

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: September 30, 2005

RE: STAFF REPORT IN THE MATTER OF THE DETERMINATION OF A RATE BASE VALUE FOR MIRACLE VALLEY WATER COMPANY, COCHISE WATER COMPANY, HORSESHOE RANCH WATER COMPANY, CRYSTAL WATER COMPANY, MUSTANG WATER COMPANY, CORONADO ESTATES WATER COMPANY AND SIERRA SUNSET WATER COMPANY, OWNED BY JOHNNY A. MCLAIN, AND PERFORMANCE OF A RECONSTRUCTED COST NEW STUDY TO AID IN THE DETERMINATION OF THE RATE BASE VALUE.

Miracle Valley Water Company, Inc.
Cochise Water Company
Horseshoe Ranch Water Company
Crystal Water Company
Mustang Water Company
Coronado Estates Water Company
Sierra Sunset Water Company

Docket No. \W-01646A-05-0506
Docket No. \W-01868A-05-0506
Docket No. \W-02235A-05-0506
Docket No. \W-02316A-05-0506
Docket No. \W-02230A-05-0506
Docket No. \W-01629A-05-0506
Docket No. \W-02240A-05-0506

EGJ:JAC:red

Originator: John A. Chelus

Attachment: Original and 13 Copies

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

Johnny A. McLain Water Systems

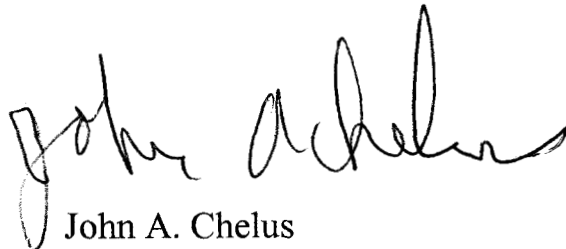
Miracle Valley Water Company, Inc.	Docket No. W-01646A-05-0506
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Sierra Sunset Water Company	Docket No. W-02240A-05-0506

IN THE MATTER OF THE DETERMINATION OF A RATE BASE VALUE FOR MIRACLE VALLEY WATER COMPANY, COCHISE WATER COMPANY, HORSESHOE RANCH WATER COMPANY, CRYSTAL WATER COMPANY, MUSTANG WATER COMPANY, CORONADO ESTATES WATER COMPANY AND SIERRA SUNSET WATER COMPANY, OWNED BY JOHNNY A. MCLAIN, AND PERFORMANCE OF A RECONSTRUCTED COST NEW STUDY TO AID IN THE DETERMINATION OF THE RATE BASE VALUE.

SEPTEMBER 2005

STAFF ACKNOWLEDGEMENTS

The Staff Report for the McLain Water Systems Reconstruction Cost New study was the responsibility of the Staff listed below. John A. Chelus was responsible for performing the inspection, cost evaluation and determination of plant condition of the McLain systems and for preparation of the report. Marlin Scott assisted with research and with inspection and evaluation of the physical plant.

A handwritten signature in black ink, appearing to read "John A. Chelus". The signature is fluid and cursive, with the first name "John" being particularly prominent.

John A. Chelus
Utilities Engineer

A handwritten signature in black ink, appearing to read "Marlin Scott Jr.". The signature is cursive and somewhat stylized, with the first name "Marlin" being the most legible part.

Marlin Scott Jr.
Utilities Engineer

**EXECUTIVE SUMMARY
MCLAIN WATER SYSTEMS
DOCKET NOS. W-01646A-05-0506; W-01868A-05-0506; W-02235A-05-0506; W-02316A-05-0506; W-02230A-05-0506; W-01629A-05-0506; W-02240A-05-0506**

Staff performed a reconstruction cost new (“RCN”) study of the seven water companies owned by Johnny A. McLain in Cochise County. These companies are Mustang Water Company, Crystal Water Company, Sierra Sunset Water Company, Coronado Estates Water Company, Miracle Valley Water Company, Horseshoe Ranch Water Company and Cochise Water Company. An RCN evaluation was performed to determine what the “used and useful” components of the water systems would cost today if the systems were reproduced in the exact way they had originally been constructed. After this, a reconstruction cost new less depreciation (“RCND”) evaluation was made using typical depreciation rates which have been developed by the Utilities Division (“Staff”). Staff recommends that the following amounts be used for the RCN and RCND values of the water companies.

