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May 13, 2009

VIA HAND DELIVERY

Brian Bozzo, Compliance Manager
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Re: Compliance Filing of Aubrey Water Company – Revised Water Loss Analysis Program (Docket No. W-03476A-06-0425)

Dear Mr. Bozzo:

In compliance with Arizona Corporation Commission (“Commission”) Decision No. 69379 dated March 22, 2007 (“Decision”) in the above-referenced docket, on January 30, 2009, Aubrey Water Company (“Company”) submitted its January 2009 Water Loss Analysis Program Progress Report and Monitoring Report (collectively “Reports”). In the January 30, 2009, transmittal letter for the Reports, the Company stated that despite its best efforts, it had still not been able to reduce its water loss to 10 percent and that it was aware that the Decision required the Company to file a Revised Water Loss Analysis Program (“Revised Program”) by February 28, 2009. A copy of the transmittal letter and the Reports are attached as Attachment A. The transmittal letter further stated that the Company would be contacting Staff “to arrange a meeting to discuss a Revised Program, as well as other options that could be pursued to further reduce water loss.”

On February 19, 2009, representatives of the Company met with Staff to discuss the water loss status. At that meeting, the Company informed Staff that: (1) it had recently engaged Mr. Ray Jones of Aricor Water Solutions as a consultant to assist in evaluating the system and to make recommendations as to how the water loss problem could be further addressed and that Mr. Jones would need more time to make this evaluation; (2) rather than file a Revised Program, the Company believed that under the circumstances, it would be more appropriate for Mr. Jones to make his evaluation and for the Company to prepare and file an application pursuant to A.R.S. §40-252 for the Commission to reconsider the Decision; and (3) the Company would be filing a motion for an extension of time to file the Revised Program.



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Brian Bozzo
Arizona Corporation Commission
May 13, 2009
Page 2

Accordingly, on February 27, 2009, prior to the compliance deadline, the Company filed its Motion for Extension of Time to File Revised Water Loss Analysis Program ("Extension Request"). A copy of the Extension Request is attached as Attachment B. The Company did not file its Revised Program by February 28, 2009, because the Company reasonably believed that the compliance deadline was tolled pending a Commission ruling on the Extension Request. Surprisingly, despite the pendency of the Extension Request, on May 13, 2009, Staff filed a Complaint and Petition for an Order to Show Cause against the Company for failure to file the Revised Program ("Petition") which is now pending before the Commission.

In light of the fact that: (1) the Commission has not ruled on the Company's Extension Request; (2) Mr. Jones has now had time to complete his preliminary analysis; (3) the A.R.S. §40-252 application that the Company has filed contemporaneously herewith; and (4) the Petition that is currently pending before the Commission, the Company hereby submits its Revised Program in compliance with the Decision, which is attached hereto as Attachment C. With this submission, Aubrey Water believes that it is in compliance with the Decision.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

SNELL & WILMER


Jeffrey W. Crockett

Attachment

cc w/att.: Docket Control (original plus 13 copies)
Ernest Johnson, Director – Utilities Division
Steve Olea, Assistant Director – Utilities Division
Kevin Torrey, Attorney – Legal Division
Blaine Bilderback (via e-mail)
Bonnie O'Connor (via e-mail)
Elaine Byfield (via e-mail)
John Kennedy (via e-mail)
Ray Jones (via e-mail)

Attachment A

ORIGINAL

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Via Hand-Delivery

Brian Bozzo, Compliance Manager
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Re: Compliance Filing of Aubrey Water Company – January 2009 Water Loss Analysis Program Progress Report; January 2009 Monitoring Report; Satisfaction of Commission Condition (Docket No. W-03476A-06-0425)

Dear Mr. Bozzo:

Pursuant to Arizona Corporation Commission's ("Commission") March 22, 2007 Decision No. 69379 ("Decision") in the above-referenced docket, Aubrey Water Company ("Company") hereby submits the following in compliance with the Decision:

- January 2009 Water Loss Analysis Program Progress Report ("Progress Report")
- January 2009 Monitoring Report ("Monitoring Report")

Please be advised that the Decision required the Company to implement all program recommendations needed to bring the water loss to less than 10 percent within 18 months of the effective date of the Decision.¹ As reflected in the Progress Report, the Company has implemented all of the program recommendations within the compliance period. Accordingly, the Commission should consider this requirement satisfied.

