

NEW APPLICATION



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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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**KRISTIN K. MAYES**

IN THE MATTER OF THE FILING OF SABROSA WATER COMPANY FOR AN EMERGENCY INTERIM RATE INCREASE.	) DOCKET NO. W-02111A-05-_____ ) ) <b>APPLICATION FOR EMERGENCY</b> ) <b>INTERIM RATE RELIEF</b>
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Sabrosa Water Company ("Sabrosa"), through undersigned counsel, hereby submits to the Arizona Corporation Commission ("Commission") this Application for Emergency Interim Rate Relief.

Sabrosa is plagued with serious financial, operational and water (quality and quantity) problems that jeopardize its ability to provide ongoing adequate, reliable and safe water to its customers. Sabrosa's owner has abandoned the utility. Sabrosa has been, and for the immediate future will continue to be, operated by interim managers. Sabrosa's rates are not sufficient to operate the utility or fix its problems.

Sabrosa's current interim manager believes that these circumstances create an emergency situation that places customers at risk and must be addressed and corrected as soon as possible. An interim rate increase is in the public interest and a crucial first step in addressing and resolving Sabrosa's problems.

In support of this Application for Emergency Interim Rate Relief, Sabrosa states as follows:

**I. BACKGROUND.**

Sabrosa provides water services to approximately 65 customers located in the New River, Arizona area. Sabrosa is owned by Keith J. Morris. However, Sabrosa has been abandoned by its owner and for many years Sabrosa has failed to make needed capital expenditures in order to meet

1 the needs of its customers. In fact, the Commission has already revoked Sabrosa's Certificate of  
2 Convenience and Necessity ("CC&N").

3 In 2000, Arizona American Water Company ("AWC") was appointed interim manager for  
4 Sabrosa. AWC served as interim manager until approximately January 31, 2005. During its  
5 tenure as interim manager, AWC operated Sabrosa for the benefit of customers, including  
6 subsidizing its operations. Despite AWC's operational efforts and financial subsidy, Sabrosa  
7 remains a financially troubled utility.

8 On or about February 1, 2005, Global Water Resources, LLC ("GWR") was appointed as  
9 the successor interim manager of Sabrosa. In connection therewith, GWR performed due  
10 diligence on Sabrosa. GWR learned that in addition to ownership, financial and operational  
11 issues, Sabrosa has substantial problems with water quality and quantity, infrastructure and  
12 expandability. GWR has accepted the appointment to be interim manager on the premise that it  
13 will not only attempt to operate Sabrosa for the immediate benefit of the customers, but it will also  
14 fix the problems and rehabilitate the utility to be a provider of safe, reliable and adequate water.  
15 In connection with GWR's appointment as interim manager, the Interim Management Agreement  
16 dated January 28, 2005, states:

17 Global, as the interim system operator acting on behalf of Sabrosa, may  
18 pursue and file a rate case. Global, in its interim operator capacity, may  
19 seek a rate increase on an emergency and/or a permanent basis for  
20 Sabrosa.<sup>1</sup>

21 **II. COMMISSION AUTHORITY TO ISSUE INTERIM RATE RELIEF.**

22 The Commission may order interim rate relief when there is an existing emergency  
23 situation. Scates v. Arizona Corporation Commission, 118 Ariz. 531, 578 P.2d 612 (1978). An  
24 emergency situation has been found to exist when (i) a change in circumstances brings a hardship  
25 to a utility; (ii) the utility is insolvent; or (iii) the condition of the utility is such that its ability to  
26 maintain service pending a formal rate determination is in serious doubt. Ariz. Atty. Gen. Op. No.

27 \_\_\_\_\_  
<sup>1</sup> Attached hereto as Exhibit 1 is a copy of the Interim Management Agreement.

1 71-17 (cited in Re Mount Tipton Water Co., Inc., Decision No. 66732 (January 20, 2004); Re Park  
2 Water Co., Inc., Decision No. 66389 (October 6, 2003); Re Forty Niner Water Co., Decision No.  
3 65352 (November 1, 2002).<sup>2</sup> In Sabrosa's case, the Commission is fully justified in issuing  
4 interim rate relief. Sabrosa's ability to maintain service is in serious doubt and current rates are  
5 not sufficient to provide the utility with the funds to correct the problems that constitute the  
6 emergency.

7 In granting emergency rate relief the Commission is not required to ascertain the utility's  
8 rate base and conduct a full examination into fair value. Residential Utility Consumer Office v.  
9 Arizona Corporation Commission, 199 Ariz. 588, 591, 1169 P. 3d 1169, 1172 (App. 2001).  
10 Instead, that evaluation is reserved for a subsequent permanent rate case.

11 The requested interim rates are just and a reasonable first step in the Sabrosa plan to  
12 remedy its problems.

### 13 **III. THE PROBLEMS THAT CONSTITUTE THE SABROSA EMERGENCY.**

14 The Sabrosa emergency is real, immediate and substantial. The problems that constitute  
15 the Sabrosa emergency include: (i) inadequate water supplies; (ii) marginal to poor water quality;  
16 (iii) poorly maintained equipment and infrastructure; (iv) a series of financial and legal problems  
17 as a result of ownership abandonment; and (v) confiscatory rates.

