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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

JUN 29 2006

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

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
NORTHERN SUNRISE WATER COMPANY FOR
A CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER SERVICE IN
COCHISE COUNTY, ARIZONA.

DOCKET NO. W-20453A-06-0247

IN THE MATTER OF THE APPLICATION OF
SOUTHERN SUNRISE WATER COMPANY FOR
A CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER SERVICE IN
COCHISE COUNTY, ARIZONA.

DOCKET NO. W-20454A-06-0248

IN THE MATTER OF THE JOINT APPLICATION
OF NORTHERN SUNRISE WATER COMPANY
AND SOUTHERN SUNRISE WATER COMPANY
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

DECISION NO. 68826

OPINION AND ORDER

DATE OF PUBLIC COMMENT:

May 22, 2006

PLACE OF PUBLIC COMMENT:

Sierra Vista, Arizona

DATE OF HEARING:

May 30, 2006

PLACE OF HEARING:

Tucson, Arizona

ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

IN ATTENDANCE:

Kristin K. Mayes, Commissioner

1 APPEARANCES:

Mr. Jay Shapiro, FENNEMORE CRAIG,
on behalf of Northern Sunrise Water
Company, Inc. and Southern Sunrise
Water Company, Inc.;

3 Mr. Stephen Cockrum, Intervenor, in
4 propia persona; and

5 Mr. Jason Gellman, Staff Attorney, Legal
6 Division, on behalf of the Utilities
Division of the Arizona Corporation
Commission.

7 BY THE COMMISSION:

8 * * * * *

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

11 FINDINGS OF FACT

12 1. On April 13, 2006, Northern Sunrise Water Company, Inc. ("Northern") and Southern
13 Sunrise Water Company, Inc. ("Southern") (combined "the Companies" or "Applicants") each filed
14 an application for a new Certificate of Convenience and Necessity ("CC&N") with the Commission
15 to provide water utility service in Cochise County, Arizona.

16 2. On the same date, Northern and Southern filed a joint application for approval of the
17 sale and transfer of water utility assets and cancellation of the CC&Ns of Miracle Valley Water
18 Company, Inc. ("Miracle Valley"), Cochise Water Co. ("Cochise"), Horseshoe Ranch Water
19 Company ("Horseshoe Ranch"), Crystal Water Company ("Crystal"), Mustang Water Company
20 ("Mustang"), Coronado Estates Water Company ("Coronado Estates"), and Sierra Sunset Water
21 Company ("Sierra Sunset"), (collectively the "McLain Systems" or "Systems").

22 3. The CC&N application of Northern includes an additional area called Babocomari
23 which is adjacent to the Coronado system. Attached hereto as Exhibit A, are legal descriptions of the
24 areas at issue.

25 4. Pursuant to the applications, the McLain Systems are to be divided geographically,
26 with Northern serving the former Coronado, Sierra Sunset, Crystal, Mustang and Babocomari areas,
27 and Southern serving territories currently served by Cochise, Miracle Valley and Horseshoe Ranch.

28 5. On April 21, 2006, Commission Utilities Division Staff ("Staff") notified Applicants

1 that their applications were sufficient pursuant to Commission rules.

2 6. By Procedural Order dated April 26, 2006, the Commission consolidated these
3 matters, established a procedural schedule, set the matter for public comment in Sierra Vista,
4 Arizona, and set a hearing at the Commission's offices in Tucson, Arizona.

5 7. On May 16, 2006, the Commission granted intervention to Mr. Stephen Cockrum, a
6 customer on the Horseshoe Ranch system.

7 8. On May 17, 2006, Staff filed its Staff Report, recommending approval of the
8 applications with conditions.

9 9. On May 18, 2006, Applicants filed Notice of Filing Certification of Publication and
10 Proof of Mailing. Applicants published notice of the hearing on May 4, 2006 in the *Sierra Vista*
11 *Herald* and the *Bisbee Daily Review*. On May 5, 2006, Applicants mailed notification to all
12 customers of the McLain Systems.

13 10. On May 22, 2006, the Commission held a public comment meeting in Sierra Vista,
14 Arizona, near the service areas of the Applicants. Customers expressed various concerns, mostly
15 concentrating on emergency preparedness and communication about outages.

16 11. On May 23, 2006, Staff filed an Amendment to the Staff Report that contained two
17 additional conditions.

18 12. On May 24, 2006, Northern and Southern filed a Response to the May 17, 2006 Staff
19 Report. Applicants were concerned that some of Staff's recommended conditions were unnecessarily
20 burdensome, problematic with respect to timing, or unclear.

21 13. On May 26, 2006, Applicants filed a Response to the Amended Staff Report.

22 14. On May 30, 2006, the hearing in this matter convened before a duly authorized
23 Administrative Law Judge.

24 15. On June 7, 2006, Staff filed a Late-filed Exhibit that modified the rate base analysis in
25 the Staff Report.

26 16. On June 7, 2006, as requested by the Administrative Law Judge, Northern and
27 Southern filed a Joint Legal Brief on Commission Authority to Grant Certificate of Convenience and
28 Necessity With Conditional Obligation to Serve.

1 17. On June 12, 2005, Northern and Southern filed a Notice of Filing Late-Filed Exhibit,
2 which contained an objection to Staff's Late-Filed Exhibit and an alternative rate base schedule.

3 18. On June 21, 2006, Staff filed a Response to Applicants' Joint Legal Brief on
4 Commission Authority Regarding Conditional Obligation to Serve and Staff's Reply to Joint
5 Applicants' Response to Staff's Late Filed Exhibit 4.

6 19. The McLain Systems are in serious disrepair and under the management of Arizona
7 Small Utilities Association ("ASUA"), an interim operator. The physical inadequacies and necessary
8 repairs, maintenance and capital improvements for each system are set forth in Decision Nos. 66241
9 (September 16, 2003) (Order to Show Cause and appointment of interim manager); Decision No.
10 66897 (April 6, 2004) (denial of application for stay of the appointment of the interim manager);
11 Decision No. 68272 (November 8, 2005) (creates moratorium on hook-ups); Decision No. 68412
12 (January 23, 2006) (determines fair value rate base) and Decision No. 68667 (April 20, 2006)
13 (emergency rate case implementing System Improvement Surcharge).

14 20. Northern and Southern are subsidiaries of Algonquin Water Resources of America,
15 Inc. ("Algonquin"). Algonquin is a subsidiary of Algonquin Power Income Fund (the "Fund"), an
16 unincorporated trust established under the laws of Ontario, Canada. The Fund's principal business
17 activity is the ownership of electric generation and infrastructure facilities, through investments in
18 subsidiaries. In 2005, 27.1 percent of the Fund's revenue was generated in Canada with the
19 remaining 72.9 percent being generated in the United States. Algonquin had total revenue of \$179.3
20 million in 2005. The Fund had earnings of \$21.8 million in 2005 on assets of \$823.8 million.

21 21. Algonquin currently owns five Arizona water utilities: Bella Vista Water Company,
22 Litchfield Park Service Company, Gold Canyon Sewer Company, Black Mountain Sewer
23 Corporation, and Rio Rico Utilities. The Commission's Utilities Division Compliance Section
24 indicates there are no outstanding compliance issues with the five companies. The Commission's
25 Consumer Services Division indicates that for the period January 1, 2003 until April 21, 2006, for the
26 five companies combined, there were a total of 41 complaints, 54 inquiries and 206 opinions¹ logged
27

28 ¹ The Opinions are related to the pending Gold Canyon Sewer rate case.

1 with the Commission.

2 22. Staff concludes that based on Algonquin's ownership of the Applicants, its financial
3 strength and the operating history of the five Arizona subsidiaries, Northern and Southern are fit and
4 proper entities to receive the McLain System assets and be granted CC&Ns in the area of the McLain
5 Systems and the additional area of Babocomari.

6 23. The McLain Systems are currently in bankruptcy proceedings (Case No. 4:30-bk-
7 04125). On July 7, 2004, the bankruptcy estate of Johnny A. McLain and Linda M. McLain and
8 Algonquin entered into a sales agreement. On March 20, 2006, the Bankruptcy Court confirmed the
9 sales agreement. The purchase price was set at an amount equal to the rate base for the McLain
10 Systems as determined by the Commission. In Decision No. 68412, the Commission determined the
11 rate base of the McLain Systems to equal \$696,752. The proceeds of the sale will be distributed
12 among several creditors. The Bankruptcy Court required Algonquin to receive Commission approval
13 of the issuance of appropriate CC&Ns and the sale and transfer of the assets before the sales
14 agreement can be finalized.

15 24. The Applicants expect the sales transaction to be consummated approximately 30 to
16 60 days after the Commission's decision in this case, depending on the outcome of other approvals
17 and consents—namely a consent agreement with the Arizona Department of Environmental Quality
18 (“ADEQ”) that will provide a timetable for the Applicants to bring the former McLain Systems into
19 compliance with environmental regulations.

20 25. Staff recommends that Northern and Southern file the closing documents with Docket
21 Control, as a compliance item in this docket, within 15 calendar days of closing of the sale
22 transaction.

23 26. Since the filing of the Engineering Report attached to Decision No. 68412 (which set a
24 rate base value), some improvements to the system have been made, including two 100 gallon hydro-
25 tanks, new electrical and a new well meter and well regulator valve for the Sierra Sunset system, and
26 a new well pump, new electrical and a new pressure tank air controller for Miracle Valley. In
27 addition, Staff reports that the Coronado Estates well may only produce 52 gallons per minute and
28 not the 300 gallons per minute as previously thought. The cost of the improvements made

1 subsequent to Decision No. 68412 and the date of the Staff Report in this docket, totaled \$21,000.
2 Staff indicates that its previous assessments that the McLain Systems continue to require substantial
3 investments in order for customers to receive adequate, safe and reliable service remains the same.