The Decision also required that if the Company's "reduction of water loss to less than 10 percent is not achieved by December 31, 2008, the Company shall prepare a Revised Program which outlines procedures, steps, and time frames to achieve acceptable water losses" and file it with the Commission by February 28, 2009.² As the Monitoring Report indicates, the Company has not yet been able to achieve the 10 percent level. Accordingly, the Company will be

¹ See, Decision page 7, lines 7-10.

² See, Decision at page 7, lines 15-18.

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January 30, 2009

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Arizona Corporation Commission
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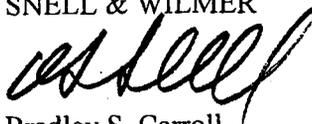
Brian Bozzo
January 30, 2009
Page 2

contacting Staff in the very near future to arrange a meeting to discuss a Revised Program, as well as other options that could be pursued to further reduce water loss.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

SNELL & WILMER



Bradley S. Carroll

Enclosure

cc: Docket Control (Original plus 13 copies)
Blaine Bilderback (via e-mail)
Bonnie O'Connor (via e-mail)
Elaine Byfield (via e-mail)
John Kennedy (via e-mail)

SOUTHWESTERN UTILITY MANAGEMENT, INC.

**PO BOX 85160
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520-623-5172
FAX 520-792-0377
swumgmt@aol.com**

January 30, 2009

Arizona Corporation Commission
Utilities Division
1200 W. Washington
Phoenix, Arizona 85007

**Re: *Aubrey Water Company's January 2009 Update to Its July 2008
Program Progress Report and January 2009 Monitoring Report
(Docket No. W-03476A-06-0425)***

January 2009 Program Report on the Water Loss Analysis Program

In regard to the above-referenced docket number, Aubrey Water Company (the "Company") hereby submits this update to its July 2008 Progress Report on the previously submitted Water Loss Analysis Program dated December 28, 2007 ("Program").

Step 1: Replace the south well meter. [COMPLETED – NO UPDATE]

As reported in the Company's January 2008 Progress Report, the south well meter was replaced November 27, 2007.

Step 2: Install a meter at the quarter machine. [COMPLETED – NO UPDATE]

A meter was installed on the quarter machine/down spout on May 5, 2008.

Step 3: Water meter replacement program. [PROGRAM IMPLEMENTED – UPDATE]

The Company has been replacing two to three unreadable or nonworking water meters per month and will continue to do so. Since the July 2008 Progress Report, the Company has replaced eight (8) water meters. In some instances, the Company has also had to replace the meter box and riser in addition to the meter. This increases the cost of the meter replacement. Because the Company's water system revenue varies from month-to-month, the Company replaces meters as financial resources permit.

Step 4: Inspection of the distribution infrastructure. [IMPLEMENTED - UPDATE]

The Company's onsite manager has been regularly inspecting the distribution infrastructure for water leaks and has repaired parts of the infrastructure. Since the July 2008 Progress Report, the Company has replaced/repaired 7 valves, repaired 5 main line leaks, replaced another 8 meters (as noted above), and installed 2 additional meters on water lines.

Step 5: Replace north well meter. [COMPLETED - UPDATE]

In the July 2008 Progress Report, the Company reported that it did not replace this well meter. Because the Company found a discrepancy between the meter readings of this meter and the 8" master meter, the Company replaced the north well meter on August 11, 2008.