18 The current status of Sabrosa's water services, infrastructure and business is unstable.  
19 That is why the Commission has been forced to solicit and authorize interim managers to operate  
20

21 \_\_\_\_\_  
22 <sup>2</sup> An emergency has been found where current rates (i) left the utility without sufficient  
23 revenue to pay its debt service and its regular operating expenses. Re Mount Tipton Water Co.,  
24 Inc., Decision No. 66732 (January 20, 2004); (ii) did not cover water hauling expenses the utility  
25 had to incur as a result of drought and excessive customer usage. Re Park Water Co., Inc.,  
26 Decision No. 66389 (October 6, 2003); Pine Water Co., Inc., Decision No. 65914 (May 16, 2003);  
27 (iii) did not cover unanticipated, but necessary, expenses incurred as a result of drought conditions  
that caused a sudden change in operating conditions that in turn caused financial hardship. Forty  
Niner Water Co., Decision No. 65352 (November 1, 2002); and (iv) did not provide the utility  
with any positive cash flow, leaving it unable to repay a loan the utility had to obtain when one of  
its two pumps failed and had to be replaced. Katherine Resort Water Co., Decision No. 59080  
(May 5, 1995).

1 Sabrosa. Notwithstanding the efforts of interim managers, presently Sabrosa can not assure the  
2 Commission or its customers that it is able to provide ongoing adequate, reliable or safe water  
3 services. The longer this situation is permitted to continue, rather than be fixed, the greater the  
4 likelihood that Sabrosa's customers will be faced with the ultimate prospect of no water utility and  
5 no viable water supply.

6 **A. Insufficient Water Quantity.**

7 Sabrosa suffers from a general lack of water. The three wells that serve Sabrosa are  
8 essentially shallow domestic wells drilled into fractured rock. During 2003 and 2004, the wells  
9 were not able to meet the demand for potable water during Sabrosa's summer months and peak  
10 periods. Consequently, Sabrosa was forced to purchase additional potable water for its customers  
11 from AWC. Sabrosa purchased 154,000 gallons of water from AWC in 2003, and 599,500 gallons  
12 of water from AWC in 2004. It is anticipated that Sabrosa will need to purchase an even greater  
13 amount of additional water in 2005, even if its production wells perform at optimal levels.

14 Furthermore, an inspection of all three Sabrosa production wells indicates that each well  
15 will need significant repairs or will have to be replaced, as was recently the case for the Zorillo  
16 Well which failed on 12 February 2005, necessitating complete replacement of the pump, motor  
17 and controller. A copy of the "Report on the Condition and Performance of the Sabrosa Water  
18 Company" dated February 28, 2005 is attached hereto as Exhibit 2 and by this reference  
19 incorporated herein. This report includes a summary of the Zorillo Well failure. Correcting  
20 Sabrosa's water quantity problems will require the expenditure of funds that Sabrosa does not  
21 have and that current rates will not cover.

22 **B. Poor Water Quality.**

23 There are significant quality problems with Sabrosa's water. For example, Arsenic levels  
24 are approximately 35 ppb. The present recommended safe level of Arsenic is 50 ppb.<sup>3</sup> Also,  
25 recently Sabrosa's water has yielded positive test results for Total Coliform. And, at least 2 of  
26

27 \_\_\_\_\_  
<sup>3</sup> A new Arsenic standard of 10 ppb will be effective as of January 23, 2006.

1 Sabrosa's wells indicated the presence of Nitrate in the water.

2 To correct Sabrosa's water quality problems, the existing well water will require  
3 significant treatment at a substantial cost. Sabrosa's costs for "point of extraction" water  
4 treatment would require at least \$500,000 of additional capital and would likely add \$30,000 to  
5 \$50,000 of additional annual operating costs. "Point of use" water treatment for Arsenic could  
6 also be considered for Sabrosa, however the application of point of use systems requires a  
7 substantial increase in Sabrosa's involvement in domestic supply. As point of use systems are  
8 located inside the customer's premises, Sabrosa personnel would have to gain access to the  
9 systems for routine maintenance activities and for testing. It is unclear whether Sabrosa could  
10 obligate homeowners' to allow it access for these purposes.. Either of these treatments will  
11 require the expenditure of funds that Sabrosa does not have and current rates will not yield.

12 Alternatively, Sabrosa will have to acquire a new and treated source of water. Presently,  
13 there appear to be 3 potential options for a new water supply to Sabrosa:

- 14 1. A main extension from AWC (at Anthem) of approximately 2.2  
15 miles at an approximate cost \$750,000.
- 16 2. A main extension from Cave Creek Water Company ("CCWC")  
17 of approximately 4.0 miles at an approximate cost of \$1.5  
18 million.
- 19 3. A main extension from Desert Hills Water Company ("DHWC")  
20 of approximately 3.5 miles at an approximate cost of \$1.5  
21 million.

22 Again, these options will require Sabrosa to spend funds that it does not have.

23 **C. Neglected In-ground Infrastructure.**

24 Sabrosa's infrastructure is in relatively poor condition and, consequently, is in need of  
25 significant repair. The water line sizes are inadequate and the distribution system does not appear  
26 to be looped. This results in a lack of circulation which has adverse health (disinfection)  
27 ramifications, leading to a further degradation in water quality.

Sabrosa's system pressures typically run at or below acceptable standards. The Sabrosa  
system should be demarcated into to pressure zones to supply a more stable pressure to the

1 distribution system as a whole. The Sabrosa system is also not able to sustain critical “fire flow”  
2 at this time.

3 Sabrosa’s infrastructure problems are compounded by the lack of system maps and the  
4 failure to have a dedicated line maintenance program. These additional deficiencies, if not  
5 remedied, will require a considerable increase in time and money when Sabrosa responds to  
6 infrastructure problems or when it attempts to troubleshoot the system or test the system integrity.

