

ORIGINAL



0000063719

BEFORE THE ARIZONA CORPORATION COMMISSION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

COMMISSIONERS

JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

NOV 17 P 3:21
AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02111A-06-0361
SABROSA WATER COMPANY TO ESTABLISH)
PERMANENT RATES IN A GENERAL RATE)
CASE.)

Sabrosa Water Company hereby files a copy of an application for funds under HB 2521.

RESPECTFULLY SUBMITTED this 17th day of November 2006.

ROSHKA DEWULF & PATTEN, PLC

By Timothy J. Sabo
Michael W. Patten
Timothy J. Sabo
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Original and 13 copies of the foregoing
filed this 17th day of November 2006 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered/mailed
this 17th day of November 2006 to:

Dennis Schumacher
123 West Sabrosa Drive
Phoenix, Arizona 85087

Arizona Corporation Commission
DOCKETED
NOV 17 2006

DOCKETED BY NR

57

ROSHKA DEWULF & PATTEN, PLC

ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1 Lyn Farmer, Esq.
Chief Administrative Law Judge
2 Hearing Division
Arizona Corporation Commission
3 1200 West Washington
Phoenix, Arizona 85007

4 Christopher C. Kempley
5 Chief Counsel, Legal Division
Arizona Corporation Commission
6 1200 West Washington
Phoenix, Arizona 85007

7 Ernest G. Johnson, Esq.
8 Director, Utilities Division
Arizona Corporation Commission
9 1200 West Washington
Phoenix, Arizona 85007

10
11 By _____
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

Application for Arizona Corporation Commission Approval of an Interim Operator Grant from the Water Infrastructure Finance Authority shall include:

1. Copy of Applicant's Interim Management Agreement
See Attached Report
2. Description of the needed water system repairs/rehabilitation and how the required work will eliminate or avoid an interruption in water service.
See Attached Report

a. Project Description, Facilities (Check appropriate boxes):

	<u>Repair</u>	<u>Rehab</u>	<u>Upgrade</u>	<u>Replace</u>
Well				Replace with Surface Water
Storage			X	
Distribution & Booster Pumps			X	
Treatment & Disinfection				

Other (*Provide description*):

- b. Explain how above project(s) will correct or avoid an interruption in service to customers.
See Attached Report
3. Itemized Cost Estimates for the work to be completed in Item No. 2
See Attached Report
4. Information supporting the need for immediate financial assistance
See Attached Report
5. Description of the actions already taken by the interim manager to address the needed system repairs/rehabilitation
See Attached Report
6. Most recent monthly or quarterly financial statements
Financial reports supplied for the Application for Permanent rates currently under review by the ACC have been included.
7. Current bank account balance
Sabrosa water Company does not maintain any bank accounts.

NOTE: Other information may be required, depending on the specific utility's financial and/or operational situation. The utility will be notified by the Utilities Division Chief's Accountant or Engineering Supervisor of any additional requirements.



**Staff Report
Sabrosa Water Company
Application for Funds Available Under
HB 2521**

20 October 2006

BACKGROUND

Global Water Management, LLC (Global) was assigned as the Interim Manager for the Sabrosa Water Company (SWC) on 1 February 2005. As when managed by the prior Interim Manager (Arizona American Water), SWC continues to suffer from water quality and quantity issues that impact reliable supply of water meeting the requirements of the Safe Drinking Water Act (SDWA).

Previous operational reports have been submitted to the Commission detailing infrastructure issues and a constant threat of water supply failure. This report supplements those previous SWC operational reports.

The purpose of this report is to provide justification for SWC's application for funds available under the WIFA Interim Operator grant.

PROBLEM DESCRIPTION

While the operation of SWC is currently stable, the long-term availability of water remains questionable. Further, the water currently being delivered exceeds the maximum contaminant level (MCL) for arsenic.¹

During all seasons, water supply remains a challenge. Without any form of significant redundancy in supply, equipment and/or power failure results in an interruption of supply to the consumers. Since accepting the duties of Interim Manager, SWC has suffered equipment failure related water outages, and water table related water outages. In addition, at times, one production well has been isolated as a result of exceeding the MCL for nitrate (10 mg/L).

