



**ROSHKA DEWULF & PATTEN, PLC**  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 David Ronald, Esq.  
Legal Division  
2 Arizona Corporation Commission  
1200 West Washington  
3 Phoenix, Arizona 85007  
  
4 Steve Olea  
Assistant Director, Utilities Division  
5 Arizona Corporation Commission  
1200 West Washington  
6 Phoenix, Arizona 85007

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By *Mary Appolito*



Our File: SWC\Regulatory\ACC\Annual Reports

22 February 2006

Steve Olea  
Arizona Corporation Commission  
Utilities Division  
1200 West Washington  
Phoenix, AZ 85007-2996

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

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Dear Steve:

**BACKGROUND**

On 1 February 2005 Global Water Management, LLC ("Global") was assigned as the Interim Manager for the Sabrosa Water Company ("SWC"). This report is prepared to highlight the operational performance of the utility, and to identify any shortcomings in the system. It is supplementary to previous operational reports.

This report also fulfills the requirements of the Interim Operating Agreement with respect to the submission of a semi-annual report.

**GENERAL**

The operation of the utility remains stable. The lack of rain in this fall/winter period places the long-term availability of water in question. Compounding the utility's problems are its current asset ownership issues and the implementation of an arsenic remediation plan.

These items are specifically addresses in the text of this report.

**NUMBER OF CUSTOMERS**

As of 3 February 2006, SWC had 55 active customers on the system. The number of customers has been declining from a maximum of 68 in February 2005. Global considers Sabrosa Water Company to be in a Stage 4 Curtailment, which precludes the addition of new meters to the system.

**OPERATIONAL DATA**

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

Deer Valley Financial Centre  
22601 North 19th Avenue, Suite 210, Phoenix, Arizona 85207

Phn 623.580.9600  
Fax 623.580.9659

gwresources.com

*Zorillo Well*

Total Gallons pumped (Jan - Feb): 310,900 gallons  
Total Minutes of Operation: 10,041 minutes

Average Pump Rate: 37.96 GPM

Comments:

The Zorillo Well remains the primary service well for SWC. The performance of this well has been such that the entire system has been maintained through the use of this one well.

*Wright Well*

Total Gallons pumped (Jan - Feb): 0 gallons  
Total Minutes of Operation: 0 minutes

Average Pump Rate: 0 GPM

Comments:

The Wright Well remains isolated from service as required by MCESD. Despite testing less than the MCL for nitrate, MCESD has required the installation of a nitrate monitoring system to re-commission the well. The costs associated with this installation are in the order of \$20,000 – a cost unsupportable at the utility's current financial state.

*Sabrosa Well*

Total Gallons pumped (Jan - Feb): 490 gallons  
Total Minutes of Operation: 40 minutes

Average Pump Rate: 12.3 GPM

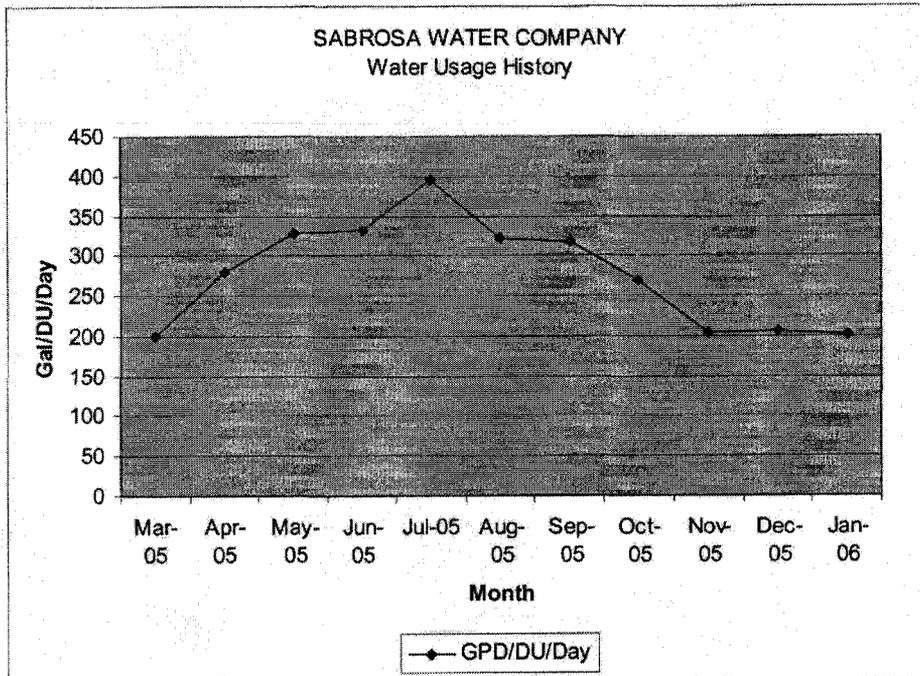
Comments:

This well is only called for when the tank levels drop to below 12 feet.

*Summary January 2006*

Total Water Pumped: 312,290 gallons  
Water Hauled: 0 gallons  
Total Water Delivered: 312,290 gallons  
Average Daily Use: 11,153 gallons per day  
202.8 gallons per day per DU

Comments: Water usage has stabilized at the winter levels.



There is significant concern that the lack of rain this winter season bodes ominously for the Utility. While last year's record rains caused a brief upsurge in nitrate levels for the system, it also recharged the aquifer significantly. This is a short term benefit, however, as the fractured aquifer and the lack of rain this year may conspire to cause severe water shortages in 2006.