4 27. Applicants' certificated operator will be Larry Diaz who is located in Sierra Vista,
5 Arizona, near the service areas. Northern and Southern will not have employees of their own, but
6 will contract with an affiliate, Algonquin Water Services ("AWS"), for services. Maintenance and
7 operations will primarily be coordinated by the Bella Vista Water Company office in Sierra Vista.
8 Customers will have an 800 number for service, repairs and billing questions. Calls to the 800
9 number will be answered and coordinated out of Algonquin's Avondale, Arizona office. The
10 customers will be given a number for reporting emergencies which will be answered in Sierra Vista.

11 28. Northern and Southern have not yet received their franchises with Cochise County.

12 29. Staff recommends that Northern and Southern file the franchise agreement(s) with
13 Cochise County in Docket Control, as a compliance item in this docket, within one year of the
14 Decision in this matter.

15 Addition of Babocomari area

16 30. In order to serve the Babocomari Development Association, Northern is requesting to
17 include in its proposed certificated area approximately 3.7 square miles in an area contiguous to the
18 southern boundary of the current Coronado Estates system. Northern has received a request to serve
19 from the landowner in this area. According to the report of the Arizona Department of Water
20 Resources ("ADWR") for the Demonstration of Adequate Water Supply, approximately 977 acre-feet
21 per year of water supply would be needed for an anticipated 1,500 single-family units within this
22 area. Northern estimates it would serve 400 customers in the area by the end of five years.
23 According to Northern, the developer is willing to contribute land within the development upon
24 which Northern would construct a storage tank and booster pumping facilities.

25 31. Northern has not received the ADEQ Certificate of Approval to Construct ("ATC")
26 for facilities to serve the Babocomari project.

27 32. As part of this application, Northern has submitted a report prepared by Errol L.
28 Montgomery & Associates for Babocomari Development Association to the Arizona Department of

1 Water Resources for its Demonstration of Adequate Water Supply.

2 33. Staff recommends that Northern file with Docket Control, as a compliance item in this
3 docket, a copy of the Approval to Construct for the Babocomari project within three years² from the
4 effective date of the decision in this proceeding.

5 34. Staff recommends that Northern file with Docket Control, as a compliance item in this
6 docket, a copy of the developer's Letter of Adequate Water Supply for the Babocomari area
7 demonstrating that there is adequate water, within three years from the effective date of the decision
8 in this proceeding.³ Staff states that if the Letter of Adequate Water Supply is not docketed within
9 the time frame, the CC&N for the Babocomari area shall be null and void after due process.

10 35. Northern objects to the recommendations that would require it to docket a copy of the
11 Approval to Construct and developer's Letter of Adequate Water Supply for the Babocomari
12 development within one year, or three years, of the effective date of the Decision in this proceeding.
13 Northern states that it included the Babocomari development in its CC&N application in order to
14 conduct the advance planning necessary to integrate the new water distribution infrastructure into the
15 larger water system, and because the developer was willing to convey an ideal parcel of land for off-
16 site facilities. Northern states that although this parcel will eventually be useful to the potential
17 customers within the Babocomari area, it will be immediately useful to the existing customers of
18 several of the McLain systems. Northern states that the Babocomari developers are offering the
19 parcel on the expectation that they will be eligible for water service when they need it. Northern
20 believes there is no incentive for these developers to provide Northern a site for off-site facilities only
21 to have the expected benefit taken away by an artificial timeline set by Staff. Furthermore, Northern
22 asserts that if the timeline is imposed, and the land parcel not transferred to Northern as a result,
23 existing customers will ultimately have to bear higher capital costs for alternative locations for off-
24 site facilities. Thus, Northern argues that although the timing of development in the Babocomari area
25 is uncertain and outside Northern's control, the public interest is well served by including this area in
26 Northern's CC&N without "artificial" deadlines. As an alternative, Northern would agree to submit a

27 ² Staff originally recommended a one year deadline, but revised its recommendation to three years in response to the
28 Applicants' concerns. (Tr at 204)

³Id.

1 status report on development activity in the Babocomari area within 365 days of the Decision in this
2 matter, and annually thereafter. Northern states that Staff should then provide comments to the status
3 report, and make recommendations, if necessary, on whether a more thorough review is warranted.

4 36. Staff explained that its intent in placing a time limit on filing these documents is to
5 ensure that there really is a need for the service (Tr at 202.) The purpose of requiring a Letter of
6 Adequate Supply⁴ that shows there is adequate water, is to ensure that Northern will be able to serve
7 the proposed area. Staff wants to avoid the situation where the Companies have an obligation to
8 serve because they have a CC&N, but where they are unable to serve because supply is inadequate.
9 (Tr at 203 & 257).

10 37. Northern suggests that the Commission grant the CC&N to include Babocomari, but
11 condition Northern's ability to serve the area on a demonstration of adequate water supply.

12 38. Staff agrees that the site the Babocomari developers propose to donate is ideal for use
13 by Northern, but testified that it is not the only possible site for the planned improvements.

14 Financial Analysis and Rates

15 39. Northern and Southern's costs to serve the former McLain systems will be
16 significantly different from those of the McLain Systems and ASUA. Much of the cost difference
17 will be attributable to the cost of the new plant that Northern and Southern intend to install and the
18 change in operating characteristics that will come with new ownership.

19 40. Staff believes that the significant changes in costs, the expectations of improved
20 service to customers and the granting of new CC&Ns support the imposition of new rates as opposed
21 to maintaining the current rates that reflect another era.

22 41. The McLain Systems have experienced a negative cash flow, likely for many years,
23 but documented since ASUA was appointed interim manager in July 2004. For the nine-month
24 period ending September 30, 2005, there was a negative cash flow of approximately \$30,000 and the
25 estimate is that for the year 2005, the total cash shortfall would be approximately \$40,000. ASUA
26 reports that as of April 30, 2006, accounts payable totaled approximated \$169,000.

27 ⁴ A Letter of Adequate Water Supply should not be confused with a Certificate of Assured Water Supply. The Letter of
28 Adequate Water Supply applies to all systems outside of what ADWR calls an active management area. Developers are
not prevented from selling lots even if the Letter of Adequacy shows there is not sufficient water.

1 42. In Decision No. 68667, the Commission approved an emergency rate application and
2 authorized a \$9.00 per meter System Improvement Surcharge ("SIS") to be effective May 1, 2006.

3 Rate Base

4 43. In Decision No. 68142, the Commission adopted a rate base amount to be utilized to
5 establish the purchase price for the acquisition of the assets from the bankruptcy estate. In that
6 Decision, the Commission adopted the following rate base amounts for the individual McLain
7 Systems:

	<u>Rate Base</u>
9 Mustang Water Company	\$24,008.81
10 Crystal Water Company	\$19,003.18
11 Sierra Sunset Water Company	\$18,583.75
12 Coronado Estates Water Company	\$29,988.84
13 Miracle Valley Water Company, Inc.	\$22,798.78
14 Horseshoe Ranch Water Company	\$124,920.98
15 Cochise Water Company	<u>\$457,447.80</u>
16 Total	\$696,752.14

17
18 44. In the current proceeding, in order to establish initial account balances, Staff applied
19 the "negative goodwill" adjustment in Decision No. 68412. In its analysis, Staff applied the
20 adjustment solely to Land and Land Rights. (Late-Filed Exhibit). Applicants object to applying the
21 "negative goodwill" adjustment to land and land values because the "negative goodwill" did not arise
22 from McLain's ownership of the land, but because of inadequate service caused by the physical
23 deterioration of infrastructure and plant equipment. Applicants applied the "negative goodwill"
24 adjustment to infrastructure and plant equipment as set forth in their late filed exhibit.

25 45. Decision No. 68412 did not specify how to apply the "negative goodwill" adjustment,
26 but Applicants' proposed allocation of plant values better reflects the rationale of Decision No. 68412
27 and should be adopted. Consequently, we adopt the following initial rate base amounts:

28 Northern:

	<u>RCND</u>	<u>ROO Amount</u>	<u>Negative Goodwill Adjustment</u>	<u>Decision 68412</u>
1 Land and Land Rights	\$14,373	\$28,748	--	\$28,746
2 Structures and Improvements	355	335	(20)	315
3 Wells and Springs	--	--	--	--
4 Pumping and equipment	24,594	24,594	(1,750)	22,844
5 Distr. Reservoirs & Standpipe	4,680	4,680	(247)	4,433
6 Transmission and Distribution	36,984	36,984	(2,748)	34,236
7 Services	1,065	1,065	(56)	1,009
8 Hydrants	--	--	--	--
9 Totals	\$82,031	\$96,404	\$(4,820)	\$91,584
10 Southern:				
11				
12				
13	<u>RCND</u>	<u>ROO Amount</u>	<u>Negative Goodwill Adjustment</u>	<u>Decision 68412</u>
14 Land and Land Rights	\$189,629	\$384,007	--	\$384,007
15 Structures and Improvements	1,287	1,287	(243)	1,044
16 Wells and Springs	26,825	26,825	(4,995)	21,830
17 Pumping and equipment	42,847	42,847	(6,928)	35,919
18 Distr. Reservoirs & Standpipe	125,556	125,556	(22,668)	102,888
19 Transmission and Distribution	71,667	71,667	(12,430)	59,237
20 Services	--	--	--	--
21 Hydrants	300	300	(57)	243
22 Totals	\$458,111	\$652,489	\$(47,321)	\$605,168

23
24 46. Northern and Southern have indicated that they are prepared to make capital
25 improvements totaling \$802,100 within twelve months of closing the sale.

26 47. Northern and Southern have estimated acquisition costs of approximately \$300,000,
27 broken down as follows: 1) approximately \$100,000 for reorganization costs including participation
28 in bankruptcy proceedings, acquisition due diligence, interaction with regulatory agencies, etc.; 2)

1 approximately \$100,000 for Commission related activities; and 3) approximately \$100,000 for
2 transition costs such as support for interim operator, capitalized labor costs, etc.

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

10 49. Staff states that the acquisition of the McLain Systems is unique and extraordinary.
11 Therefore, Staff recommends including the acquisition costs in account 186.3, Regulatory Assets.
12 Staff recommends that the appropriate amortization of these assets should be determined in the
13 Applicants' next general rate case.

