

ORIGINAL



0000018562

MEMORANDUM

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TO: Docket Control
FROM: Ernest C. Johnson
Director
Utilities Division

DATE: March 28, 2005

RE: STAFF REPORT FOR SUNRISE UTILITIES, LLC, APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER AND WASTEWATER SERVICE TO A PORTION OF MOHAVE COUNTY (DOCKET NO. WS-04247A-04-0604)

Attached is the Staff Report for Sunrise Utilities, LLC application for a Certificate of Convenience and Necessity ("CC&N") in Mohave County. Staff recommends the Commission approve the application for a CC&N with conditions.

EGJ:JEF:red

Originator: Jim Fisher

Arizona Corporation Commission

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MAR 29 2005

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Service List for: Sunrise Utilities, LLC
Docket No. W-044264A-04-0438

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**STAFF REPORT
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ARIZONA CORPORATION COMMISSION**

SUNRISE UTILITIES, LLC

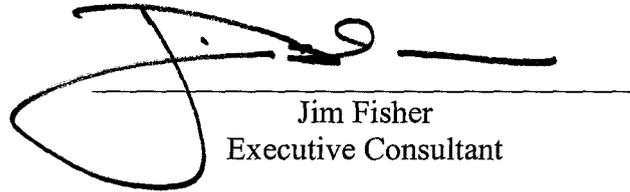
DOCKET NO WS-04247A-04-00604

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

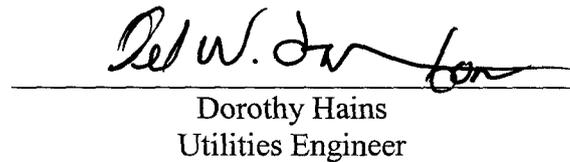
MARCH 2005

STAFF ACKNOWLEDGMENT

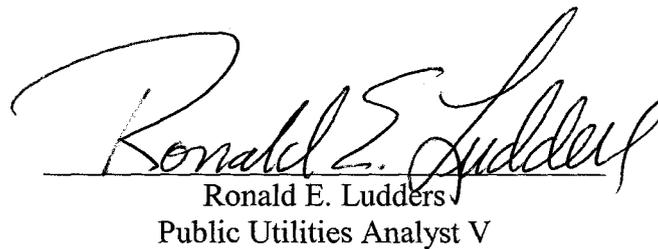
The Staff Report for Sunrise Utilities, LLC (Docket No. WS-04247A-04-0604) was the responsibility of the Staff members signed below. Jim Fisher was responsible for the review and analysis of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis. Ronald Ludders was responsible for the review and recommendation on rate base and rate design.



Jim Fisher
Executive Consultant



Dorothy Hains
Utilities Engineer



Ronald E. Ludders
Public Utilities Analyst V

**EXECUTIVE SUMMARY
SUNRISE UTILITIES LLC
APPLICATION FOR A CC&N
DOCKET NO. WS-04247A-04-0604**

On August 17, 2004, Sunrise Utilities, LLC, ("Sunrise" or "Company") filed an Application for a Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "Commission") to provide water and wastewater services to a portion of Mohave County. On January 18, 2005, the Commission's Utilities Division Staff ("Staff") informed Sunrise the application was sufficient for administrative purposes. A hearing was set for November.

Sunrise is an Arizona limited liability company in good standing with the Commission's Corporation Division. According to Sunrise, the utility was formed to serve the water and wastewater needs of proposed four subdivisions in the Scenic area. Sunrise is to be funded, owned and operated by a group of real estate developers. The developers anticipate 460 new single family residences in the next 3 to 5 years.

Staff recommends that the Commission approve the Sunrise Utilities, LLC, application for a Certificate of Convenience and Necessity in a portion of Mohave County to provide water service, subject to compliance with the following conditions:

Water

1. That the Commission find Sunrise Utilities, LLC, fair value of the property devoted to water service is \$348,324 as shown on Schedule REL-W-1.
2. That the Commission authorize Sunrise Utilities, LLC, the Staff's recommended water rates and charges shown on Schedule REL-W-2.
3. That the Commission require Sunrise Utilities, LLC, to file with Docket Control 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 Sunrise Utilities, LLC, to file with Docket Control a copy of the Mohave County franchise agreement within 365 days of the decision in this matter.
5. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a backflow prevention and curtailment tariff within 365 days of any decision in this matter.
6. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval to Construct within 365 days of any decision in this matter.

7. That the Commission requires Sunrise Utilities, LLC, to submit its ADEQ Certificate of Approval to Construct for arsenic treatment by October 31, 2005.
8. That the Commission require that the Company file with the Commission a copy of the developers' Letter of Adequate Water Supply, stating that there is adequate water supply, where applicable or when required by statute, within a year of the effective date of the final decision and order issued pursuant to this application.
9. That the Commission require Sunrise Utilities, LLC, to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts for Water Utilities.
10. That the Commission require Sunrise Utilities, LLC,, to notify the Director of the Utilities Division within 30 days of initiating service to customers in the proposed service area.
11. That the Commission require Sunrise Utilities, LLC, to file a rate application no later than three months following the fifth anniversary of any decision in this matter.
12. That the Commission authorize Sunrise Utilities, LLC, to use the depreciation rates recommended by Staff.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to Sunrise Utilities, LLC, be considered null and void without further order from the Commission should Sunrise Utilities, LLC, fail to meet Conditions 3, 4, 5, 6, 7 and 8 within the time specified.

Wastewater

Staff recommends that the Commission approve Sunrise Utilities, LLC, application for a Certificate of Convenience and Necessity to provide wastewater services, subject to the following conditions:

1. That the Commission find that Sunrise Utilities, LLC, fair value of the property devoted to wastewater service is \$723,281.
2. That the Commission authorize Sunrise Utilities, LLC, the Staff's recommended wastewater rates and charges shown on Schedule REL-WW-2.
3. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a copy of the Mohave County franchise agreement within 365 days of the decision in this matter.
4. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a copy of the Letter of Intent for the wastewater discharge permit issued by the Arizona

Department of Environmental Quality within 365 days of the effective date of the final decision and order issued pursuant to this application.

5. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.
6. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a rate application no later than three months following the fifth anniversary of any decision in this matter.
7. That the Commission require Sunrise Utilities, LLC, to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Water Utilities.
8. That the Commission require Sunrise Utilities, LLC, to notify the Director of the Utilities Division within 15 days of initiating service to customers in the proposed service area.
9. That the Commission authorize Sunrise Utilities, LLC, to use the depreciation rates as recommended by Staff.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to Sunrise Utilities, LLC, be considered null and void without further order from the Commission should Sunrise Utilities, LLC, fail to meet Conditions 3, 4 and 5 within the time specified.

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Introduction

On August 17, 2004, Sunrise Utilities, LLC, ("Sunrise" or "Company") filed an Application for a Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "Commission") to provide water and wastewater services to a portion of Mohave County.

On January 18, 2005, the Commission's Utilities Division Staff ("Staff") informed Sunrise the application was sufficient for administrative purposes. A hearing was set for November.

Sunrise Background

Sunrise is an Arizona limited liability company in good standing with the Commission's Corporation Division. Sunrise is owned by Mr. Timinskas, Mr. Lee, Mr. Ral and Mr. Helbert, area developers seeking to ensure water and wastewater facilities are available for future development.

