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**ORIGINAL
MEMORANDUM**

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TO: Docket Control Center

FROM: Thomas M. Broderick
for Director
Utilities Division

Am JONES

2016 AUG 24 PM 4:30

DATE: August 24, 2016

RE: STAFF REPORT FOR YARNELL WATER IMPROVEMENT ASSOCIATION, INC.'S APPLICATION FOR A RATE INCREASE (DOCKET NO. W-02255A-16-0153)

Attached is the Staff Report for Yarnell Water Improvement Association, Inc.'s application for a permanent rate increase. 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 September 6, 2016.

TMB:MJR:red/BH

Originator: Mary J. Rimback

Arizona Corporation Commission
DOCKETED

AUG 24 2016

DOCKETED BY *KE*

Yarnell Water Improvement Association, Inc.
Docket No. W-02255A-16-0153

On this 24th day of August, 2016, the foregoing document was filed with Docket Control as a Staff Report, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

YARNELL WATER IMPROVEMENT ASSOCIATION, INC.

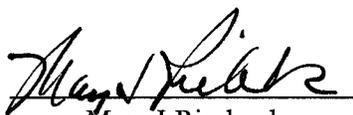
DOCKET NO. W-02255A-16-0153

**APPLICATION FOR A
PERMANENT RATE INCREASE**

AUGUST 24, 2016

STAFF ACKNOWLEDGMENT

The Staff Report for Yarnell Water Improvement Association, Inc. ("Yarnell" or "Company") Docket No. W-02255A-16-0153 was the responsibility of Staff members listed below. Mary J. Rimback was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, rate design and financial analysis. Dorothy Hains was responsible for the engineering and technical analysis. Michael Buck was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Mary J Rimback
Public Utility Analyst



Dorothy Hains
Utilities Engineer



Michael Buck
Public Utilities Consumer Analyst

EXECUTIVE SUMMARY
YARNELL WATER IMPROVEMENT ASSOCIATION, INC.
DOCKET NO. W-02255A-16-0153

Yarnell Water Improvement Association, Inc. (“Yarnell” or “Company”) is a non-profit Arizona Corporation and a Class D public service corporation serving potable water to approximately 486 customers in an area located near the Town of Congress, 30 miles southwest of Prescott in Yavapai County, Arizona.

On May 13, 2016, Yarnell filed an application for a permanent rate increase. Amendments to the application were docketed on May 23, 24, and 25 of 2016. On June 10, 2016, Staff filed a letter deeming the application sufficient.

Yarnell proposed operating revenue of \$301,522 an increase of \$87,737, or 41.04 percent, over test year revenue of \$213,785 to provide an \$45,288 operating income on its proposed \$648,506 fair value rate base (“FVRB”) which is its original cost rate base (“OCRB”). The Company proposed rates result in a 15.00 percent operating margin and cash flow of \$96,524 prior to debt service and \$66,506 after debt service. The Company’s proposed rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer, with a median usage of 3,500 gallons, by \$14.16 or 42.50 percent from \$33.32 to \$47.48.

Staff recommends permanent rates that produce total operating revenue of \$301,080, an increase of \$87,295, or 40.83 percent, over test year revenue of \$213,785, to provide a an operating income of \$48,743 and a 16.19 percent operating margin. Staff’s recommended rates produce a cash flow of \$96,255 before debt service and \$66,507 after debt service. Staff’s recommended rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer, with a median usage of 3,500 gallons, by \$14.16 or 42.50 percent from \$33.32 to \$47.48.

Staff recommends:

- Approval of Staff’s rates and charges as shown in Schedule MJR-4.
- In addition to collection of its regular rate and charges, the Yarnell Water Improvement Association, Inc. 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).
- Directing the Yarnell Water Improvement Association to docket with the Arizona Corporation Commission (“Commission”) a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Directing Yarnell Water Improvement Association, Inc., as a compliance item in this case, to 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.

- Directing Yarnell Water Improvement Association, Inc. to classify plant items according to National Association of Regulatory Utility Commissioners (“NARUC”) guidelines.
- Authorizing the depreciation rates shown in Exhibit 5 of the Engineering Report.
- Directing Yarnell Water Improvement Association, Inc. to continue its service meter and fire hydrant replacement program.
- Directing Yarnell Water Improvement Association, Inc. to continue to monitor the water loss in the system and repair all leaks when discovered.
- Directing Yarnell Water Improvement Association, Inc. to continue to coordinate the reading of its well meter and active customer service meters on a monthly basis and report this data in its Commission Annual Report going forward.
- Directing Yarnell Water Improvement Association, Inc. to collect data needed to accurately complete the Water Use Data Sheet form contained in the Annual Report.

TABLE OF CONTENTS

PAGE

FACT SHEET 1

Rates:..... 1

Customers:..... 1

SUMMARY OF RATE FILING3

COMPANY BACKGROUND3

CONSUMER SERVICES4

COMPLIANCE ISSUES.....5

ENGINEERING ANALYSIS5

RATE BASE5

OPERATING INCOME7

REVENUE REQUIREMENT7

RATE DESIGN8

REVENUES BY MINIMUM AND TIER.....9

CASH FLOW ANALYSIS9

STAFF RECOMMENDATIONS9

SCHEDULES

Summary of Filing.....MJR-1

Rate Base.....MJR-2

Statement of Operating Income.....MJR-3

Rate DesignMJR-4

Typical Bill AnalysisMJR-5

Revenues By Consumption TierMJR-6

Cash Flow AnalysisMJR-7

ATTACHMENT

ENGINEERING REPORT..... ATTACHMENT A

FACT SHEET

Company Statistics:

Current Rates: Decision No. 70698 effective February 1, 2009.

Type of Ownership: Non-profit Cooperation

Location: The Company's service area is located in the near the Town Congress, 30 miles southwest of the City of Prescott in Yavapai County, Arizona.

Rates:

Rate Application Docketed: May 13, 2016
 Current Test Year Ended: December 31, 2015
 Application Amendments on May 23, 24, and 25 of 2016
 Application Found Sufficient: June 10, 2016

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge (Based on a 5/8" X 3/4" meter)	\$23.00	\$32.20	\$32.20
Gallons in Minimum	0	0	0
Commodity Charge:			
Excess of minimum, charge per 1,000 gallons:			
0 to 3,000 Gallons	\$ 3.60	\$ 5.33	\$ 5.33
3,001 to 7,000 Gallons	\$ 4.10	\$ 5.83	\$ 5.83
7,001 to 50,000 Gallons	\$ 5.75	\$ 7.48	\$ 7.48
Over 50,000 Gallons	\$ 7.00	\$ 8.73	\$ 8.73
Bulk water per 1,000 gallons	\$10.00	\$20.00	\$20.00
Typical residential bill based On median usage of 3,500 gallons	\$33.32	\$47.48	\$47.48

Customers:

Number of customers in the prior test year (12/31/2006):	531
Number of customers in the current test year (12/31/2015):	478
Current year customers Residential 5/8 X 3/4 – inch meter:	432

SUMMARY OF RATE FILING

The test year results, as adjusted by the Arizona Corporation Commission (“ACC” or “Commission”) Utilities Division (“Staff”), for Yarnell Water Improvement Association, Inc. (“Yarnell” or “Company”) show total operating revenue of \$213,785 and operating expenses of \$250,654 resulting in a \$36,869 operating loss, to provide no meaningful rate of return on the \$653,996 Staff-adjusted original cost rate base (“OCRB”). Since the Company did not file reconstruction cost new information, Staff recommends recognizing a fair value rate base (“FVRB”) equal to the OCRB.

The Company proposed revenue of \$301,522, is shown on page P-19-1 of the application. The amount requested produces an increase of \$87,737 or 41.04 percent over test year revenue of \$213,785 to provide a \$45,228 operating income and a 15.00 percent operating margin. The Company proposed \$648,506 for FVRB and OCRB. Since the Company is a non-profit entity and chose to use an operating margin to develop its revenue requirement, Staff utilized cash flow to determine its revenue requirement. The Company's proposed rates would increase the typical monthly residential bill for a 5/8 x 3/4-inch meter customer, with a median usage of 3,500 gallons, by \$14.16 or 42.50 percent, from \$33.32 to \$47.48 (Schedule MJR-5).

Staff recommends permanent rates that produce total operating revenue of \$301,080, an increase of \$87,295 or 40.83 percent, over the test year revenue of \$213,785, to provide a \$48,743 operating income and a 16.19 percent operating margin. Under Staff's recommended rate design for permanent rates, the typical monthly bill for a 5/8 x 3/4-inch meter customer with a median usage of 3,500 gallons would increase \$14.16, or 42.50 percent, from \$33.32 to \$47.48.

During the test year ended December 31, 2015, Yarnell reported 478 bills in the rate application. Of the total, 432 were residential customers served by 5/8 X 3/4 inch meters; 41 were commercial customers serviced by 5/8 x 3/4 inch meters; 1 residential customer was served by a 1-inch meter; and 4 commercial customers were served by 1-inch meters. The Company also sells bulk water via a standpipe.

COMPANY BACKGROUND

Yarnell is a small water provider, located near the Town of Congress, 30 miles southwest of the City of Prescott in Yavapai County, Arizona. The Company was formed as a result of Decision No. 44085 issued April 22, 1974. Decision No. 44085 allowed for the conditional transfer of Certificates of Convenience and Necessity (“CC&N”) of Glen Ilah Water Company and Yarnell Water System to the Yarnell Water Improvement Association.

Yarnell provides water to the unincorporated rural areas of the communities of Yarnell, Glen Ilah and parts of Peoples Valley all located in Yavapai County. Yarnell is a not for-profit Arizona Corporation and a Class D public service corporation serving potable water to approximately 486 customers in Yavapai County. Current rates for the water system were granted in Decision No. 70698 dated January 20, 2009.

Yarnell's business activities are directed by its Board. The Board holds monthly meetings and keeps minutes of the meetings. The Company currently has no employees and contracts with various individuals and service companies to perform services. The Company contracted during the test year for services including: routine water operation tasks, routine administrative operations, grant writing to obtain grand funds, a certified public accountant to review financial statements, custodial services, and rate application preparation and filing.

Two events affected the operation of the Yarnell water system since the last rate case Decision issued January 1, 2009, using a test year of 2006.

