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MEMORANDUM

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TO: Docket Control

2008 JAN -7 A 11: 23

FROM: Ernest G. Johnson 
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: January 7, 2007

RE: STAFF REPORT FOR SONOITA VALLEY WATER COMPANY'S
APPLICATION FOR AN EMERGENCY RATE INCREASE (DOCKET NO.
W-20435A-07-0649)

Attached is the Staff Report for Sonoita Valley Water Company's ("Company") application for an emergency rate increase. Staff concurs with the Company that an emergency exists. Staff recommends approval of the Company's request for an emergency rate increase, along with Staff's additional recommendations.

Per the Procedural Order issued December 13, 2007, any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 12:00 p.m. on or before January 11, 2007.

EGJ:MEM:red

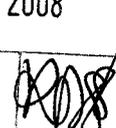
Originator: Marvin E. Millsap

Attachment: Original and thirteen copies

Arizona Corporation Commission

DOCKETED

JAN 7 2008

DOCKETED BY 

Service List for: Sonoita Valley Water Company
Docket No. W-20435A-07-0649

Mr. E. H. Lewis
Sonoita Valley Water Company
PO Box 85160
Tucson, Arizona 85754

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
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Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

SONOITA VALLEY WATER COMPANY

DOCKET NO. W-20435A-07-0649

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**

JANUARY 7, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Sonoita Valley Water Company, Docket No. W-20435A-07-0649, was the responsibility of the Staff members listed below. Marvin E. Millsap was responsible for the financial review and analysis of the Company's application. Katrin Stukov was responsible for the engineering and technical analysis. Richard Martinez was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Marvin E. Millsap
Public Utilities Analyst IV



Katrin Stukov
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
SONOITA VALLEY WATER COMPANY
DOCKET NO. W-20435A-07-0649

Sonoita Valley Water Company ("SVWC" or "Company") is a Class E water utility located in Santa Cruz County and serves areas near Sonoita, Arizona, approximately 30 miles northeast of Nogales on State Highway 82. The water service infrastructure is considered as three separate systems, including the Southern Water Company assets acquired in 2006. SVWC provides potable water to one hundred nine metered customers in its certificated area.

On November 12, 2007, SVWC filed a request for an emergency rate increase that will increase revenues by \$26,562.

Sonoita Valley's application requested an emergency rate increase in the monthly service charge to \$24.00 for a 5/8-inch meter, with zero gallons included, and a commodity charge of \$4.75 for up to 10,000 gallons, \$5.50 for 10,001 to 20,000 gallons and \$6.50 for the excess of 20,001 gallons. The typical residential customer's monthly bill will increase from \$36.86 to \$60.57; an increase of \$23.71, or 64.32 percent based on an average usage of 7,700 gallons in the former Southern Water Company's service area. The typical residential customer's monthly bill will increase from \$30.62 to \$50.13; an increase of \$19.51, or 63.71 percent based on a median usage of 5,500 gallons in the former Southern Water Company's service area. The typical residential customer's monthly bill in the Sonoita Valley Water Company's service area will increase from \$33.20 to \$44.42; an increase of \$11.22, or 33.73 percent based on an average usage of 4,300 gallons. The typical residential customer's monthly bill in the Sonoita Valley Water Company's service area will increase from \$26.00 to \$35.88; an increase of \$9.88, or 38.0 percent based on a median usage of 2,500 gallons. The emergency rate increase would produce an additional \$27,087.89 per year in revenues. This additional revenue will allow the Company to continue making the repairs and related improvements necessary to meet its metered customers' water demands and to provide service in its certificated area.

Staff recommends approval of the emergency rate increase requested by the Company.

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ENGINEERING REPORT	ATTACHMENT A
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Introduction

On November 12, 2007, Sonoita Valley Water Company ("SVWC" or "Company") filed a request for an emergency rate increase with the Arizona Corporation Commission ("Commission") on behalf of Company. SVWC's filing includes requesting access to Water Infrastructure Finance Authority ("WIFA") assistance. On December 13, 2007, a Procedural Order was issued setting January 14, 2008, as the date for the hearing on the application.