According to Sunrise, the utility was formed to serve the water and wastewater needs of proposed subdivisions in the Scenic area. Sunrise is to be funded, owned and operated by a group of real estate developers who have been active in the area for some time. The developers have acquired property and developed ten (10) water wells in anticipation of development.

The developers have made plans to provide water and wastewater service to four (4) planned subdivisions along Scenic Boulevard. The developers anticipate 460 new single family residences in the next 3 to 5 years.

Sunrise is requesting to serve water in the southern quarter of Section 3, the north half of Section 11, and all of Sections 2 and 10 of Township 16 West, Range 39 East.

Sunrise is requesting to serve wastewater in the southern quarter of Section 3 and all of Sections 2, 10, 11 and 14 of Township 16 West, Range 39 East.

Request for Service

Sunrise is requesting Commission authorization to certificate approximately 2,880 acres for wastewater service and 1,920 acres for water service.

In support of the Company's application, Sunrise has provided requests for service for approximately 714 acres of the requested territory.

The Company is requesting all of Section 2, but has not provided any request for service for water or wastewater service in Section 2. The Company has requested all of Section 10, but

has only received a request to serve 80 acres. The Company has requests to serve 200 acres of Section 14, and 405 acres of Section 11.

The southern quarter of Section 3, Township 16 West, Range 39 East is certificated for water service to Beaver Dam Water Company.

To obtain a CC&N, the applicant is required to establish the necessity of the public service company by providing a request for service by showing that growth is imminent in the area to be served, or the area is necessary for the proper and sufficient operation of the company. To the extent the Company has not demonstrated a need for certificating territory, Staff is unable to recommend approval of all territory requested by the utility which is not supported by a demonstration of necessity.

Staff recommends Sunrise provide a legal description and map of the requested properties to enable the Commission to authorize a CC&N for the requested territory only.

The Water System

The Company proposes a water system of two (2) wells with a capacity of 300 gallons-per-minute ("GPM") each. The system is also to have a storage tank of 150,000 gallons, and three (3) booster pumps. The water system is designed to meet fire-flow and serve 600 customers within the first five (5) years of operations.

Staff's analysis concludes that the proposed water system will have adequate production and storage capacity to serve the proposed CC&N area within a conventional five (5) year planning period. Staff also believes it is reasonable to expect that the Company will develop additional storage and production when required in the future.

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.

The most recent lab analysis provided by the Company indicates that the arsenic levels in both wells exceed the MCL. Sunrise has informed Staff that the Company plans to install treatment facilities.

Sunrise has not obtained Arizona Department of Environmental Quality ("ADEQ") review and approval of the proposed arsenic treatment facilities. Staff recommends that the Commission condition approval of this application on Sunrise submitting ADEQ's approval of its proposed arsenic treatment facilities by October 31, 2005.

Arizona Department of Environmental Quality Capacity Development

ADEQ Capacity Development rules, effective September 23, 1999, require new public drinking water systems to meet (1) financial capacity, (2) managerial capacity, and (3) technical capacity requirements. ADEQ will accept a financial determination made by this Commission as meeting the financial capacity requirements for new water systems under the jurisdiction of the Commission. The technical and managerial capability is determined by ADEQ. All three components are combined in the final approval of the water company's "elementary business plan", pursuant to ADEQ rule R-18-4-606.

The three components are reviewed and approved sequentially, with the technical capacity approval and "Approval to Construct" being the last performed. The Approval to Construct acts as a control point in the process, and once an Approval to Construct has been issued, it can be assumed that the water company has complied with the capacity development rules. Therefore, it is recommended that Sunrise submit a copy of the ADEQ "Approval to Construct" within one year of the effective date of the final decision and order in this matter.

Arizona Department of Water Resources

Sunrise is not located within any Active Management Area. Staff recommends the Commission condition approval of this application on Sunrise filing a copy of the developers' Letter of Adequate Water Supply stating that there is adequate water to serve the proposed customers, where applicable or when required by statute, within one year of the effective date of the final decision and order in this matter.

Special Service Tariffs

A "Curtailed Plan Tariff" is an effective tool to allow a water company to manage its resources during periods of water shortages due to pump breakdowns, droughts, or other unforeseeable events. A "Cross Connection/Backflow Tariff" gives a private water utility the means and authority to implement a cross connection program as required by Arizona Revised Statutes and Administrative Codes. The cross connection tariff provides for the installation and testing of backflow devices and provides for corrective actions where cross connection hazards exist. Since Sunrise does not yet have either a curtailment tariff or cross connection tariff, this CC&N application provides an opportune time to prepare and file such tariffs.

Therefore, Staff recommends that the Company docket a curtailment tariff and a cross connection tariff within 90 days after the effective date of any decision and order pursuant to this application. The tariffs shall be filed with Docket Control for review and certification by Staff. Staff also recommends that the tariffs shall generally conform to the sample tariffs found posted on the Commission's web site (www.cc.state.az.us/utility/water/forms.htm) or available upon request from Commission Staff.

Water System Cost Analysis

The Company has provided estimated costs for construction of the proposed system. Staff's recommended adjustments to the Company's cost estimates are listed in the right-hand column of the table below:

NARUC Account	Description	Company's cost estimate (\$)	Staff adjusted cost estimate (\$)
301	Organization	15,000	0
302	Franchise	500	0
303	Land & Land Rights: Parcel for tank site (220'x120') Parcel for well site (120' x 55')	40,000	40,000
304	Structure & Improvements: 1,380' of fencing Well enclosure Power panel and interconnect Site grading	16,560 30,000 60,000 0	13,800 (@ \$10/ft) 30,000 0 5,000
307	Wells: Two wells (10" casing, 286' deep) Power panel and interconnect	28,000 0	28,000 60,000
310	Power Generation Equipment: One 45 KVA on-site generator	45,000	27,000 (one 50 KW generator)
311	Pumping Equipment: Pumps Control /pipes	100,000 54,710	50,000 20,000
320	Water treatment plant	5,000	5,000
330	Reservoirs/ Standpipes: 150,000 gal storage tanks Site grading Piping and appurtenances	360,000 (Two @ \$180,000 /unit) 5,000 10,000	150,000 (One @ \$150,000/unit) 0 10,000
331	Mains & Transmission: 5,000' of 8" PVC	65,000	65,000
333	Service lines: 150 residential units	75,000	75,000
335	Fire hydrants	24,200 (11 FH @ \$2,200/unit)	19,800 (11 FH @ \$1,800/ unit)
336	Backflow prevention devise	50,000 (ten 6" @ \$5,000/unit)	10,000 (two 6" @ \$5,000/ unit)

339	Miscellaneous Plant Equipment	2,500	2,500
340	Office Furniture and fixtures	0	0
344	Lab equipment	4,000	4,000
	Total	990,470	615,100

The Company’s estimated water system costs after Staff adjustments appear reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for 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.

Proposed Water Rates

Sunrise is requesting initial water rates of a monthly minimum of \$18.00 with a two tiered rate structure. Sunrise’s proposed usage rates are \$2.50 per 1,000 gallons up to 7,000 gallons, increased to \$2.75 per 1,000 gallons, for usage in excess of 7,000. (See Schedule CSB-4 Attached).

