

**ORIGINAL**



0000110062

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AZ CORP COMMISSION  
DOCKET CONTROL

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

Arizona Corporation Commission  
**DOCKETED**

APR 12 2010

9 KRISTIN K. MAYES, CHAIRMAN  
10 GARY PIERCE  
11 PAUL NEWMAN  
12 SANDRA D. KENNEDY  
13 BOB STUMP

DOCKETED BY

14 IN THE MATTER OF THE APPLICATION OF  
15 SOUTHLAND UTILITIES COMPANY, INC.  
16 FOR AUTHORITY TO INCUR LONG-TERM  
17 DEBT.

DOCKET NO. W-02062A-09-0466

18 IN THE MATTER OF THE APPLICATION OF  
19 SOUTHLAND UTILITIES COMPANY, INC.  
20 FOR A RATE INCREASE.

DOCKET NO. W-02062A-09-0515

**AMENDED FINANCE  
APPLICATION**

21 Pursuant to A.R.S. § 40-301 *et seq.* and A.A.C. R14-3-106(F) Southland Utilities  
22 Company, Inc. (“Company” or “Applicant”), hereby amends its application for authority  
23 to incur debt to finance water system improvements. The Company is amending this  
24 application based upon consultation with Arizona Corporation Commission Staff  
25 (“Staff”) and additional analysis performed by the Company’s engineers and system  
26 operators.  
27  
28

1 **PRELIMINARY STATEMENT**

2       The Company is a public service corporation subject to regulation by the Arizona  
3 Corporation Commission (“Commission”) as a water utility. The Company holds a  
4 Certificate of Convenience and Necessity (“CC&N”) in the area of Sierra Vista, Arizona.  
5

6       Previously, the Company borrowed \$494,622 primarily to pay for the cost of  
7 replacing a failing and inadequate storage tank. *See* Exhibit 2. In addition, the Company  
8 was able to purchase another storage tank at that time to alleviate water supply concerns  
9 caused by high demand during the Summer months and enable the Company to provide  
10 fire protection once much-needed pipeline repairs are finished. The Company, however,  
11 needs financing to finish the project and connect this additional storage tank to the  
12 system.  
13

14       Accordingly, the Company has applied to the Water Infrastructure Finance  
15 Authority (“WIFA”) for a loan to make the requisite equipment improvements. *See*  
16 Exhibit 1. WIFA placed the Company on its 2010 Drinking Water Revolving Fund  
17 Priority List for a loan in the amount of \$1,728,342. Consistent with discussions held  
18 with Staff, the Company has continued to evaluate the proposed requisite system  
19 improvements and has developed a plan that requires the Company to borrow an  
20 additional \$1,331,320 for necessary system improvements. These improvements consist  
21 primarily of acquiring an onsite generator and replacing approximately 40-year old,  
22 failing asbestos pipelines. Accordingly, the Company now reduced its financing request  
23 by more than \$400,000 and is seeking authority from the Commission to finance  
24 \$1,825,941 (\$1,331,320 + \$494,622).  
25  
26  
27  
28

1 **INFORMATION REQUESTED ON APPLICATION FORM**

2 **1. Applicant's Name and Address.**

3  
4 Southland Utilities Company  
5 Bonnie O'Connor  
6 P.O. Box 85160  
7 Tucson, Arizona 85754  
Telephone: (520) 623-5172  
Facsimile: (520) 792-0377

8 **2. Person Authorized to Receive Communications.**

9 Steve Wene, Esq.  
10 Moyes Sellers & Sims Ltd.  
11 1850 North Central Ave., Suite 1100  
12 Phoenix, Arizona 85004  
13 Telephone: (602) 604-2189  
Facsimile: (602) 274-9135

14 **3. Financing Description.**

15 If the Commission authorizes the proposed debt, the Company will request that  
16 WIFA lend the Company \$1,825,941. Although the Company is on the loan priority list,  
17 WIFA does not offer finance terms until the Commission authorizes water providers like  
18 the Company to incur debt. The Company understands that the Commission and WIFA  
19 have a standard working arrangement to accommodate WIFA's loan practices. The  
20 Commission staff may want to contact the following WIFA staff person:

21 Angie Valenzuela  
22 Senior Loan Officer  
23 Water Infrastructure Finance Authority  
24 1110 W. Washington Street, Suite 290  
Phoenix, Arizona 85007

25 **4. Proceeds Statement.**

26 Gross proceeds will be \$1,825,941. WIFA has a combined interest and fee rate  
27 structure, so there are no issuance expenses. This means that the Company will net  
28 \$1,825,941 from the proposed loan.

1 **5. Plant to be Acquired Using Net Proceeds.**

2 The proceeds will be used primarily to finance the onsite generator, distribution  
3 mainline replacement, the storage tank improvements, fire hydrant installations, and  
4 related costs, such as engineering and other professional fees as set forth in Exhibits 1  
5 and 2.  
6

7 **6. Consistency with A.R.S. § 40-301 et seq.**

8 The proposed financing is: (a) within the Company's corporate powers, (b)  
9 compatible with the public interest; (c) compatible with sound financial practices; (d)  
10 compatible with the proper performance by the applicant of service as a public service  
11 corporation; and (e) will not impair the Company's ability to perform that service.  
12

13 **7. Service Fees.**

14 WIFA does not charge service fees. Under WIFA's combined interest and fee rate  
15 structure, the Company anticipates paying a fixed interest rate of prime plus 2%  
16 multiplied by a subsidy rate index set by WIFA. WIFA may offer the Company an 85%  
17 subsidy rate, so the effective interest rate could be Prime + 2% x 85%. This below-  
18 market rate loan is reasonable for the Commission to approve.

19 **8. Documents to be Executed in this Matter.**

20 There are no documents to be executed in the matter at this time.

21 **9. Pro Forma Balance Sheet and Income Statement.**

22 A Company pro forma balance sheet is attached as Exhibit 3. A Company pro  
23 forma income statement is attached as Exhibit 4.

24 **10. Customer Notice.**

25 The Commission's required notice will be provided to customers pursuant to  
26 Commission rules and the Company will file with the Commission a copy of the actual  
27 notice sent and an affidavit stating when it was sent to the customers.  
28

1 **REQUEST FOR APPROVAL**

2 As set forth in this Application, the Company requests that the Commission  
3  
4 authorize the financing described herein.

5 DATED this 12<sup>th</sup> day of April, 2010.

6 **MOYES SELLERS & SIMS LTD.**

7  
8   
9 \_\_\_\_\_  
Steve Wene

10  
11 **Original and 15 copies filed this**  
12 **12<sup>th</sup> day of April, 2010, with:**

13 Docket Control  
14 Arizona Corporation Commission  
15 1200 West Washington  
Phoenix, Arizona 85007

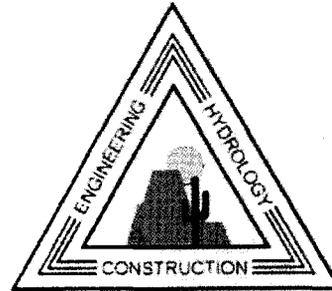
16 Robin Mitchell  
17 Attorney, Legal Division  
18 Arizona Corporation Commission  
19 1200 W. Washington Street  
Phoenix, Arizona 85007

20  
21   
22 \_\_\_\_\_

# EXHIBIT 1

April 7, 2010

Ms. Bonnie O'Connor  
Southwestern Utility Management  
PO Box 85160  
Tucson, AZ 85754  
(520) 623-5172, fax (520) 792-0377



**GREG CARLSON ENGINEERING, L.L.C.**  
1921 E Broadway Boulevard, Tucson, AZ 85719  
520-624-0070 fax: 520-624-4197  
e-mail: gceeng@gceeng.biz

**Re: Southland Utility Water System GCE # 10-012**

Dear Bonnie:

We have completed our initial modeling of the Southland Utilities Water Distribution System. As you are aware, the objective for creating the system model was to analyze the system for deficiencies and recommend system upgrades that would be appropriate to list on Southwestern Utility Management's "Opinion of Probable Cost (OPC)".