7 Sabrosa’s maintenance activities are currently performed only on an absolute “as-needed”  
8 basis – i.e., after the fact, when there is a system or equipment component failure. Unless  
9 corrected, this type of post-hoc maintenance philosophy will place added pressure on the financial  
10 needs of the utility, as emergency repairs are generally more costly than planned maintenance  
11 expenses.

12 **D. Lack of System Expandability.**

13 The Sabrosa system, in its current configuration, cannot be expanded. Notwithstanding the  
14 lack of available water, if expansion would be somehow possible, it would be a difficult or  
15 extremely and expensive project. As a result, Sabrosa cannot “grow its way out” of the operational  
16 problems it now faces. Furthermore, Sabrosa does not have the financial capability to expand to  
17 meet the needs of customers who may locate within the service area in the near future.

18 **E. Unresolved Legal Issues Regarding Real Property, Title, Ownership and**  
19 **Back-taxes.**

20 One of the major problems with Sabrosa is the quagmire of legal issues that its owner has  
21 created. The current owner of Sabrosa has abandoned the utility and its customers but has retained  
22 legal title to the utility’s assets including real property. The Commission has revoked Sabrosa’s  
23 CC&N. Additionally, Sabrosa has been and still may be delinquent in the payment of taxes.  
24 Consequently, these negative factors are a deterrent to third party investment in Sabrosa, as any  
25 improvements to the infrastructure or on Sabrosa’s real property arguably would inure to the  
26 benefit of the current owner. It is virtually impossible to secure needed financing to improve the  
27 Sabrosa system under these circumstances. Again, it will require additional time, manpower and

1 funds to clarify and resolve Sabrosa's legal issues.

2 **F. Negative Financial Condition.**

3 One of the more significant contributing factors for the failure of Sabrosa is its negative  
4 financial condition. A consequence of the abandonment by Sabrosa's owner is a failure to address  
5 the deteriorating financial condition—high costs, neglected operation and maintenance needs and  
6 inadequate revenues. Obviously, Sabrosa's owner has not contributed any needed capital or  
7 arranged for debt financing to meet the utility's problems.

8 Although AWC, while it was interim operator, infused some capital into the Sabrosa  
9 system--all at a loss for many years (and which is now an additional Sabrosa debt), there has been  
10 no opportunity to improve or fix the financial performance of the utility. For example, AWC,  
11 which only accounted for direct operational costs, has indicated that as the Sabrosa interim  
12 operator, it lost between \$25,000 and \$50,000 annually. When indirect costs are factored in, such  
13 as management, training, insurance, customer service, billing, meter reading, accounting,  
14 laboratory (including sampling and analysis), travel, chemicals etc., the loss is actually much  
15 higher, in the range of \$75,000 to \$100,000 annually.

16 The Sabrosa system will continue to deteriorate until the utility's financial performance  
17 can be permanently corrected. For that process to begin now, interim rates must be in place.

18 **G. Confiscatory Rates.**

19 Confiscatory rates do not allow the utility to recover costs or provide the opportunity for a  
20 reasonable return on investment. Bluefield Waterworks and Improvement Company v. West  
21 Virginia Public Service Commission, 262 US 679, (1922); Board of Public Utility Commissioners  
22 v. New York Telephone Company, 271 US 23 (1926); Federal Power Commission v. Hope  
23 Natural Gas Company, 320 US 591 (1944). Sabrosa's rates are clearly confiscatory as they do not  
24 allow the utility to recover its costs or provide for a return. When a utility's rates are found to be  
25 confiscatory, the Commission should authorize new non-confiscatory rates. (Id)

26 **(i) A Summary of Sabrosa's Current Rates.**

27 By any standard, Sabrosa's rates are too low and confiscatory. The current Sabrosa base

1 rate for a 5/8" meter is \$17.50 with a consumptive charge of \$1.95/1000. From an economic  
 2 standpoint, the base charge should represent approximately 50% of the average revenue per  
 3 customer per month and cover the fixed costs of operations irrespective of consumptive use.  
 4 Indeed, in many cases economics require that the fixed charge exceed 50% where, as in the case of  
 5 Sabrosa, customer-driven curtailment activity is certain.

6 The consumptive use charge should reflect all variable operation costs. Further, the rates  
 7 must be designed in order to properly account for price elasticity. In the event material increases  
 8 in rates are imposed, price elasticity indicates that a reduction in demand will ensue. This  
 9 reduction can have a negative and potentially catastrophic effect on financial performance.  
 10 However, it is believed that Sabrosa's price elasticity will be a short-to-medium term phenomenon  
 11 and consumption will revert to its prior levels over time.

12 **(ii) Proposed Rates.**

13 In the case of Sabrosa, the rates must be designed to generate approximately \$90,000 to  
 14 \$100,000 of revenue annually. This revenue will allow for continuous and stable operation, a  
 15 modest infusion of capital for pump and line repair/replacement with the goal to restoring the  
 16 utility to financial viability in the foreseeable future. With the addition of a new water pipeline,  
 17 which over the long term will stimulate growth, the capital costs associated with this infrastructure  
 18 could potentially eventually be offset. The following chart presents Sabrosa's current and  
 19 proposed rate structures.

Rate Design	From	To	Existing Rate Structure	Proposed Rate Structure
Base Rate			\$17.50	\$39.50
Consumptive Charge – Tier 1 (\$/1000)		3,000	\$ 1.95	\$ 6.00
Consumptive Charge – Tier 2 (\$/1000)	3,001	10,000	\$ 1.95	\$ 9.00
Consumptive Charge – Tier 3 (\$/1000)	10,001	+	\$ 1.95	\$10.80

24 The significant increase in Sabrosa's rates is attributable in part to the fact that the utility's  
 25 water customers have received, and continue to receive water at rates that are too low and  
 26 significantly less than the immediate surrounding communities. The current rate structure, if  
 27 perpetuated, will result in Sabrosa continuing to spiral towards financial and operational collapse.