14 50. Regardless of Staff's recommendations concerning the ultimate treatment of the
15 acquisition adjustment, Staff's recommended rate base, and recommended rates, includes \$300,000 in
16 Regulatory Assets. Staff recommends a fair value rate base for establishing initial rates as follows:

	<u>Northern</u>	<u>Southern</u>	<u>Total</u>
17 Value established in Dec. 68412	\$91,584	\$605,168	\$696,752
18 Capital Improvements	480,200	321,900	802,100
19 Acquisition Costs	<u>64,619</u>	<u>235,381</u>	<u>300,000</u>
20 Total	\$636,403	\$1,162,449	\$1,798,852

21
22
23 51. Attached hereto as Exhibit B, is a list of capital improvements for each System that
24 need to be made in order to provide adequate service and to bring the Systems into substantial
25 compliance with ADEQ. Applicants have agreed to make these improvements within twelve months
26 of closing the sale. Staff includes these prospective improvements in the Companies' initial fair
27 value rate base.

28 52. Applicants state that Staff's recommended treatment of their respective acquisition or

1 transaction costs is confusing. They note that on one hand, Staff has agreed with their deferred
2 accounting treatments of the transaction costs, and built them into Applicants' initial rate structure,
3 but then state that the appropriate accounting treatment should be addressed in the next rate
4 proceeding. Applicants state that the latter recommendation is "unacceptable" to them. Applicants
5 acknowledge that a significant portion of the transaction costs are estimated at this time, which means
6 some later review is necessary. Applicants state that such review should be limited to verification of
7 cost and assurance that such costs were incurred in connection with the transaction. Applicants
8 believe that Staff's recommendation appears intended to postpone a prudency-type review until the
9 next rate proceeding. Applicants argue that given that this transaction (and the hugely complicated
10 process associated with bringing it to resolution) has consumed resources that the Applicants would
11 never incur in a typical acquisition transaction, the resulting risk Applicants face in acquiring several
12 bankrupt and chronically non-compliant water systems should not also include future "second-
13 guessing" by Staff or a new Commission without some appreciation of the history. Applicants state
14 that if the Commission concludes that the applications are in the public interest, it will also be
15 affirming that the costs incurred to complete the reorganization of these systems to a new owner are
16 in the public interest, and no further analysis of prudency is necessary or appropriate.

17 53. Based on the foregoing, we adopt a fair value rate base of \$636,403 for Northern and
18 \$1,162,449 for Southern.

19 54. We find the controversy surrounding Staff's recommendations on the prudency of
20 acquisition/transition costs somewhat puzzling, and believe that it may be an issue of semantics.
21 Staff has agreed, and we concur that an acquisition adjustment is appropriate in this case that that the
22 actual costs should be reviewed in the next rate case. If ever there was a situation that merited such
23 treatment this is the case. The only issue is that the acquisition costs are not known at this time. For
24 purposes of initial rates, we find that \$300,000 is appropriate and reasonable. In the next rate case,
25 the Commission will need to consider whether the costs attributed to the acquisition and included in
26 the Regulatory Asset Account were actually incurred in connection with this acquisition. In deferring
27 this review to the next rate case, it is not our intent to eliminate the acquisition adjustment at that
28 time, but merely to ensure that the transaction costs have actually been incurred in furtherance of the

1 transaction.

2 Revenues and Expenses

3 55. Applicants have proposed revenues and projected expenses that indicate Southern
4 would experience in the first year an estimated return on rate base of approximately 11.9 percent and
5 9.77 percent for Northern. Staff reviewed the Applicants' estimates of revenues and expenses and
6 found them to be reasonable. Staff notes that the expected return is higher than Staff's recent
7 recommendations for similarly sized water companies, but Staff states that this is a unique case and
8 that Applicants will face greater risk than most companies in bringing these companies out of
9 bankruptcy and into compliance.

10 56. The estimated revenues are based on an average customer usage of 7,300 gallons per
11 month. Staff believes that the estimate is reasonable.

12 57. Staff has recommended depreciation rates as set forth in the Staff Report as Schedule
13 REL-3. Staff notes that its recommended depreciation rates have been approved in numerous water
14 rate cases. Staff recommends that Northern and Southern continue to use the depreciation rates
15 delineated in REL-3 for each individual National Association of Regulatory Utility Commissioners
16 ("NARUC") asset category. Staff recommends, however, that Account No. 305 – Collecting and
17 Impounding Reservoirs not be used and that all reported plant costs in Account No. 305 be
18 reclassified to Account No. 330 – Distribution Reservoirs and Standpipes. Staff states that it
19 classified storage tanks and pressure tanks to Account No. 330 as shown in the RCN and RCND
20 spreadsheets in Decision No. 68412.

21 Financing

22 58. Applicants proposed to finance the acquisition with common stock.

23 59. Given the extraordinary nature of this transaction, Staff believes that equity financing
24 is appropriate and warranted.

25 Rates

26 60. Applicants propose a single rate design for the Northern and Southern systems.

27 61. Staff believes that a single rate design is appropriate at this time as all systems will be
28 operated under a single management team and economies of scale can begin to be achieved. To

1 promote conservation Applicants proposed a three tier design. Staff reviewed the proposed design
2 and found it to be acceptable.

3 62. Staff recommends that Applicants maintain separate accounting for the cost of
4 operating the two systems and that they evaluate whether separate rates would be appropriate in their
5 next rate case.

6 63. The Applicants' proposed rates are as follows:

7 MONTHLY USAGE CHARGE:

8	5/8" x 3/4" Meter	\$ 31.00
	3/4" Meter	46.50
9	1" Meter	77.50
	1 1/2" Meter	155.00
10	2" Meter	248.00
	3" Meter	496.00
11	4" Meter	775.00
	6" Meter	930.00
12	8" Meter	1,550.00

13 Gallons included in minimum 0

14 COMMODITY RATES per 1,000 gallons

15 5/8 x 3/4 Inch Meter

16	Tier one - 0 to 5,000 gallons	\$2.00
17	Tier two - 5,001 gallons to 10,000 gallons	2.75
18	Tier three - over 10,000 gallons	3.90

19 Residential 1 Inch Meter and Larger

20	Tier one - 0 to 5,000 gallons	\$2.00
	Tier two - 5,001 gallons to 10,000 gallons	2.75
21	Tier three - over 10,000 gallons	3.90

22 Irrigation Meters

23	Tier one - 0 to 45,000 gallons	\$2.75
	Tier two - over 45,000 gallons	3.90

24 Other

25	Standpipe or bulk water	3.90
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26 SERVICE LINE AND METER INSTALLATION CHARGES:

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

28	5/8" x 3/4" Meter	\$ 410.00
	3/4" Meter	410.00

1	1" Meter	520.00
1	1 ½" Meter	660.00
2	2" Meter Turbo	1,155.00
2	2" Meter Compound	1,720.00
3	3" Meter Turbo	1,625.00
3	3" Meter Compound	2,260.00
4	4" Meter Turbo	2,500.00
4	4" Meter Compound	3,200.00
5	6" Meter Turbo	4,500.00
5	6" Meter Compound	6,300.00
6	8" Meter	8,200.00

SERVICE CHARGES:

8	Establishment of Service per Rule R14-2-403.D	\$ 25.00
9	Establishment of Service (After Hours) per Rule R14-2-403.D.2	35.00
10	Re-establishment of Service per Rule 14-2-403.D	**
10	Reconnection of Service per Rule R14-2-403.D.1	35.00
11	Charge for Moving Meter at Customer Request per Rule R14-2-405.B.5	Cost
12	After Hours Service Charge, per Hour, R14-2-403.D	50.00
13	Minimum Deposit per Rule R14-2-403.B	*
13	Meter Reread per Rule R14-2-408	5.00
14	Charge for NSF check per Rule R14-2-409.F.1	15.00
14	Late Payment Charge for Delinquent Bills as Defined in Rule R14-2-409C.1	***
15	Deferred Payment Finance Charge R14-2-409.G	***

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

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

19 *** 1.5% per month

20 64. Staff reviewed the Applicants' revenue projections based on the proposed rates and
 21 found them to be reasonable. Staff also reviewed the other charges and found them to be reasonable
 22 and consistent with recent Commission decisions.

23 65. Each of the existing McLain Systems has its own rate structure. Some of the McLain
 24 Systems' rates have been in effect for 20 years. Based on an average usage of 7,300 gallons a month,
 25 Applicants' proposed rates would affect the typical monthly bill of the existing McLain System
 26 customers as follows:

27
 28 ...

	<u>Last Rate Case</u>	<u>Current bill including SIS</u>	<u>Company Proposed</u>	<u>% increase</u>	
1					
2	Northern:				
3	Mustang	8/1985	\$39.75	\$47.33	19.07%
4	Crystal	8/1985	\$32.93	\$47.33	43.73%
5	Sierra Sunset	9/1983	\$21.50	\$47.33	120.14%
6	Coronado	8/1985	\$32.93	\$47.33	43.73%
7					
8	Southern:				
9	Miracle Valley	4/1989	\$24.30	\$47.33	94.77%
10	Cochise	8/1985	\$44.90	\$47.33	5.41%
11	Horseshoe Ranch	8/1985	\$32.93	\$47.33	5.41%

12

13

14 66. Staff recommends that Northern and Southern charge the rates proposed by the

15 Applicants. (TR at 209.) Although Staff believes that the Applicants' proposed rates are fair and

16 reasonable, and supports implementation of those rates, as an alternative, to help mitigate the

17 significant rate increase some customers will experience, Staff developed a phased-in rate plan.

18 Under Staff's alternative plan, the monthly minimum charge of \$31.00 would be phased-in over three

19 stages. The first phase would implement a \$21.00 monthly charge, and is based on the acquisition

20 price of \$696,717. Applicants estimate making capital improvements of \$802,100 over the twelve

21 months following acquisition. Under the proposed alternative, once Applicants have made \$500,000

22 of the expected improvements, the monthly minimum would increase from \$21.00 to \$26.00 per

23 month (Phase II). When Applicants complete and place into service all of the projects listed on

24 Exhibit B, the monthly minimum would increase from \$26.00 to \$31.00 per month (Phase III). The

25 commodity rates would be the same as proposed by the Applicants and would not change from phase

26 to phase. A table of the phased-in increase follows:

27 ...