Staff is recommending a \$28.00 monthly minimum charge and three tiered commodity rate plan. Staff’s proposed usage are \$2.50 per 1,000 gallons, up to 3,000 gallons, \$3.75 per 1,000 gallons up to 8,000 gallons of usage, and \$4.50 for each 1,000 gallons thereafter. Staff’s proposed rates are designed to encourage conservation and be consistent with projected revenue levels.

The application contains pro forma revenues and expenses. Staff made adjustments as reflected in Attachment 3, Schedule REL W-1. Staff believes the projected expenses appear reasonable. The Company estimates water revenue of \$34,548 with associated expenses of \$40,803 resulting in an operating loss of \$6,255 for the first year of operations. The Company estimates \$120,918 in third year revenue, associated expenses of \$98,475 resulting in an operating income of \$22,443 for the year. The Company estimates \$207,288 in fifth year revenue, with related expenses of \$162,438, resulting in projected operating income of \$44,480 for the year. (See Schedule REL-W-1, attached).

Section 208 Plan Approval

The Federal Water Pollution Control Act as amended by the Water Quality Act of 1987 (“Clean Water Act”) is a commitment by the federal government to the elimination of pollution in the nation’s waters. Each state is required, under Section 208 of the Clean Water Act, to develop and implement area-wide water quality management plans for pollution control.

In Arizona, six (6) Councils of Government, (“COGs”) have been designated by the Governor as “Water Quality Management Planning Agencies” under Section 208, of the Clean Water Act. Mohave County (“The County”) is designated by the Governor and the EPA as the area wide water quality management planning agency for Mohave County.

The guidelines for 208 planning set forth in the Clean Water Act are fairly broad so that the various water quality issues in different areas of the nation can be addressed appropriately. Each 208 Plan must identify the water quality management needs in its planning area and provide a program to develop solutions. The County 208 planning process is an ongoing effort in response to changing water resource issues, regulations, treatment technologies and changing demographics.

On the federal level, the EPA has the responsibility of overseeing the planning efforts necessary to meet the specific requirements of Section 208. ADEQ administers both the basin-wide planning and water quality monitoring programs. In addition, ADEQ is responsible for reviewing and enforcing water quality standards for the State. For the County 208 Program, the EPA and ADEQ provides guidance in the terms of policy, procedure and review of documents to assure adherence to the requirements of the Clean Water Act.

A major effort of the 208 Plan is the Point Source Plan. Point Source Planning is primarily directed at compiling the preferred wastewater collection and treatment system for the affected area through the year 2020. Toward that end, the Point Source Plan examines population and wastewater flow projections, wastewater treatment plant siting, treatment methods, effluent disposal, reclaimed water reuse and sludge management.

ADEQ Permits

The objective of a Point Source Plan is to identify the preferred wastewater collection and treatment and effluent reuse or disposal systems for the affected area. The regulatory framework for management of water quality is comprised of permit compliance and monitoring of protected uses. The ADEQ defines, monitors and enforces water quality standards for protected uses of surface waters, aquifers and public water supplies. The ADEQ permit framework for point source management consists of three primary elements consisting of the Arizona Pollutant Discharge Elimination System ("AZPDES") the Aquifer Protection Permit ("APP") and the reclaimed water reuse permit program.

The purpose of the AZPDES permit programs is to regulate the quality of point source discharges into the waters of the nation. Based on specific criteria, discharges to rivers, tributaries to the rivers, dry washes and various lakes and canals within the affected area are subject to the AZPDES permit program provisions.

The ADEQ has established Surface Water Quality Standards ("SWQS") as required to meet the goals of the federal Clean Water Act and to protect the quality of surface waters in the state. The EPA incorporates the SWQS and federal regulation related to surface water quality and effluent discharge quality into the AZPDES permits. Pollutant levels established by the AZPDES permit programs vary among wastewater reclamation facilities depending upon the designated use of reclaimed water. Permits are typically issued for a term of five years.

Aquifer Protection Permit

The APP was established by the Environmental Quality Act of 1986 and implemented by rule in 1989. The purpose of the APP program is to protect the groundwater quality and public health from potential environmental risks posed by the facilities that discharge pollutants to the land surface, underlying soil, or groundwater that have a potential to reach an aquifer.

The APP permitting requirements are determined based on the type of facility or land use, capacity of the facility, and/or the type of discharges that the facility will produce. The most crucial requirements for obtaining an APP are demonstrating that the Best Available Demonstrated Control Technology ("BADCT") will be used to minimize the discharge of pollutants, Aquifer Water Quality Standards will not be violated and that the facility possesses the financial and technical capability to comply with the permit conditions.

The Environmental Quality Act requires that all domestic wastewater and disposal facilities requiring an APP use BADCT as part of their wastewater treatment process. The ADEQ adopted BADCT requirements for new sewage treatment facilities. The design review of sewage treatment facilities has been consolidated into the APP application review process. BADCT requirements are defined within the rules which require secondary treatment, removal for new facilities and expansion of existing facilities. The revision of the APP rule took effect January 2001.

The reclaimed water use permit program, established in 1985, allows the reuse of reclaimed water for a variety of applications such as agriculture, urban lakes, golf course irrigation, ponds and industrial uses. Water reclamation plants are required by rules to have a reuse permit for the release of reclaimed water for reuse purposes.

There are two main categories of reclaimed water reuse including direct non-potable reuse and indirect reuse. Direct reuse consists of irrigation and makeup water for urban lakes. Indirect reuse typically involves aquifer recharge and recovery. The indirect reuse of reclaimed water usually involves recharge to an aquifer for storage and future recovery. The reclaimed water is typically allowed to infiltrate through the dry soils above the aquifer allowing additional treatment. Recharge projects using reclaimed water are required to obtain an APP.

Sunrise Wastewater System

Sunrise proposes an on-site wastewater treatment and disposal system. The treatment and disposal system will consist of 150,000 gallons per day ("GPD") treatment plant manufactured by the Mar-Wood and two unlined evaporation/transportation ponds. The plant is also equipped with chlorination and dechlorination equipment. The Company will expand the disposal system to include six unlined ponds when needed in the future.

Based on information provided, Staff believes that Sunrise can design and construct adequate wastewater collection and treatment facilities. However, because of the limitations and

uncertainties about effluent disposal, Staff cannot state that Sunrise has demonstrated the ability to dispose of its wastewater effluent at the ultimate build out. Staff also believes that the proper venue for this demonstration is the permit process of the ADEQ.

ADEQ has not approved the proposed on-site wastewater treatment and disposal system. Staff recommends that Sunrise Utilities Company submit a copy of the Letter of Intent for the wastewater discharge permit that will be issued by the ADEQ within one year of the effective date of the final decision and order issued pursuant to this application.

