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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
CLEAR SPRINGS UTILITY CO., INC. FOR A
RATE INCREASE AND REQUEST FOR
FINANCING AUTHORIZATION.

DOCKET NO. W-01689A-05-0629

DECISION NO. 68443

ORDER

Open Meeting
January 24 and 25, 2006
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

* * * * *

FINDINGS OF FACT

1. Clear Springs Utility Company, Inc. ("Clear Springs" or "Company") provides water utility service to approximately 540 customers in the community of Sunsites, 26 miles south of Wilcox in Cochise County.

2. On August 29, 2005, Clear Springs filed an application for a permanent rate increase and authorization to borrow \$69,212 from the Water Infrastructure Financing Authority ("WIFA").

3. On September 28, 2005, the Commission's Utilities Division Staff ("Staff") notified the Company that its rate application was sufficient pursuant to A.A.C. R14-2-103 and classified the Company as a Class D utility.

4. The Company notified its customers of its proposed rates and charges by first class U.S. mail on June 2, 2005. The Company mailed notice of its financing request to its customers on August 26, 2005.

5. The Commission received one customer opinion concerning the requested rate increase.

1 6. On December 12, 2005, Staff filed its Staff Report, recommending that an alternative
2 rate schedule to that proposed by the Company be approved without a hearing.

3 7. The Company's current rates and charges were approved in Decision No. 62583 (May
4 17, 2000).

5 8. During the test year ended December 31, 2004 ("Test Year"), Clear Springs had Total
6 Operating Revenue of \$152,818, and Total Operating Expenses, as adjusted by Staff, of \$152,854,
7 resulting in an Operating Loss of \$36, a negative rate of return on an adjusted Original Cost Rate
8 Base ("OCRB") of \$103,534.

9 9. Clear Springs proposed rates that would produce Total Operating Revenue of
10 \$212,437, an increase of \$59,619, or 39 percent, over Test Year revenues. Based on Company-
11 proposed Operating Expenses of \$176,519, Clear Springs's recommended rates would produce
12 Operating Income of \$35,918, a rate of return of 34.6 percent on Staff's adjusted OCRB.

13 10. Staff recommended Total Operating Revenue of \$182,903, an increase of \$30,085, or
14 19.7 percent, over Test Year revenues. Staff's recommendations result in Total Operating Expenses
15 of \$157,584, yielding operating Income of \$25,319, a 24.5 percent rate of return on the adjusted
16 OCRB.

17 11. The Company filed a response to the Staff Report on January 5, 2006.

18 12. The rates and charges for Clear Springs, as proposed in the application, and as
19 recommended by Staff are as follows:

	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Company</u>	<u>Proposed</u> <u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$9.50	\$11.50	\$11.00
3/4" Meter	13.00	15.00	14.50
1" Meter	23.00	25.00	23.25
1 1/2" Meter	44.00	45.00	44.00
2" Meter	69.00	69.00	66.00
3" Meter	128.00	150.00	125.50
4" Meter	210.00	250.00	250.00
6" Meter	420.00	500.00	500.00

COMMODITY CHARGE

5/8" Meters

(Per 1,000 Gallons)

Excess of Minimum	\$1.85	N/A	N/A
0 to 10,000 gallons	N/A	\$1.85	N/A
0 to 3,000 gallons	N/A	N/A	\$1.25
Over 10,000 gallons	N/A	2.95	N/A
3,001 to 10,000 gallons	N/A	N/A	2.25
Over 10,000 gallons	N/A	N/A	3.50

COMMODITY CHARGE

3/4" Meters

(Per 1,000 Gallons)

Excess of Minimum	\$1.85	N/A	N/A
0 to 10,000 gallons	N/A	\$1.85	N/A
0 to 3,000 gallons	N/A	N/A	\$1.25
Over 10,000 gallons	N/A	2.95	N/A
3,001 to 10,000 gallons	N/A	N/A	\$2.25
Over 10,000 gallons	N/A	N/A	3.50

COMMODITY CHARGE

1" Meters

(Per 1,000 Gallons)

Excess of Minimum	\$1.85	N/A	N/A
0 to 10,000 gallons	N/A	\$1.85	N/A
Over 10,000 gallons	N/A	2.95	N/A
0 to 31,000 gallons	N/A	N/A	\$2.25
Over 31,000 gallons	N/A	N/A	3.50

