

ORIGINAL



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MEMORANDUM

RECEIVED

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TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

2007 OCT 26 P 1:40

AZ CORP COMMISSION  
DOCKET CONTROL

Date: October 26, 2007

RE: STAFF REPORT FOR THE APPLICATION OF DIAMOND VALLEY WATER USERS CORPORATION FOR APPROVAL OF A REQUEST OF THE DIAMOND VALLEY WATER DISTRICT TO OBTAIN THE ASSETS OF THE DIAMOND VALLEY WATER USERS CORPORATION DOCKET NO. W-03263A-07-0244

Attached is the Staff Report for the application of Diamond Valley Water Users Corporation for approval to transfer its assets to Diamond Valley Water District. Staff recommends approval of the transfer.

EGJ:LAJ:red

Originator: Linda A. Jaress

Attachment: Original and 13 Copies

Arizona Corporation Commission

DOCKETED

OCT 26 2007

DOCKETED BY	nr
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Service List for: Diamond Valley Water Users Corporation  
Docket No. W-03263A-07-0244

Mr. Jim Morgan, Chairman  
Diamond Valley Water Users Corporation  
1848 Emerald Drive  
Prescott, AZ 86301

Mr. Don Bohler  
Diamond Valley Water Users Corporation  
PO Box 13070  
Prescott, Arizona 86304-3070

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

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

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

STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

DIAMOND VALLEY WATER USERS CORPORATION

DOCKET NO. W-03263A-07-0244

APPLICATION FOR APPROVAL OF TRANSFER OF ASSETS

October 26, 2007

## STAFF ACKNOWLEDGMENT

The Staff Report for Diamond Valley Water Users Association was prepared by the Staff members shown below.



Linda A. Jaress  
Executive Consultant III



Marlin Scott, Jr.  
Utilities Engineer

**EXECUTIVE SUMMARY**  
**DIAMOND VALLEY WATER USERS CORPORATION**  
**DOCKET NO. W-03263A-07-0244**

On April 13, 2007, the Staff of the Arizona Corporation Commission (“Commission”) requested that a docket be opened regarding the request of Diamond Valley Water District to obtain the assets of the Diamond Valley Water Users Corporation (“the Company”). On September 10, 2007, The Board of the Diamond Valley Water District (“the District”) filed a letter in this docket indicating it was prepared to go forward with the acquisition of the assets of the Company.

The Arizona Small Utilities Association (“ASUA”) has volunteered the services of one of its “circuit riders” to assist the District with its operations without compensation from the District.

The Company is currently serving approximately 30 customers who are located outside of the certificated area and outside the District’s area. The District has represented that it will file a request with Yavapai County to expand the District’s area to include those customers.

The Company is in compliance with Arizona Department of Environmental Quality, Arizona Department of Water Resources and the Arizona Corporation Commission.

Staff believes it is in the public interest for the assets of Diamond Valley Water Users Corporation to be transferred to the Diamond Valley Water District and recommends approval of the transfer and the cancellation of the Certificate of Convenience & Necessity of Diamond Valley Water Users Corporation.

## **Background**

On April 13, 2007, the Staff of the Arizona Corporation Commission (“ACC” or “Commission”) requested that a docket be opened regarding the transfer of the assets of the Diamond Valley Water Users Corporation (“the Company”) to the Diamond Valley Water District. On September 10, 2007, The Board of the Diamond Valley Water District (“the District”) filed a letter in this docket indicating it was prepared to go forward with the acquisition of the assets of the Company.

Since before 1994, and formerly under the name of Triangle Development Corporation, the Company has been the subject of several dockets and Commission decisions due to ownership, customer service and operational problems. The Company is currently being operated by Mr. Don Bohler, the second such interim operator appointed by the Utilities Division to operate the Company.

The Company is located in Yavapai County, between Prescott and Prescott Valley and serves approximately 600 customers.

## **Arizona Revised Statutes (“ARS”) §10-11421**

ARS §10-11421 was approved by the Governor and filed in the office of the Secretary of State on April 11, 2006. ARS §10-11421 allows for the transfer of the assets of troubled water utilities to districts. If a water utility’s corporate status has been administratively dissolved for at least three years, according to ARS §10-11421, the following may occur:

*“After notice to interested parties, the corporation may be transferred by the Commission to a domestic water improvement district or a domestic wastewater improvement district...or to a municipality...on receipt by the Commission of a written request from the governing body of the district or municipality.”*

This is the first application filed at the Commission pursuant to ARS §10-11421.

On April 28, 2002, the Commission’s Corporations Division issued a Certificate of Dissolution to the Company (See Exhibit 1 attached). At a special meeting on December 20, 2006, the Yavapai County Board of Supervisors voted unanimously to establish the Diamond Valley Water District. The District was formed to receive the assets of the Company. Thus, the Company has been dissolved for at least three years and the District has been formed to accept the assets so the transfer qualifies for the treatment set forth in ARS §10-11421.

## **Notice**

The District began holding public meetings in February 2007. The Company’s February and March, 2007 water bills contained inserts that provided notice to the customers of the District’s meeting schedule and meeting location. Permanent public postings for the District’s

monthly meeting and agendas will continue to be located at the Prescott Library and on the Yavapai County website. Furthermore, pursuant to the October 1, 2007 Procedural Order, notice of this proceeding will be provided by the Company to each customer as well as published in a newspaper of general circulation in the service territory.

### **Operations**

The District Board is comprised of five individuals who have a broad range of experience and expertise including engineering, accountancy, real estate and health care. The Board members' terms are 2 years or 4 years to enable continuity.

The Arizona Small Utilities Association ("ASUA") has volunteered the services of one of its "circuit riders" (certified operator) to assist the District with its operations without compensation from the District. The ASUA assistance will be temporary and will continue while the District attempts to retain a permanent management company to operate the system. The District has also contacted the Water Infrastructure Financing Authority ("WIFA") for assistance in applying for a Technical Assistance grant of up to \$35,000 for non-construction, design purposes.

### **Customers Outside of CC&N Area**

The Company is currently serving approximately 30 customers who are located outside of the certificated area and outside the District's area. The District has represented that it will continue to serve those customers.

### **Compliance**

On April 19, 2007, the Arizona Department of Environmental Quality ("ADEQ") conducted a field inspection of the Company's water system. As a result of this inspection, ADEQ issued its report stating that the system's operation and maintenance status was in compliance with ADEQ regulations. The field inspection report is attached to Staff's Engineering Report, which is attached as Exhibit 2.

The Company is located in the Prescott Active Management Area ("AMA"). Because less than 250 acre-feet of water per year are used, it is considered a small provider by Arizona Department of Water Resources ("ADWR") and is not subject to the gallons per capita per day limit and conservation rules. The Company is only required to monitor and report water use and is in compliance with the ADWR water use and monitoring requirements.

The Utilities Division Compliance Section indicated there are no delinquent ACC compliance items outstanding for the Company.

**Recommendations**

Staff believes that the circumstances of this case fulfill the purpose and requirements of ARS §10-11421. Staff recommends approval of the transfer of the assets of Diamond Valley Water Users Corporation to Diamond Valley Water District and cancellation of the Certificate of Convenience & Necessity of Diamond Valley Water Users Corporation.

ARIZONA CORPORATION COMMISSION  
Corporations Division

1300 West Washington Street  
Phoenix, Arizona 85007-2929

400 West Congress Street  
Tucson, Arizona 85701-1347

CERTIFICATE OF DISSOLUTION

To:  
DIAMOND VALLEY WATER USER'S CORP.  
PO BOX 10996  
PRESCOTT, AZ 86304

Effective Date: 04/28/2002

Corporation Name: DIAMOND VALLEY WATER USER'S CORP.  
File Number: -0734974-8

The Corporation Commission has determined that the following grounds continue to exist under A.R.S. §§10-1420 & 10-11420 and therefore has administratively dissolved your corporation pursuant to A.R.S. §§10-1421 & 10-11421 on the effective date of this notice.  
FAILURE TO FILE ANNUAL REPORT.

IF YOU HAVE MAILED YOUR ANNUAL REPORT WITHIN THE LAST  
30 DAYS PLEASE DISREGARD THIS NOTICE.



Arizona Corporation Commission  
Annual Reports Section  
(602) 542-3285

\* \* \* \*

Under A.R.S. §§10-1422 & 10-11422, your corporation may apply to the commission for reinstatement *within three years* after the effective date of this dissolution.