Staff's recommended adjustments to the Company's cost estimates are listed in the right-hand column of the table below:

NARUC Account	Description	Company's cost estimate (\$)	Staff adjusted cost estimate (\$)
351	Organization	0	0
352	Franchise	0	0
353	Land & Land Rights: Parcel of land 420'x400'	60,000	60,000
354	Structure & Improvements: 1,900' of fencing Tool/ Equipment shed Site grading Two evaporation lagoons (88' W, 100' L & 7' deep each) & four (33' W & 33' L) ponds	22,800 6,000 0 0	19,000 (@ \$10/ft) 6,000 75,000 25,000 (for two 88'x100'x7' ponds @ \$12,500/unit))
355	Power Generation Equipment: Emergency generator (45 KVA)	40,000	27,000 (one 50 KW generator)
361	Collection Sewer – Gravity fed (from Scenic Area to Elbow Canyon): 2,500' of 15" PVC, 2,600' of 12" PVC, 5,300' of 8" PVC, 24 manholes	80,000 (@ \$32/ft) 59,800 (@ \$23/ft) 63,600 (@ \$12/ft) 43,200 (@ \$1,800/MH)	80,000 59,800 63,600 33,600 (@1,400/4'-Dimeter MH)
363	Service laterals: 150 residential lots	52,500	52,500
367	Meter Installation: One Parshall flume/ automatic flow recorder	10,000	10,000
370	Receiving wells: One wet well Dist Box/ Headworks/Bar screen/	50,000 20,000	50,000 20,000

380	Treatment & disposal Equipment: 150,000 GPD treatment plant	300,000 (two @ \$150,000/unit)	150,000 (one @ \$150,000/unit)
	Site grading	75,000	0
	evaporation lagoons	75,000 (six @ \$12,500/unit)	0
	power to site	20,000	20,000
	chemical feeder	10,000	10,000
381	Plant Services lines: Piping and valves	31,007	31,000
394	Lab equipment	5,000	5,000
397	Miscellaneous Plant Equipment	10,000	10,000
	Total	1,033,907	807,500

Proposed Rates

Sunrise is requesting initial wastewater rates of a monthly minimum of \$33.00. Staff is recommending initial wastewater of \$28.00. (See Schedule REL-WW-2, attached).

The application contains pro forma revenues and expenses. Staff believes the projected expenses appear reasonable. Sunrise estimates wastewater revenue of \$16,800 with associated expenses of \$37,779 resulting in an operating loss of \$20,979 for the first year of operations. Sunrise estimates \$96,600 in third year revenue, associated expenses of \$72,251 resulting in an operating income of \$24,349 for the year. The Company estimates \$180,600 in fifth year revenue, with related expenses of \$117,602, resulting in projected operating income of \$62,998 for the year. (See Schedule REL-WW-1, attached).

Depreciation Rates

Water System

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 1, and it is recommended that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in this table.

Table 1
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	----	----

Wastewater System

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 2, and it is recommended that the Company use the depreciation rates by individual NARUC category, as delineated in this table.

Table 2
DEPRECIATION RATES FOR WASTEWATER SYSTEM

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	30	3.33
360	Collection Sewers – Force	50	2.00
361	Collection Sewers – Gravity	50	2.00
362	Special Collecting Structures	50	2.00
363	Services to Customers	50	2.00
364	Flow Measuring Devices	10	10.00
365	Flow measuring Installations	20	5.00
366	Reuse Services	50	2.00
367	Reuse Meters and Meter Installations	30	3.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	10	10.00
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission and Distribution System	50	2.00
380	Treatment and Disposal Equipment	20	5.00
381	Plant Sewers	20	5.00
382	Outfall Sewer Lines	25	4.00
389	Other Plant & Misc Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.00
391	Transportation Equipment	5	20.00
392	Store Equipment	25	4.00
393	Tools, Shop & Garage Equipment	20	5.00
394	Laboratory Equipment	10	10.00
395	Power Operated Equipment	20	5.00
396	Communication Equipment	10	10.00
397	Miscellaneous Equipment	10	10.00
398	Other Tangible Plant	----	----

County Franchise

Sunrise has not obtained a county franchise for water or wastewater service.

Staff Recommendations

Staff recommends that the Commission approve the Sunrise Utilities, LLC, application for a Certificate of Convenience and Necessity in a portion of Mohave County to provide water service, subject to compliance with the following conditions:

Water

1. That the Commission find Sunrise Utilities, LLC, fair value of the property devoted to water service is \$348,324 as shown on Schedule REL-W-1.
2. That the Commission authorize Sunrise Utilities, LLC, the Staff's recommended water rates and charges shown on Schedule REL-W-2.
3. That the Commission require Sunrise Utilities, LLC, to file with Docket Control 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 Sunrise Utilities, LLC, to file with Docket Control a copy of the Mohave County franchise agreement within 365 days of the decision in this matter.
5. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a backflow prevention and curtailment tariff within 365 days of any decision in this matter.
6. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval to Construct within 365 days of any decision in this matter.
7. That the Commission requires Sunrise Utilities, LLC, to submit its ADEQ Certificate of Approval to Construct for arsenic treatment by October 31, 2005.
8. That the Commission require that the Company file with the Commission a copy of the developers' Letter of Adequate Water Supply, stating that there is adequate water supply, where applicable or when required by statute, within a year of the effective date of the final decision and order issued pursuant to this application.

9. That the Commission require Sunrise Utilities, LLC, to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts for Water Utilities.
10. That the Commission require Sunrise Utilities, LLC,, to notify the Director of the Utilities Division within 30 days of initiating service to customers in the proposed service area.
11. That the Commission require Sunrise Utilities, LLC, to file a rate application no later than three months following the fifth anniversary of any decision in this matter.
12. That the Commission authorize Sunrise Utilities, LLC, to use the depreciation rates recommended by Staff.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to Sunrise Utilities, LLC, be considered null and void without further order from the Commission should Sunrise Utilities, LLC, fail to meet Conditions 3, 4, 5, 6, 7 and 8 within the time specified.

Wastewater

Staff recommends that the Commission approve Sunrise Utilities, LLC, application for a Certificate of Convenience and Necessity to provide wastewater services, subject to the following conditions:

1. That the Commission find that Sunrise Utilities, LLC, fair value of the property devoted to wastewater service is \$723,281.
2. That the Commission authorize Sunrise Utilities, LLC, the Staff's recommended wastewater rates and charges shown on Schedule REL-WW-2.
3. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a copy of the Mohave County franchise agreement within 365 days of the decision in this matter.
4. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a copy of the Letter of Intent for the wastewater discharge permit issued by the Arizona Department of Environmental Quality within 365 days of the effective date of the final decision and order issued pursuant to this application.
5. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.

6. That the Commission require Sunrise Utilities, LLC, to file with Docket Control a rate application no later than three months following the fifth anniversary of any decision in this matter.
7. That the Commission require Sunrise Utilities, LLC, to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Water Utilities.
8. That the Commission require Sunrise Utilities, LLC, to notify the Director of the Utilities Division within 15 days of initiating service to customers in the proposed service area.
9. That the Commission authorize Sunrise Utilities, LLC, to use the depreciation rates as recommended by Staff.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to Sunrise Utilities, LLC, be considered null and void without further order from the Commission should Sunrise Utilities, LLC, fail to meet Conditions 3, 4 and 5 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: August 27, 2004

RE: **SUNRISE UTILITIES, LLC (DOCKET NO. WS-04247A-04-0604)**

The area requested by Sunrise Utilities for a CC#N has been plotted using the legal description provided with the application (a copy of which is attached). A portion of the area being requested is already certificated to Beaver Dam Water Company; however, Beaver Dam has a separate application requesting that the conflicting portion be deleted from its CC#N.

