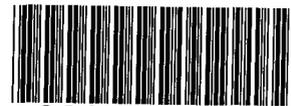


ORIGINAL



0000002486

MEMORANDUM

30

TO: Docket Control
FROM: Ernest G. Johnson ⁸⁶³
Director
Utilities Division

DATE: April 9, 2004

RE: STAFF REPORT FOR TIERRA LINDA HOMEOWNERS ASSOCIATION, INC.
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY
TO PROVIDE WATER SERVICE TO A PORTION OF PIMA COUNTY (DOCKET
NO. W-04236A-04-0075)

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2004 APR - 9 11:50
AZ CORP COMMISSION
DOCUMENT CONTROL

Attached is the Staff Report for Tierra Linda Homeowner's Association, Inc. application for a Certificate of Convenience and Necessity in Pima County. Staff recommends the Commission approve the application for a CC&N with conditions.

EGJ:JEF:hml

Originator: Jim Fisher

Arizona Corporation Commission
DOCKETED
APR - 9 2004

DOCKETED BY *Mae*

Service List for: Tierra Linda Homeowners Association, Inc.
Docket No. W-04236A-04-0075

Mr. Michael F. McNulty
Lewis & Roca LLP
One South Church Avenue
Suite 700
Tucson, Arizona 85701

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

TIERRA LINDA HOMEOWNERS ASSOCIATION, INC.

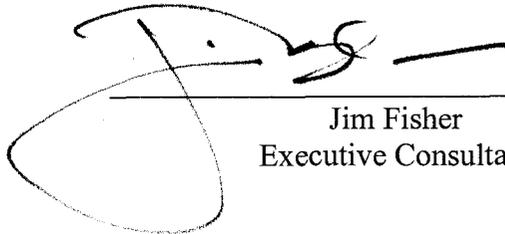
DOCKET NO. W-04236A-04-0075

**APPLICATION FOR
A CERTIFICATE OF CONVENIENCE
AND NECESSITY**

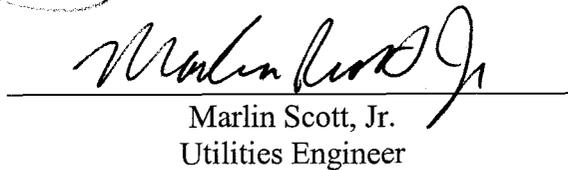
MARCH 2004

STAFF ACKNOWLEDGMENT

The Staff Report for Tierra Linda Homeowners Association, Inc. (Docket No.W-04236A-040-0075) was the responsibility of the Staff members signed below. Jim Fisher was responsible for the review and analyses of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Elena Zestrijan was responsible for the review and recommendation on rate base and usage rates. John La Porta was responsible for review and recommendation on compliance issues.



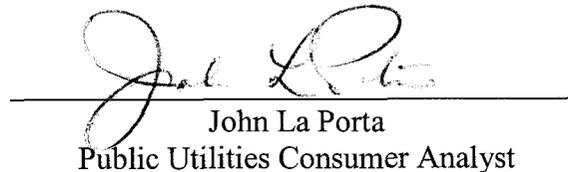
Jim Fisher
Executive Consultant



Marlin Scott, Jr.
Utilities Engineer



Elena Zestrijan
Public Utilities Analyst III



John La Porta
Public Utilities Consumer Analyst

EXECUTIVE SUMMARY
TIERRA LINDA HOMEOWNERS ASSOCIATION, INC.
APPLICATION FOR A CC&N
DOCKET NO. W-04236A-04-0075

On February 3, 2004, Tierra Linda Homeowners Association, Inc. ("Tierra Linda" or "Company") filed an Application for a Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "Commission"). Tierra Linda is a proposed subdivision of approximately 200 acres to be developed in Avra Valley, northwest of Tucson, in Pima County.

The Company is proposing a water system that will consist of a well producing 200 gallons per minute ("GPM"), a 210,000 gallon storage tank, a 1,200 GPM booster system and a distribution system that will serve approximately 200 customers within the first five years. Staff estimates the proposed water system will have sufficient capacity to serve the proposed customers.

Tierra Linda is requesting initial water rates of a monthly minimum of \$25 with a tiered rate structure of \$2.00 per thousand gallons consumed for the initial 7,000 gallons and \$2.75 for each 1,000 gallons thereafter. The Company's proposed rates are estimated to produce an average water bill of \$56.69.

Staff recommends a three tiered rate structure with a monthly minimum of \$25. Staff recommends the usage tiers be priced at \$1.60 per thousand gallons for usage up to 4,000 gallons, \$2.40 per thousand gallons for usage up to 15,000 gallons and \$2.88 per thousand for all usage in excess of 15,000 gallons.

Tierra Linda has not received its Arizona Department of Environmental Quality ("ADEQ") Certificate of Approval to Construct ("ATC") for construction of facilities to the requested area. Staff recommends that the Company submit to the Director of the Utilities Division a copy of this ATC when received by the Company, within 12 months of the effective date of the order granting this application.

The Company will be located within the Tucson Active Management Area and consequently will be subject to reporting and conservation requirements. Staff recommends that the Company file with the Director of the Utilities Division a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23, 2006. The Company indicated its source's arsenic concentration at 8.7 micrograms per liter.