- 1) In the years 2009-2011 the Company used funds obtained via USDA loan for:
 - Repair and replacement of valves
 - Replacement of 67 fire hydrants
 - Relining of storage tanks
 - Installation of an on-site generator
 - Replacement of water lines
 - Replacement of the telemetry system

- 2) The Company experienced immediate and secondary fire damage to its water system as a result of the Yarnell Hill Wild Fire in June of 2013. A further result of the fire is that there was a decrease in the number of customers connected to the system and a consequent reduction in revenues.

Yarnell filed its application for a permanent rate increase ("Application") on May 13, 2016. Staff deemed the Company's rate application sufficient June 10, 2016.

CONSUMER SERVICES

A review of the Consumer Service records showed that for the period January 1, 2013, through July 26, 2016, 3 complaints were filed against the Company:

2016	Zero Complaint
	Opinions: One Opinion opposed to the rate case
2015	One Complaint (New Service)
2014	Zero Complaints
2013	Two Complains - (One Billing, One Rates and Tariffs)

All complaints have been resolved and closed.

A review of the Company's billing format indicates that it is in compliance with the Arizona Administrative Code ("A.A.C.") R14-2-409(B)(2)

COMPLIANCE ISSUES

The Company has no delinquent compliance items with the ACC Utilities Division. The Company is current on its property tax obligations.

ENGINEERING ANALYSIS

The Staff Engineer recommends that the Company continue to coordinate reading its well meters and active customer service meters on a monthly basis and report this data in its ACC Annual Report and that Yarnell collect the data needed to accurately complete the Water Use Data Sheet form contained in the Annual Report.

Yarnell Water has an approved Backflow Prevention tariff on file with the ACC.

The Company has an approved Curtailment tariff on file with the ACC.

RATE BASE

Staff's four rate base adjustments result in a net increase to the Company's proposed rate base by \$5,490 from \$648,506 to \$654,162, as shown in Schedule MJR-2, page 1. Details of Staff's adjustments are explained below.

Plant Adjustment – In adjustment A, Staff decreased plant in the amount of \$242,307 as shown in Schedule MJR-2, page 2. The adjustment is further broken down into Adjustment No. 1 the 2010 Project and Adjustment No. 2 Fire Expenses. Both Adjustments were necessary to classify the plant into the correct NARUC Uniform System of Accounts (“USOA”) categories. The previous procedure classified essentially all plant into two categories: USOA 304 Structure and Improvements and USOA 348 Other Tangible Plant. The Company's presentation is an inaccurate representation of the Plant. In addition, fire recovery expenses were inappropriately capitalized.

Yarnell has made extensive replacements to its plant since the last rate case and these replacements were not reflected in the plant accounts.

In Adjustment No. 1, Staff reviewed contractors' requests for payments and change orders for the construction in 2009-2010 to guide in the re-classification of plant. Staff adjustments result in a net decrease to plant of \$3,467. Staff reduced 2009 plant by \$4,954 for operating expenses not includable in plant and there was an unreconciled increase of \$1,487 for 2010 plant additions. Staff re-classified the following USOA Plant accounts:

Decrease	
304 Structures and Improvements	\$715,390
Other Tangible Plant	\$178,349
Increase	
310 Power Generation Equipment	\$ 41,171

311 Pumping Equipment	\$ 16,395
330.1 Storage Tanks	\$115,391
331 Transmission & Distribution Mains	\$416,118
334 Meter and Meter Installation	\$ 13,488
335 Hydrants	\$179,529
446 Communication Equipment	\$108,180

In Adjustment No. 2, Staff re-classified plant based on the invoices presented by Yarnell. Staff reviewed invoices included in plant accounts for the 2013-2015 years and found that a number of these related to repairs or consulting services as a result of the fire. The items did not add to the value of the plant, but were necessary to keep the water system operational. Many of the repairs were ultimately paid through contributions. Staff adjustments result in a net decrease to plant of \$238,840.

Staff adjusted the following USOA Plant accounts:

Decrease	
311 Pumping Equipment	\$ 52,069
331 Transmission and Distribution Mains	\$140,160
348 Other Tangible Plant	\$ 98,860
Increase	
346 Communication Equipment	\$ 52,069

Accumulated Depreciation – In adjustment B, Staff decreased Accumulated Depreciation by \$95,075, from \$1,651,806 to \$1,556,731, as shown in Schedule MJR-2, page 3. Staff adjusted accumulated depreciation to conform to adjustments to plant. Staff calculated an accumulated depreciation balance by adding depreciation expense for the years 2007-2015 using a half-year convention for Additions and Retirements, and subtracting accumulated depreciation for recorded plant retirements.

Contributions in Aid of Construction (“CIAC”) – As a result of the July 2013 fire, Yarnell received numerous donations which the Company recorded as Contributions in Aid of Construction. However, because these donations were used to pay for fire-related expenses, the donations were not CIAC in the traditional regulatory accounting sense so Staff reversed these donations out of CIAC which effectively increased rate base. In adjustment C Staff decreased CIAC in the amount of \$193,618, Staff also adjusted amortization of CIAC to conform to the adjustments to CIAC. Staff decreased Amortization of CIAC in the amount of \$40,731. The net increase to rate base as a result of this adjustment is \$152,888.

Staff decreased CIAC for the following amounts:

Accounting Services (Alyx Cohan)	\$ 150
-------------------------------------	--------

Fire Damage Assessment Report (Legacy Foundation and Valentine Engineering)	\$87,490
Legal Services- CC&N (Snell & Wilmer)	\$ 588
Repairs related to fire (Water Industry)	\$104,790

Additional donations and contributions included the costs for Meters, Hydrants, the Walnut Main Line Replacement and a Supervisory control and data acquisition system ("SCADA") and were provided by:

The Legacy Foundation
Yavapai County Community Foundation/Arizona Community Foundation
Yarnell Hill Recovery Group
Prescott Sun Up Rotary/Rotary International
Don Felix Construction

Working Capital – Adjustment to working capital as a result of Staff operating expense adjustments were immaterial in relation to the amounts includable in plant, and Staff did not adjust rate base for working capital changes.

OPERATING INCOME

Staff's three operating income adjustments decrease the Company's proposed total operating expenses by \$4,079 from \$254,734 to \$250,654, as shown in Schedule MJR-3, page 1. Details of Staff's adjustments are discussed below.

Water Testing – Adjustment A decreases water testing expenses by \$1,541 to reflect Staff's recommended amount of \$2,286. See Engineering Report.

Depreciation – Adjustment B decreases this expense by \$3,514 from \$51,026 to \$47,512 to reflect application of Staff's recommended depreciation rates to Staff's recommended depreciable plant amounts, as shown in Schedule MJR-3, page 3.

Property Tax – Adjustment C increases this expense by \$976 to reflect Staff's application of the modified version of the Arizona Department of Revenue's ("ADOR") property tax methodology which the Commission has consistently adopted as shown in Schedule MJR-3, page 4.

REVENUE REQUIREMENT

Staff recommends total operating revenue from permanent rates of \$301,080, an increase of \$87,295, or 40.83 percent, over the test year revenue of \$213,785. Staff's recommended revenue provides an operating income of \$48,743 and a 16.19 percent operating margin as shown in Schedule MJR-1. Staff did not derive the revenue requirement by applying a rate of return on rate

base because the Company is a non-profit entity and chose to use an operating margin to develop the revenue requirement. Therefore, Staff utilized cash flow to develop its revenue requirement. Staff's recommended revenue generates \$96,255 cash flow prior to debt service and \$66,507 after debt service.

RATE DESIGN

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

The present rate structure includes a monthly minimum charge that increases by meter size. There are currently two meter sizes for both residential and commercial customers. All customers with 5/8 x 3/4-inch and 3/4-inch meters have an inverted four-tier commodity rate with break-over points at 3,000 gallons, 7,000 and 50,000 gallons. The commodity rate for these meter sizes per 1,000 gallons is \$3.60 up to 3,000 gallons, \$4.10 for 3,000 to 7,000, \$5.75 for 7,000 to 50,000 gallons and \$7.00 over 50,000 gallons. No gallons are included in the monthly minimum charge for any meter size.

The Company proposes a rate structure that includes a monthly minimum charge that increases by meter size and inverted four-tier commodity rates for all customers with 5/8 x 3/4-inch and 3/4-inch meters. The Company proposes to continue with the present break-over points and change the commodity rates. The Company proposed commodity rates for these meter sizes per 1,000 gallons are \$5.33 up to 3,000 gallons; \$5.83 for 3,000 to 7,000 gallons; \$7.48 for 7,000 to 50,000 gallons; and \$8.73 for more than 50,000 gallons. No gallons are included in the monthly minimum charge for any meter size. The Monthly minimum charge would increase from \$23.00 to \$32.20. The Company's proposed rates would increase the typical residential bill with a median usage of 3,500 gallons by \$14.16 from \$33.32 to \$47.48 (42.50 percent).

Staff recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted four-tier commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters. Staff recommends that the Company continue with the present break-over points. Staff recommends a commodity rate per 1,000 gallons of \$5.33 up to 3,000 gallons; \$5.83 for 3,000 to 7,000 gallons; \$7.48 for 7,000 to 50,000 gallons; and \$8.73 for more than 50,000 gallons. Under Staff's recommended rate design for permanent rates the typical monthly residential bill for a 5/8 x 3/4-inch meter customer with a median usage of 3,500 gallons would increase by \$14.16, from \$33.32, to \$47.48 (42.50 percent) (Schedule MJR-5).

The Company proposes increases to all its service line and meter installation charges. Staff recommends alternative increases to the service line and meter installation charges, as shown in Schedule MJR-4, page 2 and as discussed in the Engineering Report Section K.

The Company proposes increasing the After Hours service charge from \$24 to \$40. Staff concurs with the increase.

The Company proposes an increase to the current Non-Sufficient Funds ("NSF") Check charge from \$30 to \$50. Staff recommends no increase.

The Company proposes an increase of \$8 to the meter re-read (if correct) from \$12 to \$20. Staff concurs with the increase.

The Company currently has no approved Moving Customer Meter Charge (Customer Request). Staff recommends Commission rule A.A.C. R14-2-405 (B-5) of at cost.

The Company's present and proposed Monthly Service Charge for Fire Sprinklers is incorrect in stating: "100 percent of the monthly minimum for a comparable sized meter connection but no less than \$5 per month."

Staff recommends this be corrected to read: "2 percent of the monthly minimum for a comparable sized meter connection but no less than \$10 per month".

REVENUES BY MINIMUM AND TIER

Staff's rate design generates revenues of \$298,445 from metered water and bulk water as shown below (Schedule MJR-6).

