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MEMORANDUM



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TO: Docket Control

FROM: Deborah R. Scott  
Director  
Utilities Division

*Barbara Tasker  
WJ for*

AZ CORP COMMISSION  
DOCUMENT CONTROL

DATE: December 11, 2000

RE: STAFF REPORT FOR FRANCESCA WATER COMPANY, INC.'S APPLICATION FOR A PERMANENT RATE INCREASE (DOCKET NO. W-02838A-00-0684), FOR APPROVAL OF THE SALE OF ASSETS AND TRANSFER OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NOS. W-03945A-00-0788 AND W-02838A-00-0788) AND FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. W-~~02838A-00-0844~~)  
W-02838A-00-0844

Attached is the Staff Report for Francesca Water Company, Inc.'s application for a permanent rate increase, application for a sale of assets and transfer of its Certificate of Convenience and Necessity and application to extend its Certificate of Convenience and Necessity. Staff recommends approval of the rates and charges presented in Schedule 4 of this Report. Staff further recommends approval of sale/transfer of assets and extension of CC&N. Due to consolidation of the CC&N extension and sale/transfer of assets rates and charges, a hearing will be necessary.

DRS:ENZ:lhk

Originator: Elena N. Zestrijan

Attachment: Original and Eleven Copies

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**FRANCESCA WATER COMPANY, INC.**

**DOCKET NOS. W-02838A-00-0684**

**W-03945A-00-0788**

**W-02838A-00-0788**

**W-02838A-00-0844**

**APPLICATION  
FOR A  
PERMANENT RATE INCREASE**

**APPLICATION FOR APPROVAL OF THE SALE OF ASSETS AND TRANSFER OF  
ITS CERTIFICATE OF CONVENIENCE AND NECESSITY**

**APPLICATION FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE  
AND NECESSITY**

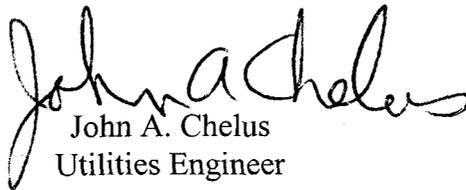
**December 2000**

## STAFF ACKNOWLEDGMENT

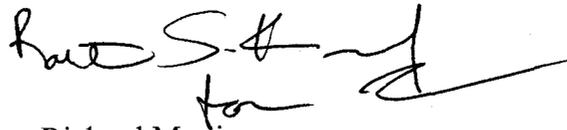
The Francesca Water Company, Inc. (Docket No. W-02838A-00-0684) and other dockets were the responsibility of the Staff members listed below. Elena Zestrijan was responsible for the review and analysis of the Company's application for a permanent rate increase and financing application, Staff's recommended revenue requirement, Rate Base and Rate Design. John Chelus was responsible for the engineering and technical analysis. Richard Martinez was responsible for reviewing the Arizona Corporation Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission. Mark DiNunzio was responsible for the analysis and recommendation regarding Certificate of Convenience and Necessity extension.



Elena Zestrijan  
Rate Analyst I



John A. Chelus  
Utilities Engineer



Richard Martinez  
Consumer Service Specialist



Mark DiNunzio  
Executive Consultant

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**FACTSHEET**

**Company:**

Current Rates: Decision No. 59262, dated August 30, 1995

Type of Ownership: "C" Corporation

Location: Pima County, approximately 18 miles Southwest of Tucson.

**Rates:**

Permanent rate application filed: September 11, 2000.

Current Test Year Ended: December 31, 1999

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Proposed Rates</u>
Monthly Minimum Charge			
5/8 X 3/4 – inch meter	\$18.75	\$28.00	\$16.35
3/4 - inch meter	\$18.75	\$32.00	\$18.50
1 – inch meter	\$18.75	\$38.00	\$21.00
Gallons in Minimum	-2,000 -	- 0 -	- 0 -
Commodity Charge			
Excess of minimum, charge per 1,000 gallons:			
Over 2,000 gallons:	\$2.00	N/A	N/A
0 to 10,000 gallons:	N/A	\$3.00	N/A
0 to 4,000 gallons:	N/A	N/A	\$2.45
10,001 to 20,000 gallons:	N/A	\$4.00	N/A
4001 to 50,000 gallons:	N/A	N/A	\$3.68
Over 20,000 gallons:	N/A	\$6.00	N/A
Over 50,000 gallons:	N/A	N/A	\$4.41
Typical residential bill (Based on median usage 5/8 X 3/4 inch meter of 6,476 gallons)	\$27.70	\$47.43	\$35.25

**Customers:**

Number of customers in the current Test Year (12/31/99): 84.

Current Test Year customers by meter size:

5/8 X 3/4 – inch	83
3/4 – inch	0
1 – inch	1
1 1/2 – inch	0
2 – inch	0
4 – inch	0
6 – inch	0
8 – inch	0

Seasonal customers: N/A

Customer notification mailed: September 1, 2000

Number of customer complaints since rate application filed: 3

Percentage of complaints to customer base: 3.6%

### **Summary of Filing**

Based on Test Year results, as adjusted by Staff, Francesca Water Company, Inc. ("Francesca" or "Company") realized an operating income of \$514 on an Original Cost Rate Base ("OCRB") of \$98,347 for a rate of return of 0.52 percent on Rate Base (Schedule 1).

The Company's proposed rates would produce a revenue level of \$50,039, operating income of \$19,610 for a 27.57 percent rate of return on an OCRB of \$71,116. The Company's proposed rates would increase the typical 5/8-inch meter residential bill with a median usage of 6,476 gallons, from \$27.70 to \$47.43 for an increase of 71.2 percent (Schedule 5).

Staff proposes rates will produce revenue of \$36,334, operating income of \$8,122 on an OCRB of \$98,347 for an 8.26 percent rate of return. Staff's recommended rates would increase the typical residential bill with a median usage of 6,476 gallons, from \$27.70 to \$35.25, an increase of 27.2 percent.

In addition to the rate increase application, Francesca requested a Certificate of Convenience and Necessity ("CC&N") extension and additional rate relief from the Arizona Corporation Commission ("Commission") in order to cover the cost of Water Infrastructure Finance Authority ("WIFA") financing of \$97,000 for the installation of 40,000 and 25,000-gallon tanks as well as other plant improvements. Improvements to the well sites and the addition of storage tanks are necessary to meet the Arizona Department of Environmental Quality ("ADEQ") requirements for public water systems.

Francesca is located in the Three Points Junction area West of Tucson. The Company has two separate water systems with approximately four miles between well sites.

During the Test Year ended December 31, 1999, Francesca provided potable water service to a total of 84 metered customers. Of those 84 customers, 5/8-inch meters served 83 customers and 1-inch meters served one customer. Francesca's business functions are conducted at 11834 South Brandywine Lane, Tucson, Arizona.

### **Background**

Francesca was organized as an Arizona "C" corporation on December 12, 1981, for the purpose of providing potable water service. The Company received its CC&N in Decision No. 59262, dated December 20, 1994. Francesca was administratively dissolved in 1996 by the Commission's Corporations Division for failure to file annual reports and not disclosing a statutory agent. Francesca was reestablished in November 1998 and is currently in good standing with the Corporations Division.

Francesca's current rates were established in Decision No. 59262, dated August 30, 1995.

### **Consumer Services**

A search of Consumer Services records shows that there are no formal complaints. No inquiries were recorded from November 27, 1997 to November 27, 2000. The Commission received three verbal opinions pertaining to this proposed rate increase. Consequently, no public comment meeting has been scheduled.

The Company has filed its 1999 Annual Report.

### **Engineering Analysis and Compliance**

The following are a summary of recommendations contained in the Staff Engineering Report.

The Company is in noncompliance with the rules and regulations of ADEQ for monitoring and reporting. According to ADEQ, the Company failed to monitor and report for radiochemical as well as lead and copper. Therefore, ADEQ reports that the water quality is indeterminable.

To insure compliance with the ADEQ monitoring and reporting requirements, Engineering recommends interim rates and charges to become permanent beginning the month after the Director of the Commission's Utility Division receives documentation from ADEQ confirming that the water provided by the Talaway system meets the requirements of ADEQ with respect to MCL's of the Safe Drinking Water Act and ADEQ. The rates will then be interim and subject to refund pending the filing, by December 31, 2001, for review by the Director of the Commission's Utilities Division, documentation from ADEQ confirming that the water provided by the Amber Ann system meets the requirements of ADEQ with respect to MCL's of the Safe Drinking Water Act and ADEQ.