Phoenix (602) 542-3285 Toll Free 1-(800) 345-5819 Tucson (520) 628-6560

**MEMORANDUM**

DATE: October 23, 2007

TO: Linda Jaress  
Executive Consultant III  
Utilities Division

FROM: Marlin Scott, Jr. *MSJ*  
Utilities Engineer  
Utilities Division

RE: Diamond Valley Water Users Corporation  
Docket No. W-03263A-07-0244

**Introduction**

On April 13, 2007, a docket was opened by the Arizona Corporation Commission ("Commission") for the transfer of Diamond Valley Water Users Corporation ("Corporation") to the Diamond Valley Water District ("District"). The Corporation is located between Prescott and Prescott Valley along State Highway 69 in Yavapai County. The Corporation has a certificated area covering approximately 3/4 square-mile. Staff is providing this engineering analysis to assist in transferring the assets of the Corporation to the District.

**Discussion**

The Corporation's water system is a consecutive water system to the Prescott Valley Water District ("PVWD") and as such its water source is from PVWD. Water is transferred to the Corporation through a 4-inch master-meter with a 2-inch meter by-pass line. According to the Corporation's 2006 Annual Report the system consists of three storage tanks totaling 66,500 gallons, nine booster pumps, two pressure tanks, and a distribution system having approximately 72,200 feet of main serving approximately 630 customers.

Staff is aware that the Corporation's distribution system was not built to water industry standards by the initial developer, Ned Warren. Most of the water mains are asbestos-cement pipe and do not have shut-off (gate) valves. When a leak occurs, the entire distribution system needs to be drained to repair the leak; sections of the system cannot be isolated due to the lack of gate valves. As to the operation and conditions of the individual pumping stations, Staff would defer to the Arizona Department of Environmental Quality's field inspection report, dated May 11, 2007, that is attached to this report as Attachment #1.

### **Arizona Department of Environmental Quality (“ADEQ”) Compliance**

On April 19, 2007, ADEQ conducted a field inspection of the Corporation’s water system accompanied by Don Bohler, Interim Manager for the Corporation, and Marlin Scott, Jr., Staff Engineer. As a result of this inspection, ADEQ issued its report stating that the system’s operation and maintenance status was in compliance with ADEQ regulations. (See Attachment #1.)

On October 23, 2007, ADEQ reported no deficiencies and has determined that the Corporation’s system, PWS #13-017 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

### **Arizona Department of Water Resources (“ADWR”) Compliance**

The Corporation is located in the Prescott Active Management Area (“AMA”). Since the Corporation uses less than 250 acre-feet of water per year, it is considered a small provider by ADWR and is not subject to the gallons per capita per day limit and conservation rules. The Corporation is only required to monitor and report water use. ADWR indicated that the Corporation is in compliance with its water use and monitoring requirements.

### **Arizona Corporation Commission (“ACC”) Compliance**

The Utilities Division Compliance Section indicated there were no delinquent ACC compliance issues for the Corporation.

### **Other Issues**

To further assist in transferring the assets of Diamond Valley Water Users Corporation to Diamond Valley Water District, Staff is providing Engineering Reports from two prior rate cases. These Engineering Reports are:

1. Triangle Development Corporation, Inc., Docket No. U-1934-91-309, dated January 30, 1992, (Attachment #2).
2. Diamond Valley Water Users Corporation, Docket No. W-03263A-05-0330, dated July 13, 2005, (Attachment #3).

For the above Attachment #2 rate case, Staff produced an asset listing (“RCN to OC” spreadsheet) that was used as a guideline for establishing a rate base. The final plant-in-service in the Staff Report was \$457,770.

For the above Attachment #3 rate case, Staff used the asset listing above as a starting point to evaluate the plant-in-service. Engineering updated this spreadsheet for this rate case by deleting and adding plant items that were evaluated using the used and useful test. The final plant-in-service in the Staff Report was \$410,688.

Diamond Valley Water Users Corporation  
October 23, 2007  
Page 3

**Conclusion**

The Corporation is in compliance with ADEQ, ADWR and ACC regulations.

:msj

Attachments: #1, #2, #3

ATTACHMENT 1



Janet Napolitano  
Governor

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007  
(602) 771-2300 • www.azdeq.gov



Stephen A. Owens  
Director

May 11, 2007

Inspection ID:102863

Diamond Valley Water Users Inc.  
Attn: Don Bohlier  
4750 N. Tonto Circle  
Prescott Valley, AZ 86314

RE: Diamond Valley Water Users, PWS 13-017, Place ID 112681

Dear water system owner/operator:

Please find enclosed a copy of an operation and maintenance inspection report for the above referenced facility. The report only addresses the operation and maintenance status and certified operator status. The inspection was performed on April 19, 2007, in accordance with Arizona Administrative Code R18-4-101, et sequi, R18-5-101, et sequi, and Arizona Revised Statutes 49-101, et sequi. The report may include a summary of inspection, checklist and inspection rights form, or other information regarding the facility.

If there are any questions please contact James P. Jones at the referenced address, or at 928-773-2715.

Sincerely,

Robert E. "Buck" Olberding  
Field Services Manager,  
Northern Regional Office  
Arizona Department of Environmental Quality

Northern Regional Office  
1801 W. Route 66 • Suite 117 • Flagstaff, AZ  
86001  
(928) 773-0313

Southern Regional Office  
400 West Congress Street • Suite 433 • Tucson, AZ  
85701

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
Northern Regional Office  
1801 West Route 66, Suite 117, Flagstaff, Arizona 86001

### INSPECTION SUMMARY

Facility: Diamond Valley Water Users	System # 13-017
Inspected By: James P. Jones	Date: 04/19/07
Accompanied By: Don Bohler, Marlin Scott	County: Yavapai
Recommendations By: James P. Jones	Report Date: [Report Date]
Number of Plants: None	Wells: None
Population: 2000	Service Connections: 650

The water system is in compliance with the following ADEQ requirements:

	YES	NO
Certified Operator (System Grade)	X	
Physical Facilities	X	

This report does not address the system's compliance with respect to the public notice, monitoring, and reporting requirements.

#### DEFICIENCY(S) AND RECOMMENDED CORRECTIVE ACTIONS

**The numbered items in the following report are items that ADEQ recommends correction before the item fails and creates a situation that results in non-compliance of the system.**

Ramada Tank Site: Consists of one 125,000 gallon bolted storage tank, one 2100 gallon hydropneumatic tank, and two 10 horsepower booster pumps. The hydro tank is not utilized to regulate pressure.

#1. The inside of the storage tank is beginning to rust and will need recoating soon.

Victor Pump Station: This was a booster station that is located on Victor Drive. This booster station is no longer being utilized and has been bypassed.

Lisa Lane Tanksite: Consists of a 10,000 gallon galvanized steel tank with one booster pump and 1-75 gallon bladder type pressure tank.

#1. This booster station should have a second booster pump for redundancy.

#2. The water lines appear to 1" in diameter and are inadequate for the number of dwellings served.

#3. The wiring is exposed and can present a hazard to operational personnel as well as compromising the reliability of the equipment. Wiring should be enclosed in conduit.

#4. The interior of the storage tank could not be examined due to lack of access but the tank is quite old and could have rust issues.

Emerald Pumpsite: This pumpsite has been bypassed and the booster pumps removed. Only one 75 gallon bladder tank remains. This site also has two of the old wellsites that are capped. ALL of the old wells should be properly abandoned per ADWR regulations.

Rosequartz Pumpsite: This is the location where this consecutive water system receives all of its water from the Town of Prescott Valley. There is a backflow assembly, a master meter and booster pumps. This pump site also has a hydropneumatic tank but it is not in use.

#1. The wiring from the power pedestal to the building is not enclosed in conduit and is deteriorating due to U.V. exposure.

#2. A vacuum relief valve that is installed on the intake manifold does not have an elbowed down and screened vent pipe.

#3. One of the pipes of the manifold system is weeping even though it is valved off. A puddle of water has formed because of it and it is damaging the interior sheetrock and building framing.

Doghouse Pumpsite: This pumpsite is located on Rosequartz drive and has been bypassed. All booster pumps and hydropneumatic tanks have been removed.

The Opal Tanksite: This tanksite consists of a 10,000 gallon uncoated galvanized steel tank and a 15,000 gallon uncoated galvanized steel tank. The 10,000 gallon tank is connected to the system but is unused. There is also a 500 gallon hydro tank that has been disconnected. The booster pumps have been removed and submersible pumps have been installed in the 15,000 gallon tank. This is a very unusual feature and servicing a failed pump would be much more difficult than with a conventional booster pump. The conventional booster pumps and bladder tanks have been removed.

#1. The top of the tank could not be accessed for inspection but it is obvious from inspecting the exterior of the tank that it is rusting from the inside out and will soon need extensive repair or replacement.

#2. The overflow pipe screen is damaged and in need of replacement.

