

OPEN MEETING ITEM

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



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ARIZONA CORPORATION COMMISSION

DATE: JUNE 7, 2010  
DOCKET NOS.: W-20435A-09-0296 and W-20435A-09-0298

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

SONOITA VALLEY WATER COMPANY  
(RATES/FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JUNE 16, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JUNE 29, 2010 and JUNE 30, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission  
DOCKETED

JUN - 7 2010

DOCKETED BY

ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES - Chairman  
4 GARY PIERCE  
5 PAUL NEWMAN  
6 SANDRA D. KENNEDY  
7 BOB STUMP

7 IN THE MATTER OF THE APPLICATION OF  
8 SONOITA VALLEY WATER COMPANY FOR  
9 APPROVAL OF A RATE INCREASE.

DOCKET NO. W-20435A-09-0296

9 IN THE MATTER OF THE APPLICATION OF  
10 SONOITA VALLEY WATER COMPANY FOR  
11 AUTHORITY TO INCUR DEBT TO FINANCE  
12 WATER SYSTEM IMPROVEMENTS.

DOCKET NO. W-20435A-09-0298

DECISION NO. \_\_\_\_\_

11 **OPINION AND ORDER**

12 DATE OF HEARING: January 22, 2010  
13 PLACE OF HEARING: Tucson, Arizona  
14 ADMINISTRATIVE LAW JUDGE: Jane L. Rodda  
15 APPEARANCES: Mr. Steve Wene, MOYES SELLERS & SIMS,  
16 on behalf of Sonoita Valley Water Company;  
17 Ms. Joy A. Vargo, Intervenor, *in propria*  
18 *persona*;  
19 Ms. Robin Mitchell, Staff Attorney Legal  
20 Division, on behalf of the Arizona Corporation  
21 Commission Utilities Division.

20 **BY THE COMMISSION:**

21 \* \* \* \* \*

22 Having considered the entire record herein and being fully advised in the premises, the  
23 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

24 **FINDINGS OF FACT**

25 **Procedural History**

26 1. On June 4, 2009, Sonoita Valley Water Company ("SVWC" or "Company") filed with  
27  
28

1 the Commission an application for a rate increase,<sup>1</sup> an application for approval to incur debt to  
2 finance water system improvements,<sup>2</sup> and mailed notification of the rate application to its customers.

3 2. On June 24, 2009, in the rate case docket, the Company filed a request to consolidate  
4 the rate and finance applications.

5 3. On July 6, 2009, the Commission's Utilities Division ("Staff") notified the Company  
6 that its rate application was not sufficient under the requirements of A.A.C. R14-2-103.

7 4. On July 15, 2009, Staff filed in both dockets Responses to SVWC's request to  
8 consolidate. Staff did not oppose consolidation as the matters are substantially related, and opined  
9 that consolidation would promote efficiency and not prejudice the rights of the parties.

10 5. On July 16, 2009, SVWC filed a Response to the Deficiency Letter and provided  
11 additional information.

12 6. By Procedural Order dated July 22, 2009, the rate case and finance applications were  
13 consolidated.

14 7. On July 31, 2009, SVWC mailed a notice of the financing request to its customers.

15 8. On August 18, 2009, Staff notified the Company that its revised rate application was  
16 sufficient, and classified the Company as a Class D utility.

17 9. On November 5, 2009, SVWC filed Amendments to Rate and Finance Applications.<sup>3</sup>

18 10. On November 12, 2009, SVWC filed a Notice of Revised Opinion of Probable Costs.<sup>4</sup>

19 11. On December 1, 2009, Staff filed its Staff Report, recommending rates different than  
20 those proposed by the Company.

21 12. On December 10, 2009, the Company filed a Response to the Staff Report.<sup>5</sup>

22 13. On December 18, 2009, Staff and the Company appeared through counsel at a  
23 telephonic Procedural Conference to discuss procedures for processing the consolidated case. Both  
24 the Company and Staff agreed that a hearing would be the best way to address the issues raised by  
25 these applications.

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26 <sup>1</sup> Ex A-1.

27 <sup>2</sup> Ex A-2.

28 <sup>3</sup> Ex A-3.

<sup>4</sup> Ex A-4.

<sup>5</sup> Ex A-5.