	<u>RCN</u>	<u>RCND</u>
Mustang Water Company	\$96,463.81	\$ 20,272.43
Crystal Water Company	\$154,382.40	\$ 17,503.35
Sierra Sunset Water Company	\$ 56,168.40	\$ 19,061.84
Coronado Estates Water Company	\$368,504.10	\$ 25,194.20
Miracle Valley Water Company, Inc.	\$345,947.15	\$ 18,748.72
Horseshoe Ranch Water Company	\$412,816.90	\$131,965.86
Cochise Water Company	<u>\$1,008,536.43</u>	<u>\$307,395.50</u>
Total	\$2,442,819.19	\$540,141.90

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A. INTRODUCTION

There are seven water systems owned and/or operated by Johnny A. McLain (“McLain Water Systems”). These systems have been the subject of much scrutiny for many years by various regulatory authorities such as Cochise County, the Arizona Department of Environmental Quality (“ADEQ”), the Arizona Department of Revenue (“ADOR”) and the Arizona Corporation Commission (“ACC”). Mr. McLain has failed to comply with numerous notices of violation (“NOV’S”) issued by ADEQ, and has not paid property taxes or sales taxes. The McLain Water systems are currently in bankruptcy. A purchase and sale agreement that is in escrow and approved by the bankruptcy court sets the value at one million dollars (\$1,000,000). The price is subject to an evaluation and the setting of a rate base value by the ACC. The purchase price is to be adjusted to equal the rate base value set by the ACC. The purchase and sale agreement does provide the Seller (the McLain bankruptcy estate as controlled and approved by the bankruptcy court), a reserved right to cancel the sale if the ACC determined rate base is less than eight hundred thousand dollars (\$800,000).

Staff has been requested to perform a reconstruction cost new (“RCN”) study to “assist” in determination of a rate base value for the seven McLain Water Systems. ACC Staff has completed its evaluation of the McLain Water Systems.

B. LOCATION OF WATER SYSTEMS

The McLain Water Systems are located in Cochise County. The Mustang Water Company, Crystal Water Company, Sierra Sunset Water Company and Coronado Estates Water Company are located in the area of Huachuca City at or near the intersection of Highway 90 and Highway 82. The Cochise Water Company and Horseshoe Ranch Water Company are located about 8 miles south of Sierra Vista on Highway 92 at Hereford Road. The Miracle Valley Water Company is located about 12 miles southeast of Sierra Vista on Highway 92 in Miracle Valley.

C. RCN VALUATION METHOD

Reconstruction Cost New Less Depreciation (“RCND”) is the amount consisting of the depreciated reconstruction cost new of the used and useful property (exclusive of contributions and/or advances in aid of construction) at a particular point in time. This value is sometimes called the reproduction cost less depreciation. It is the cost on the date of value, of constructing a replica of the asset. Once this value is determined, the depreciated value of the asset is determined by estimating the age of the existing asset and applying appropriate depreciation values as well as subtracting all physical, functional and technological obsolescence. The asset must be “used and useful” for the water system. The asset value is then added to the land value.

The RCN and RCND of the McLain Water Systems was determined by first collecting as much information that was available from annual reports, old inspection reports, prior Commission decisions, Certificates of Convenience and Necessity (“CC&N”) records as well

from ADEQ and the Arizona Department of Water Resources (“ADWR”) records, interviewing ADEQ engineers and discussions with the interim operator, Arizona Small Utilities Association (“ASUA”). A list of the property parcels involved was supplied by the County of Cochise Office of the Treasurer and Tax Collector.

A physical inspection was performed by John Chelus and Marlin Scott Jr., Utilities Engineers, on July 20 and July 21, 2005. All sites were visited. Measurements of tanks and fenced areas were made. Plant assets were listed and the conditions were noted. Discussions were held with ASUA.

Current plant asset values were estimated by contacting equipment suppliers, material suppliers, well drillers, and by using resources such as “RS Means Building Construction Cost Data” and the Handy-Whitman Indexes for Cost trending.

Age of equipment was estimated by reviewing the dates at which the CC&N’s were granted, physical evaluation, discussions with ADEQ engineers, review of ADWR well log records, reviewing old Staff reports and discussions with the interim operator.

Depreciation values established by the Utilities Division for water utility plant assets with typical plant service lives were used to depreciate the assets.

D. USED AND USEFUL DETERMINATION

During the inspection, a determination was made whether or not the plant asset was used and useful. If the asset was damaged (not serviceable or unsafe) or not in service, it was not given a value. For example, a pressure tank that was severely leaking at the welds or a fence that was torn down was given no value, a very small well site with a dry well on it was given no plant value and an abandoned storage tank was given no value.

E. LAND VALUE

Staff relied on the land parcels identified by the County of Cochise Office of the Treasurer and Tax Collector as belonging to the McLain Water systems for the purpose of the RCN evaluation. The parcels that were used are listed in Exhibit 9. In normal rate making, land is not trended. In other words, if the water company paid \$1,000 for a parcel of land in 1980, for rate making purposes it is still only worth \$1,000 in 2005. To arrive at a fair estimate for land values since Staff had no records for the original costs, Staff used 50 percent of the Fair Current Value (“FCA”) taken from the Cochise County property assessors records. These values are what the assessor’s office has determined are the current market values for the properties. Staff attempted to correctly assign the parcels to the corresponding water system based on their location. Some of the parcels may not be used and useful but were included.