28

MONTHLY USAGE CHARGE:

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>
5/8" x 3/4" Meter	\$21.00	\$26.00	\$ 31.00
3/4" Meter	31.50	39.00	46.50
1" Meter	52.50	65.00	77.50
1 1/2" Meter	105.00	130.00	155.00
2" Meter	168.00	208.00	248.00
3" Meter	336.00	416.00	496.00
4" Meter	525.00	650.00	775.00
6" Meter	630.00	780.00	930.00
8" Meter	1,050.00	1,300.00	1,550.00

67. The effect of Phase I and Phase II (Phase III would be the same as set forth above) on the average bill of the existing McLain System customer is as follows:

	Current bill incl. SIS	Phase I	% increase*	Phase II	% Increase*
Northern:					
Mustang	\$39.75	\$37.50	-6.09%	\$42.33	6.49%
Crystal	\$32.93	\$37.50	13.36%	42.33	28.55%
Sierra Sunset	\$21.50	\$37.50	73.63%	42.33	96.88%
Coronado	\$32.93	\$37.50	13.36%	42.33	28.55%
Southern:					
Miracle Valley	\$24.30	\$37.50	53.62%	42.33	74.20%
Cochise	\$44.90	\$37.50	-16.86%	42.33	-5.72%
Horseshoe Ranch	\$32.93	\$37.50	-16.86%	42.33	-5.72%

* As compared to existing rates.

68. If the Commission adopts the Applicants' non-phased-in rates, Staff recommends that Applicants be required to complete all projects listed in Exhibit B by August 25, 2007.⁵ If the Commission adopts the phased rates, Staff recommends that Applicants implement Phase II rates the first day of the month after Applicants notify Staff and Staff files a memo in the docket verifying that

⁵ Staff had originally recommended that the projects be completed by June 30, 2007, but in response to Applicants' testimony, modified its recommendation to allow additional time. TR at 201.

1 at least \$500,000 of plant investments have been made to the system. Staff recommends that Phase
2 III rates be implemented the first day of the month after Applicants notify Staff that all the
3 improvements on Exhibit B have been made and Staff files a memo in this docket that such
4 improvements have been made.

5 69. Applicants object to phased-in rates. Applicants acknowledge that some existing
6 customers will face a large rate increase as a result of not seeing a rate case in more than 20 years.
7 Applicants argue it is inequitable to penalize them by imposing the administrative burden of multiple
8 notices of rate changes and filings with the Commission as well as, most importantly, by postponing
9 recovery of just and reasonable rates. Applicants assert it is especially unfair, given the substantial
10 risks they are taking in acquiring the McLain Systems. Applicants state they do not own the systems
11 yet and have no idea of the final cost to bring them into compliance. They note they will also bear
12 the burden of customer frustration as service is brought up to standard. They argue it is unfair in the
13 face of the risks and burdens to also saddle them with less than just and reasonable rates as a "gesture
14 to ratepayers."

15 70. Applicants estimate it will take 30 days after acquiring the Systems to make an
16 engineering assessment of whether the improvements in Exhibit B are appropriate and sufficient (TR
17 at 79.)

18 71. One of the disadvantages of phased-in rates is that some customers would get a rate
19 decrease with Phase I, which sends an odd signal to these customers. (TR at 209.) In addition, the
20 administrative costs for the Applicants and the Commission as well as the potential for consumer
21 confusion from phased-in rates over a relatively short period of time is much greater with the
22 proposed phase-in. The disadvantage of implementing the rate increase at one time is the substantial
23 increase for customers on certain systems. After balancing all factors, we find that the Applicants'
24 proposed rates are just and reasonable and agree with Applicants and Staff that the best course of
25 action is to implement the full rate increase upon the first of the month after Applicants have filed a
26 notice with the Commission that the transaction has closed. For some customers the percentage
27 increase is substantial, but many of these systems have not had a rate increase in over 20 years, and
28 their rates do not reflect current realities.

1 Deferred Payment Tariff

2 72. Staff notes that some customers will experience a significant rate increase as a result
3 of this application. Staff recommends that the Applicants file a deferred payment plan tariff for the
4 benefit of those individuals who are struggling to pay their bills under the new rates, but who commit
5 to payment of their bills over a reasonable period of time, and who demonstrate that they have
6 secured bill payment assistance from a government agency, a community agency, a charity or faith-
7 based institution. Staff recommends that Applicants consult with Staff to determine the appropriate
8 time period over which to defer payments under such tariff.

9 73. Applicants object to Staff's recommendation concerning implementation of a deferred
10 payment plan on the grounds that Staff's proposal is unduly burdensome, confiscatory and signals
11 customers that payment for services is not mandatory. Applicants state that A.A.C. R14-2-409.G
12 allows, but does not require a water utility to offer qualifying residential customers a deferred
13 payment plan prior to terminating service pursuant to A.A.C. R14-2-410.C.1.a. Rule 410.C.1.a
14 provides that "[a] utility may disconnect service to any customer for any reason stated below
15 provided the utility has met the notice requirements established by the Commission: (b) failure of the
16 customer to pay a delinquent bill for service." Applicants argue that requiring them to adopt a
17 Deferred Payment Plan Tariff is inconsistent with the Commission's own rules. Applicants assert
18 also that consistent with the way other Algonquin-owned utilities are operated in the Arizona, they
19 will take steps to address situations where customers have problems paying their bills. (TR at 143.)
20 Applicants state that every situation is unique and a one-size fits all approach as recommended by
21 Staff denies Applicants the flexibility to enter into separate deferred payment plans tailored to the
22 individual customer needs. In addition, Applicants claim that Staff's recommendation fails to clearly
23 define the minimum qualifications for participation in the program, and potentially adds unnecessary
24 administrative costs of coordinating with assistance agencies.

25 74. Staff explained that its intent in recommending a deferred payment plan was to assist
26 ratepayers faced with a substantial rate increase. Staff did not intend to limit the Companies'
27 flexibility. (TR at 208.)

28 75. The Companies claim that it is their practice to work with customers who are having

1 difficulty with paying their bills. We think that as described by the Companies' witness, the
2 Companies are likely already in compliance with the intent of Staff's recommendation, and indeed,
3 are more flexible in their approach. In the absence of evidence that the need for a formal tariff as
4 described by Staff (understanding that Applicants are not yet in business), we will not assume that
5 Applicants will not continue to offer deferred payment options. It is our desire to not unnecessarily
6 burden Applicants with administrative requirements where there is not a demonstrated need. We
7 believe management will be quite busy over the next year bringing these companies into compliance.
8 However, in the event that the Companies do not act reasonably in responding to legitimate customer
9 need for deferred payments, we may wish to revisit this issue.

10 Hook-up Fee

11 76. Staff recommends a \$1,000 Hook-up Fee to assist in offsetting the costs of capital
12 improvements and acquisition costs. Staff recommends that the hook-up fee be considered a non-
13 refundable contribution in aid of construction, and that the Applicants provide an analysis of the
14 collected hook-up fees and whether any adjustment to the amount should be made in their next
15 general rate cases.

16 77. The Off Site Hook-up Fee Tariffs for Northern and Southern are attached hereto as
17 Exhibit C. The proposed Hook-up Fees are identical for Northern or Southern.

18 78. Staff further recommends that Applicants submit an annual Off Site Hook-up Fee
19 status report each August to Docket Control for the prior 12 month period, beginning August 2007,
20 until the hook-up fee tariff is no longer in effect. The status report shall contain a list of all customers
21 that have paid the Hook-up Fee, the amount each has paid, the amount of money spent from the
22 account, the amount of interest earned on the tariff account, and a list of all facilities that have been
23 installed with the tariff funds during the 12 month period.

24 Miscellaneous

25 79. Staff further recommends that in addition to the collection of its regular rates and
26 charges, Applicants collect from their customers a proportionate share of any privilege, sales or use
27 tax pursuant to A.A.C. R14-2-409.D.5; that the rates approved by the Commission become effective
28 the first day of the month following the date of the closing of the purchase and sale agreement with

1 the Bankruptcy Court; that Applicants file with Docket Control, as a compliance item in this docket,
2 a schedule of their approved rates and charges, including the Hook-up Fee Tariffs, within 30 days
3 after the effective date of this Decision; and that Applicants maintain their books and accounts in
4 accordance with the NARUC Uniform System of Accounts.

5 Curtailment Plan and Backflow Prevention Tariffs

6 80. A curtailment plan tariff is an effective tool for water companies to use to manage
7 water resources during periods of shortages due to pump breakdowns, droughts, or other
8 unforeseeable events. Since Applicants have not proposed this type of tariff, Staff recommends that
9 Northern and Southern file a curtailment plan tariff in the form found on the Commission's website.
10 Staff recommends that this tariff be docketed, as a compliance item in this docket, within 45 calendar
11 days of the effective date of this Decision for review and certification by Staff.

12 81. Applicants have not proposed backflow prevention tariffs. Staff recommends that
13 Northern and Southern file backflow prevention tariffs in the form found on the Commission's
14 website. Staff recommends that this tariff be docketed, as a compliance item in this docket, within 45
15 calendar days of the effective date of this Decision, for review and certification by Staff.

16 Emergency Rate Case and SIS

17 82. In Decision No. 68667, the Commission approved a monthly SIS of \$9.00 per meter
18 or connection to address the negative cash flow experienced by ASUA as interim manager, make
19 necessary capital outlays and pay chronically overdue accounts payable. Decision No. 68667 ordered
20 ASUA "or the future owner of the McLain Systems" to file an application for a permanent rate
21 increase no later than March 15, 2007, using a 2006 Test Year. Applicants request a calendar year of
22 2007 Test Year because a 2006 Test Year would not as accurately reflect the normal operating
23 conditions as a 2007 Test Year.

