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MEMORANDUM

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FROM: Ernest G. Johnson
Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: May 17, 2006

IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY INC. AND SOUTHERN SUNRISE WATER COMPANY INC. FOR A CERTIFICATE OF CONVIENENCE AND NECESSITY TO PROVIDE WATER SERVICE IN COCHISE COUNTY, ARIZONA.
DOCKET NOS. W-20453A-06-0247 AND W-20454A-06-0248

IN THE MATTER OF THE JOINT APPLICATION OF NORTHERN SUNRISE WATER COMPANY INC. AND SOUTHERN SUNRISE WATER COMPANY INC. FOR THE APPROVAL OF SALE AND TRANSFER OF WATER UTILITY ASSETS, AND CANCELLATION OF CERTIFICATES OF CONVENIENCE AND NECESSITY, 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, LOCATED IN COCHISE COUNTY, ARIZONA.
DOCKET NOS. W-20453A-06-0251, W-20454A-06-0251, W-01646A-06-0251, W-01868A-06-0251, W-02235A-06-0251, W-02316A-06-0251, W-02230A-06-0251, W-01629A-06-0251, W-02240A-06-0251

Attached is the Staff Report for the above referenced applications. Staff recommends approval of the applications subject to several conditions.

EGJ:LAJ:tdp

Originator: Linda A. Jaress

Service List for: Northern Sunrise Water Company, Inc. and Southern Sunrise Water Company, Inc.

Docket Nos. W-20453-06-0247 et.al.

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

NORTHERN SUNRISE WATER COMPANY, INC.
SOUTHERN SUNRISE WATER COMPANY, INC.
MIRACLE VALLEY WATER COMPANY
COCHISE WATER COMPANY
HORSESHOE RANCH WATER COMPANY
CRYSTAL WATER COMPANY
MUSTANG WATER COMPANY
CORONADO ESTATES WATER COMPANY
SIERRA SUNSET WATER COMPANY

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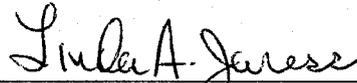
APPLICATION FOR TRANSFERS OF ASSETS, EXTINGUISHMENT OF CC&NS AND
APPLICATION FOR CC&NS
TO PROVIDE WATER SERVICE IN COCHISE COUNTY, ARIZONA

MAY 2006

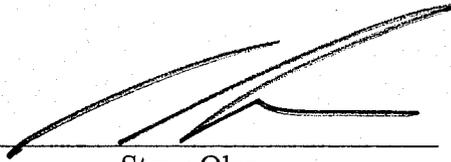
STAFF ACKNOWLEDGEMENT

The Staff Report for Northern Sunrise Water Company, Inc., Southern Sunrise Water Company, Inc. and the McLain Systems (Docket Nos. W-20453A-06-0247, et. al.) was prepared by the following Staff members: Linda Jaress performed the general review and analyses of the Company's application, Steve Olea and John Chelus performed the engineering and technical analysis and James Dorf and Ron Ludders performed the rates and financial analysis.

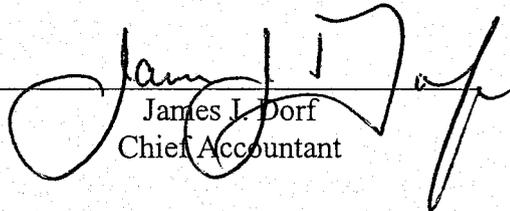
Contributing Staff:



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Chief Accountant

EXECUTIVE SUMMARY
NORTHERN SUNRISE WATER COMPANY, SOUTHERN SUNRISE WATER
COMPANY AND THE MCLAIN SYSTEMS
DOCKET NOS. W-20453A-06-0247, ET. AL.

The Staff Report briefly reviews the history of the McLain Systems and provides an overview of the operating experience and financial strength of Algonquin Power Income Fund, the ultimate parent of Northern and Southern Sunrise. Based upon the financial strength and international and local ownership of water utilities by the fund and its subsidiary Algonquin Water Resources of America, Inc., Staff believes Northern Sunrise and Southern Sunrise to be fit and proper entities to own and operate the McLain Systems.

Staff addresses Decision No. 68667, the Emergency Rate Case Decision, and recommends certain modifications necessary to remove the \$9.00 per connection System Improvement Surcharge and recommends a final audit of the collection and expenditure of the funds from the surcharge.

The moratorium on hook-ups to the McLain Systems imposed by Decision No. 68272 is also addressed. Briefly, Staff recommends that the moratorium remain in place until all the projects shown on Exhibit 4 are completed. Northern and Southern Sunrise have estimated the completion of those projects within six to twelve months of the decision in this docket.

Attached as Exhibit 2, is Staff's Engineering Report which describes the McLain Systems, the plant in place in each system and the improvements required to provide adequate service to the customers.

Exhibit 3 is the Finance and Accounting Report which proposes rates for adoption by the Commission. Staff proposes that the Commission approve the same rates as proposed by Northern and Southern or the alternative, phased-in rates, the phase of which are timed to reflect Northern and Southern's expenditures on plant.

Staff believes the cancellation of all existing CC&Ns held by the McLain Systems, the transfer of assets from the McLain Systems to Northern and Southern and the approval of new CC&Ns for Northern and Southern are in the public interest because the management of Northern and Southern have the operations and managerial experience along with capital resources sufficient to end the water service crises the McLain System customers have experienced and continue to experience. Thus, Staff recommends approval of the applications. In addition to the recommendation of approval, Staff also offers 26 other recommendations to ensure that Northern and Southern take appropriate accounting and operational measures to improve service.

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Introduction

On April 13, 2006, Northern Sunrise Water Company, Inc. ("Northern") and Southern Sunrise Water Company, Inc. ("Southern") (combined, "the Companies") each filed an application for a new Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("Commission") to provide water service in Cochise County, Arizona. On the same day, Northern and Southern filed a joint application for approval of the sale and transfer of water utility assets and cancellation of the CC&Ns of 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 ("the McLain Systems" or "the Systems"). The CC&N application of Northern includes an additional area called Babocomari which is adjacent to the Coronado Estates Water Company and to which Northern requests to extend its CC&N. Exhibit 1, attached, contains maps and the legal descriptions of the areas at issue.

If the Commission were to approve the applications, any existing CC&Ns for the McLain Systems would be cancelled, the assets of the McLain Systems would be ultimately transferred to Northern and Southern, and Northern and Southern would be granted CC&Ns to serve Babocomari and the customers formerly served by McLain Systems. The McLain Systems would be divided geographically. Thus, Northern would serve the former Coronado Estates Water Company, Sierra Sunset Water Company, Crystal Water Company, Mustang Water Company and Babocomari. Southern would serve territories currently served by Cochise Water Company, Miracle Valley Water Company and Horseshoe Ranch Water Company.

History

The history of the McClain Systems is well known to the Commission and Staff. The McLain Systems are in serious disrepair and are operating under the management of an interim operator. The physical inadequacies and necessary repairs, maintenance and capital improvements for each system are listed in Staff's Engineering Report (from the 2005 Docket resulting in Decision No. 68412) attached as Exhibit 2.

Rather than again relate the specifics of the inadequacies, insufficiencies and non-compliance of the Systems, Staff requests that the Commission take administrative notice of the following decisions:

- Decision No. 66241, September 16, 2003 (Order to Show Cause and appointment of interim manager)
- Decision No. 66897, April 6, 2004 (denial of an application for stay of the appointment of an interim manager)
- Decision No. 68272, November 8, 2005 (creates moratorium on hook-ups)

- Decision No. 68412, January 23, 2006 (determines fair value rate base of the systems). The listed decisions, if included in this docket, would supply the necessary evidence to the record relating the facts and circumstances which led up to this docket.
- Decision No. 68667, April 20, 2006 (the emergency rate case decision)

Algonquin

Northern and Southern are subsidiaries of Algonquin Water Resources of America, Inc. ("Algonquin"). Algonquin is a subsidiary of Algonquin Power Income Fund ("the Fund"), an unincorporated trust established under the laws of Ontario, Canada. According to its 2005 Annual Report, the Fund's principal business activity is the ownership of electric generation and infrastructure facilities, through investments in subsidiaries. In 2005, 27.1 percent of the Fund's revenue was generated in Canada with the remaining 72.9 percent being generated in the United States. The majority of Algonquin's 2005 total revenues of \$179.3 million were from sales of electricity with approximately 16 percent, or \$28.7 million generated by water reclamation and distribution. The Fund's earnings and assets for 2005 were \$21.8 million and \$823.8 million, respectively.

Algonquin currently owns five Arizona water utilities: Bella Vista Water Company, Litchfield Park Service Company, Gold Canyon Sewer Company, Black Mountain Sewer Corporation, and Rio Rico Utilities. The Commission's Utilities Division Compliance Section reports that there are no outstanding compliance issues with the five companies. Consumer Services Section records show, for the period of January 1, 2003 to April 21, 2006, for the five companies combined, a total of 41 complaints, 54 inquiries and 206 opinions were logged. There currently is only one unresolved complaint and the opinions tallied are related to the pending Gold Canyon Sewer Company rate case. Staff concludes that based upon the ownership by Algonquin, Algonquin's financial strength and the operating history in Arizona of other Algonquin subsidiaries, that Northern and Southern are fit and proper entities to receive the McLain System assets and be granted CC&Ns in the area of the McLain Systems and the additional area of Babocomari.

The Sales Transaction

The McClain Systems are currently in bankruptcy proceedings (Case No. 4:30-bk-04125). On July 7, 2004, a sales agreement was entered by the Bankruptcy Estate of Johnny A. McLain and Linda M. McLain and Algonquin. On March 20, 2006, the Bankruptcy Court confirmed the sales agreement. The purchase price was set at an amount equal to the rate base for the McLain Systems to be determined by the Commission. In Decision No. 68412, the Commission determined the rate base of the McLain Systems to equal \$696,752. The proceeds of the sale will be distributed among several creditors.

The Bankruptcy Court required Algonquin to receive Commission approval of the issuance of appropriate CC&Ns and the sale and transfer of the assets before the sales agreement

can be finalized. After the sale to Algonquin, the assets will be transferred to Northern and Southern. According to a response to Staff's data requests, the Companies estimated that the sales transaction will be consummated approximately 30 days after the Commission's decision in this case, "depending on the outcome of other approvals and consents."

Staff recommends that Northern or Southern file the closing documents with Docket Control, as a compliance item in this docket, within 15 calendar days of closing of the sale transaction. This will provide notice to the Commission that the Systems have officially changed hands.

Description of the Water Systems, Plant Condition and Engineering Report Update

As previously mentioned, Staff's Engineering Report on the Systems is attached as Exhibit 2. It is the same Report which was attached to Decision No. 68412 and which is also attached to the applications. The Report describes the plant in place at each system. Since the date of the Report, some improvements to the McLain Systems have been made. These improvements include two 100-gallon hydro tanks, new electrical and a new well meter and well regulator valve for the Sierra Sunset System. The Miracle Valley system received a new well pump, new electrical and a new pressure tank air controller. The cost of the improvements totals approximately \$21,000. In addition, the well at Coronado Estates may only produce 52 gallons per minute and not 300 gallons per minute. Although the fenced area where this well is located is only 50 feet by 50 feet, the size of the parcel is approximately one acre. The conclusion of the Report, that large investments in the Systems must be made before the customers will receive adequate, safe and reliable service to the customers remains the same.

Operations under Northern and Southern Ownership

Northern and Southern will be operated and managed by the employees of other water utilities owned by Algonquin in Arizona. However, the maintenance and operations will primarily be coordinated and performed by the Bella Vista Water office in Sierra Vista. Customers will be given an 800 number to call for service, repairs and billing questions. The 800 number calls will be answered and coordinated out of Algonquin's Avondale, Arizona office. The customers will also be given a number for emergencies which will be answered in Sierra Vista. The Sierra Vista office expects to add personnel to accommodate the Northern and Southern operations.

Northern and Southern's certified operator will be Larry Diaz who is located in Sierra Vista.

Franchises

Northern and Southern have forwarded drafts of their applications for franchises to Cochise County. These applications will be formally filed with the County shortly. Staff

recommends that the Companies file the franchise agreements with Docket Control, as a compliance item in this docket, within 365 calendar days of the Decision in this case.

Babocomari

Northern is requesting to include in its proposed certificated area approximately 3.7 square-miles in an area contiguous to the southern boundary of the current Coronado Estates to serve the Babocomari Development Association. Northern's application includes a request for service from the landowner of this area. Preliminary engineering plans for the system are being developed at this time. According to the report to Arizona Department of Water Resources ("ADWR") for the Demonstration of Adequate Water Supply, approximately 977 acre-feet per year of water supply would be needed for an anticipated 1,500 single-family units within this area. However, Northern expects to serve 400 customers in the area by the end of five years. According to Northern, the developer is willing to contribute land within the development upon which Northern would construct a storage tank and booster pumping facilities. No additional well or well site is being proposed at this time because Babomocari will be connected to the Coronado System.

Northern has not received the Arizona Department of Environmental Quality ("ADEQ") Certificate of Approval to Construct ("ATC") for facilities to serve the Babocomari project. Staff recommends that Northern file with Docket Control, as a compliance item in this docket, a copy of the ATC for the Babocomari project within 365 calendar days from the effective date of an order in this proceeding.

Northern has submitted a report prepared for Babocomari Development Association to the Arizona Department of Water Resources ("ADWR") for its Demonstration of Adequate Water Supply. Staff recommends that Northern file with Docket Control, as a compliance item in this docket, a copy of the developers' Letter of Adequate Water Supply for the Babocomari property demonstrating that there is adequate water, within 365 calendar days from the effective date of the decision in this proceeding. If the Letter of Adequate Water Supply is not docketed within this time frame, the CC&N for the Babocomari area shall null and void, after due process.