F. GENERAL CONDITION OF WATER SYSTEMS

The McLain Water Systems are in serious disrepair. It seems that virtually nothing has been done to the systems since Johnny McLain took possession almost 20 years ago. Most of the wells were drilled originally as domestic wells which have small diameter casings and were drilled to limited depths. The electrical systems are old and outdated and have not been updated to current standards. The only systems with storage tanks and booster pumps are the Cochise and Horseshoe Ranch systems. The other five systems rely on the well pump to pressurize the system. This is very inefficient and results in the well cycling on and off too often, resulting in premature pump failure. If a well goes out on these systems, there is no storage to continue service until the well pump is repaired. Many of the pressure tanks are leaking at the welds and/or have patches welded to them. This is a serious safety hazard. Many of the sites are not fenced. None of the wells are metered.

The distribution systems are old and falling apart. A majority of the pipe installed is Poly Vinyl Chloride ("PVC") irrigation pipe which is not appropriate for potable water systems. Some of the very old pipe is asbestos cement pipe which is no longer manufactured or allowed for use. Much of the location of the piping is unknown since no plans were drawn. There are indications that much of distribution piping strays outside of the official CC&N boundaries. The Sierra Sunset system has no record of a CC&N and has no customer meters.

The systems have been plagued with numerous outages. The Consumer Services Section reported almost 80 outages in the last twelve months. These outages were caused by well failures, line breaks, power outages, possible sabotage and demand exceeding supply.

None of the McLain Water Systems are chlorinated. This is especially serious because of the poor condition of the equipment and the distribution systems which make them prone to microbial contamination. A potentially serious public health situation exists.

G. SYSTEM IMPROVEMENTS AND CAPITAL INVESTMENT REQUIRED

Whoever ends up being the purchaser of the McLain systems will have to invest significant amounts of capital to upgrade the McLain Water systems. Algonquin Water estimates that it will need to infuse at least \$500,000 into the water system infrastructures with a total capital investment of between \$750,000 and \$1,250,000 depending on reliability objectives. A greater investment in infrastructure should equate to less well break downs, adequate supply and storage, and a reliable distribution system. Algonquin Water has identified the following required capital improvements which Staff agrees with:

- Additional approved storage facilities required at all systems
- Main and valve replacement
- Additional well capacity required
- System mapping required to allow reliable operations
- Additional operational automation for reliable operation

H. RESULTS OF THE RCN STUDY FOR THE MCLAIN WATER SYSTEMS

Exhibits 1 through 7 provide information about the RCN study done on each water system. Based on the information Staff had available, the following RCN and RCND rate base values were arrived at.

	<u>RCN</u>	<u>RCND</u>
Mustang Water Company	\$96,463.81	\$ 20,272.43
Crystal Water Company	\$154,382.40	\$ 17,503.35
Sierra Sunset Water Company	\$ 56,168.40	\$ 19,061.84
Coronado Estates Water Company	\$368,504.10	\$ 25,194.20
Miracle Valley Water Company, Inc.	\$345,947.15	\$ 18,748.72
Horseshoe Ranch Water Company	\$412,816.90	\$131,965.86
Cochise Water Company	<u>\$1,008,536.43</u>	<u>\$307,395.50</u>
Total	\$2,442,819.19	\$540,141.90

Staff recommends that the plant in service rate base of the McLain Water Systems not be greater than the RCND value.

EXHIBITS

RCN & AND RCND FOR THE MCLAIN WATER SYSTEMS:

MUSTANG WATER COMPANY EXHIBIT 1

CRYSTAL WATER COMPANY..... EXHIBIT 2

SIERRA SUNSET WATER COMPANY EXHIBIT 3

CORONADO ESTATES WATER COMPANY EXHIBIT 4

MIRACLE VALLEY WATER COMPANY, INC. EXHIBIT 5

HORSESHOE RANCH WATER COMPANY EXHIBIT 6

COCHISE WATER COMPANY EXHIBIT 7

DEPRECIATION RATES EXHIBIT 8

COCHISE COUNTY TAX COLLECTOR ITEMIZATION EXHIBIT 9

Exhibit 1

MUSTANG WATER COMPANY RCN AND RCND

Background of Water System

Mustang Water Company received its Certificate of Convenience and Necessity on August 1, 1973. The area being served is approximately 1-1/2 miles west of the Junctions of Highway 90 and Highway 82 on Highway 82. The Certificated area serves the north central portion of Township 20S Range 19E Section 14. This is a subdivided area called Mustang Heights. The area is very rural with large parcel properties and small homes. The roads are unimproved dirt and gravel.

Description of System

This system currently serves approximately 70 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-054. The system consists of two well sites. Well site no. 1 is located on parcel 6 of the Cochise County assessor maps. It is 70 ft x 35 ft. or .059 acres in area. It has an inactive well on it. Well site No. 2 is located on Parcel 27 of the Cochise County Assessor's maps. It is 90 ft x 50 ft or .103 acres in area. This site has one well and one pressure tank. The fence surrounding the site has been torn down. The pressure tank is in very bad condition and has been welded in many locations. There is no flow meter. The original distribution system was made up of 2,700 feet of 6" asbestos cement pipe. Since then additional PVC piping has been added.