Staff recommends that the Commission approve Tierra Linda Homeowners Association, Inc. application for a Certificate of Convenience and Necessity to provide water services, subject to the following conditions:

1. That the Commission find that the Tierra Linda Homeowners Association, Inc. fair value of the property devoted to water service is \$856,182.
2. That the Commission authorize Tierra Linda Homeowners Association, Inc. the rates and charges shown on Schedule ENZ-2.
3. That the Commission require Tierra Linda Homeowners Association, Inc. to file a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.
4. That the Commission require Tierra Linda Homeowners Association, Inc. to file a copy of the ADEQ Approval to Construct within 12 months of any decision in this matter.
5. That the Commission require Tierra Linda Homeowners Association, Inc. to file with the Director of the Utilities Division a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.
6. That the Commission require Tierra Linda Homeowners Association, Inc. to file a Curtailment Tariff when the public water system number is issued by ADEQ for this new water system.
7. That the Commission require Tierra Linda Homeowners Association, Inc. to file a rate application no later than three months following the fifth anniversary of any decision in this matter.
8. That the Commission require Tierra Linda Homeowners Association, Inc. to file all related franchise agreements within 365 days of the effective date of the decision in this case.
9. That the Commission require Tierra Linda Homeowners Association, Inc. to maintain its books and records in accordance with the National Association of Regulatory Utilities Commissioners ("NARUC") Uniform System of Accounts for Water Utilities.
10. That the Commission require Tierra Linda Homeowners Association, Inc. to use depreciation rates by individual NARUC category, as delineated in Table B of the Engineering Report.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to Tierra Linda Homeowners Association, Inc. be considered null and void without further order from the Commission should Tierra Linda Homeowners Association, Inc. fail to meet conditions 3, 4, and 8 within the time specified.

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Introduction

On February 3, 2004, Tierra Linda Homeowners Association, Inc. ("Tierra Linda" or "Company") filed an Application for a Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "Commission").

On March 9, 2004, the Company provided additional information to support its application. On March 18, 2004, the Commission Utilities Division Staff ("Staff") informed Tierra Linda that the application was sufficient for administrative purposes.

Background

Tierra Linda is an Arizona non-profit corporation, which is owned by Tierra Linda Development L.L.C., the developer of a proposed subdivision of approximately 200 acres in Avra Valley, northwest of Tucson, in Pima County. The property to be developed is generally located in northwest quarter of Section 29, of Township 12 South, Range 11 East

The Commission, in Decision No. 58505, (January 13, 1994) previously authorized Tierra Linda a conditional CC&N. Decision No. 58505 required Tierra Linda to file copies of its Pima County franchise, its Arizona Department of Environmental Quality ("ADEQ") Certificate of Approval to Construct and a Certificate of Assured Water Supply issued by the Arizona Department of Water Resources, ("ADWR"). Decision No. 58505 further required the documents to be filed within one year of the decision. Tierra Linda obtained the Pima County franchise, but did not file the Certificate of Assured Water Supply, or the Approval to Construct documentation within the required timeframe, therefore the conditional CC&N lapsed.

The real property described above was subsequently purchased by Robert Zammit, a developer in Pima county. Mr. Zammit formed Tierra Linda Development, L.L.C., retained a certified operator, and filed this CC&N application to ensure the property is properly entitled for water services.

Proposed Water System

Tierra Linda is proposing to construct a water system that will consist of a well producing 200 gallons per minute ("GPM"), a 210,000 gallon storage tank, a 1,200 GPM booster system and a distribution system that will serve approximately 200 customers within the first five years.

Staff estimates the proposed water system will have sufficient capacity to serve the proposed customers. Tierra Linda is designed to have approximately 200 total customers. Based on an estimated consumption of 300 gallons per day per connection, the anticipated well production capacity of 200 GPM and the storage capacity of 210,000 gallons will be sufficient to serve up to 300 connections. This capacity includes fire flow protection.

Staff concludes that the proposed water system will have adequate well production and storage capacity to serve the requested area within a conventional five year planning period.

Cost Analysis

The Company submitted a total estimated project cost for its proposed plant-in-service at \$2,044,064 within the first five years. Staff has reviewed the proposed plant-in-service as shown in Table A and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes.

Finance of Utility Plant

According to the application, Tierra Linda intends to finance the utility plant through a combination of membership equity, contributions and advances in aid of construction ("AIAC"). AIAC are often in the form of Main Extension Agreements ("MXA"). MXA's generally require the developer to design, construct and install, (or cause to be), all facilities to provide adequate service to the development. The developer is required to pay all costs of constructing the collection facilities and common facilities necessary to serve the development. Upon acceptance of the facilities by the utility, the developer will convey the utility facilities by way of a warranty deed. The utility will often refund ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

According to the application, at Exhibit F, Tierra Linda anticipates \$746,000 in advances over the first five years of operations. The Company also anticipates Membership Equity of \$785,459 during the same period to fund construction of the water system.

The Company has sought approval of a Hook-up Fee for each lot of \$1,750. According to Schedule 1e of Exhibit F, the Company projects \$348,250 of Hook-up Fees in the initial five years of service.