Rates

It is a long-held regulatory precept that rates to customers should reflect the costs to serve them. Northern's and Southern's costs will differ significantly from those of the McLain Systems. The cost differential is primarily attributed to the cost of the new plant that Northern and Southern intend to install and the change in operating characteristics that will accompany new ownership. Staff believes the significant changes in costs, the expectations of improved service to customers and the granting of new CC&Ns support the imposition of new rates as opposed to maintaining the current rates which reflect costs of another era.

Exhibit 3, attached, is Staff's Financial and Rate Analysis Report. The Report discusses and offers rate proposals for the Northern and Southern systems. Both Staff's and the Companies' proposed rates are designed in inverted tiers to encourage conservation. Staff sets forth two proposals. The first set of rates proposed are identical to those proposed by the Companies. Staff also provides an alternative of phased-in rates, which would ameliorate rate shock for many customers and reflect the timing of the plant investment made by Northern and Southern. The phase-in of the rates would apply only to the monthly basic service charge. The new commodity charges would not change with the phases.

Schedules REL-5 and REL-6 attached to Exhibit 3 show the proposed rates and provide bill analysis for the typical 5/8 X 3/4 meter customer. It can be seen that the phased-in rates, depending on the phase, would result in some systems receiving significant increases in the average bill while the average bill in other systems would decline. This is an unfortunate, unavoidable result of the vintage of the current rates and the disparity in the current rates charged by the McLain Systems.

Curtailement Plan and Backflow Prevention Tariffs

A curtailment plan tariff is an effective tool for water companies to use to manage water resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since Northern and Southern have not proposed this type of tariff, Staff recommends that NSWC and SSWC file a curtailment plan tariff in the form found on the Commission's website at www.cc.state.az.us/utility/water/forms.htm. This tariff should be docketed, as a compliance item in this docket, within 45 calendar days of the effective date of the decision in this proceeding for review and certification by Staff.

Northern and Southern have not proposed backflow prevention tariffs. Staff recommends that Northern and Southern file backflow prevention tariffs in the form found on the Commission's website at www.cc.state.az.us/utility/forms/cross_c.pdf. This tariff should be docketed, as a compliance item in this docket, within 45 calendar days of the effective date of the decision in this proceeding for review and certification by Staff.

Decision No. 68667—The Emergency Rate Case Decision

In July 2004, the Arizona Small Utilities Association ("ASUA") became interim manager of the Systems. ASUA has consistently experienced negative cash flow from operations of the Systems. Decision No 68667, dated April 20, 2006, the emergency rate case decision, approved a monthly, interim surcharge of \$9.00 per meter or connection for the McLain Systems. Among other requirements, the Decision ordered the ASUA "or the future owner of the McLain Systems" to file an application for a permanent rate increase no later than March 15, 2007, using a 2006 test year. Northern and Southern Sunrise's applications request a calendar year 2007 test year because a 2006 test year would not be as reflective of normal operating conditions as a 2007 test year. Northern and Southern also expressed concerns about conditions in Decision No.

68667 that "run with the plant" meaning conditions which would apply not to just ASUA but to Northern and Southern as new owners. The primary concern expressed was with the System Improvement Surcharge ("SIS") which was ultimately adopted by the Decision.

First, regarding the test year issue, Staff believes that due to the extensive repairs and necessary construction to be undertaken by Northern and Southern to enable the former McClain Systems to provide adequate service, a test year of 2007 would be appropriate. It would better reflect the ongoing level of investment and expenses than a 2006 test year. A 2006 test year would include six months of non-representative and possibly inaccurate levels of expenses. Staff also believes that the Commission should set rates for the Systems based upon the costs to be incurred by Northern and Southern rather than the costs incurred by ASUA. Thus, Staff recommends Decision No. 68667 be modified to allow for a calendar year ending December 31, 2007 be used as the test year. The test year and other rate case issues are further discussed in Staff's Finance and Regulatory Accounting Section Report attached as Exhibit 3.

The SIS was implemented to recover costs of repair, construction and accounts payable incurred by ASUA. The rates filed by Northern and Southern reflect not only the fair value of the assets as established in Decision No. 68412, but include the cost of capital improvements, costs associated with the acquisition of the McLain Systems and the costs of operations. These costs do not necessarily reflect the costs ASUA have experienced during its tenure as operator. Therefore, Staff recommends that Decision No. 68667 be modified to remove the SIS the first day of the month after the closing of the sale transaction to Northern and Southern.

The Decision also ordered ASUA and any future owner of the McLain Systems to "maintain a separate bank account in which it will deposit and withdraw all funds received pursuant to its System Improvement Charge." Application of the SIS funds on a pro rata basis among the systems and an annual audit of the SIS fund expenditures by the Utilities Division were also required by the Decision. Because Staff is recommending new rates for the Systems under the Northern and Southern ownership which do not include an SIS, the requirements for a separate bank account and pro rata application of the funds would no longer be necessary and should not apply to Northern and Southern. However, Northern and Southern should retain all records from the Systems regarding the SIS until the conclusion of the 2008 rate case filing. To help reduce inadvertent or unintended subsidies of the Northern by Southern or vice versa, Staff recommends the Commission order Northern and Southern to maintain separate accounting for Northern and Southern and provide an evaluation in the 2008 general rate filing as to whether separate rates are appropriate for Northern and Southern at that time.

Regarding the annual audit of the SIS funds required by Decision No. 68667, Staff recommends that requirement be modified to require Staff to perform an audit of the collection and expenditure of the SIS as soon as practicable following the closing of the sale. The audit would encompass the period from the inception of the SIS to the closing of the sale. Staff will then file the results of the audit in this consolidated docket along with any resulting recommendations.

Moratorium on Hook-ups

Decision No. 68272 imposed a moratorium on new customer hook-ups to the McLain Systems "until each of the systems can demonstrate to the Commission that it is in the public interest to remove the moratorium." Staff does not believe that the sale of the Systems to Northern and Southern should affect the moratorium on hook-ups.

Attached as Exhibit 4 is Northern and Southern's May 11, 2006 response to Staff Data Request REL- 2.1. The response lists projects necessary for the provision of adequate service to the McLain Systems. Northern and Sunrise have projected that the entire list of projects in Exhibit 4 will be completed within 12 months of the Commission's decision in this case. In addition to that list, as set forth in Decision No. 68272, the Sierra Sunset System requires an additional 30,000 gallons of storage. Staff recommends that the Commission order Northern and Southern to complete all projects listed in Exhibit 4, plus the 30,000 gallons of storage for the Sierra Sunset system, by June 30, 2007.

Staff also recommends that as the projects listed for each former McLain system are completed, the moratorium should be lifted for that system. For example, once the projects listed for the Mustang system are completed and confirmed as completed by Staff, Northern could then hook up new customers to the Mustang system. However, because the new Babomocari area will be physically connected to the Coronado system, Staff recommends the moratorium also apply to Babomocari until the Coronado system improvements are completed. Staff also recommends that for the purposes of the moratorium, the Horseshoe Ranch and Cochise systems be considered one system because they are interconnected.

Administratively, Staff recommends that after the projects for a system or systems are completed, Northern or Southern should submit a notice of completion in this Docket. This notice of completion shall include an Approval of Construction from ADEQ for those projects requiring such ADEQ. Staff will then inspect the projects and file a memo in the Docket. If the Staff memo concurs that the projects are completed, the moratorium will be considered lifted for the system or systems. Staff recommends the Commission include in its decision an ordering paragraph providing for the lifting of the moratorium for each system in this manner.

Attached as Exhibit 5 are Off-Site Hook-up Fee Tariffs for Northern and Southern. Staff recommends the Commission order Northern and Southern to apply these tariffs to the new service connections in systems for which the moratorium has been lifted. The proposed Hook-up Fee tariffs are identical for Northern and Southern.

Public Interest

The management of Northern and Southern have the operations and managerial experience along with capital resources sufficient to end the water service crises the McLain System customers have experienced and continue to experience. The Arizona utilities currently

owned by Algonquin are providing adequate service, are in compliance with Commission decisions and with ADEQ.

Decision No. 68412 stressed the importance of finding a buyer for the McLain Systems by saying that "It is in the public interest to find a buyer for the McLain Water Systems who is able to repair the systems and provide adequate service to the residents as soon as possible." Algonquin was the only bidder for the Systems.

For the reasons listed above, Staff believes Northern and Southern are fit and proper entities to own and operate the Systems. The approval of the applications for the transfer of assets and CC&Ns should expedite the resolution of the problems customers have endured. Therefore, Staff believes it is in the public interest for the Commission to approve the applications of Northern, Southern and The McLain Systems. Due to the proximity of Babocomari to the Systems and the opportunity to achieve economies of scale with the addition of customers, Staff also recommends approval of the extension of the CC&N of Northern to the Babocomari area be approved.

Recommendations

Staff recommends approval of CC&Ns for Northern and Southern to provide utility water service in Cochise County in the areas delineated in Exhibit 1. Staff recommends approval of the transfer of assets from the McLain Systems to Algonquin and to Northern and Southern. Staff also recommends approval of the cancellation of any CC&Ns held by 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. Staff also recommends the Commission require the following:

1. Staff recommends that Northern or Southern file the closing documents with Docket Control, as a compliance item in this docket, within 15 calendar days of closing of the sale transaction.
2. Staff recommends that Northern and Southern file the franchise agreement(s) with Cochise County in Docket Control, as a compliance item in this docket, within one year of the Decision in this case.
3. Staff recommends that Northern and Southern be ordered to complete the projects listed in Exhibit 4, along with 30,000 gallons of storage for the Sierra Sunset system, by June 30, 2007, regardless of which rate design the Commission adopts.

Babocomari:

1. Staff recommends the Commission approve the CC&N area of Northern to include the Babomocari area as included in Exhibit 1.

2. Northern should file with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct for the Babocomari project within one year from the effective date of the decision in this proceeding.
3. Northern should file with Docket Control, as a compliance item in this docket, a copy of the developers' Letter of Adequate Water Supply for the Babocomari area demonstrating that there is adequate water, within one year from the effective date of the decision in this proceeding. If the Letter of Adequate Water Supply is not docketed within this time frame, the CC&N for the Babocomari area shall null and void, after due process.
4. Staff recommends the moratorium on hook-ups apply to Babomocari until the Coronado system improvements are completed and confirmed completed by Staff.

Accounting and Rates:

1. Northern and Southern shall charge the recommended rates and charges as shown in Schedule REL-5, attached. If the Commission adopts the non-phased rates, Staff recommends that Northern and Southern be required to complete all projects noted on Exhibit No. 4 to the Staff Report by June 30, 2007. If the Commission adopts the phased rates, Northern and Southern shall implement the Phase II rates the first day of the month after Northern and Southern notify Staff and Staff files a memo in this docket verifying that at least \$500,000 of plant improvements have been made to the systems. The Phase III rates shall be implemented the first day of the month after Northern and Southern notify Staff that all the improvements listed on Exhibit No. 4 have been made and Staff files a memo in this docket that such improvements have been made.
2. In addition to collection of its regular rates and charges, Northern and Southern may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C.R14-2-409.D.5.
3. The rates approved by the Commission shall become effective the first day of the month following the date of the closing of the purchase and sale agreement with the Bankruptcy Court.
4. Northern and Southern must file in Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges, including the Hook-Up Fee Tariffs, within 30 days after this Decision is issued.
5. Staff recommends that Northern and Southern file a deferred payment plan tariff for the benefit of those individuals who are struggling to pay their bills under the new rates but who commit to payment of their bills over a reasonable period of time, and who demonstrate that they have secured bill payment assistance from a government agency, a community agency, a charity or faith-based institution. Northern and Southern will

consult with Staff to determine the appropriate time period over which the deferred payments will be recovered.

6. Northern and Southern be permitted to defer acquisition related costs to Account 186.3, Regulatory Assets and the appropriate accounting treatment for such costs will be determined in the next rate application by Northern and Southern as discussed in Exhibit 3.
7. Northern and Southern must maintain their books and accounts in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform Systems of Accounts.
8. Northern and Southern must use the water depreciation rates by individual NARUC asset category as delineated in Schedule REL-3, attached.
9. Northern and Southern must maintain separate accounting for their systems and provide an evaluation in its 2008 general rate filing as to whether separate rates are appropriate for Northern and Southern.
10. Northern and Southern must adopt Staff's recommended plant balances as delineated in Schedule REL-1, attached.
11. Northern and Southern must file a rate application no later than June 30, 2008, using a 2007 test year.
12. Staff should be ordered to perform an audit of the collection and expenditure of the SIS as soon as practicable following the closing of the sale. The audit would encompass the period from the inception of the SIS to the first day of the month after the closing of the sale. Staff will then file the results of the audit in this docket along with any resulting recommendations.
13. Northern and Southern should be ordered to retain all records from the McLain Systems regarding the SIS at least until the conclusion of its 2008 rate case.
14. Staff recommends the Commission order Northern and Southern to file the Hook-up Fee Tariffs, attached to the Staff Report as Exhibit 5 and apply these tariffs to the new service connections in systems for which the moratorium has been lifted. The Company shall submit an annual Off-Site Hook-Up Fee status report each August to Docket Control for the prior twelve (12) month period, beginning August 2007, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

The Emergency Rate Case – Decision No. 68667

1. Staff recommends Decision No. 68667 be modified to allow for a calendar year ending December 31, 2007, be used as the test year for Northern and Southern's first rate case.
2. Staff recommends that Decision No. 68667 be modified to omit the requirements for a SIS and a separate bank account for the SIS. The SIS shall end the first day of the month after the closing of the sale transaction.

Moratorium

1. Staff recommends that the moratorium on hook-ups imposed by Decision No 68272 remain in place.
2. Staff recommends that once the projects listed by system in Exhibit 4 are completed for a system or systems, Northern or Southern should submit a notice of completion in this Docket. The notice of completion shall include an ADEQ Approval of Construction for all projects that require such approval from ADEQ. Staff will then inspect the projects and file a memo in the Docket. If the Staff memo concurs that the projects are completed, the moratorium will be considered lifted for the system or systems.
3. Staff also recommends that for the purposes of the moratorium, the Horseshoe Ranch and Cochise systems be considered one system.