Arizona Department of Water Resources ("ADWR") does not have any records for Francesca Company. As a condition of approval for their CC&N extension, the Company should be required to comply with all ADWR requirements by December 31, 2001.

The Company is in violation of not having installed back-flow prevention assemblies, failure to install storage tanks, failure to properly fence well site and failure to properly grade well sites, which should be addressed as part of the plant upgrades proposed through their financing application. The plant deficiencies will be corrected by securing the necessary funds through a (WIFA) loan, which is discussed later in this Report.

Staff Engineering recommends that the amount collected each month by the Company for financing be shown as a separate line item on the customers' water bills and that this amount be placed in a separate interest bearing account which can only be used to pay the WIFA loan.

To insure that the Company completes all required improvements to the system, Staff Engineering recommends that Francesca be required to submit, by December 31, 2001, to the Utilities Division Director Certificates of Approval to Construct from ADEQ for all projects listed in the financing section of the Staff Engineering Report that require such approval.

In addition, Engineering recommends that that Francesca be required to submit, by May 1, 2002, to the Utilities Division Director Certificates of Approval of Construction from ADEQ for all projects listed in the financing section of the Staff Engineering Report that require such approval.

Engineering estimates a total cost of \$2,168 per year for the next three years for water testing costs.

### **Compliance**

Francesca is current on its property tax payments. Staff's audit also confirmed the Company is current in its remittance of Transaction Privilege Tax (Sales and Use) payments to the Arizona Department of Revenue during the Test Year.

### **Rate Base**

Staff's adjustments increased the Company's proposed Rate Base of \$71,116 to \$98,347 (Schedule 2, Page 1). Adjustment A increased Plant in Service by \$96,220 to reflect the reconstructed value determined by Staff Engineering. Adjustment B increased the Company's Accumulated Depreciation balance by \$68,338, entirely related to the increase in Plant in Service. Adjustment C reduces cash working capital by the net amount of \$651 to reflect Staff's recommended adjustments to operating expense using the formula method. (See details under Operating Expenses.)

### **Plant and Equipment**

A total of six adjustments were made to Plant in Service, resulting in an increase of \$96,220. These adjustments, which are explained in Schedule 2, Page 2, reflect Staff Engineering's estimation of the Company's historic plant values. Adjustment B reflects reclassification of computer up-grades expenditures that should have been capitalized from operating expense to the appropriate plant account.

### **Accumulated Depreciation**

Staff increased Accumulated Depreciation by \$68,338 as reflected in Schedule 2, Page 3. Staff's balance is predicated on adjustments to Plant in Service in accordance with the Staff Engineering reconstruction values.

### **Operating Revenue**

Staff made no adjustment to the Company's Test Year Operating Revenue of \$28,126 (Schedule 3, Page 1).

### **Operating Expenses**

Staff made 13 adjustments to Operating Expenses resulting in a net decrease of \$2,817.

Adjustment A provides Salaries and Wages Expense of \$5,200 to the owner/operator for personal time performing meter reading, billing, banking, customer service, repairs and other miscellaneous activities. The owner/operator did not claim a salary for the Test Year. The proposed adjustment is based on a time study.

Adjustment B increased Purchase Power Expense by \$108 to reflect the actual consumption billed by the Company's electric service provider.

Adjustment C to Repairs and Maintenance, includes a reclassification of \$45 to Regulatory Commission Expense for Annual Report filing with the Commission and the disallowance of \$650 in unsubstantiated expense for moving/repairing meters and for checks issued to the Company owner/operator.

Adjustment D increases Billing Expense to reflect a \$318 reclassification from Miscellaneous Expense, a Staff disallowance for unsubstantiated expense, and a \$341 capitalization of computer upgrade expenditures.

Adjustment E increases Water Testing Expense by \$828 to reflect the amount recommended by Staff Engineering of \$2,168.

Adjustment F removes \$9,563 from Rent Expense to disallow principal and interest costs pertaining to a loan obtained to acquire the Company, Staff also increased Rent Expense by \$948 to allow for use of a portion of the manager's home for Company office space based on a pro-rata share of the mortgage payment and the use of a tool shed.

Adjustment G reflects a \$385 increase to Transportation Expense to reclassify auto insurance cost erroneously recorded as General Insurance Expense. Staff allowed an additional \$399 to reflect a full year of coverage. Staff also removed a \$840 truck loan payment from Transportation Expense because the Company had already capitalized this cost.

Adjustment H is a reclassification of \$385 for an auto insurance premium from General Liability Expense to Transportation Expense.

Adjustment I reflects Staff's recommendation to allow \$450 for rate case expense amortized over three years.

Adjustment J removes from Miscellaneous Expense \$1,104 of unsubstantiated expenses, reclassifies \$318 of billing costs to Expense to Office Supplies and Expense and \$84 of refunded of consumer deposits erroneously claimed by the Company as an operating expense.

Adjustment K increases Depreciation Expense by \$2,352 to reflect application of a composite depreciation rate of 4.17 percent to Staff proposed depreciable plant.

Adjustment L decreases Property Taxes by \$21 to reflect most recent tax bill.

Adjustment M decreases Income Tax Expense by \$14 to reflect the tax liability on Staff's adjusted Test Year level of revenue and expenses.

Adjustment N removes \$5,394 of interest pertaining to the personal loan of the owner obtained to acquire the Company. This adjustment also includes a \$5,590 increase to recognize interest expense on the proposed WIFA loan and \$200 of interest on a short-term truck loan.

### **Revenue Requirement**

Staff is proposing an increase in revenues of approximately \$8,208 (29 percent) over the Test Year amount of \$28,126 (see schedule 1) resulting in a rate of return of 8.26 percent. The new rates produce a Debt Service Coverage ("DSC") ratio of 1.57. The proposed debt service coverage exceeds WIFA requirements.

The new revenue level will provide a positive cash flow of \$5,571.

### **Rate Design**

As shown on Schedule 4, Staff is recommending an inverted, three-tier rate design. The objective of Staff's proposed rates is to maintain a relationship between rates and cost causation while also achieving a conservation orientation. This objective is achieved by generating a smaller portion of revenue from minimum charges and a larger portion from commodity rates. Also, Staff's proposed minimum charges for the various meter sizes are graduated to correlate with the respective installation and meter costs. Staff's proposed rate design recovers a portion of demand costs via the commodity rates. This type of rate design provides a good correlation between cost causation and customer billings within as well as across customer classes.

### **Other Matters**

The Company is not using the National Association of Regulatory Utility Commissioners ("NARUC") system of accounts by the Commission.

### **WIFA Financing Request**

The Company's rate application includes a request for approval to obtain of financing a \$97,000 loan from the WIFA. As of October 16, 2000, the Company's loan application for financing was listed in the fundable range of WIFA's Project Priority List. Proceeds from the loan are needed to acquire 40,000 and 25,000-gallon storage tanks and to make other improvements required by ADEQ and ADWR to insure compliance.

At the present time, the expected \$97,000 loan has an expected annual percentage rate of 6.00 percent over a period of 20 years. The projected initial Interest Rate Index is 8.34 percent, however, the actual rate ultimately approved by WIFA Board may differ from the projected initial rate. Based on the projected initial Interest Rate Index of 8.34 percent, the monthly principal, interest, and reserve/replacement fund payments equal \$835.

Staff's proposed rates will provide sufficient revenue to cover the debt service and the WIFA required reserve/replacement fund deposits.

### **Staff Recommendations**

Staff recommends approval of the rates and charges (Schedule 4), sale of assets and transfer of CC&N and extension of CC&N.

Staff further recommends that in addition to the collection of its regular rates and charges, Francesca shall collect from its customers their proportionate share of any Privilege, Sales or Use Tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends the Company be directed to establish an interest bearing account and deposit a minimum of \$695.50 monthly, that equates to \$8.28 per billing, per month (based on 84 customers). The purpose of the account is to provide funding to insure timely payment of the WIFA loan obligation. Customer growth will allow the account to accumulate more than the minimum of \$695.50 monthly. Staff recommends the Company be allowed to accelerate repayment of the loan when cash balances permit.

Staff further recommends approval of the \$97,000 long-term debt from WIFA under the terms and conditions set forth by WIFA's Board of Directors at the time of the consummation of the loan.