This system is in very poor condition. There are no storage tanks or booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The pressure tank is dangerous and should not be in service. The electrical panels need replacement. The fence is gone. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed.

Plant Condition

Staff considers the pressure tank and fence as being not used and useful and therefore has no value. A large portion of the distribution system will have to be replaced. The well site will have to be completely redesigned and rebuilt to new standards. A new well will most likely have to be drilled. Storage and booster pumps must be added. The current interim management has installed a new well pump. It is questionable whether the well site is large enough for a storage tank to be added. This might require the purchase of more land.

Plant Items for Mustang Water Company									
Acct. No.	Acct. Name	Year Installed	Unit Cost	Staff's RCN	Service Life	RCND			
301	Organization								
303	Land & Land Rights								
	70' x 35' Site 1 - .059 acres			\$5,000.00		\$5,000.00			
	50' x 90' Site 2 - .102 acres		unknown						
304	Structures & Improv.								
	Fence 50 ft x 50 ft - 188 LF Site 2	1973	Damaged	\$2,829.40	30	\$0.00			
	12 ft wide gate		Damaged	\$766.70	30	\$0.00			
307	Wells & Springs								
	Well 2, 8" x 450' 65 gpm ADWR 55-807770	1973	\$40.00	\$11,250.00	30	\$0.00			
	Well 1, 8" x 450' Capped	1973	not used	\$0.00	30	\$0.00			
311	Pumping Equipment								
	Well 2, 25-Hp Sub.	2005		\$8,215.71	8	\$8,215.71			
	Electrical panel	1973	\$5,000.00	\$5,000.00	8	\$0.00			
330	Distribution Reservoirs								
	3,000 gallon pressure Site 2 (5.5' dia X 16' L)	1973	Damaged	\$13,000.00		\$0.00			
331	Trans. & Distrib. Mains								
	6"-PVC/ACP, 2,700 ft.	1973	\$7.26	\$19,602.00	50	\$7,056.72			
333	Services								
	3/4", 60 each (Use 70)	1973	\$355.00	\$24,850.00	30	\$0.00			
334	Meters								
	5/8" x 3/4", 60 each (Use 70)	1973	\$85.00	\$5,950.00	12	\$0.00			
				\$96,463.81		\$20,272.43			

Exhibit 2

CRYSTAL WATER COMPANY RCN & RCND

Background of Water System

Crystal Water Company received its Certificate of Convenience and Necessity on December 13, 1978. The area being served is approximately one mile West of the Junctions of Highway 90 and Highway 82 on Highway 82. It is adjacent to the Mustang Water Company. The Certificated area serves a portion of Township 20S Range 19E Sections 13 & 14. The area is very rural with large parcel properties and small homes. The roads are unimproved dirt and gravel.

Description of System

This system currently serves approximately 195 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-074. The system consists of one active well site. At one time there was a second well site, but it was abandoned. The active well site is located at Sands Ranch Road and Black Road. It is 18 ft x 27 ft. or .01 acres in area. This site has one well and one pressure tank. The pressure tank is a converted sand filter and is in very poor condition. There is no flow meter. The original distribution system was made up of 300 ft of 4 inch PVC, 950 ft of 3 inch PVC, 2,500 ft of 2 inch PVC and 4,000 ft of 1, 1-1/2, 2 inch asbestos cement pipe. Since then additional PVC piping has been added. There is a chain link fence surrounding the site.

This system is in very poor condition. There is no storage tank or booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The pressure tank is a converted sand filter. It is in poor condition and is dangerous and should not be in service. The electrical panels need replacement. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed.

Plant Condition

Staff considers the pressure tank as being not used and useful and therefore has no value. A large portion of the distribution system will have to be replaced. The well site will have to be completely redesigned and rebuilt to new standards. A new well will most likely have to be drilled. Storage and booster pumps must be added. It is questionable whether the well site is large enough for a storage tank to be added. This might require the purchase of more land.