Update on the Expansion of Water Loss Analysis Program

In addition to the steps listed in the Program as outlined above, the Company identified and added several items to the Program in its July 2008 Progress Report.

Item 1: Replace two transfer station pumps. [IN PROGRESS - UPDATE]

The Company has determined that it must replace two (2) transfer station pumps. After inspection of these two pumps earlier this year, the Company discovered that each pump is allowing a small stream of water to leak out. The Company hired Engineering and Environmental Consultants, Inc. ("EEC") to design the replacement of these leaking pumps and to obtain the necessary governmental permits. EEC has filed for an approval to construct with the Arizona Department of Environmental Quality. The pumps are scheduled to be shipped to the Company on January 30, 2009. An initial installation meeting is scheduled for February 5, 2009.

**Item 2: Place locks on fire hydrants at risk for unauthorized water withdrawals.
[IN PROGRESS - UPDATE]**

On September 11, 2008, the Company placed locks on four (4) fire hydrants that were at the greatest risk for unauthorized water withdrawals. The Company also purchased another hydrant meter that can be placed on fire hydrants to measure water that is withdrawn on a temporary basis for construction and other purposes. The Company has had good results working with contractors who previously took water from these hydrants. The contractors now obtain from the Company a construction meter to measure the amount of water they use.

Item 3: Replace rusted lines. [NO UPDATE]

The Company has identified approximately 1,300 feet of 4-inch line that should be replaced. The Company will complete this replacement as financial resources permit. 4 segments of this line that were identified as leaking have now been repaired.

Item 4: Replace fire hydrants. [COMPLETED – UPDATE]

The Company identified four (4) fire hydrants that needed replacement due to leaks. All four hydrants have been replaced. The Company's ongoing investigation determined that no other hydrants need replacement at this time.

January 2009 Monitoring Report

This attached updated report contains information covering the period December 4, 2007, through January 2, 2009.

WATER LOSS REPORT

2008

AUBREY WATER COMPANY
P.O. BOX 85160
TUCSON, ARIZONA 85754
(520) 623-5172

TOTAL GALLONS PUMPED	Year: 2008 GALLONS
12/4/07-1/1/08	3,461,400
1/1/08-2/1/08	3,043,900
2/1/08-3/1/08	2,944,800
3/1/08-4/3/08	3,478,700
4/3/08-5/1/08	3,784,200
5/1/08-6/2/08	5,133,400
6/2/08-7/1/08	6,508,700
7/1/08-8/2/08	6,078,300
8/2/08-9/2/08	6,129,300
9/2/08-10/3/08	4,791,700
10/3/08-11/3/08	3,978,900
11/3/08-12/1/08	2,999,900
12/1/08-1/3/09	3,073,100
TOTAL	55,406,300

North Well-Gallons Pumped PER MONTH	Year: 2008 GALLONS
12/4/07-1/1/08	1,000
1/1/08-2/1/08	3,043,600
2/1/08-3/1/08	500
3/1/08-4/3/08	3,469,000
4/3/08-5/1/08	22,300
5/1/08-6/2/08	4,637,400
6/2/08-7/1/08	1,026,600
7/1/08-8/2/08	672,100
8/2/08-9/2/08	4,819,900
9/2/08-10/3/08	2,184,700
10/3/08-11/3/08	3,435,100
11/3/08-12/1/08	1,844,700
12/1/08-1/3/09	3,073,100
TOTAL	28,230,000

South Well-Gallons Pumped PER MONTH	Year: 2008 GALLONS
12/4/07-1/1/08	3,460,400
1/1/08-2/1/08	300
2/1/08-3/1/08	2,944,300
3/1/08-4/3/08	9,700
4/3/08-5/1/08	3,761,900
5/1/08-6/2/08	496,000
6/2/08-7/1/08	5,482,100
7/1/08-8/2/08	5,406,200
8/2/08-9/2/08	1,309,400
9/2/08-10/3/08	2,607,000
10/3/08-11/3/08	543,800
11/3/08-12/1/08	1,155,200
12/1/08-1/3/09	0
TOTAL	27,176,300