This letter summarizes the initial results of the system analysis. In the future, this model can be used to create a Master Plan Report for submittal along with any Approval to Construct applications with ADEQ.

We recommend that any system components replaced be upgraded as necessary at the time of replacement to provide customers with fire protection. The analysis presented below addresses the upgrades that would be needed to provide fire flow.

The Southland system is divided into two pressure zones that are currently defined by a closed gate valve south of Bevers St. Since Well 1 serves the zone south of the valve and Well 2 serves the area north, we will refer to the zones as Zone 1 and Zone 2 respectively.

Some portions of the existing system lie within the City of Sierra Vista city limits. The balance of the system lies within Cochise County. However, we determined that all of the existing structures currently served by the system reside in the County portion, which is under the jurisdiction of the Fry Fire District. The Fry Fire district has adopted the 2006 International Building Code. Therefore, the residential fire flow requirement is 1,000 gpm for 2 hours and the commercial fire flow is 1,500 gpm for the existing commercial buildings based on square-footage, building type and whether sprinklers are installed. Any future development in the City limits will also be subject to the 2006 IFC as the City has also adopted that code.

It was apparent after field-testing the system that it cannot provide sufficient fire flow in either of the zones. The boosters at Well 1 have a combined capacity of 380 gpm. The boosters at Well 2 have a combined capacity of 1,017 gpm, which is not enough to provide the domestic demand concurrently with fire flow.

The system does not currently have adequate storage for an average day of peak month demand as required by ARS R18-5-503. The PMD for this system for one day is approximately 251,770 gal. Tank 1 is a 62,000-gallon tank with a usable volume of 58,286 gallons (from full to discharge pipe elevation). Tank 2 is a 165,000-gallon tank with a usable volume of 127,777 gallons. The existing system therefore has a maximum usable storage volume of 186,063 gallons and is not sufficient.

The required 1,500 gpm / 2 hour fire flow equates to a storage requirement of 180,000 gallons. The domestic demand for the 2-hour fire period equates to 17,460. Therefore, the total storage available must exceed 197,460 gallons. The system storage is insufficient for this storage requirement as well.

After an initial review of the system model, it was also clearly demonstrated that the system pipes are not capable of providing fire flow even with upgraded boosters. The following discusses our pipe evaluation.

#### ***Scenario 1- Existing System***

First, we modeled the existing system and calibrated the model using the field test data that we collected on the 17<sup>th</sup> of February. We analyzed the system for fire flow capacity. The red dots in Figure 1 indicate model nodes that failed to satisfy the requirements of the 2006 IFC. A more detailed map with pipe color-coding and street names is also attached for your reference.

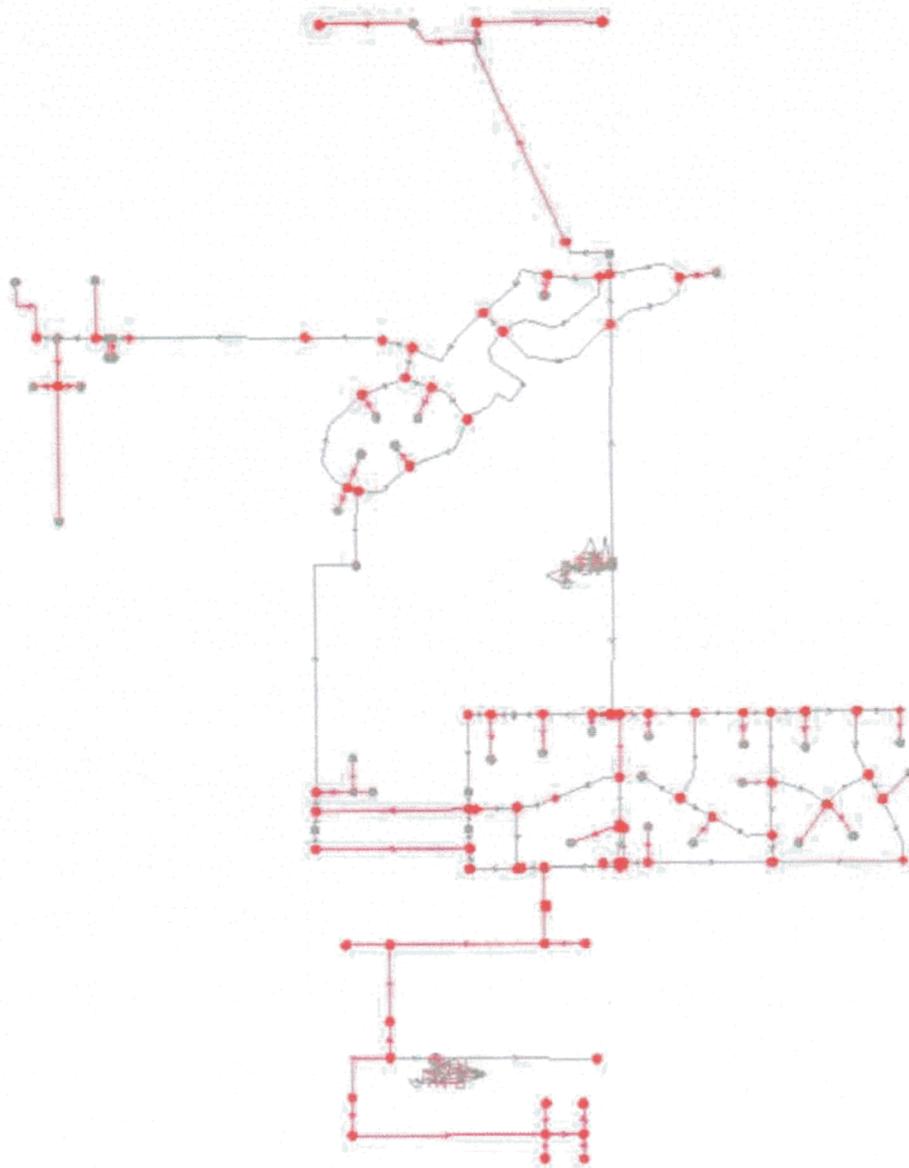


Figure 1: Fire flow analysis results for existing system. All locations fail.

***Scenario 2- Increase Storage/Booster Capacity***

Then we modeled a scenario in which the booster capacity was increased by bringing Tank 3 online and adding a booster at that location. The green dots in Figure 2 show the locations that would satisfy the 2006 IFC without any other improvements. These locations are limited.