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

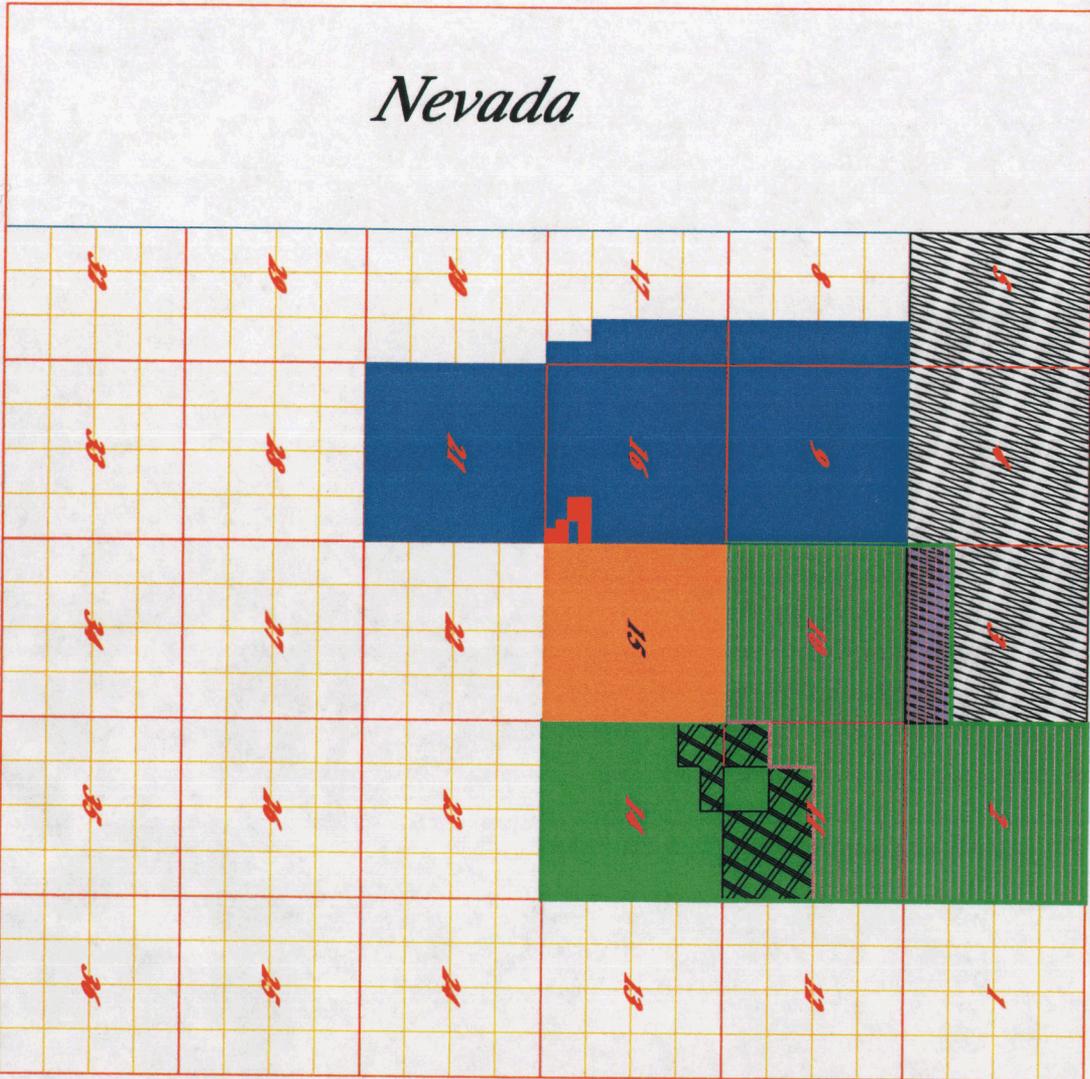
:bsw

Attachments

cc: Docket Control
Mr. Richard Sallquist
Ms. Deb Person (Hand Carried)
File

COUNTY: Mohave

RANGE 16 West



TOWNSHIP 39 North

-  W-3067 (4)
Bever Dam Water Company, Inc.
-  W-3551 (1)
Virgin Mountain Utilities Company
-  (1)
Sunrise Well Association, Inc. (Nonjurisdictional)
-  Beaver Dam Water Company, Inc.
Docket No. W-3067-04-216
Application for Deletion *
-  Beaver Dam Water Company
Docket No. W-3067-04-445
Application for Extension
-  Sunrise Utilities, LLC
Docket No. WS-4247-04-604
Application for CC&N for Water
-  Sunrise Utilities, LLC
Docket No. WS-4247-04-604
Application for CC&N for Sewer
-  Virgin Mountain Utilities Company
Docket No. W-3551-04-325
Application for Extension

*The area being deleted in this application is being requested by Sunrise Utilities, LLC, in Docket No. WS-4247-04-604

SUNRISE UTILITIES, L.L.C.
Certificate of Convenience and Necessity Application
Docket No. _____

DELETION AREA

Section 3 of 16W 39N

S/2 of S/2	160
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REQUESTED AREA

Water Area

Section 2	All	640
Section 3	(As Deleted)	160
Section 10	All	640
Section 11	N2	320
	NW4 of SW4	40

Sewer Area

Section 2	All	640
Section 3	(As Deleted)	160
Section 10	All	640
Section 11	All	640
Section 14	All	640

All in Township 16W, Range 39N, G&SRB&M, Mohave County, Arizona

MEMORANDUM

DATE March 24, 2005
TO: James E. Fisher
FROM: Dorothy Hains DH
RE: **Water & Wastewater CC&N Application for Sunrise Utilities, LLC
Docket No. WS-04247A-04-0604**

I. Introduction

Sunrise Utilities, LLC ("Sunrise" or "Company") has submitted a Certificate of Convenience and Necessity (CC&N) application to provide water and wastewater service near the town of Littlefield in northwest Mohave County. The requested water service area is approximately two and three quarter square-miles. The Company is requesting four and one quarter square-miles for its wastewater service area.

II. System Analysis

A. Water System

The Company proposes a water system that will consist of two wells (150 gallons per minute each), one storage tank (150,000 gallons), three booster pumps (one 30-HP, one 7½- HP and one 3-HP), one 45-KVA on-site generator and a distribution system to serve 600 customers within the first five years of operation. The system was designed to meet fire flow demand.

Staff concludes that the proposed water system will have adequate production and storage capacity to serve the proposed CC&N area within a conventional five year planning period. It can reasonably be expected that the Company will develop additional storage and production capacity when it is required in the future.

B. Wastewater System

The Company proposes an on-site wastewater treatment and disposal system. The treatment and disposal system will consist of a 150,000 gallons per day (GPD) treatment plant manufactured by the Mar-Wood and two unlined evaporation/transpiration ponds. The plant is also equipped with chlorination and

dechlorination equipment. The Company will expand the disposal system to include six unlined ponds when needed in the future.

Staff concludes that the proposed wastewater system will have adequate capacity to serve the proposed CC&N area within a conventional five year planning period. It can reasonably be expected that the Company will develop additional system capacity when it is required in the future.