COMMODITY CHARGE

1 1/2" Meters

(Per 1,000 Gallons)

Excess of Minimum	\$1.85	N/A	N/A
0 to 10,000 gallons	N/A	\$1.85	N/A
Over 10,000 gallons	N/A	2.95	N/A
0 to 58,000 gallons	N/A	N/A	\$2.25
Over 58,000 gallons	N/A	N/A	3.50

COMMODITY CHARGE

2" Meters

(Per 1,000 Gallons)

Excess of Minimum	\$1.85	N/A	N/A
0 to 10,000 gallons	N/A	\$1.85	N/A
Over 10,000 gallons	N/A	2.95	N/A
0 to 74,000 gallons	N/A	N/A	\$2.25
Over 74,000 gallons	N/A	N/A	3.50

COMMODITY CHARGE

3" Meters – Bulk Water Sales

(Per 1,000 Gallons)

Excess of Minimum	\$4.00	\$4.00	\$2.25
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SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-40-5)

	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Company</u>	<u>Proposed</u> <u>Staff</u>
5/8" x 3/4" Meter	\$ 450.00	\$ 550.00	\$ 550.00
3/4" Meter	450.00	550.00	550.00
1" Meter	550.00	650.00	650.00
1 1/2" Meter	775.00	875.00	875.00
2" Meter	1,305.00	1,400.00	1,400.00
3" Meter	1,850.00	1,900.00	1,900.00
4" Meter	2,860.00	3,200.00	3,200.00
6" Meter	5,275.00	5,800.00	5,800.00

SERVICE CHARGE:

Establishment	\$25.00	\$35.00	\$30.00
Establishment (After Hours)	40.00	50.00	45.00
Reconnection (Delinquent)	25.00	35.00	30.00
Meter Test (If Correct)	40.00	50.00	45.00
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	**	**	**
NSF Check	15.00	20.00	20.00
Deferred Payment	1.5%	1.5%	1.5%
Meter Reread (If Correct)	20.00	25.00	25.00

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

13. Staff recommended adjustments that would reduce the Company's proposed rate base by \$22,496, from \$126,030 to \$103,534. Staff' adjustments to plant balances reflect the findings in Decision No. 62583, and to remove a truck with a value of \$6,500 that was traded-in in 2001 for a personal vehicle for the Company's owner. Staff calculated Accumulated Depreciation by adding depreciation expense at the approved 5 percent rate and adjusted the account for plant retirements and the amount associated with the traded truck.

1 14. Staff's adjustments to rate base are reasonable and should be adopted. Thus, Clear
2 Springs' OCRB is determined to be \$103,534 which is the same as its fair value rate base ("FVRB").

3 15. Staff made no adjustments to Test Year Operating Revenue.

4 16. Staff's adjustments to Operating Expenses resulted in a decrease of \$23,666, from
5 \$176,519 to \$152,853. Staff made the following adjustments to Test Year Expenses: 1) increased
6 Water Testing Expense by \$2,480, from \$3,126 to \$5,606 to reflect Staff Engineer's recommended
7 expense level¹; 2) decreased Transportation Expense by \$2,019, from \$7,787 to \$5,768 to remove
8 repairs and maintenance costs; 3) decreased Depreciation Expense by \$22,627, from \$30,052 to
9 \$7,425 to reflect Staff's recommended depreciation rates on a going-forward basis (many of the
10 Company's plant in service assets became fully depreciated at the end of the Test Year); and 4)
11 reduced Property Tax Expense by \$1,500, from \$10,219 to \$8,719 to correct the tax calculation based
12 on Staff's use of the Arizona Department of Revenue ("ADOR") formula.

13 17. The Company has been using a depreciation rate of 5.0 percent in every National
14 Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders the
15 Commission has been shifting away from the 5 percent composite rate in favor of individual
16 depreciation rates by NARUC category because the 5 percent rate is not appropriate for all types of
17 assets. Staff developed typical and customary depreciation rates within a range of anticipated
18 equipment life. Staff set forth these rates in Table K of the Engineering Report attached to the Staff
19 Report. Staff utilized a composite depreciation rate based on the Engineering Report of 4.24 percent.

20 18. Staff's recommended adjustments to Test year Expenses are reasonable and should be
21 adopted.