Staff does not believe a new utility should be authorized a Hook-up Fee to fund the initial construction of backbone plant. The Commission has rarely authorized a generic hook-up fee for new or established utilities. The Commission has authorized hook-up fees for established utilities in conjunction with financing the expansion of backbone facilities designed to serve the overall system. In this application, Tierra Linda has proposed a hook-up fee as a general revenue fee, without any specific design or purpose other than to defray development costs. Therefore, Staff's rate recommendation does not include the proposed Hook-up Fee as reflected in Schedule ENZ-2. (Attached)

Table A. Proposed Plant-in-Service

Acct. No.	Tierra Linda HOA Plant-in-Service	Company's Year 1	Staff's Adj. Year 1	5-Year Plant
301	Organization	10,000	10,000	\$ 10,000
302	Franchise	-	-	-
303	Land & Land Rights	20,000	20,000	20,000
304	Structures & Improvements Chain link fencing	17,649	17,649	17,649
305	Collecting & Imp. Resv.	202,379	0	0
307	Wells & Springs New well	282,389	282,389	282,389
311	Electric Pumping Equip. Well pump @ 200 gpm 1,200 gpm booster system 5,000 gal. pressure tank Electrical	176,493	176,493	176,493
330	Dist. Reservoir & Standpipe 210,000 gal. storage tank	0	202,379	202,379
331	Transmission & Dist. Mains Phase A :12-inch mains, 1,250' 8-inch mains, 8,600' Phase B: 8-inch mains, 4,550' Phase C: 8-inch mains, 6,750'	359,457	359,457	932,800
333	Services Phase A - 63 lots Phase B - 62 lots Phase C - 65 lots	19,414	19,414	119,531
334	Meters Phase A - 63 lots Phase B - 62 lots Phase C - 65 lots	4,412	4,412	87,843
335	Hydrants Phase A - 14 each Phase B - 7 each Phase C - 10 each	41,182	41,182	194,980
		1,133,375	1,133,375	\$ 2,044,064

Fair Value Rate Base

Consistent with Commission rules, the Company's filing included the required five-year projections for plant values, operating revenues and expenses, and number of customers.

Projections and assumptions are necessary to establish initial rates due to the lack of historical data. Staff reviewed the Company's projections and found them reasonable.

The Company estimates water revenue of \$25,312 with associated expenses \$38,940 resulting in a loss for the first year of operations. The Company also estimates \$118,221 in fourth year revenue with related expenses of \$115,611, resulting a profit of \$2,610. (See Schedule ENZ-1, Attached)

Based on the plant investment, Staff recommends that the Commission find that the fair value rate base of the Company's property devoted to public service to be \$856,182, as shown in Schedule ENZ-1. (Attached)

Proposed Rates

Tierra Linda is requesting initial monthly water rates of \$25 with a tiered rate structure of \$2.00 per 1,000 gallons consumed for the initial 7,000 gallons and \$2.75 for each 1,000 gallons thereafter. The Company's proposed rates are estimated to produce an average water bill of \$56.69.

Staff is recommending a three tiered rate structure with a monthly minimum of \$25. Staff recommends the usage tiers be priced at \$1.60 per thousand gallons for usage up to 4,000 gallons, \$2.40 per thousand gallons for usage up to 15,000 gallons and \$2.88 per thousand for all usage in excess of 15,000 gallons. (See Schedule ENZ- 2 Attached)

Arizona Department of Environmental Quality

Tierra Linda has not received its Arizona Department of Environmental Quality ("ADEQ") Certificate of Approval to Construct ("ATC") for construction of facilities to the requested area. Staff recommends that the Company submit to the Director of the Utilities Division a copy of this ATC when received by the Company, but no later than 12 months after the effective date of the order granting this application.

Depreciation Rates

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B of the Engineering Report. It is recommended that the company use depreciation rates by individual National Association of Regulatory Utilities Commissioners ("NARUC") category, as delineated in Table B.

Arizona Department of Water Resources Compliance

The Company will be located within the Tucson Active Management Area and will be subject to reporting and conservation requirements.

Staff recommends that the Company file with the Director of the Utilities Division a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23, 2006.

Tierra Linda indicated its production source arsenic concentration is currently 8.7 parts per billion ("ppb"). This arsenic level does not exceed the new standard of 10 ppb; therefore it appears the Company will be in compliance with the new arsenic standard.

Curtailment Plan Tariff

A Curtailment Plan Tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

Since the requested area will be a new independent system, the public water system ("PWS") number is not known at this time. Therefore, when the PWS number is issued by ADEQ, Staff recommends that the Company file a curtailment tariff for the new water system. The tariff shall be submitted to the Director of the Utilities Division for his review and certification. Staff also recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.cc.state.az.us/utility) or available upon request from Commission Staff.

Staff Recommendations

Staff recommends that the Commission approve Tierra Linda Homeowners Association, Inc. application for a Certificate of Convenience and Necessity to provide water services, subject to the following conditions:

1. That the Commission find that the Tierra Linda Homeowners Association, Inc. fair value of the property devoted to water service is \$856,182.
2. That the Commission authorize Tierra Linda Homeowners Association, Inc. the rates and charges shown on Schedule ENZ-2.
3. That the Commission require Tierra Linda Homeowners Association, Inc. to file, with the Director of the Utilities Division, a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.

