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MEMORANDUM

TO: Docket Control  
FROM: Steven M. Olea  
Director  
Utilities Division

EA for SMU

DATE: January 15, 2010

RE: **REVISED STAFF REPORT - FOR SONOITA VALLEY WATER COMPANY FOR A PERMANENT RATE INCREASE AND FINANCING APPROVAL (DOCKET NOS. W-20435A-09-0296 & W-20435A-09-0298)**

Attached is the Revised Staff Report for Sonoita Valley Water Company applications for a permanent rate increase and authorization for financing. Staff recommends approval of the applications using Staff's recommended rates and charges.

SMO:GWB:red

Originator: Gerald W. Becker

Attachment: Original and fifteen copies

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Service List for: Sonoita Valley Water Company  
Docket Nos. W-20435A-09-0296 & W-20435A-09-0298

Ms. Bonnie O'Connor  
Sonoita Valley Water Company  
PO Box 85160  
Tucson, Arizona 85710

Mr. Steve Wene  
Moyes Sellers & Sims Ltd  
1850 North Central Avenue, Suite 1100  
Phoenix, Arizona 85004

Ms. Janice Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Steven M. Olea  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Jane Rodda  
Administrative Law Judge, Hearing Division  
Arizona Corporation Commission  
400 West Congress  
Tucson, Arizona 85701

**REVISED STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**SONOITA VALLEY WATER COMPANY  
DOCKET NOS. W-20435A-09-0296 & W-20435A-09-0298**

**APPLICATIONS FOR A  
PERMANENT RATE INCREASE  
AND  
FINANCING APPROVAL**

**JANUARY 15, 2010**

## STAFF ACKNOWLEDGMENT

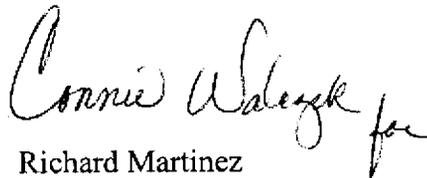
The Revised Staff Report for Sonoita Valley Water Company Docket Nos. W-20435A-09-0296 & W-20435A-09-0298 is the responsibility of the Staff members listed below. Gerald W. Becker is responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, rate design and financial analyses. Katrin Stukov is responsible for the engineering and technical analysis. Richard Martinez is responsible for analysis of complaints, inquires, opinions and any other consumer data relative to this case.



Gerald W. Becker  
Public Utility Analyst V



Katrin Stukov  
Utilities Engineer



Richard Martinez  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY  
SONOITA VALLEY WATER COMPANY  
DOCKET NOS. W-20435A-09-0296 & W-20435A-09-0298**

On June 4, 2009, the Sonoita Valley Water Company ("Sonoita" or "Company") filed applications for a permanent rate increase and authorization for financing with the Arizona Corporation Commission ("Commission"). A Procedural Order, dated July 22, 2009, granted the Company's request to consolidate the permanent rate increase and financing applications. On November 5, 2009, Sonoita filed amendments to both its rate and finance applications.

Sonoita is a Class D public service corporation engaged in the business of providing utility water service and serves 99 customers. Sonoita is located in Santa Cruz County, Arizona. In Decision No. 70202, dated March 20, 2008, the Commission granted emergency rate relief, effective on April 1, 2008, to the Company based on demonstrated hardships.

The Company's amended rate application requested a revenue increase of \$116,954, or 198.25 percent, over test year revenue of \$58,994. The Company's proposed rates, as amended, produce operating revenues of \$175,948 for an operating income of \$95,856 and for an operating margin of 49.39 percent. The Company's requested rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,357 gallons from \$44.65 to \$134.81 for an increase of \$90.16, or 201.9 percent.

On December 1, 2009, Staff filed its Staff Report on this matter. On December 10, 2009, the Company filed its Response to Staff Report. The purpose of this Revised Staff Report is to respond to the Company's response to the Staff Report of December 1, 2009, and the Revised Staff Report supersedes the Staff Report filed December 1, 2009. Except for the calculations related to the WIFA surcharge, the calculations herein exclude the effects of the WIFA funded plant proposed by the Company.

Staff recommends total revenue of \$153,673, comprised of a permanent (i.e., base rate) component and a surcharge component. The \$101,012 permanent component supports ordinary operations while the \$52,661 surcharge component (assumes a \$656,271, 20-year loan amortizing loan at 5.0 percent per annum) supports the principal and interest on an anticipated Water Infrastructure Finance Authority of Arizona ("WIFA") loan. The permanent component of \$101,012 represents a \$42,018, or 71.22 percent, increase over test year revenue of \$58,994, and the \$52,661 surcharge represents an 89.27 percent increase over test year revenues of \$58,994. The sum of the two components represents a total increase of \$94,679, or 160.49 percent, over test year revenue of \$58,994. Staff's recommended rates for the permanent component would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,357 from \$44.65 to \$66.41 for an increase of \$21.76, or 48.7 percent. The surcharge would add \$43.13 to the typical 5/8 x 3/4-inch meter residential bill. Combined, Staff's recommended permanent and WIFA surcharge revenue components would increase the typical 5/8 x 3/4-inch meter residential bill by \$64.89, or 145.3 percent, from \$44.65 to \$109.54.

Staff's recommended permanent revenue component would provide an 11.50 percent rate of return on a \$177,668 rate base and a 20.24 percent operating margin. Combined, Staff's recommended permanent and WIFA surcharge revenue components would provide a 41.14 percent rate of return on a \$177,668 rate base and a 47.57 percent operating margin. Staff's permanent revenue component is sufficient to cover all operating expenses but not the proposed WIFA loan. The WIFA surcharge component is necessary to provide debt service on the proposed WIFA loan.

Staff recommends its rates and charges as presented on Revised Schedule GWB-4 of this report.

The Company also requests approval of a \$656,271 30-year amortizing loan from the WIFA for the permanent interconnection of the Sonoita and Southern/Los Encinos systems, the replacement of three rusted and leaking storage tanks as well as a new storage tank, and various improvements to improve system pressure and reliability. Staff examined the plans and the estimated costs for the Company projects and found them to be reasonable and appropriate as discussed in the attached Staff Engineering Report. Staff recommends granting authorization to borrow from WIFA an amount not to exceed \$656,271. Although WIFA could potentially issue a 30-year loan, the normal loan term is 20 years. Accordingly, Staff's surcharge calculation reflects an anticipated 20-year loan period. The principal and interest payments ("debt service") on a \$656,271 20-year amortizing loan at an estimated interest rate of 5.0 percent are \$4,388 per month, or \$52,661 annually. Staff concludes that a WIFA loan surcharge mechanism is appropriate to cover the debt service on the proposed WIFA loan.

**STAFF RECOMMENDS:**

- That the Commission approve Staff's rates and charges as shown on Revised Schedule GWB-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D-5).
- That the Company be ordered to docket with the Commission, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Commission authorize the Company to obtain an 18- to 30-year amortizing loan in an amount not to exceed \$656,271 and at an interest rate not to exceed the prevailing WIFA rate at the time the loan is executed (currently estimated at 6.00 percent, less the Company's 20 percent WIFA subsidy) to finance capital improvements discussed herein.
- That the Commission authorize the Company to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.

- That the Commission authorize the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.
- That the Company be ordered to file copies of the executed loan documents, as a Compliance item in this docket, within 60 days of the execution of any transactions.
- That any authorization to incur debt granted in this proceeding that remains unused twelve months after the issuance date of a Decision in this matter expire immediately at the end of that twelve month period.
- That the Commission approve a financing surcharge mechanism to enable the Company to meet its principal and interest obligations on the proposed WIFA loan.
- That the Company be ordered to file with the Commission a WIFA loan surcharge tariff application within 60 days of the loan closing. Staff further recommends that the Company be required to follow in the development of its WIFA loan surcharge tariff application the same methodology presented in this report to calculate estimates of surcharge rates by meter size needed to meet its annual principal and interest obligations on the loan, i.e., to use the actual loan terms and the test year customers plus any subsequent customer growth to the time of loan closing to determine the revenue required to cover the annual principal and interest obligations on the loan.
- That a surcharge be implemented only after Commission approval of a loan surcharge tariff.
- That any authorizations for a WIFA loan surcharge mechanism approved herein be rescinded if the Company has not drawn funds from the loan authorized herein within twelve months of the date of the Decision resulting from this proceeding.
- That the Company be ordered to file, as a compliance item in this docket, by December 31, 2010, a copy of the Arizona Department of Environmental Quality Certificate for Approval of Construction for each of the improvement projects, as delineated in Table D of the Engineering Report.
- That the Company evaluate the greater than 10 percent water loss in each water system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2010. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a report, containing a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. In no case shall water loss be allowed to remain above 15 percent. The

Company shall file the corrective measures or cost effectiveness report with Docket Control, as a compliance item in this docket, by December 31, 2010.

- That the Company file as a compliance item in this docket, no later than December 31, 2010, documentation issued by Arizona Department of Water Resources (“ADWR”) indicating that the Company’s three systems meet ADWR requirements.
- That the Company adopt and use Staff’s typical and customary depreciation rates as delineated in Table B of the Engineering Report.

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**SCHEDULES**

Summary of Filing Without WIFA Loan Surcharge ..... Revised Schedule GWB-1.1

Summary of Filing With WIFA Loan Surcharge ..... Revised Schedule GWB-1.2

Rate Base ..... Revised Schedule GWB-2

Statement of Operating Income ..... Revised Schedule GWB-3

Rate Design ..... Revised Schedule GWB-4

Typical Bill Analysis Without WIFA Loan Surcharge..... Revised Schedule GWB-5.1

Typical Bill Analysis With WIFA Loan Surcharge..... Revised Schedule GWB-5.2

**ATTACHMENTS**

Engineering Report ..... Exhibit A

Consumer Services Report..... Exhibit B

**FACT SHEET**

*Current Rates:* Decision No. 70202, dated March 20, 2008, an emergency rate application.

*Type of Ownership:* Arizona "S" Corporation.

*Location:* The Company serves 99 customers in Santa Cruz County, Arizona.

*Rates:*

Permanent rate increase application filed: June 4, 2009, and amended November 5, 2009; Deficiency Notice sent July 6, 2009; and Letter of Sufficiency sent August 18, 2009. Procedural Order on July 22, 2009, consolidated this rate application with the finance application.

Current Test Year Ended: December 31, 2008.

<u>Sonoita</u>	Company Current Rates	(As Amended)	
		Company Proposed Rates	Staff Recommended Rates
<u>Monthly Minimum Charge</u>			
5/8 x 3/4 inch meter	\$30.00	\$107.31	\$30.00
1 inch meter	\$32.00	\$268.28	\$75.00
1 1/2 inch meter	\$47.00	\$536.55	\$150.00
Gallons in Minimum on above rates	0	0	0
3/4 inch meter	\$16.00	\$160.97	\$45.00
2 inch meter	\$32.00	\$858.48	\$240.00
3 inch meter	N/A	\$1,716.96	\$480.00
4 inch meter	N/A	\$2,682.75	\$750.00
6 inch meter	N/A	\$5,365.50	\$1,500.00
Gallons in Minimum on above rates	1,000	0	0
<u>Commodity Charge</u>			
Excess of minimum, per 1,000 gallons			
0 to 10,000 gallons	\$4.74		
10,001 to 20,000 gallons	\$5.50		
Over 20,000 gallons	\$6.50		
0 to 3,000 gallons		\$6.00	\$ 7.23
3,001 to 10,000 gallons		\$7.00	\$10.85
Over 10,000 gallons		\$8.00	\$13.02

Bulk Water, No Minimum, per 1,000 gallons	\$4.00	\$8.00	\$13.02
Typical residential bill (Based on 5/8 by 3/4 inch meter with median usage of 4,357 gallons)	\$44.65	\$134.81	\$66.41*

\*Excludes WIFA surcharge

WIFA Surcharge

5/8 x 3/4 inch meter	\$0	\$0	\$43.13
1 inch meter	\$0	\$0	\$107.83
1 1/2 inch meter	\$0	\$0	\$215.65
3/4 inch meter	\$0	\$0	\$64.70
2 inch meter	\$0	\$0	\$345.04
3 inch meter	\$0	\$0	\$690.08
4 inch meter	\$0	\$0	\$1,078.25
6 inch meter	\$0	\$0	\$2,156.50

Typical residential bill, <u>including</u> WIFA Surcharge (Based on 5/8 by 3/4 inch meter with median usage of 4,357 gallons)	\$44.65	\$134.81	\$109.54
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<u>Southern</u>	Company Current <u>Rates</u>	(As Amended)	
		Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
<u>Monthly Minimum Charge</u>			
5/8 x 3/4 inch meter	\$30.00	\$107.31	\$30.00
1 inch meter	\$32.00	\$268.28	\$75.00
1 1/2 inch meter	\$47.00	\$536.55	\$150.00
Gallons in Minimum on above rates	0	0	0
3/4 inch meter	\$17.00	\$160.97	\$45.00
2 inch meter	\$75.00	\$858.48	\$240.00
3 inch meter	\$135.00	\$1,716.96	\$480.00
4 inch meter	\$225.00	\$2,682.75	\$750.00
6 inch meter	\$500.00	\$5,365.50	\$1,500.00
Gallons in Minimum on above rates	1,000	0	0

Commodity Charge

Excess of minimum, per 1,000 gallons

0 to 10,000 gallons	\$4.74		
10,001 to 20,000 gallons	\$5.50		
Over 20,000 gallons	\$6.50		
0 to 3,000 gallons		\$6.00	\$ 7.23
3,001 to 10,000 gallons		\$7.00	\$10.85
Over 10,000 gallons		\$8.00	\$13.02
Bulk Water, No Minimum, per 1,000 gallons	\$4.00	\$8.00	\$13.02
Typical residential bill (Based on 5/8 by 3/4 inch meter with median usage of 4,357 gallons)	\$44.65	\$134.81	\$66.41*

\*Excludes WIFA surcharge

WIFA Surcharge

5/8 x 3/4 inch meter	\$0	\$0	\$43.13
1 inch meter	\$0	\$0	\$107.83
1/2 inch meter	\$0	\$0	\$215.65
3/4 inch meter	\$0	\$0	\$64.70
2 inch meter	\$0	\$0	\$345.04
3 inch meter	\$0	\$0	\$690.08
4 inch meter	\$0	\$0	\$1,078.25
6 inch meter	\$0	\$0	\$2,156.50

Typical residential bill, including WIFA Surcharge

(Based on 5/8 by 3/4 inch meter with median usage of 4,357 gallons)	\$44.65	\$134.81	\$109.54
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*Customers:*

There were 99 customer connections in the current test year. The Company does not expect any significant growth.

*Notification:*

Customer Notification was mailed June 4, 2009.

*Complaints:*

2007 - 1 complaint  
2008 - 2 complaints  
2009 - 1 complaint

2009 - 8 opinions - 7 opposed and 1 in favor of the proposed rate increase.

**SUMMARY OF FILING**

The test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), show that Sonoita Valley Water Company ("Sonoita" or "Company") experienced an operating income loss of \$21,578 for no operating margin as shown in Revised Schedule GWB 1.1.