Acct. No.	Acct. Name	Plant Items for Crystal Water Company	Year Installed	Unit Cost	Staff's RCN	Service Life	RCND
301	Organization						
303	Land & Land Rights	18' x 27'			\$2,500.00		\$2,500.00
304	Structures & Improvements						
		Well 2, - 78 LF fencing	1978	\$15.05	\$1,173.90	30	\$117.39
		12' Wide Gate	1978	\$767.00	\$767.00	30	\$76.70
307	Wells & Springs						
		Well 1, 6" x 360'	1969	not used	\$0.00	30	\$0.00
		Well 2, 6" x 350' ADWR 55-80774	1973	\$40.00	\$14,000.00	30	\$0.00
311	Pumping Equipment						
		Well 2, 25-Hp Sub. @ 300 gpm	2005		\$5,878.00	8	\$5,878.00
		Electrical panel	1978		\$5,000.00	8	\$0.00
330	Distribution Reservoirs						
		2,000 gallon pressure 4.5h x 19' dia		Damaged	\$9,000.00	20	\$0.00
331	Trans. & Distrib. Mains						
		1"-1-1/2" 2"-ABS, 4,000 ft.	1969	\$3.47	\$13,880.00	50	\$3,886.40
		2"-PVC, 2,500 ft.	1969	\$3.96	\$9,900.00	50	\$2,772.00
		3"-PVC, 950 ft.	1973	\$4.95	\$4,702.50	50	\$1,692.90
		4"-PVC, 300 ft.	1973	\$5.37	\$1,611.00	50	\$579.96
333	Services						
		3/4", 51 each (Use 194)	1978	\$355.00	\$68,870.00	30	\$0.00
		1", 3 each	1978	\$405.00	\$405.00	30	\$0.00
334	Meters						
		5/8" x 3/4", 51 each (Use 194)	1978	\$85.00	\$16,490.00	12	\$0.00
		1", 3 each	1978	\$205.00	\$205.00	12	\$0.00
					\$154,382.40		\$17,503.35

Exhibit 3

SIERRA SUNSET WATER COMPANY RCN AND RCND

Background of Water System

Sierra Sunset Water Company received its Certificate of Convenience and Necessity on June 26, 1978. The area being served is at the northeast corner of the junctions of Highway 90 and Highway 82. The Certificated area serves the northern half of section 18, Township 20S, Range 20E. The area served is comprised of small homes on small lots. The roads are unimproved dirt and gravel.

Description of System

This system currently serves approximately 30 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-055. The system consists of one active well site. The site is 30 ft x 40 ft. or .028 acres in area. This site has one well and one pressure tank. The pressure tank is a small 180 gallon bladder tank which was recently installed to replace a 1,000 gallon pressure tank which had exploded. There is no flow meter. Staff estimates there is approximately 2,500 ft of 4 inch diameter pipe in the distribution system. There is a chain link fence surrounding the site, but it is in disrepair.

This system is in very poor condition. There is no storage tank or booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The electrical panels need replacement. The pressure tank is too small. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed.

Plant Condition

There is a damaged and abandoned 1,000 gallon pressure on site which Staff considers not used and useful and therefore has no value. A new 180 gallon pressure tank has been installed. This tank is too small to be any good to the system once a new owner takes over. A large portion of the distribution system will have to be replaced. The well site will have to be completely redesigned and rebuilt to new standards. A new well will most likely have to be drilled. Storage and booster pumps must be added. It is questionable whether the well site is large enough for a storage tank to be added. This might require the purchase of more land.

Acct. No.	Acct. Name	Plant Items for		Year Installed	Unit Cost	Staff's		Service	
		Sierra Sunset Water Company				RCN	Life	RCND	
301	Organization								
303	Land & Land Rights								
		30' x 40'				\$500.00			\$500.00
304	Structures & Improvements								
		Fence 128 LF		1978	\$5.05	\$646.40		30	\$64.64
		12' Wide gate				\$767.00		30	\$76.70
307	Wells & Springs								
		Well 1, 8' x 350 30 gpm		1960	\$40.00	\$14,000.00		30	\$0.00
		ADWR 55-807772							
311	Pumping Equipment								
		Well 1, submersible 15 hp		2004		\$6,500.00		8	\$6,500.00
		Electrical panel		1978		\$5,000.00		8	\$0.00
330	Distribution Reservoirs								
		180 gallon pressure		2004		\$4,680.00		20	\$4,680.00
331	Trans. & Distrib. Mains								
		4'-2500 ft (Est.)		1978	\$5.37	\$13,425.00		50	\$6,175.50
333	Services								
		3/4", 30 ea.		1978	\$355.00	\$10,650.00		30	\$1,065.00
334	Meters								
		5/8" x 3/4", (None)			No Meters	\$0.00		12	\$0.00
		3/4", (None)							
						\$56,168.40			\$19,061.84

Exhibit 4

CORONADO ESTATES WATER COMPANY RCN & RCND

Background of Water System

Coronado Estates Water Company received its Certificate of Convenience and Necessity on April 27, 1959. The area being served is at the southeast corner of the junctions of Highway 90 and Highway 82. The Certificated area serves the southern half of Section 18 and the northwest tip of Section 19, Township 20S, Range 20E. The area served is comprised of modest homes on average sized residential lots. Some roads are paved with asphalt while others are unimproved dirt and gravel.