Exhibit 1

MEMORANDUM

TO: Linda Jaress
Executive Consultant III
Utilities Division

FROM: Barb Wells *law*
Information Technology Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: May 5, 2006

RE: **NORTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20453A-06-0251)**
SOUTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20454A-06-0251)
COCHISE WATER COMPANY (DOCKET NO. W-01868A-06-0251)
CORONADO ESTATES WATER COMPANY (DOCKET NO. W-01629A-06-0251)
CRYSTAL WATER COMPANY (DOCKET NO. W-02316A-06-0251)
HORSESHOE RANCH WATER COMPANY (DOCKET NO. W-02235A-06-0251)
MIRACLE VALLEY WATER COMPANY (DOCKET NO. W-01646A-06-0251)
MUSTANG WATER COMPANY (DOCKET NO. W-02230A-06-0251)
SIERRA SUNSET WATER COMPANY (DOCKET NO. W-02240A-06-0251)
NORTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20453A-06-0247)
SOUTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20454A-06-0248)

Northern and Southern Sunrise have filed an application to transfer the assets and cancel the CC&Ns for the above-referenced water companies (collectively referred to as the "McLain Water Systems").

Attached are copies of the maps for your files.

:bsw

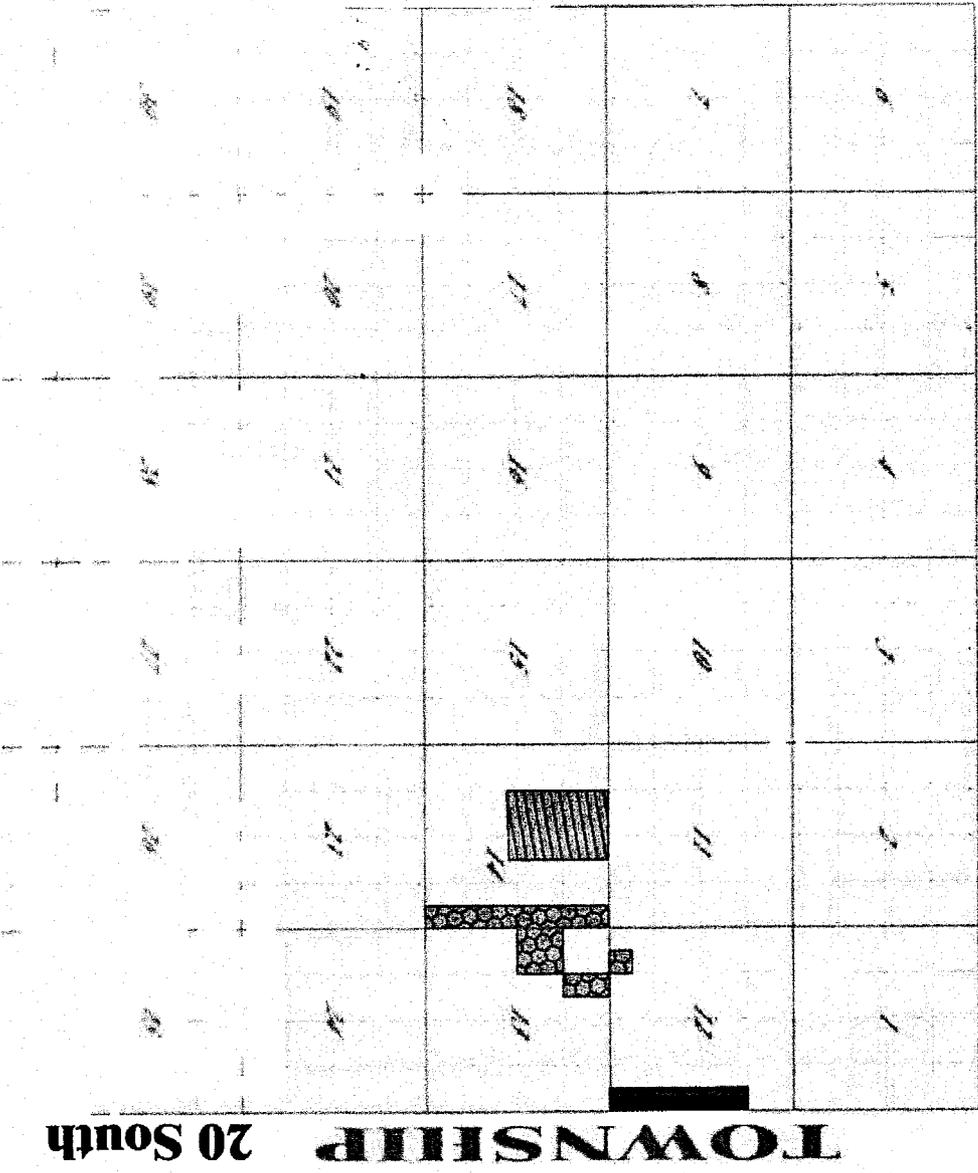
Attachments

cc: Docket Control
Mr. Jay Shapiro
Ms. Deb Person (Hand Carried)
File

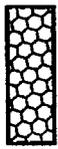
COCHISE COUNTY

Cochise

RANGE 19 East



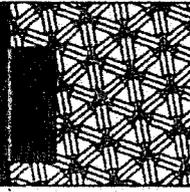
Map No. 23

-  W-2316 (1)
Crystal Water Company
-  W-2230 (1)
Mustang Water Company
-  (2)
Whetstone Water Improvement District
(Nonjurisdictional)
-  Crystal Water Company
Docket No. W-02316A-06-0251
-  Mustang Water Company
Docket No. W-02230A-06-0251
Application to Cancel CC&N and Transfer to
Northern Sunrise Water Company
Docket No. W-20453A-06-0251
-  Northern Sunrise Water Company
Docket No. W-20453A-06-0247
Application for CC&N

COCONINO COUNTY

Cochise

RANGE 20 East

						
	1	1	1	1	1	
	2	2	2	2	2	
	3	3	3	3	3	
	4	4	4	4	4	
	5	5	5	5	5	
	6	6	6	6	6	
	7	7	7	7	7	
	8	8	8	8	8	
	9	9	9	9	9	
	10	10	10	10	10	
	11	11	11	11	11	
	12	12	12	12	12	
	13	13	13	13	13	
	14	14	14	14	14	
	15	15	15	15	15	
	16	16	16	16	16	
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	20	20	20	20	20	

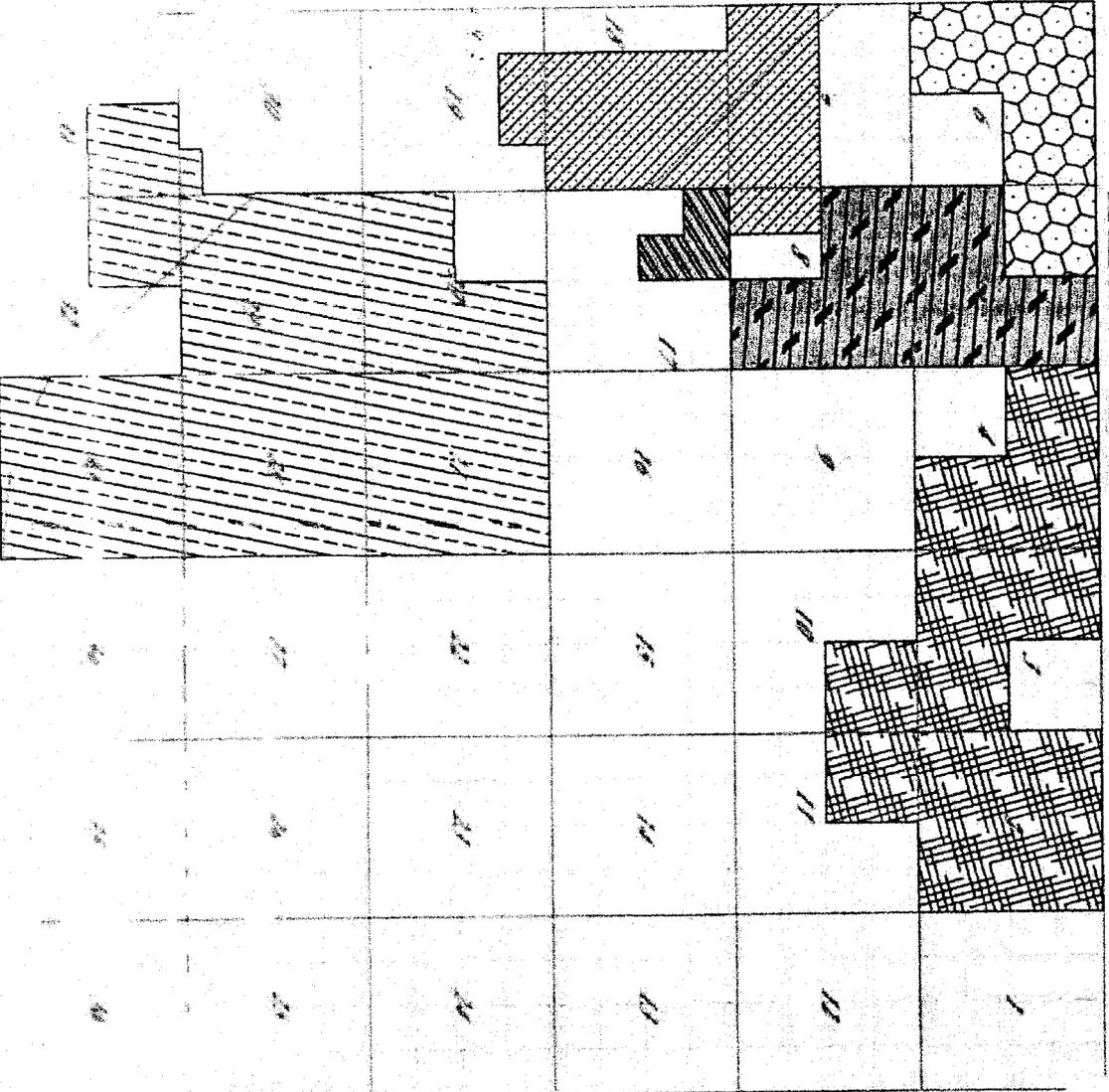
TOWNSHIP 20 South

Map No. 24

-  W-1629 (1)
Coronado Estates Water Company
-  W-2355 (1)
Sulger Water Company #2
-  (2)
Whetstone Water Improvement District
(Nonjurisdictional)
-  Coronado Estates Water Company
Docket No. W-01629A-06-0251
-  Sierra Sunset Water Company (Revoked)
Docket No. W-02240A-06-0251
Application to Cancel CC&N and Transfer to
Northern Sunrise Water Company
Docket No. W-20453A-06-0251
-  Northern Sunrise Water Company
Docket No. W-20453A-06-0247
Application for CC&N

COCHISE COUNTY Cochise

RANGE 21 East



TOWNSHIP 23 South

-  W-2465 (6)
Bella Vista Water Company, Inc.
-  W-1868 (1)
Cochise Water Company, Inc.
-  W-1906 (2)
East Slope Water Company
-  W-2235 (1)
Horseshoe Ranch Water Company
-  W-1602 (1)
Nicksville Water Company, Inc.
-  W-2062 (2)
Southland Utilities Company, Inc.
-  Cochise Water Company
Docket No. W-01868A-06-0251
-  Horseshoe Ranch Water Company
Docket No. W-02235A-06-0251
-  Application to Cancel CC&N and Transfer to
Southern Sunrise Water Company
Docket No. W-20454A-06-0251
-  Southern Sunrise Water Company
Docket No. W-20454A-06-0248
Application for CC&N

COCONINO COUNTY

Cochise

Map No. 39

RANGE 22 East

1	2	3	4	5	6
7	8	9	10	11	12
13	14	15	16	17	18
19	20	21	22	23	24
25	26	27	28	29	30
31	32	33	34	35	36

TOWNSHIP 23 South



W-1646 (1)

Miracle Valley Water Company, Inc.



W-1443 (1)

Palomins Development Company



Southern Sunrise Water Company
 Docket No. W-20454A-06-0248
 Application for CC&N

Miracle Valley Water Company, Inc.
 Docket No. W-01646A-06-0251
 Application to Cancel CC&N and Transfer to
 Southern Sunrise Water Company
 Docket No. W-20454A-06-0251

MEMORANDUM

TO: Linda Jaress
Executive Consultant III
Utilities Division

FROM: Barb Wells *bw*
Information Technology Specialist
Utilities Division

THRU: Del Smith *ds*
Engineering Supervisor
Utilities Division

DATE: May 5, 2006

RE: **SOUTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20454A-06-0248)**
AMENDED LEGAL DESCRIPTION
NORTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20453A-06-0251)
SOUTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20454A-06-0251)
COCHISE WATER COMPANY (DOCKET NO. W-01868A-06-0251)
CORONADO ESTATES WATER COMPANY (DOCKET NO. W-01829A-06-0251)
CRYSTAL WATER COMPANY (DOCKET NO. W-02316A-06-0251)
HORSESHOE RANCH WATER COMPANY (DOCKET NO. W-02235A-06-0251)
MIRACLE VALLEY WATER COMPANY (DOCKET NO. W-01646A-06-0251)
MUSTANG WATER COMPANY (DOCKET NO. W-02230A-06-0251)
SIERRA SUNSET WATER COMPANY (DOCKET NO. W-02240A-06-0251)
NORTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20453A-06-0247)

The area requested by Southern Sunrise for a CC#N has been plotted with no complications using an amended legal description, which has been docketed. This legal description is attached and should be used in place of the original description submitted with the application.

Also attached are copies of the maps for your files.