22 19. The Company's current rate structure consists of a single commodity rate for all usage
23 and no gallons included in the monthly minimum charge. The Company proposed two tiers and no
24 gallons included in the monthly minimum charge. The Company proposed the first tier break at
25 10,000 gallons and the second tier for usage in excess of 10,000 gallons. Staff recommends a three
26

27 ¹ Clear Springs is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Staff based
28 its estimated Water Testing Expense based on ADEQ's MAP rules and Staff's best knowledge of lab costs and
methodologies.

1 tier inverted block structure for the 5/8 inch and 3/4 inch meter classes, with no gallons included in
2 the monthly minimum. For the smaller meters, Staff recommends the first tier break at 3,000 gallons,
3 the second tier at 10,000 gallons and that the third tier should apply to usage in excess of 10,000
4 gallons. For larger meters Staff recommends a two tier structure with varying breakover points.

5 20. The average and median usage for the 5/8 x 3/4 inch meter customer in the Test Year
6 was 6,152 gallons and 3,736 gallons, respectively.

7 21. The rates the Company proposed in its application would increase the average 5/8 inch
8 meter bill by 9.58 percent, or \$2.00, from \$20.88 to \$22.88, and the median 5/8 inch meter bill by
9 12.9 percent, or \$2.00, from \$16.41 to \$18.41.

10 22. Staff's recommended rates would increase the average 5/8 inch meter bill by 4.6
11 percent, or \$0.96, from \$20.88 to \$21.84, and would not result in any change to the monthly median
12 5/8 inch meter bill of \$16.41.

13 23. Staff's recommended rate design is fair and reasonable and should be adopted, with
14 one exception. We determine that the commodity charge for the 3" meters for bulk water sales
15 should remain at \$4.00 per 1,000 gallons instead of reducing that charge to \$2.25 per 1,000 gallons.
16 This results in a de minimus change to the Company's revenue requirement. We feel that shifting
17 any burden of rates from intermittent users to full time ratepayers is inappropriate in this case.

18 24. Clear Springs requested authority to borrow \$69,212 from WIFA to finance the cost of
19 replacing the well pump for Well No. 5, which work was completed in 2004, and to replace the well
20 pump for Well No. 16. The pump for Well No. 16 was damaged in July 2003 and has been out of
21 service since that time.

22 25. The proposed WIFA loan has a term of 20 years and an anticipated interest rate of 7.2
23 percent. At the time of the Staff Report, WIFA's interest rate for Clear Springs is the current prime
24 rate (7.0 percent as of November 30, 2005) plus 200 basis points multiplied by .80.

25 26. The cost of replacing the Well No. 5 well pump was \$28,571.67. The work has been
26 completed and Staff inspected Well No. 5 during its field inspection. The estimated cost of replacing
27 the Well No. 6 well pump is \$40,640.

1 27. The Company's owner, Mr. E.H. Lewis, financed the repair of Well No. 5 in 2004,
2 with a \$20,000 short-term note and \$8,572 of cash available from operations. Essentially, Clear
3 Springs seeks to refinance the outstanding balance of the short-term note to Mr. Lewis.

4 28. Staff believes that the estimated costs are reasonable and appropriate, but Staff did not
5 make a determination of the capital improvements for Well No. 16 as "used and useful" at this time,
6 but defers that determination until the Company files its next rate application.

7 29. At the end of the Test Year, Clear Springs had a capital structure that consisted of 13.6
8 percent short term debt, 52.2 percent long-term debt and 34.2 percent equity.

9 30. Staff's adjustments as part of the rate case, reduced equity by \$22,553 due to the
10 reduction of net plant and by \$6,500 which Staff treated as an equity draw by the owner to purchase a
11 personal vehicle. Staff further recommends that \$16,736, the outstanding balance on the short term
12 note from Clear Springs' owner, be reclassified from debt to equity. Staff's recommended
13 adjustments to the capital structure result in a capital structure comprised of 1.9 percent short-term
14 debt, 66.0 percent long-term debt, and 32.1 percent equity.

15 31. Staff recommends that the Commission only approve \$40,640 in new long-term debt,
16 and that the outstanding balance of the note owing to the Company's owner be converted to equity.
17 Staff determined that with the addition of \$40,640 in borrowing, the capital structure would consist of
18 2.0 percent short-term debt, 74.6 percent long-term debt and 23.4 percent equity. The Company's
19 proposed financing request would result in a capital structure consisting of 2.0 percent short-term
20 debt, 73.2 percent long-term debt and 24.8 percent equity.