Description of System

This system currently serves approximately 195 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-013. The system consists of one active well site. The fenced site is 50 ft x 50 ft. or .057 acres in area. There is additional land west of the fenced area which may belong to the water system. This site has one well and one pressure tank. The pressure tank is 2,500 gallons. There is no flow meter. There is a 30,000 gallon storage tank which is damaged and not in use. It will have to be removed. Staff estimates there is approximately 34,500 ft of 4 inch diameter asbestos cement and PVC pipe in the distribution system. There is a chain link fence surrounding the site, but it is in disrepair.

This system is in very poor condition. The storage tank is damaged and there are no booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The electrical panels need replacement. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed.

Plant Condition

The system has only one well and one pressure tank. Storage tanks and booster pumps will have to be added. The fence is damaged and will have to be repaired or replaced. The damaged storage tank that is on site will have to be cut up and removed. A large portion of the distribution system will have to be replaced. The well site will have to be completely redesigned and rebuilt to new standards. A new well will most likely have to be drilled and equipped.

Exhibit 5

MIRACLE VALLEY WATER COMPANY, INC. RCN & RCND

Background of Water System

Miracle Valley Water Company, Inc. received its Certificate of Convenience and Necessity on August 12, 1959. The area being served is located approximately 12 miles southeast of Sierra Vista on Highway 92 in Miracle Valley. The Certificated area serves the southern half of Section 31, Township 23S, Range 22E. The area served is comprised of modest homes on medium and large sized residential lots. The roads are unimproved dirt and gravel.

Description of System

This system currently serves approximately 255 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-023. The system consists of one active well site and one well site which has electrical power to it but no approval for use on the system. In addition, Mr. McLain contends that the second well site belongs to the Cochise Water system. The active well site consists of a pressure tank and a well. The well is fenced in a 12 ft x 12 ft area. A 5,000 gallon pressure tank is located outside the fenced area. There is no flow meter. There is no storage tank or booster pumps. The well pump was replaced in 2004. It is reported that there are 9,650 ft of 3 inch diameter and 14,750 ft. of 4 inch diameter distribution piping. The second well site has a well with a pump in it, but the well has never received Arizona Department of Environmental Quality ("ADEQ") approval. There is also a large steel vessel which was moved to the site to someday be used as storage. There is a chain link fence surrounding the site, but it is in disrepair. According to the assessor office records, there appears to be more than one piece of land belonging to the water system.

This system is in very poor condition. There is no storage tank or booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The pressure tank is in poor condition and it is dangerous and should not be in service. The electrical panels need replacement. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed. Much of the system was installed without ADEQ approval.

Plant Condition

The system has only one well and one pressure tank. Storage tanks and booster pumps will have to be added. It is unknown whether there is enough room for a storage tank at well site 1. The well site will have to be completely redesigned and rebuilt to new standards. Well site 2 will have to completely rebuilt. A large portion of the distribution system will have to be replaced.

Acct. No.	Acct. Name	Plant Items for Miracle Valley Water Company	Year Installed	Unit Cost	Staff's RCN	Service Life	RCND
301	Organization						
303	Land & Land Rights	12' x 12' Site 1 100' x 100' Site 2			\$2,500.00		\$2,500.00
304	Structures & Improvements	Fence 45' LF Site 1 3' Wide Gate Fence 388 LF Site 2 12" Wide Gate	1959 1959 1959 1959	\$15.05 \$15.05	\$677.25 \$257.00 \$5,839.40 \$767.00	30 30 30 30	\$0.00 \$0.00 \$0.00 \$0.00
307	Wells & Springs	Well 1, 16" x 650' Site 1 Well 2 8" x 305' Sub. Site 2	1959	\$80.00 \$40.00	\$52,000.00 \$12,200.00	30 30	\$0.00 \$0.00
311	Pumping Equipment	Well 1, 50-Hp sub. @ 300 gpm Site 1 Electrical panels Well Site 2	2005 1959		\$6,855.00 \$5,000.00 \$0.00	8 8 8	\$6,855.00 \$0.00 \$0.00
330	Distribution Reservoirs	5,000 gallon pressure tank (6' dia x 22 ft L)	1959	Damaged	\$20,000.00	50	\$0.00
331	Trans. & Distrib. Mains	2" - 3", 9,650 ft. 4", 14,750 ft.	1959 1959	\$3.96 \$5.37	\$38,214.00 \$79,207.50	50 50	\$3,057.12 \$6,336.60
333	Services	3/4", 228 each (Use 253) 2", 2 each	1959 1959	\$355.00 \$600.00	\$89,815.00 \$1,200.00	30 30	\$0.00 \$0.00
334	Meters	5/8" x 3/4", 127 each (Use 152) 3/4", 101 each 2", 2 each	1959 1959 1959	\$85.00 \$165.00 \$915.00	\$12,920.00 \$16,665.00 \$1,830.00	12 12 12	\$0.00 \$0.00 \$0.00
					\$345,947.15		\$18,748.72

Exhibit 6

HORSESHOE RANCH WATER COMPANY RCN & RCND

Background of Water System

Horseshoe Ranch Water Company received its Certificate of Convenience and Necessity on August 3, 1973. The area being served is located approximately 8 miles south of Sierra Vista on Highway 92 at Hereford Road in Cochise County. The Certificated area serves part of the northwest quarter of Section 17, Township 23S, Range 21E. The area served is comprised of two platted subdivisions of approximately 40 acres each. Another 40 acres area is comprised of various size parcels of land. Horseshoe Ranch subdivision consists of 68 mobile home lots. Circle S Ranch Estates consists of 76 residential lots. The roads in the two subdivisions are paved. The remainder of the roads are dirt.