:bsw

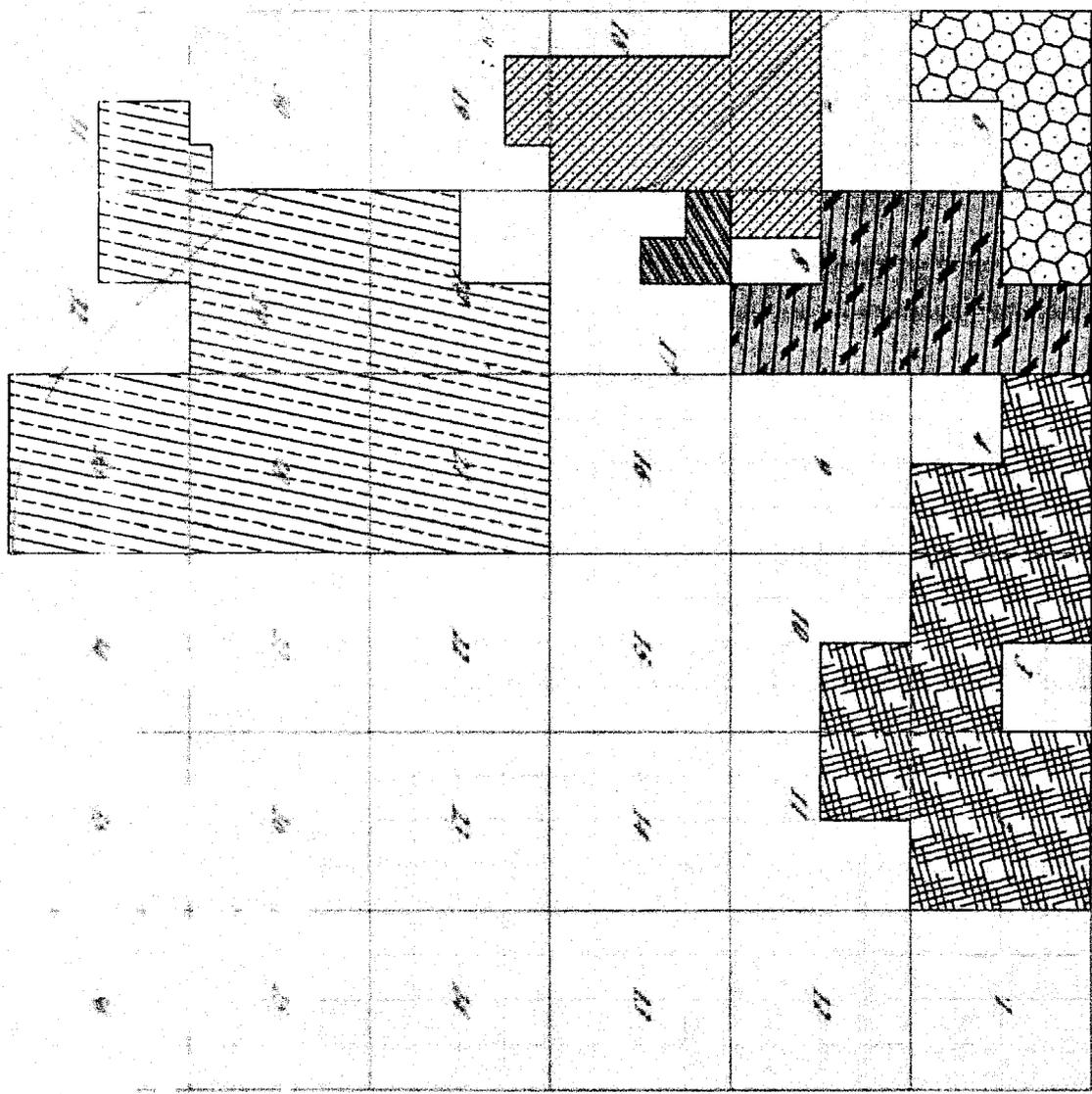
Attachments

cc: Docket Control
Mr. Jay Shapiro
Ms. Deb Person (Hand Carried)
File

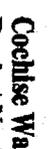
COCHISE COUNTY

Cochise

RANGE 21 East



TOWNSHIP 23 South

-  W-2465 (6)
Bella Vista Water Company, Inc.
-  W-1868 (1)
Cochise Water Company, Inc.
-  W-1906 (2)
East Slope Water Company
-  W-2235 (1)
Horseshoe Ranch Water Company
-  W-1602 (1)
Nicksville Water Company, Inc.
-  W-2062 (2)
Southland Utilities Company, Inc.
-  Cochise Water Company
Docket No. W-01868A-06-0251
-  Horseshoe Ranch Water Company
Docket No. W-02235A-06-0251
-  Application to Cancel CC&N and Transfer to
Southern Sunrise Water Company
Docket No. W-20454A-06-0251
-  Southern Sunrise Water Company
Docket No. W-20454A-06-0248
Application for CC&N

GOVERNMENT OF COCHISE

RANGE 22 East

1	2	3	4	5	6
7	8	9	10	11	12
13	14	15	16	17	18
19	20	21	22	23	24
25	26	27	28	29	30
31	32	33	34	35	36

TOWNSHIP 23 South

 W-1646 (1)

Miracle Valley Water Company, Inc.

 W-1443 (1)

Palominas Development Company

Miracle Valley Water Company, Inc.
 Docket No. W-01646A-06-0251
 Application to Cancel CC&N and Transfer to
 Southern Sunrise Water Company
 Docket No. W-20454A-06-0251


 Southern Sunrise Water Company
 Docket No. W-20454A-06-0248
 Application for CC&N

SOUTHERN SUNRISE WATER COMPANY
DOCKET NO. W-20454A-06-0248
AMENDED LEGAL DESCRIPTION

Township 23 South, Range 21 East, Cochise County

The Northeast $\frac{1}{4}$ and the South $\frac{1}{2}$ of Section 5

The Southeast $\frac{1}{4}$ and the North $\frac{1}{2}$ of Section 8

The North $\frac{1}{2}$ of the Northwest $\frac{1}{4}$ of Section 17

The Southeast $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of Section 17

Township 23 South, Range 22 East, Cochise County

The South $\frac{1}{2}$ of Section 31

MEMORANDUM

TO: Linda Jaress
Executive Consultant III
Utilities Division

FROM: Barb Wells *bw*
Information Technology Specialist
Utilities Division

THRU: Del Smith *CS*
Engineering Supervisor
Utilities Division

DATE: May 5, 2006

RE: **NORTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20453A-06-0247)**
AMENDED LEGAL DESCRIPTION
NORTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20453A-06-0251)
SOUTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20454A-06-0251)
COCHISE WATER COMPANY (DOCKET NO. W-01868A-06-0251)
CORONADO ESTATES WATER COMPANY (DOCKET NO. W-01629A-06-0251)
CRYSTAL WATER COMPANY (DOCKET NO. W-02316A-06-0251)
HORSESHOE RANCH WATER COMPANY (DOCKET NO. W-02235A-06-0251)
MIRACLE VALLEY WATER COMPANY (DOCKET NO. W-01646A-06-0251)
MUSTANG WATER COMPANY (DOCKET NO. W-02230A-06-0251)
SIERRA SUNSET WATER COMPANY (DOCKET NO. W-02240A-06-0251)
SOUTHERN SUNRISE WATER COMPANY (DOCKET NO. W-20454A-06-0248)

The area requested by Northern Sunrise for a CC#N has been plotted with no complications using an amended legal description, which has been docketed. This legal description is attached and should be used in place of the original description submitted with the application.

Also attached are copies of the maps for your files.

:bsw

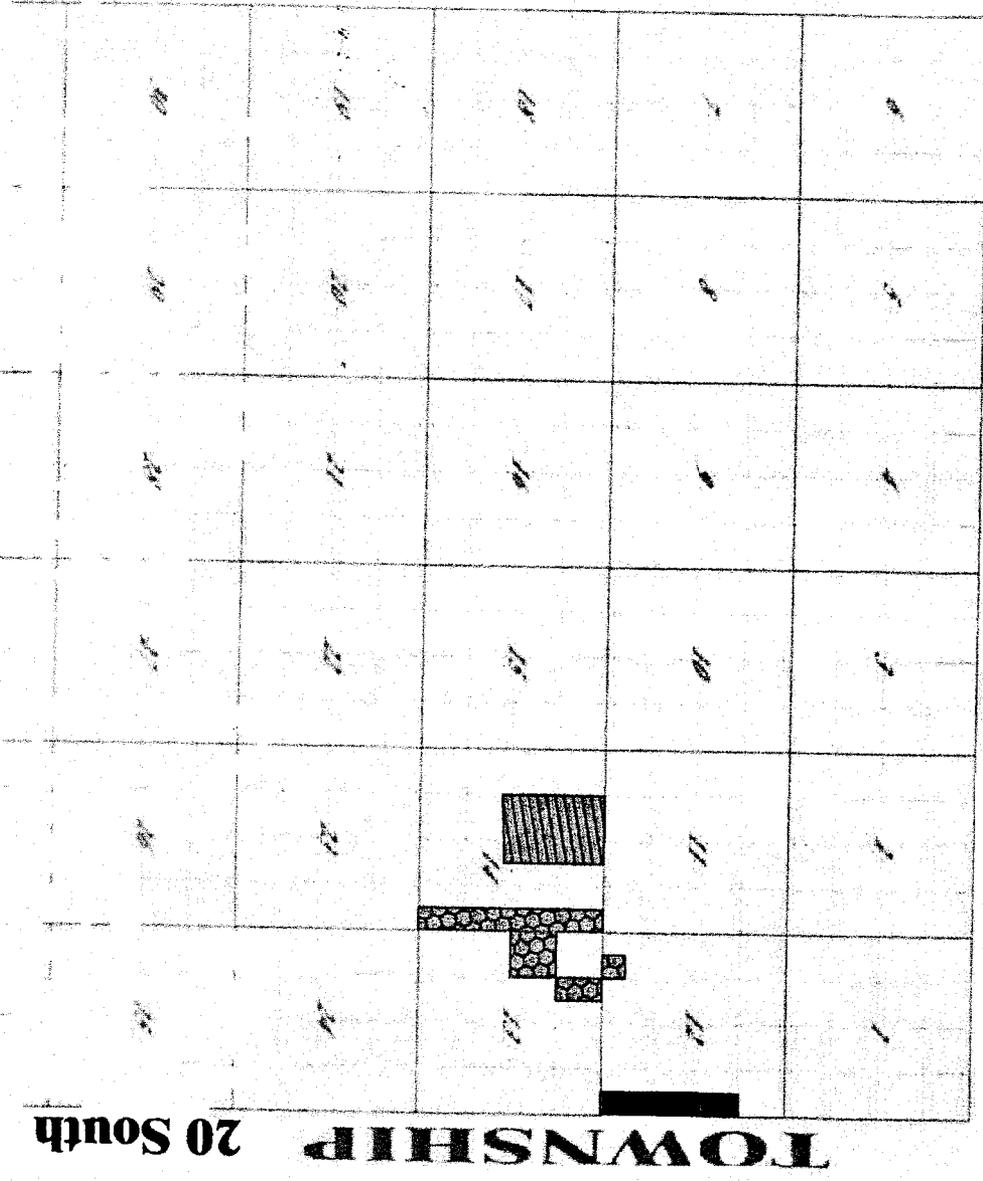
Attachments

cc: Docket Control
Mr. Jay Shapiro
Ms. Deb Person (Hand Carried)
File

COCONINO COUNTY

Cochise

RANGE 19 East



Map No. 23

 W-2316 (1)
Crystal Water Company

 W-2230 (1)
Mustang Water Company

 (2)
Whetstone Water Improvement District
(Nonjurisdictional)

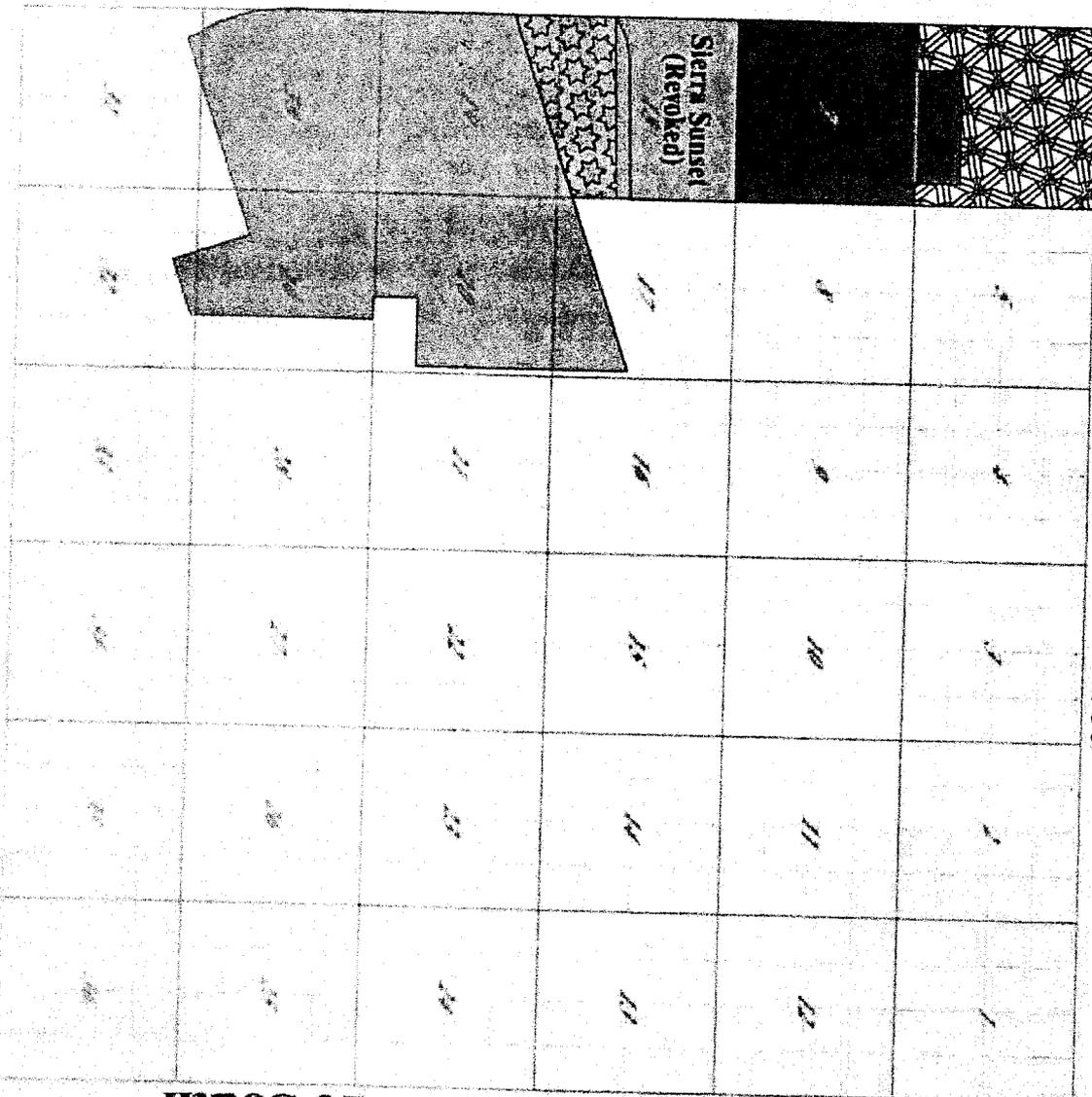
Crystal Water Company
Docket No. W-02316A-06-0251
Mustang Water Company
Docket No. W-02230A-06-0251
Application to Cancel CC&N and Transfer to
Northern Sunrise Water Company
Docket No. W-20453A-06-0251