The Company-proposed rates, as amended, produce operating revenues of \$175,948 and an operating income of \$95,856 for a 49.39 percent rate of return on a \$194,086 rate base and an operating margin of 54.48 percent. The Company's requested rates would increase the typical 5/8-inch meter residential bill with a median usage of 4,357 gallons from \$44.65 to \$134.81 for an increase of \$90.16, or 201.9 percent.

Staff recommends total revenue of \$153,673 comprised of a permanent (i.e., base rate) component and a surcharge component. The \$101,012 permanent component supports ordinary operations while the \$52,661 surcharge component (assumes a \$656,271, 20-year loan amortizing loan at 5.0 percent per annum) supports the principal and interest on an anticipated Water Infrastructure Finance Authority of Arizona ("WIFA") loan. The permanent component represents a \$42,018, or 71.22 percent, increase is over test year revenue of \$58,994. A surcharge for a 20-year loan is \$52,661, or 89.27 percent of test year revenues of \$58,994. The sum of the two components represents a total increase of \$94,679, or 160.49 percent, over test year revenue of \$58,994. As shown in Revised Schedules GWB-5.1 and GWB-5.2, Staff's recommended rates for the permanent component would increase the typical 5/8-inch meter residential bill with a median usage of 4,357 from \$44.65 to \$66.41 for an increase of \$21.76, or 48.7 percent. The surcharge would add \$43.13 to the typical 5/8-inch meter residential bill. Combined, Staff's recommended permanent and WIFA surcharge revenue components would increase the typical 5/8-inch meter residential bill by \$64.89, or 145.3 percent, from \$44.65 to \$109.54.

Staff's recommended permanent revenue component would provide an 11.50 percent rate of return on a \$177,668 rate base and a 20.24 percent operating margin. Combined Staff's recommended permanent and WIFA surcharge revenue components would provide a 41.14 percent rate of return on a \$177,668 rate base and a 47.57 percent operating margin. Staff's permanent revenue component is sufficient to cover all operating expenses but not the proposed WIFA loan. The WIFA surcharge component is necessary to provide debt service on the proposed WIFA loan modified to reflect a 20-year amortization.

## **BACKGROUND**

On June 4, 2009, the Company filed separate applications for a permanent rate increase and authorization for financing with the Arizona Corporation Commission ("Commission"). A Procedural Order, dated July 22, 2009, granted the Company's request to consolidate the permanent rate increase and financing applications. On November 5, 2009, Sonoita filed amendments to both its rate and finance applications. Staff filed its Staff Report on December 1, 2009. The Company filed its Response to Staff Report on December 10, 2009.

The Company consists of two systems, the Sonoita system and the Southern system. Within the Southern system, there are two districts, the Southern/Los Encinos area and the Southern/Downtown area.

The Company is not located within a designated Active Management Area ("AMA") of the Arizona Department of Water Resources ("ADWR").

## **CONSUMER SERVICES**

A review of the Commission's records revealed the following customer complaints and inquiries: Year 2007 – one complaint; Year 2008 – two complaints; Year 2009 – one complaint. The complaints in 2007 and 2009 involved quality of service and outage/interruptions. The complaint in 2008 involved quality of service and outage/interruptions with no customer notification. All complaints and inquiries have been resolved and closed. There were eight opinions filed regarding the proposed rate increase - seven are opposed and one is in favor.

## **COMPLIANCE**

A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is current in its property and sales tax payments.

The Company is in good standing with the Corporation's Division of the Commission.

The Arizona Department of Environmental Quality ("ADEQ") has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The Company has engaged in activities requiring advance approval from the Commission without applying for approval. When the Company lacked cash to pay operating expenses, it borrowed funds from its owner E.H. "Buck" Lewis. Since these loans were for longer than 12 months and they were not approved in advance by the Commission, Staff recommends that these amounts be considered as paid in capital for rate purposes.

## **ENGINEERING ANALYSIS**

The Staff Engineering Report is attached. There are six engineering recommendations included in the Staff Recommendations section. The third recommendation relates to annual water testing expenses, the amount of which is reflected in Staff's financial review of the application for the rate increase.

## **RATE BASE**

Staff recommends four adjustments that in aggregate decrease the Company's proposed rate base by \$16,418 from \$194,086 to \$177,668 as shown in Revised Schedule GWB-2, page 1. Details of Staff's adjustments are presented below. Further, this revised report reflects the rate base per the amended application filed on November 5, 2009, but without the effects of plant to be built by the proposed WIFA loan.

### *Plant in Service*

Staff decreased plant in service by \$26,113 from \$337,116 to \$311,003 as shown in Revised Schedule GWB-2, Page 1, Adjustment A. Staff's adjustment removes the cost of an interconnection between the Sonoita and Southern/Los Encinos systems. Staff's engineering review concluded that this interconnection was not "used and useful" because it does not improve the operation of the two systems.

### *Accumulated Depreciation*

Staff decreased Accumulated Depreciation by \$1,696, from \$140,359 to \$138,663 as shown in Revised Schedule GWB-2, Page 1, Adjustment B. Staff's adjustment estimates the accumulated depreciation recorded on the interconnection line adjusted by Staff in Adjustment A above. The adjustment is based on a 2 percent depreciation rate applied for 3.5 years and 0.5 year for additions in 2005 and 2008, respectively.

### *Plant Advances ("AIAC")*

Staff decreased Plant Advances by \$1,836, from \$1,836 to zero as shown in Revised Schedule GWB-2, Page 1, Adjustment C. Adjustment C also increases Customer Deposits by \$1,001 from \$835 to \$1,836. These adjustments were made to restate the account balances to agree with the amounts per supporting documentation.

### *Working Capital*

Staff increased the working capital allowance by \$7,164, from \$0 to \$7,164, using the formula method to reflect adjustments to cash operating expenses as shown in Revised Schedule GWB-2, Page 1, Adjustment D. Adjustment D shows the total increase by components, 1/24 of Power and 1/8 of Operating and Maintenance Expenses.

### *Operating Income*

Staff recommends four adjustments that, in aggregate, increase the test year operating loss by \$480 from the Company's proposed \$21,098 loss to a \$21,578 loss as shown in Revised Schedule GWB-3, Page 1. The reduction in Operating Loss is the result of Staff's adjustments to decrease Operating Expenses by \$27,282 from \$107,854 to \$80,572. Details of Staff's adjustments are presented below.

### *Operating Expenses*

Outside Services – Adjustment A decreases this account by \$5,700, from \$34,864 to \$29,164, to reflect management fees incurred and charged to the interconnection line (discussed above) during the test year. Since these amounts are not expected to recur and the line is not providing benefit to ratepayers, Staff's adjustment removes these amounts. (See Revised Schedule GWB-3, Page 1)

Water Testing – Adjustment B decreases this account by \$594, from \$3,311 to \$2,717, to reflect Staff's determination of the Company's annual water testing cost (see Revised Schedule GWB-3, Page 1)

Transportation Expenses – Adjustment C decreases this account by \$420, from \$10,280 to \$9,860, to remove the costs of water hauling that is not expected to continue upon completion of capital improvements. (See Revised Schedule GWB-3, Page 1)

Regulatory Commission Expense – Rate Case – Staff removes this adjustment from the previous report to reflect Staff's acceptance of the Company's clarification of its rate case expense. (See Revised Schedule GWB-3, Page 1)

Depreciation Expense – Adjustment D increases this account by \$7,193, from \$10,069 to \$17,262 to reflect application of Staff's recommended depreciation rates to Staff's recommended plant balances, less any fully depreciated or non-depreciable plant. The calculation of Staff's recommended depreciation expense and adjustment is shown in Revised Schedule GWB-3, Page 3.

## **REVENUE REQUIREMENT**

Staff recommends total revenue of \$153,673 which includes a permanent component of \$101,012 (including \$102 of miscellaneous revenue) and a surcharge component of \$52,661 to service an anticipated WIFA loan. The permanent component is based on the amount needed to cover the Company's operating expenses of \$80,572 as shown in Schedule GWB-1 and to provide an 11.5 percent rate of return on the \$177,668 rate base. See Revised Schedule GWB-1.1.

In addition to the permanent component, a surcharge component is calculated to provide the principal and interest ("debt service") on a 20-year WIFA loan. Specifically, Staff's surcharge component is based on the principal and interest payments for a \$656,271 20-year amortizing loan at an estimated interest rate of 5.0 percent. The monthly and annual debt service payments on this estimated loan are \$4,388 and \$52,661, respectively. Since the actual loan terms are unknown at this time, Staff recommends that the surcharge mechanism be calculated using a 20-year loan period. Further, the WIFA loan surcharge mechanism presented below allows for adjustment of the surcharge revenue to reflect the actual loan terms upon closing of the loan.

## **RATE DESIGN**

The Company's requested rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 4,357 gallons from \$44.65 to \$134.81 for an increase of \$90.16 or 201.9 percent.

The Company currently has an inverted three-tier design with no gallons included in the minimum monthly charge for its customers with 5/8 by 3/4-inch, 1-inch, or 1 1/2-inch meter. The minimum charge for customers with a 3/4-inch or 2-inch meter includes 1,000 gallons. The difference in the amounts included in the minimum occurred because only the 5/8 x 3/4-inch, 1-inch, and 1 1/2-inch meter were addressed in the most recent decision. Currently, the break-over points are at 10,000 and 20,000 gallons for all rate groups.

The Company proposes to continue its inverted three-tier rate design with no gallons included in the minimum monthly charge and to set break-over points at 3,000 and 10,000 gallons for all meter sizes. Staff also recommends an inverted three-tier rate design with zero gallons in the minimum monthly charge and break-over points at 3,000 and 10,000 gallons for all meter sizes. Staff recommended rates are presented in Revised Schedule GWB-4.

For both the Southern and Sonoita systems, the Company is proposing new Service Line and Meter Installation Charges. Staff recommends adoption of the Company's proposed charges.

### *Sonoita System:*

The Company proposes to maintain the Establishment Service Charge at \$30.00. Staff finds \$30.00 as a reasonable and normal charge.

The Company proposes to maintain the Establishment Service Charge (after hours) at \$50.00. Staff finds \$50.00 as a reasonable and normal charge.

The Company proposes to increase Meter Re-read (if correct) from \$15.00 to \$25.00. Staff finds \$25.00 as a reasonable and normal charge.

The Company proposes to maintain the Meter Test (if correct) charge at \$40.00. Staff finds \$40.00 as a reasonable and normal charge.

The Company proposes to maintain the Reconnection (delinquent) at \$40.00. Staff finds \$40.00 as a reasonable and normal charge.

The Company proposes to establish an after hours service charges for Reconnection (delinquent) of \$60.00. Staff finds \$60.00 as a reasonable and normal charge.

The Company proposes to establish a Late Fee of 1.5 percent per month. Staff finds a charge of 1.5 percent per month on delinquent bills as a reasonable and normal charge.

The Company proposes to increase its NSF charges from \$12.50 to \$20.00. Staff finds \$20.00 as a reasonable and normal charge.

The Company proposes to maintain a Deferred Payments rate of 1.5 percent per month. Staff recommends that Deferred Payments rules be identified to the corresponding Commission Rule (14-2-409.G) and that a rate of 1.5 percent per month is reasonable.

The Company proposes Deposit and Deposit Interest in accordance with Commission Rule R-14-2-403(B). Staff concurs.

The Company proposes Re-establishment rules in accordance with Commission Rule R-14-2-403(D). Staff concurs.

The Company proposes to charge Main Extensions at cost. Staff recommends not reflecting Main Extensions on the tariff.

*Southern System:*

The Company proposes to increase Establishment Service Charge from \$20.00 to \$30.00. Staff finds \$30.00 as a reasonable and normal charge.

The Company proposes to increase Establishment Service Charge (after hours) from \$40.00 to \$50.00. Staff finds \$50.00 as reasonable and normal charge.

The Company proposed to increase Meter Re-read (if correct) from \$15.00 to \$25.00. Staff finds \$25.00 as a reasonable and normal charge.

The Company proposed to increase Meter Test (if correct) from \$15.00 to \$40.00. Staff finds \$40.00 as a reasonable and normal charge.

The Company proposes to increase service charges for Reconnection (delinquent) from \$25.00 to \$40.00. Staff finds \$40.00 as a reasonable and normal charge.

The Company proposes to establish an after hours service charges for Reconnection (delinquent) of \$60.00. Staff finds \$60.00 as a reasonable and normal charge.

The Company proposes to establish a Late Fee of 1.5 percent per month. Staff finds a charge of 1.5 percent per month on delinquent bills as a reasonable and normal charge.

The Company proposes to increase its NSF charges from \$10.00 to \$20.00. Staff finds \$20.00 as a reasonable and normal charge.

The Company proposes a Deferred Payments rate of 1.5 percent per month. Staff recommends that Deferred Payments rules be identified to the corresponding Commission Rule (14-2-409.G) and that a rate of 1.5 percent per month is reasonable.

The Company proposes Deposit and Deposit Interest in accordance with Commission Rule R-14-2-403(B). Staff concurs.

The Company proposes Re-establishment rules in accordance with Commission Rule R-14-2-403(D). Staff concurs.

The Company proposes to charge Main Extensions at cost. Staff recommends not reflecting Main Extensions on the tariff.

The Company did not propose a Fire Sprinkler tariff for either system. For both the Southern and Sonoita systems, Staff recommends a Fire Sprinkler tariff equal to 2.00 percent of the monthly minimum charge for a comparable sized meter connection, but no less than \$10.00 per month. The Fire Sprinkler charge should only be applicable for service lines separate and distinct from the primary water service line.

## **FINANCING APPLICATION AND SURCHARGE MECHANISM**

On June 6, 2009, the Company filed a financing application with the Commission requesting authorization to obtain a \$656,271, 30-year amortizing loan from WIFA. The Company mailed a customer notification notice of the financing application to its customers on July 31, 2009.

The purpose of the financing is to provide funds for the permanent interconnection of the Sonoita and Southern/Los Encinos systems, the replacement of three rusted and leaking storage tanks as well as a new storage tank, and various improvements to improve system pressure and reliability.

Staff concludes that the capital improvement projects are appropriate and the cost estimate totaling \$656,271 is reasonable. However, this does not imply any particular future treatment for inclusion in rate base. No "used and useful" determination of the proposed plant

was made, and no conclusion should be inferred for rate making or rate base purposes. See attached Engineering Report Attachment A.

## **FINANCIAL ANALYSIS**

Staff's analysis is based on selected financial information from its financial statements dated December 31, 2008.

## **CAPITAL STRUCTURE**

At December 31, 2008, the Company reported a capital structure that consisted of zero percent short-term debt, 113.3 percent long term debt, and negative 13.3 percent equity. Staff noted that the Company's balance sheet included \$226,300 as debt that was not approved by the Commission. A pro-forma capital structure recognizing the reclassification of \$226,300 of debt not approved by the Commission and the issuance of a \$656,271, 20-year amortizing loan is composed of 2.4 percent short-term debt, 74.3 percent long-term debt and 23.3 percent equity.