21 32. Staff recommends that only \$40,640 of additional debt be authorized because \$28,572
22 (\$69,212 - \$40,640) of the Company's request related to Well No. 5 is not necessary and thus
23 inappropriate in light of the Company's highly leveraged capital structure. Staff believes that
24 \$40,640 of additional debt is required to complete plant improvements to provide adequate service.
25 Because a heavily leveraged capital structure may restrict a company's ability to obtain debt
26 financing and may result in less favorable terms for future financing, Staff recommends that the
27 Company should prepare a capital plan to increase equity.
28

1 33. Staff calculated that with the recommended rate increase and Staff's recommended
2 debt financing, Clear Springs would have a Times Interest Earned Ratios ("TIER") of 2.60 and a
3 Debt Service Coverage ("DSC") of 2.55.²

4 34. Staff believes that \$40,640 of long-term debt to complete system improvements of
5 Well No. 16 is lawful and within the corporate powers of the Company, and that authorization would
6 be compatible with the public interest, consistent with sound financial practices and not impair the
7 Company's ability to provide service if: 1) the Commission authorizes an operating income no less
8 than that recommended by Staff in the pending rate case; and 2) the \$16,736 short-term debt is
9 converted to equity or there is an equity infusion providing an equivalent effect.

10 35. The Company objects to Staff's recommended disallowance of the remaining balance
11 on the loan to Mr. Lewis for the repair of Well No. 5. The Company argues that the repairs were
12 necessary and if Mr. Lewis had not advanced the funds, the Company would have had to find a loan
13 from an outside lender at a higher interest rate.

14 36. Although we appreciate the Company's position, we find that it has not met its burden
15 of proof to demonstrate that the additional long term debt it requests is in the public interest. We
16 believe that ultimately Staff's recommendation will give the Company greater flexibility in the
17 future.

18 37. Clear Springs operates five individual water systems that consist of seven well sites.

19 38. Engineering Staff reports that three of the Company's systems have adequate
20 production and storage capacity to support their existing customer bases, but that two systems (PWS
21 #'s 02-050 and 02-048) do not have adequate storage capacity. Staff identified several options to
22 address the deficiency, including obtaining additional production and/or storage or interconnecting
23 the systems. The two deficient systems serve fewer than 20 connections each and are not expected to
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25 _____
26 ² TEIR represents the number of times earnings cover interest expense on long-term debt. A TIER greater than 1.0 means
27 that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does
28 not mean that debt obligations cannot be net in the short term. DSC represents the number of times internally generated
cash will cover required principal and interest payments on long-term debt. A DSC greater than 1.0 indicates that
operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations
cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

1 grow. To the best of Staff's knowledge, the identified deficiency has not resulted in any disruption of
2 service.

3 39. Staff Engineering states that non-account water should be 10 percent or less and never
4 more than 15 percent. Staff believes it is important to be able to reconcile the difference between
5 water sold and water produced by the source.

6 40. Staff calculated that the Company's overall water loss was 12.24 percent during the
7 Test Year. It appears that only the PWS #02-008 system exceeded the threshold of 10 percent loss.

8 41. Staff believes the calculated water loss of zero percent for PWS-02-048 and 02-051
9 are artificial numbers because there are no well meters on these systems.

10 42. In light of the ongoing drought conditions throughout Arizona, the Commission is
11 concerned about the Company's overall water loss rate. In order to better address this issue, the
12 Commission will require the Company to file a water loss report no later than 180 days after the
13 effective date of this order. This report shall detail how the Company will work to address the water
14 loss issue and what steps the Company is taking to decrease water loss on their system.

15 43. Clear Springs is not within an AMA and is not subject to ADWR monitoring and
16 reporting requirements.

17 44. The U. S. Environmental Protection Agency ("EPA") has reduced the arsenic
18 maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10
19 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis
20 by the Company indicates an arsenic MCL of 1 $\mu\text{g/l}$, within the new EPA arsenic standards. The
21 Arizona Department of Environmental Quality ("ADEQ") reports that the Company is delivering
22 water that meets water quality standards required by Arizona Administrative Code Title 18, Chapter
23 4.

24 45. The Company is current on its property and sales tax payments.