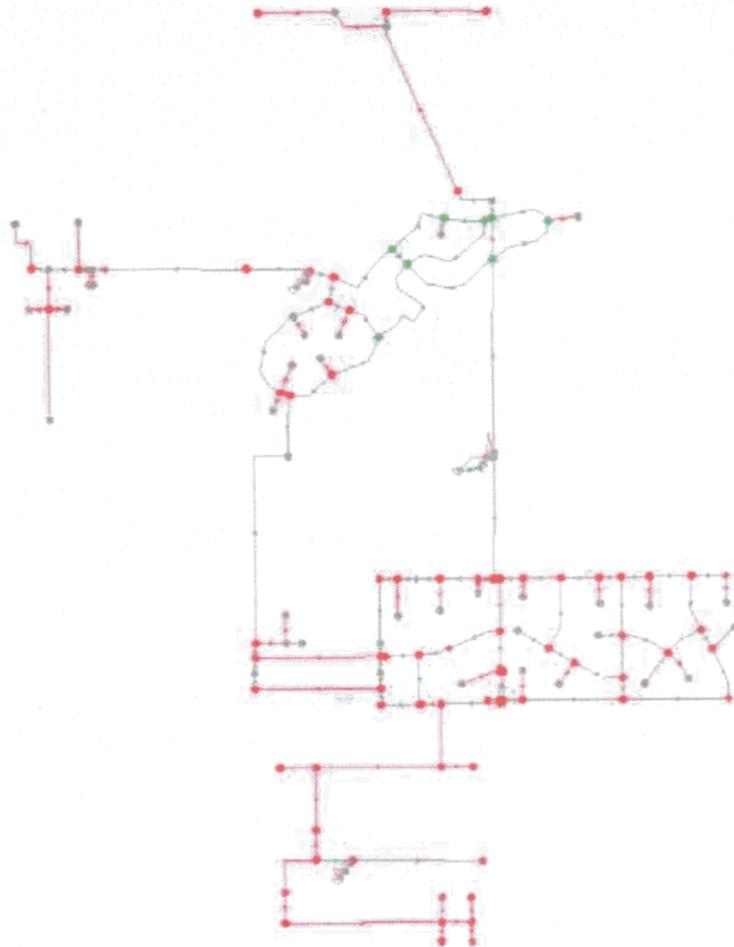


Figure 2: Tank 3 brought online with 350 gpm booster. Notice that some locations will pass fire flow analysis (green nodes) without any other upgrades.

### *Scenario 3- Combine Zones*

Next, we created a scenario with the two zones combined. The purpose for combining the 2 zones is to provide Zone 1 access to the storage in Zone 2. Without the interconnect between zones, Zone 1 will not have adequate fire storage. While the pressure in Zone 1 will have to be reduced 23 psi to facilitate the connection, the pressures will still meet the minimum requirements. Zone 2 pressures will be increased 7 psi once the zones are combined. Some small areas will have normal operating pressures that exceed 80 psi. Homes in those areas will need to install individual PRVs on the private service lines. The green dots in Figure 3 indicate a significant fire flow benefit from combining the

zones. But the system piping would still be too small in certain areas to convey the required flow.

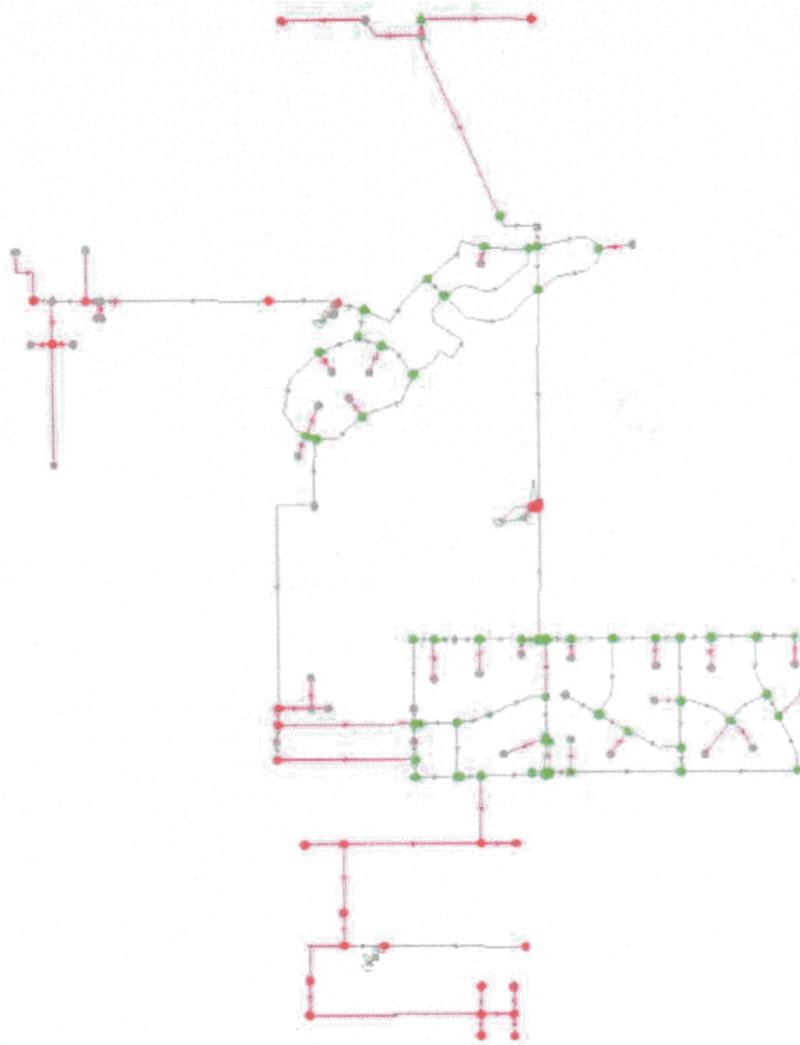


Figure 3: Tank 3 online with 350 gpm booster, and zones combined. Notice the significant benefit for fire flow analysis. Pipe upgrades will now allow for other areas to receive sufficient fire flow.

#### *Scenario 4- Add Pipe Upgrades*

We then systematically determined where pipe upgrades are necessary to provide sufficient fire flow. Figure 4 shows that the pipe upgrades will provide for sufficient fire flow throughout the system. More specific pipe sizes and locations are included in the example OPC list attached. You may notice that some additional pipes have been added to the system in areas around Kevin St and San Molino Street. These new pipes are a result of a conversation we had with Mike McKearney, the Fire Marshal for the Fry Fire District. He concluded that his department would not be able to access any fire hydrants

located in the alleys where the existing pipes are located. Therefore, new lines will need to be placed in the streets where his trucks can access them.