M E M O R A N D U M

TO: Jaime Weaver  
Auditor II  
Utilities Division

FROM: Marlin Scott, Jr. *MSJ*  
Water/Wastewater Engineer  
Utilities Division

THRU: Calvin E. Nowack *CN*  
Engineering Supervisor  
Utilities Division

DATE: January 30, 1992

RE: TRIANGLE DEVELOPMENT CORPORATION, INC.  
DOCKET NO. U-1934-91-309

Attached please find an Engineering Report for the referenced water company. If you have any questions, please call me at Extension 2-3990.

MS:ms

cc: Randy Sable, Chief, Accounting and Rates  
Engineering file

ENGINEERING REPORT  
FOR  
TRIANGLE DEVELOPMENT CORPORATION, INC.  
DOCKET NO. U-1934-91-309

A. PURPOSE OF REPORT

This report was prepared in response to Triangle Development Corporation's (Triangle) submission of a request for an increase in rates and charges for water service. The water system was inspected on January 10, 1992, by Marlin Scott, Jr, Staff Engineer, accompanied by Mr. Glenn Piper, representing the Company.

B. LOCATION OF TRIANGLE

Triangle's water system is located approximately four miles east of Prescott, Arizona, off of State Highway 69. Figures 1 and 2 detail the location of Triangle in relation to other Commission regulated companies in Yavapai County and in the immediate area.

C. DESCRIPTION OF WATER SYSTEM

The Triangle water system currently receives all water from Shamrock Water Company. A transmission main interconnecting each system was completed in July of 1990 and since then, has been delivering water.

In the previous 1986 rate case, the Triangle system was served by six wells and later, three new wells were added in 1987 and 1989. Most of these nine wells have now been abandoned. The following will describe the physical plant that is considered used and useful for this rate proceeding:

Site No. 1: The wells (#1A and #1B) are abandoned. This site is now a booster station site which consist of two 1-1/2 horsepower (HP) booster pumps and an 82 gallon pressure tank. These facilities are inside a 9 feet x 20 feet masonry pumphouse.

Site No. 2: This well and site are now abandoned.

Site No. 3: Wells #3A and #3B are not in service, but will be used as back-up for the system. This site is currently a booster station site consisting of two 1-1/2 HP booster pumps with 80 gallon and 200 gallon pressure tanks. These facilities are inside an 8 feet x 12 feet metal shed and surrounded by 120 lineal feet of chain link fencing.

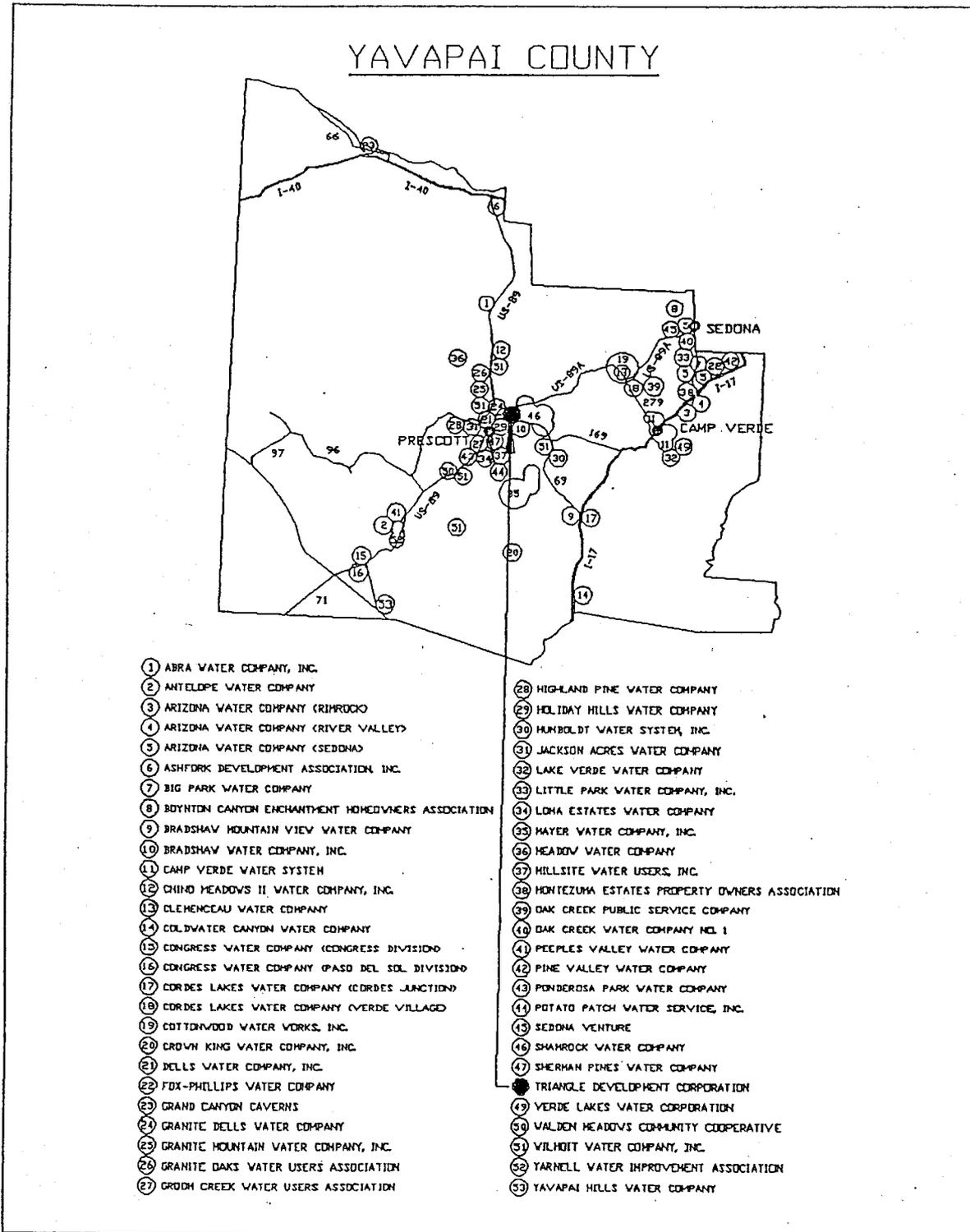
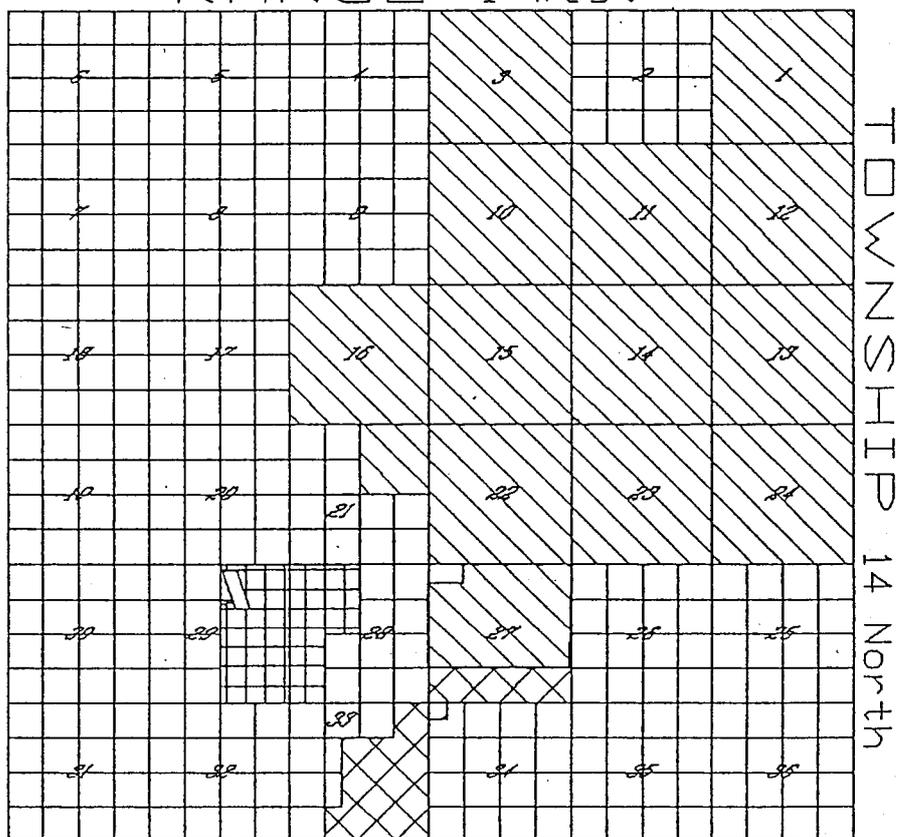


Figure 1.

TRIANGLE DEVELOPMENT  
CORPORATION, INC.  
DOCKET NO. U-1934-91-309

COUNTY: *Yavapai*

RANGE 1 West



 U-2476  
Bradshaw Water Company, Inc.