Staff further recommends the Company, implement and maintain its records in accordance with the NARUC Uniform System of Accounts, establish a general ledger and other appropriate accounting and business records, maintain a separate bank account for utility purposes only, and maintain utility records separate from personal and other non-utility purposes.

Staff further recommends adoption of all recommendations included in the Staff Engineering Report, Exhibit A.

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$26,957	\$26,957	\$48,870	\$35,165
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,169	1,169	1,169	1,169
<b>Total Operating Revenue</b>	<b>\$28,126</b>	<b>\$28,126</b>	<b>\$50,039</b>	<b>\$36,334</b>
Operating Expenses:				
Operation and Maintenance	\$23,737	\$18,603	\$23,737	\$18,603
Depreciation	5,112	7,464	5,112	7,464
Property & Other Taxes	1,516	1,495	1,516	1,495
Income Tax	64	50	64	650
<b>Total Operating Expense</b>	<b>\$30,429</b>	<b>\$27,612</b>	<b>\$30,429</b>	<b>\$28,212</b>
<b>Operating Income/(Loss)</b>	<b>(\$2,303)</b>	<b>\$514</b>	<b>\$19,610</b>	<b>\$8,122</b>
Rate Base O.C.L.D.	\$71,116	\$98,347	\$71,116	\$98,347
Rate of Return - O.C.L.D.	-3.24%	0.52%	27.57%	8.26%
Times Interest Earned Ratio	-0.40	0.10	3.79	1.57
Debt Service Coverage Ratio	0.34	0.79	2.97	1.95
Operating Margin	-8.19%	1.83%	39.19%	22.35%

- NOTES: 1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

**RATE BASE**

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$93,787	\$96,220	A	\$190,007
Less:				
Accum. Depreciation	25,286	68,338	B	93,624
<b>Net Plant</b>	<b>\$68,501</b>	<b>\$27,882</b>		<b>\$96,383</b>
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
<b>Total Advances</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
<b>Total Deductions</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Plus:				
1/24 Power	\$176	\$4	C	\$180
1/8 Operation & Maint.	2,439	(655)	C	1,784
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$2,615</b>	<b>(\$652)</b>		<b>\$1,964</b>
<b>Rate Base</b>	<b>\$71,116</b>	<b>\$27,230</b>		<b>\$98,347</b>

*Explanation of Adjustment:*

- A - See Schedule 2 page 2 of 3
- B - See Schedule 2 page 3 of 3
- C - Based on Staff's adjustments to Operating Expenses

**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$1,015	\$0	\$1,015
302 Franchises	0	0	0
303 Land & Land Rights	10,000	0	10,000
304 Structures & Improvements	0	0	0
307 Wells & Springs	15,000	23,669 A	38,669
311 Pumping Equipment	9,572	3,028 A	12,600
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Star	12,500	(798) A	11,702
331 Transmission & Distribution M	15,000	60,034 A	75,034
333 Services	13,400	10,092 A	23,492
334 Meters & Meter Installations	5,000	854 A	5,854
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipr	0	0	0
340 Office Furniture & Equipment	4,000	341 B	4,341
341 Transportation Equipment	3,800	0	3,800
343 Tools Shop & Garage Equipr	3,000	0	3,000
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	1,500	(1,000)	500
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$93,787</b>	<b>\$96,220</b>	<b>\$190,007</b>

*Explanation of Adjustment:*

- A Per Staff Engineering cost study (RCN and OC)
- B To reclassify computer up-grades \$341 from Office Supplies Expense

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$25,286
Accumulated Depreciation - Per Staff	93,624 A
<b>Total Adjustment</b>	<b><u>\$68,338</u></b>

*Explanation of Adjustment:*

A -	Beginning Balance as of December 31, 1984, per Staff Engineers trended O.C.	\$	3,499
	Plus:		
	Depreceiation Expense 1985	3,541	
	Depreceiation Expense 1986	3,585	
	Depreceiation Expense 1987	3,630	
	Depreceiation Expense 1988	3,673	
	Depreceiation Expense 1989	3,718	
	Depreceiation Expense 1990	3,764	
	Depreceiation Expense 1991	3,812	
	Depreceiation Expense 1992	7,376	
	Depreceiation Expense 1993	7,495	
	Depreceiation Expense 1994	7,614	
	Depreceiation Expense 1995	7,737	
	Depreceiation Expense 1996	7,885	
	Depreceiation Expense 1997	8,598	
	Depreceiation Expense 1998	8,764	
	Depreceiation Expense 1999	<u>8,933</u>	90,125
	Staff Balance as of December 31, 1999	<u>\$</u>	<u>93,624</u>

**STATEMENT OF OPERATING INCOME**

	Company Exhibit	Staff Adjustments		Staff Adjusted
<b>Revenues:</b>				
461 Metered Water Revenue	\$26,957	\$0		\$26,957
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	1,169	0		1,169
<b>Total Operating Revenue</b>	<b>\$28,126</b>	<b>\$0</b>		<b>\$28,126</b>
<b>Operating Expenses:</b>				
601 Salaries and Wages	\$0	\$5,200	A	\$5,200
610 Purchased Water	0	0		0
615 Purchased Power	4,223	108	B	4,331
618 Chemicals	0	0		0
620 Repairs and Maintenance	1,605	(695)	C	910
621 Office Supplies & Expense	2,254	(163)	D	2,091
630 Outside Services	0	0		0
635 Water Testing	1,340	828	E	2,168
641 Rents	9,563	(8,615)	F	948
650 Transportation Expenses	1,597	(56)	G	1,541
657 Insurance - General Liability	385	(385)	H	0
659 Insurance - Health and Life	0	0		0
666 Regulatory Commission Expense - Rate Case	0	150	I	150
675 Miscellaneous Expense	2,770	(1,506)	J	1,264
403 Depreciation Expense	5,112	2,352	K	7,464
408 Taxes Other Than Income	0	0		0
408.11 Property Taxes	1,516	(21)	L	1,495
409 Income Tax	64	(14)	M	50
<b>Total Operating Expenses</b>	<b>\$30,429</b>	<b>(\$2,817)</b>		<b>\$27,612</b>

<b>OPERATING INCOME/(LOSS)</b>	<b>(\$2,303)</b>	<b>\$2,817</b>	<b>\$514</b>
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<b>Other Income/(Expense):</b>			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	5,394	396	5,790
426 Miscellaneous Non-Utility Expense	0	0	0
<b>Total Other Income/(Expense)</b>	<b>(\$5,394)</b>	<b>\$396</b>	<b>(\$5,790)</b>

<b>NET INCOME/(LOSS)</b>	<b>(\$7,697)</b>	<b>(\$2,421)</b>	<b>(\$5,276)</b>
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**STAFF ADJUSTMENTS**

A	- SALARIES AND WAGES - Per Company	\$0	
	Per Staff	5,200	<u>\$5,200</u>

Staff allocated \$100 per week to account for manager's time.

B	- PURCHASED POWER - Per Company	\$4,223	
	Per Staff	4,331	<u>\$108</u>

To adjust to actual consumption as billed by TRICO.

C	- REPAIRS AND MAINTENANCE - Per Company	\$1,605	
	Per Staff	910	<u>(\$695)</u>

To reclassify to Regulatory Commission Expense.	(45)	
To disallow for moving/repairing meters, checks made out to manager for time compensated.	(650)	
	<u>(695)</u>	

D	- OFFICE SUPPLIES & EXPENSE - Per Company	\$2,254	
	Per Staff	2,091	<u>(\$163)</u>

To reclassify Billing Expense from Misc. Expense.	318	
To disallow unsubstantiated expense reported by Company.	(140)	
To reclassify to capital expenditure - computer up-grades.	(341)	
	<u>(163)</u>	

E	- WATER TESTING - Per Company	\$1,340	
	Per Staff	2,168	<u>\$828</u>

To adjust to Engineering Staff recommended expense level of \$2168

F	- RENTS - Per Company	\$9,563	
	Per Staff	948	<u>(\$8,615)</u>

To disallow loan payment of principal and interest for the purchase of Francesca Water Co. Inc.	(9,563)	
To allow for the use of Company office space.	948	
	<u>(8,615)</u>	