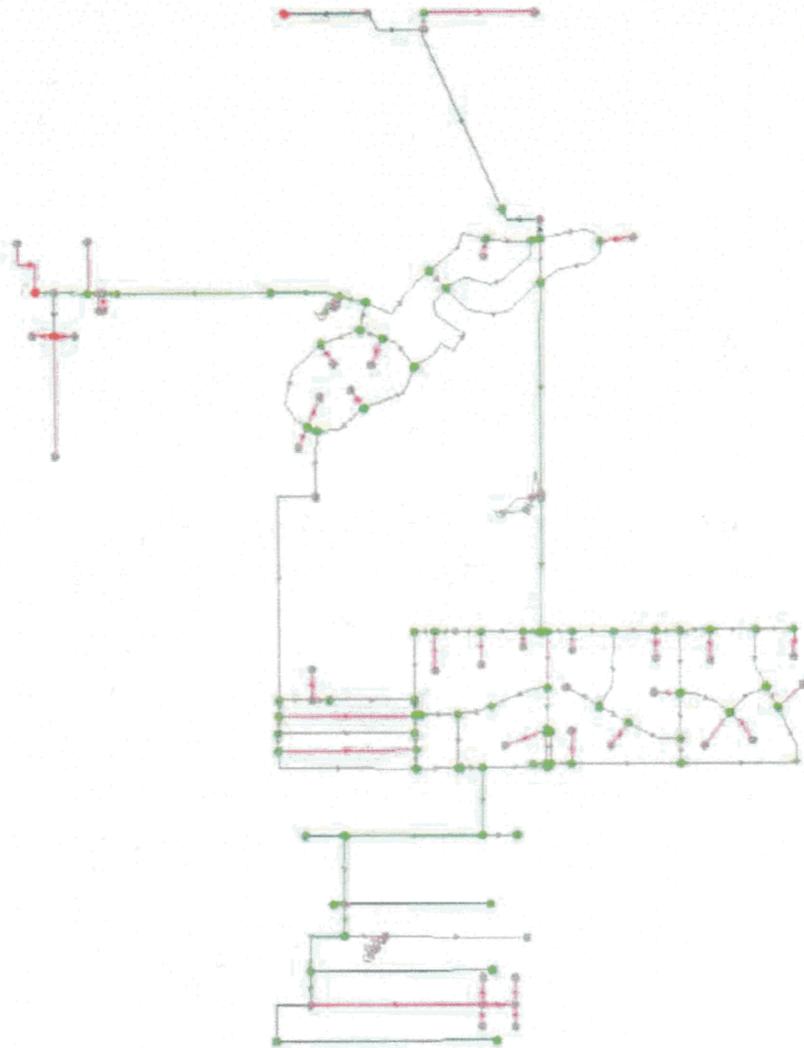


Figure 4: Now with pipe upgraded, notice that all areas pass fire flow analysis. The two red nodes failed because they have a commercial fire flow requirement (1,500 gpm). The Fry Fire District Fire Marshal has agreed that a reduction for these areas will be approved.

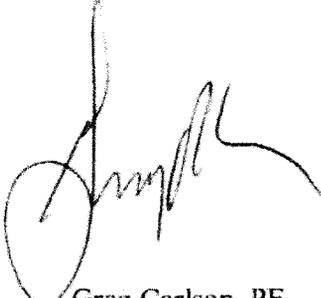
Prior to any design or construction, we recommend additional field-testing for the following reasons. First, testing should be done to locate and correct the problem that is restricting flow to the Golden Vistas subdivision east of Campobello Road. The flow tests performed on the two east-most hydrants in that subdivision revealed that there is some obstruction. It is likely that there are closed valves. The model indicates that the flow from these hydrants should have been in the range of 850 gpm. When the hydrants were opened, the flow was less than 180 gpm. Second, additional testing should be performed

to verify that the zones can be combined as modeled. Since no hydrants are currently in place in Zone 1, no field tests were performed in the area that could verify the layout or state of the existing pipes. The model was created based on the performance observed at the Well 1 site and the system layout given us by your office.

A detailed and prioritized list of system upgrades with quantities in a format similar to your preliminary OPC is attached. The costs listed are those provided by your office. Please note we have included items in addition to those discussed above. These items are on the list based on conversations we have had. We also prepared an explanation for each item to be submitted with the OPC as requested by the ACC. Since the costs on the OPC were provided by your office, the explanations of costs were also given to us by your staff.

If you have any questions with regard to this letter or its attachments, please feel free to contact our office at (520) 624-0070.

Sincerely,  
**GREG CARLSON ENGINEERING, LLC**



Greg Carlson, PE



EX 632-11

*Attachments:*

- OPC list*
- Explanation of OPC*
- OPC system upgrade map*
- Existing System Model Map*
- Southland Service Area and City Limits Map*

**SOUTHLAND UTILITIES  
OPINION OF PROBABLE COST**

PRIORITY	ITEM NO.	ITEM DESCRIPTION	QUANTITY	UNIT	UNIT PRICE	EXTENDED PRICE
1	<b>Back-up Generator</b>					
	1	Onsite Generator 350 KW	1	LS	\$64,500.00	\$64,500.00
2	<b>System Pipe Upgrades/Repairs</b>					
		<i>Replace Distribution Mains</i>				
	2	12-inch pipe along Campobello Ave alignment between Goldfinch Cr and Wakefield St	Approx 3,350'	LF	\$60.00	\$201,000.00
	3	6-inch pipe Kensington St	Approx 1,350'	LF	\$28.00	\$37,800.00
	4	6-inch pipe Kevin St	Approx 1,350'	LF	\$28.00	\$37,800.00
	5	6-inch pipe Bevers/San Pedro	Approx 1,525'	LF	\$28.00	\$42,700.00
	6	12-inch pipe along Golden Acres Drive	Approx 3,500'	LF	\$60.00	\$210,000.00
	7	8-inch pipe to replace 2" pipe running south from Golden Acres Drive near Self Storage area.	Approx 420'	LF	\$45.00	\$18,900.00
	8	8-inch pipe from Finch Cr to Buffalo Soldier	Approx 2,509'	LF	\$45.00	\$112,905.00
	9	8-inch pipe to replace some of 2" & 4" east-west pipes near Buffalo Soldier	Approx 1,200'	LF	\$45.00	\$54,000.00
	10	12-inch pipe from Bevers to Penny Lane	Approx 650'	LF	\$60.00	\$39,000.00
	11	6-inch pipe Penny Lane	Approx 350'	LF	\$28.00	\$9,800.00
	12	8-inch pipe Penny Lane	Approx 380'	LF	\$45.00	\$17,100.00
	13	12-inch pipe Penny Lane	Approx 1,325'	LF	\$60.00	\$79,500.00
	14	8-inch pipe Penny to San Mateo	Approx 650'	LF	\$45.00	\$29,250.00
	15	8-inch San Mateo to alley south of San Mateo	Approx 350'	LF	\$45.00	\$15,750.00
	16	8-inch pipe Alley south of San Mateo to San Molino	Approx 700'	LF	\$45.00	\$31,500.00
	17	8-inch pipe San Molino	Approx 1,650'	LF	\$45.00	\$74,250.00
		<i>Bring Tank 3 into Operation</i>				
	18	New 6" Tank 3 fill line	Approx 250'	LF	\$28.00	\$7,000.00
19	8" discharge pipe from tank to Golden Acres Drive	Approx 250'	LF	\$55.00	\$13,750.00	
	<i>New Boosters at Tank 3</i>					
20	Booster Pumps End Suction	2 @ 350gpm	LS	\$877.00	\$1,754.00	

**SOUTHLAND UTILITIES  
OPINION OF PROBABLE COST**

21	Fittings, valves, check valve and manifold setup	---	LS	\$15,000.00	\$15,000.00
22	Electrical for Tank 3 location	1	LS	\$45,000.00	\$45,000.00
	<b><i>Install Fire Hydrants</i></b>				
23	Hydrants (Kensington between San Pedro and Louise)	3	EA	\$1,640.00	\$4,920.00
24	Hydrants (Kevin between San Pedro and Louise)	3	EA	\$1,640.00	\$4,920.00
25	Hydrants (Beverly between San Pedro and Louise)	3	EA	\$1,640.00	\$4,920.00
26	Hydrant (San Pedro north of Kensington)	1	EA	\$1,640.00	\$1,640.00
27	Hydrants (500' intervals in Golden Meadows No. 2)	10	EA	\$1,640.00	\$16,400.00
28	Hydrants (Near in development near bus barn off of Buffalo Soldier)	3	EA	\$1,640.00	\$4,920.00
29	Hydrants (Penny Lane)	5	EA	\$1,640.00	\$8,200.00
30	Hydrants (San Mateo)	5	EA	\$1,640.00	\$8,200.00
31	Hydrants (San Molino)	5	EA	\$1,640.00	\$8,200.00
	<b><i>Combine Zones</i></b>				
32	Individual Private PRVs	Approx 10	EA	\$81.50	\$815.00
<b>SUBTOTAL</b>					\$1,221,394.00
	<b>Soft costs</b>				
	Administration and legal fees	2% of Construction Cost	---	---	\$24,427.88
	Engineering Fees	5% of Construction Cost	---	---	\$61,069.70
	Survey, Geotech, etc	1% of Construction Cost	---	---	\$12,213.94
	Project inspection fees	1% of Construction Cost	---	---	\$12,213.94
<b>TOTAL</b>					\$1,331,319.46

**Southland Utilities**  
**Explanation of Opinion of Probable Cost**

**Item 1            Onsite Back-up Generator**

Explanation of Need

The Southland system is prone to power outages. The outages are long lasting. Since both System 1 and System 2 rely on boosters for pressure and have no gravity storage tanks, back-up power is essential for ensuring continuous service to customers. Outages have been occurring as much as 6 times per year and tend to last for 3 to 5 hours. Once the two pressure zones are combined, the generator will be able to supply the entire Southland Water system with water from the Well 2 site.