In February 2005, the Zorillo Well pump and motor assembly failed due to an electrical fault. During the three day repair period, water was hauled from Anthem to return water supply to the customers.

¹ On 23 January 2006, the EPA-mandated reduction in the MCL for arsenic from 50 parts per billion (micrograms per liter) to 10 ppb came into effect. Water delivered by SWC is approximately 35 ppb.

In April 2005, the Wright Well tested above the MCL for nitrate requiring that it be isolated from the distribution system. A public notice was issued and the well remained isolated pending resolution of the nitrate issue to the satisfaction of Maricopa County Environmental Services Department (MCESD).

In July 2006, the water table beneath the Zorillo Well dropped below the pump. Attempts at lowering the pump were unsuccessful and this well was isolated. This caused a requirement for water hauling from Cave Creek water Company in order to maintain service.

These problems highlight the fundamental issue associated with the operation of SWC – that is, the water table is unstable, and the fractured nature of the aquifer allows for rapid transport of contaminants from the surface/vadose zones to the aquifer, and does not permit the retention of significant volumes of water for potable production.

Exacerbating the problem has been the proliferation of private wells in the area as homeowners seek to find their own supply. Whereas SWC customers remain under Stage 4 Curtailment conditions, owners of exempt wells are under no such restrictions. Accordingly, it is likely that the draw from the aquifer is increasing as customers abandon SWC in favor of their own well systems.

Other infrastructure related issues corrected by Global during its tenure as Interim Manager include:

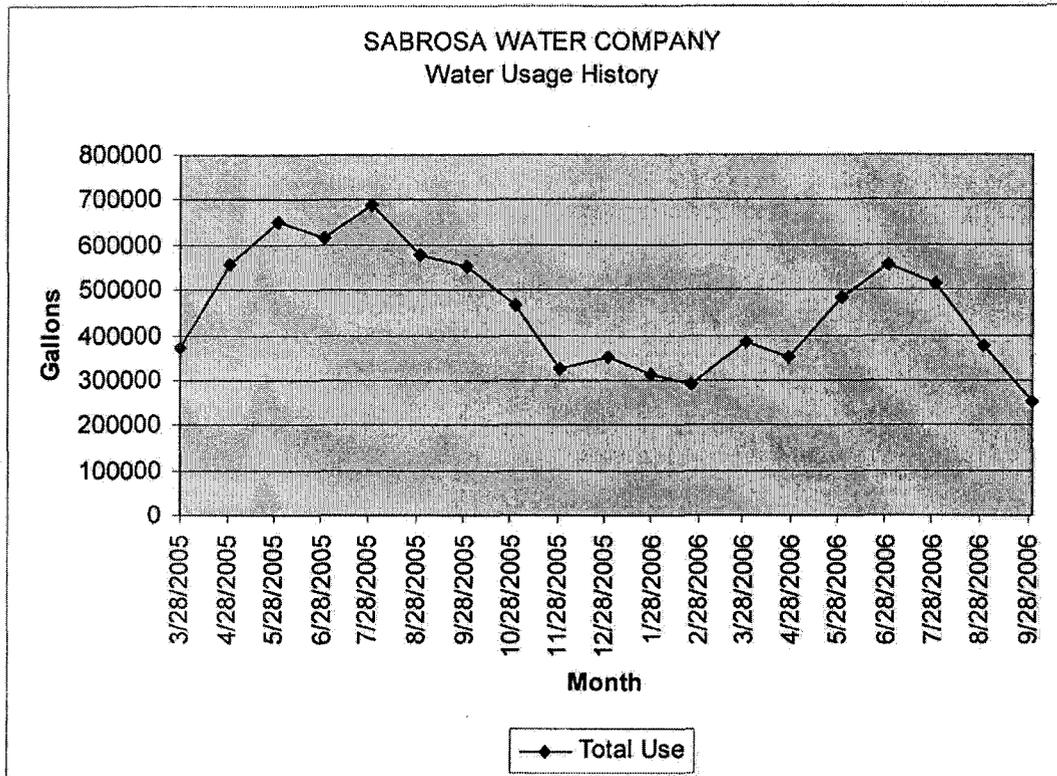
1. Replacement of the hydropneumatic tank at Sabrosa Well;
2. Installation of a cellular-based alarm system for monitoring power, pressure, and tank levels;
3. Replacement of the Sabrosa Well/Booster Station control panel to effect proper equipment operations;