**STAFF ADJUSTMENTS (Cont)**

G	- TRANSPORTATION EXPENSE - Per Company	\$1,597	
	Per Staff	1,541	(\$56)
	To reclassify from General Insurance (6 months).	385	
	To adjust auto insurance premium (6 months).	399	
	To disallow truck loan payment, already capitalized.	(840)	
		(56)	
H	- INSURANCE - GENERAL LIABILITY - Per Company	\$385	
	Per Staff	0	(\$385)
	To reclassify (\$385) to Transportation Expense.		
I	- REGULATORY COMMISSION EXPENSE - RATE CASE		
	- Per Company	\$0	
	Per Staff	150	\$150
	To reclassify from Repairs and Maintenance Expense	45	
	To allow additional Rate Case Expense.	405	
	Total of \$450 is amortized over three years.	450	
J	- MISCELLANEOUS EXPENSE - Per Company	\$2,770	
	Per Staff	1,264	(\$1,506)
	To disallow unsubstantiated expense reported by Company.	(1,104)	
	To reclassify to Office Supplies and Expense.	(318)	
	To disallow refund of consumer deposits.	(84)	
		(1,506)	

**STAFF ADJUSTMENTS (Cont)**

K - DEPRECIATION - Per Company	\$5,112	
Per Staff	<u>7,464</u>	<u>\$2,352</u>

*Explanation of Adjustment:*

**Pro Forma Annual Depreciation Expense:**

Plant in Service	\$190,007
Less: Non Depreciable Plant	11,015
Depreciable Plant	\$178,992
Times: Staff Proposed Depreciation Rate	<u>4.17%</u>
Credit to Accumulated Depreciation	\$7,464
Less: Amort. of CIAC* @ 4.17%	<u>0</u>
<b>Pro Forma Annual Depreciation Expense</b>	<b><u>\$7,464</u></b>

L - PROPERTY TAXES - Per Company	\$1,516	
Per Staff	<u>1,495</u>	<u>(\$21)</u>

To adjust to the most recent paid tax bill received by the Company.

M - INCOME TAX - Per Company	\$64	
Per Staff	<u>50</u>	<u>(\$14)</u>

To adjust to Staff's adjustments to Operating Income and Expenses.

**STAFF ADJUSTMENTS (Cont)**

N INTEREST EXPENSE - Per Company	\$5,394	
Per Staff	<u>5,790</u>	<u>\$396</u>
To disallow Interest Expense on the original loan for the purchase of Francesca Water Co. Inc.	(5,394)	
To pro forma interest for proposed WIFA loan.	5,590	
To reclassify interest on truck loan, from Transp. Exp.	<u>200</u>	
	<u>396</u>	

**RATE DESIGN**

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$18.75	\$28.00	\$16.35
3/4" Meter	18.75	32.00	18.50
1" Meter	18.75	38.00	21.00
1½" Meter	0.00	0.00	29.00
2" Meter	0.00	0.00	50.00
3" Meter	0.00	0.00	70.00
4" Meter	0.00	0.00	109.00
6" Meter	0.00	0.00	199.00
Gallons Included in Minimum	2,000	0	0
Over 2,000 Gallons	2.00	N/A	
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	3.00	N/A
Excess of Minimum - per 1,000 Gallons (0-4,000 Gallons)	N/A	N/A	2.45
Excess of Minimum - per 1,000 Gallons (10,001-20,000 Gallons)	N/A	4.00	N/A
Excess of Minimum - per 1,000 Gallons (4,001-50,000 Gallons)	N/A	N/A	3.68
Excess of Minimum - per 1,000 Gallons (Over 20,000 Gallons)	N/A	6.00	N/A
Excess of Minimum - per 1,000 Gallons (Over 50,000 Gallons)	N/A	N/A	4.41
<u>Service Line and Meter Installation Charges</u>			
5/8" x 3/4" Meter	\$250.00	\$1,375.00	\$455.00
3/4" Meter	250.00	1,425.00	515.00
1" Meter	250.00	1,495.00	590.00
1½" Meter	0.00	0.00	820.00
2" Meter	0.00	0.00	1,380.00
3" Meter	0.00	0.00	1,935.00
4" Meter	0.00	0.00	3,030.00
6" Meter	0.00	0.00	5,535.00
<u>Service Charges</u>			
Establishment	\$25.00	\$50.00	\$35.00
Establishment (After Hours)	40.00	65.00	50.00
Reconnection (Delinquent)	15.00	25.00	25.00
Meter Test (If Correct)	50.00	75.00	50.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	13.00	25.00	15.00
Deferred Payment	0.00%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	15.00	15.00

\* Per Commission Rules (R14-2-403.B)  
\*\* Months off system times the minimum (R14-2-403.D)  
\*\*\* 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month.

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

Average Number of Customers: 72

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	7,899	\$30.55	\$51.70	\$21.15	69.2%
Median Usage	6,476	\$27.70	\$47.43	\$19.73	71.2%
<u>Staff Proposed</u>					
Average Usage	7,899	\$30.55	\$40.48	\$9.93	32.5%
Median Usage	6,476	\$27.70	\$35.25	\$7.55	27.2%

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

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$18.75	\$28.00	49.3%	\$16.35	-12.8%
1,000	18.75	31.00	65.3%	18.80	0.3%
2,000	18.75	34.00	81.3%	21.25	13.3%
3,000	20.75	37.00	78.3%	23.70	14.2%
4,000	22.75	40.00	75.8%	26.15	14.9%
5,000	24.75	43.00	73.7%	29.83	20.5%
6,000	26.75	46.00	72.0%	33.50	25.2%
7,000	28.75	49.00	70.4%	37.18	29.3%
8,000	30.75	52.00	69.1%	40.85	32.8%
9,000	32.75	55.00	67.9%	44.53	36.0%
10,000	34.75	58.00	66.9%	48.20	38.7%
15,000	44.75	78.00	74.3%	66.58	48.8%
20,000	54.75	98.00	79.0%	84.95	55.2%
25,000	64.75	128.00	97.7%	103.33	59.6%
50,000	114.75	278.00	142.3%	195.20	70.1%
75,000	164.75	428.00	159.8%	305.45	85.4%
100,000	214.75	578.00	169.2%	415.70	93.6%
125,000	264.75	728.00	175.0%	525.95	98.7%
150,000	314.75	878.00	179.0%	636.20	102.1%
175,000	364.75	1,028.00	181.8%	746.45	104.6%
200,000	414.75	1,178.00	184.0%	856.70	106.6%

**WIFA LOAN FINANCIAL ANALYSIS**

Test Year Income Statement, Capital Structure and Pro Forma Based on Audit  
Including Immediate Effects of the Proposed Debt

**INCOME STATEMENT**

	<u>December 31, 1999</u>	<u>Pro Forma</u>
Operating Revenue:	<b>\$28,126</b>	<b>\$36,334</b>
Operating Expenses:		
Purchased Water/Pumping Power	\$4,223	\$4,331
Admin. & General	14,972	9,653
Maintenance & Testing	4,542	4,619
Depreciation (d)	5,112	7,464
Property Taxes	1,516	1,495
Income Taxes (b)	50	650
Total Operating Expense	<u>\$30,415</u>	<u>\$28,212</u>
Operating Income (a)	<b>(\$2,289)</b>	<b>\$8,122</b>
Interest Income	\$0	\$0
Interest Expense (c) *	<u>5,590</u>	<u>5,590</u>
Net Income	<u><b>(\$7,879)</b></u>	<u><b>\$2,532</b></u>
Principal Repayment (e)		2,756
Reserve/Replacement Deposit		1,669
<b>TIER (Interest Coverage)</b>		
[(a) + (b)] ÷ (c)	<b>-0.40</b>	<b>1.57</b>
<b>DSC</b>		
[(a) + (b) + (d)] ÷ [(e) + (c)]	<b>0.34</b>	<b>1.95</b>

**CAPITAL STRUCTURE**

Long-term Debt	\$51,536	46.1%	\$97,000	49.7%
Common Equity	\$60,242	53.9%	\$98,133	50.3%
Total Capital	\$111,778	100.0%	\$195,133	100.0%

\* Excludes Short Term Interest Expense of \$200.