TOTAL GALLONS SOLD	YEAR 2008
12/4/07-1/1/08	2,751,140
1/1/08-2/1/08	2,379,520
2/1/08-3/1/08	2,377,215
3/1/08-4/3/08	2,771,815
4/3/08-5/1/08	3,227,520
5/1/08-6/2/08	4,611,340
6/2/08-7/1/08	5,929,740
7/1/08-8/2/08	5,627,253
8/2/08-9/2/08	5,570,756
9/2/08-10/3/08	4,188,234
10/3/08-11/3/08	3,125,363
11/3/08-12/1/08	2,169,447
12/1/08-1/3/09	2,282,440
TOTAL	47,011,783

TOTAL GALLONS SOLD QUARTER MACHINE	YEAR 2008
12/4/07-1/1/08	264,000
1/1/08-2/1/08	251,400
2/1/08-3/1/08	248,000
3/1/08-4/3/08	352,000
4/3/08-5/1/08	372,000
5/1/08-6/2/08	416,000
6/2/08-7/1/08	564,520
7/1/08-8/2/08	478,910
8/2/08-9/2/08	435,940
9/2/08-10/3/08	431,590
10/3/08-11/3/08	342,450
11/3/08-12/1/08	320,730
12/1/08-1/3/09	256,610
TOTAL	4,734,150

TOTAL GALLONS SOLD INDIVIDUAL READINGS	YEAR 2008
12/4/07-1/1/08	2,487,140
1/1/08-2/1/08	2,128,120
2/1/08-3/1/08	2,129,215
3/1/08-4/3/08	2,419,815
4/3/08-5/1/08	2,855,520
5/1/08-6/2/08	4,195,340
6/2/08-7/1/08	5,365,220
7/1/08-8/2/08	5,148,343
8/2/08-9/2/08	5,134,816
9/2/08-10/3/08	3,756,644
10/3/08-11/3/08	2,782,913
11/3/08-12/1/08	1,848,717
12/1/08-1/3/09	2,025,830
TOTAL	42,277,633

WATER LOSS REPORT
2008

AUBREY WATER COMPANY
P.O. BOX 85160
TUCSON, ARIZONA 85754
(520) 623-5172

Date	WATER LOSS %
12/4/07-1/1/08	20.52%
1/1/08-2/1/08	21.83%
2/1/08-3/1/08	19.27%
3/1/08-4/3/08	20.32%
4/3/08-5/1/08	14.71%
5/1/08-6/2/08	10.17%
6/2/08-7/1/08	8.90%
7/1/08-8/2/08	7.42%
8/2/08-9/2/08	9.11%
9/2/08-10/3/08	12.59%
10/3/08-11/3/08	21.45%
11/3/08-12/1/08	27.68%
12/1/08-1/3/09	25.73%

Attachment B

ORIGINAL

BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

Arizona Corporation Commission

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FEB 27 2009

AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
THE BURLINGTON NORTHERN AND SANTA
FE RAILWAY COMPANY DBA AUBREY
WATER COMPANY FOR APPROVAL OF A
PERMANENT WATER RATE INCREASE.

DOCKET NO. W-03476A-06-0425

MOTION FOR EXTENSION OF
TIME TO FILE REVISED WATER
LOSS ANALYSIS PROGRAM

The Burlington Northern and Santa Fe Railway Company dba Aubrey Water Company ("Aubrey Water" or Company"), through undersigned counsel, hereby requests a twelve (12) month extension of time until February 28, 2010, to file its Revised Water Loss Analysis Program with the Arizona Corporation Commission ("Commission").