#### ARSENIC CONSIDERATIONS

The Sabrosa Water Company does not meet the arsenic maximum contaminant level (10 ug/L) established by EPA which became effective 23 January 2006. In accordance with the ADEQ implementation of the arsenic rule, a public water system will not be considered out of compliance until four quarters after the initial monitoring sample exceeds the MCL, unless the projected running annual average indicates that compliance cannot be achieved in the four-quarter monitoring period. In the case of Sabrosa, the arsenic level has been approximately 35 ug/L. After the initial sample, and one subsequent sample, the water system would need to demonstrate arsenic levels of less than 2 ug/L in the three remaining sampling intervals to achieve compliance. Clearly this is not possible without treatment – a cost the utility cannot support at this time.

Once "out of compliance", the utility will be required to notify its customers monthly of the fact the water exceeds the MCL, and may also be subject to fines and penalties assessed by USEPA, ADEQ and/or MCESD. Global has briefed ADEQ and MCESD on the situation, although the policy position for each organization remains in question.

In the absence of a new source, implementation of the Point of Use (POU) systems will be the next best alternative. Again this is a solution that cannot be funded in the utility's current financial state. Global Water has opened discussions with ADEQ to determine whether grant

funds could be made available to Sabrosa for the installation of a POU system. At present the only funds available are structured as loans – which again, as the utility cannot support additional expense, would be difficult to acquire. Managing a POU system under ADEQ guidelines requires that the utility undertake the responsibility for costs associated with operating and maintaining those systems (pre-filters, membrane replacements, TDS sensor calibration and repair etc). Once again, this utility is incapable of supporting those extra costs.

#### LEGAL ACTIVITIES

On behalf of SWC, Global is working through two significant property issues:

1. A Notice of Intent to File Foreclosure Action was provided in August 2005. This is in respect to the purchase of a tax lien by WOW-EM Properties LLC on centrally valued parcel identification number 606-29-700. Global legal staff have been in contact with Mark Manoil (WOW-EM legal representative) to discuss this claim. To date, no court filing has been made. No further activity has occurred on this matter. Global legal staff continue to monitor filings for any SWC issues.
2. On 14 December 2005, the ACC orchestrated a meeting with Otto Kruger Investments – the firm which purchased the tax lien associated with parcel 202-21-171 (the Sabrosa Well Site and Storage Tank). During the meeting three options were proposed by OKI:
  - a. The well could be capped and the land sold;
  - b. Global could purchase the land from OKI;
  - c. OKI could deed the property back to Sabrosa Water Company.

As the utility needs the well and storage site for operations, and Global has neither the authority nor the financial support to acquire the land, OKI had indicated that they would pursue the deeding of the property back to the water company.

To date, no response to these requests has been received from OKI.

#### COMPLIANCE ACTIVITIES

The system remains compliant with the Total Coliform Rule (monthly bacteriological sampling), Disinfection By-Products Rule and continues to sample nitrate on a quarterly basis.

#### COSTS TO DATE

An Income Statement detailing the revenue and expenses to date is included for your reference.

## CONCLUSIONS

Global has invested heavily in bringing SWC to a stable platform, including:

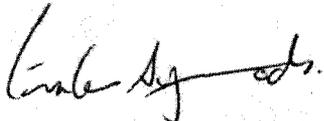
1. Replacement of the Zorillo Well pump, motor and control panel;
2. Replacement of the 5,000 gallon Sabrosa Well hydropneumatic tank;
3. Installation of a cellular-based pressure, tank level and power sensor alarm systems at each well site;
4. Acquisition of a spare pump, motor and control panel for the Zorillo Well;
5. Replacement of all LMI chlorine injection pumps;
6. Replacement of a number of service meters; and
7. Repair of several service line breaks.

However, this operational stability belies the fact that the company as an entity is facing serious litigation activity with respect to the ownership of its assets, cannot meet the EPA-mandated new arsenic MCL (10 ug/L) and is in constant peril of running out of water. Global continues to subsidize the operation of the utility significantly: Sabrosa Water Company operated at a net loss of \$130,316.15 for the one year period it has been operated by Global.

A long-term solution is necessary in order to continue to ensure these customers are supplied with adequate water resources.

Should you have any question, please feel free to contact me at 623-580-9600 (office) or at 602-615-4532 (mobile).

GLOBAL WATER MANAGEMENT, LLC



Graham Symmonds, P.Eng.  
VP Operations & Compliance

**Sabrosa Water Company**

**Income Statement**

		<b>Total</b>
		<b>Feb-05 to Jan-06</b>
<b>Income</b>		
	Metered Sales	39,045.34
	Connect/Establish Fees	40.00
		<u>\$ 39,085.34</u>
 <b>Expenses</b>		
	Operations	
	Management	12,000.00 Allocations
	Operations	24,000.00 Allocations
	Accounting, Billing & Customer Services	12,000.00 Allocations
	Rent, Satellite Offices & Janitorial	300.00 Allocations
	Communications	419.48
	Insurance	3,600.00 Allocations
	General Office/Admin	885.93
	 Maintenance	
	Maintenance Plant	10,563.55
	Maintenance Distribution Systems	601.96
	Maintenance Booster Stations	0.00
	 Power	
	Purchased Power	2,412.19
	 Outside Services	
	Audits	5,004.00
	Legal	1,500.00
	Engineering	1,500.00
	Professional Services	504.00
	 Consummables	
	Chemicals	401.20
	Supplies	1,211.46
	Purchased Water	1,043.70
	 Property Taxes	0.00
	 Laboratory/Testing	1,951.25
	 Capital Expenses	89,502.77
		<u>\$ 169,401.49</u>
	 Net Profit (Loss)	 \$ (130,316.15)