4. That the Commission require Tierra Linda Homeowners Association, Inc. to file, with the Director of the Utilities Division, a copy of the ADEQ Approval to Construct within 12 months of any decision in this matter.
5. That the Commission require Tierra Linda Homeowners Association, Inc. to file with the Director of the Utilities Division a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.
6. That the Commission require Tierra Linda Homeowners Association, Inc. to file, with the Director of the Utilities Division, a Curtailment Tariff when the public water system is issued by ADEQ for this new water system.
7. That the Commission require Tierra Linda Homeowners Association, Inc. to file a rate application no later than three months following the fifth anniversary of any decision in this matter.
8. That the Commission require Tierra Linda Homeowners Association, Inc. to file, with the Director of the Utilities Division, all related franchise agreements within 365 days of the effective date of the decision in this case.
9. That the Commission require Tierra Linda Homeowners Association, Inc. to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Water Utilities.
10. That the Commission require Tierra Linda Homeowners Association, Inc. to use depreciation rates by individual NARUC category, as delineated in Table B of the Engineering Report.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to Tierra Linda Homeowners Association, Inc. be considered null and void without further order from the Commission should Tierra Linda Homeowners Association, Inc. fail to meet conditions 3,4, and 6 within the time specified.

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: March 12, 2004

RE: **TIERRA LINDA HOMEOWNERS ASSOCIATION, INC. (DOCKET NO. W-04236A-04-0075)**

The area requested by Tierra Linda has been plotted using a revised legal description, which has been docketed. This legal description is attached and should be used in place of the original description submitted with the application.

Also attached is a copy of the map for your files.

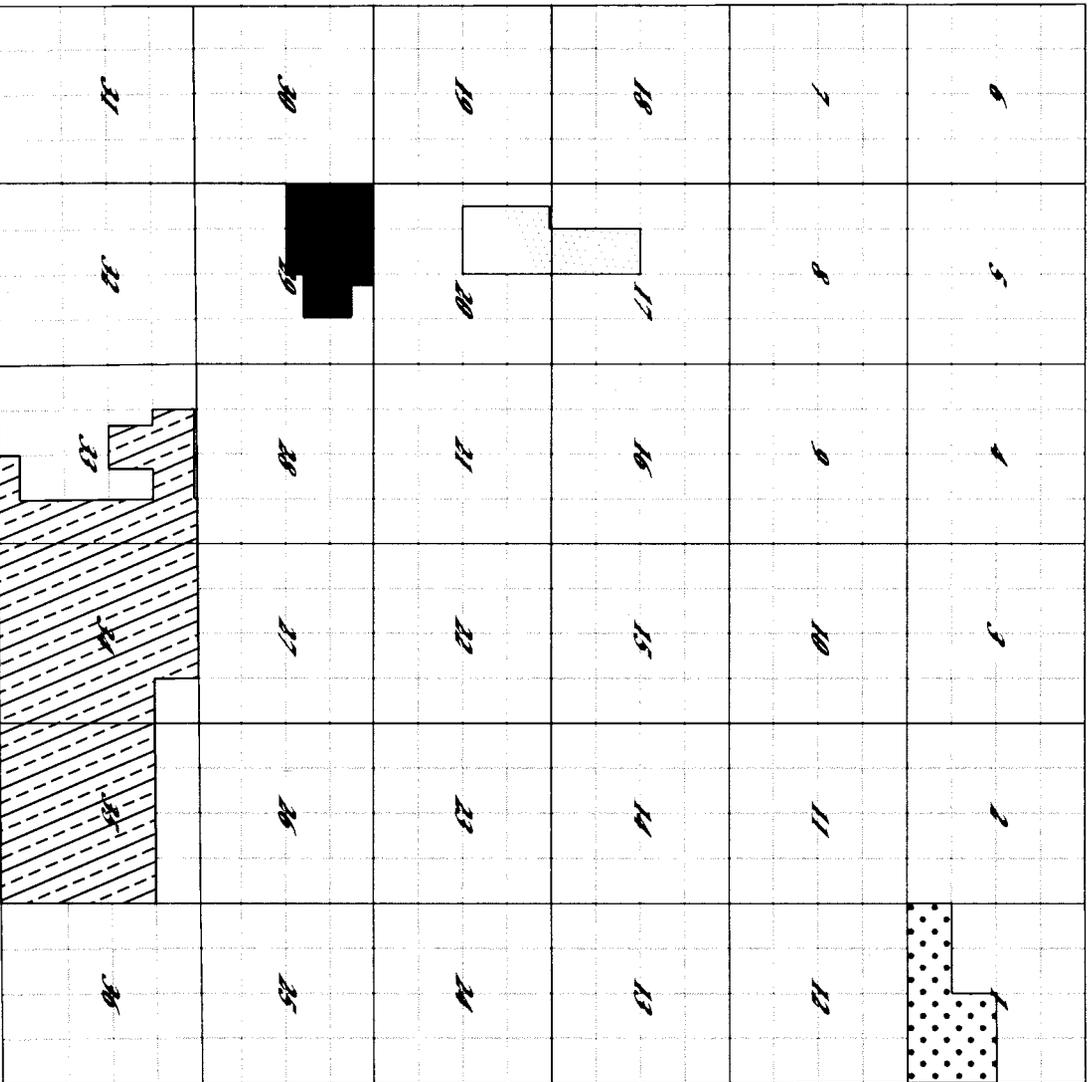
:bsw

Attachments

cc: Docket Control
Mr. Michael McNulty
Deb Person (Hand Carried)
File

COUNTY: Pima

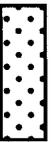
RANGE 11 East



TOWNSHIP 12 South



W-2126 (2)
Avra Water Cooperative, Inc.