PERFORMANCE REVIEW

Currently, the system is operating on the Zorillo and Wright wells. The Zorillo Well has a production capacity of 38 GPM at this time, and the Wright Well a production capacity of 13 GPM. The Sabrosa Well, which only operates when the tank level drops to 12 feet, can only sustain approximately 3 GPM.

With 52 customers currently connected to the system, the peak month average day demand² is 560,000 gallons per month, or a minimum production capacity of 13 GPM. Failure of either the Zorillo Well or the Wright well seriously hinders the ability of the system to meet the average day demand. From a peak hour perspective, a system like this would be expected to require 30 GPM. Failure of the Zorillo Well will jeopardize the ability to meet the peak hour demand, particularly since the tank volume available in SWC is limited.

² This demand is for June 2006 and represents Stage 4 Curtailment demand.



If history is any guide, SWC is forecasted to continuously exhaust its supply of available water during the summer periods in perpetuity.

With respect to arsenic, concentrations remain at approximately 35 ug/L. In accordance with ADEQ arsenic policy, SWC will be sampled prior to the end of 2006 by the Monitoring Assistance Program (MAP). Based on the results of this sample analysis, SWC will be placed on quarterly monitoring. Compliance will be determined based on the projected annual average. As the SWC water is at 35 ug/L presently, two samples (initial and the first quarterly) will be enough to establish the mathematical impossibility of achieving an arsenic level below the MCL with the remaining two samples. Accordingly, Global expects that SWC will be non-compliant by the end of the first quarter 2007.

PROPOSED SOLUTIONS

Option 1. Global is currently seeking an extension to its Cave Creek Water Company (CCWC) CC&N, which if approved, will bring CCWC service lines within three miles of the SWC service area. CCWC employs surface water from the Central Arizona Project canal, a reliable, renewable source with arsenic levels well below the MCL.

This proposed solution entails running an eight-inch main line from the northwest corner of the extended CCWC CC&N area (corner of 14th and Linda), along New River Rd, into the SWC system at Circle Mt road. This project will correct the quantity and arsenic problems and is the ideal long-term solution. The estimated cost for this project is as follows:

- Piping – \$560,000
- Valves and Fittings – \$15,000
- Booster Station with hydropneumatic tank and chlorinator – \$50,000
- Storage tank (capacity for 24-hr demand) – \$90,000
- TOTAL = \$715,000

Option 2. A more reliable water supply can be attained by drilling one to two new wells (or deepening current wells). However, the success of this alternative is uncertain; investment into new wells does not guarantee adequate long-term supply for SWC – particularly since the fractured nature of the aquifer and the proliferation of exempt wells limits the available recharge volume available. Continued use of groundwater is also depleting a non-renewable resource.

In order to address the quality issues, each well-head will require arsenic treatment systems to bring SWC water into compliance. This two-part project may provide a reliable water supply for SWC and will bring arsenic levels below the MCL. The estimated cost for this project is as follows:

- Drill and install wells – \$150,000 per well (up to two wells – \$300,000)
- Arsenic Treatment Systems (AASF-media) for three well-heads – \$150,000
- TOTAL = \$300,000 to \$450,000

FINANCIAL INFORMATION

Global cannot support the cost for either of the solution options detailed above on its own. Global has already invested heavily in bringing SWC to a stable platform, including:

- Replacement of, and spares for, Zorillo well pump, motor, and control panel
- Replacement of the 5,000 gallon Sabrosa well hydropneumatic tank
- Installation of cellular-based pressure, level, and power sensor alarm systems at each site
- Replacement of LMI chlorine injection pumps, several service meters, and several lines

Global continues to significantly subsidize the utility; SWC is operating at net loss in the order of hundreds of thousands of dollars annually. Recent financial statements are attached for your reference.