The Company lacks sufficient operating cash flow to meet its proposed long-term debt obligation. Therefore, a surcharge that provides funds for the debt service on a WIFA loan is appropriate. As discussed above, the terms of the WIFA loan will not be known until after the Company closes on the loan; accordingly, Staff recommends implementation of a surcharge mechanism to match the surcharge revenues with the debt service of the actual loan.

The surcharge mechanism establishes the methodology for calculating the surcharge rates by meter size needed to meet the annual principal and interest obligations on the actual loan. The surcharge mechanism provides for the Company to submit a surcharge application to the Commission for consideration under this Docket, using the methodology Staff has defined in this Report, once the Company has closed on the loan.

## **CALCULATION OF SURCHARGE**

The following is the methodology that Staff recommends to calculate the surcharge needed to provide funds for the debt service on the loan. Also provided, as an illustration, is a sample calculation applying Staff's proposed methodology to a 20-year loan at the estimated, subsidized rate of 5.0 percent using the Staff-recommended not-to-exceed loan amount of \$656,271.

Staff recommends that the Company use the following steps to calculate the estimated surcharges by meter size to submit in an application for surcharge approval once the Company has closed on the loan. Under the recommended surcharge mechanism, Staff will verify, and recalculate if appropriate, the Company's proposed surcharge amounts and prepare a report with its recommendations.

**INSTRUCTIONS TO CALCULATE THE SURCHARGE ON THE LOAN**

**Example - For Illustrative Purposes Only**

Loan amount: \$656,271  
 Term: 20 years  
 Stated Annual Interest Rate: 5.00%

*Instruction for Step 1*

**Step 1. Find the Annual Payment on the Loan**

Refer to Table A, the Conversion Factor Table. Reading the table from top to bottom, find the interest rate in Column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

*Result*

0.0802	Annual Payment Conversion Factor (Table A, Column B for 5.00 percent)
x \$656,271	Total loan amount
\$ 52,633	Annual loan payment

<b>TABLE A</b>			
<b>CONVERSION TABLE FACTORS</b>			
Col A	Col B	Col C	Col D
Annual Interest Rate	Annual Payment Factor	First Year Interest Factor	First Year Principal Factor
3.50%	\$0.0704	\$0.0344	\$0.0359
3.75%	\$0.0720	\$0.0344	\$0.0376
4.00%	\$0.0736	\$0.0344	\$0.0392
4.25%	\$0.0752	\$0.0343	\$0.0409
4.50%	\$0.0769	\$0.0343	\$0.0426
4.75%	\$0.0786	\$0.0343	\$0.0443
5.00%	\$0.0802	\$0.0343	\$0.0480
5.25%	\$0.0820	\$0.0342	\$0.0477
5.50%	\$0.0837	\$0.0342	\$0.0495
5.75%	\$0.0854	\$0.0342	\$0.0512

6.00%	\$0.0872	\$0.0342	\$0.0530
6.25%	\$0.0890	\$0.0341	\$0.0548
6.50%	\$0.0908	\$0.0341	\$0.0567
6.75%	\$0.0926	\$0.0341	\$0.0585
7.00%	\$0.0944	\$0.0340	\$0.0604
7.25%	\$0.0962	\$0.0340	\$0.0622
7.50%	\$0.0981	\$0.0340	\$0.0641
7.75%	\$0.1000	\$0.0339	\$0.0660
8.00%	\$0.1019	\$0.0339	\$0.0679

*Instruction for Step 2*

Step 2. Find the equivalent bills.

Multiply the American Water Works Association ("AWWA") meter capacity multiplier by the number of current customers and by the number of months per year. The sum of the products equals the equivalent bills.

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Meter Capacity Multiplier	Average Number of Customers*	Number of Months In Year	Equivalent Bills Col B x C x D
5/8"x 3/4" Meter	1	85.7	12	1,028
3/4" Meter	1.5	1	12	18
1" Meter	2.5	1.8	12	55
1 1/2" Meter	5	2	12	120
2" Meter	8	0	12	0
3" Meter	15	0	12	0
4" Meter	25	0	12	0
6" Meter	50	0	12	0
			<b>Total</b>	<b>1,221</b>

\* Decimals represent partial year service

*Instruction for Step 3*

Step 3. Find the monthly surcharge for 5/8 x 3/4-inch meter customers.

Divide the result obtained in step 1 by the number of equivalent bills calculated in step 2 to obtain the monthly surcharge for 5/8 x 3/4-inch customers.

*Result*

\$52,633	Total annual loan amount (Step 1)
÷ 1221	Number of equivalent bills (Step 2)
<u>\$ 43.13</u>	Total monthly surcharge for 5/8 x 3/4-inch meter customers

*Instruction for Step 4*

Step 4. Find the monthly surcharge for remaining meter size customers.

Multiply the Result obtained in step 3 by the NARUC meter capacity multipliers to obtain the monthly surcharges for all other meter sizes.

Col A	Col B	Col C	Col D
Meter Size	NARUC Meter Capacity Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8" Meter	1	\$43.13	\$ 43.11
3/4" Meter	1.5	\$43.13	\$ 64.70
1" Meter	2.5	\$43.13	\$ 107.83
1 1/2" Meter	5	\$43.13	\$ 215.65
2" Meter	8	\$43.13	\$ 345.04
3" Meter	15	\$43.13	\$ 690.08
4" Meter	25	\$43.13	\$ 1,078.25
6" Meter	50	\$43.13	\$ 2,156.50

**CONCLUSIONS - FINANCING**

Staff concludes that the proposed WIFA loan is an appropriate financial instrument to finance the proposed capital improvements. Staff further concludes that issuance of an 18 to 30-year amortizing loan for the \$656,271 estimated cost of the capital improvements is appropriate, is within the Company's corporate powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practices assuming that sufficient provisions for debt service coverage are authorized in this proceeding.

Staff recommends that the Commission authorize the Company to obtain an 18- to 30-year amortizing loan at an interest rate not to exceed the prevailing WIFA rate at the time the loan is executed (currently estimated at the prime rate plus 2 percent, but not less than 6 percent, less an estimated WIFA subsidy of 20 percent, or approximately 5.0 percent rounded). The loan amount is not to exceed \$656,271 for the purposes of financing the proposed infrastructure improvements including the permanent interconnection of the Sonoita and Southern/Los Encinos systems, the replacement of three rusted and leaking storage tanks as well as a new storage tank, and various improvements to improve system pressure and reliability.

For a 20-year loan, under the above loan terms, Staff estimates the surcharge to be approximately \$43.13 per month for 5/8 x 3/4-inch meter customers, \$64.70 per month for 3/4-inch meter customers and \$107.83 per month for 1-inch meter customers.

The surcharge is ultimately dependent on the actual loan terms. For example, if the actual loan has a different term or interest rate, the surcharge will vary from the amount shown above.

### STAFF RECOMMENDATIONS

- That the Commission approve Staff's rates and charges as shown on Revised Schedule GWB-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D-5).
- That the Company be ordered to docket with the Commission, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- That the Commission authorize the Company to obtain an 18- to 30-year amortizing loan in an amount not to exceed \$656,271 and at an interest rate not to exceed the prevailing WIFA rate at the time the loan is executed (currently estimated at 6.00 percent, less the Company's 20 percent WIFA subsidy) to finance capital improvements discussed herein.
- That the Commission authorize the Company to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.
- That the Commission authorize the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.
- That the Company be ordered to file copies of the executed loan documents, as a Compliance item in this docket, within 60 days of the execution of any transactions.
- That any authorization to incur debt granted in this proceeding that remains unused twelve months after the issuance date of a Decision in this matter expire immediately at the end of that twelve month period.
- That the Commission approve a financing surcharge mechanism to enable the Company to meet its principal and interest obligation on the proposed WIFA loan.

- That the Company be ordered to file with the Commission a WIFA loan surcharge tariff application within 60 days of the loan closing. Staff further recommends that the Company be required to follow in the development of its WIFA loan surcharge tariff application the same methodology presented in this report to calculate estimates of surcharge rates by meter size needed to meet its annual principal and interest obligations on the loan, i.e., to use the actual loan terms and the test year customers plus any subsequent customer growth to the time of loan closing to determine revenue required to cover the annual principal and interest obligations on the loan.
- That a surcharge be implemented only after Commission approval of the loan surcharge tariff.
- That any authorizations for a WIFA loan surcharge mechanism approved herein be rescinded if the Company has not drawn funds from the loan authorized herein within twelve months of the date of the Decision resulting from this proceeding.
- That the Company be ordered to file, as a compliance item in this docket, by December 31, 2010, a copy of the ADEQ Certificate for Approval of Construction for each of the improvement projects, as delineated in Table D of the Engineering Report.
- That the Company evaluate the greater than 10 percent water loss in each water system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2010. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a report, containing a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. In no case shall water loss be allowed to remain above 15 percent. The Company shall file the corrective measures or cost effectiveness report with Docket Control, as a compliance item in this docket, by December 31, 2010.
- That the Company file as a compliance item in this docket, no later than December 31, 2010, documentation issued by ADWR indicating that the Company's three systems meet ADWR requirements.
- That the Company adopt and use Staff's typical and customary depreciation rates as delineated in Table B of the Engineering Report.

**Sonoita Valley Water Company**

Docket No. W-20435A-09-0296 & W-20345A-09-0298  
 Test Year Ended December 31, 2008

Schedule GWB-1.1  
 Revised

**SUMMARY OF FILING**

**WITHOUT WIFA SURCHARGE**

	-- Present Rates --		-- Proposed Rates --	
	Company as Amended*	Staff as Adjusted	Company as Amended*	Staff as Adjusted
<b>Revenues:</b>				
Metered Water Revenue	\$58,892	\$58,892	\$175,846	\$100,910
Surcharge WIFA loan	0	0	0	0
Other Water Revenues	102	102	102	102
<b>Total Operating Revenue</b>	<b>\$58,994</b>	<b>\$58,994</b>	<b>\$175,948</b>	<b>\$101,012</b>
<b>Operating Expenses:</b>				
Operation and Maintenance	\$68,113	\$61,399	\$68,113	\$61,399
Depreciation	10,069	17,262	10,069	17,262
Property & Other Taxes	1,910	1,910	1,910	1,910
Income Tax	0	0	0	0
<b>Total Operating Expense</b>	<b>\$80,092</b>	<b>\$80,572</b>	<b>\$80,092</b>	<b>\$80,572</b>
<b>Operating Income/(Loss)</b>	<b>(\$21,098)</b>	<b>(\$21,578)</b>	<b>\$95,856</b>	<b>\$20,440</b>
<b>Rate Base O.C.L.D.</b>	<b>\$194,086</b>	<b>\$177,668</b>	<b>\$194,086</b>	<b>\$177,668</b>
<b>Rate of Return - O.C.L.D.</b>	<b>-10.87%</b>	<b>-12.14%</b>	<b>49.39%</b>	<b>11.50%</b>
<b>Times Interest Earned Ratio (Pre-Tax)</b>	<b>N/M</b>	<b>N/M</b>	<b>3.07</b>	<b>0.63</b>
<b>Debt Service Coverage Ratio (Pre-Tax)</b>	<b>N/M</b>	<b>N/M</b>	<b>2.54</b>	<b>0.72</b>
<b>Operating Margin</b>	<b>-35.76%</b>	<b>-36.58%</b>	<b>54.48%</b>	<b>20.24%</b>

\* Rate Base is per Company amendments filed November 5, 2009, excluding plant to be built and funded by the proposed WIFA loan.

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
  2. The Debt Service Coverage Ratio (DSC) represent the Company's ability to pay principal and interest before taxes and depreciation
  3. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

N/M Not Meaningful

**Sonoita Valley Water Company**

Docket No. W-20435A-09-0296 & W-20345A-09-0298  
 Test Year Ended December 31, 2008

Schedule GWB-1.2  
 Revised

**SUMMARY OF FILING**

**WITH WIFA SURCHARGE**

	-- Present Rates --		-- Proposed Rates --	
	Company as Amended*	Staff as Adjusted	Company as Amended*	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$58,892	\$58,892	\$175,846	\$100,910
Surcharge WIFA loan	0	0	0	52,661
Other Water Revenues	102	102	102	102
<b>Total Operating Revenue</b>	<b>\$58,994</b>	<b>\$58,994</b>	<b>\$175,948</b>	<b>\$153,673</b>
Operating Expenses:				
Operation and Maintenance	\$68,113	\$61,399	\$68,113	\$61,399
Depreciation	10,069	17,262	10,069	17,262
Property & Other Taxes	1,910	1,910	1,910	1,910
Income Tax	0	0	0	0
<b>Total Operating Expense</b>	<b>\$80,092</b>	<b>\$80,572</b>	<b>\$80,092</b>	<b>\$80,572</b>
<b>Operating Income/(Loss)</b>	<b>(\$21,098)</b>	<b>(\$21,578)</b>	<b>\$95,856</b>	<b>\$73,101</b>
Rate Base O.C.L.D.	\$194,086	\$177,668	\$194,086	\$177,668
Rate of Return - O.C.L.D.	-10.87%	-12.14%	49.39%	41.14%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	3.07	2.26
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	2.54	1.72
Operating Margin	-35.76%	-36.58%	54.48%	47.57%

\* Rate Base is per Company amendments filed November 5, 2009, excluding plant to be built and funded by the proposed WIFA loan.

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
  2. The Debt Service Coverage Ratio (DSC) represent the Company's ability to pay principal and interest before taxes and depreciation
  3. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

N/M Not Meaningful

**RATE BASE**

	----- Original Cost -----			Staff	RCN
	Company	Adjustment			
Plant in Service*	\$337,116	(\$26,113)	A	\$311,003	\$0
Less:					
Accum. Depreciation*	140,359	(1,696)	B	138,663	0
<b>Net Plant</b>	<b>\$196,757</b>	<b>(\$24,417)</b>		<b>\$172,340</b>	<b>\$0</b>
Less:					
Plant Advances	\$1,836	(\$1,836)	C	\$0	\$0
Customer Deposits	835	1,001	C	1,836	0
<b>Total Advances</b>	<b>\$2,671</b>	<b>(\$835)</b>		<b>\$1,836</b>	<b>\$0</b>
Contributions Gross	\$5,200	\$0		\$5,200	\$0
Less:					
Accumulated Amortization of CIAC	5,200	\$0		5,200	0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>	<b>\$0</b>
<b>Total Deductions</b>	<b>\$2,671</b>	<b>(\$835)</b>		<b>\$1,836</b>	<b>\$0</b>
Plus:					
1/24 Power	\$0	\$255	D	\$255	\$0
1/8 Operation & Maint.	\$0	6,909	D	6,909	7,675
Inventory	0	0		0	0
Prepayments	0	0		0	0
<b>Total Additions</b>	<b>\$0</b>	<b>\$7,164</b>		<b>\$7,164</b>	<b>\$7,675</b>
<b>Rate Base</b>	<b>\$194,086</b>	<b>(\$16,418)</b>		<b>\$177,668</b>	<b>\$7,675</b>

*Explanation of Adjustment:*

- A To remove the cost of interconnection line between Sonoita and Southern/Los Encinos. Line not considered to be used and useful.
- B To remove accumulated deprecation on the interconnections line between Sonoita and Southern/Los Encinos
- C To remove Advances and to correct the balance in the Customer Deposits Account.
- D To record adjustment for working capital.