**TERMS OF PROPOSED WIFA LOAN**

**Terms and Conditions**

Loan Amount	<b>\$97,000.00</b>
Term (No. of Years)	<b>20</b>
Combined Interest & Fee Rate	
Interest Rate Index	8.34%
Subsidy Rate Index	70.00%
Combined Interest & Fee Rate	<u>5.84%</u>
Coverage Requirement	<b>20.00%</b>
Debt Service Reserve Requirement	<b>\$8,346.02</b>
Number of Years Debt Service Reserve Funded	<b>5</b>

**Monthly Fixed payment to WIFA**

*Prior to Debt Service Reserve Requirement*

Monthly Fixed Payments to WIFA	\$695.50
Monthly Debt Service Reserve Deposit	<u>\$139.10</u>
Total Monthly Fixed Payment	<b>\$834.60</b>

*After Debt Service Reserve Requirement*

Monthly Fixed Payments to WIFA	\$695.50
Monthly Debt Service Reserve Deposit	<u>0.00</u>
Total Monthly Fixed Payment	<b>\$695.50</b>

**Annual Replacement Fund Deposit - Held Locally**

Prior to Debt Service Reserve Requirement	<b>\$0.00</b>
After Debt Service Reserve Requirement	<b>\$139.10</b>

**Annual Fiscal Impact**

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$8,346.02	\$1,669.20	\$0.00	\$10,015.23
2	8,346.02	1,669.20	0.00	10,015.23
3	8,346.02	1,669.20	0.00	10,015.23
4	8,346.02	1,669.20	0.00	10,015.23
5	8,346.02	1,669.20	0.00	10,015.23
6	8,346.02	0.00	1,669.20	10,015.23
7	8,346.02	0.00	1,669.20	10,015.23
8	8,346.02	0.00	1,669.20	10,015.23
9	8,346.02	0.00	1,669.20	10,015.23
10	8,346.02	0.00	1,669.20	10,015.23
11	8,346.02	0.00	1,669.20	10,015.23
12	8,346.02	0.00	1,669.20	10,015.23
13	8,346.02	0.00	1,669.20	10,015.23
14	8,346.02	0.00	1,669.20	10,015.23
15	8,346.02	0.00	1,669.20	10,015.23
16	8,346.02	0.00	1,669.20	10,015.23
17	8,346.02	0.00	1,669.20	10,015.23
18	8,346.02	0.00	1,669.20	10,015.23
19	8,346.02	0.00	1,669.20	10,015.23
20	8,346.02	0.00	1,669.20	10,015.23
21	0.00	0.00	0.00	0.00
22	0.00	0.00	0.00	0.00
23	0.00	0.00	0.00	0.00
24	0.00	0.00	0.00	0.00
25	0.00	0.00	0.00	0.00
26	0.00	0.00	0.00	0.00
27	0.00	0.00	0.00	0.00
28	0.00	0.00	0.00	0.00
29	0.00	0.00	0.00	0.00
30	0.00	0.00	0.00	0.00
	<b>\$166,920.47</b>	<b>\$8,346.02</b>	<b>\$25,038.07</b>	<b>\$200,304.56</b>

# ENGINEERING REPORT

## EXHIBIT A

**FOR**  
**FRANCESCA WATER COMPANY INC.**  
**DOCKET NO. W-02838A-00-0684**  
**DOCKET NO. W-02838A-00-0844**

### **A. PURPOSE OF REPORT**

This report was prepared in response to a rate, Certificate of Convenience and Necessity (CC&N) extension and financing application filed by Francesca Water Company Inc. (Company). John A. Chelus, Utilities Engineer, inspected the water system on October 17, 2000. Elena Zestrijan and Alexander Igwe from the Accounting and Rates Section and Richard Martinez from Consumer Services accompanied him. David Thomson, owner, represented the Company.

### **B. LOCATION OF WATER SYSTEM**

The Company is located in the Three Points Junction area West of Tucson and is approximately 2 miles south of Highway 86. There are two systems located approximately four miles from each other. The Talaway well site is located at the intersection of Sierrita Mountain Road and Cherokee Road. The Amber Ann well site is located at the intersection of Amber Ann and Scotland Road. Figures 1 & 2 show the location of the Company in relation to other regulated companies in Pima County.

### **C. DESCRIPTION OF WATER SYSTEM**

The Talaway system serves approximately 49 customers and is designated as Public Water System (PWS) No. 10-283. It consists of a well, pressure tank and distribution system. The Amber Ann system serves approximately 37 customers and has no PWS number at this time. It consists of a well, pressure tank and distribution system. The following tables provide more detail about the plant. The Company is in the process of registering the Amber Ann system with the Arizona Department of Environmental Quality.

**Well Data**

	<b>Talaway Well Site Data</b>	<b>Amber Ann Well Site Data</b>
<b>ADWR ID No.</b>	55-508617	55-535748
<b>Location Number</b>	D(16-10)1dca	D(16-10)13dcb
<b>Casing Size</b>	8 inch	10inch -8 inch
<b>Casing Depth</b>	550 ft.	805 ft.
<b>Meter Size</b>	None	none
<b>Pump Size</b>	10 hp	10 hp
<b>Pump Yield</b>	24-55 gpm	35 gpm
<b>Date Drilled</b>	December 12, 1984	August 5, 1992
<b>Storage Tank</b>	17,000 gallon (not in service)	none
<b>Pressure Tank</b>	1-3,000 gallons	1-2,500 gallons
<b>Booster Pumps</b>	None	none

**Plant Description (continued)**

**Talaway System Mains**

<b>Size</b>	<b>Material</b>	<b>Length (feet)</b>
2 "	PVC	1,192
3 "	PVC	329
4 "	PVC	4,896
6 "	PVC	2,687

**Amber Ann System Mains**

<b>Size</b>	<b>Material</b>	<b>Length (feet)</b>
2 "	PVC	1,875
4 "	PVC	1,900
6 "	PVC	1,800

**Meters**

	<b>Talaway System</b>	<b>Amber Ann System</b>
<b>Size</b>	<b>Quantity</b>	<b>Quantity</b>
5/8 X 3/4"	58	36
1 "		1

**Other**

1981 GMC Pickup
Hand Tools

**D. GROWTH**

The Company presently has 86 customers. There are 49 customers on its Talaway system with a build-out potential of 75 customers. The Amber Ann system has 37 customers with a built-out potential of 50 customers. This is a very rural area with large acreage lots. The Company has not experienced any significant growth and does not expect to add more than one or two customers per year.

**E. ARIZONA DEPARTMENT OF WATER RESOURCES (ADWR) COMPLIANCE**

The Company is located within the Tucson AMA. ADWR does not have any records for Francesca Company. As a condition of approval for their CC&N extension, the Company should be required to comply with all ADWR requirements by December 31, 2001.

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

The Company is in noncompliance with the rules and regulations of ADEQ for monitoring and reporting. According to ADEQ, the Company failed to monitor and report for radiochemical as well as lead and copper. Therefore, ADEQ reports that the water quality is indeterminable.

The Company has provided Staff with copies of the test results for both radiochemical and lead and copper showing that the tests have been completed for the Talaway system. This issue may not be resolved, however, until the Amber Ann system has been given a system I.D. number and requirements are established by ADEQ.

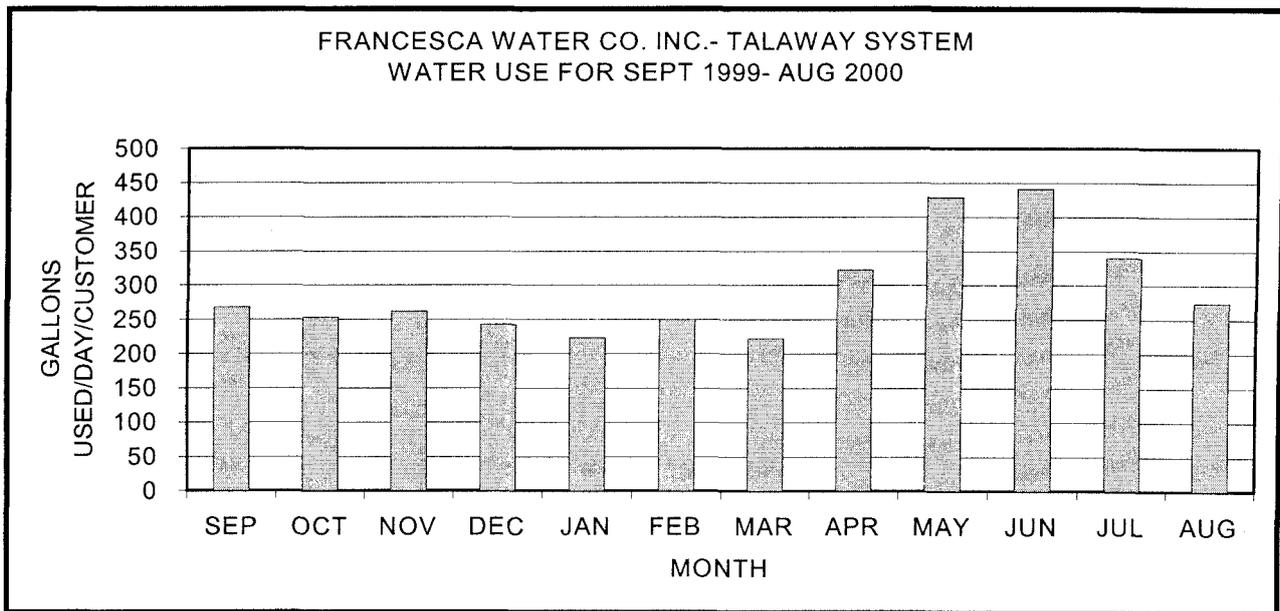
To insure compliance with the ADEQ monitoring and reporting requirements, Engineering recommends that interim rates and charges shall become effective beginning the month after the Director of the Commission's Utility Division receives documentation from ADEQ confirming that the water provided by the Talaway system meets the requirements of ADEQ with respect to MCL's of the Safe Drinking Water Act and ADEQ. The rates will then be interim and subject to refund pending the filing, by December 31, 2001 for review by the Director of the Commission's Utility Division, documentation from ADEQ confirming that the water provided by the Amber Ann system meets the requirements of ADEQ with respect to MCL's of the Safe Drinking Water Act and ADEQ.