Financial assistance is needed to develop and secure a long-term, compliant, renewable water resource solution for the SWC customers.

SUMMARY

Operations and service to customers continues to be threatened by an unreliable water supply, intermittent nitrate exceedances, and non-compliant arsenic levels.

Option 1 allows for the permanent solution to this long-standing issue. It is recommended that the ACC approve application for WIFA funding under HB 2521 to execute this option.



Graham Symmonds, P.Eng.
SVP Operations & Compliance
Global Water Resources

Attachments

Copy of Interim Management Agreement
Financial Statements

Sabrosa Water Co., Inc.
Expanded Statement of Earnings
For the Nine Months Ending September 30, 2005

	January	February	March	April	May	June	July	August	September	Total
Income										
Water Revenue										
Water Sales										
Metered Sales	76101									
Metered Water Sales Resident	\$3,715.32	\$3,538.06	\$4,137.10	\$4,315.74	\$4,206.62	\$5,791.19	\$5,333.14	\$4,587.40	\$5,463.80	\$39,162.37
Total Metered Sales	76101									
Total Metered Sales	3,715.32	3,538.06	4,137.10	4,315.74	4,206.62	5,791.19	5,333.14	4,587.40	5,463.80	39,162.37
Other Water Revenues										
Construction/Install Fees	77991									
Total Other Water Revenues	18.00	15.80				15.00				30.80
Total Water Revenues	3,733.32	3,553.86	4,137.10	4,315.74	4,221.62	5,806.19	5,333.14	4,587.40	5,463.80	39,193.17
Total Income	3,715.32	3,573.06	4,137.10	4,315.74	4,200.62	5,806.19	5,333.14	4,587.40	5,463.80	39,192.37
Operating Expenses										
Personnel										
Central & Administrative										
Utilities	81097									
Refuse/Trash Power	171.63	184.63	155.30	149.61	208.54	216.06	315.91	208.72	159.32	1,740.66
Total Utilities	171.63	184.63	155.30	149.61	208.54	216.06	315.91	208.72	159.32	1,740.66
Supplies										
Chemicals	82008									
Equip Maint - Plant	82210									
Well Maintenance	82214									
Purchased Water	82408									
Total Supplies										2,693.45
Contract Services										
Contract Services Legal	83507									
Contract Services Maint	83707									
Contract Services Labor	83907									
Contract Services Testing	84107									
Total Contract Services	4,585.92	4,585.97	4,585.97	4,584.87	4,584.87	4,584.87	4,584.87	4,584.87	4,584.87	41,265.58
Miscellaneous										
Miscellaneous/Deprecie	94007									
Travel Fees	94014									
Travel Fee Expense	94035									
Total Miscellaneous Expense	97.75	97.80	2.86	2.86	97.84	30.47	39.87	39.47	263.61	1,571.01
Total General & Administrative	3,106.55	4,812.02	4,591.13	5,529.42	5,068.25	4,840.40	8,007.30	4,916.31	6,597.38	49,816.76
Total Operating Expenses	5,106.55	4,842.02	4,931.13	5,529.42	5,068.25	4,840.40	8,047.30	4,916.31	6,597.38	49,816.76
EBITDA	(1,391.23)	(1,268.96)	(794.03)	(1,213.68)	(745.63)	965.79	(2,714.16)	(328.91)	(3,133.58)	(10,624.39)
Depreciation (expense)	(491.30)	(697.18)	(397.18)	(497.18)	(497.18)	(497.18)	(497.18)	(498.23)	(499.97)	(4,474.78)
Income Item Operations	(1,884.73)	(1,366.14)	(1,291.21)	(1,710.86)	(1,242.81)	468.61	(3,211.34)	(827.14)	(3,633.55)	(15,099.17)
Interest & Dividends	(1,884.73)	(1,366.14)	(1,291.21)	(1,710.86)	(1,242.81)	468.61	(3,211.34)	(827.14)	(3,633.55)	(15,099.17)
Planting/Rebate Income Tax										
NET INCOME	(1,884.73)	(1,766.14)	(1,291.21)	(1,710.86)	(1,242.81)	468.61	(3,211.34)	(827.14)	(3,633.55)	(15,099.17)