\* Per Company amendments filed November 5, 2009, excluding plant to be built and funded by the proposed WIFA loan.

**PLANT ADJUSTMENT**

	Company Exhibit*	Adjustment	Staff Adjusted
301 Organization	\$199	\$0	\$199
302 Franchises	0	0	\$0
303 Land & Land Rights	0	0	\$0
304 Structures & Improvements	6,261	0	\$6,261
307 Wells & Springs	58,024	0	\$58,024
311 Pumping Equipment	85,047	0	\$85,047
320 Water Treatment Equipment	0	0	\$0
320.1 Water Treatment Plants	0	0	\$0
320.2 Solution Chemical Feeders	4,821	0	\$4,821
330 Distribution Reservoirs & Standpipes	0	0	\$0
330.1 Storage Tanks	22,599	0	\$22,599
330.2 Pressure Tanks	5,840	0	\$5,840
331 Transmission & Distribution Mains	143,652	(26,113) A	\$117,539
333 Services	5,938	0	\$5,938
334 Meters & Meter Installations	4,735	0	\$4,735
335 Hydrants	0	0	\$0
336 Backflow Prevention Devices	0	0	\$0
339 Other Plant and Misc. Equipment	0	0	\$0
340 Office Furniture & Equipment	0	0	\$0
341 Transportation Equipment	0	0	\$0
343 Tools Shop & Garage Equipment	0	0	\$0
344 Laboratory Equipment	0	0	\$0
345 Power Operated Equipment	0	0	\$0
346 Communication Equipment	0	0	\$0
347 Miscellaneous Equipment	0	0	\$0
348 Other Tangible Plant	0	0	\$0
105 C.W.I.P.	0	0	\$0
<b>TOTALS</b>	<b>\$337,116</b>	<b>(\$26,113)</b>	<b>\$311,003</b>

A To remove cost of interconnection not considered to be "used and useful".

\* Per Company amendments filed November 5, 2009, excluding plant to be built and funded by the proposed WIFA loan.

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company*	\$140,359
Accumulated Depreciation - Per Staff	<u>138,663</u>
<b>Total Adjustment</b>	<b><u><u>(\$1,696)</u></u></b>

To remove the Accumulated Depreciation on the Interconnection removed from Plant in Service

\* Per Company amendments filed November 5, 2009, excluding plant to be built and funded by the proposed WIFA loan.

**STATEMENT OF OPERATING INCOME**

	Company as Amended*	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
461 Metered Water Revenue	\$58,892	\$0	\$58,892
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	102	0	102
<b>Total Operating Revenue</b>	<b>\$58,994</b>	<b>\$0</b>	<b>\$58,994</b>
<b>Operating Expenses:</b>			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	6,125	0	6,125
618 Chemicals	2,854	0	2,854
620 Repairs and Maintenance	5,415	0	5,415
621 Office Supplies & Expense	723	0	723
630 Outside Services	34,864	(5,700) A	29,164
635 Water Testing	3,311	(594) B	2,717
641 Rents	0	0	0
650 Transportation Expenses	10,280	(420) C	9,860
657 Insurance - General Liability	1,541	0	1,541
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	3,000	0	3,000
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	10,069	7,193 D	17,262
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	1,910	0	1,910
409 Income Tax	0	0	0
<b>Total Operating Expenses</b>	<b>\$80,092</b>	<b>\$480</b>	<b>\$80,572</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(\$21,098)</b>	<b>(\$480)</b>	<b>(\$21,578)</b>
<b>Other Income/(Expense):</b>			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	0	32,352 **	32,352
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
<b>Total Other Income/(Expense)</b>	<b>\$0</b>	<b>(\$32,352)</b>	<b>(\$32,352)</b>
<b>NET INCOME/(LOSS)</b>	<b>(\$21,098)</b>	<b>(\$32,832)</b>	<b>(\$53,930)</b>

\* Per Company amendments filed November 5, 2009, excluding any effects of plant to be built by the proposed WIFA loan.

\*\* To Reflect effects of proposed WIFA Financing

**Sonoita Valley Water Company**

Docket No. W-20435A-09-0296 & W-20345A-09-0298

Test Year Ended December 31, 2008

Schedule GWB-3

Page 2 of 3

Revised

**STAFF ADJUSTMENTS**

A	OUTSIDE SERVICES - Per Company	34,864	
	Per Staff	29,164	<u>(\$5,700)</u>
	To remove non recurrent expenses associated with the interconnection line		
B -	WATER TESTING - Per Company	\$3,311	
	Per Staff	2,717	<u>(\$594)</u>
	To reflect normalized annual water testing cost		
C	TRANSPORTATION EXPENSE - Per Company	\$10,280	
	Per Staff	9,860	<u>(\$420)</u>
	To remove expenses for water hauling that are not expected to continue.		
-	REGULATORY COMMISSION EXPENSE - RATE CASE		
	- Per Company	\$3,000	
	Per Staff	3,000	<u>\$0</u>
	To recognize a normalized level of the estimated rate case expense		
D -	DEPRECIATION - Per Company*	\$10,069	
	Per Staff	17,262	<u>\$7,193</u>

\* Per Company amendments filed November 5, 2009, excluding plant to be built and funded by the proposed WIFA loan.

To recalculate depreciation expense at Staff recommended rates  
See Page 3 of 3

**STAFF ADJUSTMENTS (Cont.)**

**Pro Forma Annual Depreciation Expense:**

Plant in Service	\$311,003
Less: Non Depreciable Plant	199
Fully Depreciated Plant	0
Depreciable Plant	<u>\$310,804</u>
Times: Staff Proposed Average Depreciation Rate	<u>5.55%</u>
Credit to Accumulated Depreciation	<u>\$17,262</u>
Less: Amort. of CIAC* @ 5.55%	<u>0</u>
<b>Pro Forma Annual Depreciation Expense</b>	<b><u><u>\$17,262</u></u></b>

**\* Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$5,200
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	<u>5,200</u>
Amortizable Contribution(s)	<u>\$0</u>
Times: Staff Proposed Amortization Rate	<u>5.55%</u>
<b>Amortization of CIAC</b>	<b><u><u>\$0</u></u></b>

**RATE DESIGN**

	Present Rates	Proposed Rates- Co. (As Amended)	Proposed Rates- Staff
<b>Sonoma</b>			
<b>Monthly Usage Charge-Sonoma</b>			
5/8" x 3/4" Meter	\$ 24.00	\$ 107.31	\$ 30.00
3/4" Meter	\$ 16.00	\$ 150.97	\$ 45.00
1" Meter	\$ 32.00	\$ 268.28	\$ 75.00
1 1/2" Meter	\$ 47.00	\$ 536.55	\$ 150.00
2" Meter	\$32.00	\$ 658.48	\$ 240.00
3" Meter	N/A	\$ 1,716.96	\$ 480.00
4" Meter	N/A	N/A	\$ 750.00
5" Meter	N/A	N/A	N/A
6" Meter	N/A	\$ 5,365.50	\$ 1,500.00
<b>WIFA Surcharge</b>			
5/8" x 3/4" Meter	0.00	0.00	\$ 43.13
3/4" Meter	0.00	0.00	\$ 64.70
1" Meter	0.00	0.00	\$ 107.83
1 1/2" Meter	0.00	0.00	\$ 215.65
2" Meter	0.00	0.00	\$ 345.04
3" Meter	0.00	0.00	\$ 690.08
4" Meter	0.00	0.00	\$ 1,078.25
5" Meter	0.00	0.00	\$ -
6" Meter	0.00	0.00	\$ 2,156.50
<b>Southern</b>			
<b>Monthly Usage Charge</b>			
5/8" x 3/4" Meter	\$ 24.00	\$ 107.31	\$ 30.00
3/4" Meter	\$ 17.00	\$ 138.00	\$ 45.00
1" Meter	\$ 32.00	\$ 230.00	\$ 75.00
1 1/2" Meter	\$ 47.00	\$ 460.00	\$ 150.00
2" Meter	\$ 75.00	\$ 736.00	\$ 240.00
3" Meter	\$ 135.00	\$ 1,472.00	\$ 480.00
4" Meter	\$ 225.00	\$ 2,300.00	\$ 750.00
5" Meter	\$ 325.00	N/A	N/A
6" Meter	\$ 500.00	\$ 4,600.00	\$ 1,500.00
<b>WIFA Surcharge</b>			
5/8" x 3/4" Meter	0.00	0.00	\$ 43.13
3/4" Meter	0.00	0.00	\$ 64.70
1" Meter	0.00	0.00	\$ 107.83
1 1/2" Meter	0.00	0.00	\$ 215.65
2" Meter	0.00	0.00	\$ 345.04
3" Meter	0.00	0.00	\$ 690.08
4" Meter	0.00	0.00	\$ 1,078.25
5" Meter	0.00	0.00	\$ -
6" Meter	0.00	0.00	\$ 2,156.50

**RATE DESIGN**

	Present Rates			Proposed Rates-Co.			Proposed Rates-Staff		
	1st Tier	2nd Tier	3rd Tier	1st Tier	2nd Tier	3rd Tier	1st Tier	2nd Tier	3rd Tier
<b>Both Systems</b>									
Commodity Rates	\$ 4.74	\$ 5.50	\$ 6.50	\$ 6.00	\$ 7.00	\$ 8.00	\$ 7.23	\$ 10.85	\$ 13.02
Excess of Minimum - per 1,000 Gallons	0	0	0	0	0	0	0	0	0
Gallons Included in Minimum 5/8" meters									
Tier Breakovers for 5/8" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Tier Breakovers for 3/4" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Tier Breakovers for 1" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Tier Breakovers for 1 1/2" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Tier Breakovers for 2" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Tier Breakovers for 3" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Tier Breakovers for 4" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Tier Breakovers for 5" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Tier Breakovers for 6" meters	10,000	20,000	Infinite	3,000	10,000	Infinite	3,000	10,000	Infinite
Bulk Water - per 1,000 Gallons	\$ 4.00	N/A	N/A	\$ 8.00	N/A	N/A	\$ 13.02	N/A	N/A
<b>Sonoma</b>									
Service Line and Meter Installation Charges									
5/8" x 3/4" Meter	\$ 265.00			\$ 430.00	\$ 130.00	\$ 560.00	\$ 430.00	\$ 130.00	\$ 560.00
3/4" Meter	\$ 295.00			\$ 430.00	\$ 230.00	\$ 660.00	\$ 430.00	\$ 230.00	\$ 660.00
1" Meter	\$ 345.00			\$ 480.00	\$ 290.00	\$ 770.00	\$ 480.00	\$ 290.00	\$ 770.00
1 1/2" Meter	\$ 520.00			\$ 535.00	\$ 500.00	\$ 1,035.00	\$ 535.00	\$ 500.00	\$ 1,035.00
2" Meter	\$ 725.00			N/A	N/A	N/A	N/A	N/A	N/A
2" Turbine Meter	N/A			\$ 815.00	\$ 1,020.00	\$ 1,835.00	\$ 815.00	\$ 1,020.00	\$ 1,835.00
2" Compound Meter	N/A			\$ 815.00	\$ 1,865.00	\$ 2,680.00	\$ 815.00	\$ 1,865.00	\$ 2,680.00
3" Turbine Meter	N/A			\$ 1,030.00	\$ 1,645.00	\$ 2,675.00	\$ 1,030.00	\$ 1,645.00	\$ 2,675.00
3" Compound Meter	N/A			\$ 1,150.00	\$ 2,520.00	\$ 3,670.00	\$ 1,150.00	\$ 2,520.00	\$ 3,670.00
4" Turbine Meter	N/A			\$ 1,460.00	\$ 2,630.00	\$ 4,090.00	\$ 1,460.00	\$ 2,630.00	\$ 4,090.00
4" Compound Meter	N/A			\$ 1,640.00	\$ 3,595.00	\$ 5,235.00	\$ 1,640.00	\$ 3,595.00	\$ 5,235.00
5" Turbine Meter	N/A			N/A	N/A	N/A	N/A	N/A	N/A
5" Compound Meter	N/A			N/A	N/A	N/A	N/A	N/A	N/A
6" Turbine Meter	N/A			\$ 2,180.00	\$ 4,975.00	\$ 7,155.00	\$ 2,180.00	\$ 4,975.00	\$ 7,155.00
6" Compound Meter	N/A			\$ 2,300.00	\$ 6,870.00	\$ 9,170.00	\$ 2,300.00	\$ 6,870.00	\$ 9,170.00
Service Charges									
Establishment	\$ 30.00			\$ 30.00			\$ 30.00		
Establishment (After Hours)	\$ 50.00			\$ 50.00			\$ 50.00		
Reconnection (Delinquent)	\$ 40.00			\$ 40.00			\$ 40.00		
Reconnection (Delinquent) after hours	N/A			\$ 60.00			\$ 60.00		
Meter Test (if Correct)	\$ 40.00			\$ 40.00			\$ 40.00		
Deposit	Per Rule*			Per Rule*			Per Rule*		
Deposit Interest	Per Rule**			Per Rule**			Per Rule**		
Re-Establishment (Within 12 Months)	Per Rule**			Per Rule**			Per Rule**		
NSF Check	\$ 12.50			\$ 20.00			\$ 20.00		
Deferred Payment	1.5% per mo.			1.5% per mo.			1.5% per mo.		
Meter Re-Read (if Correct)	\$ 15.00			\$ 25.00			\$ 25.00		
Late Fee	N/A			1.5% per mo.			1.5% per mo.		
Main Extension	N/A			Cost			N/A		