\$186,295 or 62.42% from minimum charges
\$ 53,742 or 18.01% from 1st tier commodity charges
\$24,789 or 8.31% from 2nd tier commodity charges
\$26,958 or 9.03% from 3rd tier commodity charges
\$6,660 or 2.23 % from 4th tier and bulk commodity charges

CASH FLOW ANALYSIS

The Company has an existing United States Department of Agriculture ("USDA") loan with an annual payment amount of \$29,748. Staff calculated cash flow before and after debt service (Schedule MJR-7).

Staff recommends a cash flow from operations of \$48,743. Additional cash flow of \$47,512 is provided by depreciation expense, a non-cash item, for total cash flow of \$96,255. Staff recommended revenue results in a times interest earned ratio ("TIER") of 3.59. TIER measures the Company's ability to cover interest from operating income. Staff recommended revenue results in a Debt Service Coverage of 3.24. Debt Service Coverage measures the Company's ability to cover principal and interest payments from cash flow. (Schedule MJR 7.0)

STAFF RECOMMENDATIONS

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule MJR-4.

- In addition to collection of its regular rate and charges, the Yarnell Water Improvement Association, Inc. 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).
- Directing the Yarnell Water Improvement Association to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Directing Yarnell Water Improvement Association, Inc., as a compliance item in this case, to 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.
- Directing Yarnell Water Improvement Association, Inc. to classify plant items according to National Association of Regulatory Utility Commissioners (“NARUC”) guidelines.
- Authorizing the depreciation rates shown in Exhibit 5 of the Engineering Report.
- Directing Yarnell Water Improvement Association, Inc. to continue its service meter and fire hydrant replacement program.
- Directing Yarnell Water Improvement Association, Inc. to continue to monitor the water loss in the system and repair all leaks when discovered.
- Directing Yarnell Water Improvement Association, Inc. to continue to coordinate the reading of its well meter and active customer service meters on a monthly basis and report this data in its Commission Annual Report going forward.
- Directing Yarnell Water Improvement Association, Inc. to collect data needed to accurately complete the Water Use Data Sheet form contained in the Annual Report.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$210,138	\$210,138	\$297,874	\$297,431
Unmetered Water Revenue	-	-	-	-
Surcharge				
Other Water Revenues	3,648	3,648	3,648	3,648
Total Operating Revenue	\$213,785	\$213,785	\$301,522	\$301,080
Operating Expenses:				
Operation and Maintenance	\$192,420	\$190,879	\$192,420	\$190,879
Depreciation	51,026	47,512	51,026	47,512
Taxes Other than Property and Income	(98)	(98)	(98)	(98)
Property Taxes	11,385	12,361	12,945	14,043
Income Tax	-	-	-	-
Total Operating Expense	\$254,734	\$250,654	\$256,294	\$252,337
Operating Income/(Loss)	(\$40,949)	(\$36,869)	\$45,228	\$48,743
Rate Base	\$648,506	\$654,162	\$648,506	\$654,162
Operating Margin	N/M	N/M	15.00%	16.19%
Cash Flow Prior to Debt Service	10,077	10,643	96,254	96,256
Cash Flow after Debt Service	(19,671)	(19,105)	66,506	66,507
Times Interest Earned Ratio (TIER)	N/M	N/M	3.33	3.59
Debt Service Coverage	0.34	0.36	3.24	3.24

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
1				
2				
3	Plant in Service	\$3,045,754	(\$242,307) A	\$2,803,447
4				
5	Less:			
6	Accum. Depreciation	1,651,806	(95,075) B	1,556,731
7				
8	Net Plant	\$1,393,948	(\$147,232)	\$1,246,716
9				
10	Less:			
11	Plant Advances	-	-	-
12	Meter Deposits	12,477	-	\$12,477
13				
14	Total Advances	\$12,477	-	\$12,477
15				
16	Contributions Gross	\$887,512	(193,618) C	\$693,894
17	Less:			
18	Amortization of CIAC	131,368	(40,731) C	\$90,637
19	Net CIAC	\$756,144	(152,888)	\$603,256
20				
21	Total Deductions	\$768,621	(\$152,888)	\$615,733
22				
23	Plus:			
24	1/24 Power	\$528	- D	\$528
25				
26	1/8 Operation & Maint.	22,651	- D	22,651
27				
28	Materials and Supplies	-	-	-
29				
30	Prepayments	-	-	-
31				
32	Total Additions	\$23,179	\$0	\$23,179
33				
34	Rate Base	\$648,506	\$5,656	\$654,162

39 Explanation of Adjustments:

- 40
- 41 A See Schedule MJR-2, Page 2 of 4 PLANT ADJUSTMENTS
- 42
- See Schedule MJR-2, Page 3 of 4 ACCUMULATED
- 43 B DEPRECIATION ADJUSTMENTS
- 44
- 45 C See Schedule MJR-2, Page 4 of 4 CIAC ADJUSTMENTS
- 46
- 47 D Staff did not adjust as the amount of \$166 was immaterial in relation to total rate base.

PLANT ADJUSTMENT

<u>No.</u>	<u>Naruc</u>	<u>Company</u>	<u>Adj No. 1</u>	<u>Adj No. 2</u>	<u>Staff</u>
<u>Line</u>	<u>Acct No</u> <u>Description</u>	<u>Exhibit Page 15</u>	<u>2010 Project</u>	<u>Fire Expenses</u>	<u>Adjusted</u>
1	301 Organization	\$ 24,471	\$ -	\$ -	24,471
2	302 Franchises	34,884	-	-	34,884
3	303 Land & Land Rights	23,732	-	-	23,732
4	304 Structures & Improvements	775,347	(715,390)	-	59,957
5	307 Wells & Springs	1,784	-	-	1,784
6	310 Power Generation Equipment	-	41,171	-	41,171
7	311 Pumping Equipment	136,284	16,395	(52,069)	100,610
8	320 Water Treatment Equipment	-	-	-	-
9	320.1 Water Treatment Plant	4,908	-	-	4,908
10	320.2 Solution Chemical Feeders	73,038	-	-	73,038
11	330 Dist. Reservoirs & Standpipes	-	-	-	-
12	330.1 Storage Tanks	151,423	115,391	-	266,814
13	330.2 Pressure Tanks	-	-	-	-
14	331 Transmission & Distribution Mains	1,129,068	416,118	(140,160)	1,405,026
15	333 Services	2,976	-	-	2,976
16	334 Meters & Meter Installation	136,268	13,488	-	149,756
17	335 Hydrants	67,081	179,529	-	246,610
18	336 Backflow Prevention Devices	205	-	-	205
19	339 Other Plant & Misc Equipment	40,299	-	-	40,299
20	340 Office Furniture & Equipment	5,291	-	-	5,291
21	340.1 Computers & Software	4,543	-	-	4,543
22	341 Transportation Equipment	12,220	-	-	12,220
23	342 Stores Equipment	-	-	-	-
24	343 Tools, Shop, & Garage Equipt	11,588	-	-	11,588
25	344 Laboratory Equipment	-	-	-	-
26	345 Power Operated Equipment	433	-	-	433
27	346 Communication Equipment	-	108,180	52,069	160,249
	347 Miscellaneous Equipment	31,767	-	-	31,767
	348 Other Tangible Plant	378,144	(178,349)	(98,680)	101,115
28	Rounding	-	-	-	-
29					
30	TOTALS	\$ 3,045,754	(\$3,467)	\$ (238,840)	\$ 2,803,447

Explanation of Adjustments:

Adjustment No 1:

Re-classification to NARUC
plant accounts, plant added
during 2009-2011

Page 2a of 4

Adjustment No 2:

Re-classification to NARUC
plant accounts, plant added
during 2013-2015.

Remove non-capital
amounts from plant

Page 2b of 4

36
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ACCUMULATED DEPRECIATION ADJUSTMENT

	Accumulated Depreciation Balances	Depreciation Rates Decision No. 70698	Per Company P. 15	Per Staff	
301	Organization	n/a	-	-	
302	Franchises	n/a	-	-	-
303	Land & Land Rights	n/a	-	-	
304	Structures & Improvements	3.33%	193,820	59,675	(134,145)
307	Wells & Springs	3.33%	1,784	1,784	-
310	Power Generation Equipme	5.00%	-	11,322	11,322
311	Pumping Equipment	12.50%	92,761	94,270	1,509
320	Water Treatment Equipment	0.00%	-	-	-
320.1	Water Treatment Plant	3.33%	72,596	72,614	18
320.2	Solution Chemical Feeders	20.00%	4,908	4,908	-
330	Dist. Reservoirs & Standpipe	0.00%	-	-	-
330.1	Storage Tanks	2.22%	122,835	137,960	15,125
330.2	Pressure Tanks	5.00%	-	-	-
331	Transmission & Distribution	2.00%	710,640	751,994	41,354
333	Services	3.33%	2,976	2,976	-
334	Meters & Meter Installation	8.33%	89,994	96,174	6,180
335	Hydrants	2.00%	38,992	61,123	22,131
336	Backflow Prevention Device	6.67%	75	75	-
339	Other Plant & Misc Equipm	6.67%	36,581	36,581	-
340	Office Furniture & Equipme	6.67%	3,758	3,758	-
340.1	Computers & Software	20.00%	3,560	3,560	-
341	Transportation Equipment	20.00%	11,598	11,598	-
342	Stores Equipment	4.00%	-	-	-
343	Tools, Shop, & Garage Equi	5.00%	5,983	5,983	-
344	Laboratory Equipment	10.00%	-	-	-
345	Power Operated Equipment	5.00%	229	229	-
346	Communication Equipment	10.00%	-	67,734	67,734
347	Miscellaneous Equipment	10.00%	31,298	31,298	-
348	Other Tangible Plant	-----	227,418	101,115	(126,303)
			<u>\$ 1,651,806</u>	<u>1,556,731</u>	<u>\$ (95,075)</u>

Amount

Accumulated Depreciation - Per Company, Page 15
Accumulated Depreciation - Per Staff

\$ 1,651,806
1,556,731

Adjustment

(\$95,075)

CIAC ADJUSTMENT

	Company Exhibit Page 25	Adjustment	Staff Adjusted
6 Year Contributed:			
7 2007	\$ -	\$ -	\$ -
8 2008	-	-	-
9 2009	-	-	-
10 2010	533,000	-	533,000
11 2011	-	-	-
12 2012	-	-	-
13 2013	-	-	-
14 2014	354,512	(193,618)	160,894
15 2015	-	-	-
16 Total	<u>\$ 887,512</u>	<u>\$ (193,618)</u>	<u>\$ 693,894</u>