Sabana Water Co., Inc.
 Expanded Balance Sheet
 For the Nine Months Ending September 30, 2008

	January	February	March	April	May	June	July	August	September
ASSETS									
Current Assets									
Accounts Receivable, Net	1081								
Accounts Payable	1083								
Prepaid Expenses									
Other Receivables									
Other - Total Current Assets	1087								
Total Current Assets									
Noncurrent Assets									
Fixed Assets									
Land									
Buildings									
Equipment									
Other - Total Noncurrent Assets									
Total Assets									
LIABILITIES AND EQUITY									
Liabilities									
Accounts Payable	3007								
Accounts Receivable	3040								
Other - Total Liabilities	3053								
Total Liabilities									
Equity									
Common Stock	5015								
Retained Earnings	5607								
Other - Total Equity									
Total Equity									
Total Liabilities and Equity									

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



BRIAN C. McNEIL
Executive Secretary

ARIZONA CORPORATION COMMISSION

January 28, 2005

Mr. Trevor T. Hill
President and CEO
Global Water Resources
22601 North 19th Avenue
Suite 210
Phoenix, AZ 85027

Re: *Staff of the Utilities Division of the Arizona Corporation Commission v. Sabrosa Water Company, and Arizona Corporation*
Docket Nos. W-02111A-00-0286

Dear Mr. Hill:

In accordance with Arizona Corporation Commission Decision Nos. 62572 and 63136, the Utilities Division ("Division") has been vested with the authority to appoint Global Water Resources ("Global") as interim manager of the Sabrosa Water Company ("Sabrosa") located in New River, Arizona. The Utilities Division represents that it has the authority to enter and sign this letter agreement setting forth the terms and conditions of Global's appointment as interim manager for Sabrosa Water Company. Copies of those decisions are attached as Exhibit A.

INTERIM MANAGEMENT AGREEMENT

The Commission appoints Global Water Resources as interim manager under the following terms and conditions. Global shall use its best efforts to operate, manage and maintain Sabrosa Water Company in order to bring the utility into full compliance with Arizona Law, the Commission's Rules and Orders, and with all other regulatory agencies such as the Department of Environment Quality, Department of Water Resources, etc. This is not a permanent appointment and is subject to revocation at any time. Global's appointment is at the discretion of the Division. There is no contract with Global and no compensation due Global from the Division, the Commission or the State of Arizona as a consequence of operating Sabrosa Water Company. Further, the Division and Global acknowledge that Global will act as an independent interim operator and has no affiliation with Sabrosa. Global is not assuming any obligations of Sabrosa. It is further understood that Global as interim manager will not assist Sabrosa in any other capacity than that specified in this agreement or approved by the Commission.

The Division acknowledges and agrees that Global is a separate and independent entity from Sabrosa. Except for any problems caused directly by Global after the execution of this letter agreement, Global is not responsible or liable for any violations or problems with Sabrosa

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347
www.cc.state.az.us

This document is available in alternative formats by contacting Linda Hogan, ADA Coordinator, voice phone number 602-542-3931, E-mail LHogan@cc.state.az.us

Mr. Trevor Hill
Page 2
January 28, 2005

currently existing, arising prior to or after, and/or caused by operations of Sabrosa prior to or after the execution of this letter agreement, including environmental health and/or any other problems or violations. Further, the Division acknowledges and agrees that Global is under no obligation and is not liable to repay, settle, or otherwise resolve any debts, judgments, actions, balances and/or claims, including unpaid sales, property or income taxes against Sabrosa.