Description of System

This system currently serves approximately 220 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-048. The system has no wells and receives its water through 5,600 Lineal Feet of 4 inch diameter transmission main from Cochise Water. The water from the Cochise Water system enters the main storage and booster site through a 2-inch meter. The main site consists of a 22,000 gallon and a 10,000 gallon storage tank, a 3,000 gallon pressure tank, a 7.5 hp and 5 hp booster pumps and a 20' x 28' brick shed. The area is fenced. A second fenced site contains a 38,000 gallon storage tank which was installed in 1989. A third site contains a dry well. There is approximately 35,000 feet of distribution piping. Much of the distribution system installed outside of the two subdivisions is undersized PVC. There are low pressure problems.

Plant Condition

The storage tanks at the main storage site appear to be in satisfactory condition, but need to be drained, inspected, and coated. The pressure tank should be inspected and possibly replaced. The electrical wiring at the site is old and needs replacement. There were piping leaks at the booster pumps during the inspection. The 38,000 gallon storage tank needs to be drained, inspected and refurbished. The only way this tank will provide improved pressure for the customers at the highest elevations is if the distribution piping is reconfigured and a pressure tank and booster pumps are installed to serve the upper zone. The dry well site is not used and useful. Much of the distribution system installed in the unsubdivided areas is undersized and poorly installed and will have to be replaced.

Acct. No.	Acct. Name	Plant Items for Horseshoe Ranch Water Company	Year Installed	Unit Cost	Staff's RCN	Service Life	Staff RCND
301	Organization						
303	Land & Land Rights						
		12' x 40' Main storage tank site			\$3,000.00		\$3,000.00
		3' x 20x14x 22.8" Sanks well site			\$3,000.00		\$3,000.00
		82'x75' storage site 3			\$3,000.00		\$3,000.00
		104-58-041B			\$6,000.00		\$6,000.00
304	Structures & Improvements						
		20' x 28' brick shed main site	1973		\$16,342.00	30	\$0.00
		188 L F Fence Main site	1973	\$15.05	\$2,829.40	30	\$0.00
		12' Wide Gate	1973		\$767.00	30	\$0.00
		57 LF fence Sanks Well Site	1973	not used	\$0.00	30	\$0.00
		3' Wide Gate	1973	not used	\$0.00	30	\$0.00
		108 L.F fence site 3	1990	\$15.05	\$1,806.00	30	\$903.00
		12 Wide Gate	1990		\$767.00	30	\$383.50
307	Wells & Springs						
		Interconnection to Cochise					
		5,600 LF 4" PVC	1990	\$5.37	\$30,072.00	50	\$21,050.40
		Sanks well Abandon	1973	not used	\$0.00		\$0.00
311	Pumping Equipment						
		7-1/2-Hp booster pump Main site	2000		\$2,500.00	8	\$937.50
		5-Hp booster pumps, 2 each Main site	2000		\$1,500.00	8	\$562.50
330	Distribution Reservoirs						
		38,000 gallon storage tank	1989	Needs Rep	\$25,000.00	45	\$16,111.11
		12' dia x 45' high site 3					
		22,000 gallon storage tank Main site	1973		\$30,000.00	45	\$8,666.67
		48.5' circum. X 16' high					
		10,000 gallon storage tank Main Site	1973		\$20,000.00	45	\$5,777.78
		30.5' circum. x 17' high					
		3,000 gallon pressure tank 5'x20'L	1973		\$13,000.00	20	\$0.00
331	Trans. & Distrib. Mains						
		2"-PVC, 11,050 ft.	1973	\$3.96	\$43,758.00	50	\$17,503.20
		3"-PVC, 11,600 ft.	1973	\$4.95	\$57,420.00	50	\$22,968.00
		4"-AC & PVC, 10,150 ft.	1973	\$5.37	\$54,505.50	50	\$21,802.20
333	Services						
		3/4", 192 each (Use 220)	1973	\$355.00	\$78,100.00	30	\$0.00
334	Meters						
		5/8" x 3/4", 112 each (Use 220)	1973	\$85.00	\$18,700.00	12	\$0.00
		3/4", 80 each	1973	\$165.00		12	\$0.00
335	Hydrants						
		Fire hydrant, 1 each	1973		\$750.00	50	\$300.00
					\$412,816.90		\$131,965.86

Exhibit 7

COCHISE WATER COMPANY RCN & RCND

Background of Water System

Cochise Water Company received its Certificate of Convenience and Necessity on October 31, 1962. The area being served is located approximately 8 miles south of Sierra Vista on Highway 92 at Hereford Road in Cochise County. The Certificated area serves the northeast quarter and southern half of Section 5 as well as the northern half and southeast quarter of Section 8, Township 23S, Range 21E. The area served is comprised of platted subdivisions which contain lots of various sizes from one acre to five acres as well as numerous un-subdivided parcels. All roads are unpaved gravel or dirt.