The generator should be portable so that it can be moved from site to site if the outage lasts long enough to drain one of the Tanks.

Priority

Installing a back-up generator should be 1<sup>st</sup> priority to ensure continuous service to customers.

Explanation of cost

The opinion of probable cost is based on past projects and bids.

**Items 2-17    System Distribution Main Replacement**

Explanation of Need

A pipe replacement program is proposed due to the age, condition, and composition of the existing pipe distribution system. The existing distribution system is 1960s era asbestos cement pipes. The isolation valves are old and many of them are now inoperable. Presently, as these pipes are being replaced due to leaks and ruptures, the maintenance crew is replacing the broken portions with PVC pipe and having to use costly AC-to-PVC transition couplers for the repairs.

The existing distribution mains are not adequately sized to provide fire flow to the residential population. Since the waterlines and most of the valves will be replaced, it makes sense to upgrade the lines to provide fire flow. The upgrade locations and pipe sizes listed are based on the results of a hydraulic analysis of the system. Once these upgrades are installed, the distribution system will be capable of delivering the minimum required fire flow to the residences, and commercial areas near the west end of Golden Acres Drive and near Buffalo Soldier Trail. The target fire flow is 1,000 gpm for residential, and 1,500 gpm for the commercial areas as required by the 2006 International Fire Code based on the existing building types and sizes.

In addition, some of these mains are in alleys with limited access and should be relocated to the street fronts. Further, the Fry Fire District has indicated that

**Southland Utilities**  
**Explanation of Opinion of Probable Cost**

they cannot access the alleys where some existing pipes are located. These areas include the alleys in the Kensington St/Kevin St area and the San Mateo/San Molino Area.

**Priority**

Pipe replacement is 2nd priority and should be the focus after securing back-up power supply.

**Explanation of cost**

The opinion of probable cost is based on past projects and bids. Cost includes installation and fittings.

**Items 18-19 Bring Tank 3 into Operation**

**Explanation of Need**

The system does not currently have adequate storage for an average day of peak month demand as required by AAC R18-5-503. The PMD for this system for one day is approximately 251,770 gal. Tank 1 is a 62,000-gallon tank with a usable volume of 58,286 gallons (from full to discharge pipe elevation). Tank 2 is a 165,000-gallon tank with a usable volume of 127,777 gallons. The existing system therefore has a maximum usable storage volume of 186,063 gallons and is not sufficient. Bringing online Tank 3, which is an identical tank to Tank 2 and is already installed, would increase the system storage to 313,840 gallons.

The additional storage will also help alleviate water shortages if and when water supply wells become inoperable due to mechanical failure or aquifer production issues, which can occur during peak Summer demands.

**Priority**

Bring Tank 3 online is also 2nd priority.

**Explanation of cost**

The opinion of probable cost is based on past projects and bids. Cost includes installation.

**Items 20-22 New Boosters at Tank 3**

**Explanation of Need**

With Tank 3 brought online, boosters will be needed at that site. An added benefit is that these boosters will increase the capacity of the system such that it can provide fire flow.

**Priority**

Boosters are also 2nd priority and must occur to bring Tank 3 online.

**Explanation of cost**

**Southland Utilities**  
**Explanation of Opinion of Probable Cost**

The opinion of probable cost is based on past projects and bids. Cost includes installation.

**Items 23-31 Hydrant Installation**

Explanation of Need

Once the distribution mains have been replaced and upgraded where required, and the boosters at Tank 3 are installed, it will make sense to install hydrants where structures are located.

Priority

Hydrants are also 2nd priority and must occur to make sense of upgrading the replaced distribution mains for fire flow.

Explanation of cost

The opinion of probable cost is based on past projects and bids. Cost includes installation.

**Items 32 Combine Zones**

Explanation of Need

Combining the two existing zones by adjusting booster pressures and opening the closed zone valve is the best option for providing fire flow capacity to Zone 1. The connection will allow for Zone 1 fire flow to utilize the fire storage provided by Tanks 2 and 3.

A handful of residences east of Campobello on Finch Circle and Goldfinch Circle may need to install individual private PRVs but would remain a part of the main pressure zone. Any private service with pressure 80 psi or above should have PRVs installed.

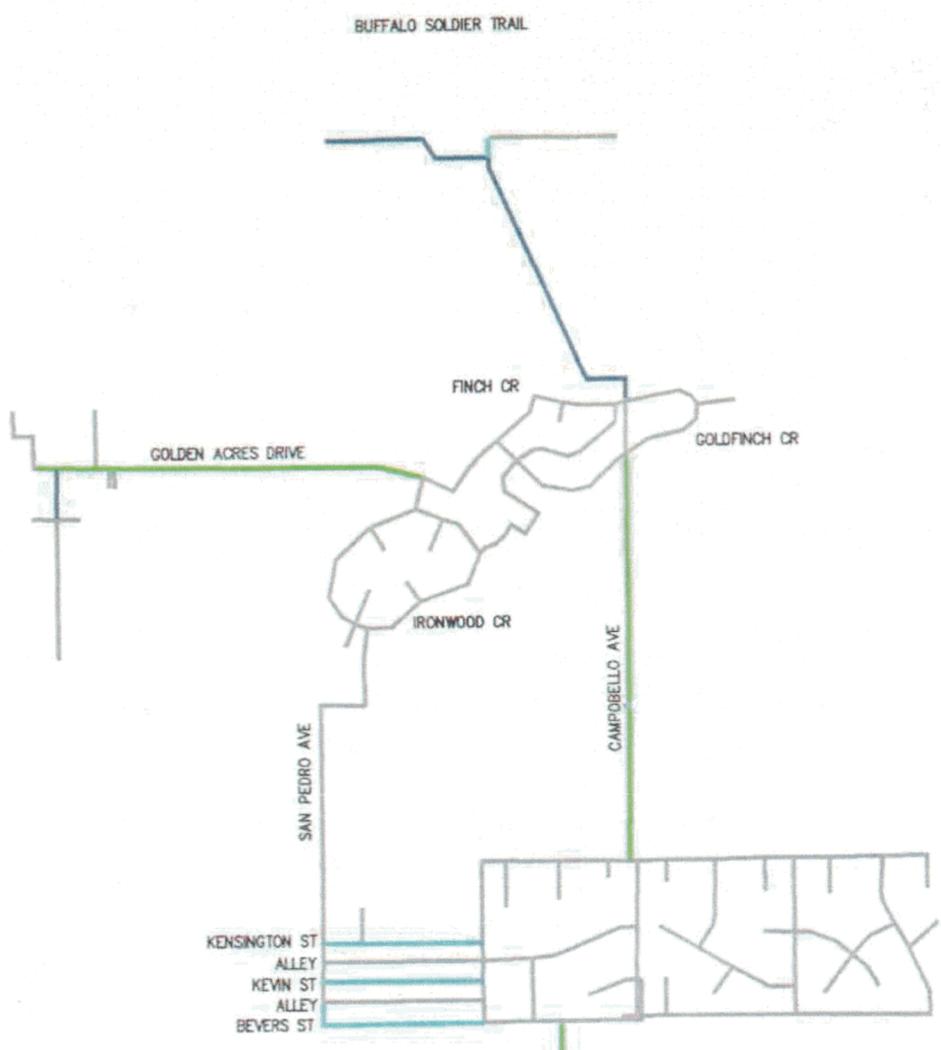
With the new zone configuration, the company will be able to provide water to all customers from Well 2 with the backup generator if there is a power outage. All locations in the entire system will also have access to all of the storage in the system.