The Company is also in violation for having a number of plant deficiencies, which should be addressed as part of the plant upgrades proposed through the financing application. The items listed in a Notice of Violation from ADEQ, dated December 22, 1999, include failure to install required backflow prevention assemblies, failure to install a storage tank, failure to properly fence well site and failure to properly grade well site. The plant deficiencies will be corrected by securing the necessary funds through a Water Infrastructure Financing Authority WIFA loan which is discussed later in this report.

**G. WATER USAGE**

**Talaway System**

The following graph and table depicts water usage for the Talaway System from September 1999 through August 2000. The largest water usage occurred in June, 2000 when 662,000 gallons were sold to 50 customers. This equates to 441 gallons per customer per day. The smallest water usage occurred in March, 2000 when 338,000 gallons were sold to 49 customers. This equates to 223 gallons per customer per day.

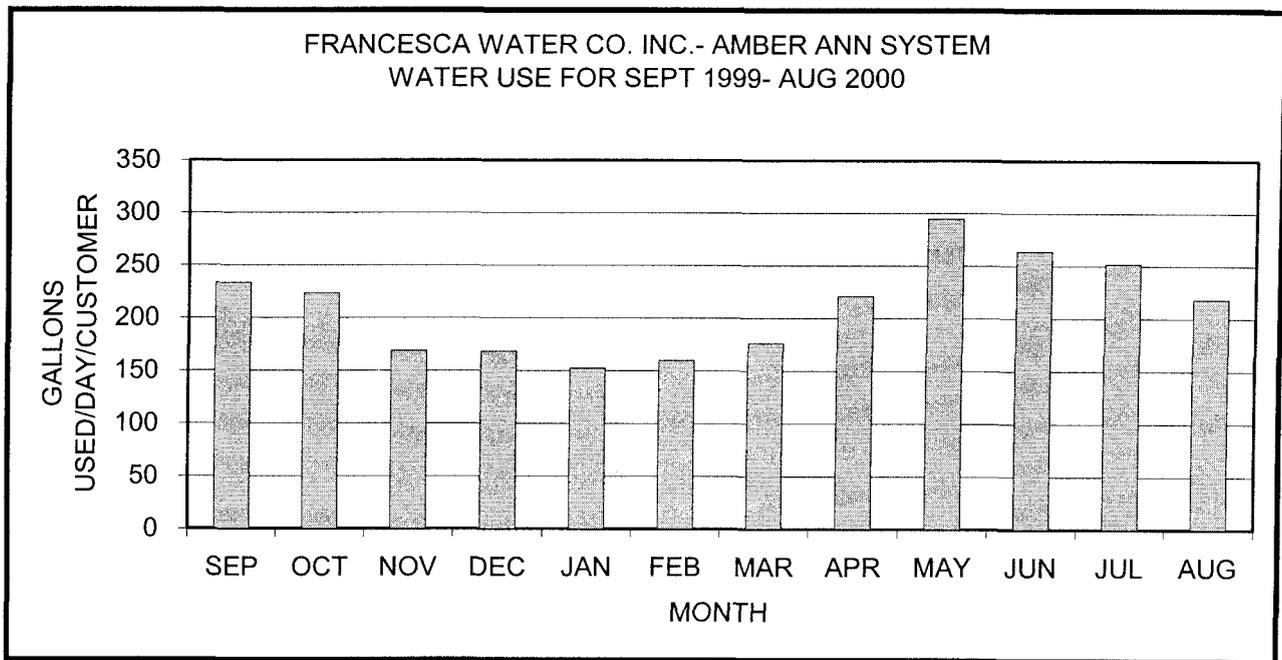


	Gallons Sold Per Month	Number of Connections	Gallons Used Per Connection Per Day	Days in Month
SEPTEMBER	394,000	49	268	30
OCTOBER	385,000	49	253	31
NOVEMBER	369,000	47	262	30
DECEMBER	361,000	48	243	31
JANUARY	339,000	49	223	31
FEBRUARY	343,000	49	250	28
MARCH	<b>338,000</b>	49	<b>223</b>	31
APRIL	474,000	49	322	30
MAY	652,000	49	429	31
JUNE	<b>662,000</b>	50	<b>441</b>	30
JULY	538,000	51	340	31
AUGUST	416,000	49	274	31
Total	5,271,000			
Max	662,000	51	441	
Min	338,000	47	223	

Avg	439,250	49	294	
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**Amber Ann System**

The following graph and table depicts water usage for the Amber Ann System from September 1999 through August 2000. The largest water usage occurred in May, 2000 when 320,000 gallons were sold to 35 customers. This equates to 295 gallons per customer per day. The smallest water usage occurred in March, 2000 when 143,000 gallons were sold to 32 customers. This equates to 160 gallons per customer per day.



	Gallons Sold Per Month	Number of Connections	Gallons Used Per Connection Per Day	Days in Month
SEPTEMBER	189,000	27	233	30
OCTOBER	187,000	27	223	31
NOVEMBER	157,000	31	169	30
DECEMBER	167,000	32	168	31
JANUARY	151,000	32	152	31
FEBRUARY	<b>143,000</b>	32	<b>160</b>	28
MARCH	180,000	33	176	31
APRIL	219,000	33	221	30
MAY	<b>320,000</b>	35	<b>295</b>	31
JUNE	301,000	38	264	30
JULY	289,000	37	252	31
AUGUST	237,000	35	218	31
Total	2,540,000			
Max	320,000	38	295	
Min	143,000	27	152	
Avg	211,667	33	211	

**H. OTHER**

**Request for Financing**

As described earlier in this report, the Company is in need of upgrading their two water systems. The Water Infrastructure Financing Authority (WIFA) has given preliminary approval for financing up to \$97,000. Southwest Utilities Management Inc., was retained by the Company to provide a detailed breakdown of the anticipated costs to upgrade both systems. The following tables show the cost break down provided by the Company. The total of the construction is estimated to be \$85,300. The remainder of the financing approval in the amount of \$11,700 will cover any other contingencies. Engineering considers the costs reasonable and recommends approval of the financing.

Engineering recommends that the amount collected each month by the Company for financing be shown as a separate line item on the customers' water bills and that this amount be placed in a separate interest bearing account which can only be used to pay the WIFA loan.

To insure that the Company completes all required improvements to the system, Engineering recommends that the Francesca Water Company be required to submit to the Utilities Division Director Certificates of Approval to Construct from the Arizona Department of Environmental Quality for all projects listed in the financing section of the Staff Engineering Report that requires such approval by December 31, 2001.

In addition, Engineering recommends that that the Francesca Water Company be required to submit to the Utilities Division Director Certificates of Approval of Construction from the Arizona Department of Environmental Quality for all projects listed in the financing section of the Staff Engineering Report that require such approval by May 1, 2002.