I. BACKGROUND

On March 22, 2007, the Commission issued Decision No. 69379 (the "Decision") in the above-captioned matter. The Decision approved a rate increase for Aubrey Water, but stayed the implementation of the rate increase until such time as the Company completed three compliance items, including the reduction in water loss on the Company's system to 10 percent.¹ To that end, the Decision required the Company to implement a Water Loss Analysis Program ("Initial Program") and file water loss and monitoring reports each January and July demonstrating the Company's progress in implementing the Initial Program recommendations and reducing system water loss to 10 percent, as required in the Decision. If the Company did not achieve 10 percent water loss on its system by December 31, 2008, the Decision required the Company to file a Revised Water Loss Analysis Program ("Revised Program") by February 28, 2009.

¹ Aubrey Water has since met the first two compliance items which required that the Company demonstrate i) its compliance with Arizona Administrative Code, Title 18, Chapter 4; and ii) that its books and records are in compliance with the NARUC USOA, although Staff must still file a memorandum regarding the latter.

Snell & Wilmer

LAW OFFICES
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Phoenix, Arizona 85004-2202
(602) 382-6000

19

1 On January 30, 2009, Aubrey Water filed its January 2009 Water Loss Analysis Program
2 Progress Report and 2009 Monitoring Report with the Commission ("January 2009 Reports").
3 The January 2009 Reports indicate that the Company has implemented all of the Initial Program
4 recommendations to bring the water loss to 10 percent or less within 18 months of the Decision,
5 but that the Company has still not achieved a 10 percent or less water loss for the system.
6 Accordingly, the Decision requires Aubrey Water to file a Revised Program by February 28,
7 2009.

8 On February 19, 2009, the Company met with Staff to discuss the January 2009 Reports,
9 as well as the requirement that Aubrey Water file a Revised Program by February 28, 2009. The
10 Company explained to Staff that despite its best efforts, as well as the expenditure of significant
11 money since the issuance of the Decision, the achievement of a 10 percent system loss does not
12 appear to be attainable. Accordingly, rather than filing and implementing a Revised Program,
13 the Company informed Staff that it would prefer to work with the Commission to explore other
14 options to reduce water loss to levels consistent with a system of comparable age, size and
15 geographic characteristics.

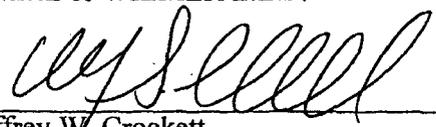
16 **II. REQUEST FOR EXTENSION OF TIME TO FILE REVISED PROGRAM**

17 Although Aubrey Water has implemented all of the recommendations from its Initial
18 Program, almost two years have passed since the issuance of the Decision and the Company has
19 still been unable to achieve a 10 percent or less water loss for the system. Therefore, Aubrey
20 Water has been unable to implement the Commission-approved rate increase. Notwithstanding,
21 the Company is committed to reducing water loss on its system. To that end, Aubrey Water has
22 ordered a pump-skid system to replace the two main pumps at the wellhead to address consistent
23 water loss from the pumps. The pumps should be delivered during the first quarter of 2009.
24 Additionally, Aubrey Water has engaged Mr. Ray Jones of Aricor Water Solutions to provide
25 consulting services to the Company, as well as to assist the Company in addressing the water
26 loss issue.

27 Within the next 90 days, the Company will prepare and file with the Commission, an
28 application pursuant to A.R.S. §40-252, to revisit the compliance water loss requirements of the

1 Decision in light the Company's experience dealing with this issue over the past two years, as
2 well as to include Mr. Jones' findings and recommendations regarding the system. The
3 Company believes that an A.R.S. §40-252 process will take approximately 9 to 12 months which
4 may ultimately render the necessity of filing a Revised Program moot if the Decision is
5 amended. The Company, therefore, requests a 12-month extension of time to file a Revised
6 Program until February 28, 2010.