	Amortization	Accumulated Amortization ¹
18 CIAC AMORTIZATION ADJUSTMENT		
19 2007	\$ -	\$ -
20 2008	-	-
21 2009	-	-
22 2010	6,536	6,536
23 2011	15,956	22,492
24 2012	15,464	37,956
25 2013	15,055	53,011
26 2014	17,141	70,152
27 2015	20,486	<u>90,637</u>

DETAIL OF CIAC ADJUSTED FROM PLANT TO FIRE RELATED EXPENSE

	Company Proposed	Staff Recommended Expensed	Staff Recommended Balance
33 Accounting	150	-150	\$ -
34 Engineering Assoc	87,490	(87,490)	-
35 Scada	51,902		51,902
36 Meter Replacement	35,713		35,713
37 Meter Replacement	36,901		36,901
38 ut	36,378		36,378
39 Equipment Repair	588	(588)	-
40 Legal Svcs CC&T	600	(600)	-
41 Repair Services	39,879	(39,879)	-
42 Repair Services	64,911	(64,911)	-
43	<u>\$ 354,512</u>	<u>\$ (193,618)</u>	<u>\$ 160,894</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit p. 19	Staff Adjustments	Staff Adjusted
Revenues:			
Metered Water Revenue	\$210,138	-	\$210,138
Unmetered Water Revenue	-	-	-
Other Water Revenues	3,648	-	3,648
Total Operating Revenue	\$213,786	\$0	\$213,786
Operating Expenses:			
Salaries and Wages	-	-	-
Purchased Water	-	-	-
Purchased Power	12,678	-	12,678
Chemicals	1,272	-	1,272
Water Treatment	-	-	-
Repairs and Maintenance	5,081	-	5,081
Office Supplies and Expense	5,723	-	5,723
Outside Services	137,483	-	137,483
Water Testing	3,827	(1,541) A	2,286
Rents	-	-	-
Transportation Expenses	786	-	786
Insurance - General Liability	13,215	-	13,215
Insurance - Health & Life	-	-	-
Reg. Commission Expense	5,000	-	5,000
Miscellaneous Expense	7,355	-	7,355
Depreciation	51,026	(3,514) B	47,512
Taxes Other Than Income	(98)	-	(98)
Property Taxes	11,385	976 C	12,361
Bad Debt Expense	-	-	-
Income Tax	-	-	-
Total Operating Expenses	254,734	(4,079)	250,654
OPERATING INCOME/(LOSS)	(\$40,948)	\$4,079	(\$36,868)

STAFF ADJUSTMENTS

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A -	WATER TESTING - Per Company	\$3,827	
	Per Staff	<u>2,286</u>	<u>(\$1,541)</u>
	To recognize the average on-going water testing expenses.		
B -	DEPRECIATION - Per Company	\$51,026	
	Per Staff	<u>47,512</u>	<u>(\$3,514)</u>
	To decrease to Staff recommended depreciation		
C	PROPERTY TAXES - per Company	\$11,385	
	Per Staff	<u>12,361</u>	<u>\$976</u>

OPERATING INCOME ADJUSTMENT D - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]	
1	Depreciation Expense	\$ 51,026	\$ (3,514)	\$ 47,512				
					100,610			
Line No.	ACCT NO.	DESCRIPTION	Company Proposed PLANT IN SERVICE BALANCE	STAFF PLANT BALANCE	Non-Depreciable Fully Depreciated Plant	STAFF DEPR. PLANT BALANCE	STAFF RECOMMENDED RATE	STAFF RECOMMENDED EXPENSE
1		Plant In Service						
2	301	Organization	\$ 24,471	\$ 24,471	\$ 24,471	\$ -	0.00%	\$ -
3	302	Franchises	34,884	34,884	34,884	-	0.00%	-
4	303	Land & Land Rights	23,732	23,732	23,732	-	0.00%	-
5	304	Structures & Improvements	775,347	59,957	59,612	345	3.33%	11
6	307	Wells & Springs	1,784	1,784	1,784	-	3.33%	-
7	310	Power Generation Equipment	-	41,171	-	41,171	5.00%	2,059
8	311	Pumping Equipment	136,284	100,610	82,445	18,165	12.50%	2,271
	320	Water Treatment Equipment	-	-	-	-	-	-
9	320.1	Water Treatment Plant	4,908	4,908	4,908	-	3.33%	-
10	320.2	Solution Chemical Feeders	73,038	73,038	72,507	531	20.00%	106
11	330	Dist. Reservoirs & Standpipes	-	-	-	-	2.22%	-
12	330.1	Storage Tanks	151,423	266,814	-	266,814	2.22%	5,923
13	330.2	Pressure Tanks	-	-	-	-	5.00%	-
14	331	Transmission & Distribution Mains	1,129,068	1,405,026	-	1,405,026	2.00%	28,101
15	333	Services	2,976	2,976	2,976	-	3.33%	-
16	334	Meters & Meter Installation	136,268	149,756	77,581	72,175	8.33%	6,012
17	335	Hydrants	67,081	246,610	-	246,610	2.00%	4,932
18	336	Backflow Prevention Devices	205	205	-	205	6.67%	14
19	339	Other Plant & Misc Equipment	40,299	40,299	33,805	6,494	6.67%	433
20	340	Office Furniture & Equipment	5,291	5,291	3,041	2,250	6.67%	150
	340.1	Computers & Software	4,543	4,543	3,138	1,405	20.00%	281
21	341	Transportation Equipment	12,220	12,220	6,000	6,220	20.00%	1,244
22	342	Stores Equipment	-	-	-	-	5.00%	-
23	343	Tools, Shop, & Garage Equip	11,588	11,588	-	11,588	10.00%	1,159
24	344	Laboratory Equipment	-	-	-	-	5.00%	-
25	345	Power Operated Equipment	433	433	-	433	10.00%	43
26	346	Communication Equipment	-	160,249	-	160,249	10.00%	16,025
27	347	Miscellaneous Equipment	31,767	31,767	30,572	1,195	5.00%	60
28	348	Other Tangible Plant	378,144	101,115	101,115	-	0.00%	-
29		Rounding	-	-	-	-	-	-
30		Subtotal Plant in Service	\$ 3,045,754	\$ 2,803,447	\$ 562,571	\$ 2,240,876		\$ 68,824
31		Less: Non- depreciable Account(s)	83,087	562,571				
32		Depreciable Plant (L30-L31)	\$ 2,962,667	\$ 2,240,876				
33								
34		Contributions-in-Aid-of-Construction (CIAC)					\$ 693,894	
35		Weighted Average Depreciation/Amortization Rate					3.0713%	
36		Less: Amortization of CIAC (L32 x L33)						\$ 21,311
37		Depreciation Expense - STAFF						\$ 47,512
38								
39		Pro Forma Depreciation Expense Calculation						
40								
41		Plant in Service	\$ 2,803,447					
42		Less: Non-depreciable plant	83,087					
43		Fully depreciated plant	479,484					
44		Depreciable Plant	\$ 2,240,876					
45		Times: Staff weighted average depreciation	3.0713%					
46		Depreciation expense before amortization	68,824					
47		Less: Amortization of CIAC	21,311					
48		Test Year Depreciation - Staff	47,512					
49		Depreciation expense - Company	51,026					
50		Staff recommended adjustment	\$ (3,514)					

Staff did not specify a particular depreciation rate for this account in the 348 last rate case.

OPERATING INCOME ADJUSTMENT - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2015	\$ 213,785	\$ 213,785
2	Weight Factor	2	2
3	Subtotal (Line 2 * Line 3)	\$ 427,570	\$ 427,570
4	Staff Adjusted Test Year Revenues - 2014	213,785	
5	Staff Recommended Revenue, Per Schedule MJR-1		301,080
6	Subtotal (Line 3 + Line 4)	\$ 641,355	\$ 728,650
7	Number of Years	3	3
8	Three Year Average (Line 6 / Line 7)	\$ 213,785	\$ 242,883
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 8 * Line 9)	\$ 427,570	\$ 485,766
11	Plus: 10% of CWIP -		-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 10 + Line 11 - Line 12)	\$ 427,570	\$ 485,766
14	Assessment Ratio	18.5%	18.5%
15	Assessment Value (Line 13 * Line 14)	79,100	\$ 89,867
16	Composite Property Tax Rate (Company Property Tax ÷ Assessment Value)	15.6269%	15.6269%
17			
18	Staff Proposed Property Tax Expense (Line 15 * Line 16)	\$ 12,361	
19	Company Proposed Property Tax	11,385	
20			
21	Staff Test Year Adjustment (Line 18-Line 19)	\$ 976	
22	Property Tax - Staff Recommended Revenue (Line 15 * Line 16)		\$ 14,043
23	Staff Test Year Adjusted Property Tax Expense (Line 18)		\$ 12,361
24	Increase/(Decrease) to Property Tax Expense		\$ 1,682
25			
26	Increase/(Decrease) to Property Tax Expense		\$ 1,682
27	Increase in Revenue Requirement		87,295
28	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (Line 26/Line 27)		1.927313%
29			
30			
31			
32			
33			
34	References:		
35	Col [A]: Company		
36	Col [B]: Staff Report		
37			