1 Southern/Los Encinos area and the Southern/Downtown area. The Southern/Los Encinas system is  
2 adjacent to the Sonoita system and they are connected by means of an emergency interconnection.  
3 The Southern/Downtown system is approximately two miles north of the other two systems and is  
4 not physically interconnected with the other two systems.

5         21. In 2003, Staff filed a Complaint and Order to Show Cause against the then Sonoita  
6 Valley Water Company and its owner/operator Mr. Ronstadt. That company had a history of water  
7 shortage and operational problems. On April 25, 2003, the Commission issued Decision No. 65858,  
8 an Order to Show Cause and Order for Interim Relief ("OSC"). In its OSC, the Commission ordered  
9 Staff to appoint an Interim Operator for the system. On or about May 12, 2003, Staff entered into an  
10 Interim Management Agreement with Southwestern Utility Management, Inc. ("SUM") to act as  
11 interim manager. At that time, SUM was owned and operated by Mr. "Buck" Lewis. In Decision  
12 No. 66731 (January 20, 2004), the Commission approved the sale of assets and transfer of the  
13 Certificate of Convenience and Necessity ("CC&N") of Sonoita Valley Water Company to Mr.  
14 Lewis, who initially held the company as a sole proprietorship. In Decision No. 68823 (June 29,  
15 2006), the Commission approved the conveyance of assets and transfer of the CC&N of E.H. "Buck"  
16 Lewis dba Sonoita Valley Water Company to SVWC, a corporation, owned by Mr. Lewis. In the  
17 meantime, Mr. Lewis had acquired the assets of the Southern Water Company from the bankruptcy  
18 court in 2005. In Decision No. 69259 (January 19, 2007), the Commission approved the sale of  
19 assets of Southern Water Company to SVWC, cancelled the CC&N of Southern Water Company and  
20 extended the CC&N of SVWC to include the service territory of SWC. Mr. Lewis continues to own  
21 SVWC.

22         22. After Decision No. 69259, the Sonoita system and Southern systems were part of the  
23 same company, but they had separate rate structures. When the Commission approved emergency  
24 rates in Decision No. 70202 (March 24, 2008), it approved identical interim rates for the 5/8 inch, 1  
25 inch and 1 ½ inch meters, but did not address the rates for any other meter size, with the result that  
26 the systems retained their separately approved rates. In this case, the Company and Staff recommend  
27 consolidated rates for all systems.

28

**The Sonoita System**

1  
2 23. The Sonoita system serves the Papago Springs subdivision, which consists of  
3 approximately 80 lots. Currently, however, there are approximately 41 connections. The Sonoita  
4 system includes two active wells, two storage tanks of 10,000 gallons each, a booster pump, and a  
5 2,000 gallon pressure tank. Well #1 on the Sonoita system produces 2 gallons per minute ("GPM")  
6 and Well # 4 produces 15 GPM.

7 24. In the Test Year ending December 31, 2008, the Company reported 4,606,000 gallons  
8 pumped and 1,998,000 gallons sold for the Sonoita system, resulting in non-account water of 56.6  
9 percent.

10 25. Staff states that non-account water should be 10 percent or less, and never more than  
11 15 percent.

12 26. The Company believes that much of the water loss for the Sonoita system is  
13 attributable to numerous leaks and recurring water main breaks within the distribution system, which  
14 consists of shallow and substandard water piping in some areas. The Company hopes to address  
15 some of these issues by means of its financing request.

16 27. Staff states that based on the data provided by the Company for the test year, the  
17 Sonoita system's total well production capacity of 17 GPM and total storage capacity of 20,000  
18 gallons is adequate to serve the present customer base and reasonable growth.

**The Southern System**

19  
20 28. The Southern/Los Encinos system includes one active well with a yield of 30 GPM, a  
21 10,000 gallon storage tank, a booster pump, five bladder tanks and a distribution system serving  
22 approximately 38 connections. The system is in poor condition; the storage tank is rusted and leaking  
23 and the distribution system has shallow and substandard polyethylene water lines with numerous  
24 leaks.