Northern Sunrise Water Company
Docket No. W-20453A-06-0247
Application for CC&N

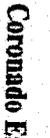
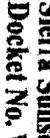
COUNTY OF Cochise

Map No. 24

RANGE 20 East



TOWNSHIP 20 South

-  W-1629 (1)
Coronado Estates Water Company
-  W-2355 (1)
Sulger Water Company #2
-  (2)
Whetstone Water Improvement District
(Nonjurisdictional)
-  Coronado Estates Water Company
Docket No. W-01629A-06-0251
-  Sierra Sunset Water Company (Revoked)
Docket No. W-02240A-06-0251
Application to Cancel CC&N and Transfer to
Northern Sunrise Water Company
-  Docket No. W-20453A-06-0251
-  Northern Sunrise Water Company
Docket No. W-20453A-06-0247
Application for CC&N

NORTHERN SUNRISE WATER COMPANY
DOCKET NO. W-20453A-06-0247
AMENDED LEGAL DESCRIPTION

Township 20 South, Range 20 East, Cochise County

All of Section 18 lying north of San Ignacio del Babacomari Land Grant and that portion of Section 19 lying north of San Ignacio del Babacomari Land Grant

That portion of Parcels 1, 2, 3, 8, 10, 11 and 12, according to a Survey Record in Book 23 of Surveys, Page 89, records of Cochise County, Arizona, being a portion of San Ignacio Del Babocomaria Private Land Grant, more particularly described as follows:

BEGINNING at an ADOT Aluminum Cap monumenting an angle point on the Easterly right-of-way line of Arizona State Highway No. 90, marked P.O.T. 15+146.731;

Thence along the Northerly line of the San Ignacio Del Babocomaria Private Land Grant the following five courses:

1. N71°08'43"E a distance of 111.58 feet;
2. N18°51'04"W a distance of 13.14 feet;
3. N71°07'30"E a distance of 7211.70 feet to a found GLO Stone (43 ½ MM);
4. N71°07'55"E a distance of 2648.92 feet to a found GLO Stone (44 MM);
5. N71°08'29"E a distance of 980.53 feet to the Northeast corner of the above referenced Parcel 3;

Thence along the East line of the above referenced Parcels 3 and 8, S00°00'00"W a distance of 6209.51 feet to the Southeast corner of the above referenced Parcel 8;

Thence along the South line of the above referenced Parcel 8, also being the North line of the above referenced Parcel 12, N90°00'00"W a distance of 1980.43 feet;

Thence S00°00'00"W a distance of 1320.00 feet;

Thence N90°00'00"E a distance of 660.00 feet;

Thence S00°00'00"W a distance of 5382.86 feet to the Southeast corner of the above referenced Parcel 11;

Thence along the Southerly line of the above referenced Parcel 11 the following three courses:

1. S71°11'51"W a distance of 1739.29 feet;
2. N18°48'09"W a distance of 2374.52 feet;
3. S71°11'51"W a distance of 6083.39 feet to the Easterly right-of-way of HWY-90;

NORTHERN SUNRISE WATER COMPANY
DOCKET NO. W-20453A-06-0247
PAGE 2

Thence along the Easterly right-of-way line of HWY-90 the following twelve courses:

1. N32°36'23"W a distance of 23.36 feet;
2. Along a curve to with a radius of 5574.57 feet, an arc length of 91.35 feet, with a chord bearing N32°07'15"W a distance of 91.35 feet;
3. N13°36'12"W a distance of 168.52 feet;
4. Along a curve with a radius of 5524.58 feet, an arc length of 160.21 feet, with a chord bearing N29°13'06"W a distance of 160.20 feet;
5. N52°35'52"W a distance of 142.07 feet;
6. Along a curve with a radius of 5569.65 feet, an arc length of 518.24 feet, with a chord bearing N24°21'55"W a distance of 518.06 feet;
7. N68°20'12"E a distance of 20.62 feet;
8. Along a curve with a radius of 5551.10 feet, and arc length of 580.85 feet, with a chord bearing N18°42'10"W a distance of 580.58 feet;
9. S74°13'21"W a distance of 20.60 feet;
10. Along a curve with a radius of 5587.23 feet, an arc length of 1228.22 feet, with a chord bearing N09°25'22"W a distance of 1225.75 feet;
11. Along a curve with a radius of 5587.23 feet, an arc length of 330.91 feet, with a chord bearing N01°25'43"W a distance of 330.86 feet;
12. N00°16'26"E a distance of 6580.08 feet to the POINT OF BEGINNING.

Bearings based on the Northerly line of the San Ignacio Del Babocomaria Private Land Grant between a found ADOT Aluminum Cap monumenting an angle point on the Easterly right-of-way line of Arizona State Highway No. 90, marked P.O.T. 15+161.351 and a found ½" rebar with surveyor's cap RLS 14181, 31.70 feet Westerly of the Northeasterly corner of Parcel 2 of the above referenced survey. Bearing being N71°07'30"W per Record of Survey recorded in Book 23, Page 89.

Subject to any and all prior easements, rights of way, covenants, restrictions, and encumbrances of record or not of record, which may otherwise legally exist.

Township 20 South, Range 19 East, Cochise County

That portion of the E ½ of the W ½ and of the W ½ of the W ½ of the E ½ of Section 14 lying north of Arizona State Highway 82

The SE ¼ of the SW ¼ of the SW ¼ of Section 12

The W ½ of the NE ¼ of the NW ¼ of Section 13

The SW ¼ of the NW ¼ of Section 13

The E ½ of the E ½ of the E ½ of Section 14

Exhibit 2

**ENGINEERING REPORT
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

TABLE OF CONTENTS

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A. INTRODUCTION.....	1
B. LOCATION OF WATER SYSTEMS.....	1
C. RCN VALUATION METHOD.....	1
D. USED AND USEFUL DETERMINATION.....	2
E. LAND VALUE.....	2
F. GENERAL CONDITION OF WATER SYSTEMS	3
G. SYSTEM IMPROVEMENTS AND CAPITAL INVESTMENT REQUIRED.....	3
H. RESULTS OF THE RCN STUDY FOR THE MCLAIN WATER SYSTEMS	4

EXHIBITS

MUSTANG WATER COMPANY RCN & RCND	1
CRYSTAL WATER COMPANY RCN & RCND	2
SIERRA SUNSET WATER COMPANY RCN & RCND.....	3
CORONADO ESTATES WATER COMPANY & RCND	4
MIRACLE VALLEY WATER COMPANY, INC. RCN & RCND	5
HORSESHOE RANCH WATER COMPANY RCN & RCND.....	6
COCHISE WATER COMPANY RCN & RCND	7
DEPRECIATION RATES	8
COCHISE COUNTY TAX COLLECTOR ITEMIZATION	9

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 as 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.

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.

Acct. No.	Acct. Name	Plant Items for		Year Installed	Unit/Cost	Staff's RCN	Service Life	RCND
		Mustang Water Company						
301	Organization							
303	Land & Land Rights					\$5,000.00		\$5,000.00
			70' x 35' Site 1 - .059 acres					
			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		Staffs RCN	Service Life	RCND
			Installed	Unit Cost			
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	\$17.39
		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 Electrical panel	2005 1978		\$5,878.00 \$5,000.00	8 8	\$5,878.00 \$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. 2"-PVC, 2,500 ft. 3"-PVC, 950 ft. 4"-PVC, 300 ft.	1969 1969 1973 1973	\$3.47 \$3.96 \$4.95 \$5.37	\$13,880.00 \$9,900.00 \$4,702.50 \$1,611.00	50 50 50 50	\$3,886.40 \$2,772.00 \$1,692.90 \$579.96
333	Services	3/4", 51 each (Use 194) 1", 3 each	1978 1978	\$355.00 \$405.00	\$68,870.00 \$405.00	30 30	\$0.00 \$0.00
334	Meters	5/8" x 3/4", 51 each (Use 194) 1", 3 each	1978 1978	\$85.00 \$205.00	\$16,490.00 \$205.00	12 12	\$0.00 \$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 Serra Sursey Water Company	Year Installed	Unit Cost	Staff's		Service Life	PCND
					RCN	Life		
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 55-80772						
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 \$257.00 \$15.05	\$677.25 \$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 not used	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' x 20x1 4x 22.8" Sanks well site 82'x75' storage site 3 104-58-041B			\$3,000.00 \$3,000.00 \$3,000.00 \$6,000.00		\$3,000.00 \$3,000.00 \$3,000.00 \$6,000.00
304	Structures & Improvements	20' x 28' brick shed main site 188 L F Fence Main site 12' Wide Gate 57 LF fence Sanks Well Site 3' Wide Gate 108 L F fence site 3 12 Wide Gate	1973 1973 1973 1973 1973 1990 1990		\$16,342.00 \$2,829.40 \$767.00 not used not used \$1,806.00 \$767.00	30 30 30 30 30 30 30	\$0.00 \$0.00 \$0.00 \$0.00 \$0.00 \$903.00 \$383.50
307	Wells & Springs	Interconnection to Cochrise 5,600 LF 4" PVC Sanks well Abandon	1990 1973	\$5.37 not used	\$30,072.00 \$0.00	50	\$21,050.40 \$0.00
311	Pumping Equipment	7-1/2-Hp booster pump Main site 5-Hp booster pumps, 2 each Main sit	2000 2000		\$2,500.00 \$1,500.00	8 8	\$937.50 \$562.50
330	Distribution Reservoirs	38,000 gallon storage tank 12' dia x 45' high site 3 22,000 gallon storage tank Main site 48.5' circum. X 16' high 10,000 gallon storage tank Main Site 30.5' circum. x 17' high 3,000 gallon pressure tank 5'x20'L	1989 1973 1973 1973 1973	Needs Rep	\$25,000.00 \$30,000.00 \$20,000.00 \$13,000.00	45 45 45 20	\$16,111.11 \$8,666.67 \$5,777.78 \$0.00
331	Trans. & Distrib. Mains	2"-PVC, 11,050 ft. 3"-PVC, 11,600 ft. 4"-AC & PVC, 10,150 ft.	1973 1973 1973	\$3.96 \$4.95 \$5.37	\$43,758.00 \$57,420.00 \$54,505.50	50 50 50	\$17,503.20 \$22,968.00 \$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) 3/4", 80 each	1973 1973	\$85.00 \$165.00	\$18,700.00	12 12	\$0.00 \$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.