 U-1966  
Shanrock Water Company

 U-1934  
Triangle Development Corporation

Figure 2.

Site No. 4: This is a tank site which consists of 25,000 gallon and 125,000 gallon storage tanks, a 3,000 gallon pressure tank, four booster pumps (two 1-1/2 HP, one 5 HP and one 7-1/2 HP) and a 10 feet x 16 feet wooden pumphouse. The site is surrounded by 270 lineal feet of chain link fencing.

Site No. 5: This booster station with a 1-1/2 HP booster pump and 80 gallon pressure tank, are all enclosed in a 4 feet by 8 feet masonry vault.

Site No. 6: This site has a 10,000 gallon storage tank, one 1-1/2 HP booster pump, an 80 gallon pressure tank and a 6 feet by 8 feet wooden pumphouse.

Site No. 7: This site has two 10,000 gallon storage tanks, two 1-1/2 HP booster pumps, three 82 gallon pressure tanks and an 8 feet by 10 feet wooden pumphouse.

Site No. 8: This site is a booster station for the tie-in location of the transmission main from the Shamrock system. This site consist of three 5 HP booster pumps and a 3,000 gallon pressure tank, metered by two 2-inch and two 3-inch meters. These facilities are inside a 10 feet by 12 feet wooden pumphouse.

Site No. 9: This site is the old Well #9 (Fisher Well) and is currently abandoned.

Site Nos. 9A and 9B: These old well sites (#9A and #9B) are abandoned and only the 10 feet by 12 feet wooden building is used as a storage shed.

The system's transmission and distribution mains consist of 4,580 feet of 3-inch asbestos-cement (AC) pipe, 57,820 feet of 4-inch AC pipe and 9,820 feet of 6-inch AC pipe that serve 307 customers having 3/4-inch meters. In the past, all customers were equipped with 5/8" x 3/4" meters and now, Triangle has replaced all meters with 3/4-inch meters.

The transmission main from the Shamrock water system consists of 6,203 feet of 8-inch polyvinyl-chloride pipe and runs along State Highway 69.

D. WATER USE

Figure 3 below details the water use by Triangle and also water purchased from Shamrock Water Company. As of April 4, 1991, all water used and sold by Triangle is delivered by Shamrock.

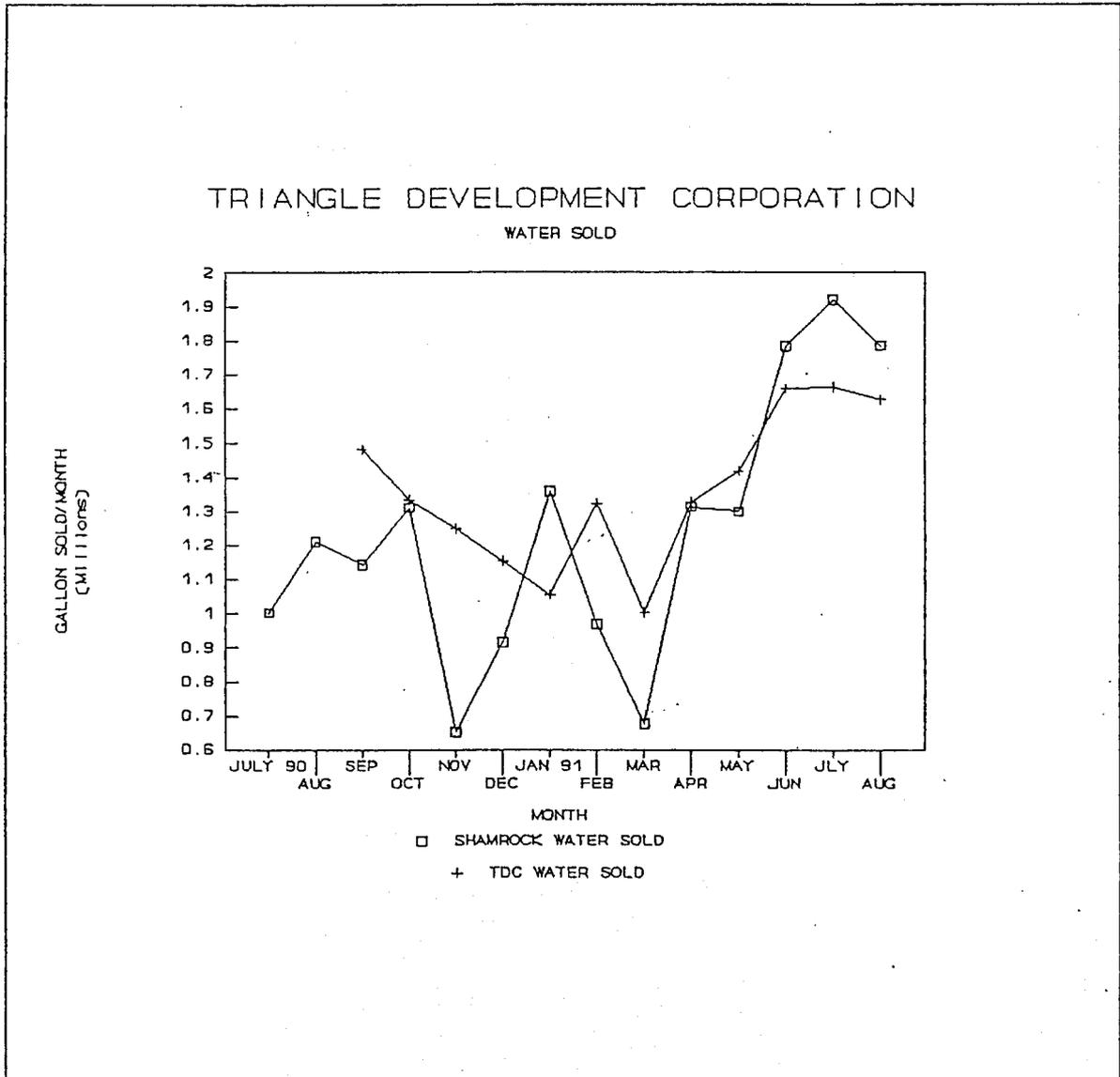


Figure 3.

<u>Month</u>	<u>Purchased water from Shamrock (gallons)</u>	<u>Triangle water sold (gallons)</u>
July 1990	1,003,120	
August	1,209,000	
September	1,142,800	1,481,910
October	1,310,700	1,334,200
November	653,400	1,248,266
December	916,340	1,154,590
January 1991	1,358,500	1,055,843
February	968,800	1,325,251
March	679,100	1,004,154
April	1,314,100	1,328,692
May	1,301,200	1,419,230
June	1,785,900	1,659,060
July	1,919,200	1,663,750
August	1,786,600	1,627,680

E. GROWTH PROJECTION

From 1981 to 1986, growth had been averaging 26 new connections per year. When a Cease and Desist Order was issued by the Arizona Department of Environmental Quality in 1986, the new connections had decreased to 14 per year by the year 1990. Although the Cease and Desist Order prohibited any further service line connections, this moratorium was conditional based upon Triangle's engineering consultants determination of additional water source. If and when the moratorium is lifted, Triangle anticipates 40 immediate new hook-ups.

F. EVALUATION OF COMPANY EXPENSES

An evaluation was made of the expenses reported by Triangle in the rate application. Most of the expenses have increased as a result of purchased water from Shamrock Water Company.

G. EVALUATION OF COMPANY ADDITIONS AND DELETIONS TO PLANT

Triangle's previous rate filing was in 1986 with a test year ending December 31, 1985. Numerous plant additions and deletions were reported in the 1991 rate application. Since numerous plant facilities were to be retired, Engineering Staff used Staff's 1986 rate case reconstruction cost new values to determine the original cost by using the Handy-Whitman Indices. This estimated original cost by Engineering Staff for the current rate proceeding is higher than what was used in the 1986 rate case.

Engineering Staff had no other method to retire these plant facilities that were no longer used and useful.

H. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE

This water system was in non-compliance with the Arizona Department of Environmental Quality (ADEQ) regulations during the test year. In a Compliance Status letter, dated September 17, 1991, this system was still considered to be in non-compliance.

During Staff's field inspection, the recorded ADEQ violations and deficiencies for this system were noted either to be corrected or the compliance requirements no longer pertained to this system. This system is now considered to be a consecutive water system with Shamrock Water Company.

The Cease and Desist Order, issued to Triangle on May 30, 1986, prohibited any further water service line connections be made until noted deficiencies were corrected and an adequate, permanent water supply was provided. To this day, all the noted deficiencies within the Cease and Desist Order have been corrected and the solution for an adequate, permanent water supply may have been resolved by the interconnection to Shamrock Water Company. This permanent water service agreement is pending under Docket No. U-1966-91-212.

I. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

Triangle is located in the Prescott Active Management Area as designated by the Arizona Department of Water Resources and is in compliance with its regulations.

TRIANGLE DEVELOPMENT CORPORATION, U-1934-91-309  
RCN TO OC  
TEST YEAR ENDING: 12/31/90

ACCT. NO.	ITEMS	STAFF		DELETION O.C.	ADDITION O.C.	TOTAL O.C.
		RCN 12/31/85	STAFF O.C.			
301	INTANGIBLES					17,440
	Egring. & Hydrology studies -89	0			17,440	
303	LAND & LAND RIGHTS					9,000
	Sites #1 through #8	3,500	3,500			
	Site #2 - retired	0		@ O.C.		
	Site #9 - Leased	0			0	
	Site #9A - Lot #1348	0			5,500	
	Site #9B - Lot #1347	0		3,584	3,584	
304	STRUCTURES & IMPROVEMENTS					12,077
	Site #1 - Pumphouse -62	5,042	1,255			
	- Fence -62	454	113	113		
	Site #2 - Pumphouse -77	3,025	1,870	1,870		
	Site #3 - Storage Shed -79	252	188			
	- Fence -79	454	339			
	Site #4 - Pumphouse -62	4,033	1,004			
	- Fence -88	0	0		1,142	
	Site #5 - Pumphouse -81	605	557			
	Site #6 - Pumphouse -89	0	0		960	
	Site #7 - Pumphouse -80	2,016	1,740			
	- Retire old P-house -80	0		706		
	- Rebuilt P-house -86	0	0		838	
	Site #8 - Pumphouse -84	3,529	3,500			
	Site #9 - Wellhouse -87 (leased)	0			0	
	Site #9A - Pumphouse -89	0			1,260	
307	WELLS & SPRINGS					7,759
	Well #1A - 8" x 500' -62	13,307	3,514	3,514		
	Well #1B - 150' -62	3,992	1,054	1,054		
	Well #2 - 4" x 180' -77	4,790	3,090	3,090		
	Well #3A - 6" x 154' -79	4,100	3,372			
	Well #3B - 6" x 170' -83	4,524	4,387			
	Well #8 - 302' -84	8,037	7,967	7,967		
	Well #9 - 6" x 270' -87 (leased)	0			0	
	Well #9A - 6" x 525' -89	0		4,882	4,882	
	Well #9B - 8" x 700' -89	0		11,172	11,172	

TRIANGLE DEVELOPMENT CORPORATION, U-1934-91-309  
RCN TO OC  
TEST YEAR ENDING: 12/31/90

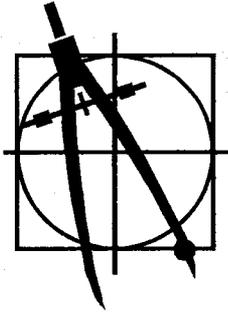
ACCT. NO.	ITEMS	STAFF		DELETION O.C.	ADDITION O.C.	TOTAL O.C.
		RCN 12/31/85	STAFF O.C.			
311	PUMPING EQUIPMENT					15,052
	Well #1A - 1 HP Sub. -62	2,175	548	548		
	Well #1B - 1-1/2 HP Sub. -62	1,526	384	384		
	Booster - 10 HP -62	2,250	566	566		
	Booster - 1-1/2 HP (2) -88	0			1,152	
	Well #2 - 1-1/2 HP Sub. -77	1,740	1,148	1,148		
	Booster - 7-1/2 HP -77	1,607	1,060	1,060		
	Well #3A - 1-1/2 HP Sub. -79	1,638	1,179			
	Well #3B - 1-1/2 HP Sub. -83	1,688	1,622			
	Booster - 3/4 HP -79	428	308	308		
	Booster - 1-1/2 HP -79	536	515			
	Booster - 7-1/2 HP -83	1,607	1,544	1,544		
	Booster - 1-1/2 HP -88	0			576	
	Site #4 - 1 HP Booster -75	482	267	267		
	- 3 HP Booster -75	964	533	533		
	- 7-1/2 HP Booster -81	1,607	1,396			
	- 5 HP Booster -89	0			1,191	
	- 1-1/2 HP B-P (2) -89	0			1,278	
	Site #5 - 3/4 HP B-P -81	536	466	466		
	- 1-1/2 HP B-P -89	0			639	
	Site #6 - 1-1/2 HP B-P -89	0			639	
	Site #7 - 1 HP B-P (2) -80	1,071	839	839		
	- 1-1/2 HP B-P (2) -88	0			1,152	
	Well #8 - 1 HP Sub. -84	2,143	2,097	2,097		
	- 7-1/2 HP B-P -84	1,607	1,573	1,573		
	- 1-1/2 HP B-P -84	536	525	525		
	- 5 HP B-P (3) -90	0			3,713	
	Well #9 - 15 HP Sub.-87 (Leased)	0			0	
	Well #9A - 15 HP Sub. -89	0		6,253	6,253	
	Well #9B - 15 HP Sub. -89	0		7,164	7,164	
	Booster - 5 HP (2 ea) -89	0		2,382	2,382	

TRIANGLE DEVELOPMENT CORPORATION, U-1934-91-309  
RCN TO OC  
TEST YEAR ENDING: 12/31/90

ACCT. NO.	ITEMS	STAFF		DELETION ADDITION		TOTAL O.C.
		RCN 12/31/85	STAFF O.C.	O.C.	O.C.	
330	RESERVOIRS					59,300
	Site #1 - 10,000 Gal S-T -62	5,101	997	997		
	- 2,000 Gal P-T -62	4,080	798	798		
	- 82 Gal P-T -88	0			378	
	Site #2 - 10,000 Gal S-T (2)-77	10,201	9,745	9,745		
	- 500 Gal P-T -77	510	487	487		
	Site #3 - 10,000 Gal S-T (2)-79	10,201	10,144	10,144		
	- 3,300 Gal S-T -83	2,040	2,051	2,051		
	- 200 Gal P-T -79	714	710			
	- 80 Gal P-T -83	306	308			
	Site #4 - 25,000 Gal S-T -62	10,201	1,995			
	- 125,000 Gal S-T -84	45,905	31,545			
	- 3,000 Gal P-T -81	4,080	4,695			
	Site #5 - 80 Gal P-T -81	408	470			
	Site #6 - 10,000 Gal S-T -81	5,101	5,870			
	Site #7 - 10,000 Gal S-T -80	5,101	5,443			
	- 10,000 Gal S-T (fr.#3)	0			5,870	
	- 82 Gal P-T (3) -80	765	816			
	Site #8 - 10,000 Gal S-T -84	5,101	5,243	5,243		
	- 80 Gal P-T -84	306	315	315		
	- 3,000 Gal P-T -90	0			1,200	
	Site #9A - 10,000 Gal S-T -89	0		5,956	5,956	
	- 2,000 Gal P-T -89	0		1,200	1,200	
331	TRANSMISSION & DISTRIBUTION MAINS					324,336
	3" - ACP, 4,580' -64	29,129	10,582			
	4" - ACP, 57,820' -64	459,669	166,989			
	6" - ACP, 9,820' -64	109,296	39,705			
	8" - PVC, 6,203' -90	0			107,060	

TRIANGLE DEVELOPMENT CORPORATION, U-1934-91-309  
RCN TO OC  
TEST YEAR ENDING: 12/31/90

ACCT. NO.	ITEMS	STAFF		DELETION O.C.	ADDITION O.C.	TOTAL O.C.
		RCN 12/31/85	STAFF O.C.			
333	SERVICES					70,110
	240 ea @ \$175 ea	44,650	44,650			
	67 ea @ \$380 ea				25,460	
334	METERS					23,708
	250 ea of 5/8 x 3/4 @ \$60 ea	15,000	15,000	15,000		
	5 ea of 1" @ \$100 ea -82	500	458	458		
	307 ea of 3/4" @ \$70 ea	0			21,490	
	Site #1 - 3/4" (2) -88	0			140	
	Site #3 - 1" -82	0			92	
	Site #4 - 5/8 x 3/4 -82	0			60	
	- 1" (3) -82	0			276	
	Site #8 - 3" (2) -90	0			1,000	
	- 2" (2) -90	0			650	
339	OTHER PLANT & MISC.		134			426
	7 -86	0			292	
341	TRANSPORTATION EQUIPMENT					1,000
	Truck - 1980 Ford F150 -87	0			1,000	
	TOTAL:	854,166	413,170	118,003	245,041	540,208



**Engineering Report for Diamond Valley Water  
Users Corporation**

**Docket No. W-03263A-05-0330 (Rates)**

**By: Marlin Scott, Jr.  
Utilities Engineer**

**July 13, 2005**

**CONCLUSIONS**

- A. The Diamond Valley Water Users Corporation ("Company") water system's current source and storage capacity is adequate to serve the present customer base and reasonable growth.
- B. The Company is a consecutive water system to the Prescott Valley Water District and the District's arsenic concentrations range from 3 parts per billion ("ppb") to 3.7 ppb. Based on these arsenic concentrations, the District's source places the Company in compliance with the new arsenic Maximum Contaminant Level of 10 ppb.
- C. The Company is located in the Prescott Active Management Area and is in compliance with the monitoring and reporting requirements.