Gross Revenue Conversion Factor Non-Profit

LINE NO.	DESCRIPTION	(A)	(B)	(C)
1	<i>Calculation of Gross Revenue Conversion Factor:</i>			
2	Revenue	100.0000%		
3	Uncollectible Factor (Line 14)	0.0000%		
4	Revenues (L1 - L2)	100.0000%		
5	Combined Federal and State Income Tax and Property Tax Rate (Line 30)	1.9273%		
6	Subtotal (L3 - L4)	98.0727%		
7	Revenue Conversion Factor (L1 / L5)	1.019652		
8				
9	<i>Calculation of Uncollectible Factor:</i>			
10	Unity	100.0000%		
11	Combined Federal and State Tax Rate (Line 22)	0.00%		
12	One Minus Combined Income Tax Rate (L11 - L12)	100.00%		
13	Uncollectible Rate	0.0000%		
14	Uncollectible Factor (L9 * L10)	0.0000%		
15				
16	<i>Calculation of Effective Tax Rate:</i>			
17	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
18	Arizona State Income Tax Rate	0.0000%		
19	Federal Taxable Income (L17 - L18)	100.0000%		
20	Applicable Federal Income Tax Rate (Line 72)	0.0000%		
21	Effective Federal Income Tax Rate (L19 x L20)	0.0000%		
22	Combined Federal and State Income Tax Rate (L18 + L21)		0.00%	
23				
24	Calculation of Effective Property Tax Factor			
25	Unity	100.00%		
26	Combined Federal and State Income Tax Rate (L22)	0.00%		
27	One Minus Combined Income Tax Rate (L25-L26)	100.00%		
28	Property Tax Factor (MJR-W17, L27)	1.93%		
29	Effective Property Tax Factor (L27*L28)	1.93%		
30	Combined Federal and State Income Tax and Property Tax Rate (L22+L29)		1.93%	
31				
32				
33	Required Operating Income (Schedule Summary Schedule MJR-1)	\$ 48,743		
34	Adjusted Test Year Operating Income (Loss) (Schedule MJR-1)	\$ (36,869)		
35	Required Increase in Operating Income (L33 - L34)		\$ 85,612	mjr-1
36				
37	Income Taxes on Recommended Revenue (Col. C, L65)	\$ -		
38	Income Taxes on Test Year Revenue (Col. A, L65)	\$ -		
39	Required Increase in Revenue to Provide for Income Taxes (L37 - L38)		\$ -	
40				
41	Recommended Revenue Requirement (Schedule MJR-1)	\$ 301,080		
42	Uncollectible Rate (Line 13)	0.0000%		
43	Uncollectible Expense on Recommended Revenue (L41 * L42)	\$ -		
44	Adjusted Test Year Uncollectible Expense	\$ -		
45	Required Increase in Revenue to Provide for Uncollectible Exp. (L43 - L45)		\$ -	
46	Property Tax with Recommended Revenue (Schedule C-Prop Taxes L19)	\$ 14,043		
47	Property Tax on Test Year Revenue (Schedule C-Prop Taxes L20)	\$ 12,361		
48	Increase in Property Tax Due to Increase in Revenue (L46-47)		\$ 1,682	
49				
50	Total Required Increase in Revenue (L35 + L39 + L45 + L48)		\$ 87,295	Staff
51	<i>Calculation of Income Taxes:</i>			
52	Revenue (Schedule MJR-1)	\$ 213,785	\$ 87,294	\$ 301,079
53	Operating Expenses Excluding Income Taxes	\$ 238,293	\$ -	\$ 238,293
54	Synchronized Interest	\$ -	\$ -	\$ -
55	Arizona Taxable Income (L52 - L53 - L54)	\$ (24,508)	\$ -	\$ 62,785
56	Arizona State Income Tax Rate	0.00%		0.00%
57	Arizona Income Tax (L36 x L37)	\$ -	\$ -	\$ -
58	Federal Taxable Income (L55 - L57)	\$ (24,508)	\$ -	\$ 62,785
59	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (3,676)	\$ -	\$ 7,500
60	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -	\$ -	\$ 3,196
61	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -	\$ -	\$ -
62	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -	\$ -	\$ -
63	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	\$ -	\$ -
64	Total Federal Income Tax	\$ -	\$ -	\$ -
65	Combined Federal and State Income Tax (L57 + L64)	\$ -	\$ -	\$ -
66				

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-		
	Rates	Company	Staff	
5/8" x 3/4" Meter	\$23.00	\$32.20	\$ 32.20	
3/4" Meter	35.00	49.00	49.00	
1" Meter	42.00	58.80	58.80	
1 1/2" Meter	84.00	117.60	117.60	
2" Meter	140.00	196.00	196.00	
3" Meter	368.00	515.20	515.20	
4" Meter	575.00	805.00	805.00	
6" Meter	1,150.00	1,610.00	1,610.00	
Standpipe/Bulk per 1,000 Gallons	10.00	N/T	20.00	
Gallons Included in Minimum	0	0	0	
Commodity Rate Charge				
<i>5/8" x 3/4" Meter</i>				
Tier 1	From 0 to 3,000 gallons	3.60	5.33	5.33
Tier 2	From 3,001 to 7,000 gallons	4.10	5.83	5.83
Tier 3	From 7,000 to 50,000 gallons	5.75	7.48	7.48
Tier 4	Over 50,000 gallons	7.00	8.73	8.73
<i>3/4" Meter</i>				
Tier 1	From 0 to 3,000 gallons	3.60	5.33	5.33
Tier 2	From 3,001 to 7,000 gallons	4.10	5.83	5.83
Tier 3	From 7,000 to 50,000 gallons	5.75	7.48	7.48
Tier 4	Over 50,000 gallons	7.00	8.73	8.73
<i>1" Meter</i>				
<i>Staff</i>				
Tier 1	From 0 to 25,000 gallons	4.10	5.83	5.83
Tier 2	From 25,001 to 50,000 gallons	5.75	7.48	7.48
Tier 3	Over 50,000	7.00	8.73	8.73
<i>1 1/2" Meter</i>				
Tier 1	From 0 to 25,000 gallons	4.10	5.83	5.83
Tier 2	From 25,001 to 50,000 gallons	5.75	7.48	7.48
Tier 3	Over 50,000	7.00	8.73	8.73
<i>2" Meter</i>				
Tier 1	From 0 to 25,000 gallons	4.10	5.83	5.83
Tier 2	From 25,001 to 50,000 gallons	5.75	7.48	7.48
Tier 3	Over 50,000	7.00	8.73	8.73
<i>3" Meter</i>				
Tier 1	From 0 to 25,000 gallons	4.10	5.83	5.83
Tier 2	From 25,001 to 50,000 gallons	5.75	7.48	7.48
Tier 3	Over 50,000	7.00	8.73	8.73
<i>4" Meter</i>				
Tier 1	From 0 to 25,000 gallons	4.10	5.83	5.83
Tier 2	From 25,001 to 50,000 gallons	5.75	7.48	7.48
Tier 3	Over 50,000	7.00	8.73	8.73
<i>6" Meter</i>				
Tier 1	From 0 to 25,000 gallons	4.10	5.83	5.83
Tier 2	From 25,001 to 50,000 gallons	5.75	7.48	7.48
Tier 3	Over 50,000	7.00	8.73	8.73

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

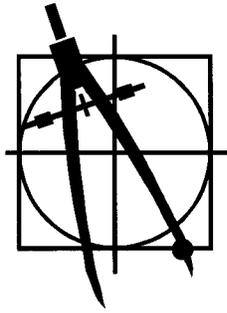
Company Propose	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,866	35.85	51.11	\$15.26	42.57%
Median Usage	3,500	33.32	47.48	\$14.16	42.50%
Staff Recommended					
Average Usage	2,866	\$35.85	51.11	\$15.26	42.57%
Median Usage	3,500	\$33.32	47.48	\$14.16	42.50%

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

Gallons	Present		Company Proposed			
	Rates		Rates	Increase	Rates	Increase
-	\$23.00		\$32.20	40.00%	\$32.20	40.00%
1,000	\$26.60		\$37.53	41.09%	\$37.53	41.09%
2,000	\$30.20		\$42.86	41.92%	\$42.86	41.92%
2,866	\$33.32		\$47.48	42.50%	\$47.48	42.50%
3,500	\$35.85		\$51.11	42.57%	\$51.11	42.57%
4,500	\$39.95		\$56.94	42.53%	\$56.94	42.53%
5,500	\$44.05		\$62.77	42.50%	\$62.77	42.50%
6,500	\$48.15		\$68.60	42.47%	\$68.60	42.47%
7,500	\$53.08		\$75.25	41.77%	\$75.25	41.77%
8,500	\$58.83		\$82.73	40.63%	\$82.73	40.63%
9,500	\$64.58		\$90.21	39.69%	\$90.21	39.69%
10,500	\$70.33		\$97.69	38.90%	\$97.69	38.90%
11,500	\$76.08		\$105.17	38.24%	\$105.17	38.24%
12,500	\$81.83		\$112.65	37.66%	\$112.65	37.66%
13,500	\$87.58		\$120.13	37.17%	\$120.13	37.17%
14,500	\$93.33		\$127.61	36.73%	\$127.61	36.73%
15,500	\$99.08		\$135.09	36.34%	\$135.09	36.34%
16,500	\$104.83		\$142.57	36.00%	\$142.57	36.00%
17,500	\$110.58		\$150.05	35.69%	\$150.05	35.69%
18,500	\$116.33		\$157.53	35.42%	\$157.53	35.42%
19,500	\$122.08		\$165.01	35.17%	\$165.01	35.17%
20,500	\$127.83		\$172.49	34.94%	\$172.49	34.94%
21,500	\$133.58		\$179.97	34.73%	\$179.97	34.73%
26,500	\$162.33		\$217.37	33.91%	\$217.37	33.91%
31,500	\$191.08		\$254.77	33.33%	\$254.77	33.33%
36,500	\$219.83		\$292.17	32.91%	\$292.17	32.91%
41,500	\$248.58		\$329.57	32.58%	\$329.57	32.58%
46,500	\$277.33		\$366.97	32.32%	\$366.97	32.32%
51,500	\$307.95		\$406.25	31.92%	\$406.25	31.92%
76,500	\$482.95		\$624.50	29.31%	\$624.50	29.31%
101,500	\$657.95		\$842.75	28.09%	\$842.75	28.09%

CASH FLOW ANALYSIS

Line No.	Company Proposed	Staff Recommended
Cash Inflows		
1	461 Metered Water Revenue	\$297,874
2	474 Other Water Revenues	3,648
3	Total Revenue	<u>301,522</u>
Cash Outflows		
4	601 Salaries and Wages	-
5	610 Purchased Water	-
6	615 Purchased Power	12,678
7	618 Chemicals	1,272
8	620 Repairs and Maintenance	5,081
9	621 Office Supplies & Expense	5,723
10	630 Outside Services	137,483
11	635 Water Testing	3,827
12	427.2 Customer Security Deposit Interest	-
	641 Rents	-
13	650 Transportation Expenses	786
14	657 Insurance - General Liability	13,215
15	659 Insurance - Health and Life	-
16	666 Rate Case Expense	5,000
17	675 Miscellaneous Expense	7,355
18	403 Depreciation Expense	51,026
19	408 Taxes Other Than Income	(98)
20	408.11 Property Taxes	12,945
21	409 Income Tax	-
22	Total Expenses	<u>256,294</u>
23	Operating Income	48,743
24	Plus: Depreciation Expense	51,026
25	Less: Loan Payment Interest	13,581
26	Less: Loan Payment Principal	16,167
27	AIAC Refunds	-
28	Cash Flow from Operations	66,507
29		
30	Cash Flow from Operations after USDA Loan	66,507
	Operating Income	48,743
	Times Interest Earned Ratio ("TIER")	3.33
	Debt Service Coverage ("DSC")	3.24