1 Accordingly, Sabrosa is requesting the Commission to authorize a Base Rate of \$39.50 and  
 2 consumptive charges of (i) \$ 6.00 per 1,000 gallons up to 3,000 gallons used; (ii) \$9.00 per 1,000  
 3 gallons from 3001 to 10,000 gallons used; and (iii) \$10.80 per 1,000 gallons for 10,001 and more  
 4 gallons used. (the "Requested Interim Rates")

5 It should also be noted that this proposed rate structure is not unprecedented in the State.  
 6 There are other small water companies in Arizona which have rates more in keeping with their  
 7 size, as is shown in the following table:

8 Statistical Analysis Produced by WIFA in 2003  
 9 Based on 7,750 gallons/customer/month  
 Actual Sabrosa Consumption 8,569 gallons/customer/month

Name	Mt. Lemon Cooperative	Sherman Pines HOA Water Co.	White Hills Co.	West Village DWID Co.	Solitude Trails Utility Co.	Pine Water Assoc. Co.	Tonto Hills Co.	Dragoon Water	Average	Sabrosa Existing Rate Structure	<i>Sabrosa Proposed Rate Structure</i>
Customers	404	43	81	69	76	57	108	142	<b>123</b>	70	<b>70</b>
Base Charge	\$41.85	\$15.95	\$19.00	\$26.00	\$25.00	\$20.00	\$40.00	\$32.00	<b>\$27.48</b>	\$17.50	<b>\$ 39.50</b>
Consumption	\$57.75	\$65.63	\$70.88	\$39.14	\$49.00	\$46.50	\$52.70	\$35.40	<b>\$52.13</b>	\$14.75	<b>\$ 68.63</b>
Total	\$99.60	\$81.58	\$89.88	\$65.14	\$74.00	\$66.50	\$92.70	\$67.40	<b>\$79.60</b>	\$32.26	<b>\$108.13</b>
Rate per 1000	\$ 7.45	\$ 8.47	\$ 9.15	\$ 5.05	\$ 6.32	\$ 6.00	\$ 6.80	\$ 4.57	<b>\$ 6.73</b>	\$ 1.90	<b>\$ 8.86</b>

16 **IV. CONCLUSION.**

17 The Sabrosa problems constitute an emergency. To fix the Sabrosa problems will require a  
 18 significant amount of time and money. Sabrosa's current rates are part of the problems and do not  
 19 provide sufficient revenues to allow the interim manager to properly maintain the utility or  
 20 undertake the necessary corrective action.

21 The alternative to granting interim rate relief is to permit Sabrosa to continue operating  
 22 "as-is", without any prospect of ensuring safe, adequate and reliable water service presently or in  
 23 the future. It would be contrary to the best interests of Sabrosa's customers to ignore the problems  
 24 and allow them to perpetuate. No interim manager would want to continue to operate under those  
 25 circumstances.  
 26  
 27

**ROSHKA HEYMAN & DEWULF, PLC**  
ONE ARIZONA CENTER  
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PHOENIX, ARIZONA 85004  
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1 The interim rates proposed by Sabrosa are reasonable and will allow the interim manager  
2 to begin to address the Sabrosa problems. If interim rates are not approved and Sabrosa is forced  
3 to cease operation, customers will be forced to either pay to "haul water" or drill their own wells -  
4 both of these alternatives are more costly than the interim rates. It clearly is in the best interests  
5 of Sabrosa's customers for the Commission to authorize Sabrosa to charge the interim rates  
6 requested herein pending the determination of a permanent rate case filing by the utility.

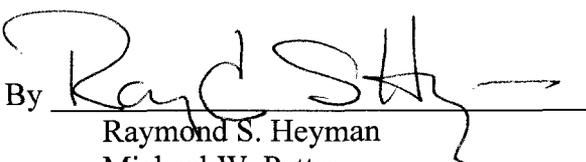
7 **V. REQUEST FOR RELIEF.**

8 Wherefore, for all the foregoing reasons, Sabrosa respectfully requests that the  
9 Commission issue an order:

- 10 1. Finding that the Sabrosa problems constitute an emergency;
- 11 2. Concluding that it is in the public interest to authorize the Requested Interim Rates;
- 12 3. Ordering Sabrosa to charge the interim rates requested herein pending a  
13 determination of a permanent rate case proceeding; and
- 14 4. Granting any additional and further relief as the Commission deems appropriate.

15 RESPECTFULLY SUBMITTED this 8<sup>th</sup> day of March 2005.

16 ROSHKA HEYMAN & DEWULF, PLC

17  
18 By 

19 Raymond S. Heyman  
20 Michael W. Patten  
21 One Arizona Center  
22 400 East Van Buren Street, Suite 800  
23 Phoenix, Arizona 85004  
24 Attorneys for Sabrosa Water Company

25 Original and 13 copies of the foregoing  
26 filed this 8<sup>th</sup> day of March 2005 with:

27 Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered/mailed  
this 8<sup>th</sup> day of March 2005 to:

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26 By *Mary Appolito*

1

**COMMISSIONERS**  
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Executive Secretary

**ARIZONA CORPORATION COMMISSION**

January 28, 2005

Mr. Trevor T. Hill  
President and CEO  
Global Water Resources  
22601 North 19<sup>th</sup> Avenue  
Suite 210  
Phoenix, AZ 85027

Re: *Staff of the Utilities Division of the Arizona Corporation Commission v. Sabrosa Water Company, and Arizona Corporation*  
Docket Nos. W-02111A-00-0286

Dear Mr. Hill:

In accordance with Arizona Corporation Commission Decision Nos. 62572 and 63136, the Utilities Division ("Division") has been vested with the authority to appoint Global Water Resources ("Global") as interim manager of the Sabrosa Water Company ("Sabrosa") located in New River, Arizona. The Utilities Division represents that it has the authority to enter and sign this letter agreement setting forth the terms and conditions of Global's appointment as interim manager for Sabrosa Water Company. Copies of those decisions are attached as Exhibit A.