SVWC has stated that revenues are insufficient to meet its operating expenses, which has created an operating deficit in excess of \$26,000. In addition, maintenance and capital expenditures have required the investment and borrowing of \$191,300. The Company's owner, Mr. E. H. Lewis, has funded the operating and repairs deficits but is no longer able to continue doing so and fears that the Company will become insolvent.

Background

SVWC is an Arizona class E utility engaged in the business of providing potable water service. Sonoita Valley was granted a Certificate of Convenience and Necessity ("CC&N") to provide water service per Decision No. 46061 effective May 12, 1975. In Decision No. 68823, dated June 29, 2006, the conveyance of the assets and CC&N of E. H. Lewis dba Sonoita Valley Water Company to Sonoita Valley Water Company, an Arizona Corporation was approved. Decision No. 69259, dated January 19, 2007, approved the sale of assets of Southern Water Corporation ("SWC") to SVWC, the cancellation of SWC's CC&N and the extension of SVWC's CC&N to include the service territory of SWC such that the water service systems became combined into one entity.

The current rates for SVWC have been in effect since March 1, 1991, per Decision No. 57235 and the current rates for SWC have been in effect since May 1, 1991, per Decision No. 57313.

Emergency

Staff believes that SVWC's current situation meets the general conditions necessary for interim emergency rate consideration. Staff believes that SVWC has experienced a situation of sudden change that brings hardship to the Company, and a situation where the ability of Sonoita Valley to maintain service, pending a formal rate determination, is in serious doubt. Therefore, Staff recommends that SVWC's emergency rate increase be approved.

Customers

SVWC provides potable water to one hundred nine metered customers in its certificated territory, which is near Sonoita, Arizona, and approximately 30 miles northeast of Nogales.

Engineering Analysis

Sonoita Valley Water Company (the "Company") has filed an application with the Arizona Corporation Commission ("ACC") requesting an emergency rate increase in the amount of \$26,562 to provide sufficient revenues to cover losses resulting from the regular operation and maintenance of the Company's three water systems from January through December 2006.

Staff has reviewed the operating and maintenance expenses listed in the above request and determined that these expenses appear to be reasonable and appropriate. However, this does not imply any particular future treatment for rate base.

Water Quality Compliance

The Arizona Department of Environmental Quality ("ADEQ") regulates three water systems operated by the Company. ADEQ has determined that these water systems are in full compliance and delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.¹

ACC Compliance Status

A check of the compliance database indicated that there were no delinquencies for the Company.²

Curtailment Tariff

The Company has an approved curtailment tariff that became effective on 6/5/2002 per Decision No. 64892.

Compliance

A check of the compliance database indicated that there are currently no delinquencies for SVWC.

Consumer Services

For the period of January 1, 2005 through December 18, 2007, Consumer Services records reflect the following customer complaints, and inquiries:

2005 - One Complaint – water outage

¹ Status reports dated August 1, 2006 and March 9, 2007 were used to determine ADEQ compliance. Staff sent a request for updated status reports to ADEQ on December 13, 2007

² Per compliance check dated September 12, 2007.

2006 - Two Inquiries

2007 - One Complaint – water outage

All Complaints and Inquiries have been resolved and closed.

Financial Viability and Ability to Maintain Service

In order to meet the water needs of its metered customers, SVWC has incurred expenses of more than \$17,000 for leak repairs and an additional \$3,200 for other repairs and maintenance. This abnormal level of maintenance has caused transportation expenses to increase dramatically, as well.

For 5/8 inch meters, SVWC has requested an emergency rate of \$24.00 minimum charge plus a commodity charge of \$4.75 per one thousand gallons of usage for zero to 10,000 gallons, \$5.50 per one thousand gallons of usage for 10,001 to 20,000 gallons and \$6.50 per one thousand gallons of usage for more than 20,000 gallons. The current rate for the former Southern Water Company customers is a \$15.00 minimum charge plus a commodity rate of \$2.84 per one thousand gallons of usage and the current rate for Sonoita Valley Water Company customers is \$16.00 for 1,000 gallons plus a commodity rate of \$4.00 per one thousand gallons of usage.