**Engineering Report
Yarnell Water Improvement
Association
By Dorothy Hains, P. E.
Docket No. W-02255A-16-0153 (Rates)**

August 24, 2016

EXECUTIVE SUMMARY

Recommendations:

1. Staff recommends that Yarnell Water Improvement Association (“Yarnell” or “Company”) use depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category, as delineated in Exhibit 5, in the future. (See §J and Exhibit 5 for a discussion and a tabulation of the recommended rates.)
2. Staff recommends approval of the meter and service line installation charges listed in the right-hand columns of Table 4. (See §K of report for discussion and details.)
3. Water testing expenses are based upon participation in the Arizona Department of Environmental Quality (“ADEQ”) Monitoring Assistance Program. Annual testing expenses should be adjusted to \$2,286. (See §I and Table 3 for discussion and details.)
4. The Company experienced 15 percent water loss in 2006 and reported the results in its 2007 rate application. In the 2007 rate case, the Company proposed to implement its Service Meters and Fire Hydrants Replacement Program. It appears that this program is a positive water reduction tool for the Company. Staff recommends that the Company continue this program to maintain the water loss below 10 percent. Staff further recommends that the Company coordinate the reading of its well meters and active customer service meters on a monthly basis and report this data in its Commission Annual Reports (“AR”) going forward. Staff further recommends that the Company shall collect the data needed to accurately complete the Water Use Data Sheet form contained in the AR. Staff further recommends that the Company continue to monitor the water loss in the system and repair all leaks when discovered and located as soon as possible. (See §D for discussion and details.)

Conclusions:

1. A check of the Arizona Corporation Commission (“ACC” or “Commission”) Compliance Section database indicated that the Company had no delinquencies.
2. The Company is in compliance with ADEQ water quality standards and is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See §F of report for discussion and details.)

3. Yarnell is not located in an Active Management Area (“AMA”) and ADWR has determined that Yarnell Water Improvement Association is currently in compliance with departmental requirements governing water providers and/or community water systems. (See §G of report for discussion and details.)
4. Staff concludes that the Company has adequate production and storage capacities to serve its existing customers. (See §C of report for discussion and details.)

TABLE OF CONTENTS

	Page
A. PURPOSE OF REPORT	1
B. LOCATION OF SYSTEM	1
C. DESCRIPTION OF SYSTEM	1
<i>System Description</i>	1
<i>System Analysis</i>	2
D. WATER USAGE	2
<i>Water Sold</i>	3
<i>Non-account Water</i>	3
E. GROWTH PROJECTION	4
F. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE	4
G. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE ..	4
H. ACC COMPLIANCE	4
I. WATER TESTING EXPENSES	4
J. DEPRECIATION RATES	6
K. OTHER ISSUES	6
<i>Service Line and Meter Installation Charges</i>	6
<i>Tariffs</i>	8

EXHIBITS

Exhibit 1: Yarnell Certificate Service Area	8
Exhibit 2: Location of Yarnell Service Area.....	9
Exhibit 3: Systematic Drawing	10
Exhibit 4: Water Usage in Yarnell Service Area	11
Exhibit 5: Depreciation Rates.....	12

A. PURPOSE OF REPORT

This report was prepared in response to the application of Yarnell Water Improvement Association, Inc. (“Yarnell” or “Company”) before the Arizona Corporation Commission (“ACC” or “Commission”) for a rate increase. An inspection and evaluation of the Company’s water system was conducted by Dorothy Hains, Utilities Division Staff (“Staff”) Engineer accompanied by Mary Rimback, Staff Public Utilities Analyst; Pat Carpenter, a Certified Operator who is employed by A Quality Water Co. (“AQW”) which is contracted to operate and manage the Yarnell water system; Fletch Wiles, on-site Field Technician (AQW employee); and Trish Edwards, Secretary of the Yarnell Board of Directors, on June 29, 2016.

B. LOCATION OF SYSTEM

The Company is located near the Town of Congress, 30 miles southwest of the City of Prescott in Yavapai County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission-regulated companies in Yavapai County and in the immediate area. The Company serves an area approximately five square miles in size that includes a portion of Sections 12, 14 and 15, of Township 10 North, Range 5 West, and Sections 1, 2, 10 and 11 of Township 10 North, Range 5 West.

C. DESCRIPTION OF SYSTEM

System Description

The Company owns and operates a water system that consists of two wells, four storage tanks, a booster pump station, pressure relief valves, one standpipe and a distribution system. The system also is equipped with belch disinfection units and a supervisory control and data acquisition (“SCADA”) communication system. The wells are located on the same lot. The well site contains two wells, one 40,000 gallon steel storage tank, one 15,000 gallon poly storage tank and an on-site generator. The Company served approximately 490 metered customers during the test year, the majority of which are residential. Exhibit 3 is a schematic drawing of the water system. A detailed listing of the Company’s water system facilities is as follows:

Table 1 Yarnell Plant Data (in PWS #13-057)

Active Well Data

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-616736 (Well #2)	1974	12.75	160	3	7½	120	In Peels Valley, AZ near intersection of Sorrells Rd and HWY 89
55-616737 (Well #3)	1974	16	200	3	7½	120	In Peels Valley, AZ near intersection of Sorrells Rd and HWY 89

Storage, Pumping

Location	Structure or equipment	Capacity
In Peels Valley, AZ on near intersection of Sorrells Rd and HWY 89	One 24' diameter steel storage tank	40,000 gallons
On the hill side behind the Office (22609 S Looka Way)	Two 32' diameter steel storage tank	250,000 gallons
In Peels Valley, AZ on near intersection of Sorrells Rd and HWY 89	One 24' diameter steel storage tank	15,000 gallons
Cross street from Office (22609 S Looka Way) on the Fire Department lot	One standpipe	n/a

Distribution Mains in Yarnell CC&N Area

Diameter (inches)	Material	Length (feet)
4	polyvinyl chloride ("PVC")	7,180
6	PVC	62,920
8	concrete	18,480

Meters in Yarnell CC&N Area

Size (inches)	Quantity
$\frac{5}{8} \times \frac{3}{4}$	615
$\frac{3}{4}$	N/A
1	10
$1\frac{1}{2}$	1
2	N/A
3 (comp)	N/A
3 (Turbo)	N/A
4 (comp)	N/A
4 (Turbo)	N/A
6 (comp)	N/A
6 (Turbo)	N/A
8 (comp)	N/A
8 (Turbo)	N/A

System Analysis

The Company served 486 metered customers in the test year of 2015. Staff concludes that the system has adequate production and storage capacities to provide service to the existing customers.

D. WATER USAGE

Table 2 summarizes water usage in the Company's CC&N area. Exhibit 4 is a graph that shows water consumption data in gallons per day per connection for the system during the test year.

Table 2 Water Usage in Yarnell (PWS #13-057) CC&N Area

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in GPD/customer)
Jan 15	472	1,124,000	1,231,900	0	77
Feb 15	469	1,136,000	1,575,400	0	87
Mar 15	473	1,091,000	1,177,100	0	74
Apr 15	476	1,608,000	1,644,200	0	113
May 15	479	1,256,000	1,433,700	0	85
Jun 15	483	2,252,000	2,362,500	0	155
Jul 15	482	2,385,000	2,754,900	0	160
Aug 15	486	1,872,000	2,211,900	0	124
Sep 15	484	1,704,000	1,901,400	0	117
Oct 15	485	1,524,000	1,807,400	0	101
Nov 15	482	1,067,000	1,189,100	0	74
Dec 15	486	1,395,000	1,618,100	0	93
total		18,414,000	20,907,600	0	
Average					105

Water Sold

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 105 gallons per day (“GPD”) per customer, a high use of 160 GPD per customer, and a low use of less than 74 GPD per customer. The highest total monthly use occurred in July, when a total of 2,385,000 gallons were sold to 482 customers. The lowest total monthly use occurred in November, when 1,067,000 gallons were sold to 482 customers.

Non-account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between the water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

The Company reported 18,414,000 gallons of water sold and 20,907,600 gallons of water pumped during the test year. The calculated water loss in Yarnell system was 11.93 percent, which exceeds Staff’s recommended 10 percent allowable limit. The Company reported that its system had fire damage due to the 2013 Yarnell wild fire. Since then, the Company has been conducting a program to replace broken pipelines, fire hydrants and meters, however, the program has not been completed.

The Company experienced 15 percent water loss in 2006. In a 2007 rate application, the Company proposed to implement a Service Meter and Fire Hydrant Replacement Program. It appears that this program has had a positive effect on the Company’s water loss issue. Staff recommends that the Company continue its replacement program until water loss is below the 10 percent threshold. In a 2014 Fire Damage Assessment Report, the Company attributed higher water loss to the 2013 wild fire that damaged Company service meters, mains, service lines and fire

hydrants. It appears the Company will receive funds to replace/repair fire damaged meters, mains, service lines and fire hydrants. Replacement of the damaged plant should have a positive effect and help further reduce the level of lost water. Staff recommends that the Company continue to monitor the water loss in the system and repair all leaks when discovered and located as soon as possible. Staff further recommends that the Company continue to coordinate the reading of its well meters and active customer service meters on a monthly basis and report this data in its Commission Annual Report going forward. Staff further recommends that the Company shall collect the data needed to accurately complete the Water Use Data Sheet form contained in the Annual Report.

E. GROWTH PROJECTION

Based on the service meter data contained in the Company's annual reports, there is no growth or negative growth in its service area. The Company also stated that the customer counts have declined since the 2013 Yarnell wild fire.

F. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Staff received a compliance status report from ADEQ dated June 6, 2016, in which ADEQ stated that the system (ADEQ Public Water System Identification #13-057) has no major deficiencies. ADEQ has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

G. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Yarnell is not located in an Active Management Area ("AMA") as designated by ADWR, and consequently is not subject to AMA reporting and conservation rules. Staff received a compliance status report from ADWR dated June 27, 2016, in which ADWR has determined that Yarnell Water Improvement Association, Inc. is currently compliant with departmental requirements governing water providers and/or community water systems.

H. ACC COMPLIANCE

A check of the Commission's Compliance Section database indicated that Yarnell has no delinquencies (per ACC database compliance check dated May 23, 2016).

I. WATER TESTING EXPENSES

Yarnell is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.