Account No.	Organization Name	Description	Year	Amount	Balance	Balance	Balance	Balance
301	Organization							
303	Land & Land Rights							
		620 ft x 330 ft Calle Naranja Wellsite lot 70 4.7 acres				\$27,934.00		\$27,934.00
		30 ft x 40 ft Javel Road Wellsite				\$3,000.00		\$3,000.00
		Herford Road 6.81 acres				\$74,362.50		\$74,362.50
		Other Property				\$6,000.00		\$6,000.00
		Parcel 104-07-103				\$60,832.00		\$60,832.00
304	Structures & Improvements							
		(200X200) 788 ft. chain link Fence Naranja		Damaged		\$11,859.40	30	\$0.00
		12' Wide gate Naranja		Damaged		\$767.00		\$0.00
		128 ft. chain link Fence Javel Rd.	1973	\$15.05		\$1,926.40	30	\$0.00
		12' Wide gate Javel Rd.	1973			\$767.00		\$0.00
307	Wells & Springs							
		Well 1, 8" x 154' 55-563118 Naranja	1997	\$25.00		\$3,850.00	30	\$2,823.33
		Well 2, 6" x 142' 55-805546 Naranja	1960	\$25.00		\$3,550.00	30	\$0.00
		Well 3, 6" x 161' 55-563117 Naranja	1997	\$25.00		\$4,025.00	30	\$2,951.67
		Well 4, 8" x 408' 55-630887 Javel Rd.	1973	\$25.00		\$10,200.00	30	\$0.00
311	Pumping Equipment							
		Well 1, 5-Hp Sub. @ 30 gpm	2005			\$5,902.00	8	\$5,902.00
		Well 2, 5-Hp Sub. @ 57 gpm	2005			\$3,538.00	8	\$3,538.00
		Well 3, 5-Hp Sub. @ 38 gpm	2004			\$2,700.00	8	\$2,362.50
		Well 4, 5 HP Sub. @ 60 gpm	2004			\$2,700.00	8	\$2,362.50
		Electrical panels	2004			\$10,000.00	8	\$8,750.00
		2-10-Hp booster pumps Naranja-Transfer lo Hovsesh	2005	\$4,476.00		\$8,952.00	8	\$8,952.00
		2- 5-Hp booster pumps Booster for Cocitise Naranja	2004	\$1,500.00		\$3,000.00	8	\$2,625.00
		1- 5 Hp booster pump Javel Rd.	1997			\$1,500.00	8	\$0.00
330	Distribution Reservoirs							
		170,000 gallon storage tank Naranja	1973	Rebuilt 2004		\$75,000.00	45	\$75,000.00
		12,000 gallon storage tank Naranja 50.5 ft. Cir x 10' high		not used		\$0.00	45	\$0.00
		5,000 gallon pressure tank Naranja 6' Dia x 22'	2004			\$20,000.00	20	\$20,000.00
		1,000 gallon pressure Javel Rd. 4' Dia x 10'	1973			\$5,500.00	20	\$0.00
		10,500 gallon storage tank Javel Rd. 38' Cir x 12' high	1973			\$20,000.00	45	\$0.00
331	Trans. & Distrib. Mains							
		2"-PVC, 50,000 ft.	1973	\$3.96		\$198,000.00	50	\$0.00
		4"-AC & PVC, 35,429 ft.	1973	\$5.37		\$190,253.73	50	\$0.00
		6"-AC & PVC, 11,990 ft.	1973	\$7.26		\$87,047.40	50	\$0.00
333	Services							
		3/4", 320 each (Use 368)	1973	\$355.00		\$130,640.00	30	\$0.00
		1-1/2", 1 each	1973	\$440.00		\$440.00	30	\$0.00
		3", 1 each	1973	\$775.00		\$775.00	30	\$0.00
334	Meters							
		5/8" x 3/4", 315 each (Use 363)	1973	\$85.00		\$30,855.00	12	\$0.00
		3/4", 5 each	1973	\$165.00		\$825.00	12	\$0.00
		1-1/2", 1 each	1973	\$415.00		\$415.00	12	\$0.00
		3", 1 each	1973	\$1,420.00		\$1,420.00	12	\$0.00
						\$1,008,536.43		\$307,395.50

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

Jonny 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

Exhibit 3

MEMORANDUM

TO: Linda Jaress
Executive Consultant
Utilities Division

FROM: Ronald Ludders
Public Utilities Analyst V
Utilities Division

THRU: James J. Dorf
Chief Accountant
Utilities Division

DATE: May 17, 2006

RE: IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY INC. AND SOUTHERN SUNRISE WATER COMPANY INC. FOR A CERTIFICATE OF CONVIENENCE AND NECESSITY TO PROVIDE WATER SERVICE IN COCHISE COUNTY, ARIZONA. DOCKET NOS. W-20453A-06-0247 AND W-20454A-06-0248

IN THE MATTER OF THE JOINT APPLICATION OF NORTHERN SUNRISE WATER COMPANY INC. AND SOUTHERN SUNRISE WATER COMPANY INC. FOR THE APPROVAL OF SALE AND TRANSFER OF WATER UTILITY ASSETS, AND CANCELLATION OF CERTIFICATES OF CONVENIENCE AND NECESSITY, 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, LOCATED IN COCHISE COUNTY, ARIZONA. DOCKET NOS. W-20453A-06-0251, W-20454A-06-0251, W-01646A-06-0251, W-01868A-06-0251, W-02235A-06-0251, W-02316A-06-0251, W-02230A-06-0251, W-01629A-06-0251, W-02240A-06-0251

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INTRODUCTION

On April 13, 2006, Northern Sunrise Water Company Inc. ("Northern" or "NSWC") and Southern Sunrise Water Company Inc. ("Southern" or "SSWC") (collectively "Applicants") jointly applied to the Arizona Corporation Commission ("Commission") for an Order approving the sale and transfer of assets, and cancellation of Certificates of Convenience and Necessity ("CC&N") of 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 (collectively "McLain Water Systems").

On the same date, Northern filed an application for a CC&N to provide water service to the areas previously served by Mustang Water Company, Crystal Water Company, Sierra Sunset Water Company and Coronado Estates Water Company (collectively "Northern McClain Systems"). Southern also filed an application for a CC&N to provide water service to the areas previously served by Cochise Water Company, Miracle Valley Water Company and Horseshoe Ranch Water Company (collectively "Southern McClain Systems").

The above applications have been consolidated as the matters are inextricably linked to one another. The matters were deemed sufficient by Staff on April 21, 2006.

BACKGROUND

Algonquin Water Resources of America, Inc. ("Algonquin") executed with the Bankruptcy Court a Purchase and Sale Agreement to acquire the McLain Systems. Before the agreement can be finalized, the Bankruptcy Court has required Algonquin to obtain Commission approval of: 1) the issuance of all CC&N's necessary to provide water utility service to customers of the McLain Water Systems; and 2) the sale and transfer of a public service corporation's assets as required by A.S.R. §40-285. The consolidated applications address these issues.

There are seven water systems previously owned and/or operated by Johnny A. McLain. The systems have been the subject of much scrutiny by various regulatory authorities such as the Arizona Department of Revenue ("ADOR"), the Arizona Department of Environmental Quality ("ADEQ") and the Commission. Mr. McLain has failed to comply with numerous notices of violations issued by ADEQ, and has not paid property taxes or sales taxes for a number of years.

The McLain Systems are in serious disrepair. For the last 20 years little has been done to adequately maintain the Systems. Staff has described the physical inadequacies of the Systems in its report in Docket No. W-01646A-05-0506. The Commission established hook-up moratoriums for the McLain Systems in Decision No. 68272. It also describes the system improvements and capital investment needed to upgrade the Systems (capital expenditures estimated between \$750,000 and \$1,250,000).

In July 2004, the Arizona Small Utilities Association ("ASUA") became the interim manager for these systems. Its focus was primarily on repairing leaks and restoring service to customers. The Commission recently approved an emergency rate application and authorized a \$9.00 per meter System Improvement Surcharge ("SIS") to be effective May 1, 2006.

Financial Status

The McLain Systems have experienced negative cash flow, likely for many years, and definitely since ASUA was appointed as interim manager in July, 2004. For the nine-month period ending September 30, 2005, there was a negative cash flow of approximately \$30,000 and estimates are that for the year 2005 the total will approximate \$40,000. Meanwhile, ASUA reports that the systems' accounts payable as of April 30, 2006 is approximately \$169,000. Staff is currently reviewing the accounts payable for accuracy.

Bankruptcy Status

The McLain Systems are currently in bankruptcy proceedings. A purchase and sale agreement was approved by the Bankruptcy Court (Case No. 4:30-bk-04125) on October 22, 2004 and confirmed on March 20, 2006. A sale price of \$696,752.14 was established and is equal to the rate base value approved by the Commission in Decision No. 68412.

Northern and Southern

Northern and Southern are wholly-owned subsidiaries of Algonquin. Algonquin is a utility holding company that owns and operates several water and wastewater companies in Arizona. Algonquin is in turn a wholly-owned subsidiary of Algonquin Power Income Fund ("APIF"). As of December 31, 2005, APIF had total assets of \$823.8 million, revenues of \$179.3 million and net earnings of \$21.8 million. APIF is an open-ended, unincorporated trust established pursuant to the laws of the Province of Ontario, Canada. APIF's principal business activity is the ownership of generation and infrastructure facilities.

FAIR VALUE RATE BASE

Northern and Southern have proposed rates based upon a fair value rate base for each of their water utility systems as follows:

	<u>NORTHERN</u>	<u>SOUTHERN</u>	<u>TOTAL</u>
Value Established in Decision No. 68412	\$ 91,992	\$ 604,725	\$ 696,717 ¹
Capital Improvements (Staff recommended)	480,200	321,900	802,100
Acquisition Costs	<u>64,619</u>	<u>235,381</u>	<u>300,000</u>
Total	<u>\$636,811</u>	<u>\$ 1,162,006</u>	<u>\$1,798,817</u>

¹ Northern and Southern have a different total than the sale price due to the reallocation of land values and rounding.

Value Established in Decision No. 68412

Staff has reviewed the proposed fair value rate base established in Decision No. 68412 as proposed by Northern and Southern and noted a few corrections are required. Northern and Southern reallocated land values and made other minor changes to the values delineated in Decision 68412. Northern and Southern also allocated the balance to sub-accounts in a manner somewhat different than Staff's allocation. The differences between the Northern and Southern balances (\$91,992 and \$604,725) and those recommended by Staff (\$91,585 and \$605,168) are noted in Schedule REL-1. Staff will recommend that Northern and Southern adopt Staff's initial plant in service balances.

Capital Improvements

Northern and Southern have indicated that they are prepared to make capital improvements totaling \$802,100. See Exhibit 6 in Northern's Application and Exhibit 5 in Southern's Application. See also Exhibit No. 4 to the Staff Report.

Acquisition Costs

Northern and Southern have estimated acquisition costs of approximately \$300,000 as follows: 1) approximately \$100,000 for reorganization costs including participation in bankruptcy proceedings, acquisition due diligence, interaction with regulatory agencies, etc.; 2) approximately \$100,000 for Commission related activities; and 3) approximately \$100,000 for transition costs such as support for interim operator, capitalized labor costs, etc. As of the end of April, 2006, they have paid approximately \$25,000 in legal expenses.²

Staff supports the recovery of these types of cost in this case where an extremely troubled utility will benefit from having a well capitalized, safety oriented and efficient operator. Because all of the costs have not yet been incurred, Staff recommends that Northern and Southern defer these types of costs, for later recovery of prudently incurred costs if Northern and Southern can demonstrate that the rates approved in this case did not allow for recovery of these costs. However, there can be no assurance that all costs of acquisition incurred by Northern and Southern will be deemed prudent by the Commission.

The acquisition of the McLain Systems is unique and extraordinary (purchase of regulated assets in bankruptcy from a company operated by an interim manager). Therefore, Staff will permit deferral of these acquisition related costs to account 186.3, Regulatory Assets. Although Northern and Southern have indicated that the regulatory asset should be amortized over 20 years, the appropriate accounting treatment of amounts deferred and the amount allowable should be determined in the next general rate application filed by Northern and Southern.

²Response to Staff Data Request REL 1.1.

Hook-up Fees

Staff recommends a hook-up fee of \$1,000. Staff also recommends that the hook-up fees collected be considered as a non-refundable contribution in aid of construction. The hook-up fees will help offset the costs noted above. Northern and Southern shall provide an analysis of collected hook-up fees and whether any adjustment to the amount be made in its 2008 general rate filing.

REVENUE AND EXPENSES

As justification for the initial rates, Northern and Southern have estimated its revenue and expenses. Staff has reviewed the estimates and found them to be reasonable. Based upon these estimates, Northern and Southern will experience an estimated return on rate base of approximately 9.77 percent for Northern and 11.90 percent for Southern (combined 11.17 percent) during the first year of operation. See Schedule REL-2. Although higher than Staff has recommended recently for similarly sized water companies, Staff recognizes that a somewhat higher return is warranted given that this case involves unique and extraordinary circumstances when assuming responsibility for multiple bankrupt water companies. Staff also notes that the returns will decline once Northern and Southern add additional plant. Staff also notes that Northern and Southern have agreed to use a 2007 test year in its next general rate filing so adjustments can be made as more reliable financial information is available. This will provide a reasonable time period within which adjustments to the rate of return can be made, if necessary.

The revenues were estimated based upon an average customer usage of 7,300 gallons per month and appears reasonable. The combined revenues for Northern and Southern total \$684,320.

First year expenses for Northern and Southern are estimated at \$488,872. In the Emergency Rate proceeding³ Staff estimated annual operating expenses of \$456,457 which did not provide for a profit and related income taxes. Northern and Southern prepared detailed estimates for variable and other costs on a basis consistent with new CC&N filings.

It appears that Northern and Southern have made reasonable estimates of annual expenditures. Because the McLain Water Systems are in such disrepair, obtaining consistent and reliable operating results has been difficult.

Depreciation

As shown in their Exhibits, Northern and Southern adopted Staff's recommended depreciation rates and are noted at Schedule REL-3. These rates have been approved in numerous water rate cases. Staff recommends that Northern and Southern continue the use of

³ Staff Report, Attachment B, in Docket No. W-01646A-06-0010.

the water depreciation rates delineated in Schedule REL-3 for each individual National Association of Regulatory Utility Commissioners ("NARUC") asset category.

Staff, however, recommends that Account No. 305 – Collecting and Impounding Reservoirs not be used and further recommends that all reported plant costs in Account No. 305 be reclassified to Account No. 330 – Distribution Reservoirs and Standpipes. Staff classifies storage tanks and pressure tanks to Account No. 330 as shown in the RCN and RCND spreadsheets in Decision No. 68412.

FINANCING

Based upon the Northern and Southern filings, the acquisition, capital improvements, and acquisition cost will be financed initially with common stock. Given the unusual and extraordinary nature of this transaction, Staff acknowledges that equity financing is most appropriate at this time. Although 100 percent equity capital may not always be desirable, its use in this case is warranted.

RATES

Rate Design

The Northern and Southern projected revenue is derived primarily from the residential class customer. They have developed consolidated rates in a manner consistent with new CC&N applications. Such rates are generally based upon five year projections provided by the applicant and include estimates of revenues, operating costs, capital expenditures and customer growth. The use of a single rate design for both Northern and Southern is appropriate at this time as all systems will be operated under a single management team and economies of scale can begin to be achieved. Staff has reviewed the Northern and Southern projections and concluded that they are reasonable.

To promote conservation in the use of water, Staff has been recommending an inverted three-tiered rate structure for the commodity charge in rate cases and CC&N cases. Northern and Southern proposed a three-tiered design. Staff reviewed this design and found it to be acceptable. See Schedule REL-5.