Priority

This item is dependant on the other upgrades occurring.

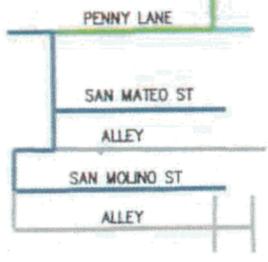
Explanation of cost

The opinion of probable cost is based on past projects and bids. Cost includes installation



**LEGEND**

	12" MAIN UPGRADE
	8" MAIN UPGRADE
	6" MAIN UPGRADE
	EXISTING DISTRIBUTION MAIN



G:\Carlson\_Engineering\2010\10-012\exhibits\OPC\_option2.dwg, 4/6/2010 5:05:51 PM, 1:1500

PREPARED BY:

**GREG CARLSON ENGINEERING, L.L.C.**  
 1521 E. Broadway Blvd., Tucson, AZ 85719  
 (520)-624-0070 fax (520)-624-4197  
 e-mail: gcarl@gregeng.biz

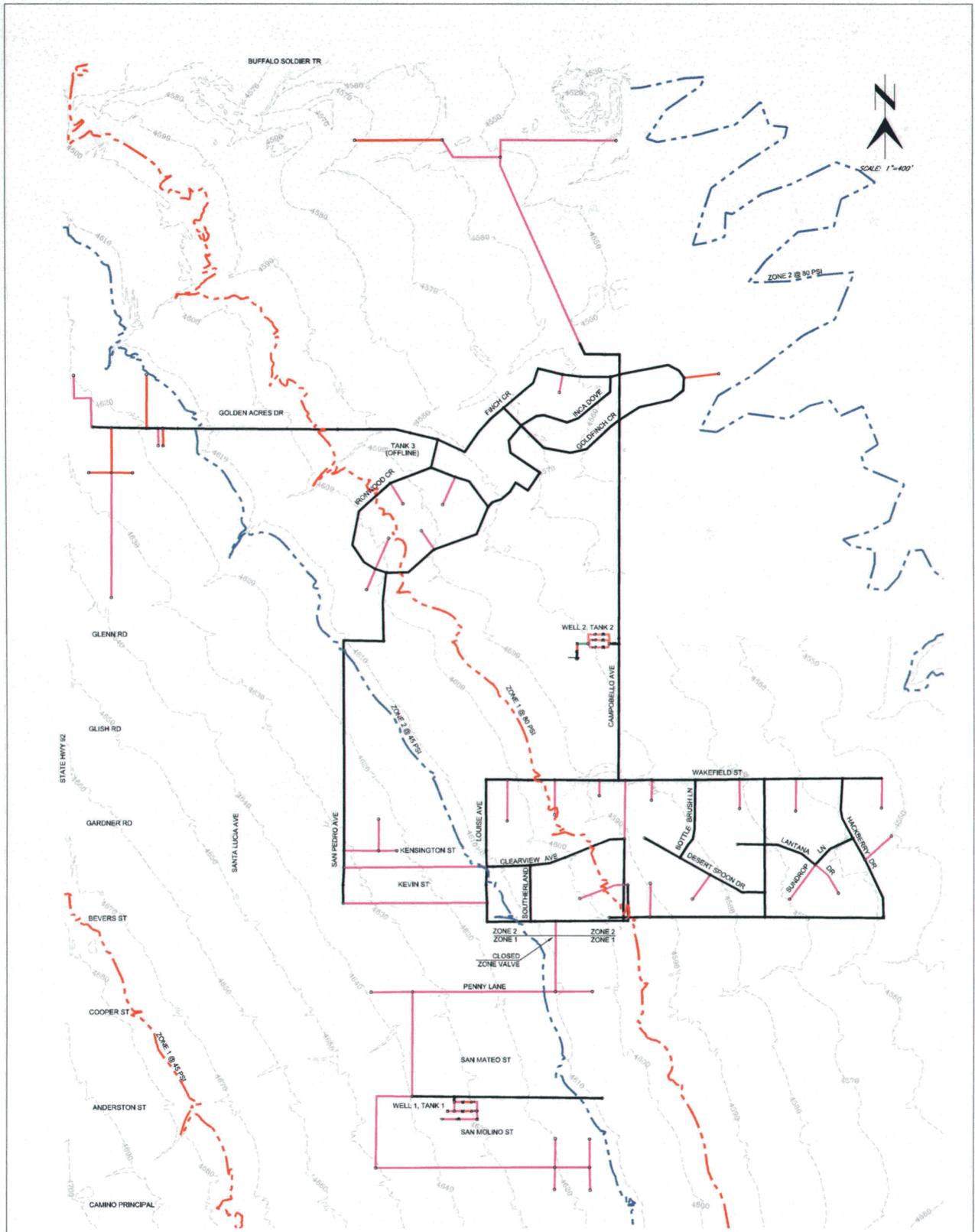
DESIGNED BY: JRM      DRAFTED BY: JRM      CHECKED BY: CRC

**SYSTEM UPGRADE MAP  
FOR  
SOUTHLAND UTILITY COMPANY**

LOCATED WITHIN PORTIONS OF SECTIONS 19,  
20, 29 & 30, T22S, R21E G&SRM,  
COCHISE COUNTY, AZ

HORIZ: NTS      REF: --  
 SCALE:      VERT: N/A      JOB NO. 10-012

DATE: APRIL 2010



**LEGEND**

	8" DISTRIBUTION MAIN
	6" DISTRIBUTION MAIN
	4" DISTRIBUTION MAIN
	2" DISTRIBUTION MAIN
	TANK
	PUMP
	MODEL JUNCTION
	HYDRANT
	WELL
	FLOW CONTROL VALVE (FOR MODELING PURPOSES)

Greg Carlson Engineering Project No. 10-012

PREPARED BY:

GREG CARLSON ENGINEERING, L.L.C.  
 1801 E. Broadway Blvd., Suite 402, 85718  
 (520) 824-2970 Fax (520) 824-4197  
 E-mail: greg@gregcarlson.com

DESIGNED BY: JAM      DRAWN BY: JAM      CHECKED BY: GRC      DATE: MARCH 2012

EXISTING SYSTEM MODEL MAP  
 FOR  
 SOUTHLAND UTILITY COMPANY

LOCATED WITHIN PORTIONS OF SECTIONS 19,  
 20, 29 & 30, T22S, R21E G&SRM,  
 COCHISE COUNTY, AZ

HORIZ. SCALE: 1"=400'      REF: -  
 VERT. SCALE: N/A      JOB NO. 10-012

DATE: MARCH 2012

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# **EXHIBIT 2**

**PROMISSORY NOTE**

U.S. \$494,621.57

Tucson, Arizona  
October 1, 2008

FOR VALUE RECEIVED, the undersigned, SOUTHLAND UTILITIES, INC. ("Maker"), whose mailing address is 2730 E. Broadway #135, Tucson, Arizona 85716, hereby agrees and promises to pay, without offset or deduction except as specifically provided herein, to the order of TUCSON/SIERRA PROPERTIES, LLP ("Holder"), this Promissory Note (the "Note") at 3915 E. Broadway #301, Tucson, Arizona 85711, or thereafter at such other place as Holder may from time to time designate in accordance with the procedures set forth in paragraph 17 hereof, the principal sum of Four Hundred Ninety-four Thousand Six Hundred Twenty-one and 57/100 Dollars (\$494,621.57) and such additional sums as may hereafter be added to said principal sum as hereinafter provided, together with interest before default on the unpaid principal balance at the rate of two and nineteen one-hundredths percent (2.19%) per annum.