2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented as a pro forma expense on an annualized basis.
3. MAP fees were calculated from the ADEQ MAP invoice.
4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and one point of entry.
5. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents are found, then the testing costs would dramatically increase.

Table 3 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount of \$2,286 (rounded) shown in Table 3.

Table 3 Water Testing Cost (Yarnell)

Monitoring – 2 wells (one EPD) (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological – monthly	\$20 ¹	72	\$1,440	\$480
Inorganics – Priority Pollutants	\$300	MAP	MAP	MAP
Radiochemical – (1/ 4 yr)	\$60	1/2	MAP	MAP
Phase II and V:				
IOC's, SOC's, VOC's	\$2,805	1	MAP	MAP
Nitrites	\$25	1/3	MAP	MAP
Nitrates – annual	\$25	3	MAP	MAP
Asbestos – per 9 years	\$180	1/3	MAP	MAP
Lead & Copper – annual*	\$40	10	\$400	\$133
TTHM/HHAs	\$350 ¹	1	\$350	\$117
MAP Fee				\$1,555.56
Total				\$2,285.56

Notes: 1. Prices are provided by Western Technologies, Inc. Western Technologies, Inc. charges \$250 for testing one haloacetic acids ("HHAs") sample and \$100 for testing one total trihalomethanes ("TTHM") sample.

J. DEPRECIATION RATES

Staff recommends that the depreciation rates presented in Exhibit 5 by individual National Association of Regulatory Utility Commissioners category be used on a going forward basis.

K. OTHER ISSUES*Service Line and Meter Installation Charges*

The Company proposed a significant increase in its service line and meter installation charges.¹ The Company's proposed charges are more than twice that of the upper end of Staff's typical range for these charges. The Company provided three examples in support of its proposed increase. Included in the examples were costs for local government permit fees, costs for special materials and procedures that must be followed to restore paved roadway cuts and the cost for pressure relief valve installation. Staff believes that while applicable for some installations these costs do not always apply.

Staff believes that it is appropriate for the Company to charge "At Cost" for the larger, more costly meters (meters two-inches and larger). Staff also believes that "At Cost" pricing is appropriate if installation requires the use of heavy equipment such as a backhoe or involves crossing an improved road. Staff however does not believe "At Cost" pricing flexibility is necessary or appropriate for the smaller more common meter sizes where a paved road crossing is not required.

Staff recommends approval of meter and service line installation charges listed in Table 4 under the columns labeled "Staff Recommended". Staff's recommended charges listed in the table below should be adopted. Staff contacted the Company regarding its recommended charges and the Company was receptive to Staff's proposal.

Table 4 Service Line and Meter Installation Charges (Yarnell)

Meter Size	Current Service Line Charges	Current Meter Charges	Current Total Charges for both Meter & Service Line Installation	Company Proposed Service Line Charges	Company Proposed Meter Charges	Company Proposed Total Charges	Staff Recommended Service Line Charges (Road Crossing Not Required)	Staff Recommended Meter Charges (Road Crossing Not Required)	Staff Recommended Total Charges (Road Crossing Not Required)
5/8 x 3/4-inch	\$445	\$105	\$550	\$1,335	\$210	\$1,545	\$565	\$158	\$723*
3/4-inch	\$445	\$175	\$620	\$1,335	\$350	\$1,685	\$565	\$260	\$825*
1-inch	\$495	\$235	\$730	\$1,485	\$705	\$2,190	\$629	\$321	\$950*
1 1/2-inch	\$550	\$445	\$995	\$1,650	\$890	\$2,540	\$699	\$536	\$1,235*
2-inch**	\$830	\$965	\$1,795	\$2,490	\$1,930	\$4,420	At Cost	At Cost	At Cost

¹ Separate service line and meter installation charges were approved for Yarnell in Decision No. 70698.

3-inch**	\$1,045	\$1,580	\$2,635	\$3,135	\$3,160	\$6,295	At Cost	At Cost	At Cost
4-inch**	\$1,490	\$2,510	\$4,000	\$4,470	\$5,020	\$9,490	At Cost	At Cost	At Cost
6-inch**	\$2,210	\$4,865	\$7,075	\$6,630	\$9,730	\$16,360	At Cost	At Cost	At Cost
Over 6-inch**	At Cost	At Cost	At Cost	N/A	N/A	N/A	At Cost	At Cost	At Cost

Notes:

* "At Cost" pricing will apply if installation requires the use of heavy equipment such as a backhoe or involves crossing an improved road.

** "At Cost" pricing will apply for meter sizes two inches and larger.

Tariffs

The Company has approved Curtailment and Cross Connection/Backflow Tariffs on file with the Commission.

EXHIBIT 1 Yarnell Certificate Service Area

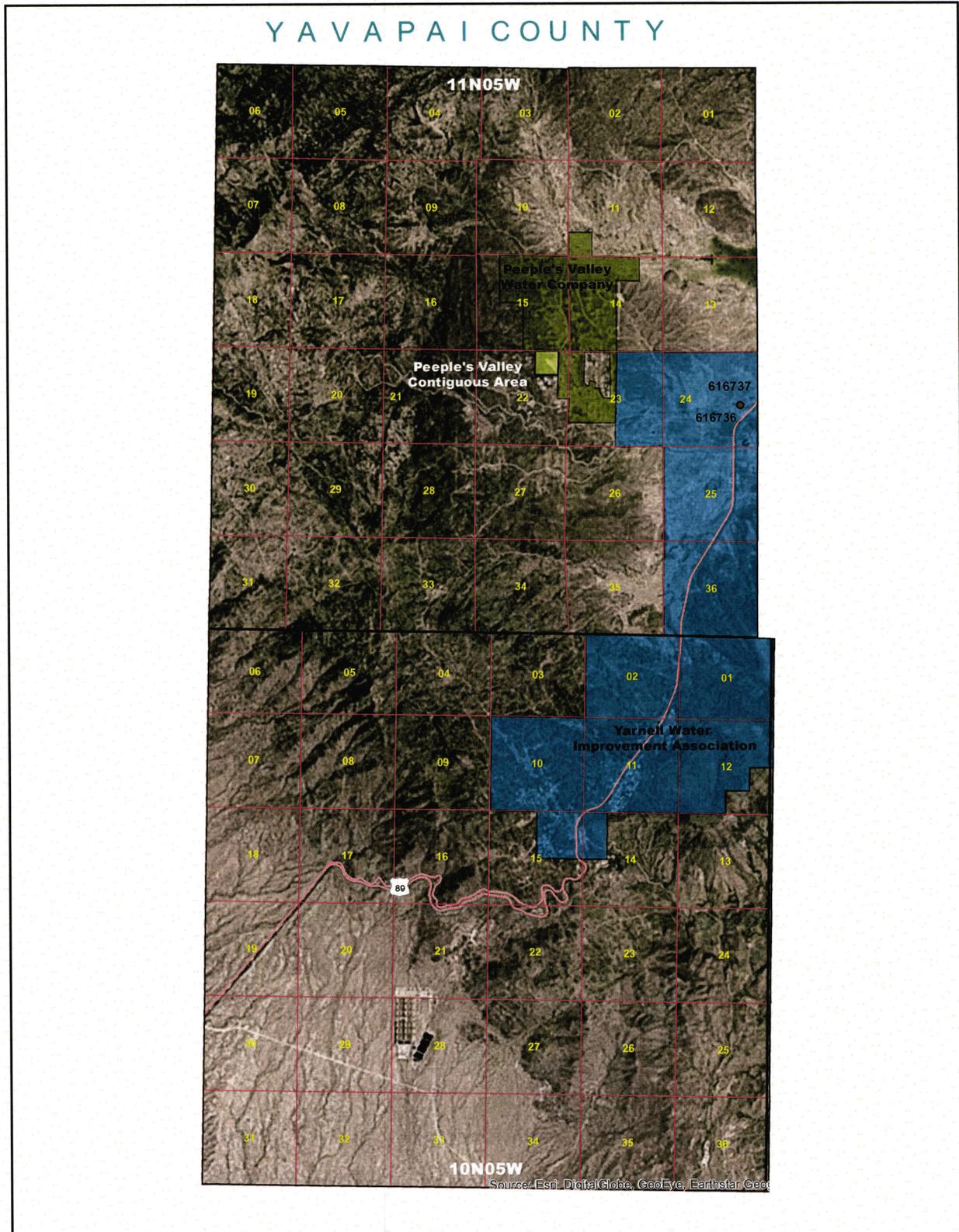


EXHIBIT 2.