**INTERIM MANAGEMENT AGREEMENT**

The Commission appoints Global Water Resources as interim manager under the following terms and conditions. Global shall use its best efforts to operate, manage and maintain Sabrosa Water Company in order to bring the utility into full compliance with Arizona Law, the Commission's Rules and Orders, and with all other regulatory agencies such as the Department of Environment Quality, Department of Water Resources, etc. This is not a permanent appointment and is subject to revocation at any time. Global's appointment is at the discretion of the Division. There is no contract with Global and no compensation due Global from the Division, the Commission or the State of Arizona as a consequence of operating Sabrosa Water Company. Further, the Division and Global acknowledge that Global will act as an independent interim operator and has no affiliation with Sabrosa. Global is not assuming any obligations of Sabrosa. It is further understood that Global as interim manager will not assist Sabrosa in any other capacity than that specified in this agreement or approved by the Commission.

The Division acknowledges and agrees that Global is a separate and independent entity from Sabrosa. Except for any problems caused directly by Global after the execution of this letter agreement, Global is not responsible or liable for any violations or problems with Sabrosa

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Mr. Trevor Hill  
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currently existing, arising prior to or after, and/or caused by operations of Sabrosa prior to or after the execution of this letter agreement, including environmental health and/or any other problems or violations. Further, the Division acknowledges and agrees that Global is under no obligation and is not liable to repay, settle, or otherwise resolve any debts, judgments, actions, balances and/or claims, including unpaid sales, property or income taxes against Sabrosa.

The Division authorizes Global to perform the duties normally attendant with the operation and maintenance of a water company as a public service corporation including, but not limited to, the following:

1. The mailing and/or hand-delivery of customer notification letters informing all the customers of the appointment of the interim manager and contact information.
2. The timely reading of meters and the prompt collection of bills from customer ratepayers of the system, including billing and collection for back due services as instructed by the Commission.
3. The prompt adjustment of legitimate ratepayer complaints.
4. The connection and disconnection of service in accordance with the tariffs of Sabrosa and the rules of the Arizona Corporation Commission.
5. The filing of tariffs for Sabrosa under Arizona Corporation Commission rules.
6. The day-to-day testing and monitoring of the systems as required by applicable regulatory authorities.
7. The right to examine, pay, prioritize and/or reject bills or debts associated with interim operation of Sabrosa in the manner in which a prudent owner of a water company would pay the bills of the company.
8. The making of minor repairs associated with the interim operation of Sabrosa (such repairs to be paid for out of the receipts and proceeds from interim operations).
9. The keeping of accounting and payment records as interim operator of Sabrosa. Global will keep such records strictly as the Commission-appointed interim manager.
10. The making of capital improvements to the water system of Sabrosa at Global's discretion.
11. Global, as the interim system operator acting on behalf of Sabrosa, may pursue and file a rate case. Global, in its interim operator capacity, may seek a rate increase on an emergency and/or a permanent basis for Sabrosa.

In addition, Global must do the following:

1. Global shall file a Progress Report with the Division's Compliance Section every 180 days, and each 180 days thereafter, after taking over the operation, maintenance and management of Sabrosa water system. The Progress Reports shall include information detailing all funds received and funds dispersed by expense category. These Progress

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Reports shall also include updates detailing the resolution of all formal customer complaints.

2. Global shall assume responsibility for all pending and future regulatory filings, and ensure that the certificated public service corporation is in compliance with all Commission Decisions and Rules.

Global may discontinue its activities as interim manager at any time and for any reason; and Global shall give the Commission 30 days notice of any decision to discontinue.

As interim manager, Global is entitled to a monthly fee for interim management equal to the costs incurred during the month in performing items 1-11 above plus \$100. Global may utilize funds and payments received from customers of Sabrosa to pay the management fee, and at Global's discretion, any operating debts of Sabrosa. If the funds and payments received from customers of Sabrosa during any month are insufficient to recoup the monthly management fee noted above, the deficit shall be considered a debt of Sabrosa. Global shall be entitled to collect any unpaid monthly management fees through future rates collected on behalf of Sabrosa Water Company. Global has the right to file for an accounting order regarding interim operation expenditures and outlays.

The Division acknowledges that certain third parties may claim a secured or property interest in portions of Sabrosa Water System. The Division represents that it did not approve any such encumbrances or rights under Ariz. Rev. Stat. § 40-302.

The Division will appreciate your acknowledgment of this letter by signing below and returning the accompanying copy. Thank you for your willingness to serve the community. If you have any questions regarding this appointment, please do not hesitate to contact me in writing.

Sincerely,

Ernest G. Johnson  
Director, Utilities Division

cc: Docket Control  
Sabrosa Water Company

To: Ernest G. Johnson  
Director, Utilities Division

By signature below, I acknowledge receipt of the foregoing and agree to comply with the terms set forth therein.