**RATE DESIGN**

	Present Rates			Proposed Rates- Co.			Proposed Rates- Staff		
	Service Line	Meter Installation	Total	Service Line	Meter Installation	Total	Service Line	Meter Installation	Total
<b>Southern</b>									
Service Line and Meter Installation Charges									
5/8" x 3/4" Meter	\$ 250.00	\$ 130.00	\$ 560.00	\$ 430.00	\$ 130.00	\$ 560.00	\$ 430.00	\$ 130.00	\$ 560.00
3/4" Meter	\$ 300.00	\$ 230.00	\$ 660.00	\$ 430.00	\$ 230.00	\$ 660.00	\$ 430.00	\$ 230.00	\$ 660.00
1" Meter	\$ 325.00	\$ 480.00	\$ 770.00	\$ 480.00	\$ 290.00	\$ 770.00	\$ 480.00	\$ 290.00	\$ 770.00
1 1/2" Meter	\$ 520.00	\$ 535.00	\$ 1,035.00	\$ 535.00	\$ 500.00	\$ 1,035.00	\$ 535.00	\$ 500.00	\$ 1,035.00
2" Meter	\$ 725.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2" Turbine Meter	N/A	\$ 815.00	\$ 1,835.00	\$ 815.00	\$ 1,020.00	\$ 1,835.00	\$ 815.00	\$ 1,020.00	\$ 1,835.00
2" Compound Meter	N/A	\$ 815.00	\$ 1,865.00	\$ 815.00	\$ 1,865.00	\$ 2,680.00	\$ 815.00	\$ 1,865.00	\$ 2,680.00
3" Meter	\$ 925.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3" Turbine Meter	N/A	\$ 1,030.00	\$ 2,675.00	\$ 1,030.00	\$ 1,645.00	\$ 2,675.00	\$ 1,030.00	\$ 1,645.00	\$ 2,675.00
3" Compound Meter	N/A	\$ 1,150.00	\$ 3,670.00	\$ 1,150.00	\$ 2,520.00	\$ 3,670.00	\$ 1,150.00	\$ 2,520.00	\$ 3,670.00
4" Meter	\$1,550.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4" Turbine Meter	N/A	\$ 1,460.00	\$ 4,090.00	\$ 1,460.00	\$ 2,630.00	\$ 4,090.00	\$ 1,460.00	\$ 2,630.00	\$ 4,090.00
4" Compound Meter	N/A	\$ 1,640.00	\$ 5,235.00	\$ 1,640.00	\$ 3,595.00	\$ 5,235.00	\$ 1,640.00	\$ 3,595.00	\$ 5,235.00
5" Meter	\$2,600.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5" Turbine Meter	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5" Compound Meter	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6" Meter	\$3,725.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6" Turbine Meter	N/A	\$ 2,160.00	\$ 7,155.00	\$ 2,160.00	\$ 4,975.00	\$ 7,155.00	\$ 2,160.00	\$ 4,975.00	\$ 7,155.00
6" Compound Meter	N/A	\$ 2,300.00	\$ 9,170.00	\$ 2,300.00	\$ 6,870.00	\$ 9,170.00	\$ 2,300.00	\$ 6,870.00	\$ 9,170.00
Service Charges									
Establishment	\$ 20.00	\$ 30.00		\$ 30.00			\$ 30.00		
Establishment (After Hours)	\$ 40.00	\$ 50.00		\$ 50.00			\$ 50.00		
Reconnection (Delinquent)	\$ 25.00	\$ 40.00		\$ 40.00			\$ 40.00		
Reconnection (Delinquent) after hours	N/A	\$ 60.00		\$ 60.00			\$ 60.00		
Meter Test (if Correct)	\$ 15.00	\$ 40.00		\$ 40.00			\$ 40.00		
Deposit	Per Rule*	Per Rule*		Per Rule*			Per Rule*		
Deposit Interest	Per Rule**	Per Rule**		Per Rule**			Per Rule**		
Re-Establishment (Within 12 Months)	Per Rule**	Per Rule**		Per Rule**			Per Rule**		
NSF Check	\$ 10.00	\$ 20.00		\$ 20.00			\$ 20.00		
Deferred Payment	1.5% per mo.	1.5% per mo.		1.5% per mo.			1.5% per mo.		
Meter Re-Read (if Correct)	\$ 15.00	\$ 25.00		\$ 25.00			\$ 25.00		
Late Fee	N/A	1.5% per mo.		1.5% per mo.			1.5% per mo.		
Main Extensions	N/A	Cost		Cost			N/A		
<b>Both Systems</b>									
Monthly Service Charge for Fire Sprinkler	N/A	N/A		N/A			****		
4" or Smaller	N/A	N/A		N/A			****		
6"	N/A	N/A		N/A			****		
8"	N/A	N/A		N/A			****		
10"	N/A	N/A		N/A			****		
Larger than 10"	N/A	N/A		N/A			****		

\* Per Commission Rules (R14-2-403.B)  
 \*\* Months off system times the minimum (R14-2-403.D)  
 \*\*\* Per Commission Rules (R14-2-409 G)  
 \*\*\*\* 2.00% of the monthly minimum for a comparable sized meter connection but not less than \$10.00 per month.  
 The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**Sonoita Valley Water Company**

Docket No. W-20435A-09-0296 & W-20345A-09-0298  
 Test Year Ended December 31, 2008

Schedule GWB-5.1  
 Revised

**TYPICAL BILL ANALYSIS**

General Service 5/8 X 3/4 - Inch Meter

**WITHOUT WIFA SURCHARGE**

Average Number of Customers: 98

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	6,040	\$52.63	\$146.59	\$93.96	178.5%
Median Usage	4,357	\$44.65	\$134.81	\$90.16	201.9%
<b>Staff Recommend</b>					
Average Usage	6,040	\$52.63	\$84.67	\$32.04	60.9%
Median Usage	4,357	\$44.65	\$66.41	\$21.76	48.7%

**Present & Proposed Rates (Without Taxes)**  
 General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$24.00	\$107.31	347.1%	\$30.00	25.0%
1,000	28.74	113.31	294.3%	37.23	29.5%
2,000	33.48	119.31	256.4%	44.46	32.8%
3,000	38.22	125.31	227.9%	51.69	35.2%
4,000	42.96	132.31	208.0%	62.54	45.6%
5,000	47.70	139.31	192.1%	73.39	53.9%
6,000	52.44	146.31	179.0%	84.24	60.6%
7,000	57.18	153.31	168.1%	95.09	66.3%
8,000	61.92	160.31	158.9%	105.94	71.1%
9,000	66.66	167.31	151.0%	116.79	75.2%
10,000	71.40	174.31	144.1%	127.64	78.8%
15,000	98.90	214.31	116.7%	192.74	94.9%
20,000	126.40	254.31	101.2%	257.84	104.0%
25,000	158.90	294.31	85.2%	322.94	103.2%
50,000	321.40	494.31	53.8%	648.44	101.8%
75,000	483.90	694.31	43.5%	973.94	101.3%
100,000	646.40	894.31	38.4%	1,299.44	101.0%
125,000	808.90	1,094.31	35.3%	1,624.94	100.9%
150,000	971.40	1,294.31	33.2%	1,950.44	100.8%
175,000	1,133.90	1,494.31	31.8%	2,275.94	100.7%
200,000	1,296.40	1,694.31	30.7%	2,601.44	100.7%

**Sonoita Valley Water Company**

Docket No. W-20435A-09-0296 & W-20345A-09-0298

Test Year Ended December 31, 2008

Schedule GWB-5.2

Revised

**TYPICAL BILL ANALYSIS**

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 98

**WITH WIFA SURCHARGE OF \$43.13**

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	6,040	\$52.63	\$146.59	\$93.96	178.5%
Median Usage	4,357	\$44.65	\$134.81	\$90.16	201.9%

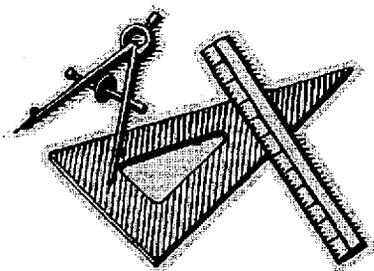
Staff Recommend

Average Usage	6,040	\$52.63	\$127.80	\$75.17	142.8%
Median Usage	4,357	\$44.65	\$109.54	\$64.89	145.3%

Present & Proposed Rates (Without Taxes)

General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$24.00	\$107.31	347.1%	\$73.13	204.7%
1,000	28.74	113.31	294.3%	80.36	179.6%
2,000	33.48	119.31	256.4%	87.59	161.6%
3,000	38.22	125.31	227.9%	94.82	148.1%
4,000	42.96	132.31	208.0%	105.67	146.0%
5,000	47.70	139.31	192.1%	116.52	144.3%
6,000	52.44	146.31	179.0%	127.37	142.9%
7,000	57.18	153.31	168.1%	138.22	141.7%
8,000	61.92	160.31	158.9%	149.07	140.7%
9,000	66.66	167.31	151.0%	159.92	139.9%
10,000	71.40	174.31	144.1%	170.77	139.2%
15,000	98.90	214.31	116.7%	235.87	138.5%
20,000	126.40	254.31	101.2%	300.97	138.1%
25,000	158.90	294.31	85.2%	366.07	130.4%
50,000	321.40	494.31	53.8%	691.57	115.2%
75,000	483.90	694.31	43.5%	1,017.07	110.2%
100,000	646.40	894.31	38.4%	1,342.57	107.7%
125,000	808.90	1,094.31	35.3%	1,668.07	106.2%
150,000	971.40	1,294.31	33.2%	1,993.57	105.2%
175,000	1,133.90	1,494.31	31.8%	2,319.07	104.5%
200,000	1,296.40	1,694.31	30.7%	2,644.57	104.0%



**Engineering Report For  
Sonoita Valley Water Company  
Docket No. W-20435A-09-0296 (Rates) and  
W-20435A-09-0298 (Finance)**

September 30, 2009

KS

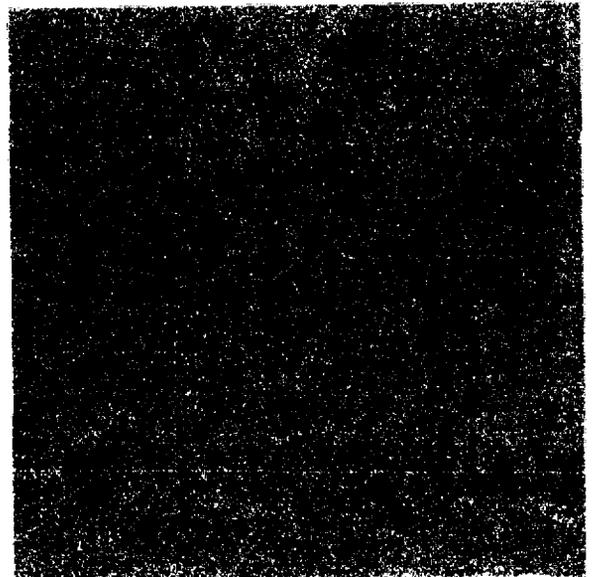
## SUMMARY

### Conclusions

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Sonoita Valley Water Company's ("Company") three water systems have no deficiencies and these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.
2. The Company's three water systems have a water loss above the recommended threshold amount of 10 percent. By system, the water loss is as follows: Sonoita, 56.6 percent; Southern/ Los Encinos, 17 percent and Southern/Downtown, 15 percent.
3. Sonoita and Southern/Downtown water systems have adequate well production and storage capacities to serve their respective present customer base and a reasonable level of growth.
4. Southern/Los Encinos system has adequate well production capacity, but inadequate storage to serve the present customer base.
5. The systems are not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area.
6. ADWR has determined that the Company's three water systems are currently not compliant with ADWR requirements regarding the filing of a 2008 Annual Water Use Report.
7. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.
8. The Company has an approved curtailment plan tariff.
9. The Company has an approved backflow prevention tariff.
10. A Financing Application for the proposed capital improvements and estimated costs as delineated in Table D appear to be reasonable and appropriate. However, approval of this Financing Application does not imply any particular future treatment for rate making purposes. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

## Recommendations

1. The Company's three water systems have a water loss above the recommended threshold amount of 10 percent. Staff recommends that the Company evaluate each system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2010. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a report, containing a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. In no case shall water loss be allowed to remain above 15 percent. The Company shall file the corrective measures or cost effectiveness report with Docket Control, as a compliance item in this docket, by December 31, 2010.
2. Staff recommends that the Company file as a compliance item in this docket, no later than December 31, 2010, documentation issued by ADWR indicating that the Company's three systems meet ADWR requirements.
3. Staff recommends its annual water testing expense estimate of \$2,717 be used for this proceeding.
4. Staff recommends that the Company adopt Depreciation Rate Table, as delineated in Table B.
5. Staff recommends acceptance of the Company's proposed service line and meter installation charges as shown in Table C.
6. Staff recommends that Commission approval of the Financing Application for proposed capital improvement projects, delineated in Table D, be conditional on the Company filing with Docket Control, as a compliance item in this docket, copies of the ADEQ Approval of Construction ("AOC") for each of the proposed improvement projects by December 31, 2010.



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VIII. FINANCING.....	18

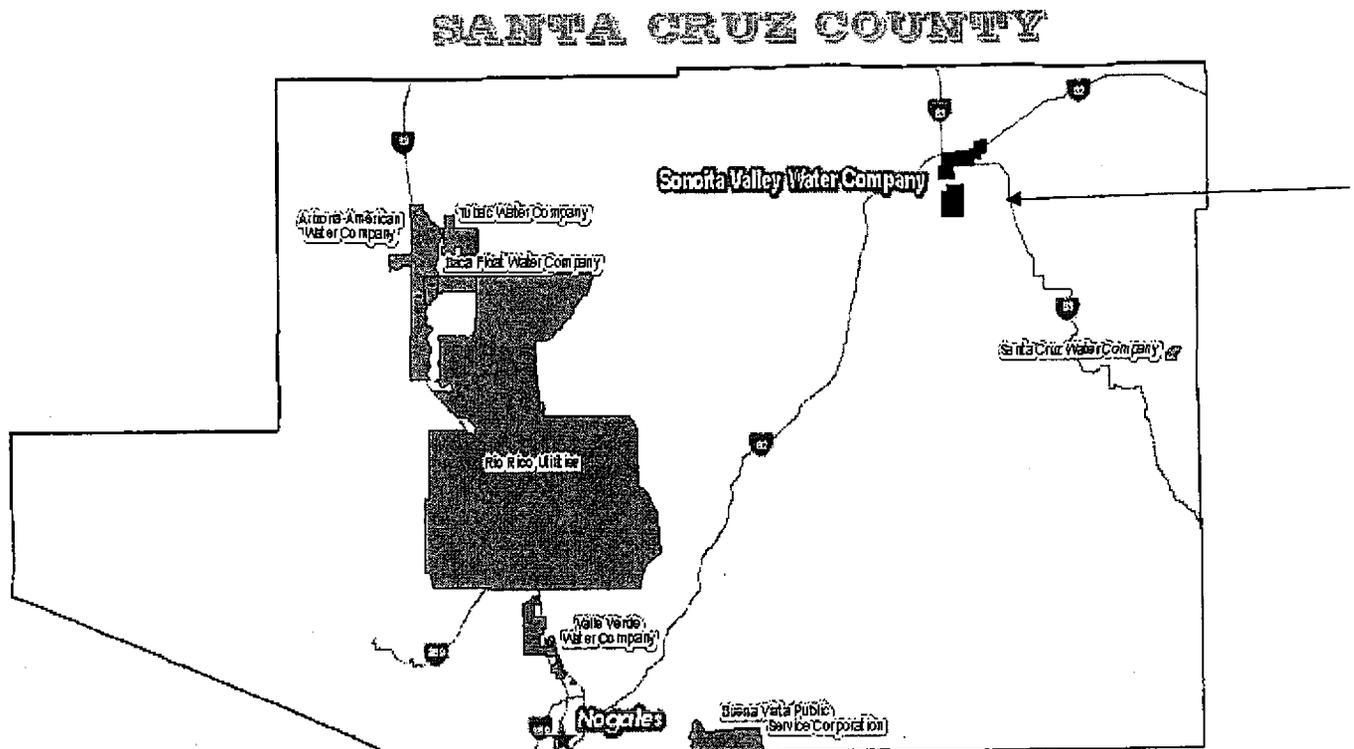
## I. INTRODUCTION AND LOCATION OF COMPANY

On June 4, 2009, Sonoita Valley Water Company (“Company” or “SVWC”) filed rate and finance applications with the Arizona Corporation Commission (“ACC” or “Commission”).