**RECOMMENDATIONS**

1. The Company's system has a water loss of 22.3%. Based on the interim manager's knowledge of the water system, Staff would recommend that the Company submit a plan on how the Company could correct the system's high water loss with any available funding the Company could obtain. Staff further recommends that this plan shall be docketed as a compliance item in this case within 60 days of the effective date of an order in this proceeding.
2. According to an ADEQ Compliance Status Report dated July 11, 2005, the ADEQ has determined that the Company's system, PWS #13-017, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. However, ADEQ has also reported major monitoring and reporting deficiencies for failing to provide calendar year 2002, 2003 and 2004 Consumer Confidence Reports ("CCRs").

Staff recommends that the Company contact ADEQ to determine the required CCRs to come into compliance. Staff further recommends that the Company docket an updated

Compliance Status Report as a compliance item in this case within 90 days of the effective date of an order in this proceeding.

3. Staff recommends the Company's annual water testing expense of \$936 be used for purposes of this application.
4. Staff recommends that the Company use the depreciation rates delineated in Table B on a going-forward basis.
5. Staff recommends that the Company file a curtailment plan tariff in the form of Attachment CPT-1. This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.
6. Staff recommends that the Company file a backflow prevention tariff in the form found on the Commission's website at [www.cc.state.az.us/utility/forms/cross\\_c.pdf](http://www.cc.state.az.us/utility/forms/cross_c.pdf). This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

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**ATTACHMENT**

CURTAILMENT PLAN TARIFF .....	CPT-1
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**A. LOCATION OF COMPANY**

Diamond Valley Water Users Corporation (“Company”) is located between Prescott and Prescott Valley along State Highway 69. Figure 1 shows the location of the Company within Yavapai County and Figure 2 shows the certificated area covering approximately 3/4 square-mile.

**B. DESCRIPTION OF THE WATER SYSTEM**

The water system was field inspected on June 17, 2005, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Douglas Rutherford, representing the interim manager for the Company. The interim manager, Tim Kylo, was appointed by Staff on or about April 2001. The system is a consecutive water system to the Prescott Valley Water District (“PVWD”) with detailed plant facility listing as follows:

Table 1. Purchased Water Source Data

Water Source	Compound Meter Size	Location
Prescott Valley Water District	8 x 1-1/2-inch (flow up to 1,600 GPM)	Master-meter Site

Table 2. Storage Tanks and Booster Systems

Location	Storage Tanks	Booster Pumps	Pressure Tank
@ Master-meter Site	None	5-Hp	2,000 gal.
		Two 10-Hp	(not connected)
@Ramada Site	165,000 gallons	7-1/2-Hp	2,000 gal.
		Two 10-Hp	
@Lisa Site	10,000 gallons	2-Hp	60 gal.
@Opal Site	10,000 gallons	Two 5-Hp	None

Table 3. Water Mains

Diameter	Material	Length
3-inch	Asbestos-cement pipe	4,580
4-inch	"	57,820
6-inch	"	9,820
8-inch	-	-
	Total:	72,220

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	569
3/4-inch	-
1-inch	-
1-1/2-inch	-
2-inch	-
Total:	569

Table 5. Structures

Structures
@ Meter-meter Site: Vault and 16' x 24' wooden pumphouse
@ Ramada Site: 10' x 16' wooden pumphouse, 270 feet of chain link fencing
@ Lisa Site: 6' x 8' wooden pumphouse
@ Opal Site: 8' x 10' wooden pumphouse

**Wheeling of Water**

The Company wheels water to Bradshaw Water Company, Inc. ("Bradshaw") through the Company's distribution system. The purchased water from the PVWD is monitored at the Master-meter Site (8 x 1-1/2-inch meter) and at a Bradshaw 6-inch master-meter site that records water sent to the Bradshaw system.