Mr. Trevor Hill  
Page 4  
January 28, 2005

By  \_\_\_\_\_  
Trevor Hill

1 Feb \_\_\_\_\_ 2005  
Date

2

**Report on the Condition and Performance  
of the Sabrosa Water Company**

**Global Water Resources, LLC**

**28 February 2005**

**Background**

On 1 February 2005 Global Water Resources, LLC ("GWR") was assigned as the Interim Manager for the Sabrosa Water Company ("SWC"). This company had been previously operated and maintained by Arizona American Water ("AAW") on behalf of the Arizona Corporation Commission ("ACC"). This report is prepared to highlight the operational performance of the utility, and to identify shortcomings in the system.

**General**

GWR has established a single CSR contact for SWC customers (Leanne Izzo) in order to foster a more personal relationship. In addition, GWR has added information for SWC customers on its corporate website ([www.gwresources.com](http://www.gwresources.com)), with the intent to provide SWC customers access to detailed operational information in order to allow them to become more active in the conservation requirements until a reliable source of water may be secured. In addition, customers may now make payments on-line.

GWR has yet to receive the historic data from AAW although it is expected that this data should be available in the next week. GWR has received copies of the previous invoices sent to the customers which has allowed for a baseline of information to allow for some meaningful customer service contributions, such as confirmation of meter readings and invoicing questions.

On 17 February 2005, GWR held a public meeting attended by approximately 20 residents. This meeting outlined the history of the system, its challenges, the improvements made by AAW and the potential solutions for the system's perennial problems. GWR discussed rate increases with the customers, and all agreed that properly funding the operations of the system was a critical aspect of returning SWC to stability.

**Number of Customers**

As of 2 February 2005, SWC had 64 active customers on the system (according to AAW).

**Operational Data:**

The following data indicates the performance of the individual component wells of the system:

*Zorillo Well*

Total Gallons pumped (2 Feb to 27 Feb):	47,196 gallons
Total Minutes of Operation:	1189.2 minutes
Average Pump Rate:	39.7 GPM

Comments:

The Zorillo Well suffered a failure on 12 February which necessitated the complete replacement of the pump, motor and control panel. The change out was completed on 14 February. Because of the failure of this unit, 17,500 gallons of water were hauled from Anthem to Sabrosa by M&C hauling (on Sunday 13 February) in order to bring the system back to an operational state. The total time of customer water outage was approximately 4 hours (1330 to 1730 on 13 February 2005).

Investigation of the failed unit indicated that it had suffered a ground fault at the motor. The motor and pump both exhibited signs of excessive heating; while the exact cause cannot be known, possible causes include, a power surge, excessive cycling of the system (due to the fact that hydropneumatic tank is too small for the application), or perhaps even a lightning strike.

This failure cost GWR approximately \$6,500 to repair, plus the additional cost of hauling water to the site on the weekend. In addition, as an emergency call out, GWR incurred an additional cost associated with having personnel on-site from 1400 hours to 2030 hours on 13 February.

#### *Wright Well*

Total Gallons pumped (2 Feb to 27 Feb):	242,034 gallons
Total Minutes of Operation:	27,892 minutes

Average Pump Rate: 8.7 GPM

#### Comments:

This well represents the work-horse of the system. It runs nearly 24 hours per day.

#### *Sabrosa Well*

Total Gallons pumped (2 Feb to 27 Feb):	10,080 gallons
Total Minutes of Operation:	11,216 minutes

Average Pump Rate: 0.9 GPM

#### Comments:

This well is a very poor performer.

#### *Summary*

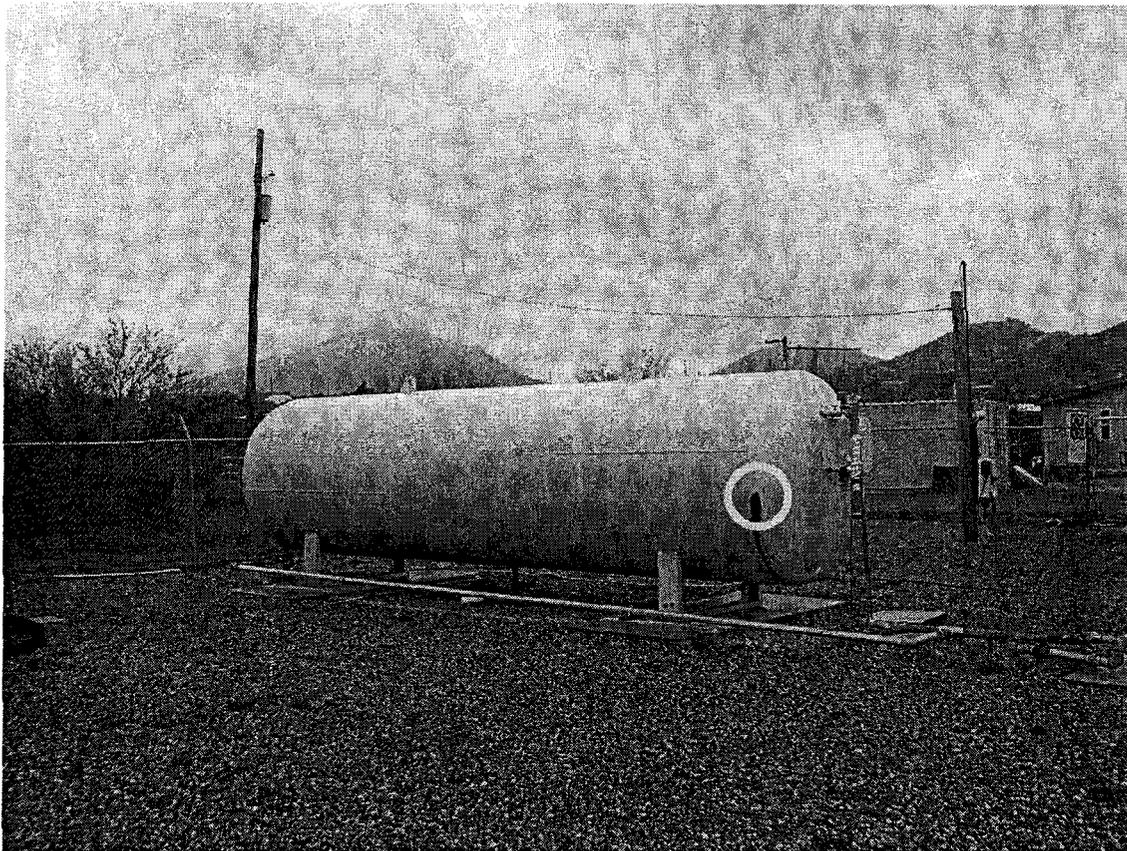
Total Water Pumped:	299,310 gallons
Water Hauled:	17,500 gallons
Total Water Delivered:	316,810 gallons
Average Daily Use:	12,672 gallons per day
	198 gallons per day per DU