7 DATED this 27th day of February, 2009.

8 SNELL & WILMER L.L.P.
9
10 By 
11 Jeffrey W. Crockett
12 Bradley S. Carroll
13 One Arizona Center
14 400 East Van Buren
15 Phoenix, Arizona 85004-2202
16 Attorneys for Aubrey Water Company

17 ORIGINAL and 13 copies of the foregoing
18 filed this 27th day of February, 2009, with:

19 Docket Control
20 ARIZONA CORPORATION COMMISSION
21 1200 West Washington Street
22 Phoenix, Arizona 85007

23 Copies of the foregoing delivered
24 this 27th day of February, 2009, to:

25 Ernest Johnson, Director
26 Utilities Division
27 ARIZONA CORPORATION COMMISSION
28 1200 West Washington Street
Phoenix, Arizona 85007

Brian Bozzo, Compliance Manager
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Snell & Wilmer

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Katrin Stukov, Engineer
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Marc E. Stern, Administrative Law Judge
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Hearing Division
1200 West Washington Street
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Kevin Torrey, Attorney
ARIZONA CORPORATION COMMISSION
Legal Division
1200 West Washington Street
Phoenix, Arizona 85007

Margaret B. Sakagawana

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Attachment C

REVISED WATER LOSS ANALYSIS PROGRAM

AUBREY WATER COMPANY

May 2009

(Docket No. W-03476A-06-0425)

I. BACKGROUND.

On September 27, 2006, the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") visited the Aubrey Water Company ("Company") water system along with Company employees and legal counsel. The Company reported that in the last eight months of the test year (May 2005 to December 2005), it only sold 25,608,000 gallons of the 44,984,000 gallons of water it pumped. (Katrin Stukov, Staff, *Engineering Report for Aubrey Water Company* at 11 (Oct. 30, 2006)). The disparity in water pumped versus water sold equaled a 43.1% water loss over the course of the eight-month period. Generally, the Commission requires "10% or less and never more than 15%." (*Id.*). Following Staff's visit, the Company prepared a preliminary Water Loss Analysis Program ("Preliminary Program"), which "attributed much of the water loss to three possible areas: 1) Old water meters; 2) The 9-mile transmission line from Site No. 2 to Site No. 3; [and] 3) Distribution system numerous small leaks." (*Id.* at 12). To address these areas of concern, the Preliminary Program included plans for meter replacement and leak detection. (*Id.*).

The Commission shared Staff's concern regarding water losses when it issued Decision No. 69379 (the "Decision"), conditionally approving the Company's request for a rate increase. As part of the Decision, the Commission required the Company to adopt the water loss reduction strategies set forth in the Preliminary Program. (Decision at 7). In addition, the Commission required the Company to file semi-annual progress and monitoring reports outlining the reduction efforts implemented and whether they had an impact on system-wide water losses. (*Id.*).

On December 28, 2007, the Company filed its Water Loss Analysis Program (the "Initial Program") in accordance with the Decision. On January 31, 2008, the Company filed its first progress and monitoring reports ("January 2008 Reports") regarding water loss reduction efforts. The January 2008 Reports indicated that on average, system-wide water loss dropped to

12.922%.¹ On July 31, 2008, the Company filed its second set of progress and monitoring reports ("July 2008 Reports"). The July 2008 Reports outlined additional water loss reduction steps taken by the Company and indicate that the average water loss percentage for December 2007 through June 2008 was 15.85%. On January 30, 2009, the Company submitted its January 2009 progress and monitoring reports ("January 2009 Reports"), which indicate that the Company implemented all of the water loss reduction measures required by the Initial Program within the 18-month compliance period. Despite the Company's best efforts, however, the average water loss percentage from December 4, 2007 through January 3, 2009 still exceeded the Commission's 10% threshold at 15.15%.