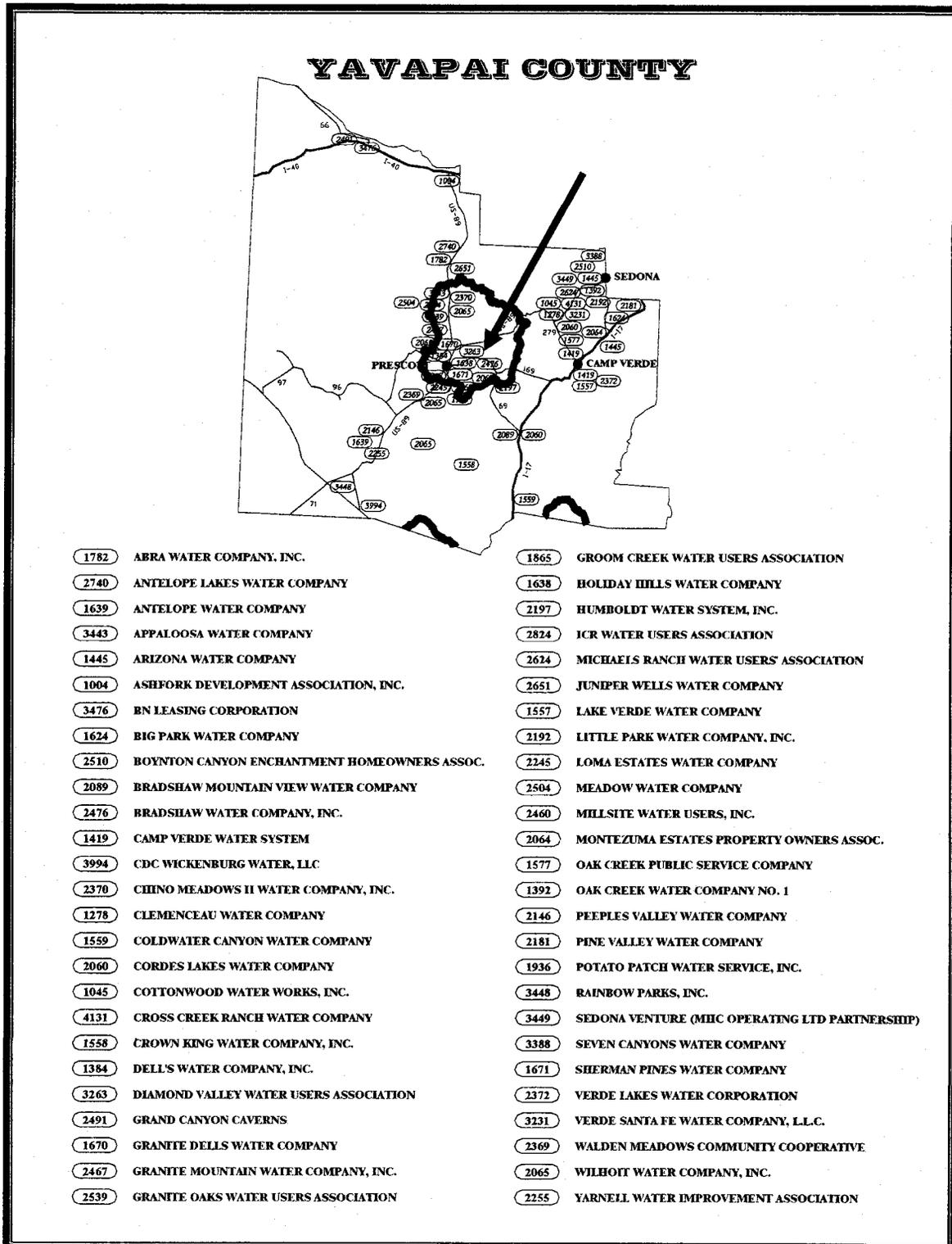


Figure 1. Yavapai County Map

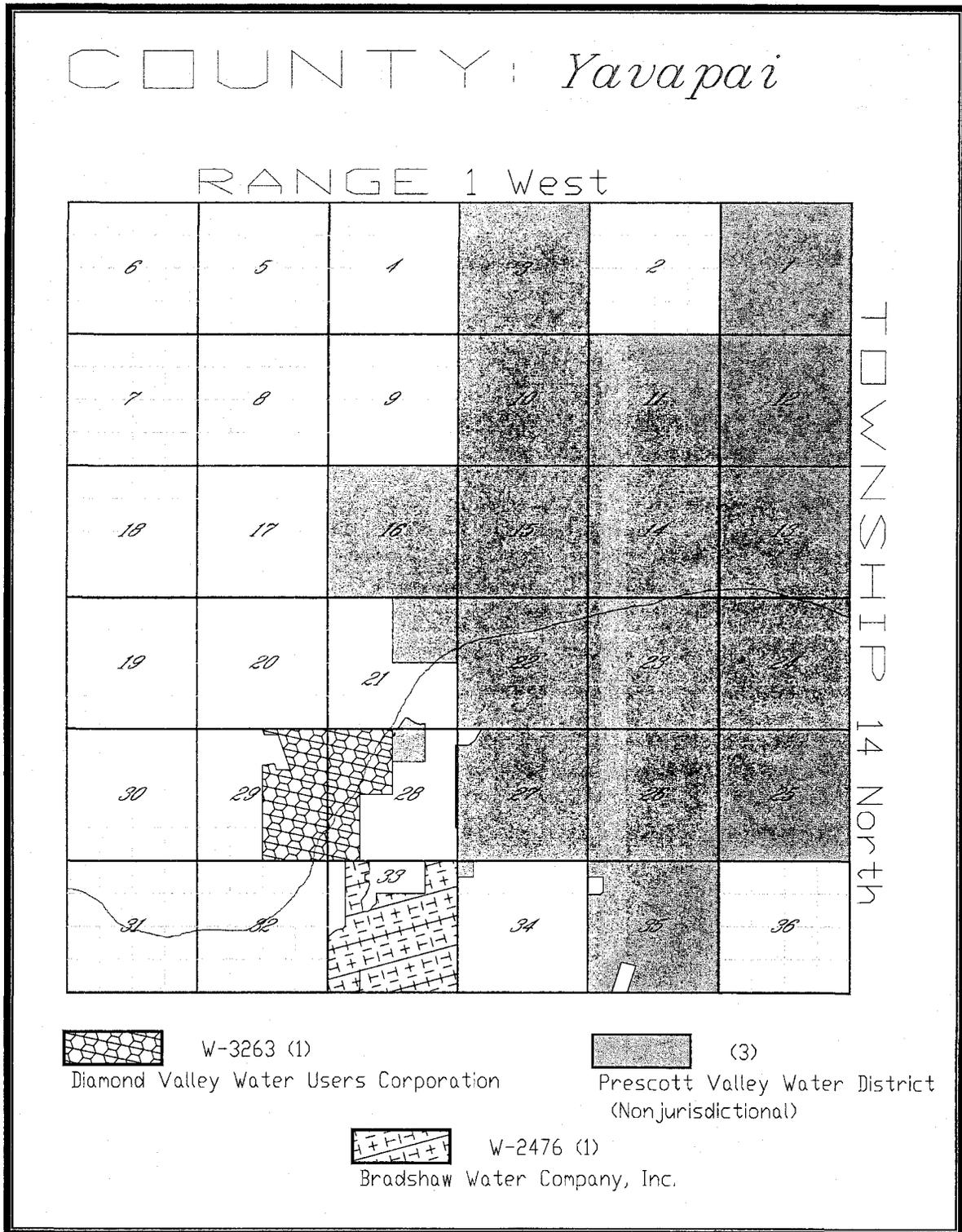


Figure 2. Certificated Area

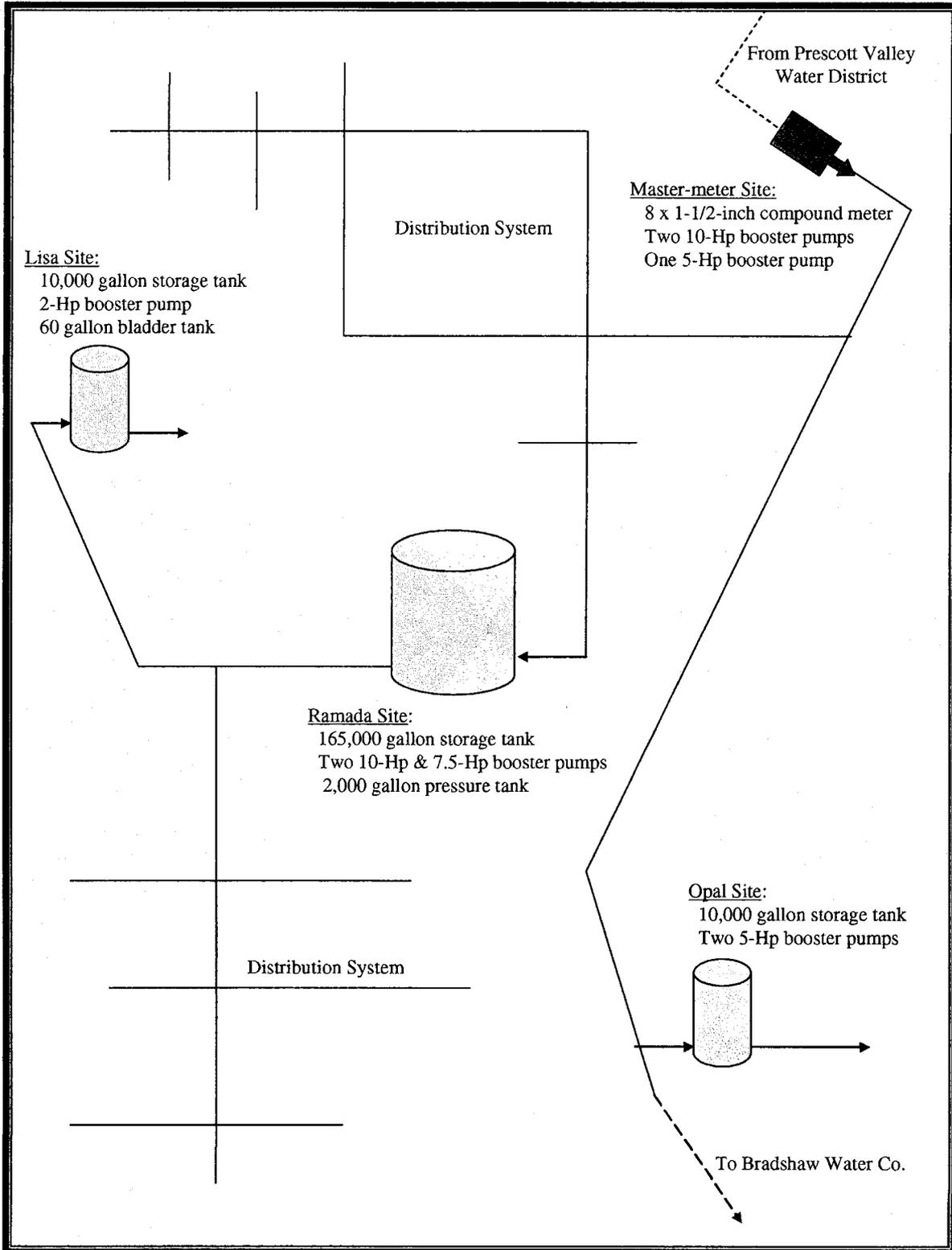


Figure 3. System Schematic

## C. WATER USE

### Water Sold

Figure 4 represents the water consumption data provided by the Company in its Water Use Data Sheet. Customer consumption experienced a high monthly water use of 195 gallons per day (“GPD”) per connection in July and a low monthly water use of 115 GPD per connection in December for an average use of 148 GPD per connection.

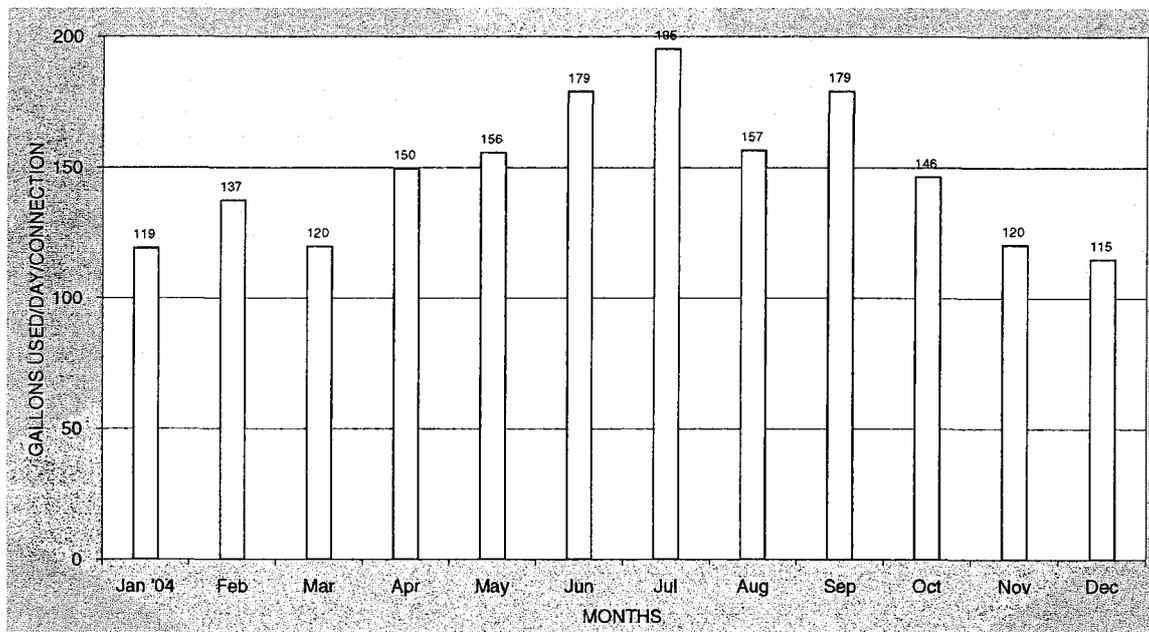


Figure 4. Water Use

### Non-Account Water

Non-account water should be 10% or less. The Company is a consecutive water system to the PVWD and receives all its water from the PVWD through an 8 x 1-1/2-inch compound master-meter. The Company reported 38,536,000 gallons purchased and 29,947,000 gallons sold (wheeling of water to Bradshaw not included), resulting in a water loss of 22.3%.