**Talaway System**

ITEM	COST
Fencing and Signage	\$2,200
Relocation of existing power lines	600
Site preparation and gravel	400
Storage Tank (40,000 gallons)	29,000
Booster Pumps	1,900
Upgrade Electric Service and Disconnect	1,300
Piping, Valves, & Air Charger (or Compressor)	2,300
Electric Controls, Sensors & Support Panel	2,100
Pressure Tank Additions – Pressure Relief Valve, Air Relief Valve, Paint	700
Miscellaneous Testing & Disinfection	500
Well Water Meter & Installation	500
Engineering and Certification	4,500
<b>Total</b>	<b>\$46,000.00</b>

**Amber Ann System**

ITEM	COST
Concrete Pad for Well Head & Boosters, Well Casing Vent & Signage	\$600
Well meter and installation	500
Water Quality Testing	3,200
Site Preparation and Gravel	400
Storage Tank (25,000 gallons)	23,000
Booster Pumps	1,400
Electric Controls, Sensors and Support Panels	2,100
Piping, Valves, Air Charger ( or Compressor)	2,200
Pressure Tank Additions- Air Relief & Pressure Relief Valves, Sight Gauge, Paint	900
Miscellaneous Testing & Disinfection	500
Engineering & Certification	4,500
<b>Total</b>	<b>\$39,300.00</b>

Water Testing Costs

The Monitoring and Assistance Program (MAP) is operated by ADEQ for all systems serving less than 10,000 people. Annual fees are assessed based on the number and size of connections. ADEQ performs all water testing for the system, except for the tests listed below. These tests are still the direct responsibility of the Company. Engineering estimates a total cost of \$2,168 per year for the next three years for water testing costs.

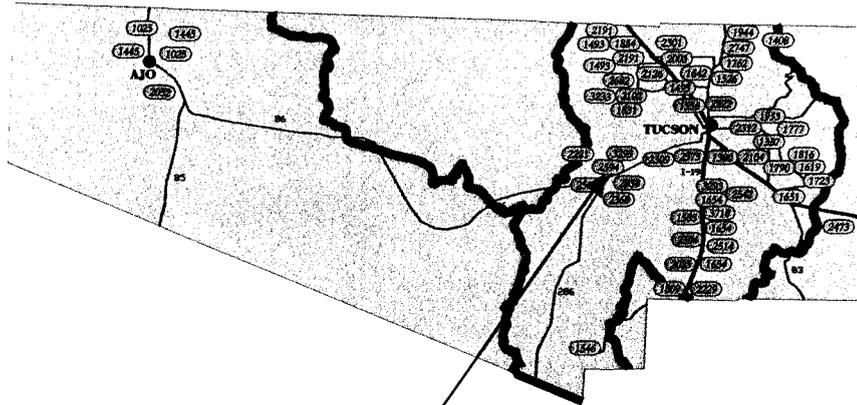
**Talaway System**

MONITORING	COST (\$) PER TEST	TOTAL 3 YEAR COST (\$)	COST (\$) PER YEAR
<b>Bacteriological</b>	15	1080	360
<b>Primary &amp; Secondary Inorg.</b>	239	239	80
<b>Radiochemical</b>			
<b>Gross Alpha 4 (YR)</b>	55	41	14
<b>Radium 226 &amp; Radium 228</b>	170		
<b>Nitrate – Annual</b>	20	60	20
<b>Nitrite – Once/Cycle</b>	15	45	15
<b>Asbestos – One (9 YR.)</b>	180	60	20
<b>Trihalomethane</b>	100	300	100
<b>Lead &amp; Copper</b>	25	375	125
<b>Monitoring Assistance Program</b>	350	1,050	350
<b>TOTALS</b>		<b>\$3,250</b>	<b>\$1,084</b>

**Amber Ann System**

<b>MONITORING</b>	<b>COST (\$) PER TEST</b>	<b>TOTAL 3 YEAR COST (\$)</b>	<b>COST (\$) PER YEAR</b>
<b>Bacteriological</b>	15	1080	360
<b>Primary &amp; Secondary Inorg.</b>	239	239	80
<b>Radiochemical</b>			
<b>Gross Alpha 4 (YR)</b>	55	41	14
<b>Radium 226 &amp; Radium 228</b>	170		
<b>Nitrate – Annual</b>	20	60	20
<b>Nitrite – Once/Cycle</b>	15	45	15
<b>Asbestos – One (9 YR.)</b>	180	60	20
<b>Trihalomethane</b>	100	300	100
<b>Lead &amp; Copper</b>	25	375	125
<b>Monitoring Assistance Program</b>	350	1,050	350
<b>TOTALS</b>		<b>\$3,250</b>	<b>\$1,084</b>

# PIMA COUNTY



- |      |  |      |   |
|------|--|------|---|
| 1023 | AJO IMPROVEMENT COMPANY                    | 2378 | MIDVALE FARMS WATER COMPANY                   |
| 1445 | ANDERSON WATER COMPANY, INC.               | 2346 | MIRABELL WATER COMPANY, INC.                  |
| 1446 | ANWAY MANVILLE L.L.C. WATER COMPANY        | 1806 | MT. LEMMON COOPERATIVE WATER COMPANY, INC.    |
| 1444 | ARIVACA TOWNSITE COOPERATIVE WATER COMPANY | 1761 | PROCTER, J.M.                                 |
| 1448 | ARIZONA WATER COMPANY (AJO HEIGHTS)        | 2514 | QUAIL CREEK WATER COMPANY, INC.               |
| 2124 | AVRA WATER COOPERATIVE, INC.               | 2105 | RANCHO DEL CONEJO WATER COMMUNITY COOPERATIVE |
| 2394 | COMMUNITY WATER COMPANY OF GREEN VALLEY    | 2718 | RANCHO SAHUARITA WATER COMPANY                |
| 1643 | DESPOBLADO WATER COMPANY                   | 1300 | RAY WATER COMPANY                             |
| 2300 | DIABLO VILLAGE WATER COMPANY               | 2003 | RILLITO WATER USERS                           |
| 1658 | FARMERS WATER COMPANY                      | 1019 | RINCON CREEK WATER COMPANY                    |
| 3777 | FORTY-NINER WATER COMPANY                  | 1307 | RINCON RANCH ESTATES WATER COMPANY, INC.      |
| 2430 | FRANCESCA WATER COMPANY, INC.              | 1723 | RINCON WATER COMPANY                          |
| 2023 | GREEN VALLEY WATER COMPANY                 | 1796 | SAGUARO WATER COMPANY                         |
| 2313 | HALCYON ACRES ANNEX #2 WATER COMPANY, INC. | 1831 | SANDARIO WATER COMPANY                        |
| 1953 | HALCYON ACRES WATER USERS ASSOCIATION      | 2012 | SLEEPY HOLLOW MOBILE HOME ESTATES             |
| 2191 | I.M. WATER COMPANY, INC.                   | 1616 | SPANISH TRAIL WATER COMPANY                   |
| 1642 | LA CASITA WATER COMPANY, INC.              | 3293 | THIM UTILITY COMPANY                          |
| 1844 | LAGO DEL ORO WATER COMPANY                 | 2594 | THIM WATER CORPORATION                        |
| 1009 | LAKEWOOD WATER COMPANY                     | 2681 | TIERRA LINDA HOMEOWNERS ASSOCIATION, INC.     |
| 1553 | LAS QUINTAS SERENAS WATER COMPANY          | 1301 | TORTOLITA WATER COMPANY, INC.                 |
| 1534 | LAZY C WATER SERVICE                       | 1651 | VAIL WATER COMPANY                            |
| 2747 | LOS CERROS WATER COMPANY, INC.             | 2229 | VIVA DEVELOPMENT CORPORATION                  |
| 1854 | LYN-LEE WATER COMPANY                      | 2104 | VOYAGER WATER COMPANY                         |
| 1493 | MARANA WATER SERVICE, INC.                 | 2052 | WHY UTILITY COMPANY                           |
| 1526 | MESALAND WATER COMPANY, INC.               | 2221 | WORDEN WATER COMPANY                          |