25 29. Staff believes that based on the data provided by the Company for the test year, the  
26 Southern/Los Encinos system's well production capacity of 30 GPM is adequate, but that the storage  
27  
28

1 capacity of 10,000 gallons is inadequate to serve the existing customer base.<sup>7</sup>

2 30. The Company reported 3,837,000 gallons pumped and 3,180,000 gallons sold for the  
3 Southern/Los Encinos system in the test year, resulting in a water loss of 17 percent, which exceeds  
4 the recommended threshold amount of 10 percent. The Company believes that much of the water  
5 loss at the Southern/Los Encinos system is attributable to numerous leaks within the distribution  
6 system.

7 31. The Southern/Downtown system includes one active well with a production capacity  
8 of 57 GPM, a 10,000 gallon storage tank, a booster pump, four bladder tanks and a distribution  
9 system serving approximately 19 commercial connections.

10 32. The well meter for the Southern/Downtown system was inoperable from January 2007  
11 through June 2007, and from March 2008 through May 2009. It was replaced in May 2009. For the  
12 period July 2007 through February 2008, the Company pumped 1,394,000 gallons and sold 1,185,000  
13 gallons in the Southern/Downtown system, resulting in a water loss of 15 percent, which exceeds the  
14 recommended threshold amount of 10 percent.

15 33. The Company believes that much of the water loss at the Southern/Downtown system  
16 is attributable to aging service connection water meters and is proposing to replace all water meters in  
17 this system.

18 34. Staff believes that based on the data provided by the Company for the test year, that  
19 the Southern/Downtown system's well production capacity of 57 GPM and storage capacity of  
20 10,000 gallons is adequate to serve the present customer base and reasonable growth.

21 35. Staff recommends that the Company evaluate each of its systems and prepare a report  
22 for corrective measures demonstrating how the Company will reduce water losses to less than 10  
23 percent. If the Company finds that a reduction of water loss to less than 10 percent is not cost-  
24 effective, Staff recommends that the Company submit a report, containing a detailed cost analysis  
25 and explanation demonstrating why the water loss reduction to less than 10 percent is not cost  
26 effective. Staff states that in no case should water loss be allowed to remain above 15 percent.

27  
28 <sup>7</sup> Ex S-1, Engineering Report at 9 attached to Revised Staff Report as Exhibit KS.



1 rate) component of \$101,012 to cover operating expenses, and a loan surcharge component of  
 2 \$52,661 (based on a \$656,271, 20-year amortizing loan at 5.0 percent per annum)<sup>11</sup> to support the  
 3 principal and interest on an anticipated loan from WIFA. The permanent component of Staff's  
 4 recommended rates represents a \$42,018, or 71.22 percent, increase over test year revenues of  
 5 \$58,994. The sum of the two components represents a total increase of \$94,679, or 160.49 percent  
 6 over test year revenues.

7 45. Staff's recommended permanent revenue component would provide an 11.50 percent  
 8 rate of return on a \$177,668 rate base and a 20.24 percent operating margin. Combined, Staff's  
 9 recommended permanent and WIFA surcharge revenue components would provide a 41.14 percent  
 10 rate of return on a \$177,668 rate base and a 47.57 percent operating margin.

11 46. Staff's recommended base rates for the permanent component would increase the  
 12 typical 5/8 x 3/4 inch meter residential bill with a median usage of 4,357 gallons from \$44.65 to  
 13 \$66.41, for an increase of \$21.76, or 48.7 percent. Staff's estimated proposed surcharge would add  
 14 \$43.13 to the typical 5/8 x 3/4 inch meter residential bill. Combined, Staff's recommended permanent  
 15 and WIFA surcharge revenue components would increase the typical 5/8 x 3/4 inch meter residential  
 16 bill by \$64.89, or 145.3 percent, from \$44.65 to \$109.54 per month.

17 47. The Company's current rates and charges, and those proposed by the Company<sup>12</sup> and  
 18 recommended by Staff are as follows:

**SONOITA SYSTEM**

<u>MONTHLY USAGE CHARGE:</u>	<u>Present Rates</u>	<u>Company Proposed</u> (As Amended)	<u>Staff Recommended</u>
5/8" x 3/4" Meter	\$ 24.00	\$ 107.31	\$ 30.00
3/4" Meter	16.00	138.00	45.00
1" Meter	32.00	230.00	75.00
1-1/2" Meter	47.00	460.00	150.00
2" Meter	32.00 <sup>13</sup>	736.00	240.00
3" Meter	N/A	1,472.00	480.00
4" Meter	N/A	2,300.00	750.00
5" Meter	N/A	N/A	N/A
6" Meter	N/A	4,600.00	1,500.00

27 <sup>11</sup> Although the Company's Application references a 30-year loan, Staff's analysis was based on a 20-year loan because  
 WIFA usually will not approve a 30-year term.