For one inch meters, SVWC has requested an emergency rate of \$32.00 minimum charge plus a commodity charge \$4.75 per one thousand gallons of usage for zero to 10,000 gallons, \$5.50 per one thousand gallons of usage for 10,001 to 20,000 gallons and \$6.50 per one thousand gallons of usage for more than 20,000 gallons. The current rate for the former Southern Water Company customers is a \$30.00 minimum charge plus a commodity rate of \$2.84 per one thousand gallons of usage and the current rate for Sonoita Valley Water Company customers is \$20.00 for 1,000 gallons plus a commodity rate of \$4.00 per one thousand gallons of usage.

For one and one half inch meters, SVWC has requested an emergency rate of \$47.00 minimum charge plus a commodity charge \$4.75 per one thousand gallons of usage for zero to 10,000 gallons, \$5.50 per one thousand gallons of usage for 10,001 to 20,000 gallons and \$6.50 per one thousand gallons of usage for more than 20,000 gallons. The current rate for the former Southern Water Company customers is a \$45.00 minimum charge plus a commodity rate of \$2.84 per one thousand gallons of usage and the current rate for Sonoita Valley Water Company customers is \$25.00 for 1,000 gallons plus a commodity rate of \$4.00 per one thousand gallons of usage.

The typical residential customer's monthly bill will increase from \$36.86 to \$60.57; an increase of \$23.71, or 64.32 percent based on an average usage of 7,700 gallons in the former Southern Water Company's service area. The typical residential customer's monthly bill will increase from \$30.62 to \$50.13; an increase of \$19.51, or 63.71 percent based on a median usage of 5,500 gallons in the former Southern Water Company's service area. The typical residential customer's monthly bill in the Sonoita Valley Water Company's service area will increase from

\$33.20 to \$44.42; an increase of \$11.22, or 33.73 percent based on an average usage of 4,300 gallons. The typical residential customer's monthly bill in the Sonoita Valley Water Company's service area will increase from \$26.00 to \$35.88; an increase of \$9.88, or 38.0 percent based on a median usage of 2,500 gallons. Each system has one customer in the one inch and the one and one half inch meter customer classes and the average increase for these four customers ranges from 19 percent to 94 percent. Staff believes the funds generated by this increase are needed for the Company to consistently supply water when needed by its metered customers.

The Company's requested emergency rates would produce an additional \$27,108 per year in revenues at its water sales level of 6,325,000 gallons per year. These additional funds would be used to continue providing needed system repairs to water distribution facilities, existing wells and pumping equipment, and storage facilities. SVWC's financial viability and ability to maintain service will also result from the increased revenues.

Staff Recommendations

Staff recommends approval of the emergency rate increase sought by Sonoita Valley Water Company.

Staff further recommends that the emergency rate increase be interim.

Staff further recommends that the Company be directed to file within 30 days of the Order a revised rate schedule reflecting the emergency rate increase with Docket Control, as a compliance item in this docket.

Staff further recommends that the Company notify its customers of the revised rates, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

Staff further recommends that the Company file a full rate case by April 30, 2009, or earlier, using a test year ending December 31, 2008.

Staff further recommends that if the Company believes it will need to incur debt in order to solve its water distribution and storage problems, that it file a financing application prior to, or concurrent with the rate application.

Staff further recommends that the interim rates be subject to refund pending the decision on the permanent rate.

Staff further recommends that the Company be required to post a performance bond of \$10.00, or similar financial instrument, prior to implementing the emergency rate increase authorized in this proceeding.

MEMORANDUM

DATE: December 13, 2007

TO: Marvin Millsap
Public Utilities Analyst

FROM: Katrin Stukov 
Utilities Engineer

RE: Sonoita Valley Water Company
Emergency Rate Application
Docket No. W-20435A-07-0649

Introduction

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