Staff recommends that Northern and Southern maintain separate accounting for the cost of operating the two systems and provide an evaluation as to whether separate rates are appropriate in its 2008 general rate filing.

Rates and Charges

Northern and Southern proposed for residential customers with a 5/8 x 3/4 meter a monthly minimum charge of \$31.00 and commodity rates as follows:

<u>Per 1,000 gallons</u>	
0 to 5,000 gallons	\$2.00
5,001 to 10,000 gallons	\$2.75
Over 10,000 gallons	\$3.90

Staff has reviewed Northern and Southern revenue projections based upon these rates and found them to be reasonable. Staff has also reviewed the other charges and found them to be reasonable and consistent with recent Commission decisions.

Typical Customer Bill

Based upon the Northern and Southern proposed rates, Staff has calculated the typical customer bills and compared them to current rates, including the recently approved SIS. See Schedule REL-4. The increases range from a low of 5.41 percent to a high of 120.14 percent. Although most of the increases are relatively high, with the exception of the SIS, rates have not been increased for the McLain Water Systems for approximately 20 years.

Customer Deferred Payment Plan

The proposed rates represent a significant increase for a certain number of the McLain Water System customers. Staff recommends that Northern and Southern file a deferred payment plan⁴ tariff for the benefit of those individuals who are struggling to pay their bills under the new rates but who commit to payment of their bills over a reasonable period of time, and who demonstrate that they have secured bill payment assistance from a government agency, a community agency, a charity or faith-based institution. Northern and Southern will consult with staff to determine the appropriate time period over which the deferred payments will be recovered.

ALTERNATIVE PROPOSAL: PHASED IN RATES

Due to the unusual nature of this case and the level of increase in rates being proposed, the Commission may wish to consider alternatives to the traditional new CC&N rate design methodology. Also, with the exception of the recently enacted SIS, most customers have not had a rate increase for over 20 years. To help mitigate the significant increases and promote timely implementation of the necessary capital expenditures, Staff has developed an alternative phase in rate schedule for the Commission's consideration.

⁴ The Commission previously approved a deferred payment plan in Decision No. 68241.

The alternative would phase in the proposed monthly minimum of \$31 in three phases. The first phase will reduce the proposed monthly minimum to \$21 (Phase I). Northern and Southern anticipate acquiring the existing systems for \$696,717 as a component of Phase I. As indicated on Northern's Exhibit 6 and Southern's Exhibit 5, they anticipate subsequent capital expenditures estimated to total \$802,100. Once an additional \$500,000 of the projects listed at Exhibit No. 4 to the Staff Report has been placed in service, Northern and Southern will be permitted to raise the monthly minimum from \$21.00 to \$26.00, a \$5.00 per month increase (Phase II). When Northern and Southern complete and place into service all of the projects listed on Exhibit No. 4 to the Staff Report, an additional \$5.00 will be added to the monthly minimum (Phase III). The effect of the phase-in on customer's typical bill is noted at Schedule REL-4. The phase-in rates recommended by Staff are shown on Schedule REL-5.

STAFF RECOMMENDATIONS

1. Northern and Southern shall charge the recommended rates and charges as shown in Schedule REL-5, attached. If the Commission adopts the non-phased rates, Staff recommends that Northern and Southern be required to complete all projects noted on Exhibit No. 4 to the Staff Report by June 30, 2007. If the Commission adopts the phased rates, Northern and Southern shall implement the Phase II rates the first day of the month after Northern and Southern notify Staff and Staff files a memo in this docket verifying that at least \$500,000 of plant improvements have been made to the systems. The Phase III rates shall be implemented the first day of the month after Northern and Southern notify Staff that all the improvements listed on Exhibit No. 4 have been made and Staff files a memo in this docket that such improvements have been made.
2. In addition to collection of its regular rates and charges, Northern and Southern may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C.R14-2-409.D.5.
3. The rates approved by the Commission shall become effective the first day of the month following the date of the closing of the purchase and sale agreement with the Bankruptcy Court.
4. Northern and Southern must file in Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after this Decision is issued.
5. Staff recommends that Northern and Southern file a deferred payment plan⁵ tariff for the benefit of those individuals who are struggling to pay their bills under the new rates but who commit to payment of their bills over a reasonable period of time, and who demonstrate that they have secured bill payment assistance from a government agency, a community agency, a charity or faith-based institution. Northern and Southern will

⁵ The Commission previously approved a deferred payment plan in Decision No. 68241.

consult with staff to determine the appropriate time period over which the deferred payments will be recovered.

6. Northern and Southern be permitted to defer acquisition related costs to Account 186.3, Regulatory Assets and the appropriate accounting treatment for such costs will be determined in the next rate application by Northern and Southern.
7. Northern and Southern must maintain their books and accounts in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform Systems of Accounts.
8. Northern and Southern must continue to use the water depreciation rates by individual NARUC asset category as delineated in Schedule REL-3, attached.
9. Northern and Southern must maintain separate accounting for their systems and provide an evaluation in its 2008 general rate filing as to whether separate rates are appropriate for Northern and Southern.
10. Northern and Southern must adopt Staff's recommended plant balances as delineated in Schedule REL-1, attached.
11. Northern and Southern must file a rate application no later than June 30, 2008, using a 2007 test year.
12. Staff should be ordered to perform an audit of the collection and expenditure of the SIS as soon as practicable following the closing of the sale. The audit would encompass the period from the inception of the SIS to the first day of the month after the closing of the sale. Staff will then file the results of the audit in this docket along with any resulting recommendations.
13. Northern and Southern should be ordered to retain records from the McLain Systems regarding the SIS at least until the conclusion of its 2008 rate case.
14. Staff recommends the Commission order Northern and Southern to file the Hook-up Fee Tariffs, attached to the Staff Report as Exhibit 5 and apply these tariffs to the new service connections in systems for which the moratorium has been lifted. The Company shall submit an annual Off-Site Hook-Up Fee status report each August to Docket Control for the prior twelve (12) month period, beginning August 2007, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

	Northern Sunrise Water Company		Southern Sunrise Water Company	
	Company	Staff	Company	Staff
	Per Decision Number 68142	Per Decision Number 68142	Per Decision Number 68142	Per Decision Number 68142
301 Organization	-	-	-	-
302 Franchises	-	-	-	-
303 Land and Land Rights	\$ 27,812	\$ 16,709	\$ 361,364	\$ 273,391
304 Structures and Improvements	\$ 319	\$ 349	\$ 1,094	\$ 1,218
305 Collecting and Impounding Reservoirs	-	-	-	-
306 Lake, River and Other Intakes	-	-	-	-
307 Wells and Springs	-	-	\$ 23,379	\$ 28,521
308 Infiltration Galleries and Tunnels	-	-	-	\$ -
309 Supply Mains	-	-	-	\$ -
310 Power Generation Equipment	-	-	-	\$ -
311 Pumping Equipment	\$ 23,364	\$ 27,210	\$ 40,555	\$ 61,085
320 Water Treatment Equipment	-	-	-	-
330 Distribution Reservoirs and Standpipe	\$ 4,351	\$ 4,563	\$ 25,972	\$ 170,298
331 Transmission and Distribution	\$ 35,134	\$ 41,716	\$ 152,106	\$ 70,372
333 Services	\$ 1,012	\$ 1,039	-	-
334 Meters and Meter Deposits	-	-	-	-
335 Hydrants	-	-	\$ 255	\$ 284
336 Backflow Prevention Devices	-	-	-	-
339 Other Plant and Miscellaneous	-	-	-	-
340 Office Furniture and Equipment	-	-	-	-
341 Transportation Equipment	-	-	-	-
342 Stores Equipment	-	-	-	-
343 Tools, Shop and Garage Equipment	-	-	-	-
344 Laboratory Equipment	-	-	-	-
345 Power Operated Equipment	-	-	-	-
346 Communication Equipment	-	-	-	-
347 Miscellaneous Equipment	-	-	-	-
348 Other Tangible Plant	-	-	-	-
	<u>\$ 91,992</u>	<u>\$ 91,585</u>	<u>\$ 604,725</u>	<u>\$ 605,168</u>

Northern and Southern Sunrise Water Companies
Docket No. W-20453A-06-0247, W-20454A-06-0248
ESTIMATED FIRST AND SECOND YEAR RATE BASE

SCHEDULE REL-2

	Northern Sunrise		Southern Sunrise		Staff Combined First Year
	Company First Year	Staff First Year	Company First Year	Staff First Year	
Plant in Service (per Decision No. 48412)	\$ 91,992	\$ 91,585	\$ 604,725	\$ 605,168	\$ 696,752
Less Accumulated Depreciation *	\$ (13,476)	\$ (4,383)	\$ (16,526)	\$ (13,820)	\$ (18,203)
Pro Forma Plant Additions	\$ 480,200	\$ 480,200	\$ 321,900	\$ 321,900	\$ 802,100
Less Depreciation		\$ (9,264)		\$ (6,725)	\$ (15,989)
Deferred Regulatory Assets	\$ 64,619	\$ 64,619	\$ 235,381	\$ 235,381	\$ 300,000
Less Accumulated Amortization *	\$ (3,231)	\$ (3,231)	\$ (11,769)	\$ (11,769)	\$ (15,000)
Rate Base	<u>\$ 620,104</u>	<u>\$ 619,526</u>	<u>\$ 1,133,711</u>	<u>\$ 1,130,135</u>	<u>\$ 1,749,660</u>
Pro Forma Revenue (per Company)	\$ 204,444	\$ 204,444	\$ 479,876	\$ 479,876	\$ 684,320
Total Operating Expense	\$ (143,866)	\$ (143,866)	\$ (345,006)	\$ (345,006)	\$ (488,872)
Operating Income	<u>\$ 60,578</u>	<u>\$ 60,578</u>	<u>\$ 134,870</u>	<u>\$ 134,870</u>	<u>\$ 195,448</u>
Rate of Return	9.77%	9.78%	11.90%	11.93%	11.17%
	Company Second Year	Staff Second Year	Company Second Year	Staff Second Year	Staff Combined Second Year
Plant in Service (per Decision No. 48412)	\$ 91,992	\$ 91,585	\$ 604,725	\$ 605,168	\$ 696,752
Less Accumulated Depreciation *	\$ (36,835)	\$ (8,766)	\$ (40,241)	\$ (27,639)	\$ (36,405)
Pro Forma Plant Additions	\$ 484,300	\$ 484,300	\$ 326,000	\$ 326,000	\$ 810,300
Less Accumulated Depreciation *	\$ -	\$ (18,699)	\$ -	\$ (13,621)	\$ (32,320)
Deferred Regulatory Assets	\$ 64,619	\$ 64,619	\$ 235,381	\$ 235,381	\$ 300,000
Less Accumulated Amortization *	\$ (6,462)	\$ (6,462)	\$ (23,538)	\$ (23,538)	\$ (30,000)
Rate Base	<u>\$ 597,614</u>	<u>\$ 606,577</u>	<u>\$ 1,102,327</u>	<u>\$ 1,101,750</u>	<u>\$ 1,708,327</u>
Pro Forma Revenue (per Company)	\$ 207,534	\$ 207,534	\$ 482,965	\$ 482,965	\$ 690,499
Total Operating Expense	\$ (154,823)	\$ (154,823)	\$ (355,045)	\$ (355,045)	\$ (509,868)
Operating Income	<u>\$ 52,711</u>	<u>\$ 52,711</u>	<u>\$ 127,920</u>	<u>\$ 127,920</u>	<u>\$ 180,631</u>
Rate of Return	8.82%	8.69%	11.60%	11.61%	10.57%

* Company schedules do not separate depreciation between Decision No. 68412 plant and pro forma plant. Staff reclassified certain plant which caused a lower depreciation rate than that used by the Company.

STAFF RECOMMENDED DEPRECIATION RATES FOR THE NORTHERN AND
SOUTHERN SUNRISE 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.

SCHEDULE REL-4

Northern and Southern Sunrise Water Companies
 Docket No. W-20453A-06-0247, W-20454A-06-0248
 ESTIMATED TYPICAL CUSTOMER BILL FOR 5/8 x 3/4 METER

Last Rate Case	Monthly Usage of 7,300 Gallons			Estimated Monthly Bill for Phase In Rates				
	Current W/SIS*	Company Proposed**	% Increase	Phase I	Inc (Dec)	Phase II	Inc (Dec)	
NORTHERN SYSTEM								
Mustang Water	8/1985	\$39.75	\$47.33	19.07%	37.33	-6.09%	42.33	6.49%
Crystal Water	8/1985	\$32.93	\$47.33	43.73%	37.33	13.36%	42.33	28.55%
Sierra Sunset	9/1983	\$21.50	\$47.33	120.14%	37.33	73.63%	42.33	96.88%
Coronado Estates	8/1985	\$32.93	\$47.33	43.73%	37.33	13.36%	42.33	28.55%
SOUTHERN SYSTEM								
Miracle Valley	4/1989	\$24.30	\$47.33	94.77%	37.33	53.62%	42.33	74.20%
Cochise Water	8/1985	\$44.90	\$47.33	5.41%	37.33	-16.86%	42.33	-5.72%
Horseshoe Ranch	8/1987	\$44.90	\$47.33	5.41%	37.33	-16.86%	42.33	-5.72%

COCHISE COUNTY TYPICAL MONTHLY WATER BILL ***

Monthly Average	\$28.22
Monthly Mean	\$24.71
Highest Monthly	\$66.05
Lowest Monthly	\$5.88

* Includes System Improvement Surcharge of \$9.00 per meter per month.
 ** Also Considered Phase III if the phase-in approach is utilized.
 *** Water Infrastructure Authority of Arizona, 2005 Survey, 7,500 gallons usage.