25 46. Staff reports that the Company has no outstanding compliance issues with
26 Commission rules or Orders.

27 47. Staff recommends that:
28

- 1 a. The Commission adopt Staff's proposed rates and charges;
- 2 b. The Commission authorize the Company to issue long-term debt to WIFA in
- 3 an amount not to exceed \$40,640;
- 4 c. The Commission order the Company to file a plan that is satisfactory to Staff,
- 5 by April 30, 2006, to increase its equity to 40 percent of total capital;
- 6 d. The Company take action to resolve the storage deficiencies of Systems PWS
- 7 # 02-050 and PWA # 02-048 prior to filing its next rate application;
- 8 e. The Company use depreciation rates by individual NARUC category, as
- 9 delineated in Exhibit 6, Engineering Report, in the future;
- 10 f. The Commission approve meter and service line installation charges as shown
- 11 in Table 8 of the Engineering Report;
- 12 g. That the Company reduce its water loss to 10 percent or less in PWS #02-008
- 13 before filing its next rate case, in the alternative the Company shall
- 14 demonstrate why it is not reasonable or economical to reduce water loss to 10
- 15 percent or less;
- 16 h. The Company install a well meter on each system within 12 months of the
- 17 effective date of the Decision in this matter, and that within 14 months of the
- 18 effective date of the Decision, the Company file, in Docket Control, as a
- 19 compliance item, documents showing that the required well meters have been
- 20 installed. Staff recommends that 1 inch well meters be used;
- 21 i. The Company record as a note receivable from its owner, the trade-in value of
- 22 the Company's truck in the amount of \$6,500;
- 23 j. The Company file with the Commission Docket Control as a compliance item,
- 24 a tariff schedule of its approved rates and charges within 30 days after the
- 25 effective date of this Decision;
- 26 k. In addition to the collection of the Company's regular rates and charges, the
- 27 Company collect from its customers their proportionate share of any privilege,
- 28

1 sales or use tax as provided for in A.A.C. R14-2-409(D);

2 l. The Company be permitted to grant liens in favor of the lender as required to
3 secure the authorized borrowing; and

4 m. The Company be authorized to engage in any transactions and to execute any
5 documentation necessary to effectuate the authorization granted.

6 48. Because an allowance for the property tax expense of Clear Springs is included in the
7 Company's rates and will be collected from its customers, the Commission seeks assurances from the
8 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing
9 authority. It has come to the Commission's attention that a number of water companies have been
10 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,
11 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure Clear
12 Springs should annually file, as part of its annual report, an affidavit with the Utilities Division
13 attesting that the company is current in paying its property taxes in Arizona.

14 CONCLUSIONS OF LAW

15 1. Clear Springs is a public service corporation within the meaning of Article XV of the
16 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, and 40-303.

17 2. The Commission has jurisdiction over Clear Springs and of the subject matter of the
18 application.

19 3. Notice of the application was provided in the manner prescribed by law.

20 4. The rates and charges authorized hereinbelow are just and reasonable and should be
21 approved without a hearing.

22 5. The financing approved herein is compatible with the public interest, with sound
23 financial practices, and with the proper performance by Clear Springs of service as a public service
24 corporation, and will not impair Clear Springs' ability to perform the service.

25 6. The financing approved herein is for the purposes stated in the application, is
26 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
27 chargeable to operating expenses or to income.

1 COMMODITY CHARGE

2	2" Meters	
3	(Per 1,000 Gallons)	
3	0 to 74,000 gallons	\$2.25
4	Over 74,000 gallons	3.50

5 COMMODITY CHARGE

6	3" Meters – Bulk Water Sales	
6	(Per 1,000 Gallons)	
7	Excess of Minimum	\$4.00

8 SERVICE LINE AND METER INSTALLATION
9 CHARGES:

(Refundable pursuant to A.A.C. R14-2-40-5)

10	5/8" x 3/4" Meter	\$550.00
11	3/4" Meter	550.00
11	1" Meter	650.00
12	1 1/2" Meter	875.00
13	2" Meter	1,400.00
13	3" Meter	1,900.00
14	4" Meter	3,200.00
14	6" Meter	5,800.00

15 SERVICE CHARGES:

16	Establishment	\$30.00
17	Establishment (After Hours)	45.00
18	Reconnection (Delinquent)	30.00
18	Meter Test (If Correct)	45.00
19	Deposit	*
19	Deposit Interest	*
20	Reestablishment (Within 12 Months)	**
21	NSF Check	20.00
21	Deferred Payment	1.5%
22	Meter Reread (If Correct)	25.00

23 * Per Commission rule A.A.C. R-14-2-403(B).