24 83. Staff believes that due to the extensive repairs and necessary construction Applicants
25 will undertake to enable the former McLain Systems to provide adequate service, a Test Year of 2007
26 is appropriate. Staff recognizes that a 2006 Test year would include six months of non-representative
27 and possibly inaccurate levels of expenses. A 2007 Test Year will better reflect the ongoing level of
28 investment and expenses than a 2006 Test Year. Staff believes that rates should be based on the costs

1 to be incurred by Applicants rather than those experienced by ASUA. Thus, Staff recommends that
2 Decision No. 68667 be modified to allow for a calendar year ending December 31, 2007 as the Test
3 Year.

4 84. The rates proposed by the Applicants and accepted by Staff as reasonable, reflect not
5 only the fair value of the assets established in Decision No. 68412, but include the cost of anticipated
6 capital improvements, costs associated with the acquisition of the McLain Systems and the projected
7 costs of operations. These costs do not necessarily reflect the costs that ASUA experienced during its
8 tenure as operator. Consequently, Staff recommends that Decision No. 68667 be modified to remove
9 the SIS the first day of the month after the closing of the sale to Applicants.

10 85. Decision No. 68667 also ordered ASUA and any future owner of the McLain Systems
11 to "maintain a separate bank account in which it will deposit and withdraw all funds received
12 pursuant to its System Improvement Charge." The Decision also required the application of the SIS
13 funds on a pro rata basis among the systems and an annual audit of the SIS fund expenditures by the
14 Utilities Division. Because Staff is recommending the SIS be eliminated, the requirements for
15 Applicants to maintain a separate bank account and make pro rata expenditures are not necessary.
16 Staff states that Applicants should retain all records from the systems regarding the SIS until
17 conclusion of the 2008 rate case filing. To help reduce inadvertent or unintended subsidies of the
18 Northern systems by the Southern systems, or vice versa, Staff recommends the Commission order
19 Applicants to maintain separate accounting for Northern and Southern and provide an evaluation in
20 the 2008 general rate filing as to whether separate rates are appropriate for Northern and Southern at
21 that time.

22 86. Staff recommends that the annual SIS audit required by Decision No. 68667 be
23 modified to require Staff to perform an audit of the collection and expenditure of the SIS as soon as
24 practicable following the closing of the sale. Staff states the audit would encompass the period from
25 the inception of the SIS to the closing of the sale, and Staff will file the results of the audit in this
26 consolidated docket along with any resulting recommendations.

27 87. Applicants assert that the recommendation concerning the elimination of the SIS and
28 separate bank account, should also require that other transition issues need to be addressed.

1 Applicants note that the Staff Report does not address issues such as how customer deposits will be
2 transferred, or how billing information (i.e., payment history) will be transferred from ASUA to
3 Applicants. Applicants assert that to the extent that Staff believes that these transitional issues should
4 be addressed directly between Applicants and ASUA, Applicants request that Staff's
5 recommendations be modified accordingly.

6 88. We concur with Staff's recommendations concerning the modification of Decision No.
7 68667 to employ a 2007 Test Year and to eliminate the SIS. Applicants shall work directly with
8 AUSA to effectuate the transfer of information to the new owners and Staff shall facilitate such
9 transition if needed.

10 Moratorium on Hook-ups

11 89. In Decision No. 68272, the Commission imposed a moratorium on new customer
12 hook-ups to the McLain Systems "until each of the systems can demonstrate to the Commission that
13 it is in the public interest to remove the moratorium."

14 90. Staff does not believe that the sale of the McLain Systems to the Applicants should
15 affect the moratorium on hook-ups.

16 91. A copy of the projects that the Applicants believe are necessary for the systems to
17 provide adequate service is attached hereto as Exhibit B. Applicants state that all of the projects
18 listed in Exhibit B can be completed within 12 months of the close of the sale. In addition to the list
19 in Exhibit B, Staff states that as recognized in Decision No. 68272, Sierra Sunset requires an
20 additional 30,000 gallons of storage.

21 92. Staff recommends that Algonquin complete all projects listed in Exhibit B, plus
22 30,000 gallons of storage for the Sierra Sunset system by August 25, 2007.

23 93. Applicants object to the recommendation that Applicants complete the projects listed
24 in Exhibit B, along with 30,000 gallons of storage for the Sierra Sunset system by June 30, 2007,
25 August 25, 2007, or any other date certain determined before close of the sale. Applicants state that
26 they expect to make the capital improvements within six to twelve months of closing, but that the
27 closing date is uncertain at this time. In addition, Applicants note that some of the improvements
28 listed in Exhibit B may have to be modified or redesigned after Applicants' engineers are able to

1 study the situation better. Applicants suggest modifying this recommendation to require Applicants
2 to complete substantially all the capital improvement constructions projects (or the equivalent) one
3 full year after the close of the transaction by which title to the assets passes to Applicants.

4 94. Staff's concern in mandating a completion date is to ensure that all of the existing
5 systems are treated equally and that there is incentive to get the systems out of bankruptcy as soon as
6 possible. (TR at 200.) Staff understands and agrees that it may be necessary or desirable to modify
7 the projects delineated on Exhibit B, however Staff believes that the projects as described in Exhibit
8 B should be made in order to lift the moratoria. Staff believes that if the Companies find that there is
9 something different that should be done, the Companies should make a filing that describes the
10 proposed changes. Staff would then file a concurrence or memorandum describing its disagreement
11 (TR at 215-217.)

12 95. We can understand the Applicants' concern that even after Commission approval of
13 the Applications, it can take additional time to close the sale. However, we also share Staff's
14 concerns that ownership transfer as quickly as possible and that these systems are brought into
15 compliance as soon as they reasonably can be. The rates we approve are based on a projected rate
16 base as if the improvements have been made. We believe that Staff's revised recommendation that
17 the improvements be complete by August 25, 2007 is reasonable. We also find that in the event
18 Applicants find that the intent behind the improvements that are listed in Exhibit B is best achieved
19 by modifying the projects, Applicants should be able to design the systems as they feel best serves
20 the interests of their customers. We encourage Applicants to keep Staff informed of contemplated
21 changes to Exhibit B, and should file with Staff and docket control any proposed update to Exhibit B
22 as soon as they can after they determine such modification is reasonable. Such filing will keep Staff
23 and customers informed and will make the process of lifting the moratoria on hook-ups more
24 efficient. If Staff has an objection to any proposed modification to Exhibit B, Staff should file its
25 objections in the docket within 10 business days. Staff's failure to file a comment or objection will
26 be deemed an acceptance of the proposed modification to Exhibit B. By discussing proposed
27 modifications ahead of Applicants' filing notice, the parties can limit the chance for disputes and
28 potential delays.

1 96. Staff recommends that as the projects listed for each of the McLain Systems are
2 completed, the moratorium should be lifted for that system. Staff recommends that because it will be
3 connected to the Coronado system, the moratorium should apply to the Babcoomari area. Staff also
4 recommends that because they are interconnected, the Horseshoe Ranch and Cochise systems be
5 treated as single system.

6 97. Administratively, Staff recommends that after the projects for a system or systems are
7 completed, Northern or Southern should submit a notice of completion in this docket. The notice of
8 completion should include an Approval of Construction from ADEQ for those projects requiring
9 ADEQ approval. Staff states that it would then inspect the projects and file a memo in the docket. If
10 the Staff memo concurs that the projects are completed, the moratorium would be considered lifted
11 for that system or systems.

12 98. Applicants argue that the Commission should approve a timely approval process for
13 lifting the moratoria. Applicants explain that they do not oppose continuation of the moratoria issued
14 in Decision No. 68272, and believe that its imposition was necessary given the state of the water
15 systems. Applicants are concerned, however, that Staff's recommendation concerning lifting the
16 moratoria is vague concerning the process of Staff approval for lifting the moratoria. Applicants
17 proposed that within ten days of receiving Notice from Applicants that the improvements are
18 complete, Staff should file any responsive memo in the docket. Applicants' Notice would include a
19 list of new and replaced plant upgrades. Under Applicants' proposal, no action by Staff would mean
20 approval and the moratorium would be lifted, and if Staff files a memo opposing lifting the
21 moratorium, a hearing should be scheduled within 20 days to address the dispute. Applicants argue
22 that absent this specific safeguard, or something similar, Applicants would face the risk of
23 unreasonable delay.

24 99. Staff proposes that it have 30 days following the Applicant's filing Notice that they
25 have completed the improvements to inspect and file any objection or concurrence with the request.
26 (TR at 215.) Where Staff is in agreement with the Companies that the moratoria should be lifted,
27 Staff does not believe that there necessarily needs to be further Commission action. (TR at 212-214.)

28 100. The dispute over the process of lifting the moratoria appears to be mainly over how

1 long it will take to lift the moratoria after the Companies have completed the improvements listed in
2 Exhibit B and the addition of 30,000 gallons of storage for Sierra Sunset. No one wants unnecessary
3 delay or work to lift the moratoria when there is no dispute that to lift the moratoria as quickly as
4 possible is appropriate and in the public interest. The Applicants' proposal that Staff file any
5 objection in 10 days or the request to lift the moratoria is granted and that in the event of a dispute
6 that a hearing convene in 20 days lacks the flexibility that may be needed. We believe Applicants
7 can avoid delays as much as possible by keeping Staff informed of their progress and expectations of
8 filing the Notice of completion. We will adopt a process that calls for Staff to file a response to
9 Applicant's Notice that the improvements are complete and the moratoria should be lifted within 20
10 calendar days of the docketing of such notice. If Staff files a memorandum in the file that disagrees
11 with the Applicants' request or which documents the need for more time, the Hearing Division shall
12 schedule a Procedural Conference as soon as practical to determine how to resolve the dispute. In the
13 event that Staff concurs with the Companies' request to lift the moratoria, Staff shall file a memo in
14 docket control indicating its recommendation and that the moratoria is lifted. The moratoria shall be
15 lifted upon Staff's concurrence with the request or in the event of dispute, upon further order of the
16 Commission. The Applicants' Notice of their request to lift a moratorium will be available on the
17 Commission website, but Applicants should also post such request on its website. Any customers of
18 the system in question should file any objections to the request within 20 calendar days of the
19 docketed date of the request. Customer objections should contain a reasonably detailed description of
20 the nature of their objection.