(4)
Cortaro-Marana Irrigation District



C-0019 (3)
Town of Marana (Nonjurisdictional)
(Palo Verde System)



Tierra Linda Homeowners Association, Inc.
Docket No. W-4236-04-075
Application for CC&N

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PARCEL A

VZ CORPORATION COMMISSION
DIRECTOR OF UTILITIES

All that certain real property situated in the County of Pima, State of Arizona, being a part of that parcel described in Docket 5780 at Page 226 thereof, records of said Pima County, in the north half of Section 29, Township 12 South, Range 11 East, Gila & Salt River Meridian, more particularly described as follows:

BEGINNING at the north quarter corner of said Section 29, marked by a General Land Office brass capped pipe and Pima County Department of Transportation reference ties;

THENCE from said point of beginning, southerly along west line of the northeast quarter of said Section 29, S 00° 13' 24" E, 45.00 feet (calculated) to a point on the south right-of-way line of Emigh Road as shown on the Plat of Tierra Linda, a subdivision of said Pima County, recorded in Book 17 of Maps and Plats at Page 92 thereof, said point being the TRUE POINT OF BEGINNING of Parcel "A" herein described;

THENCE from said TRUE POINT OF BEGINNING, easterly along said south right-of-way line, N 89° 49' 46" E, 339.01 feet to a point thereon, marked by a No. 4 rebar with registration tag RLS 26932;

THENCE leaving said right-of-way line, southerly and along the west line of Lot 11 as shown on the plat of Tierra Linda, a subdivision of said Pima County recorded in Book 17 of Maps and Plats at Page 92 thereof, S 00° 09' 39" E, 624.72 feet (Record), S 00° 10' 41" E, 626.26 feet (calculated), to the southwest corner thereof, marked by a No. 4 rebar with registration tag RLS 26932;

THENCE leaving said southwest corner, easterly along the south line of Lots 11, 12, and 13 of said recorded subdivision,

N 89° 50' 21" E, 922.53 feet (Record)

N 89° 51' 90" E, 923.97 feet (calculated)

N 89° 49' 46" E, 925.11 feet (measured) to the southeast corner of said Lot 13, marked by a 1/2" diameter rebar with registration tag RLS 15933;

THENCE leaving said southeast corner, southerly along the west right-of-way line of Via Socorro as shown on the plat of said Tierra Linda

S 00° 16' 51" E, 1465.00 feet (Record)

S 00° 17' 12" E, 1465.00 feet (calculated)

S 00° 15' 53" E, 1465.55 feet (measured) to the northeast corner of a parcel recorded in Docket 11488 at Page 4197 thereof, records of said Pima County, marked by a 1/2" rebar;

THENCE leaving said northeast corner, westerly along the north line of said recorded parcel and the westerly prolongation thereof, S 89° 50' 21" W (Record), S 89° 51' 38" W, 926.57 feet (calculated) to a point thereon;

THENCE leaving said north line, northwesterly, N 33° 16' 52" W, 276.55 feet to a calculated point;

THENCE leaving said point, northerly, N 00° 11' 46" W, 181.14 feet to a calculated point;

THENCE leaving said point southeasterly S 85° 57' 43" E, 104.77 feet to a calculated point;

THENCE leaving said point, northwesterly, N 06° 20' 24" W, 282.28 feet to a calculated point;

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THENCE leaving said point, southwesterly, S 73° 29' 57" W, 99.62 feet to a calculated point;
THENCE leaving said point, northwesterly, N 16° 37' 32" W, 226.98 feet to a calculated point;
THENCE leaving said point, southwesterly, S 68° 10' 39" W, 198.23 feet to a calculated point;
THENCE leaving said calculated point, westerly along a line being parallel with the north line of the northwest quarter of said Section 29, S 89° 48' 14" W (Basis of Bearings per Tierra Linda, recorded in Book 17, Page 92, M & P), 1015.13 feet to a point thereon;
THENCE leaving said point, northerly, N 00° 11' 46" W, 430.00 feet to a calculated point;
THENCE leaving said point, westerly, S 89° 48' 14" W, 93.91 feet to a calculated point;
THENCE leaving said point, northerly, N 00° 11' 47" W, 430.00 feet to a calculated point;
THENCE leaving said point, easterly, N 89° 48' 14" E, 820.00 feet to a calculated point;
THENCE leaving said point, northerly, N 00° 11' 46" W, 428.00 feet to a calculated point on the south right of way line of said Emigh Road, marked by a No. 4 rebar with registration tag RLS 26932;
THENCE leaving said point, easterly along said right-of-way line, N 89° 48' 11" E, 370.70 feet to the TRUE POINT OF BEGINNING;
CONTAINING 69.18 acres of land [M/L], subject to and together with all matters of public record.

Parcel B

All that certain real property situated in the County of Pima, State of Arizona, being a part of that parcel described in Docket 5780 at Page 226 thereof, records of said Pima County, in the north half of Section 29, Township 12 South, Range 11 East, Gila & Salt River Meridian, more particularly described as follows:

BEGINNING at the southwest corner of the north half of said Section 29, marked by a ½" diameter rebar with registration tag RLS 4399 and Pima County Department of Transportation reference ties;

THENCE from said point of beginning, northerly along the measured west line of the northwest quarter of said Section 29, N 00° 13' 13" W, 868.89 feet to a calculated point thereon;

THENCE leaving said west line, easterly along a line being parallel with the north line of the northwest quarter of said Section 29, N 89° 48' 14" E (Basis of Bearings per Tierra Linda, recorded in Book 17, Page 92, M & P), 1505.18 feet to a point thereon;

