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MEMORANDUM

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AZ CORP COMMISSION
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TO: Docket Control

FROM: Ernest Johnson
Director
Utilities Division

DATE: August 7, 2007

RE: **COMPLIANCE FILING FOR DECISION NO. 68826** - STAFF RESPONSE TO THE "NOTICE OF FILING" BY NORTHERN SUNRISE WATER COMPANY AND SOUTHERN SUNRISE WATER COMPANY
DOCKET NO. W-20453A-06-0247 (CC&N FOR NSWC)
DOCKET NO. W-20454A-06-0248 (CC&N FOR SSWC)
DOCKET NOS. W-20453A-06-0251 (TRANSFER OF MCLAIN SYSTEMS)
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

Arizona Corporation Commission
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Introduction

Pursuant to Decision No. 68826 (June 29, 2006), Northern Sunrise Water Company, Inc. ("NSWC") and Southern Sunrise Water Company, Inc. ("SSWC") or "Companies" docketed on July 24, 2007, a "Notice of Filing" of their proposed modification to the capital improvements attached as Exhibit B to Decision No. 68826. The Decision ordered "that NSWC and SSWC shall file any proposed amendment or modification to Exhibit B with Docket Control as soon as practical. If Staff has an objection to any proposed modification to Exhibit B, Staff shall file its objections in the docket within 10 business days."

Staff's Response

The following is Staff's response to the Companies' filing:

1. When evaluating the "Demand Evaluation Criteria" for all the water systems, the Companies did not use the actual demand data from each system. According to the Companies, the actual data the Companies had recorded was limited and not sufficient. Instead, the Companies adopted the Bella Vista South water demand data

and its peaking factors to analyze each water system and its plant facilities. It is Staff's practice that when evaluating existing water systems, a Water Use Data Sheet showing the actual customer demand for that system should be used to evaluate plant capacities.

2. The Companies stated that it is "possible" the Sierra Sunset System is interconnected with an adjacent water system(s). The Companies also indicated that the Crystal and Mustang water systems "may already" be interconnected. As a result, the actual water demand for each of these water systems is not known and plant facilities cannot be adequately sized.

3. The Companies provided lost and unaccounted for water data. The water loss data exceeds the targeted 10% limitation for unaccounted for water in six of the seven water systems. According to the Companies, to reduce these losses, the Companies have implemented programs to locate un-metered services and install meters. The possible system interconnections would also affect the water loss percentages.

After reviewing the Companies' filing, it is Staff's opinion that the actual customer demand for each water system is still unknown and possible system interconnections may exist. Based on these unknown factors, Staff cannot verify if the modified capital plant improvements are adequately sized. For this reason, Staff will reserve the right to suggest revisions to the sizing and timing of certain projects until the Companies monitor, record, and submit to the Commission 12 months of actual demand data for each water system by completing Water Use Data Sheets to the Commission and confirming if any of the water systems are actually interconnected with one another.

EGJ:MSJ:red

Originator: Marlin Scott, Jr.

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

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