21 101. Staff recommends that the Hook-up Fees be effective in each system for which the
22 moratorium has been lifted.

23 Updating CC&N

24 102. In their applications, Applicants raised the issue that there are currently customers on
25 some of the McLain Systems that are located outside the existing CC&Ns of the systems. Applicants
26 note that consequently, the area covered by the CC&N request will not likely include every customer
27 served by the existing systems. Applicants state they will continue to ascertain the location of
28 customers and provide subsequent legal descriptions to Staff so the CC&N maps can be updated.

1 (Northern Application at ¶ 12; Southern Application at ¶ 11.)

2 103. In its Amended Staff Report, Staff recommends that no later than December 31, 2007,
3 Northern and/or Southern file applications for approval to extend their CC&Ns to areas being served
4 outside of the CC&N approved in this case.

5 104. Applicants continue to believe that the most efficient means of bringing customers
6 who are currently on the McLain Systems and receiving service, but who are outside the boundaries
7 of the CC&Ns, is for Applicants to file legal descriptions in this docket once such customer has been
8 identified so that true and correct boundaries for each respective water service area can be
9 established. Applicants are concerned that the additional CC&N proceedings envisioned by Staff's
10 recommendation are unnecessary, and the regulatory burden of future approvals is not warranted.
11 Applicants state that to the extent there are customers currently receiving water service outside
12 Northern and Southern's proposed CC&Ns, such customers are the result of the previous owner's
13 violation of Arizona law, including the Commission's rules and regulations. Applicants argue that
14 they should not be burdened with the costs of further CC&N proceedings when the matter can be
15 handled administratively. Applicants agree, however, to provide the Commission with all necessary
16 legal descriptions to establish a more accurate CC&N area for Northern and Southern by December
17 31, 2007.

18 105. Staff does not object to updating the CC&Ns to include current customers who are
19 outside CC&N boundaries without a hearing if it is possible to do so legally. (TR at 218) Staff is
20 concerned that any modification of CC&N boundaries be reasonable and logical.

21 106. We believe that the CC&N boundaries of Northern and/or Southern may be able to be
22 updated to include customers currently receiving service without a hearing if no interested party after
23 notice requests such hearing. At this point in time, we do not know where these customers are
24 physically located, and cannot determine whether we can merely update the CC&N map without
25 additional proceedings. These customers may be located within the territory of another public service
26 corporation, or if they are not currently receiving a bill, may not have received notice of this
27 proceeding. In addition, there may be properties that are not currently receiving service, but which
28 should logically be included within the Northern or Southern CC&N boundaries. We believe that

1 Staff's recommendation is the only one that is workable. Depending on the location and
2 circumstances of these customers, the Commission may be able to amend the CC&Ns without a
3 hearing, however, only Applicants future filing will give us sufficient information to make that
4 determination. In the meantime, Applicants should continue to serve all existing customers of the
5 McLain Systems regardless of their locations.

6 Website

7 107. In its Amended Staff Reports, Staff recommends that to address the customers' need
8 for information as the repairs, replacements and improvements are made to the systems, that
9 Applicants establish a website which would provide customers timely information regarding their
10 water service, including planned and unplanned outages and the Companies' progress toward
11 completion of the projects shown on Exhibit B. Staff recommends that the website be available for
12 customers use within 10 days of the closing of the sale transaction.

13 108. Applicants object to Staff's recommendation for a website as they assert it represents
14 undue interference with the internal management of the Companies. Even so, Applicants state that
15 their parent company is close to completing a website that will provide information on all the water
16 and wastewater systems it operates in Arizona. They state this website will allow the viewer to
17 access specific information about a relevant water or wastewater operating company, including
18 Northern and Southern. In addition, customers will be able to add their e-mail addresses to a
19 database in order to receive automatic notices about items or events pertinent to that specific water or
20 wastewater system. Applicants state the site already contains some information about Applicants'
21 CC&N approval process and can be accessed at www.algonquinwater.com. Applicants are also in
22 process of determining if an automatic dialer and/or automated attended call-in number can be
23 effective ways of disseminating information to customers. (TR at 99.)

24 109. In response to Applicants' concerns that it is not able to post real time outage
25 information on its website, Staff modified its recommendation and requests that the Companies put
26 whatever information they send to the Commission on the website. Staff notes that all utilities are
27 required to notify the Commission in a timely manner when outages occur. Staff would not expect
28 posting updates in the middle of the night or on weekends. (TR at 206.)

1 Company, Inc., Cochise Water Co., Horseshoe Ranch Water Company, Crystal Water Company,
2 Mustang Water Company, Coronado Estates Water Company, and Sierra Sunset Water Company is
3 granted.

4 IT IS FURTHER ORDERED that the applications of Northern Sunrise Water Company, Inc.
5 and Southern Sunrise Water Company, Inc. for new Certificates of Convenience and Necessity to
6 provide water utility service in Cochise County, Arizona as described in Exhibit A hereto, are
7 approved, subject to the conditions approved herein.

8 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
9 Sunrise Water Company, Inc. shall file the closing documents with Docket Control, as a compliance
10 item in this docket, within 15 calendar days of closing of the sale transaction.

11 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
12 Sunrise Water Company, Inc. shall file the franchise agreement(s) with Cochise County in Docket
13 Control, as a compliance item in this docket, within one year of the effective date of this Decision.

14 IT IS FURTHER ORDERED that that Northern Sunrise Water Company, Inc. shall file with
15 Docket Control, as a compliance item in this docket, a copy of the Approval to Construct for the
16 Babocomari project within three years of the effective date of this Decision.

17 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
18 Sunrise Water Company, Inc. shall utilize the depreciation rates as set forth in the Staff Report as
19 Schedule REL-3, and shall comply with Staff's recommendation concerning the use of NARUC
20 Account No. 330 – Distribution Reservoirs and Standpipes.

21 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
22 Sunrise Water Company, Inc. shall maintain separate accounting for the cost of operating the two
23 systems and that they evaluate whether separate rates would be appropriate in their next rate case.

24 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
25 Sunrise Water Company, Inc. shall within 30 days of the effective date of this Decision file a tariff of
26 rates and charges as follows:

27

28

MONTHLY USAGE CHARGE:

1	5/8" x 3/4" Meter	\$ 31.00
2	3/4" Meter	46.50
3	1" Meter	77.50
4	1 1/2" Meter	155.00
5	2" Meter	248.00
6	3" Meter	496.00
7	4" Meter	775.00
8	6" Meter	930.00
9	8" Meter	1,550.00

COMMODITY RATES per 1,000 gallons

5/8 x 3/4 Inch Meter

10	Tier one – 0 to 5,000 gallons	\$2.00
11	Tier two – 5,001 gallons to 10,000 gallons	2.75
12	Tier three – over 10,000 gallons	3.90

Residential 1 Inch Meter and Larger

13	Tier one – 0 to 5,000 gallons	\$2.00
14	Tier two – 5,001 gallons to 10,000 gallons	2.75
15	Tier three – over 10,000 gallons	3.90

Irrigation Meters

16	Tier one – 0 to 45,000 gallons	\$2.75
17	Tier two – over 45,000 gallons	3.90

Other

18	Standpipe or bulk water	3.90
----	-------------------------	------

SERVICE LINE AND METER INSTALLATION CHARGES:

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

19	5/8" x 3/4" Meter	\$ 410.00
20	3/4" Meter	410.00
21	1" Meter	520.00
22	1 1/2" Meter	660.00
23	2" Meter Turbo	1,155.00
24	2" Meter Compound	1,720.00
25	3" Meter Turbo	1,625.00
26	3" Meter Compound	2,260.00
27	4" Meter Turbo	2,500.00
28	4" Meter Compound	3,200.00
	6" Meter Turbo	4,500.00
	6" Meter Compound	6,300.00
	8" Meter	8,200.00

...

SERVICE CHARGES:

1	Establishment of Service per Rule R14-2-403.D	\$ 25.00
2	Establishment of Service (After Hours) per Rule R14-2-403.D.2	35.00
3	Re-establishment of Service per Rule 14-2-403.D	**
4	Reconnection of Service per Rule R14-2-403.D.1	35.00
5	Charge for Moving Meter at Customer Request per Rule R14-2-405.B.5	Cost
6	After Hours Service Charge, per Hour, R14-2-403.D	50.00
7	Minimum Deposit per Rule R14-2-403.B	*
8	Meter Reread per Rule R14-2-408	5.00
9	Charge for NSF check per Rule R14-2-409.F.1	15.00
	Late Payment Charge for Delinquent Bills as Defined in Rule R14-2-409C.1	***
	Deferred Payment Finance Charge R14-2-409.G	***

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

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

12 *** 1.5% per month

13
14 IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for
15 all service provided by Northern Sunrise Water Company, Inc. and Southern Sunrise Water
16 Company, Inc. as of the first day of the month following its notification to the Commission that the
17 acquisition of the McLain Systems has been completed.

18 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
19 Sunrise Water Company, Inc. shall file general rate cases in 2008, and that Decision No. 68667 is
20 hereby modified to allow the Companies to employ a 2007 Test Year.

21 IT IS FURTHER ORDERED that Decision No. 68667 shall be modified to remove the SIS as
22 of the first day of the month after Northern Sunrise Water Company, Inc. and Southern Sunrise Water
23 Company, Inc. have filed notification with Docket Control that the sale has closed.

24 IT IS FURTHER ORDERED that Decision No. 68667 is also modified to require Staff to
25 perform an audit of the collection and expenditure of the SIS as soon as practicable following the
26 closing of the sale. Staff shall file the results of the audit in this consolidated docket along with any
27 resulting recommendations.