Staff is aware that the Company's distribution system was not built to water industry standards by the initial developer, Ned Warren. Mostly all the water mains are asbestos-cement pipe and do not have shut-off (gate) valves throughout the distribution system. When a leak occurs, the entire distribution system needs to be drained to repair the leak; sections of the system cannot be isolated due to no gate valves.

In order to correct and/or reduce the water loss, capital funding would be needed to replace the approximate 13 miles of water main and install gate valves throughout the distribution system. Staff estimates this capital project to be roughly at \$2.0 million.

Based on the interim manager's knowledge of the water system, Staff would recommend that the Company submit a plan on how the Company could correct the system's high water loss with any available funding the Company could obtain. Staff further recommends that this plan shall be docketed as a compliance item in this case within 60 days of the effective date of an order in this proceeding.

### System Analysis

The system's current source capacity of 1,600 GPM and storage capacity of 185,000 gallons is adequate to serve the present customer base and reasonable growth.

### **D. GROWTH**

Based on customer data obtained from the Company's Annual Reports, it is projected that the Company could have approximately 700 customers by 2009. Figure 5 depicts actual growth from 2001 to 2004 and projects an estimated growth for the next five years using linear regression analysis.

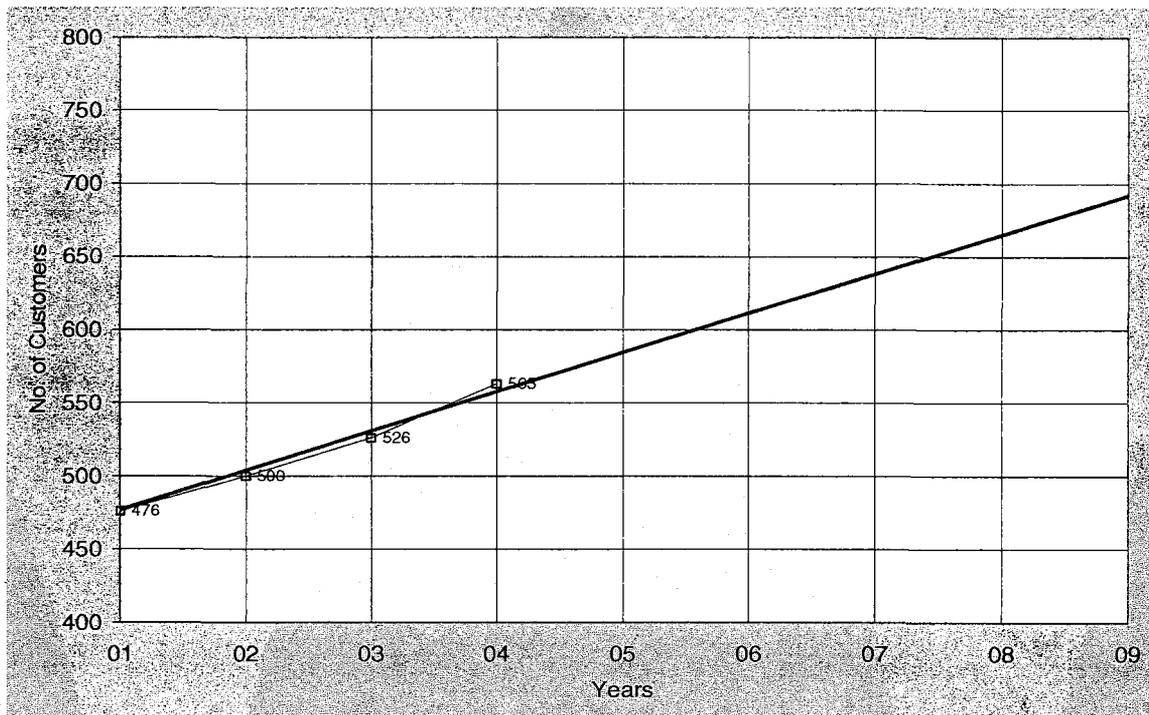


Figure 5. Growth Projection

**E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE**

**Compliance**

According to an ADEQ Compliance Status Report dated July 11, 2005, the ADEQ has determined that the Company’s system, PWS #13-017, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. However, ADEQ has also reported major monitoring and reporting deficiencies for failing to provide calendar year 2002, 2003 and 2004 Consumer Confidence Reports (“CCRs”).

Staff recommends that the Company contact ADEQ to determine the required CCRs to come into compliance. Staff further recommends that the Company docket an updated Compliance Status Report as a compliance item in this case within 90 days of the effective date of an order in this proceeding.

**Water Testing Expense**

The Company reported its water testing expense at \$936 during the test year. Table A shows the Company’s annual monitoring expense of \$936 as the Company’s system operates as a consecutive water system to the PVWD. Staff recommends the Company’s annual water testing expense of \$936 be used for purposes of this application.

Table A. Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total coliform – monthly	\$13	36	\$468	\$156
Inorganics – Priority Pollutants	Monitored by PVWD			
Radiochemical – per 4 years	Monitored by PVWD			
Nitrate – annual	Monitored by PVWD			
Nitrite – once per period	Monitored by PVWD			
Asbestos – per 9 years	Monitored by PVWD			
IOCs, SOCs, & VOCs	Monitored by PVWD			
Lead & Copper – per year	\$39	60	\$2,340	\$780
Total				<b>\$936</b>

**Arsenic**

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL is January 23, 2006.

The Company is a consecutive water system to the PVWD and receives its entire source from the PVWD. According to the Town of Prescott Valley's website, the PVWD has posted its arsenic concentrations ranging from 3.0 ppb to 3.7 ppb. Based on these arsenic concentrations, the PVWD source places the Company in compliance with the new arsenic MCL.

**F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**

The Company is located in the Prescott Active Management Area ("AMA"). Since the Company uses less than 250 acre-feet of water per year, it is considered a small provider by ADWR and is not subject to the gallons per capita per day limit and conservation rules. The Company is only required to monitor and report water use. ADWR indicated that the Company is in compliance with its water use and monitoring requirements.

**G. DEPRECIATION RATES**

The Company has been using a depreciation rate of 3.00% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (For example, a uniform 3% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Company use depreciation rates by individual NARUC category on a going-forward basis.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50

## Diamond Valley Water Users Corporation

July 13, 2005

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306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

## NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

## **H. OTHER ISSUES**

### **1. Water Facility Hook-up Fee Tariff**

The Company currently does not have tariff rates for service line and meter installation charges. In Decision No. 67829, dated May 5, 2005, the authorized service line and meter installation charges were amended and reclassified as a water facility hook-up fee tariff. This hook-up fee tariff allows the Company to collect the; 1) connection charge imposed by PVWD, 2) capacity charge imposed by PVWD and, 3) service line and meter installation charge at actual cost, for a "permitted total cost" for new service connections. This permitted total cost applies to all meter sizes ranging from 5/8 x 3/4-inch to 6-inch meters. The hook-up fee is considered a non refundable contribution-in-aid of construction.

### **2. Curtailement Plan Tariff**

A Curtailement Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not have this type of tariff, this rate proceeding provides an opportune time to prepare and file such a tariff.

Staff recommends that the Company file a CPT in the form of the attached. This CPT shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

### **3. Backflow Prevention Tariff**

The Company does not have a backflow prevention tariff; therefore Staff recommends that the Company file this tariff in the form found on the Commission's website at [www.cc.state.az.us/utility/forms/cross\\_c.pdf](http://www.cc.state.az.us/utility/forms/cross_c.pdf). This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.