PROPOSED RATES

<u>Monthly Usage Charge</u>	<u>Proposed Rates</u>		<u>Phased in Rates</u>		
	<u>Company</u>	<u>Staff</u>	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>
5/8" x 3/4" Meter	\$31.00	\$31.00	\$21.00	\$26.00	\$31.00
3/4" Meter	46.50	46.50	31.50	39.00	46.50
1" Meter	77.50	77.50	52.50	65.00	77.50
1½" Meter	155.00	155.00	105.00	130.00	155.00
2" Meter	248.00	248.00	168.00	208.00	248.00
3" Meter	496.00	496.00	336.00	416.00	496.00
4" Meter	775.00	775.00	525.00	650.00	775.00
6" Meter	930.00	930.00	630.00	780.00	930.00
8" Meter	1,550.00	1,550.00	1,050.00	1,300.00	1,550.00
Gallons Included in Minimum	0	0			
<u>Commodity Rates per 1,000 gallons</u>					
<u>5/8 x 3/4 Inch Meter</u>					
Tier one - zero gallons to 5,000 gallons	2.00	2.00	2.00	2.00	2.00
Tier two - 5,001 gallons to 10,000 gallons	2.75	2.75	2.75	2.75	2.75
Tier three - all gallons over 10,000 gallons	3.90	3.90	3.90	3.90	3.90
<u>Residential 1 Inch Meter and Larger</u>					
Tier one - zero gallons to 25,000 gallons	2.00	2.00	2.00	2.00	2.00
Tier two - 25,001 gallons to 45,000 gallons	2.75	2.75	2.75	2.75	2.75
Tier Three - over 45,000 gallons	3.90	3.90	3.90	3.90	3.90
<u>Irrigation meters</u>					
Tier one - zero to 45,000 gallons	2.75	2.75	2.75	2.75	2.75
Tier two - over 45,000 gallons	3.90	3.90	3.90	3.90	3.90
<u>Other</u>					
Standpipe or bulk water per 1,000 gallons	3.90	3.90	3.90	3.90	3.90
<u>Service Charges</u>					
A. Establishment	\$25.00	\$25.00			
Establishment After Hours	35.00	35.00			
B. Re-Establishment (Within 12 Months)	**	**			
C. Reconnection	35.00	35.00			
D. Moving Meter at customer request	at cost	at cost			
E. After hours Service Charge	50.00	50.00			
F. Minimum Deposit	*	*			
G. Meter Test	40.00	40.00			
H. Meter Re-Read (If Correct)	5.00	5.00			
I. NSF Check	15.00	15.00			
J. Late Fee	***	***			
K. Deferred Payment	***	***			

**PROPOSED RATES
 CONTINUED**

L. Service Line and Meter Installation Charges				
5/8" x 3/4" Meter			\$410.00	\$410.00
3/4" Meter			410.00	410.00
1" Meter			520.00	520.00
1½" Meter			660.00	660.00
2" Meter	Turbo		1,155.00	1,155.00
2" Meter	Compound		1,720.00	1,720.00
3" Meter	Turbo		1,625.00	1,625.00
3" Meter	Compound		2,260.00	2,260.00
4" Meter	Turbo		2,500.00	2,500.00
4" Meter	Compound		3,200.00	3,200.00
6" Meter	Turbo		4,500.00	4,500.00
6" Meter	Compound		6,300.00	6,300.00
8" Meter			8,200.00	8,200.00

M. Main Extension and additional facilities at cost at cost
 Per rule R14-2-406.B

N. In addition to collection of its regular rates and charges the company may collect from its customers a proportionate share of any privilege, sales or use tax pursuant to A.A.C.R14-2-409.D.5.

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** 1.5% per month.

RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. AAC R-14-204001 through AAC R-14-2-411 will be controlling of Company procedures, unless specific Commission Orders provide otherwise.

Exhibit 4

Cochise Water - Part of Southern Sunrise Proposed Capital Improvements	Project Start	Duration	Benefit to Customer
Project Description	Cost		
Naranja Well Site			
Add meters to wells	\$10,000	ASAP after Closing	Immediate
Construct a minimum 6 ft. high chain link fence with barbed wire 800 L.F.	\$12,000	ASAP after Closing	Immediate
Construct 12 ft wide chain link gate	\$800	ASAP after Closing	Immediate
Repair 5 hp booster pump	\$500	ASAP after Closing	Immediate
Rebuild Electrical Control and wiring system	\$10,000	ASAP after Closing	Immediate
Replace Air Compressor and controls on Pressure Tank	\$1,000	ASAP after Closing	Immediate
Replace Guages on Booster and Transfer Pumps	\$1,000	ASAP after Closing	Immediate
Replace check valves on booster and transfer pumps	\$500	ASAP after Closing	Immediate
Build concrete pads to mount booster and transfer pumps	\$1,000	ASAP after Closing	Immediate
Install well pump high level shut off level controller to storage tank	\$5,000	ASAP after Closing	Immediate
Install low level sensor in storage tank for booster & transfer pump shut off	\$5,000	ASAP after Closing	Immediate
Install telemetry system to start and stop transfer pumps filling Horseshoe storage	\$10,000	ASAP after Closing	Immediate
Add sampling taps to wells	\$500	ASAP after Closing	Immediate
Survey property to establish property boundaries of well site	\$1,000	ASAP after Closing	Immediate
Remove old storage tank and trash and grade well site	\$5,000	ASAP after Closing	Immediate
Total	\$63,300		
Jaxell Road site			
Add Meter to well	\$3,500	ASAP after Closing	Immediate
Add additional booster pump	\$3,500	ASAP after Closing	Immediate
Survey property to establish property boundaries of well site	\$1,000	ASAP after Closing	Immediate
Total	\$8,000		

Horseshoe Ranch Water - Part of Southern Sunrise Proposed Capital Improvements		Project Start	Duration	Benefit to Customer
Project Description	Cost			
Replace 3 inch meter measuring transfer flow from Cochise	\$3,000	ASAP after Closing	6-12 Months	Immediate
Replace fence with a minimum 6 ft. high chain link fence with barbed wire 200 L.F.	\$3,000	ASAP after Closing	6-12 Months	Immediate
Construct 12 ft wide chain link gate	\$800	ASAP after Closing	6-12 Months	Immediate
Replace 2 - 7.5 hp booster pumps	\$5,000	ASAP after Closing	6-12 Months	Immediate
Rebuild Electrical Control and wiring system	\$10,000	ASAP after Closing	6-12 Months	Immediate
Replace 3,000 gallon pressure tank	\$13,000	ASAP after Closing	6-12 Months	Immediate
Design and construct interconnection with Bella Vista south system	\$10,000	ASAP after Closing	6-12 Months	Immediate
Repair doors on storage building	\$1,000	ASAP after Closing	6-12 Months	Immediate
Add air relief valve to transmission line from Cochise and grade and secure site	\$6,000	ASAP after Closing	6-12 Months	Immediate
Survey property to establish property boundaries of storage & well sites	\$1,000	ASAP after Closing	6-12 Months	Immediate
Total	\$52,800			

Miracle Valley Water - Part of Southern Sunrise Proposed Capital Improvements		Project Start	Duration	Benefit to Customer
Project Description	Cost			
Add meter to well	\$3,500	ASAP after Closing	6-12 Months	Immediate
Construct a minimum 6 ft. high chain link fence with barbed wire 400 L.F.	\$6,000	ASAP after Closing	6-12 Months	Immediate
Construct 12 ft wide chain link gate	\$800	ASAP after Closing	6-12 Months	Immediate
Add two 7.5 hp booster pumps	\$5,000	ASAP after Closing	6-12 Months	Immediate
Rebuild Electrical Control and wiring system	\$10,000	ASAP after Closing	6-12 Months	Immediate
Add storage tank Minimum 150,000 gallons	\$150,000	ASAP after Closing	6-12 Months	Immediate
Replace 5,000 gallon pressure tank	\$20,000	ASAP after Closing	6-12 Months	Immediate
Add sampling tap to well	\$500	ASAP after Closing	6-12 Months	Immediate
Survey property to establish property boundaries of two well sites	\$2,000	ASAP after Closing	6-12 Months	Immediate
Total	\$197,800			

Mustang Water - Part of Northern Sunrise Water Company Proposed Capital Improvements		Project Start	Duration	Benefit to Customer
Project Description				
Main Well Site				
Add meter to well		ASAP after Closing	6-12 Months	Immediate
Construct a minimum 6 ft. high chain link fence with barbed wire 400 L.F.		ASAP after Closing	6-12 Months	Immediate
Construct 12 ft wide chain link gate		ASAP after Closing	6-12 Months	Immediate
Replace existing well with new well		ASAP after Closing	6-12 Months	Immediate
Replace well pump & piping		ASAP after Closing	6-12 Months	Immediate
New Electrical Control and wiring system		ASAP after Closing	6-12 Months	Immediate
New 5,000 Gallon Pressure Tank		ASAP after Closing	6-12 Months	Immediate
New 60,000 gallon storage tank (At least this size)		ASAP after Closing	6-12 Months	Immediate
Survey property to establish property boundaries of at least two well sites		ASAP after Closing	6-12 Months	Immediate
	Total			
		\$154,800		
Note: As an alternative, determine if existing well can be rehabilitated if so, rehab well, and replace well pump instead of drilling new well				

Crystal Water - Part of Northern Sunrise Water Company Proposed Capital Improvements		Project Start	Duration	Benefit to Customer
Project Description				
Main Well Site				
Add meter to well		ASAP after Closing	6-12 Months	Immediate
Construct a minimum 6 ft. high chain link fence with barbed wire 400 L.F.		ASAP after Closing	6-12 Months	Immediate
Construct 12 ft wide chain link gate		ASAP after Closing	6-12 Months	Immediate
Replace existing well with new well		ASAP after Closing	6-12 Months	Immediate
Replace well pump & piping		ASAP after Closing	6-12 Months	Immediate
New Electrical Control and wiring system		ASAP after Closing	6-12 Months	Immediate
New 5,000 Gallon Pressure Tank		ASAP after Closing	6-12 Months	Immediate
New 60,000 gallon storage tank (At least this size)		ASAP after Closing	6-12 Months	Immediate
Survey property to establish property boundaries of well site		ASAP after Closing	6-12 Months	Immediate
	Total			
		\$153,800		
Note: As an alternative, determine if existing well can be rehabilitated if so, rehab well, and replace well pump instead of drilling new well				

Coronado Estates Water - Part of Northern Sunrise Water Company Proposed Capital Improvements		Project Start	Duration	Benefit to Customer
Main Well Site				
Project Description	Cost			
Add meter to well	\$3,500	ASAP after Closing	6-12 Months	Immediate
Construct a minimum 6 ft. high chain link fence with barbed wire 400 L.F.	\$6,000	ASAP after Closing	6-12 Months	Immediate
Construct 12 ft wide chain link gate	\$800	ASAP after Closing	6-12 Months	Immediate
Replace well pump & piping	\$7,500	ASAP after Closing	6-12 Months	Immediate
New Electrical Control and wiring system	\$10,000	ASAP after Closing	6-12 Months	Immediate
New 5,000 Gallon Pressure Tank	\$20,000	ASAP after Closing	6-12 Months	Immediate
New 100,000 gallon storage tank (at least this size)	\$100,000	ASAP after Closing	6-12 Months	Immediate
Survey property to establish property boundaries of well site	\$1,000	ASAP after Closing	6-12 Months	Immediate
Total	\$148,800			

Sierra Sunset Water - Part of Northern Sunrise Water Company Proposed Capital Improvements		Project Start	Duration	Benefit to Customer
Main Well Site				
Project Description	Cost			
Construct a minimum 6 ft. high chain link fence with barbed wire 400 L.F.	\$6,000	ASAP after Closing	6-12 Months	Immediate
Construct 12 ft wide chain link gate	\$800	ASAP after Closing	6-12 Months	Immediate
Survey property to establish property boundaries of well site	\$1,000	ASAP after Closing	6-12 Months	Immediate
Install customer meters to 30 customers	\$15,000	ASAP after Closing	6-12 Months	Immediate
Total	\$22,800			

Exhibit 5

TARIFF SCHEDULE

UTILITY: Northern Sunrise Water Company
DOCKET NO.: W-20453A-06-0247

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to **Northern Sunrise Water Company** ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builder of new residential subdivisions.

"Company" means **Northern Sunrise Water Company**, an Arizona limited liability company.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential or other uses, regardless of meter size.

III. Off-Site Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE HOOK-UP FEE TABLE		
Meter Size	Size Factor	Total Fee
5/8" x 3/4 "	1	\$1,000
3/4"	1.5	\$1,500
1"	2.5	\$2,500
1-1/2 "	5	\$5,000
2"	8	\$8,000
3"	16	\$16,000
4"	25	\$25,000
6" or larger	50	\$50,000

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

- (1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall not be entitled to any refunds.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide water service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision Projects: In the event that the Developer or Builder is engaged in the development of a residential subdivision containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Developer's or Builder's construction schedule and water service requirements.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit an annual Off-Site Hook-Up Fee status report each August 31st to Docket Control for the prior twelve (12) month period, beginning August 31, 2007, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

TARIFF SCHEDULE

UTILITY: Southern Sunrise Water Company
DOCKET NO.: W-20454A-06-0248

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to **Southern Sunrise Water Company** ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builder of new residential subdivisions.

"Company" means **Southern Sunrise Water Company**, an Arizona limited liability company.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential or other uses, regardless of meter size.

III. Off-Site Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE HOOK-UP FEE TABLE		
Meter Size	Size Factor	Total Fee
5/8" x 3/4 "	1	\$1,000
3/4"	1.5	\$1,500
1"	2.5	\$2,500
1-1/2 "	5	\$5,000
2"	8	\$8,000
3"	16	\$16,000
4"	25	\$25,000
6" or larger	50	\$50,000

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

- (1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall not be entitled to any refunds.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide water service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision Projects: In the event that the Developer or Builder is engaged in the development of a residential subdivision containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Developer's or Builder's construction schedule and water service requirements.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit an annual Off-Site Hook-Up Fee status report each August 31st to Docket Control for the prior twelve (12) month period, beginning August 31, 2007, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.