The Division authorizes Global to perform the duties normally attendant with the operation and maintenance of a water company as a public service corporation including, but not limited to, the following:

1. The mailing and/or hand-delivery of customer notification letters informing all the customers of the appointment of the interim manager and contact information.
2. The timely reading of meters and the prompt collection of bills from customer ratepayers of the system, including billing and collection for back due services as instructed by the Commission.
3. The prompt adjustment of legitimate ratepayer complaints.
4. The connection and disconnection of service in accordance with the tariffs of Sabrosa and the rules of the Arizona Corporation Commission.
5. The filing of tariffs for Sabrosa under Arizona Corporation Commission rules.
6. The day-to-day testing and monitoring of the systems as required by applicable regulatory authorities.
7. The right to examine, pay, prioritize and/or reject bills or debts associated with interim operation of Sabrosa in the manner in which a prudent owner of a water company would pay the bills of the company.
8. The making of minor repairs associated with the interim operation of Sabrosa (such repairs to be paid for out of the receipts and proceeds from interim operations).
9. The keeping of accounting and payment records as interim operator of Sabrosa. Global will keep such records strictly as the Commission-appointed interim manager.
10. The making of capital improvements to the water system of Sabrosa at Global's discretion.
11. Global, as the interim system operator acting on behalf of Sabrosa, may pursue and file a rate case. Global, in its interim operator capacity, may seek a rate increase on an emergency and/or a permanent basis for Sabrosa.

In addition, Global must do the following:

1. Global shall file a Progress Report with the Division's Compliance Section every 180 days, and each 180 days thereafter, after taking over the operation, maintenance and management of Sabrosa water system. The Progress Reports shall include information detailing all funds received and funds dispersed by expense category. These Progress

Mr. Trevor Hill
Page 3
January 28, 2005

Reports shall also include updates detailing the resolution of all formal customer complaints.

2. Global shall assume responsibility for all pending and future regulatory filings, and ensure that the certificated public service corporation is in compliance with all Commission Decisions and Rules.

Global may discontinue its activities as interim manager at any time and for any reason; and Global shall give the Commission 30 days notice of any decision to discontinue.

As interim manager, Global is entitled to a monthly fee for interim management equal to the costs incurred during the month in performing items 1-11 above plus \$100. Global may utilize funds and payments received from customers of Sabrosa to pay the management fee, and at Global's discretion, any operating debts of Sabrosa. If the funds and payments received from customers of Sabrosa during any month are insufficient to recoup the monthly management fee noted above, the deficit shall be considered a debt of Sabrosa. Global shall be entitled to collect any unpaid monthly management fees through future rates collected on behalf of Sabrosa Water Company. Global has the right to file for an accounting order regarding interim operation expenditures and outlays.

The Division acknowledges that certain third parties may claim a secured or property interest in portions of Sabrosa Water System. The Division represents that it did not approve any such encumbrances or rights under Ariz. Rev. Stat. § 40-302.

The Division will appreciate your acknowledgment of this letter by signing below and returning the accompanying copy. Thank you for your willingness to serve the community. If you have any questions regarding this appointment, please do not hesitate to contact me in writing.

Sincerely,

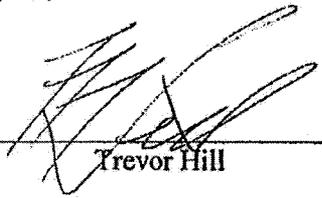
Ernest G. Johnson
Director, Utilities Division

cc: Docket Control
Sabrosa Water Company

To: Ernest G. Johnson
Director, Utilities Division

By signature below, I acknowledge receipt of the foregoing and agree to comply with the terms set forth therein.

Mr. Trevor Hill
Page 4
January 28, 2005

By  _____
Trevor Hill

_____ 1 Feb _____ 2005
Date