Pursuant to the Decision, if the Company did not achieve a water loss of less than 10% by December 31, 2008, the Company is required to prepare and file a revised water loss analysis program ("Revised Program") which outlines additional procedures that would be implemented to achieve the 10% objective and file the Revised Program with the Commission's Docket Control as a compliance item.²

In accordance with the Decision, this Revised Program details the Company's ongoing water loss reduction efforts and sets forth additional procedures to achieve the water loss objectives. Section II of this Revised Program outlines the water loss reduction measures required in the Initial Program; Section III explains the Company's subsequent remedial analysis once it recognized that it could not meet the 10% threshold; and Section IV sets forth a revised set of action items aimed at further reducing water losses.

II. PROGRAM WATER LOSS REDUCTION MEASURES.

In May 2007, the Company hired a new management company, Southwestern Utility Management, Inc. ("Southwestern"), to analyze and operate the water system. Southwestern's initial inspection revealed that several meters needed to be replaced because they were not

¹ During the months of August through November, the South pump meter was not working. As a result, no data was available to determine water loss during that period.

² In lieu of filing a Revised Program on February 28, 2009, the Company filed a Motion for Extension of Time to File Revised Water Loss Analysis Program ("Motion"). As the Commission has not ruled on the Motion, the Company is filing this Revised Program in accordance with the Decision.

accurately accounting water use. Furthermore, the Company's quarter machine standpipe for bulk water sales did not have a water meter, which led to thousands of gallons of water purchased by the public that was not accounted for properly. Southwestern immediately began estimating the amount of water purchased from the standpipe based upon the amount of money collected at the quarter machine, which significantly decreased the amount of unaccounted water. After analyzing the Preliminary Program and Southwestern's findings, the Company filed the Initial Program in December 2007.

The Initial Program established five steps aimed at meeting the Commission's water loss threshold. The five steps included:

1. Replacing the South well meter.
2. Installing a meter at the quarter machine.
3. Replacing any other inaccurate or non-functioning water meters and continuing to monitor high-usage customer meters and low-usage customer meters.
4. Inspecting the transmission and distribution lines for leaks.
5. If necessary, replacing the North well meter.

The January 2008 Reports indicated that the Company replaced the South well meter on November 27, 2007. The July 2008 Reports noted that the Company installed a new meter on the quarter machine standpipe on May 5, 2008. The January 2009 Reports indicated that the Company implemented the remainder of the Initial Program recommendations. These efforts included replacing unreadable or nonworking water meters, meter boxes, and risers; regularly inspecting and repairing the distribution infrastructure, including the replacement of 7 valves, repairing 5 main line leaks, and installing 2 additional meters on water lines; replacing 2 leaking transfer station pumps; placing locks on 4 fire hydrants to prevent unauthorized withdrawals; identifying and planning to replace rusted lines; and replacing 4 leaking fire hydrants.

III. SUBSEQUENT INSPECTION AND ANALYSIS.

Once the Company recognized that the Initial Program measures failed to reduce water losses below 10%, the Company hired Mr. Ray Jones, of Aricor Water Solutions, as a consultant.

The Company asked Mr. Jones to evaluate the system and make recommendations as to how the water loss problem could be further addressed. Since his engagement in February 2009, Mr. Jones has inspected the water system and met with the Company's on-site operator. Mr. Jones also discussed these persistent water loss issues with Southwest's staff and submitted formal requests to Southwest for information needed to assess the water loss issue.

Mr. Jones completed an initial analysis of calendar year 2008 billing data received from Southwest which is summarized as follows.

**Aubrey Water
2008 Sales Summary**

	<u>Number of Meters</u>	<u>Pct</u>	<u>Usage</u>	<u>Pct</u>
Total Sales	293	100.00%	39,995,880	100.00%
Residential Sales	237	80.89%	16,984,700	42.47%
Commercial Sales	56	19.11%	23,011,180	57.53%
Commercial Breakdown				
3" METER	4	1.37%	3,041,000	7.60%
2" METER	5	1.71%	2,976,780	7.44%
1 1/2" METER	4	1.37%	2,919,070	7.30%
1" METER	2	0.68%	171,550	0.43%
5/8" METER	41	13.99%	13,884,780	34.72%
1" - 3" METERS	15	5.12%	9,108,400	22.77%
1.5" - 3" METERS	13	4.44%	8,936,850	22.34%