All sums due hereunder shall be payable in lawful money of the United States at the times and in the manner set forth herein, unless sooner payable herein, but in any event, the entire unpaid principal balance together with all accrued interest and any other charges imposed hereunder shall become due and payable September 28, 2009 (the "Maturity Date").

1. **PAYMENTS OF PRINCIPAL AND INTEREST.** On the Maturity Date, if not sooner paid, the entire unpaid principal balance together with all accrued and unpaid interest shall become due and payable.

All interest shall be computed on the basis of the actual number of days elapsed since the last preceding date on which all accrued interest has been paid.

2. **ACCELERATION.** After the occurrence of an Event of Default, as set forth herein, then, at the option of Holder, the entire amount of the original principal which remains unpaid, plus any additions to principal, and interest on all unpaid and past due installments, shall immediately become due and payable.

3. **PREPAYMENT.** This Note may be prepaid in whole or in part at any time without premium or penalty.

4. **APPLICATION OF PAYMENTS.** All payments shall be applied first to fees, costs of collection incurred hereunder, late charges, if any, then to interest and then to principal.

5. **EVENT OF DEFAULT.** If Maker shall fail to timely make any payment due hereunder and fails to cure said default within five (5) days after written notice is given to Maker.

6. **TIME IS OF THE ESSENCE; REMEDIES.** It is agreed that time is of the essence in the performance and payment obligations of this Note. Upon the occurrence of an Event of Default, at the option of Holder, all amounts due hereunder shall be immediately due and payable.

7. **HOLDER'S RIGHTS CUMULATIVE.** The rights or remedies of Holder as provided in this Note shall be cumulative and concurrent, and may be pursued singly, successively or together against Maker.

8. **NO WAIVER.** No delay or omission on the part of Holder in exercising any right hereunder shall operate as a waiver of such right or of any other remedy under this Note. No previous waiver and no failure or delay by Holder in acting with respect to the terms of this Note, shall constitute a waiver of any breach, default, or failure of condition under this Note or any obligations contained herein. A waiver of the terms of this Note must be made in writing and shall be limited to the express written terms of such waiver.

9. **ATTORNEYS' FEES.** After the occurrence of an Event of Default, if Holder employs counsel for advice with respect to the Event of Default or to attempt to collect this Note or said other monies from, or to enforce this Note against Maker or any other party, in any such event, all of the reasonable attorneys' and paralegal fees and expenses arising from such services, and all expenses, costs and charges relating thereto shall be an additional liability owing hereunder by Maker to Holder, payable on demand and bearing interest from the date such payment is made by Holder until payment thereof to Holder, at the Default Rate of Interest (from the date of the occurrence of the Event of Default) until paid in full; provided, however, Maker shall pay all of the foregoing fees, costs, and expenses incurred by Holder to intervene, file a petition, answer, motion or other pleading in any suit or proceeding (bankruptcy or otherwise) relating to this Note regardless whether an Event of Default has occurred or not.

10. **PERMISSIBLE INTEREST RATE; NONUSURIOUS.** All agreements between Maker and Holder are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall cause the amount paid or agreed to be paid to Holder for the use, forbearance or the loaning of the indebtedness evidenced hereby to exceed the maximum permissible under applicable law. If from any circumstances whatsoever, fulfillment of any provision hereof shall result in transcending the interest limitation prescribed by law, then, the obligation to be fulfilled shall automatically be reduced to the legally prescribed limit, and if from any circumstances Holder should ever receive as interest an amount which would exceed the highest lawful rate of interest, such amount which would be in excess of interest shall be applied to the reduction of the principal balance evidenced hereby and not to the payment of interest. This provision shall control every other provision of all agreements between Maker and Holder.

11. **SUCCESSORS AND ASSIGNS.** This Note shall be binding upon Maker and its representatives, permitted successors and assigns.

12. **AMENDMENT; MODIFICATION.** This Note may not be changed, altered, modified, amended, deleted or supplemented orally, but only by an agreement in writing duly signed by or on behalf of Holder and Maker.

13. **WAIVERS BY MAKER.** Maker, endorsers, sureties, guarantors and all other persons liable or to become liable for all or any part of the principal balance evidenced by this Note severally waive presentment for payment, diligence, protest and demand for payment other than a notice of breach, notice of protest and dishonor. Such parties hereby consent, without affecting their liability, to any extension or alteration of the time or terms of payment hereof, any renewal, any release of any part or all of the security given for the payment hereof, any acceptance of additional security of any kind, and any release of, or resort to any party liable for payment hereof.

14. **CHOICE OF LAW.** The parties agree that venue shall be in any federal or state court in Tucson, Arizona only. This Note shall be governed and controlled as to validity, enforcement, interpretation, construction, effect and in all other respects, including, but not limited to, the legality of the interest charged hereunder, by the statutes, laws and decisions of the State of Arizona. Maker, in order to induce Holder to accept this Note and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, hereby consents to the jurisdiction of any state or federal court located within Pima County, Arizona.

15. **HEADINGS AND TITLES.** The headings used herein are for ease of reference only and shall not be used to construe or interpret this Note.

**MAKER**

SOUTHLAND UTILITIES, INC., an Arizona  
corporation

By: Andrew L. Romo  
Andrew L. Romo, President

# **EXHIBIT 3**

**Southland Utilities Company, Inc.**  
**Balance Sheet as of 12/31/08**  
**Includes Proforma Adjustments for WIFA Financing**

Acct. No.	ASSETS	TEST YEAR END BALANCE @ 12/31/2008	WIFA LOAN PROFORMA ADJUSTMENTS	TEST YEAR END 12/31/2008 ADJUSTED FOR WIFA LOAN
	<b>CURRENT AND ACCRUED ASSETS</b>			
131	Cash	\$ 18,205		\$ 18,205
134	Working Funds			
135	Temporary Cash Investments	198		198
141	Customer Accounts Receivable	10,854		10,854
146	Notes/Receivables from Associated Companies	-		-
151	Plant Material and Supplies	-		-
162	Prepayments	249		249
174	Miscellaneous Current and Accrued Assets	12,757		12,757
	<b>TOTAL CURRENT AND ACCRUED ASSETS</b>	<b>\$ 42,263</b>	<b>\$ -</b>	<b>\$ 42,263</b>
	<b>FIXED ASSETS</b>			
101	Utility Plant in Service	\$ 780,091	\$ 1,634,244	\$ 2,414,335
103	Property Held for Future Use	302,925	(302,925)	-
105	Construction Work In Progress			
108	Accumulated Depreciation - Utility Plant ("AD-UP")	(398,206)		(398,206)
121	Non-Utility Property			
122	Accumulated Depreciation - Non Utility ("AD-NU")			
	<b>TOTAL FIXED ASSETS</b>	<b>\$ 684,810</b>	<b>\$ 1,331,319</b>	<b>\$ 2,016,129</b>
	<b>TOTAL ASSETS</b>	<b>\$ 727,073</b>	<b>\$ 1,331,319</b>	<b>\$ 2,058,392</b>

**Southland Utilities Company, Inc.**  
**Balance Sheet as of 12/31/08 (continued)**  
**Includes Proforma Adjustments for WIFA Financing**