1 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
2 Sunrise Water Company, Inc. shall send notice in a form acceptable to Staff, of the rates and charges
3 approved herein and when the rates will become effective, within 30 days of the effective date of this
4 Decision.

5 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
6 Sunrise Water Company, Inc. shall file within 30 days of the effective date of this Decision, Off Site
7 Hook-up Fee Tariffs that comply with Exhibit C.

8 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
9 Sunrise Water Company, Inc. shall file an annual Off Site Hook-up Fee status report each August in
10 Docket Control for the prior 12 month period, beginning August 2007, until the Hook-up Fee tariff is
11 no longer in effect. The status report shall contain a list of all customers that have paid the Hook-up
12 Fee, the amount each has paid, the amount of money spent from the account, the amount of interest
13 earned on the tariff account, and a list of all facilities that have been installed with the tariff funds
14 during the 12 month period.

15 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
16 Sunrise Water Company, Inc. shall provide an analysis of the collected hook-up fees and whether any
17 adjustment to the amount should be made in their next general rate case.

18 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
19 Sunrise Water Company, Inc. shall, in addition to the collection of their regular rates and charges,
20 collect from their customers a proportionate share of any privilege, sales or use tax pursuant to
21 A.A.C. R14-2-409.D.5.

22 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
23 Sunrise Water Company, Inc. shall maintain their books and accounts in accordance with the
24 National Association of Regulatory Utility Commissioners Uniform System of Accounts.

25 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
26 Sunrise Water Company, Inc. shall file within 45 days of the close of the sale transaction in Docket
27 Control as a compliance item, a curtailment plan tariff in the form found on the Commission's
28 website.

1 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
2 Sunrise Water Company, Inc. shall file within 45 days of the close of the sale transaction in Docket
3 Control as a compliance item, a backflow prevention tariff in the form found on the Commission's
4 website, for review and certification by Staff.

5 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
6 Sunrise Water Company, Inc. shall complete the improvements listed in Exhibit B and the installation
7 of an additional 30,000 gallons of storage for Sierra Sunset, by August 25, 2007. If there is good
8 cause, Northern Sunrise Water Company, Inc. and Southern Sunrise Water Company, Inc. may file a
9 request for an extension of time to complete the referenced improvements. Any such requests for
10 extension of time shall detail the good cause and be submitted no later than June 30, 2007.

11 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
12 Sunrise Water Company, Inc. shall file any proposed amendment or modification to Exhibit B with
13 Docket Control as soon as practical. If Staff has an objection to any proposed modification to Exhibit
14 B, Staff shall file its objections in the docket within 10 business days. Staff's failure to file a
15 comment or objection will be deemed an acceptance of the proposed modification to Exhibit B.

16 IT IS FURTHER ORDERED that after the projects for a system or systems are completed,
17 Northern Sunrise Water Company, Inc. and Southern Sunrise Water Company, Inc. shall file a notice
18 of completion in this docket, which should include an Approval of Construction from ADEQ for
19 those projects requiring ADEQ approval. Staff shall have 20 calendar days to complete its inspection
20 and review of the filing and file any objection or its concurrence with the Notice. If the Staff memo
21 concurs that the projects are completed, the moratorium would be considered lifted for that system or
22 systems. In the event Staff disagrees with the Notice, the Hearing Division shall schedule a
23 Procedural Conference as soon as possible to determine the best way to resolve the dispute. The
24 Notice of their request to lift a moratorium will be available on the Commission website, but
25 Northern Sunrise Water Company, Inc. and Southern Sunrise Water Company, Inc. shall also post
26 such request on its website. Any customers of the system in question should file any objections to the
27 request within 20 calendar days of the docketed date of the request. Customer objections should
28 contain a reasonably detailed description of the nature of their objection.

1 IT IS FURTHER ORDERED that the transaction costs shall be limited to \$300,000 and
2 include the types of costs discussed in Finding of Fact No. 47.

3 IT IS FURTHER ORDERED that the Commission grants the extraordinary relief herein
4 based on its expectation and Applicants' representation that the Applicants will not incur such
5 transaction related costs needlessly or wastefully and shall utilize sound business practices in
6 incurring transaction related costs.

7 IT IS FURTHER ORDERED that no later than December 31, 2007, Northern Sunrise Water
8 Company, Inc. and/or Southern Sunrise Water Company, Inc. shall file applications for approval to
9 extend their CC&Ns to areas being served outside of the CC&N approved in this case.

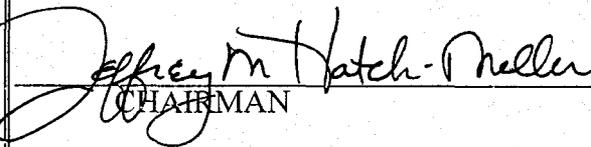
10 IT IS FURTHER ORDERED that after their acquisition of the McLain Systems, Northern
11 Sunrise Water Company, Inc. and/or Southern Sunrise Water Company, Inc. shall serve all existing
12 customers of the McLain Systems regardless of the customers' locations vis-à-vis the CC&N
13 boundaries.

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1 IT IS FURTHER ORDERED that Northern Sunrise Water Company, Inc. and Southern
2 Sunrise Water Company, Inc. shall implement a communication system that they find most effective
3 to inform customers about planned or unplanned emergencies and where customers can receive
4 bottled water if necessary.

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

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

7
8 
9 CHAIRMAN

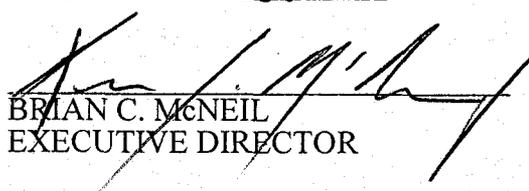
COMMISSIONER

10
11 
12 COMMISSIONER

COMMISSIONER


COMMISSIONER

13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
14 Director of the Arizona Corporation Commission, have
15 hereunto set my hand and caused the official seal of the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 29th day of June, 2006.

18 
19 BRIAN C. McNEIL
20 EXECUTIVE DIRECTOR

21 DISSENT _____

22 DISSENT _____

23 JR:mj

SERVICE LIST FOR:

NORTHERN SUNRISE WATER COMPANY
SOUTHERN SUNRISE WATER COMPANY
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

DOCKET NO.:

W-20453A-06-0247
W-20454A-06-0248
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

Mr. Jay Shapiro
Mr. Patrick Black
Fennemore Craig, PC
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Attorneys for Applicants

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ARIZONA CORPORATION COMMISSION
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Phoenix, Arizona 85007

Mr. Steven Cockrum
5328 Corral Dr.
Hereford, Arizona 85635

Mr. Ernest Johnson, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Small Utilities Association
210 N. Central, Suite 6B
Avondale, Arizona 85323
Interim Manager for the McLain Systems

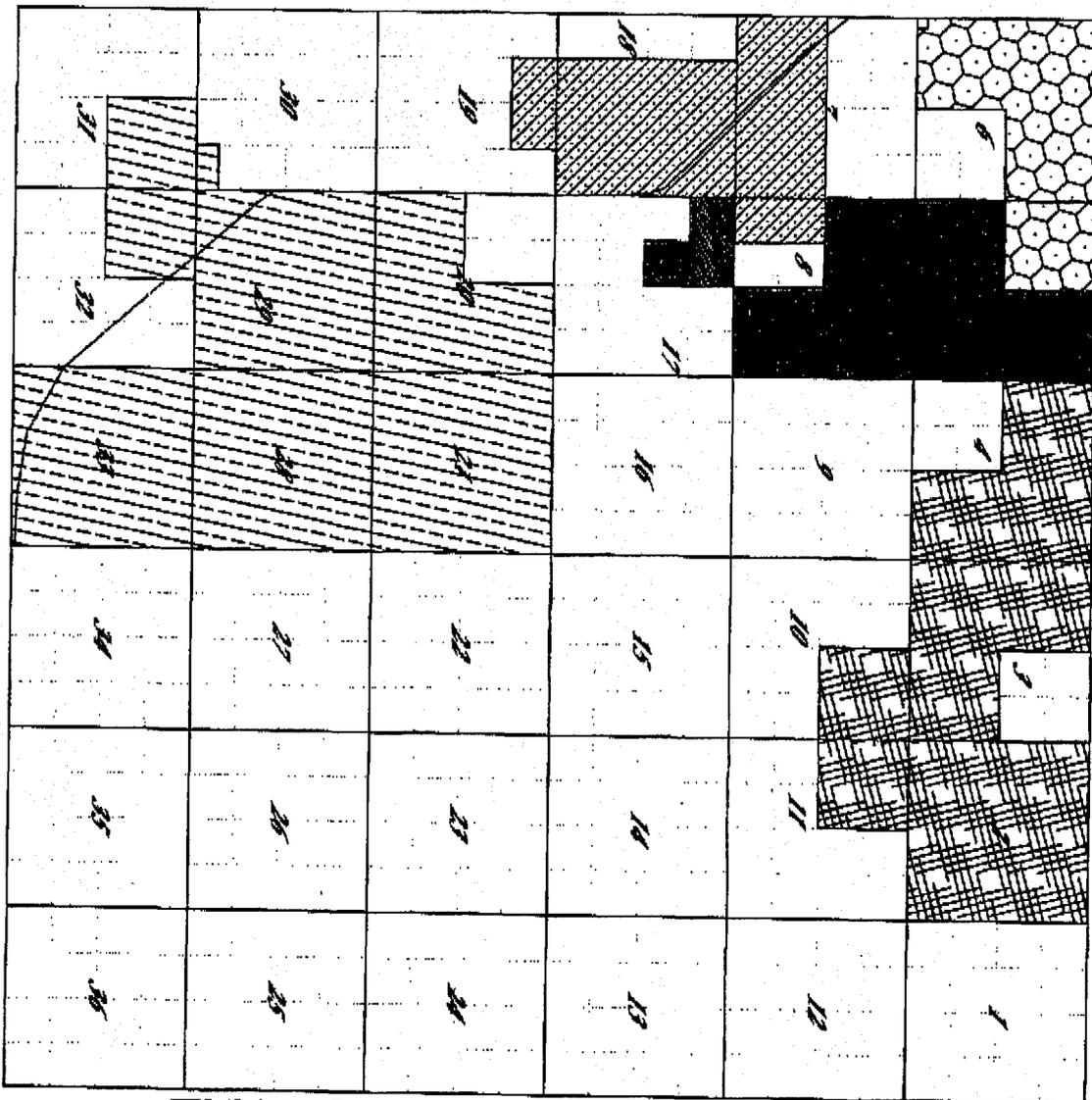
Steven L. Wene
MOYES STOREY
1850 North Central Avenue, #1100
Phoenix, AZ 85004

Johnny and Linda McLain
P.O. Box 2903
Sierra Vista, AZ 85636

COUNTY

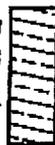
Cochise

RANGE 21 East



TOWNSHIP 23 South

Map No. 38



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

EXHIBIT A

DECISION NO. 68826

COCONINO COUNTY

Cochise

RANGE 22 East

1	5	1	3	1	1
7	8	9	10	11	11
10	11	16	15	14	13
10	10	11	12	13	14
10	10	11	12	13	14
10	10	11	12	13	14
11	11	11	11	11	11

TOWNSHIP 23 South

Map No. 39

 W-1646 (1)
 Miracle Valley Water Company, Inc.