III. Cost Analysis

A. Water System

Staff's recommended adjustments to the Company's cost estimates are listed in the right-hand column of the table below:

NARUC Account	Description	Company's cost estimate (\$)	Staff adjusted cost estimate (\$)
301	Organization	15,000	0
302	Franchise	500	0
303	Land & Land Rights: Parcel for tank site (220'x120') Parcel for well site (120' x 55')	40,000	40,000
304	Structure & Improvements: 1,380' of fencing Well enclosure Power panel and interconnect Site grading	16,560 30,000 60,000 0	13,800 (@ \$10/ft) 30,000 0 5,000
307	Wells: Two wells (10" casing, 286' deep) Power panel and interconnect	28,000 0	28,000 60,000
310	Power Generation Equipment: One 45 KVA on-site generator	45,000	27,000 (one 50 KW generator)
311	Pumping Equipment: Pumps Control /pipes	100,000 54,710	50,000 20,000
320	Water treatment plant	5,000	5,000
330	Reservoirs/ Standpipes: 150,000 gal storage tanks Site grading Piping and appurtenances	360,000 (Two @ \$180,000 /unit) 5,000 10,000	150,000 (One @ \$150,000/unit) 0 10,000

331	Mains & Transmission: 5,000' of 8" PVC	65,000	65,000
333	Service lines: 150 residential units	75,000	75,000
335	Fire hydrants	24,200 (11 FH @ \$2,200/unit)	19,800 (11 FH @ \$1,800/ unit)
336	Backflow prevention devise	50,000 (ten 6" @ \$5,000/unit)	10,000 (two 6" @ \$5,000/ unit)
339	Miscellaneous Plant Equipment	2,500	2,500
340	Office Furniture and fixtures	0	0
344	Lab equipment	4,000	4,000
	Total	990,470	615,100

The Company's estimated water system costs after Staff adjustments appear reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for 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.

B. Wastewater System

Staff's recommended adjustments to the Company's cost estimates are listed in the right-hand column of the table below:

NARUC Account	Description	Company's cost estimate (\$)	Staff adjusted cost estimate (\$)
351	Organization	0	0
352	Franchise	0	0
353	Land & Land Rights: Parcel of land 420'x400'	60,000	60,000
354	Structure & Improvements: 1,900' of fencing Tool/ Equipment shed Site grading Two evaporation lagoons (88' W, 100' L & 7' deep each) & four (33' W & 33' L) ponds	22,800 6,000 0 0	19,000 (@ \$10/ft) 6,000 75,000 25,000 (for two 88'x100'x7' ponds @\$12,500/unit))
355	Power Generation Equipment: Emergency generator (45 KVA)	40,000	27,000 (one 50 KW generator)
361	Collection Sewer – Gravity fed		

	(from Scenic Area to Elbow Canyon): 2,500' of 15" PVC, 2,600' of 12" PVC, 5,300' of 8" PVC, 24 manholes	80,000 (@ \$32/ft) 59,800 (@ \$23/ft) 63,600 (@ \$12/ft) 43,200 (@\$1,800/MH)	80,000 59,800 63,600 33,600 (@1,400/ 4'-Dimeter MH)
363	Service laterals: 150 residential lots	52,500	52,500
367	Meter Installation: One Parshall flume/ automatic flow recorder	10,000	10,000
370	Receiving wells: One wet well Dist Box/ Headworks/Bar screen/	50,000 20,000	50,000 20,000
380	Treatment & disposal Equipment: 150,000 GPD treatment plant Site grading evaporation lagoons power to site chemical feeder	300,000 (two @ \$150,000/unit) 75,000 75,000 (six @ \$12,500/unit) 20,000 10,000	150,000 (one @ \$150,000/unit) 0 0 20,000 10,000
381	Plant Services lines: Piping and valves	31,007	31,000
394	Lab equipment	5,000	5,000
397	Miscellaneous Plant Equipment	10,000	10,000
	Total	1,033,907	807,500

The Company's estimated wastewater system costs after Staff adjustments appear reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for 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.

IV. Arizona Department of Environmental Quality (ADEQ) Capacity Development

A. Water System

ADEQ Capacity Development rules, effective September 23, 1999, require new public drinking water systems to meet (1) financial capacity, (2) managerial capacity, and (3) technical capacity requirements. ADEQ will accept a financial determination made by this Commission as meeting the financial capacity requirements for new water systems under the jurisdiction of the Commission. The technical and managerial capability is determined by ADEQ. All three components are combined in the final approval of the water company's "elementary business plan", pursuant to ADEQ rule R-18-4-606. The three components are reviewed and approved sequentially, with the technical capacity approval and "Approval to Construct" being the last performed. The Approval to Construct acts as a control point in the process, and once an Approval to Construct has been issued; it can be assumed that the water company has complied with the capacity development rules. Therefore, it is recommended that Sunrise Utilities Water Company submit a copy of the ADEQ "Approval To Construct" for water source/treatment plant and water distribution system within one year of the effective date of the final decision issued pursuant to this application.

B. Wastewater System

ADEQ has not approved the proposed on-site wastewater treatment and disposal system. Staff recommends that that Sunrise Utilities Company submit a copy of the Letter of Intent for the wastewater discharge permit that will be issued by the ADEQ within one year of the effective date of the final decision issued pursuant to this application.

V. Arizona Department of Water Resources (ADWR)

Water System

The Company is not located within any Active Management Area, as designated by ADWR. Staff recommends that the Company file with the Commission a copy of the developers' Letter of Adequate Water Supply, stating that there is adequate water to serve the proposed customers, within a year of the effective date of the final decision issued pursuant to this application.

VI. Depreciation Rates

A. Water System

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 1, and it is recommended that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category, as delineated in this table.

**Table 1
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	----	----

B. Wastewater System

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 2, and it is recommended that the Company use the depreciation rates by individual NARUC category, as delineated in this table.

**Table 2
DEPRECIATION RATES FOR WASTEWATER SYSTEM**

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	30	3.33
360	Collection Sewers – Force	50	2.00
361	Collection Sewers – Gravity	50	2.00
362	Special Collecting Structures	50	2.00
363	Services to Customers	50	2.00
364	Flow Measuring Devices	10	10.00
365	Flow measuring Installations	20	5.00
366	Reuse Servicest	50	2.00
367	Reuse Meters and Meter Installations	30	3.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	10	10.00
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission and Distribution System	50	2.00
380	Treatment and Disposal Equipment	20	5.00
381	Plant Sewers	20	5.00
382	Outfall Sewer Lines	25	4.00
389	Other Plant & Misc Equipment	15	6.67

390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.00
391	Transportation Equipment	5	20.00
392	Store Equipment	25	4.00
393	Tools, Shop & Garage Equipment	20	5.00
394	Laboratory Equipment	10	10.00
395	Power Operated Equipment	20	5.00
396	Communication Equipment	10	10.00
397	Miscellaneous Equipment	10	10.00
398	Other Tangible Plant	----	----

VII. Other Issues

A. Arsenic

The U.S. Environmental Protection Agency (“EPA”) has reduced the arsenic maximum contaminant level (“MCL”) in drinking water from 50 micrograms per liter (“µg/l”) or parts per billion (“ppb”) to 10 µg/l. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis provided by the Company indicates that the arsenic levels in both Wells are 12 µg/l and 11.6 µg/l which are above the new arsenic MCL. The Company indicated that it will use granular ferric hydroxide (GFH) technology manufactured by the USFilter to reduce the arsenic concentration in its water; however the Company’s proposed treatment plan has not been submitted to ADEQ for its review and approval. Therefore, Staff recommends that the Company submit its ADEQ Certificate of Approval to Construct for arsenic treatment by October 31, 2005.