The Company operates three water systems (Sonoita, Southern/Los Encinos and Southern/Down town) that serve approximately 100 customers near Sonoita, in Santa Cruz County. A portion of the Southern/Los Encinos system’s service area is adjacent to the Sonoita system’s service area and the two systems have an emergency interconnection.<sup>1</sup> The Southern/Downtown system is approximately 2 miles north of the other two systems. The Southern/Downtown system is not physically interconnected with the two other systems.

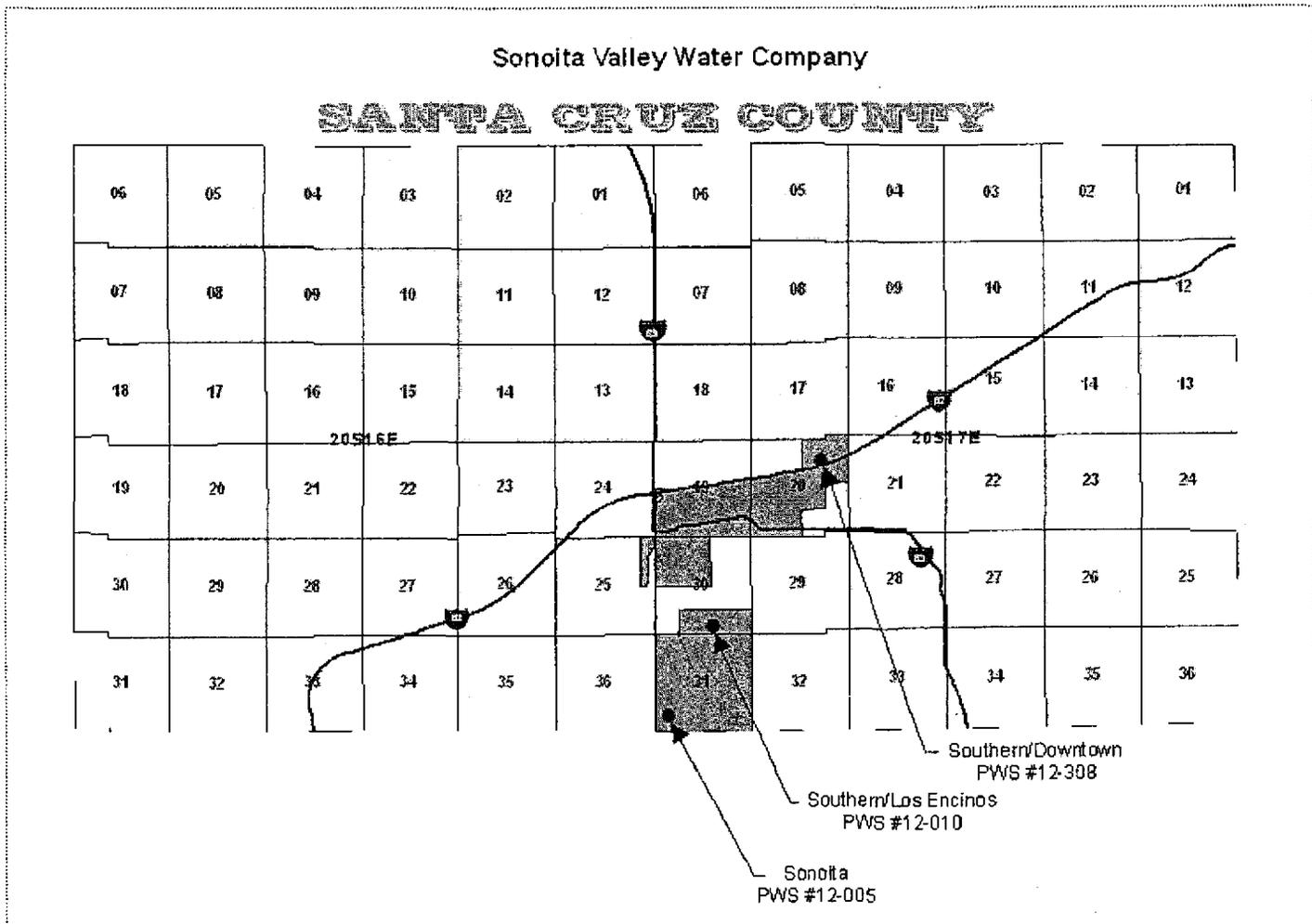
The plant facilities were visited on August 26, 2009, by Katrin Stukov, Staff Utilities Engineer, accompanied by Company representatives Eddy Morales, Operations Manager, Keith Dojaquez, Assistant Operations Manager and Patrick Blank, Field Technician. Figure 1 shows the location of the Company within Santa Cruz County and Figure 2 delineates the Company’s certificated area which covers approximately 2.6 square-miles or 1,670 acres.

Figure 1



<sup>1</sup> See Section II-2 (Southern/ Los Encinos System Analysis) in this report for more details.

Figure 2



**II. WATER SYSTEMS**

**1. Sonoita Water System (PWS # 12-005)**

A. Description of the Water System

The Sonoita water system serves the Papago Springs subdivision, which consists of approximately 80 lots.<sup>2</sup> The Sonoita system includes two active wells, two storage tanks,<sup>3</sup> a booster pump, a pressure tank and a distribution system serving approximately 41 connections. A water system schematic is shown in Figure 3 and a plant facilities summary<sup>4</sup> is tabulated below:

Wells

SVC Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
#1	55-633050	2	2	503	4	5/8	Pre-1982
#4	55-214359	7.5	15	830	6	2	2007
#3	55-528690 (not in service)	none	none	not available	6	none	1990
#2	55-633061 (not in service)	none	none	not available	6	none	not available

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
10,000	2	2,000	1	5	1

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
2	PVC	300	5/8x3/4	39	none
3	PVC	5,838	1	1	
4	PVC	6,570	1-1/2	1	
4	AC	6,781			

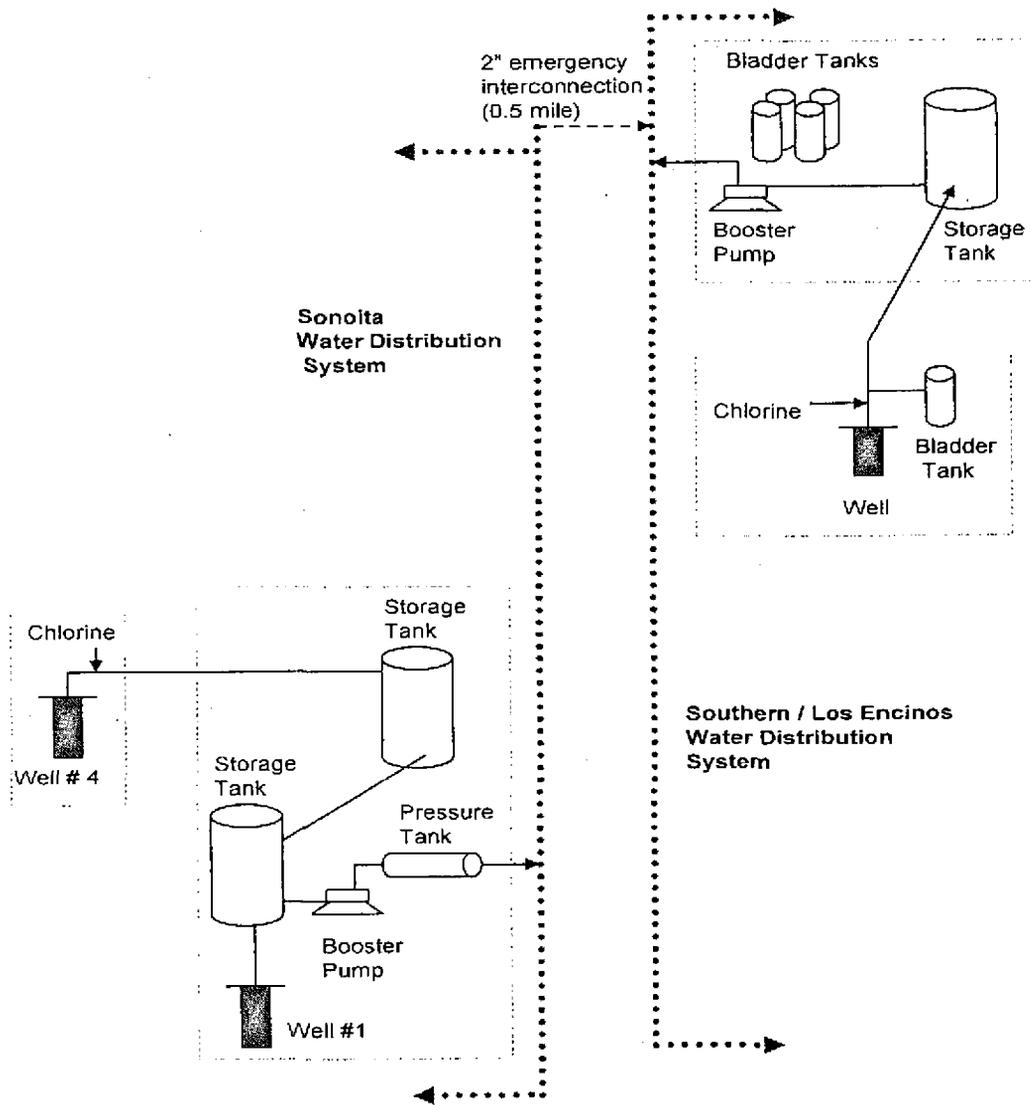
Components
Chlorination System
554 feet of 5 foot tall chain link fence
4'x 8' storage cabinet

<sup>2</sup> Per Company's map

<sup>3</sup> The Company indicated that the tanks were rusted inside.

<sup>4</sup> Per Company's responses to Data Requests and site visit

**Figure 3**  
**Sonoita & Southern/Los Encinos Systems Schematic**

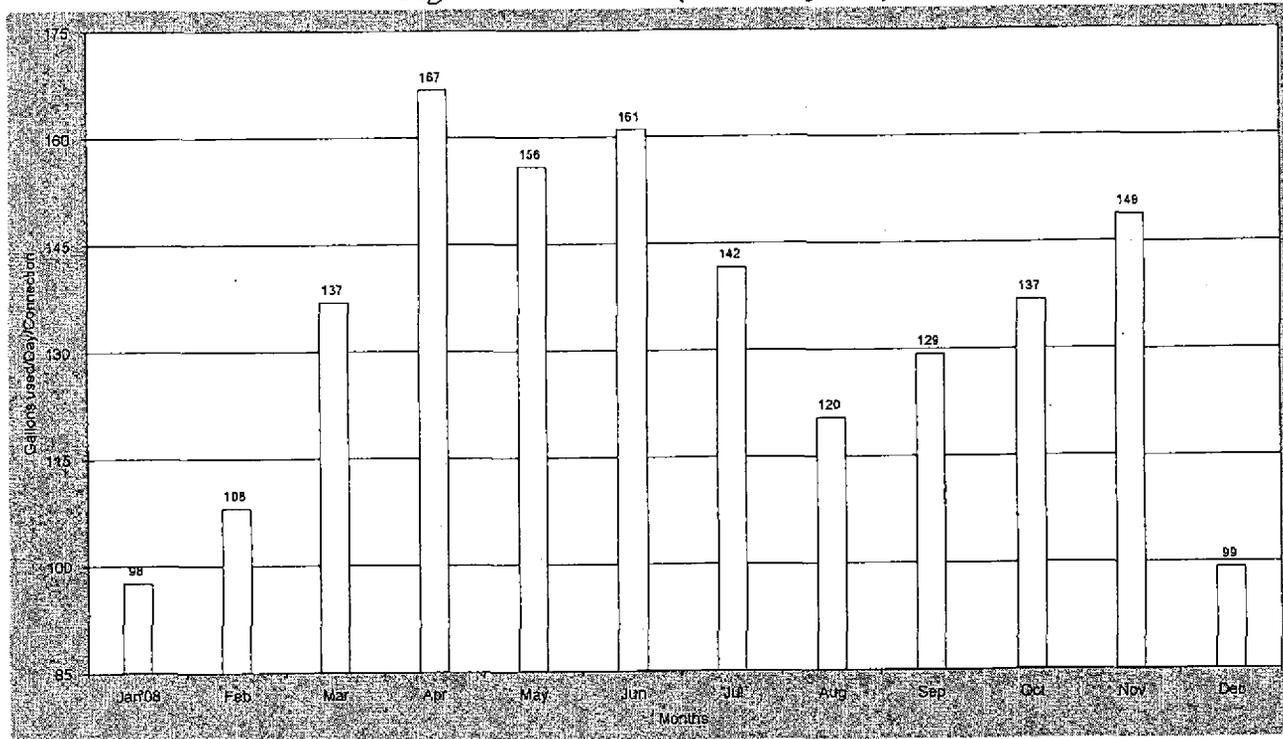


B. Water Use

Water Sold:

Figure 4 represents the water consumption data provided by the Company in its water use data sheet for the test year ending December 31, 2008. Customer consumption included a high monthly water use of 161 gallons per day (“GPD”) per connection in June, and the low water use was 98 GPD per connection in January. The average annual use was 133 GPD per connection.

Figure 4. Water Use (Sonoita system)



Non-account Water:

Non-account water should be 10 percent or less, and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. The Company reported 4,606,000 gallons pumped and 1,998,000 gallons sold for the test year, resulting in a non-account water of 56.6 percent, which exceeds the recommended threshold amount of 10 percent. The Company believes that much of this water loss is attributable to numerous leaks and recurring water main breaks within the distribution system, which consists of shallow and substandard water piping in some areas. The Company is currently evaluating its options for replacement of the substandard water lines.<sup>5</sup>

<sup>5</sup> See Section VIII (Financing) in this report for more details.

Staff recommends that the Company evaluate the Sonoita system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a report, containing a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. In no case shall water loss be allowed to remain above 15 percent.