LOCATION OF YARNELL SERVICE AREA

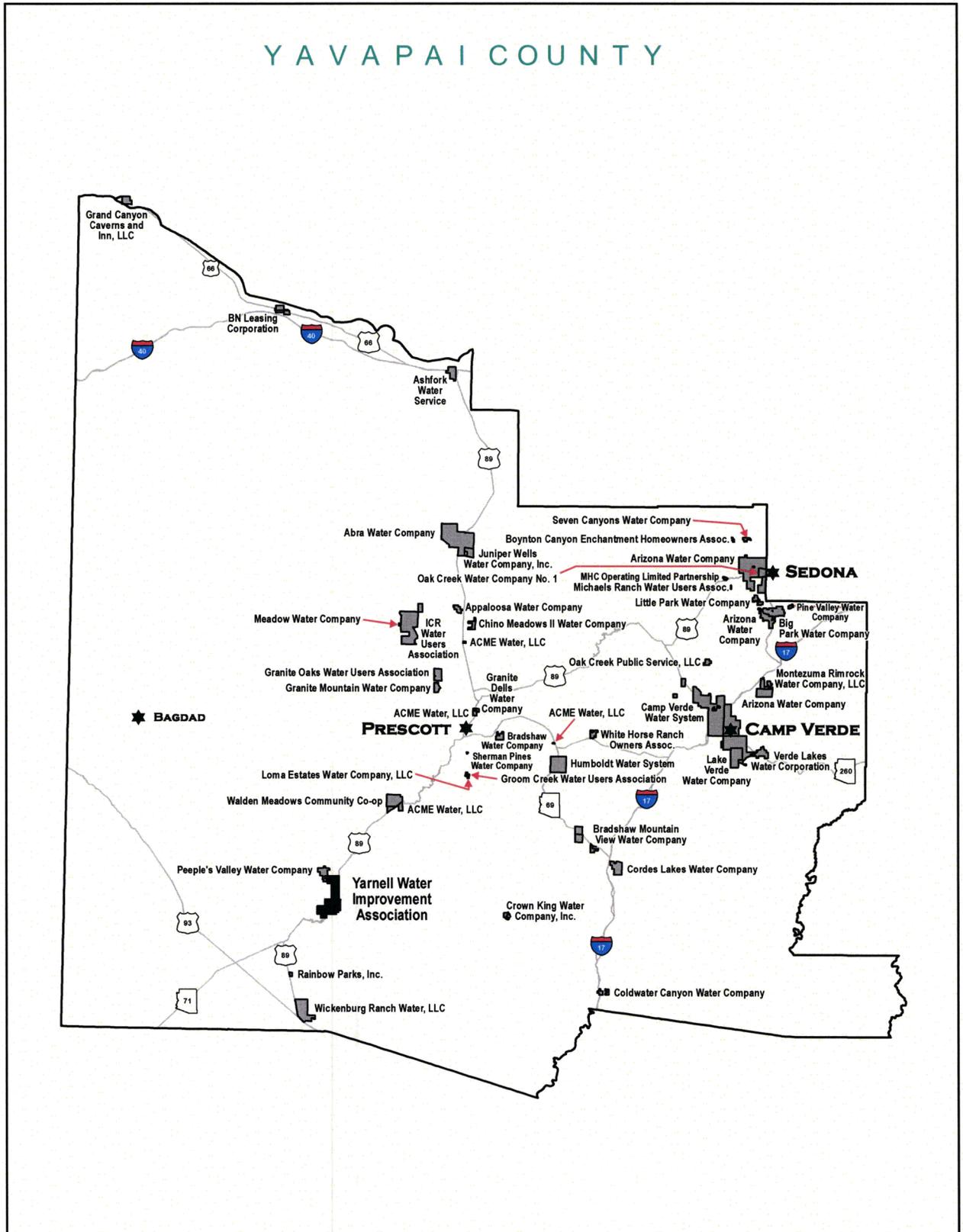


EXHIBIT 3
SYSTEMATIC DRAWING

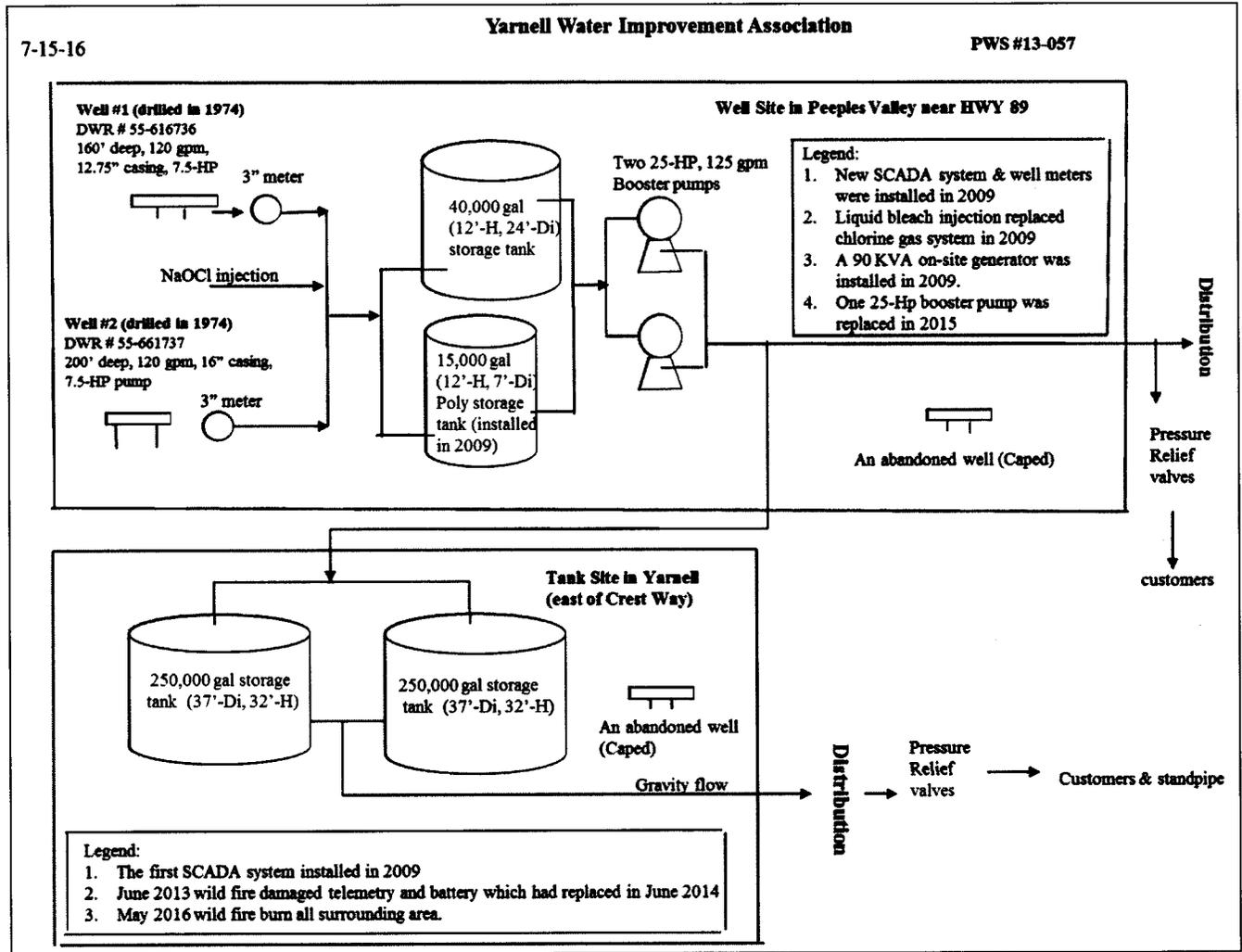


EXHIBIT 4

WATER USAGE ON THE YARNELL SERVICE AREA

**During Test Year (Jan 2015 – Dec 2015) Water Usage In
Yarnell CC&N Area**

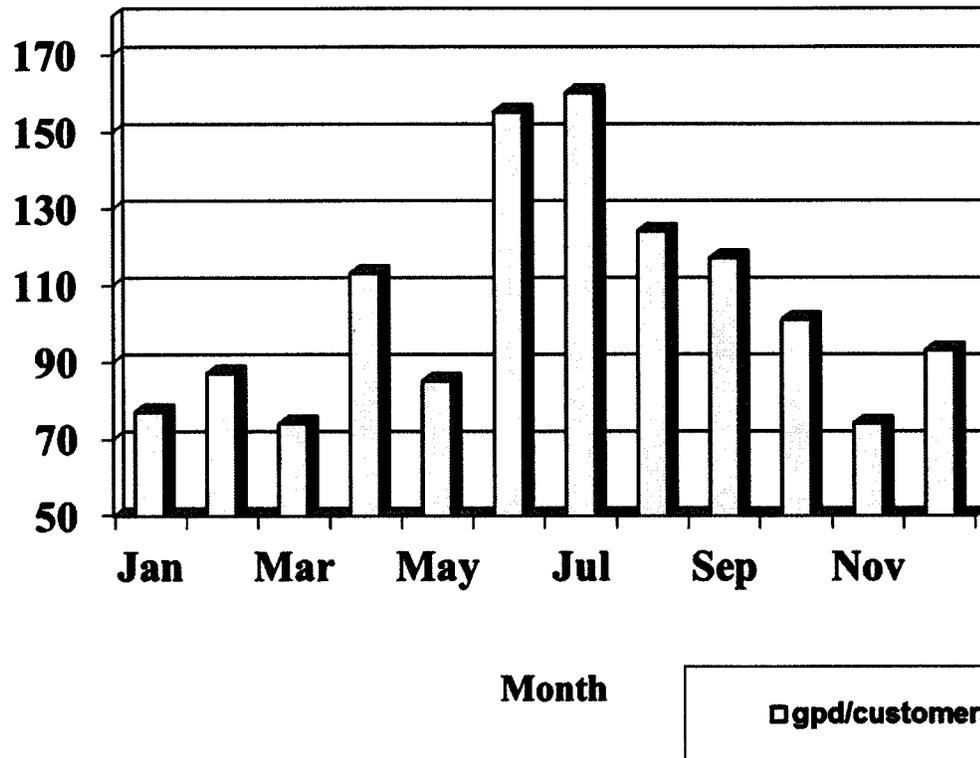


EXHIBIT 5

WATER DEPRECIATION RATES (Yarnell)

Acct. No.	Depreciable Plant	Decision # 70698 (approved rate %)	Company proposed	Staff recommended Rate (%)
301	Organization	0.00	0.00	0.00
302	Franchises	0.00	0.00	0.00
303	Land & Land Rights	0.00	0.00	0.00
304	Structures & Improvements	3.33	3.33	3.33
305	Collecting & Impounding Reservoirs	2.50	N/A	2.50
306	Lake, River, Canal Intakes	2.50	N/A	2.50
307	Wells & Springs	3.33	3.33	3.33
308	Infiltration Galleries	6.67	N/A	6.67
309	Raw Water Supply Mains	2.00	2.00	2.00
310	Power Generation Equipment	5.00	5.00	5.00
311	Pumping Equipment	12.5	12.5	12.5
320	Water Treatment Equipment			
320.1	Water Treatment Plants	3.33	3.33	3.33
320.2	Solution Chemical Feeders	20.0	20.00	20.0
330	Distribution Reservoirs & Standpipes			
330.1	Storage Tanks ¹	2.22	2.22	2.22
330.2	Pressure Tanks	5.00	5.00	5.00
331	Transmission & Distribution Mains	2.00	2.00	2.00
333	Services	3.33	3.33	3.33
334	Meters	8.33	8.33	8.33
335	Hydrants	2.00	2.00	2.00
336	Backflow Prevention Devices	6.67	6.67	6.67
339	Other Plant & Misc Equipment	6.67	6.67	6.67
340	Office Furniture & Equipment	6.67	6.67	6.67
340.1	Computers & Software	20.00	20.00	20.00
341	Transportation Equipment	20.00	20.00	20.00
342	Stores Equipment	4.00	N/A	4.00
343	Tools, Shop & Garage Equipment	5.00	5.00	5.00
344	Laboratory Equipment	10.00	10.00	10.00
345	Power Operated Equipment	5.00	5.00	5.00
346	Communication Equipment	10.00	10.00	10.00
347	Miscellaneous Equipment	10.00	10.00	10.00
348	Other Tangible Plant	---	N/A	5.00

Note: 1. this account shall include storage tanks and standpipes.