 W-1443 (1)
 Palominas Development Company

Miracle Valley Water Company, Inc.
 Docket No. W-01 646A-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

DECISION NO. 68826

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

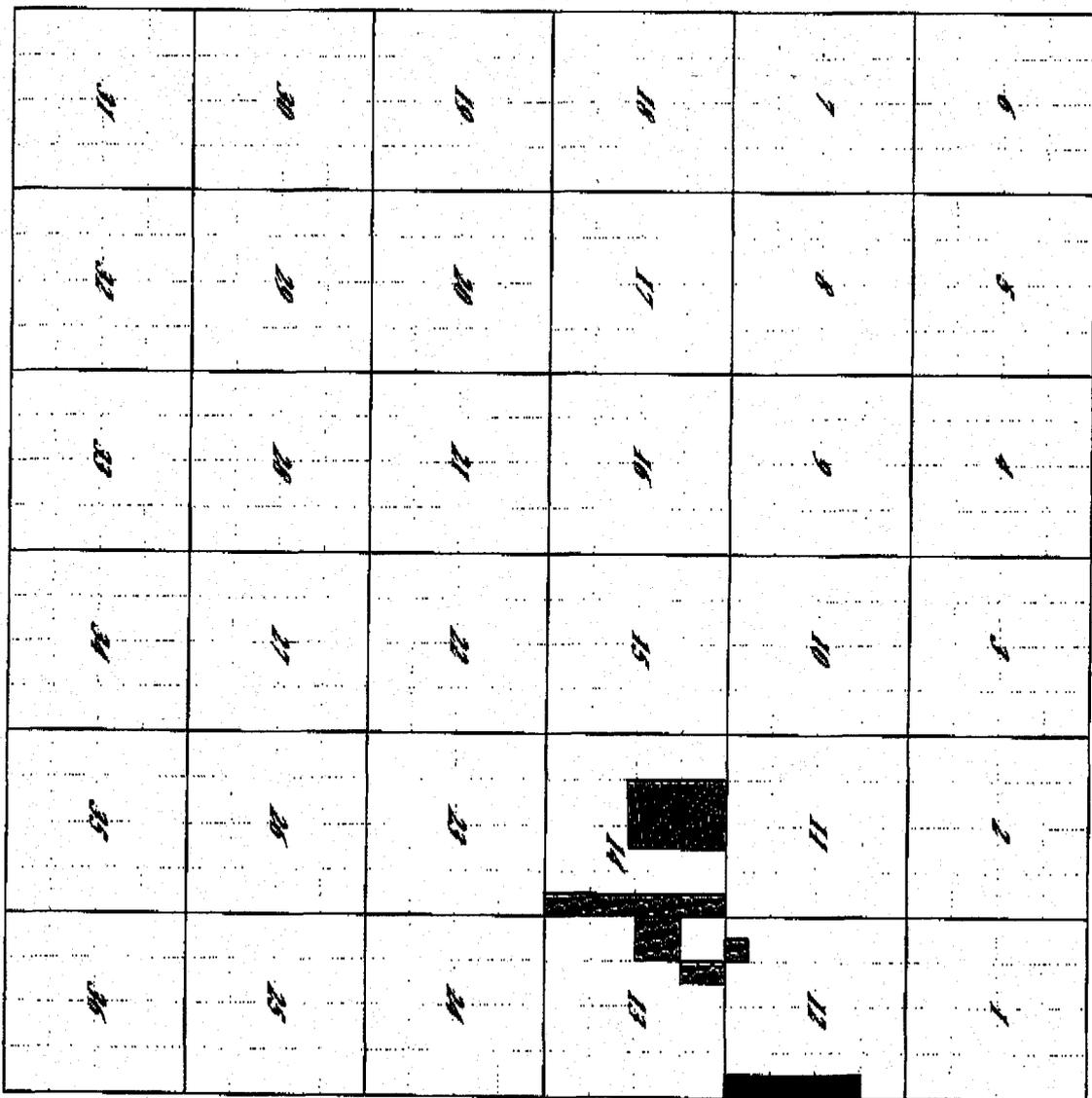
The South $\frac{1}{2}$ of Section 31

COUNTY

Cochise

Map No. 23

RANGE 19 East



TOWNSHIP 20 South



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

RANGE 20 East

5	1	3	4	1
8	9	10	11	12
17	16	15	14	13
	21	22	23	24
	28	27	26	25
31	32	33	34	35
				36

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

**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

Project Description	Cost	Project Start	Duration	Benefit to Customer
Cochise Water - Part of Southern Sunrise Proposed Capital Improvements				
Naranja Well Site				
Add meters to wells	\$10,000	ASAP after Closing	6-12 Months	Immediate
Construct a minimum 6 ft. high chain link fence with barbed wire 800 L.F.	\$12,000	ASAP after Closing	6-12 Months	Immediate
Construct 12 ft wide chain link gate	\$800	ASAP after Closing	6-12 Months	Immediate
Repair 5 hp booster pump	\$500	ASAP after Closing	6-12 Months	Immediate
Rebuild Electrical Control and wiring system	\$10,000	ASAP after Closing	6-12 Months	Immediate
Replace Air Compressor and controls on Pressure Tank	\$1,000	ASAP after Closing	6-12 Months	Immediate
Replace Guages on Booster and Transfer Pumps	\$1,000	ASAP after Closing	6-12 Months	Immediate
Replace check valves on booster and transfer pumps	\$500	ASAP after Closing	6-12 Months	Immediate
Build concrete pads to mount booster and transfer pumps	\$1,000	ASAP after Closing	6-12 Months	Immediate
Install well pump high level shut off level controller to storage tank	\$5,000	ASAP after Closing	6-12 Months	Immediate
Install low level sensor in storage tank for booster & transfer pump shut off	\$5,000	ASAP after Closing	6-12 Months	Immediate
Install telemetry system to start and stop transfer pumps filling Horseshoe storage	\$10,000	ASAP after Closing	6-12 Months	Immediate
Add sampling taps to wells	\$500	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
Remove old storage tank and trash and grade well site	\$5,000	ASAP after Closing	6-12 Months	Immediate
Total	\$63,300			
Jaxell Road site				
Add Meter to well	\$3,500	ASAP after Closing	6-12 Months	Immediate
Add additional booster pump	\$3,500	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	\$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		\$3,500	ASAP after Closing	6-12 Months
Construct a minimum 6 ft. high chain link fence with barbed wire 400 L.F.		\$6,000	ASAP after Closing	6-12 Months
Construct 12 ft wide chain link gate		\$800	ASAP after Closing	6-12 Months
Replace existing well with new well		\$25,000	ASAP after Closing	6-12 Months
Replace well pump & piping		\$7,500	ASAP after Closing	6-12 Months
New Electrical Control and wiring system		\$10,000	ASAP after Closing	6-12 Months
New 5,000 Gallon Pressure Tank		\$20,000	ASAP after Closing	6-12 Months
New 60,000 gallon storage tank (At least this size)		\$80,000	ASAP after Closing	6-12 Months
Survey property to establish property boundaries of at least two well sites		\$2,000	ASAP after Closing	6-12 Months
	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		\$3,500	ASAP after Closing	6-12 Months
Construct a minimum 6 ft. high chain link fence with barbed wire 400 L.F.		\$6,000	ASAP after Closing	6-12 Months
Construct 12 ft wide chain link gate		\$800	ASAP after Closing	6-12 Months
Replace existing well with new well		\$25,000	ASAP after Closing	6-12 Months
Replace well pump & piping		\$7,500	ASAP after Closing	6-12 Months
New Electrical Control and wiring system		\$10,000	ASAP after Closing	6-12 Months
New 5,000 Gallon Pressure Tank		\$20,000	ASAP after Closing	6-12 Months
New 60,000 gallon storage tank (At least this size)		\$80,000	ASAP after Closing	6-12 Months
Survey property to establish property boundaries of well site		\$1,000	ASAP after Closing	6-12 Months
	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				
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 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 100,000 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			
		\$3,500		
		\$6,000		
		\$800		
		\$7,500		
		\$10,000		
		\$20,000		
		\$100,000		
		\$1,000		
		\$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				
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
Survey property to establish property boundaries of well site		ASAP after Closing	6-12 Months	Immediate
Install customer meters to 30 customers		ASAP after Closing	6-12 Months	Immediate
	Total			
		\$6,000		
		\$800		
		\$1,000		
		\$15,000		
		\$22,800		

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.

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 Off-Site Hook-up Fee Tariff
 Page 2

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).

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(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.

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(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.

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 Off-Site Hook-up Fee Tariff
 Page 2

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).

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(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.

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(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.