B. Curtailment Tariff

A curtailment 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 Company does not have a curtailment tariff, this application provides an opportune time to prepare and file such a tariff. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than ninety (90) days after the effective date of the final Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff’s review and certification.

Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission’s web site at www.cc.state.az.us. Staff recognizes that the Company may need to make minor modifications according to their specific management, operational, and design requirements as necessary and appropriate.

C. Off-site Hookup Fee Charges For Water and Wastewater Systems

The Company has proposed to implement off-site hookup fees for its water and wastewater services. Because new water and wastewater CC&Ns are being established, Staff recommends that the Company's request to implement off-site hookup fees for its water and wastewater services be denied.

Summary

I. Conclusions

1. Staff concludes that the proposed water system will have adequate production and storage capacity to serve the proposed CC&N area within a conventional five year planning period.
2. Staff concludes that the proposed wastewater system will have adequate capacity to serve the proposed CC&N area within a conventional five year planning period.
3. The Company's estimated water and wastewater system costs after Staff adjustments appear reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for 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.

II. Recommendations

1. Staff recommends that Sunrise Utilities Water Company submit a copy of the ADEQ "Approval To Construct" for water source/treatment plant and water distribution system within one year of the effective date of the final decision issued pursuant to this application.
2. Staff further recommends that that Sunrise Utilities Company submit a copy of the Letter of Intent for the wastewater discharge permit, that will be issued by the ADEQ, within one year of the effective date of the final decision issued pursuant to this application.
3. Staff further recommends that the Company file with the Commission a copy of the developers' Letter of Adequate Water Supply, stating that there is adequate water supply, within a year of the effective date of the final decision issued pursuant to this application.
4. Staff further recommends that the Company use the depreciation rates delineated in Tables 1 and 2 for its water and wastewater systems.

5. Staff further recommends that the Company submit its ADEQ Certificate of Approval to Construct for arsenic treatment by October 31, 2005.
6. Staff further recommends that the Company's request to implement off-site hookup fees for its water and wastewater services be denied.
7. Staff further recommends that the Company file a curtailment tariff as soon as possible, but no later than ninety (90) days after the effective date of the final Decision and Order in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us.

Cc Ron Ludders

MEMORANDUM

TO: James Fisher
Executive Consultant – Utilities Division

FROM: Ronald E. Ludders *REL*
Public Utilities Analyst V – Utilities Division

Date: February 18, 2005

RE: SUNRISE UTILITES, L.L.C. APPLICATION FOR A NEW
CERTIFICATE OF CONVENIENCE AND NECESSITY
DOCKET NO. WS-04247A-04-0604

Introduction

On August 17, 2004 Sunrise Utilities, L.L.C. (“Sunrise” or “Company”) submitted an application to the Arizona Corporation Commission (“Commission”) for a Certificate of Convenience and Necessity (“CC&N”) to provide public utility water service and wastewater service in Mohave County, Arizona. The application indicates that there are presently no customers receiving service in the area of the requested CC&N. At the end of five years the Company is projecting to serve 600 customers.

Fair Value Rate Base

Consistent with Commission rules, the Company’s filing included the required five-year projections for plant values, operating revenues, operating expenses, and number of customers. Projections and assumptions are necessary to establish a fair value rate of return and initial rates due to the lack of historical information. In this proceeding, the projected original cost rate base is the fair value rate base. Staff reviewed the Company’s projections and made several adjustments. Because Staff recommended adjustments to the Company’s first year cost estimates, adjustments in Plant in Service, Accumulated Depreciation and Depreciation Expense were made to the five-year projection (Schedules REL-W-1 and REL-WW-1). Additionally, Staff made changes to Advances in Aid of Construction as a result of the Staff’s recommendations and made allowances for its payback at a rate of 10 percent for the annual revenue generated on each system. Staff further adjusted rate base to reflect its removal of the Company’s proposed hook-up fees.

Staff determined the projected rate base for the water plant in service to be \$348,324 at the end of the first year (Schedule REL-W-1). Staff determined the rate base for the wastewater plant in service to be \$723,281 at the end of the first year (Schedule REL-WW-1).

Revenue and Expenses

As justification for the initial rates, the Company has estimated its revenue and expenses. Staff has reviewed the estimates and made several adjustments. Revenue was adjusted to reflect Staff's proposed rates. Staff normalized purchased pumping power to obtain its cost figures. The management fee requested by the Company for water was \$8.33 per month and \$7.00 per month for wastewater. Staff believes these fees to be excessive and has adjusted these figures to \$5.00 per month for each service provided. Depreciation expense was adjusted to reflect Staff's changes to plant in service. Property taxes were also adjusted to reflect Staff's proposed revenue. Staff removed income tax expense. L.L.C.'s have the option of filing as a partnership with no income tax liability. The projected income statements for water and wastewater are depicted at Schedules REL-W-1 and REL-WW-1.

Rate Design

The Company's projected revenue is derived solely from the residential class customers. Staff based its rate design on its adjustment to expenses and rate base.

There are differences between the Company proposed rates and Staff's recommended rates. To promote conservation in the use of water the Commission has been recommending a three-tiered rate structure for the commodity charges. Staff recommends its three tier rates versus the Company's proposed two-tier rates (see Schedule REL-W-2). Staff's recommended rates will result in a monthly residential water bill of \$57.58 based on average usage of 8,740 gallons. The Company's rates for the same usage would generate a \$40.29 average monthly bill.

The wastewater rates requested by the Company are a monthly fixed fee. Staff's recommended residential fee is \$28.00 per month versus the Company's requested fee of \$33.00 per month. This is due primarily to Staff's reduction to the Company's estimated wastewater plant costs of over \$22,000. This adjustment reduced annual depreciation expense by nearly \$15,000.

The Company's hook-up fees were removed by Staff. It is this Commission's normal procedure to allow hook-up fees only to companies already holding and operating under a CC&N. The elimination of the hook-up fee reduces the Company's source of capital by \$325,000 in the first year of operations and \$1,950,000 in a five year period. Staff recommends the Company seek other means of financing that do not include contributions.

Staff recommends that the Company's charge for minimum deposit be as per Rule R14-2-403.B.7. Other service charges proposed the Company were adjusted by Staff to

more closely reflect those being proposed in other CC&N cases and approved by the Commission.

The information filed by the Company in its proposed tariff sheets contains too many footnotes, is difficult to follow and therefore not accepted by Staff. Instead, Staff recommends the approval of its rates, charges and terms of service as supported by the Arizona Administrative Code, Article 4, Water Utilities and Article 6, Sewer Utilities and should be adopted by the Commission. The Company should be required to submit a revised tariff consistent with this recommendation.

Recommendations

Staff recommends:

- approval of Staff's rates as shown on Schedules REL-W-2 and REL-WW-2. In addition to collection of its regular rates, the Company may collect from its customers a proportionate share of any privilege, sales or use tax.
- the Company be required to notify the Director of the Utilities Division within 15 days of providing service to its first customer.
- the Company be required to file a rate application no later than three months following the fifth anniversary of the date the Company begins providing service to its first customer.
- the Company be required to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Water and Wastewater Utilities.
- the Company be required to use the depreciation rates recommended by Staff for water and wastewater utilities.