Description of System

This system currently serves approximately 370 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-011. The system has two main storage and production sites. The Naranja site consists of four wells, a 170,000 gallon storage tank, a 5,000 gallon pressure tank, two 5-hp booster pumps, two 10 hp transfer pumps to transfer water to the Horseshoe Ranch system. The area fence has been torn down. There is a 12,000 gallon storage tank that is not connected to the system. The Jaxel Road site consists of one well, one 10,500 gallon storage tank, one 1,000 gallon pressure tank, and one 5 hp booster pump. The area is fenced. There is approximately 100,000 feet of distribution piping. There are low pressure problems in some areas.

Plant Condition

The storage tanks, pressure tanks and booster pumps at the main Naranja production and storage site appear in satisfactory condition. It is 4.7 acres in size. The wells have had numerous outages. The wells were drilled as domestic wells with small diameter casings which makes them difficult to equip and maintain. New wells will most likely have to be drilled. The Jaxel Road site is in fair condition. Much of the distribution system is undersized and should be replaced over time.

EXHIBIT 8
TYPICAL DEPRECIATION RATES FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

Exhibit 9

COCHISE COUNTY OFFICE OF THE TREASURER AND TAX COLLECTOR ITEMIZATION OF MCLAIN PROPERTIES

Johnny and Linda McLain aka/dba
 Cochise water, Sierra Sunset Water, Crystal Water, Mustang Water
 Coronado Estates water, Horseshoe water, Miracle Valley Water &
 Wireless Direct Broadcast System

Parcel	Tax Owed	Water System	FCV	FCV/2	AV
Parcel 104-03-038-00-0	\$1,095.08	Cochise	\$6,000.00	\$3,000.00	\$960.00
Parcel 104-03-040-00-5	\$1,052.08	Cochise	\$6,000.00	\$3,000.00	\$960.00
Parcel 104-05-003-01-3	\$52,125.75	Cochise	\$148,725.00	\$74,362.50	\$28,055.00
Parcel 104-07-075-00-9	\$3,579.33	Cochise	\$55,868.00	\$27,934.00	\$8,939.00
Parcel 104-07-103-00-7	\$2,195.05	Cochise	\$121,664.00	\$60,832.00	\$12,166.00
Parcel 106-24-062-00-4	\$3,108.52	Coronado Estates	\$2,856.00	\$1,428.00	\$457.00
Parcel 106-24-164-00-7	\$2,369.23	Coronado Estates	\$640.00	\$320.00	\$102.00
Parcel 106-25-077-00-1	\$546.68	Coronado Estates	\$500.00	\$250.00	\$80.00
Parcel 104-07-096 (944-64-907--00-4)	\$139,052.22	Cochise	\$10,000.00	\$5,000.00	\$2,500.00
Parcel 104-46-297-00-0	\$15,068.02	Miracle Valley	\$5,500.00	\$2,750.00	\$880.00
Parcel 104-46-001 (916-54-900-00-9)	\$5,238.60	Miracle Valley	\$5,000.00	\$2,500.00	\$1,250.00
Parcel 106-08-009B (900-20-170-00-2)	\$26,846.22	Crystal	\$5,000.00	\$2,500.00	\$1,250.00
Parcel 106-09-006 (932-50-170-00-2)	\$59,936.03	Mustang	\$10,000.00	\$5,000.00	\$2,500.00
Parcel 106-25-061-B2	\$6,251.26	Sierra Sunset	\$1,000.00	\$500.00	\$160.00
Parcel 104-08-006-00-2	\$1,283.82	Horseshoe	\$6,000.00	\$3,000.00	\$960.00
Parcel 104-58-041-02-6	\$3,105.76	Horseshoe	\$12,000.00	\$6,000.00	\$1,920.00
Parcel 104-58-079-00-9	\$1,971.76	Horseshoe	\$6,000.00	\$3,000.00	\$960.00
Parcel 123-41-049 (924-74-907-00-7)	\$95,448.09	Horseshoe	\$6,000.00	\$3,000.00	\$1,500.00
Parcel 106-25-026(906-40-170-2)	\$216,040.58	Coronado Estates	\$8,750.00	\$4,375.00	\$2,188.00
Totals	\$636,314.08		\$417,503.00	\$208,751.50	\$67,787.00

FCA = Fair Current Value

AV = Assessed Value