Acct. No.	LIABILITIES	TEST YEAR END BALANCE @ 12/31/2008	WIFA LOAN PROFORMA ADJUSTMENTS	TEST YEAR END 12/31/2008 ADJUSTED FOR WIFA LOAN
	<b>CURRENT LIABILITIES</b>			
231	Accounts Payable	\$ 9,070		\$ 9,070
232	Notes Payable (Current Portion)	494,622	(494,622)	-
234	Notes/Accounts Payable to Associated Companies	18,051		18,051
235	Customer Deposits			-
236	Accrued Taxes	4,508		4,508
237	Accrued Interest			-
241	Miscellaneous Current and Accrued Liabilities	514		514
	<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 526,765</b>	<b>\$ (494,622)</b>	<b>\$ 32,143</b>
	<b>LONG-TERM DEBT (Over 12 Months)</b>			
224	Long-Term Notes and Bonds	\$ -	\$ 1,825,941	\$ 1,825,941
	<b>DEFERRED CREDITS</b>			
251	Unamortized Premium on Debt			
252	Advances in Aid of Construction	\$ 3,182		\$ 3,182
255	Accumulated Deferred Investment Tax Credits	-		
271	Gross Contributions in Aid of Construction	105,798		105,798
272	Less: Amortization of contributions	(99,602)		(99,602)
281	Accumulated Deferred Income Tax	17,487		17,487
	<b>TOTAL DEFERRED CREDITS</b>	<b>\$ 26,865</b>	<b>\$ -</b>	<b>\$ 26,865</b>
	<b>TOTAL LIABILITIES</b>	<b>\$ 553,630</b>	<b>\$ 1,331,319</b>	<b>\$ 1,884,949</b>
	<b>CAPITAL ACCOUNTS</b>			
201	Common Stock Issued	\$ 6,000		\$ 6,000
211	Paid in Capital in Excess of Par Value	190,153		190,153
215	Retained Earnings	(22,710)		(22,710)
218	Proprietary Capital (Sole Props and Partnerships)			-
	<b>TOTAL CAPITAL</b>	<b>\$ 173,443</b>	<b>\$ -</b>	<b>\$ 173,443</b>
	<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$ 727,073</b>	<b>\$ 1,331,319</b>	<b>\$ 2,058,392</b>

# **EXHIBIT 4**

**Southland Utilities Company, Inc.**  
**Utility Plant in Service and Depreciation Expense**  
**Includes Proforma Adjustments for WIFA Financing**

Acct. No.	Description	ORIGINAL COST @ TEST YEAR END 12/31/2008	WIFA LOAN PROFORMA ADJUSTMENTS	TEST YEAR INCLUDING WIFA ADJUSTMENTS	PROPOSED DEPRECIATION RATES	PROPOSED DEPRECIATION EXPENSE
301	Organization					
302	Franchises					
303	Land and Land Rights	\$ 1,070	\$ -	\$ 1,070		\$ -
304	Structures and Improvements	1,725		1,725	3.3300%	57
307	Wells and Springs	30,144		30,144	3.3300%	1,004
311	Electric Pumping Equipment	75,674	71,193	146,867	12.5000%	18,358
320	Water Treatment Equipment	-		-		-
320.1	Water Treatment Plants	-		-	3.3300%	-
320.2	Solution Chemical Feeders	4,732		4,732	20.0000%	946
330	Distrib Reservoirs/Standpipes	48,806		48,806	3.6100%	1,762
330.1	Storage Tanks	302,926	325,543	628,468	2.2200%	13,952
330.2	Pressure Tanks	-	67,312	67,312	5.0000%	3,366
331	Transmission and Distrib Mains	209,091	1,102,268	1,311,359	2.0000%	26,227
333	Services	41,070		41,070	3.3300%	1,368
334	Meters	64,853		64,853	8.3300%	5,402
335	Hydrants		67,929	67,929	2.0000%	1,359
336	Backflow Prevention Devices			-	6.6700%	-
339	Other Plant & Misc Equipment			-	6.6700%	-
340	Office Furniture and Equip			-	6.6700%	-
340.1	Computers & Software			-	20.0000%	-
341	Transportation Equipment			-	20.0000%	-
343	Tools, Shop & Garage Equip.			-	5.0000%	-
344	Laboratory Equipment			-	10.0000%	-
345	Power Operated Equipment			-	5.0000%	-
346	Communications Equipment			-	10.0000%	-
347	Miscellaneous Equipment			-	10.0000%	-
348	Other Tangible Plant			-	5.0000%	-
	<b>TOTALS</b>	<b>\$ 780,091</b>	<b>\$ 1,634,244</b>	<b>\$ 2,414,335</b>		<b>\$ 73,801</b>

CIAC Amortization Expense (602)

**Total Proposed Depreciation Expense \$ 73,199**

**Southland Utilities Company, Inc.**  
**Income Statement from January through December of 2008**  
**Includes Proforma Adjustments including WIFA Financing**

Description	Actual for Test Year Ended 31-Dec-08	Proforma Adjustments Including WIFA Loan	Test Year Results After Pro Forma Adjustments	Proposed Rate Increase	Adjusted Test Year With Rate Increase
<b>Operating Revenues:</b>					
461 Metered Water Revenue	\$ 135,713		\$ 135,713	\$ 358,072	\$ 493,785
474 Other Water Revenue	4,953	(255)	4,698		4,698
<b>Total Operating Revenue</b>	<b>\$ 140,666</b>	<b>\$ (255)</b>	<b>\$ 140,411</b>	<b>\$ 358,072</b>	<b>\$ 498,483</b>
<b>Operating Expenses:</b>					
601 Salaries & Wages	\$ -		\$ -		\$ -
610 Purchased Water	-		-		-
615 Purchased Power	28,895		28,895		28,895
618 Chemicals	-		-		-
620 Repairs & Maintenance	25,903		25,903		25,903
621 Office Supplies and Expense	13,079		13,079		13,079
630 Outside Services	60,194	48,561	108,755		108,755
635 Water Testing	6,087		6,087		6,087
641 Rental Expense	-		-		-
650 Transportation Expense	2,308		2,308		2,308
657 Insurance - General Liability	1,204		1,204		1,204
659 Insurance - Health and Life	-		-		-
666 Rate Case Expense	-	8,333	8,333		8,333
675 Miscellaneous Expense	2,717		2,717		2,717
403 Depreciation & Amortization	15,153	58,046	73,199		73,199
408 Property Taxes	7,632		7,632		7,632
408.1 Taxes Other Than Income	-		-		-
409 Income Taxes	4,358	(81,583)	(77,225)	116,836	39,611
<b>Total Operating Expenses</b>	<b>\$ 167,530</b>	<b>\$ 33,357</b>	<b>\$ 200,888</b>	<b>\$ 116,836</b>	<b>\$ 317,723</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>\$ (26,864)</b>	<b>\$ (33,612)</b>	<b>\$ (60,477)</b>	<b>\$ 241,237</b>	<b>\$ 180,760</b>
<b>Other Income/(Expense):</b>					
419 Interest Income	\$ 2,285	\$ (2,285)	\$ -	\$ -	\$ -
421 Non-Utility Income	12,685	(12,685)	-		-
426 Misc Non-Utility Expenses	(30,677)	30,677	-		-
427 Interest Expense	(65)	(89,993)	(90,058)		(90,058)
<b>Total Other Income/(Expense)</b>	<b>\$ (15,772)</b>	<b>\$ (74,286)</b>	<b>\$ (90,058)</b>	<b>\$ -</b>	<b>\$ (90,058)</b>
<b>NET INCOME/(LOSS)</b>	<b>\$ (42,636)</b>	<b>\$ (107,898)</b>	<b>\$ (150,535)</b>	<b>\$ 241,237</b>	<b>\$ 90,702</b>