The analysis indicates that commercial accounts represent nearly 20% of the total number of accounts and nearly 60% of the Company's sales. This is an unusually large percentage of commercial accounts and an extremely large percentage of commercial sales, particularly for a small water system. The disproportionate number of commercial accounts and high level of commercial sales reflect several unique characteristics of the Company's service area summarized as follows:

- Extensive commercial facilities exist to serve the traveling public using Interstate 40 and historic Route 66.
- Several livestock operations receive water service from the Company.

- The BNSF Railway, Arizona Department of Transportation, El Paso Natural Gas, and Yavapai County maintain operations in or near Seligman related to operation or maintenance of their respective facilities.
- The Company provides standpipe service at the quarter machine standpipe and other standpipe meters supporting extensive water hauling to rural development located outside the Company's service area.

These unique characteristics result from the remoteness of Company's service area and the lack of groundwater in and around the Company's service area.³

IV. REVISED WATER LOSS REDUCTION PROGRAM.

The Company proposes the following Revised Water Loss Reduction Program:

Replace Main Pumps: The pumps at the well field transfer station continue to leak. Replace the main pumps with a pump-skid system to reduce water loss. The Company ordered the pump-skids, and they should be installed by the end of the second quarter of 2009.

Transmission Main: Once the new transfer pump station is installed, water loss in the 6 ½-mile transmission main will be evaluated and tracked by comparing well pumping to water delivered to the Company's distribution system.

Replace Rusted Lines: The Company has identified approximately 1,300 feet of 4-inch line that should be replaced. The Company will complete the replacement as financial resources permit. Four (4) segments of this line that had previously been identified as leaking have now been replaced.

Water Meter Replacement Program: The Company will continue its water meter replacement program and will replace meters as financial resources permit. The program will be focused on the evaluation and, if indicated, the replacement of commercial meters, beginning with evaluation of the 13 largest meters that account for over 22% of all water sales.

³ The Company serves the Town of Seligman, Arizona, and immediately surrounding areas. The Company pipes water from a well field located approximately 6.5 miles southwest of Seligman.

Evaluation of Standpipe Metering: The Company's coin-operated standpipe and four additional standpipe meters will be evaluated and tested. Recommendations for replacement of meters or making other improvements to the standpipes will be made as indicated by the analysis.

Removal of Meters Not in Use: The Company will remove meters that have been out of service for a period of time and will plug the line to insure that water is not lost through a bad valve as financial resources permit.

Relocation of Meters: To the extent possible, the Company will relocate meters to the property line to better monitor leaks as financial resources permit.

Line Tracing: Through the use of a pipe locator, the Company will, to the extent possible, trace lines to better monitor for leaks.

Inspection of Water Distribution Infrastructure: The Company's onsite manager will continue to regularly inspect the distribution infrastructure for water leaks and repair such leaks as needed. This includes observing plant growth as a means of determining if there are water leaks in the vicinity.

Mr. Jones to Complete Analysis: Mr. Jones will complete his analysis of the system and provide recommendations to the Company, which will be provided to the Commission.

A.R.S. §40-252 Application: The Company has filed with the Commission an Application for Reconsideration of the Decision pursuant to A.R.S. §40-252 for the purpose of re-examining the 10% water loss requirement and for authorization to implement the rate increase to provide the Company additional financial resources to address the water loss issue.

Progress and Monitoring Reports: Consistent with the Decision, the Company will continue to file with the Commission every January and July, progress reports on the Revised Program that will include monitoring reports of the Company's monthly water losses until the Company reaches two consecutive reporting periods with water losses of less than 10%, or such other limit as the Commission may establish as a result of the Company's Application for Reconsideration of the Decision.