Comments: Water use in this area is comparable to other areas in the Phoenix region.

### Operational Observations

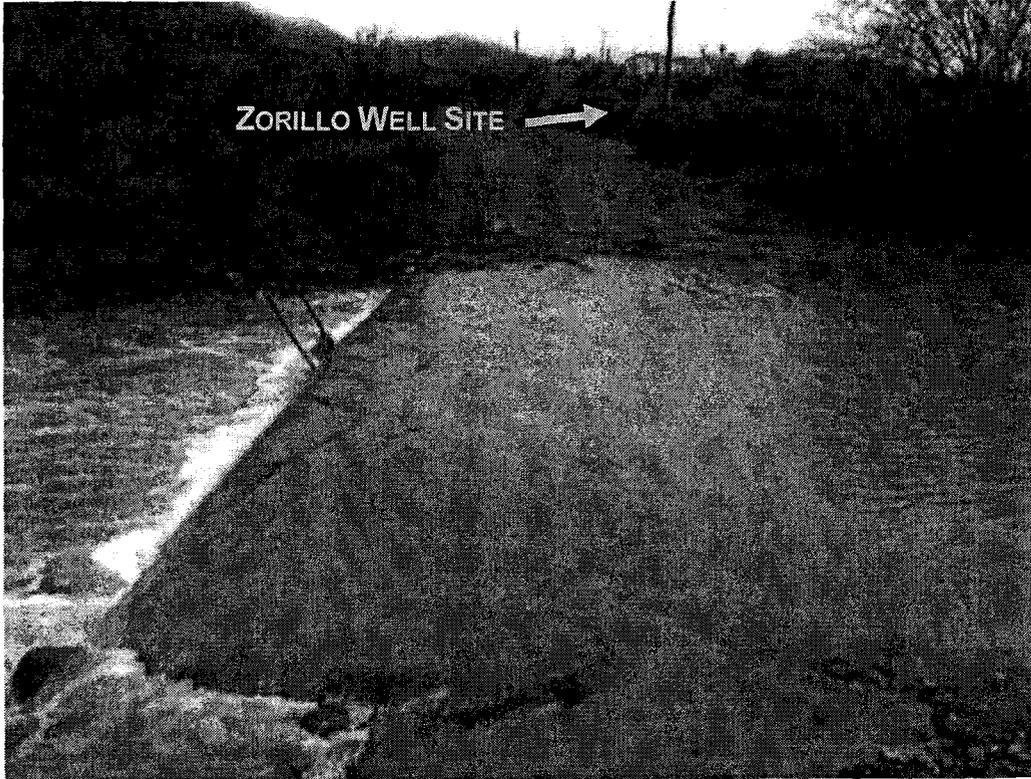
The following represents observations made by GWR personnel in the performance of the system checks and equipment repairs at the SWC sites.

1. The SWC system relies heavily on the Wright Well to pull the majority of duty. This is driven by the pressure settings and the hydraulic dynamics of the system. Ideally, the system would draw on the Zorillo Well (operating at 39 GPM) as the primary source; however, the current configuration precludes that. The Zorillo Well is set to come on only by pressure. As a result, and because of its volumetric capacity, the pump runs only for a few minutes as it brings the pressure from 65 to 72 psi. The well does not respond to tank levels, and as such contributes very little to the overall demand, and is run as a pressure regulator.
2. The SWC distribution system is chlorinated at all points of entry. Each well pump has associated with it a chlorine injection pump to add chlorine to the distribution system. The Wright Well chlorine injection system was observed as being non-functional (the injection system check valves were encrusted with salts, precluding flow from reaching the injection point.) While the residual chlorine level in the distribution system proper remained acceptable (and in fact, groundwater-based systems are not required to be disinfected in Arizona) the set-up of these systems and their continued manual intervention requires considerable operator attention.
3. At the beginning of the GWR tenure, the chlorine injection pump foot valves at all three well sites were in the precipitated salts at the bottom of the tanks. The foot valves were relocated to higher levels in the tanks.
4. The Sabrosa Well pumps only sporadically -- while the motor is running, the flow meter only moves for a gallon or two every 5 minutes. This well is either out of water or the pump is air locked or the submersible impeller/clearances are worn to the point of being non-functional. The recent rains have not helped the performance of this well. Some repair options include the replacement of this well; or the deepening of the existing structure.
5. The Zorillo Well system has a large amount of dissolved air. The air release mechanism is not functioning.
6. Both hydropneumatic tanks (one at the Sabrosa Well site and one at the Wright Well site) are water logged, and therefore do not supply any buffering capacity in the pressure system. In addition, the hydropneumatic tank at the Sabrosa Well has a leak, which will need to be repaired prior to re-introducing air into the tank. All three wells discharge directly to the distribution system, hence these hydropneumatic tanks provide pressure regulation and are a vital component to the longevity of the well pumps. Water logged hydropneumatic tanks cause short-cycling of pump strokes, accelerating wear by causing large pressure transients and potentially overheating of pump components (due to the lack of cooling water flow during the initial start.



