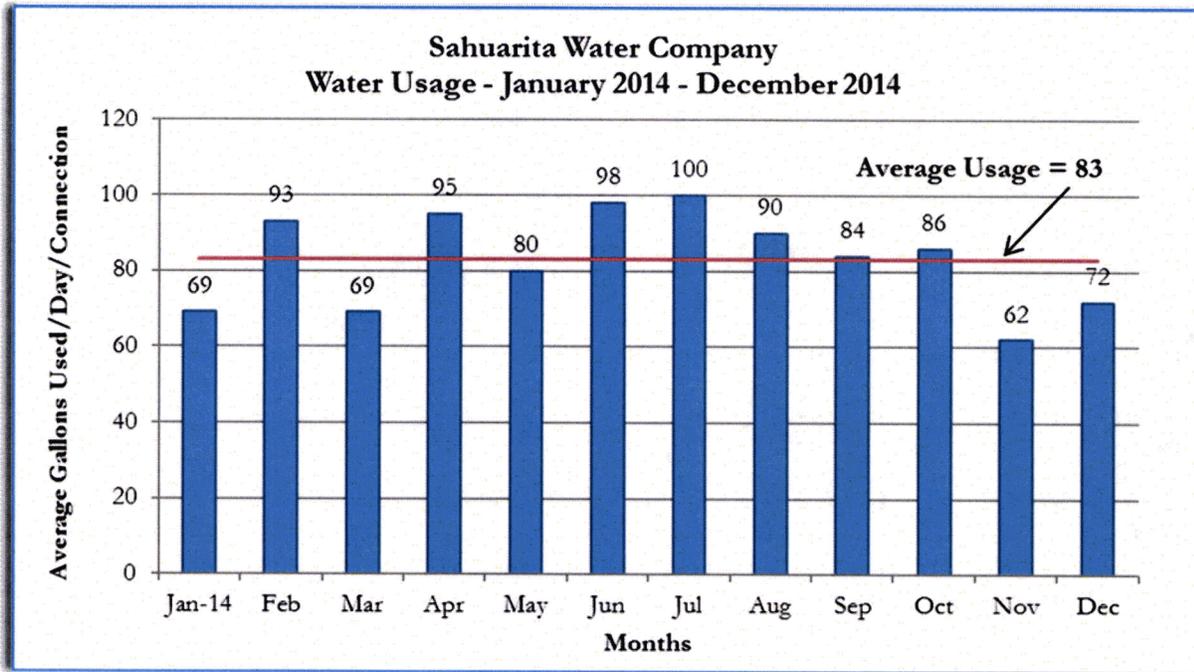


FIGURE 4 – OATMAN WATER CONSUMPTION

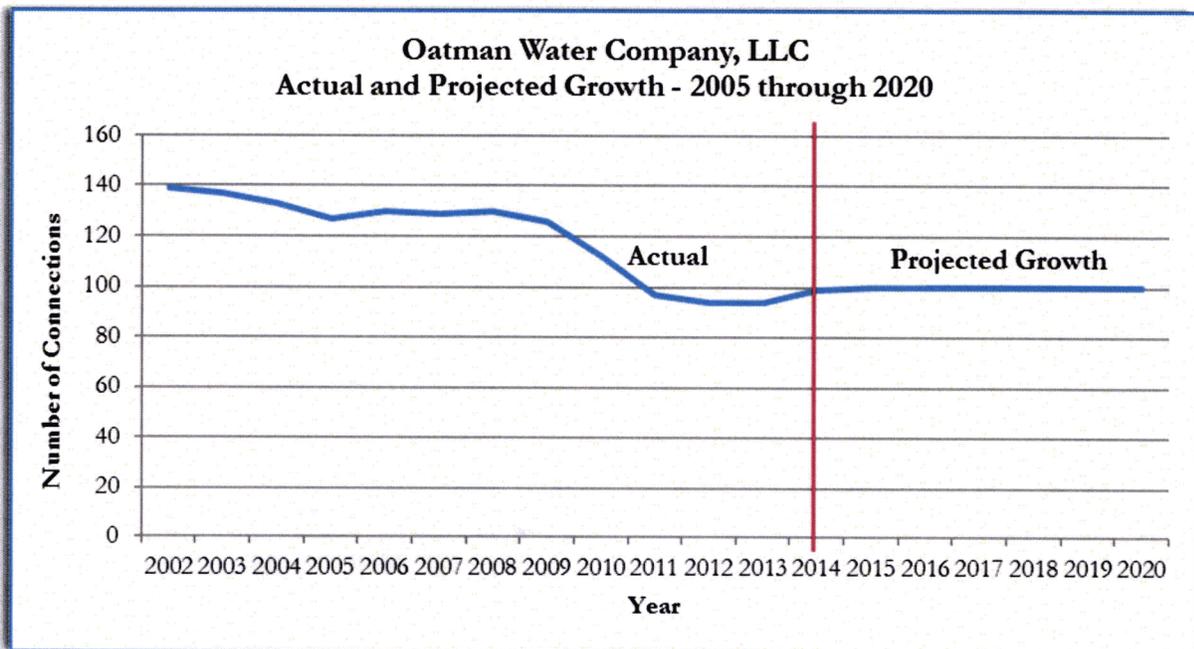


FIGURE 5 – OATMAN WATER SYSTEM ACTUAL & PROJECTED GROWTH