24 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

25
26 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
27 provided on and after February 1, 2006.

1 IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. shall notify its
2 customers of the rates and charges authorized hereinabove and the effective date of same by means of
3 an insert in its next regular monthly billing.

4 IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. shall collect a
5 proportionate share of any privilege, sales or use tax.

6 IT IS FURTHER ORDERED that Clear Spring Utility Company, Inc. is authorized to issue
7 long-term debt to the Water Infrastructure Finance Authority in an amount not to exceed \$40,640 for
8 a term of twenty years at the then prevailing interest rate.

9 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon
10 Clear Springs Utility Company, Inc.'s use of the proceeds for the purposes stated in its application
11 and approved herein.

12 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
13 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
14 proceeds derived thereby for purposes of establishing just and reasonable rates.

15 IT IS FURTHER ORDERED that by April 30, 2006, Clear Springs Utility Company, Inc.
16 shall file with Docket Control as a compliance item, a plan for Commission Staff approval, that
17 indicates how the Company will achieve a capital structure that consists of 40 percent equity.

18 IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. shall take action to
19 resolve the storage deficiencies of Systems PWS # 02-050 and PWA # 02-048 prior to filing its next
20 rate application.

21 IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. shall use the
22 depreciation rates by individual NARUC category, as delineated in Exhibit 6, Engineering Report, in
23 the future.

24 IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. shall reduce its water
25 loss to 10 percent or less in PWS #02-008 before filing its next rate case, in the alternative Clear
26 Springs utility Company, Inc. shall demonstrate why it is not reasonable or economical to reduce
27 water loss to 10 percent or less.
28

1 IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. shall file with the
2 Commission a water loss report no later than 180 days after the effective date of this order. This
3 report shall detail how the Company will work to address the water loss issue and what steps the
4 Company is taking to decrease water loss on their system.

5 IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. shall install a well
6 meter on each system within 12 months of the effective date of this Decision, and within 14 months
7 of the effective date of the Decision, Clear Springs Utility Company, Inc. shall file, in Docket
8 Control, as a compliance item, documents showing that the required well meters have been installed.

9 IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. shall record as a note
10 receivable from its owner in the amount of \$6,500 for the trade-in value of the Company's truck.

11 IT IS FURTHER ORDERED Clear Springs Utility Company, Inc. is authorized to grant liens
12 in favor of the lender as required to secure the authorized borrowing.

13 IT IS FURTHER ORDERED that Clear Springs Utility Company shall file copies of all
14 executed financing documents setting forth the terms of the financing within 90 days of obtaining
15 such financing.

16 IT IS FURTHER ORDERED that Clear Springs Utility Company shall annually file as part of
17 its annual report, an affidavit with the Utilities Division attesting that the Company is current in
18 paying its property taxes in Arizona.

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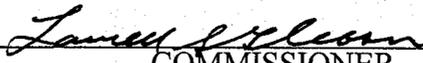
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IT IS FURTHER ORDERED that Clear Springs Utility Company, Inc. is authorized to engage in any transactions and to execute any documentation necessary to effectuate the authorization granted.

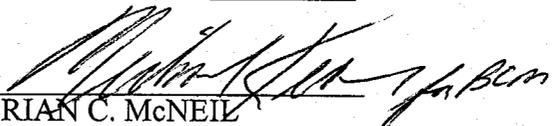
IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

 CHAIRMAN	 COMMISSIONER
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 COMMISSIONER	 COMMISSIONER	 COMMISSIONER
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IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 2nd day of Feb., 2006.


BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

JR:mj

1 SERVICE LIST FOR: CLEAR SPRINGS UTILITY COMPANY, INC.

2 DOCKET NO.: W-01689A-05-0629

3
4 Clear Springs Utility CO. – Water Division
5 Attn: Bonnie O'Connor
6 P.O. Box 85160
7 Tucson, Arizona 85754

8 Christopher Kempley, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 W. Washington Street
12 Phoenix, Arizona 85007

13 Ernest Johnson, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 W. Washington Street
17 Phoenix, Arizona 85007
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