WATER
Proforma Income Statement and
Original Cost Rate Base

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
OPERATING REVENUE:	\$ 34,548	\$ 77,733	\$ 120,918	\$ 164,103	\$ 207,288
Operating Expenses:					
Purchased Water/Pumping Power	\$ 2,785	\$ 9,051	\$ 16,014	\$ 22,977	\$ 29,939
Admin. & General					
Maintainance & Testing	7,200	13,950	20,250	27,750	35,250
Management Fee	3,000	9,750	17,250	24,750	32,250
SDWA Compliance	2,500	2,500	2,500	2,500	2,500
Depreciation	23,801	35,213	39,111	43,009	55,482
Property Taxes	1,467	2,383	3,300	5,133	6,966
Other Taxes	50	50	50	50	50
TOTAL OPERATING EXPENSE:	\$ 40,803	\$ 72,898	\$ 98,475	\$ 126,169	\$ 162,438
OPERATING INCOME (LOSS)	\$ (6,255)	\$ 4,835	\$ 22,443	\$ 37,934	\$ 44,850
Number of Customers:					
Residential	100	225	350	475	600
Commercial	-	-	-	-	-
	<u>100</u>	<u>225</u>	<u>350</u>	<u>475</u>	<u>600</u>
Plant in Service	\$ 615,000	\$ 1,252,600	\$ 1,471,350	\$ 1,690,100	\$ 2,390,100
Less: Accumulated Depreciation	23,801	59,014	98,125	141,133	196,615
Less: Advances in Aid of Construction	242,875	426,057	640,488	854,920	1,000,601
ORIGINAL COST RATE BASE	\$ 348,324	\$ 767,529	\$ 732,737	\$ 694,047	\$ 1,192,883
Rate of Return	-1.80%	0.63%	3.06%	5.47%	3.76%

RATE DESIGN - WATER

-Proposed Rates-

<u>Monthly Usage Charge</u>	Company	Staff
5/8" x 3/4" Meter	\$18.00	\$28.00
3/4" Meter	27.00	42.00
1" Meter	45.00	70.00
1½" Meter	90.00	140.00
2" Meter	144.00	224.00
3" Meter	-	270.00
4" Meter	450.00	700.00
5" Meter	-	980.00
6" Meter	900.00	1,400.00
Gallons Included in Minimum	0	0
<u>Usage Charges</u>		
In excess of minimum - per 1,000 gallons		
From 1 - 7,000 gallons	\$ 2.50	N/A
In excess of 7,000 gallons	2.75	N/A
From 1 - 3,000	N/A	\$ 2.50
From 3,001 - 8,000	N/A	3.75
In excess of 8,000	N/A	4.50
<u>Construction Water</u>		
Gallons included in Minimum	-	-
2 Inch Hydrant Meter (Unlimited Gallons)	\$ 100.00	N/A
Commodity charge per 1,000 gallons	2.75	-
2 Inch Hydrant Meter (1,000 gallons)	N/A	\$ 4.50

RATE DESIGN - WATER

	Company	Staff
<u>Service Line and Meter Installation Charges</u>	\$500.00	\$480.00
5/8" x 3/4" Meter	575.00	560.00
3/4" Meter	660.00	650.00
1" Meter	900.00	895.00
1½" Meter	1,525.00	1,555.00
2" Meter	0.00	2,235.00
3" Meter	3,360.00	3,440.00
4" Meter	-	-
5" Meter	6,035.00	6,195.00
6" Meter		
<u>Service Charges</u>		
Establishment	\$20.00	\$20.00
Establishment (After Hours)	40.00	30.00
Reconnection (Delinquent)	50.00	20.00
Reconnection (After Hours)	65.00	30.00
NSF Check	20.00	20.00
Meter Re-Read (If Correct)	5.00	5.00
Meter Test (If Correct) Flat fee charge, no other costs included	25.00	10.00
Deferred Payment - per month	1.50%	1.50%
Deposit	*	*
Deposit Interest	3.00%	6.00%
Re-Establishment (Within 12 Months)	**	**
Late Payment Charge	***	1.5%
Service Calls, (per hour, after hours only)	\$ 40.00	0

* Per Commission Rules (R14-2-4-3.B)
 ** Months off system times the minimum (R14-2-403.D)
 *** Greater of \$5.00 or 1.5% of unpaid balance.

WASTEWATER
Proforma Income Statement and
Original Cost Rate Base

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
OPERATING REVENUE:	\$ 16,800	\$ 54,600	\$ 96,600	\$ 138,600	\$ 180,600
Operating Expenses:					
Purchased Water/Pumping Power	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Admin. & General					
Maintainance & Testing	5,300	12,050	19,550	27,050	34,550
Management Fee	3,000	9,750	17,250	24,750	32,250
Vehicle Expense	1,200	1,200	1,200	1,200	1,200
Depreciation	25,566	27,720	29,874	32,566	41,719
Property Taxes	713	1,515	2,377	4,101	5,884
Other Taxes	-	-	-	-	-
TOTAL OPERATING EXPENSE:	\$ 37,779	\$ 54,236	\$ 72,251	\$ 91,666	\$ 117,602
OPERATING INCOME (LOSS)	\$ (20,979)	\$ 364	\$ 24,349	\$ 46,934	\$ 62,998
Number of Customers:					
Residential	100	225	350	475	600
Commercial	-	-	-	-	-
	100	225	350	475	600
Plant in Service	\$ 807,541	\$ 915,223	\$ 1,022,904	\$ 1,157,505	\$ 1,615,151
Less: Accumulated Depreciation	25,566	53,286	83,159	115,725	157,444
Less: Advances in Aid of Construction	58,695	204,915	350,715	534,015	717,315
ORIGINAL COST RATE BASE	\$ 723,281	\$ 657,022	\$ 589,029	\$ 507,765	\$ 740,392
Rate of Return	-2.90%	0.06%	4.13%	9.24%	8.51%

RATE DESIGN - WASTEWATER

-Proposed Rates-

		Company	Staff
<u>Monthly Usage Charge</u>			
All Residential Sales		\$33.00	\$28.00
All Commercial Sales		\$ 50.00	\$ 50.00
<u>Effluent Sales</u>			
All Sizes	On a per 1,000 gallon basis	\$ 0.62	\$ 0.62
All Sized	On a pere acre foot basis	\$ 200.00	\$ 200.00
<u>Service Lateral Connection Charge</u>			
Residential		\$ 500.00	0.00
Commercial		Cost	0.00
<u>Service Charges</u>			
Establishment		\$20.00	\$20.00
Establishment (After Hours)		40.00	35.00
Reconnection (Delinquent)		50.00	20.00
Reconnection (After Hours)		65.00	30.00
NSF Check		20.00	20.00
Deferred Payment - per month		1.50%	1.50%
Deposit		*	*
Deposit Interest		3.00%	6.00%
Re-Establishment (Within 12 Months)		**	**
Late Payment		***	1.50%

* Per Commission Rules (R14-2-4-3.B)
 ** Months off system times the minimum (R14-2-403.D)
 *** Greater of \$5.00 or 1.5% of the unpaid balances.