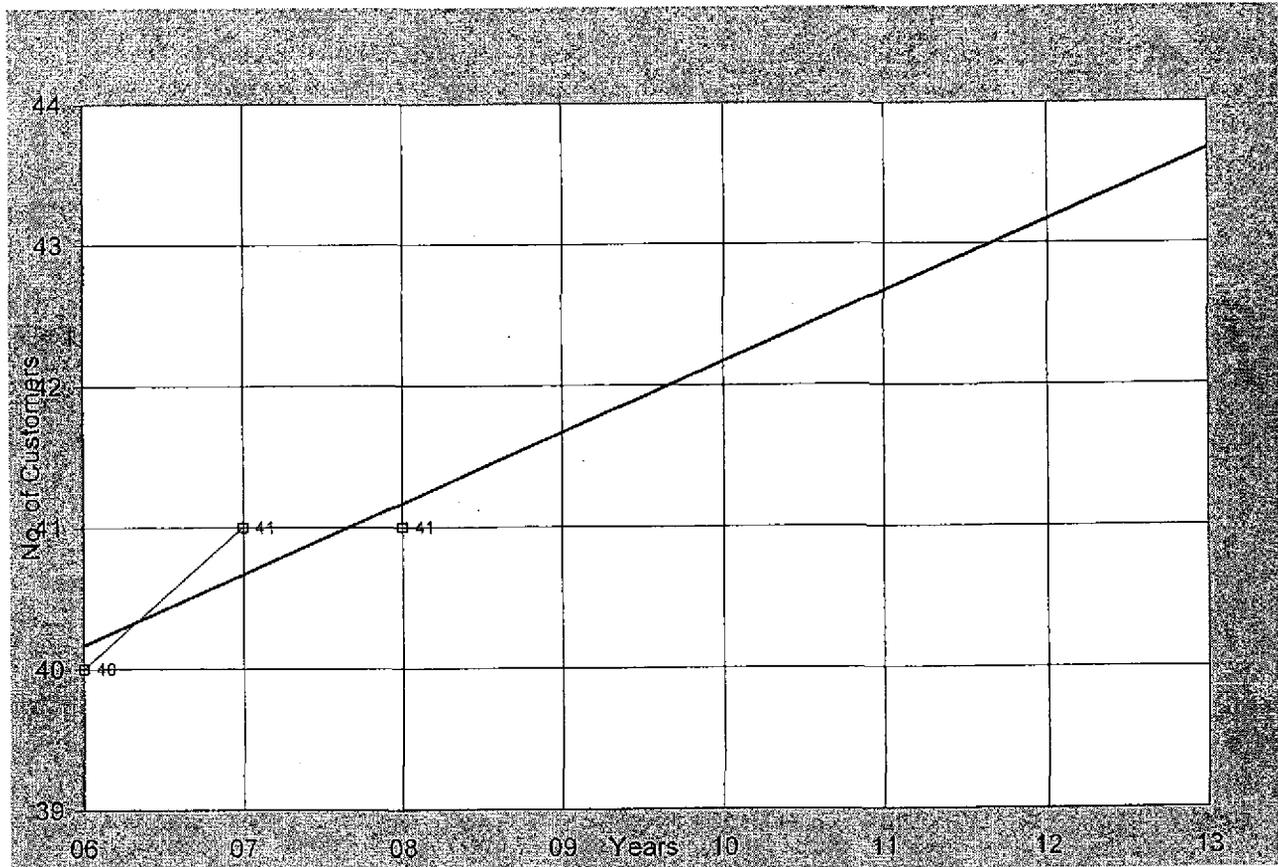
C. System Analysis

Based on the data provided by the Company for the Test Year, Staff concludes that the system's total well production capacity of 17 GPM and total storage capacity of 20,000 gallons is adequate to serve the present customer base and reasonable growth.

D. Growth

Based on customer data provided by the Company this system is expected to experience minimal growth and it is projected that this system could have 43 connections by 2013. Figure 5 depicts actual growth from 2006 to 2008 and projects an estimated growth for the next five years using linear regression analysis.

Figure 5. Growth Projection (Sonoita system)



2. Southern/Los Encinos Water System.

A. Description of the Water System

The Southern/Los Encinos system includes one active well, a storage tank, a booster pump, five bladder tanks and a distribution system serving approximately 38 connections. This system is in poor condition. The storage tank is rusted and leaking and the distribution system, which consists of shallow and substandard polyethylene water lines, has numerous leaks.

A water system schematic is shown in Figure 3 and a plant facilities summary<sup>6</sup> is tabulated below:

Active Wells

ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-620789	5	30	500	6	2	Pre-1982

Storage Tanks		Pressure Tanks (bladder type)		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
10,000	1	87	4 (tank site)	5	1 (tank site)
		87	1 (well site)		

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
1-1/2 & 2	Polyethylene	10,560	5/8x3/4	36	none
			3/4	1	
			1-1/2	1	

Components
Chlorination System
140 feet of chain link fence

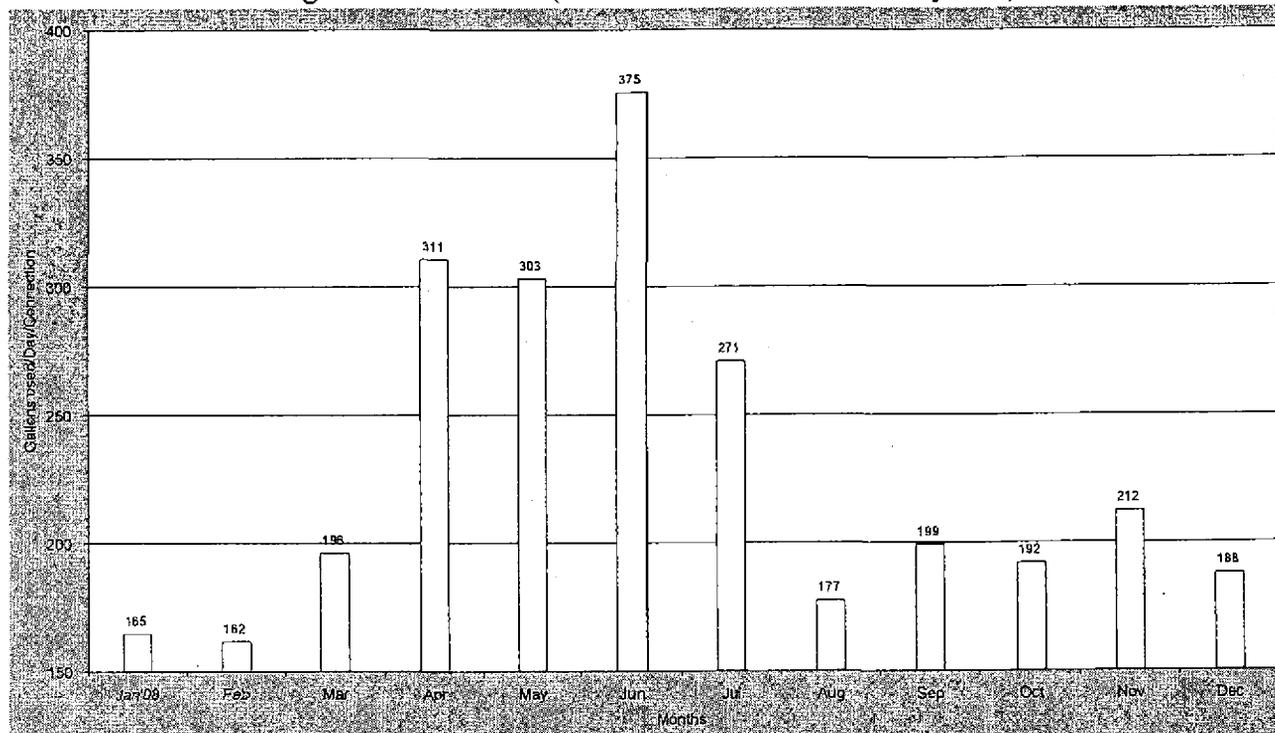
<sup>6</sup> Per Company's responses to Data Requests and site visit

B. Water Use

Water Sold:

Figure 7 represents the water consumption data provided by the Company in its water use data sheet for the test year ending December 31, 2008. Customer consumption included a high monthly water use of 375 GPD in June, and the low water use was 162 GPD per connection in February. The average annual use was 229 GPD per connection.

Figure 6. Water Use (The Southern/ Los Encinos system)



Non-account Water:

The Company reported 3,837,000 gallons pumped and 3,180,000 gallons sold for the test year, resulting in a water loss of 17 percent, which exceeds the recommended threshold amount of 10 percent. The Company believes that much of the water loss at the Southern/Los Encinos is attributable to numerous leaks within the distribution system, consisting of shallow and substandard polyethylene water piping and a leaking storage tank. The Company is currently evaluating its options for replacing the failing water lines and storage tank.<sup>7</sup>

Staff recommends that the Company evaluate its Southern/Los Encinos system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a report, containing a detailed cost analysis and explanation

<sup>7</sup> See System Analysis Section and Section VIII (Financing) in this report for more details.

demonstrating why the water loss reduction to less than 10 percent is not cost effective. In no case shall water loss be allowed to remain above 15 percent.

### C. System Analysis

Based on the data provided by the Company for the Test Year, Staff concludes that the system's well production capacity of 30 GPM is adequate but that the storage capacity of 10,000 gallons is inadequate to serve the existing customer base.

The Company indicates that a recently installed 2-inch (1/2-mile long) emergency interconnection line between Sonoita and the Southern/Los Encinos systems did not improve operation of the two systems, due to differences in elevation in the two systems and a lack of adequate pressure.<sup>8</sup>

The Company is currently evaluating options to resolve the Southern/Los Encinos water system water system inadequacies and improve reliability in its Sonoita and Southern/Los Encinos systems. The scope of the proposed improvements includes permanent interconnection of the Sonoita and Southern/Los Encinos Systems, replacement of the three 10,000 gallon rusted and leaking storage tanks with a new 40,000 gallon storage tank, refitting the existing 30 GPM Southern/Los Encinos well with a higher horsepower pump, installation of a new booster system, installation of two 3,000 gallons hydro-pneumatic tanks and electrical system improvements, plus other improvements.<sup>9</sup> It is anticipated that with these improvements the combined system would have reliable production and adequate storage capacity to serve the present customer base and reasonable growth.

### D. Growth

Based on customer data provided by the Company, it appears that the Southern/Los Encinos system has experienced a static growth rate. The number of connections at the end of each year from 2006 to 2008 was 38.

Therefore, Staff is projecting that the growth rate will remain static at this time.

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<sup>8</sup> Elevations within the Southern/ Los Encinos distribution system are higher than in the neighboring Sonoita system. Therefore, it's not possible to pump water from the Sonoita system under the present configuration of two systems.

<sup>9</sup> See Section VIII (Financing) in this report for more details.

### 3. Southern/Downtown Water System.

The Southern/Downtown system includes one active well, a storage tank, a booster pump, four 87 gallon bladder tanks and a distribution system serving approximately 19 commercial service connections. A water system schematic is shown as Figure 7 and a plant facilities summary<sup>10</sup> is tabulated below:

Active Wells

ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-620783	7.5	57	450	8	2	Pre-1982

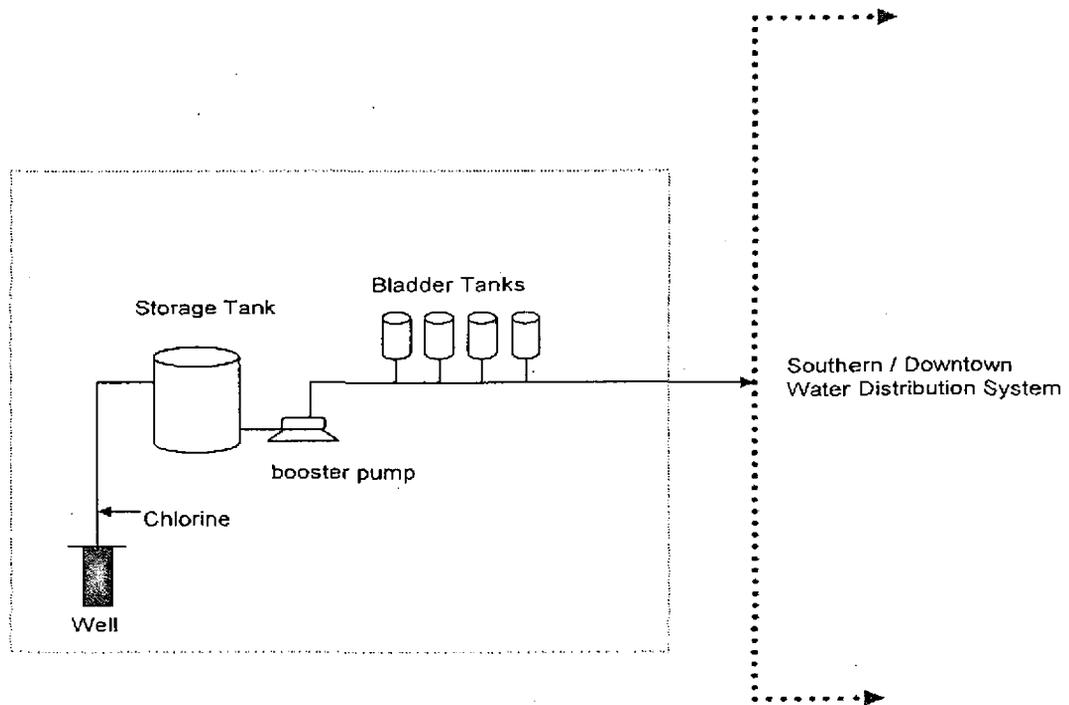
Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
10,000	1	87	4	5	1

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
2	PVC	1,280	5/8x3/4	18	none
3	PVC	1,100	Turbo 3	1	

Components
Chlorination System
160 feet of chain link fence

<sup>10</sup> Per Company's responses to Data Requests and site visit

Figure 7  
The Southern/Downtown System Schematic

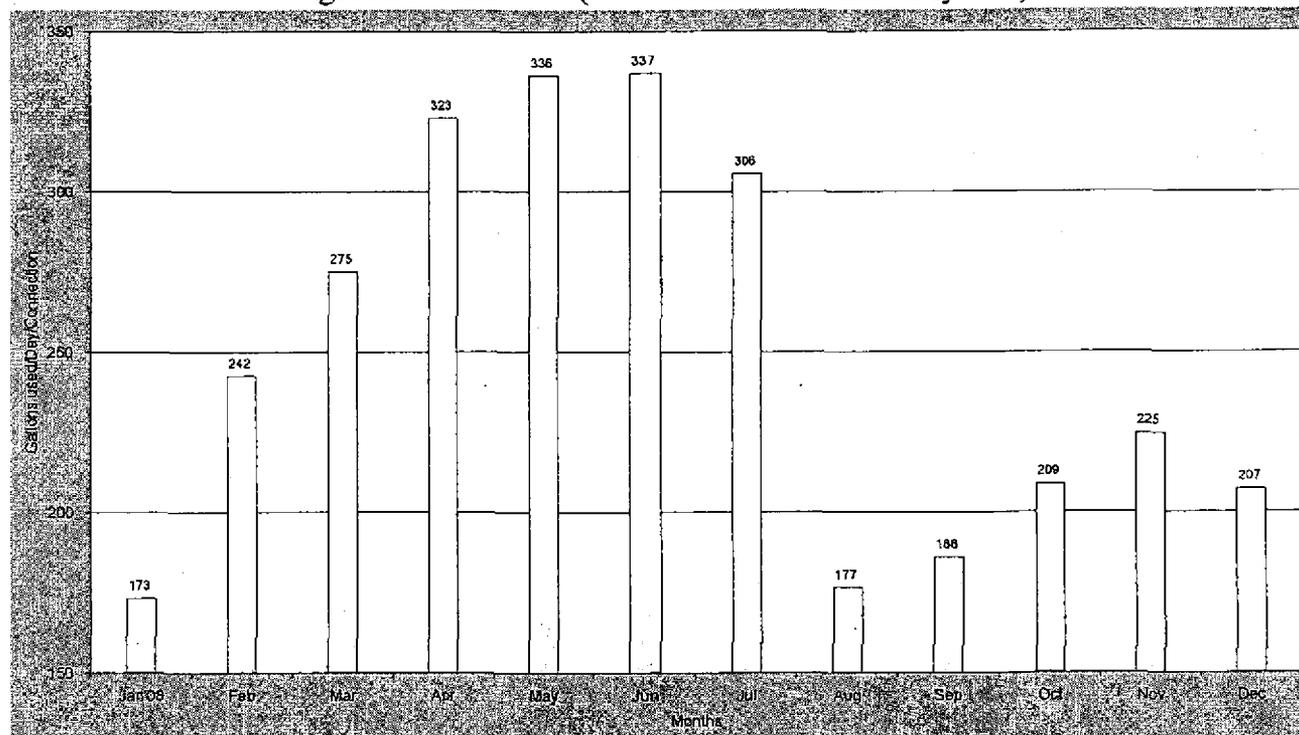


## B. Water Use

### Water Sold:

Figure 8 represents the water consumption data provided by the Company in its water use data sheet for the test year ending December 31, 2008. Customer consumption included a high monthly water use of 337 GPD in June, and the low water use was 173 GPD per connection in February. The average annual use was 250 GPD per connection.