THENCE leaving said parallel line, northerly, N 00° 11' 46" W, 440.00 feet to a calculated point;

THENCE leaving said calculated point, easterly along a line being parallel with the north line of the northwest quarter of said Section 29, N 89° 48' 14" E, 1053.13 feet to a point thereon;

THENCE leaving said parallel line, northeasterly, N 68° 10' 39" E, 198.23 feet to a calculated point;

THENCE leaving said point, southeasterly, S 16° 37' 32" E, 226.98 feet to a calculated point;

THENCE leaving said point, northeasterly, N 73° 29' 57" E, 99.62 feet to a calculated point;

THENCE leaving said point, southeasterly, S 06° 20' 24" E, 282.28 feet to a calculated point;

THENCE leaving said point, northwesterly, N 85° 57' 43" W, 104.77 feet to a calculated point;

THENCE leaving said point, southerly, S 00° 11' 46" E, 181.14 feet to a calculated point;

THENCE leaving said point, southeasterly, S 33° 16' 52" E, 276.55 feet to a calculated point on the north line of a parcel of land recorded in Docket 11535 at Page 2479, records of said Pima County;

THENCE leaving said point, westerly along said north line, S 89° 51' 38" W, 308.11 feet (calculated), S 89° 51' 12" W, 306.50 feet (measured) to the northwest corner of said recorded parcel, marked by a ½" rebar;

THENCE leaving said northwest corner, southerly along the west line of said recorded parcel, S 00° 12' 16" E, 509.00 feet (Record), S 00° 13' 24" E, 509.00 feet (calculated), S 00° 02' 30" E, 508.96 feet (measured), to a point on the south line of the north half of said Section 29, marked by a No. 4 rebar with registration tag RLS 26932;

THENCE leaving said point, westerly along said south line, S 89° 50' 21" W, 2671.64 feet (Record), S 89° 51' 08" W, 2670.84 feet (calculated) to the POINT OF BEGINNING of Parcel "B" herein described;

CONTAINING 68.99 acres of land [M/L]; subject to and together with all matters of public record.

Parcel C

All that certain real property situated in the County of Pima, State of Arizona, being a part of that parcel described in Docket 5780 at Page 226 thereof, records of said Pima County, in the north half of Section 29, Township 12 South, Range 11 East, Gila & Salt River Meridian, more particularly described as follows:

BEGINNING at the northwest corner of said Section 29, marked by an accepted 1.5" diameter open iron pipe with Pima County Highway Department reference ties;

THENCE from said point of beginning, southerly along the measured west line of the northwest quarter of said Section 29, S 00° 13' 13" E, 45.00 feet to the TRUE POINT OF BEGINNING of Parcel "C" herein described, marked by a No. 4 rebar with registration tag RLS 26932;

THENCE from said TRUE POINT OF BEGINNING, leaving said west line, easterly along the south right-of-way line of Emigh Road as shown on the Plat of Tierra Linda, a subdivision of said Pima County, recorded in Book 17 of Maps and Plats at Page 92 thereof, being parallel with the north line of the northwest quarter of said Section 29, N 89° 48' 14" E (Basis of Bearings per said plat of Tierra Linda), 2270.00 feet to a point thereon, marked by a No. 4 rebar with registration tag RLS 26932;

THENCE leaving said right-of-way line, southerly, S 00° 11' 46" E, 428.00 feet to a calculated point;

THENCE leaving said calculated point, westerly along a line being parallel with the north line of the northwest quarter of said Section 29, S 89° 48' 14" W, 820.00 feet to a point thereon;

THENCE leaving said parallel line, southerly, S 00° 11' 47" E, 430.00 feet to a calculated point;

THENCE leaving said calculated point, easterly along a line being parallel with the north line of the northwest quarter of said Section 29, N 89° 48' 14" E, 93.91 feet to a point thereon;

THENCE leaving said parallel line, southerly, S 00° 11' 46" E, 430.00 feet to a calculated point;

THENCE leaving said calculated point, westerly along a line being parallel with the north line of the northwest quarter of said Section 29, S 89° 48' 14" W, 38.00 feet to a point thereon;

THENCE leaving said parallel line, southerly, S 00° 11' 46" E, 440.00 feet to a calculated point;

THENCE leaving said calculated point, westerly along a line being parallel with the north line of the northwest quarter of said Section 29, S 89° 48' 14" W, 1505.18 feet to a calculated point on the measured west line of the northwest quarter of said Section 29;

THENCE leaving said parallel line, northerly along said west line, N 00° 13' 13" W, 1728.00 feet to the TRUE POINT OF BEGINNING;

CONTAINING 67.05 acres of land [M/L]; subject to and together with all matters of public record.

MEMORANDUM

DATE: March 18, 2004

TO: James E. Fisher
Executive Consultant II

FROM: Marlin Scott, Jr. 
Utilities Engineer

RE: Tierra Linda Homeowners Association, Inc.
Docket No. W-04236A-04-0075 (CC&N)

Introduction

Tierra Linda Homeowners Association, Inc. ("Company") has submitted a Certificate of Convenience and Necessity (CC&N) application to reinstate its granted January 1994 water CC&N. The original CC&N was approved subject to certain conditions which the Company did not comply with and/or complete. For this reason, the Company has submitted this application. The 1994 granted area and current requested area is the same area in size, approximately 0.31 square-miles, and is located approximately 17 miles northwest of Tucson in Pima County.