Figure 1

# COUNTY: Pima

## RANGE 10 East

## TOWNSHIP 16 South

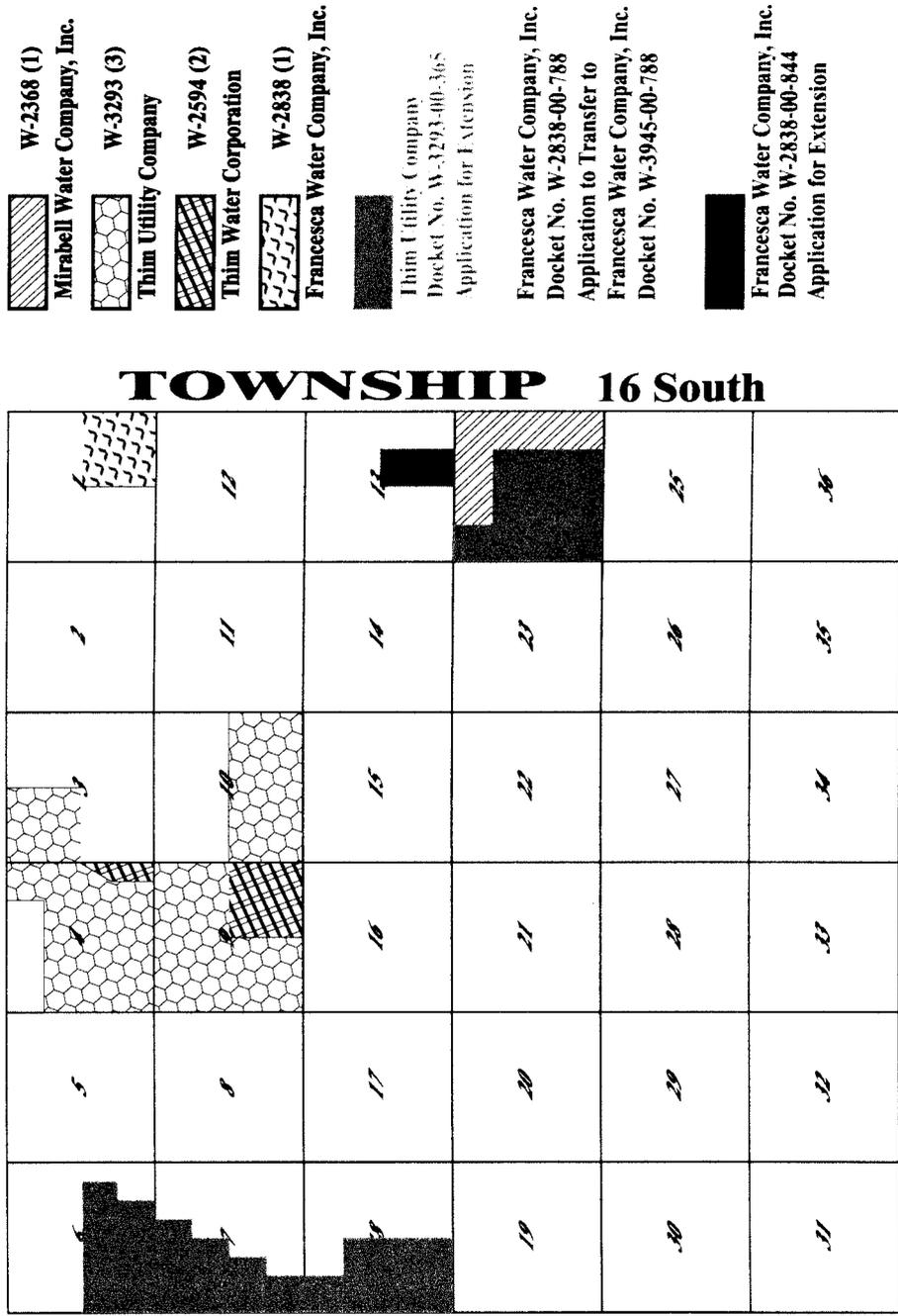


Figure 2

## EXECUTIVE CONSULTANT

### EXHIBIT B

IN THE MATTER OF THE APPLICATION OF  
FRANCESCA WATER COMPANY, INC.  
FOR APPROVAL OF THE SALE OF ASSETS AND  
TRANSFER OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY  
DOCKET NOS. W-03945A-00-0788 AND W-02838A-00-0788

IN THE MATTER OF THE APPLICATION OF  
FRANCESCA WATER COMPANY, INC.  
FOR AN EXTENSION OF ITS  
CERTIFICATE OF CONVENIENCE AND NECESSITY  
DOCKET NO. W-02838A-00-0844

#### Introduction:

On October 5, 2000, Francesca Water Company ("FWC") filed an application for a sale of assets and transfer of its Certificate of Convenience and Necessity ("Certificate" or "CC&N") to Francesca Water Company, Inc. ("FWCI" or "Company"). On October 24, 2000, FWCI filed an application to extend its Certificate of Convenience and Necessity. Both applications were consolidated in FWCI's application for a rate increase.

#### Staff Analysis:

In the transfer application, FWC is selling all assets and transferring its Certificate to FWCI. FWC was administratively dissolved in 1996 by the Arizona Corporation Commission's Corporations Division for failure to file its annual reports and not disclosing a statutory agent. FWCI was created in November 1998 and is currently in good standing with the Corporations Division. There are no refunds due on main extension agreements and no refunds due on meter and service line installations. There are customer deposits to be refunded and these will be assumed by FWCI. Since this transfer is merely a correction of the formation of FWCI, Staff recommends approval of the application of Francesca Water Company for the sale of assets and transfer of the Certificate of Convenience and Necessity to Francesca Water Company, Inc.

In the extension application, FWCI is requesting to extend its water service to approximately 80 acres to approximately 35 customers West of Tucson in Pima County. The Company currently provides water service to approximately one-quarter (1/4) of a section of land. The current water system (Talaway system) has been providing water service to customers for the past seven years without a CC&N.

The Company is located in the Three Points Junction area West of Tucson and is approximately two miles south of Highway 86. There are two systems located approximately

four miles from each other. The Talaway well site is located at the intersection of Sierrita Mountain Road and Cherokee Road. The Amber Ann well site is located at the intersection of Amber Ann and Scotland Road. The Talaway system consists of a well, pressure tank and distribution system. The build-out potential for the Talaway system is 75 customers. Since the area is mostly rural in nature with large lot sizes, FWCI has not experienced any significant growth and does not expect to add more than one or two customers per year.

The Arizona Department of Environmental Quality ("ADEQ") states that the Company is in noncompliance with its rules and regulations for monitoring and reporting. According to ADEQ, the Company failed to monitor and report for radiochemical as well as lead and copper. Therefore, ADEQ reports that the water quality is indeterminable.

The Company has provided Staff with copies of the test results for both radiochemical and lead and copper showing that the tests have been completed for the Talaway system.

Staff recommends that approval should be granted only after the Company submits a letter from ADEQ, within 30 days from effective date of the Commission's decision, stating that the deficiencies described herein have been resolved and that the water system has no maximum contaminant level violations and is delivering water that meets the quality standards of the Safe Drinking Water Act.

The Company is also in violation for having a number of plant deficiencies, which should be addressed as part of the plant upgrades proposed through the financing application. The items listed in a Notice of Violation from ADEQ, dated December 22, 1999, include failure to install required backflow prevention assemblies, failure to install a storage tank, failure to properly fence well site and failure to properly grade well site. The plant deficiencies will be corrected by securing the necessary funds through a Water Infrastructure Financing Authority ("WIFA") loan which is discussed later in this Report.

FWCI is within the Tucson Active Management Area as defined by the Arizona Department of Water Resources ("ADWR"). However, ADWR does not have any records for the Company. Staff recommends FWCI submit documentation to the Commission from ADWR indicating that its wells have been registered within 30 days from the effective date of the Commission's Decision.

FWCI did not submit a copy of its Pima County franchise. Staff recommends that FWCI submit a copy of its Pima County franchise with the Commission within 365 days from the effective date of the Commission's Decision.

#### Recommendations:

Staff recommends approval of the application of Francesca Water Company for the sale of assets and transfer of the Certificate of Convenience and Necessity to Francesca Water Company, Inc.

Staff further recommends that Francesca Water Company, Inc. submit documentation to the Commission from ADWR indicating that its wells have been registered within 30 days from the effective date of the Commission's Decision.

Staff further recommends that approval should be granted only after the Company submits a letter from ADEQ, within 30 days from effective date of the Commission's decision, stating that the deficiencies described herein have been resolved and that the water system has no maximum contaminant level violations and is delivering water that meets the quality standards of the Safe Drinking Water Act.

Staff further recommends that Francesca Water Company, Inc. submit a copy of its Pima County franchise with the Commission within 365 days from the effective date of the Commission's Decision.

Staff further recommends that the Commission's Decision covering the extension be considered null and void without further order from the Commission should the Francesca Water Company, Inc. fail to meet the above conditions within the time specified.