Figure 8 Water Use (The Southern/Downtown system)



### Non-account Water:

The Company acknowledged discrepancies in gallons pumped reported in Water Use Data in its Rate Application and Annual Reports and explained that the well meter was inoperable from January 2007 through June 2007 and again from March 2008 through May 2009. According to the Company, the well meter was replaced in May 2009.

Due to the unknown gallons pumped from March 2008 through December 2008, Staff used reported Water Use Data from July 2007 through February 2008. The Company reported 1,394,000 gallons pumped and 1,185,000 gallons sold from July 2007 through February 2008, resulting in a water loss of 15 percent, which exceeds the recommended threshold amount of 10 percent.

The Company believes that much of the water loss at the Southern/Downtown is attributable to aging service connection water meters. The Company is proposing to replace all water meters in this system.<sup>11</sup>

Staff recommends that the Company evaluate its Southern/Downtown system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a report, containing a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. In no case shall water loss be allowed to remain above 15 percent.

### C. System Analysis

Based on the data provided by the Company for the Test Year, Staff concludes that the Southern/Downtown system's well production capacity of 57 GPM and storage capacity of 10,000 gallons is adequate to serve the present customer base and reasonable growth.

### D. Growth

Based on customer data provided by the Company, it appears that the Southern/Downtown system has experienced static growth rates. A listing of number of connections at the end of each year from 2006 to 2008 is tabulated below:

2006	2007	2008
20	20	19

Therefore, Staff is projecting that the growth rate will remain static at this time.

## III. ADEQ COMPLIANCE

### *Compliance*

The Arizona Department of Environmental Quality ("ADEQ") regulates the Sonoita water system under ADEQ Public Water System ("PWS") No. 12-005, the Southern/Los Encinos system under PWS No. 12-010 and the Southern/Downtown system under PWS No. 12-308.

ADEQ has reported that the Company's three water systems have no deficiencies and these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.<sup>12</sup>

<sup>11</sup> See Section VIII (Financing) in this report for more details.

<sup>12</sup> Per ADEQ Compliance Status Reports dated May 15, 2009.

*Water Testing Expense*

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

Based on data provided by the Company, Staff's estimated average water testing expenses for each system is as follows: the Sonoita system at \$ 968, the Southern/Los Encinos system at \$898 and the Southern/Downtown system at \$851, totaling \$2,717. Table A shows average annual monitoring expense estimates totaling \$2,717 with participation in the MAP (ADEQ - MAP invoices for the 2009 Calendar Year rounded were \$358 for the Sonoita system, \$348 for the Southern/Los Encinos system and \$301 for the Southern/Downtown system). Staff recommends its annual water testing expense estimate of \$2,717 be used for this proceeding.

Table A. Water Testing Cost

Sonoita Water System (PWS#12-005)

Monitoring	Cost per Sample	No of samples per year	Average Annual Cost
Total coliform - monthly	\$25	12	\$300
Lead & Copper – per 3 years	\$33	5/3-yrs	\$55
TTHM & HAA5-annualy	\$255	1	\$255
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrate, Nitrite, Asbestos- annualy	MAP	MAP	\$358
Total			<b>\$968</b>

Southern/Los Encinos system (PWS#12-010)

Monitoring	Cost per Sample	No of samples per year	Average Annual Cost
Total coliform - monthly	\$20	12	\$240
Lead & Copper – per 3 years	\$33	5/3-yrs	\$55
TTHM & HAA5-annualy	\$255	1	\$255
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrate, Nitrite, Asbestos- annualy	MAP	MAP	\$348
Total			<b>\$898</b>

Southern/Downtown system (PWS#12-308)

Monitoring	Cost per Sample	No of samples per year	Average Annual Cost
Total coliform - monthly	\$20	12	\$240
Lead & Copper – per 3 years	\$33	5/3-yrs	\$55
TTHM & HAA5-annually	\$255	1	\$255
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrate, Nitrite, Asbestos- annually	MAP	MAP	\$301
Total			<b>\$851</b>

**IV. ADWR COMPLIANCE**

The three systems are not located in an ADWR designated Active Management Area.

The ADWR has determined that all three water systems are currently not compliant with ADWR requirements regarding the filing of a 2008 Annual Water Use Report. Each of these systems received a failure-to-file notice and the Company has until August 18, 2009, to submit the required Annual Water Use Reports.<sup>13</sup>

**V. ACC COMPLIANCE**

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.<sup>14</sup>

**VI. DEPRECIATION RATES**

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B. Staff recommends that the Company adopt Staff's typical and customary depreciation rates in the accounts listed in Table B.

<sup>13</sup> Per ADWR Compliance Status Report dated July 7, 2009.

<sup>14</sup> Per ACC Compliance status check dated September 29, 2009.

**TABLE B**  
**DEPRECIATION RATE TABLE FOR WATER COMPANIES**

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

**VII. OTHER ISSUES***1. Service Line and Meter Installation Charges*

In its application the Company has requested changes to its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's recommended range for these charges. Therefore, Staff recommends the acceptance of the Company's proposed installation charges broken out by Service Line and Meter Installation as shown in Table C.

**TABLE C  
SERVICE LINE AND METER INSTALLATION CHARGES**

Meter Size	Present Installation Charges for Sonoita	Present Installation Charges for Southern/ Los Encinos and Southern/ Downtown	Company's Proposed Installation Charges for Sonoita, Southern/ Los Encinos and Southern/ Downtown		
			Service Line Installation Charges	Meter Installation Charges	Total Charges
5/8"x 3/4"	\$265	\$250	\$430	\$130	\$560
3/4"	\$295	\$300	\$430	\$230	\$660
1"	\$345	\$325	\$480	\$290	\$770
1-1/2"	\$520	\$520	\$535	\$500	\$1,035
2"	\$725	\$725	N/A	N/A	N/A
2"- Turbine	N/T	N/T	\$815	\$1,020	\$1,835
2"- Compound	N/T	N/T	\$815	\$1,865	\$2,680
3"	N/T	\$925	N/A	N/A	N/A
3"- Turbine	N/T	N/T	\$1,030	\$1,645	\$2,675
3"- Compound	N/T	N/T	\$1,150	\$2,520	\$3,670
4"	N/T	\$1,550	N/A	N/A	N/A
4"- Turbine	N/T	N/T	\$1,460	\$2,630	\$4,090
4"- Compound	N/T	N/T	\$1,640	\$3,595	\$5,235
5"	N/A	2,600	N/A	N/A	N/A
6"	N/T	\$3,725	N/A	N/A	N/A
6"-Turbine	N/T	N/T	\$2,180	\$4,975	\$7,155
6"-Compound	N/T	N/T	\$2,300	\$6,870	\$9,170

Note: "N/T"- No Tariff; "N/A"- Not Applicable

## *2. Curtailment Plan Tariff*

The Company has an approved curtailment plan tariff.

## *3. Backflow Prevention Tariff*

The Company has an approved backflow prevention tariff.

## **VIII. FINANCING**

The Company has submitted a financing application to assist in funding of capital improvement projects. The scope of the proposed improvements in Southern/Downtown system includes replacement of leaking meters. The scope of the proposed improvements in Southern/Los Encino and Sonoita systems involves permanent interconnection of two systems, replacement of leaking and substandard waterlines, replacement of three 10,000 gallon rusted and leaking storage tanks with a new 40,000 gallons storage tank, refitting the existing 30 GPM Southern/Los Encinos well with a higher horsepower pump, installation of a new booster system, installation of two 3,000 gallons hydro-pneumatic tanks and electrical system improvements.

These improvement projects are estimated at a total cost of \$656,271 in which the Company is requesting approval of funding through the use of Water Infrastructure Financing Authority ("WIFA") indebtedness.

As part of its responses to data requests, the Company submitted an Opinion of Probable Costs ("OPC") prepared by the Engineering and Environmental Consultants, Inc. The OPC outlined the following capital improvements and costs, as shown in Table D.

TABLE D

Item #	Item Description	Quantity	Unit Cost (installed)	Extended Cost	Notes
<b>Southern / Downtown (PWS 12-308)</b>					
1	Meter Replacement	19	\$130	\$2,470.00	Leaking water meter replacement
<b>Southern / Los Encino (PWS 12-010) and Sonoita (PWS 12-005)</b>					
2	Replace 1-1/2", 2" and 3" piping with 4" Class 200 PVC piping and all required appurtenances at PWS 12-005 & 12-010 sites	10,560 lf	\$25.50	\$270,000.00	Replace substandard failing water lines with 4" Class 200 PVC piping installed with at least 36" depth of Cover and required appurtenances. The estimated 10,560 lf includes 2,900lf of the 2" emergency interconnection line; 3,250 lf line in Collie Drive and 1,200 lf along Park Drive in PWS12-005; 3,210 lf along Boyd Lane and Toledo Rd. in PWS 12-010. The Company reported that these specific locations have been determined to be critical areas for pipe replacement due to existing and past pipe leaks and failures.
3	Replace well pump at PWS 12-010 site	1	\$35,000.00	\$35,000.00	Replace 7.5 HP with a 20HP pump to improve pressure throughout the distribution system and provide redundancy in both systems (PWS 12-010 & 12-005)
4	Install 25 HP Booster Station with up to four booster pumps and required appurtenances at PWS 12-005 site	1	\$35,000.00	\$35,000.00	Install 25 HP Booster Station to increase pressure, improve flows and provide redundancy in both systems (PWS 12-010 & 12-005). Installation would include suction and header piping, pressure gauges, flow meters, isolation and check valves, and pipe support
5	Install 40,000 gallon steel Storage Tank at PWS 12-005 site	1	\$40,000.00	\$40,000.00	Replace 3 rusted storage tanks with a new 40,000 gallon tank to provide at least 1-day storage during peak demand for both systems (PWS 12-010& 12-005). Installation would include a ladder, level floats, water level sight, access hatches, overflow and isolation valves

6	Install two 3,000 gallon hydro-pneumatic tanks at PWS 12-005 & 12-010 sites	2	\$16,750.00	33,500.00	One 3,000 gallon tank, installed at PWS 12-005, would serve as a control of the new Booster Station. Second tank would be installed at Well site in PWS 12-010. Installation would help to minimize pumps cycling and provide sustained system pressure. Installation would include a sight glass, foundation, support, air compressor, valves, pressure gauges and other required appurtenances
7	Electrical system improvements	1	\$57,530.00	\$57,530.00	A phase converter (single phase to three phase) would provide efficient power to new pumps. A new control panel would provide power and control to the new well pump, storage tank floats, booster pumps and hydro-pneumatic tanks. Wells at PWS 12-005 & 12-010 sites will communicate wirelessly to provide automatic operation
Subtotal				\$473,500.00	
Administration and Legal Expenses				2% of Construction Cost	\$ 9,470.00
Engineering Fees				8% of Construction Cost	\$ 37,880.00
Survey Fees				2% of Construction Cost	\$ 9,470.00
Project Inspection Fees				3.5% of Construction Cost	\$ 16,572.00
				Subtotal	\$546,892.50
Contingencies 20%					\$109,378.50
				<b>Total</b>	<b>\$656,271.00</b>

Staff concludes the proposed capital improvements and estimated costs totaling \$656,271 appear to be reasonable and appropriate. However, approval of this Financing Application does not imply any particular future treatment for rate making purposes. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

Staff recommends that Commission approval of the Financing Application for proposed capital improvement projects, delineated in Table D, be conditional on the Company filing with Docket Control, as a compliance item in this docket, copies of the ADEQ AOC for each of the proposed improvement projects by December 31, 2010.

**MEMORANDUM - REVISED**

**TO:** Gerald Becker  
Public Utilities Analyst V  
Finance & Rate Analysis  
Utilities Division

**FROM:** Richard Martinez *RM*  
Public Utilities Consumer Analyst II  
Consumer Services  
Utilities Division-Tucson

**THRU:** Connie Walczak *CW*  
Consumer Services Manager  
Utilities Division

**DATE:** November 18, 2009

**Re:** IN THE MATTER OF THE APPLICATION OF SONOITA VALLEY WATER COMPANY FOR APPROVAL OF A RATE INCREASE-DOCKET NO. W-20435A-09-0296

**Re:** IN THE MATTER OF THE APPLICATION OF SONOITA VALLEY WATER COMPANY FOR AUTHORITY TO INCUR DEBT TO FINANCE WATER SYSTEM IMPROVEMENT DOCKET NO. W-20435A-09-0298

**COMPANY HISTORY**

Sonoita Valley Water Company ("Sonoita Valley") provides service to approximately 99 customers in an area near the town of Sonoita, Arizona in Santa Cruz County. Sonoita Valley was organized under the laws of the State of Arizona and was incorporated on May 13, 1975.

**COMPLAINT HISTORY**

For the period of January 1, 2006 through November 17, 2009, Consumer Services records reflect the following Complaints were filed against the Company:

- 2007 - One Complaint- Quality of Service-Outage/Interruptions.
- 2008 - Two Complaints- Quality of Service-Outage/Interruptions.  
No notification of current rate case.
- 2009 - One Complaint- Quality of Service-Outage/Interruptions.

All four complaints have been resolved and closed.

## **OPINION HISTORY (FOR OR AGAINST RATE INCREASE)**

Seven Opinions have been filed in 2009 opposing the current proposed rate increase.  
One Opinion has been filed in 2009 in favor of the current proposed rate increase.

## **AFFIDAVIT OF MAILING**

The Company's Affidavit of Mailing of the Customer Notification was filed on July 31, 2009.

## **BILL FORMAT COMPLIANCE**

A review of the Company's bill format indicates that it is in compliance with the Arizona Administrative Code R14-2-409. B.2.

## **CORPORATIONS DIVISION STATUS**

Per the Corporations Division of the Commission, the Company is in "Good Standing".

## **CROSS-CONNECTIONS/BACK-FLOW TARIFF**

The Company's Cross Connection/Backflow Tariff was approved effective February 24, 2004.

## **CURTAILMENT TARIFF**

The Company has a curtailment tariff on file per Decision No. 64892.

## **PUBLIC COMMENT MEETING**

A Public Comment Meeting has not been requested by customers nor scheduled by Staff at this time.

## **INTERVENORS**

There have been no requests filed to intervene at this time.

Cc: Engineering  
File