Proposed Water System

According to the Company's prior Annual Reports, no plant facilities have been built. The Company is proposing a water system that will consist of a well producing 200 gallons per minute ("GPM"), a 210,000 gallon storage tank, a 1,200 GPM booster system and a distribution system that will serve approximately 200 customers within the first five years.

Capacity

Using an estimated 300 gallons per day per connection, the well production capacity of 200 GPM and the storage capacity of 210,000 gallons could serve up to 300 connections including fire flow protection. Staff concludes that the proposed water system will have adequate well production and storage capacity to serve the requested area within a conventional five year planning period.

Cost Analysis

The Company submitted a total estimated project cost for its proposed plant-in-service at \$2,044,064 within the first five years. Staff has reviewed the proposed plant-in-service as

shown in Table A and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes.

Arizona Department of Environmental Quality (ADEQ)

Compliance Status

The Company does not have any plant facilities at this time, therefore, ADEQ does not regulate the water system and the compliance status is not applicable.

Certificate of Approval to Construct

The Company has not received its ADEQ Certificate of Approval to Construct ("ATC") for construction of facilities to the requested area. Staff recommends that the Company submit to the Director of the Utilities Division a copy of this ATC when received by the Company, but no later than 12 months after the effective date of the order granting this application.

Arsenic

The Company indicated its source's arsenic concentration at 8.7 parts per billion ("ppb"). This arsenic level does not exceed the new standard of 10 ppb; therefore it appears the Company will be in compliance with the new arsenic standard.

Arizona Department of Water Resources (ADWR) Compliance

Compliance Status

The Company will be located within the Tucson Active Management Area and consequently will be subject to reporting and conservation requirements. Since no plant facilities exist at this time, the ADWR compliance status is not applicable.

Certificate of Assured Water Supply

Staff recommends that the Company file with the Director of the Utilities Division a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.

Arizona Corporation Commission (ACC) Compliance

The original CC&N was granted by Decision No. 58505 (January 13, 1994) and approved subject to certain conditions; i.e., filing of franchises, ADEQ Certificate of Approval to

Construct, ADWR Certificate of Assured Water Supply, and tariffs. The Company did not file all these compliance items and for this reason, the original CC&N has become invalid.

Depreciation Rates

Staff has developed typical and customary Water Depreciation Rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Company use these depreciation rates by individual NARUC category as delineated in the attached Table B.

Curtailement Plan Tariff

A curtailement plant tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the requested area will be a new independent system, the public water system ("PWS") number is not known at this time. Therefore, when the PWS number is issued by ADEQ, Staff recommends that the curtailement tariff for this new system be filed for Staff review and approval. Staff further recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's Website at www.cc.state.az.us/utility or is available upon request from Commission Staff.

Summary

Conclusions

- A. Staff concludes that the proposed water system will have adequate well production and storage capacity to serve the requested area.
- B. Staff concludes that the proposed plant-in-service and cost are reasonable and appropriate. However, no "used and useful" determination of this plant-in-service was made, and no particular future treatment should be inferred for rate making or rate base purposes.
- C. The Company does not have any plant facilities at this time, therefore, ADEQ does not regulate the water system and the compliance status is not applicable.
- D. The Company indicated its source's arsenic concentration at 8.7 ppb, which will be in compliance with the new arsenic standard of 10 ppb.
- E. The Company will be located within the Tucson Active Management Area and will be subject to reporting and conservation requirements.

Recommendations

1. Staff recommends that the Company submit to the Director of the Utilities Division a copy of the ADEQ Certificate of Approval to Construct for the requested area when received by the Company, but no later than 12 months after the effective date of the order granting this application.
2. Staff recommends that the Company file with the Director of the Utilities Division a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.
3. Staff recommends that the Company use the depreciation rates by individual NARUC category, as delineated in the attached Table B.
4. Staff recommends that when the Company's PWS number is issued by ADEQ, a curtailment tariff for the new system be filed for Staff's review and approval.

Table A. Proposed Plant-in-Service

Acct. No.	Tierra Linda HOA Plant-in-Service	Company's Year 1	Staff's Adj. Year 1	5-Year Plant
301	Organization	10,000	10,000	\$ 10,000
302	Franchise	-	-	-
303	Land & Land Rights	20,000	20,000	20,000
304	Structures & Improvements Chain link fencing	17,649	17,649	17,649
305	Collecting & Imp. Resv.	202,379	0	0
307	Wells & Springs Well - 12" x 838 ft.	282,389	282,389	282,389
311	Electric Pumping Equip. Well pump @ 200 gpm 1,200 gpm booster system 5,000 gal. pressure tank Electrical	176,493	176,493	176,493
330	Dist. Reservoir & Standpipe 210,000 gal. storage tank	0	202,379	202,379
331	Transmission & Dist. Mains Phase A :12-inch mains, 1,250' 8-inch mains, 8,600' Phase B: 8-inch mains, 4,550' Phase C: 8-inch mains, 6,750'	359,457	359,457	932,800
333	Services Phase A - 63 lots Phase B - 62 lots Phase C - 65 lots	19,414	19,414	119,531
334	Meters Phase A - 63 lots Phase B - 62 lots Phase C - 65 lots	4,412	4,412	87,843
335	Hydrants Phase A - 14 each Phase B - 7 each Phase C - 10 each	41,182	41,182	194,980
		1,133,375	1,133,375	\$ 2,044,064