7. The Webber Group, a well installation, servicing and inspection company sounded the Sabrosa Well on 11 February 2005. The pump and the water level are both at 360 feet which does not allow for any drawdown of the water table, as the cone of depression immediately impacts the water availability for the pump. The well also does not recover significantly when the pump is turned off. It is suspected that because the pump is located at the top of the aquifer, and the recovery is non-existent, the pump runs itself dry and then has to wait as the water trickles back in. In essence, the utility is paying electrical bills for no benefit from this well. Because of the system configuration however, this well needs to remain operational as it drives the "fill from the distribution system" solenoid valve.
8. The system is designed to fill from the distribution system whenever the Sabrosa Well is activated. This was an attempt at achieving some capacity while spending very little money. The Sabrosa Well runs off of Warrick controllers in the tank: when the tank level is less than 13 feet, the Sabrosa Well is activated, which also energizes a solenoid valve to open the distribution system to the tank. Unfortunately, when the booster pumps turn on, they take a suction from the tank, and discharge to the distribution system, which then goes directly back to the tank. Therefore, the booster pumps run longer than they need, and the fill cycle takes significantly longer than necessary. The solution would be to provide a separate storage tank into which the wells discharge, and from which the booster pumps draw. Ideally, each well site would be equipped with its own storage tank.
9. The check valve downstream of the Sabrosa well meter is leaking-by.

10. Customer meters are old, and many are completely buried to the level of their dials. Shut-off cocks are inoperable or inaccessible.
11. The water storage tank at the Sabrosa Well site fills from the bottom, requiring substantial head to be created before filling can be achieved, and decreasing the flow to the tank.
12. Access to the Zorillo Well is severely limited during rain events:



**Compliance Activities**

GWR has collected baseline well samples for all three wells, and the results are expected in March 2005. In addition, the sampling schedule below has been instituted:

SABROSA 04-07-052 DV Code 731	POE 001 (Wright well)	POE 002 (Zorillo Well)	POE 003	DISTRIBUTION
1Q2005	MAP VOC,SOC,IOC	MAP VOC,SOC,IOC	Nitrate MAP VOC,SOC,IOC	1 bacti/month
2Q2005	Nitrate Diquat	Nitrate	Nitrate	1 bacti/month
3Q2005			Nitrate	1 bacti/month 1 TTHMs/HAA5s
4Q2005	Hardness/pH (P)	Hardness/pH (P)	Nitrate Hardness/pH (P)	1 bacti/month

Triennial monitoring years: 2002, 2005, 2008 MAP to take IOC, VOC, SOC, Radiochems as annual sample  
Lead/copper years: 2003 (Annual), 2004 (Triennial)

**Future Activities**

GWR will complete the following activities over the next quarter:

- Pull, video and inspect the Sabrosa Well (\$3,000); and
- Install Sixnet PLCs, tank level and pressure monitoring and chatterboxes for alarm notifications (\$7,500).

In addition, GWR will continue to review opportunities for efficiency at the utility, including the installation of radio read systems for meters (note that this will likely require meter change outs). Such a system would allow for more accurate meter reads, and save considerable time in the meter reading process, as the majority of the meters are placed in awkward locations.

**Costs to Date**

To date, GWR has estimated the following on expenditures on SWC:

Operations and Management	\$5,000
Emergency Call-outs	\$ 400
Emergency Repairs	\$6,500
Emergency Water	\$1,000
<b>Total</b>	<b>\$12,900</b>

It should be noted that the entire annual revenue generated from this system is only expected to be \$28,000, and that GWR has not yet had the benefit of any revenue from the system.

### Conclusions

The following conclusions can be reached based on the operational experience with the Sabrosa Water Company system:

1. This is an unstable system – system performance is dependent on all equipment running correctly at all times;
2. There is no fault tolerance or redundancy available in the system;
3. There is inadequate storage to deal with system failures;
4. The system infrastructure is weak and will require continuous repair and upgrade;
5. The Sabrosa Well needs to be closely examined to determine the reason for its poor performance;
6. The Sabrosa hydropneumatic tank requires repair/replacement;
7. The Wright hydropneumatic tank requires installation of a control system to maintain a water/air interface;
8. The system needs to be completely re-tuned to allow the Zorillo Well to contribute more to the system demand;
9. The Zorillo Well system needs a larger hydropneumatic tank, and preferably would discharge into an on-site storage tank and be boosted to the distribution system;
10. Substantial capital improvements are required to bring the system to an acceptable standard from an operational perspective; and
11. To date, GWR has invested \$12,900 in the first month of operations. This represents the almost one-half of the total annual revenue for SWC.

Each of these system deficiencies needs to be evaluated in terms of total costs, although they are expected to be considerable. This further underscores the necessity for an emergency rate proceeding.

GLOBAL WATER RESOURCES, LLC



Graham Symmonds, P.Eng.