Table B. Water Depreciation Rates

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual 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	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

RATE BASE & RATE OF RETURN COMPUTATION

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Plant in Service	\$ 1,133,375	\$ 1,330,221	\$ 1,550,006	\$ 1,805,277	\$ 2,044,064
Less: Accumulated Depreciation	(23,070)	(72,137)	(127,402)	(189,419)	(257,651)
Cash	33,443	77,004	111,471	144,604	135,553
Net Plant	\$ 1,143,748	\$ 1,335,088	\$ 1,534,075	\$ 1,760,462	\$ 1,921,966
Less: Advances in Aid of Construction	(287,566)	(348,997)	(411,920)	(492,946)	(571,131)
Less: Contributions in Aid of Constr.	(67,432)	(194,508)	(325,176)	(464,042)	(543,230)
Amortization	1,373	8,547	20,141	36,083	54,216
Refundable Meter Deposits	(6,000)	(27,400)	(46,600)	(63,600)	(65,440)
Original Cost Rate Base	\$ 856,182	\$ 986,091	\$ 1,122,155	\$ 1,267,516	\$ 1,350,835
Operating Revenue	25,312	64,333	91,392	118,221	135,369
Operating Expense	38,940	76,603	95,259	115,611	131,868
Operating Income (Loss)	\$ (13,628)	\$ (12,270)	\$ (3,867)	\$ 2,610	\$ 3,501
Rate of Return	-1.59%	-1.24%	-0.34%	0.21%	0.26%
Number of Customers - Residential	15	70	125	180	199
-Commercial	0	0	0	0	0

Tierra Linda Homeowners Association, Inc.
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RATE DESIGN - WATER

-Proposed Rates-

	Company	Staff
Monthly Minimum Charge		
5/8" x 3/4" Meter	\$25.00	\$25.00
3/4" Meter	25.00	25.00
1" Meter	62.50	62.50
1½" Meter	125.00	125.00
2" Meter	200.00	200.00
3" Meter	400.00	400.00
4" Meter	625.00	625.00
6" Meter	1,250.00	1,250.00
Gallons Included in Minimum	0	0
All classes		
Commodity charge per 1,000 gallons:		
From 0 to 4,000 Gallons	N/A	\$ 1.60
From 0 to 7,000 Gallons	\$ 2.00	N/A
From 4,001 to 15,000 Gallons	N/A	\$ 2.40
In excess of 7,000 Gallons	\$ 2.75	N/A
In excess of 15,000 Gallons	N/A	\$ 2.88
Irrigation meters		
Charge per 1,000 gallons:		
From 0 to 20,000 Gallons	\$ 2.00	N/A
In excess of 20,000	\$ 2.75	N/A
Standpipe or bulk water - per 1,000 gallons	\$ 3.00	\$ 2.88
Hook-up Fee		
All builders/developers are required to pay a hook-up fee of \$1,750 per lot, for connection to the system based on a water connections of 5/8 x 3/4 or 3/4 inch water meter. Payments are listed for each water meter size below:		
5/8" x 3/4" Meter	1,750.00	-
3/4" Meter	1,750.00	-
1" Meter	4,375.00	-
1½" Meter	8,750.00	-
2" Meter	14,000.00	-
3" Meter	28,000.00	-
4" Meter	43,750.00	-
6" Meter	87,500.00	-

Tierra Linda Homeowners Association, Inc.
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RATE DESIGN - WATER

	-Proposed Rates-	
	Company	Staff
<u>Service Charges</u>		
A- Establishment of Service per Rule R14-2-403.D	\$25.00	\$25.00
Establishment of Service, after hours per Rule R14-2-403.D2	50.00	37.50
B- Re-establishment of Service per Rule R-14-2-403.D	25.00	25.00
C- Reconnection of service per Rule R-14-2-403.D.1	30.00	30.00
D- Charge for moving meter at customer request per Rule R-14-2-405.B.5	Cost	Cost
E- After hours service charge, per hour, R14-2-403.D	50.00	*
F- Minimum deposit per Rule R-14-2-403.B	**	**
H- Meter reread per Rule R14-2-408	15.00	15.00
I- Charge for NSF check per Rule R14-2-409.F.1	25.00	15.00
J- Late Payment charge for delinquent bills as defined in Rule R14-2-409.C.	1.50%	1.50%
K- Deferred payment finance charge, Rule R14-2-409.G	1.50%	1.50%
L- <u>Service Line and Meter Installation</u> per Rule R14-12-405.B		
5/8" x 3/4" Meter	\$400.00	\$400.00
3/4" Meter	440.00	440.00
1" Meter	500.00	500.00
1½" Meter	715.00	715.00
2" Meter (Turbo)	1,170.00	1,170.00
2" Meter (compound)	1,700.00	-
3" Meter (Turbo)	1,585.00	1,585.00
3" Meter (compound)	2,190.00	-
4" Meter (Turbo)	2,540.00	2,540.00
4" Meter (compound)	3,215.00	-
6" Meter (turbo)	4,815.00	4,815.00
6" Meter (compound)	6,270.00	-
M- Main Extension and additional facilities agreements per Rule R14-2-406.B	Cost	Cost
N- All revenue related taxes will be charged customers		

RULES AND REGULATIONS

* The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. ACC R14-204-01 Through ACC R14-2-411 will be controlling of Company procedures, unless specific Commission Orders provide otherwise.