28 <sup>12</sup> Ex A-6.

<sup>13</sup> Decision No. 69259 did not affect the 2 inch meter rate.

**WIFA SURCHARGE:**

1	5/8" x 3/4" Meter	\$ 0.00	\$ 0.00	\$ 43.13
2	3/4" Meter	0.00	0.00	64.70
3	1" Meter	0.00	0.00	107.83
	1-1/2" Meter	0.00	0.00	215.65
4	2" Meter	0.00	0.00	345.04
	3" Meter	0.00	0.00	690.08
5	4" Meter	0.00	0.00	1,078.25
	5" Meter	0.00	0.00	N/A
6	6" Meter	0.00	0.00	2,156.50

**SOUTHERN SYSTEM**

**MONTHLY USAGE CHARGE:**

	<u>Present Rates</u>	<u>Company Proposed</u> (As Amended)	<u>Staff Recommended</u>	
9	5/8" x 3/4" Meter	\$ 24.00	\$ 107.31	\$ 30.00
10	3/4" Meter	17.00	138.00	45.00
	1" Meter	32.00	230.00	75.00
11	1-1/2" Meter	47.00	460.00	150.00
	2" Meter	75.00	736.00	240.00
12	3" Meter	135.00	1,472.00	480.00
	4" Meter	225.00	2,300.00	750.00
13	5" Meter	325.00	N/A	N/A
14	6" Meter	500.00	4,600.00	1,500.00

**WIFA SURCHARGE:**

15	5/8" x 3/4" Meter	\$ 0.00	\$ 0.00	\$ 43.13
16	3/4" Meter	0.00	0.00	64.70
	1" Meter	0.00	0.00	107.83
17	1-1/2" Meter	0.00	0.00	215.65
	2" Meter	0.00	0.00	345.04
18	3" Meter	0.00	0.00	690.08
	4" Meter	0.00	0.00	1,078.25
19	5" Meter	0.00	0.00	N/A
20	6" Meter	0.00	0.00	2,156.50

**BOTH SYSTEMS**

**COMMODITY CHARGES:**  
(Per 1,000 Gallons)

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
24	0 – 10,000 Gallons	\$ 4.74	
25	10,001 – 20,000 Gallons	5.50	
	Over 20,000 Gallons	6.50	
26	0 – 3,000 Gallons		\$ 7.23
27	3,001 – 10,000 Gallons		10.85
	Over 10,000 Gallons		13.02

1 Bulk Water – Per 1,000 Gallons \$ 4.00 \$ 12.00<sup>14</sup> \$ 13.02

2 **SONOITA SYSTEM**

3 **SERVICE LINE AND METER INSTALLATION CHARGES:**  
 (Refundable Pursuant to A.A.C. R14-2-405)

	<u>Present</u>	<u>Company Proposed</u>			<u>Staff Recommended</u>		
	<u>Total</u>	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
5 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
6 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
7 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	1,665.00	2,680.00
8 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
9 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
10 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

	<u>Current Charges</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
12 Establishment	\$ 30.00	\$ 30.00	\$ 30.00
13 Establishment (After Hours)	50.00	50.00	50.00
Reconnection (Delinquent)	40.00	40.00	40.00
14 Reconnection (Delinquent) (After Hours)	N/A	60.00	60.00
Meter Test (If Correct)	40.00	40.00	40.00
15 Deposit	*	*	*
Deposit Interest	*	*	*
16 Re-establishment (Within 12 Months)	**	**	**
17 NSF Check	12.50	20.00	20.00
Deferred Payment	1.5% per month	1.5% per month	1.5% per month
18 Meter Re-Read (If Correct)	15.00	25.00	25.00
19 Late Fee	N/A	1.5% per month	1.5% per month
Main Extension	N/A	Cost	N/A

20 **SOUTHERN SYSTEM**

21 **SERVICE LINE AND METER INSTALLATION CHARGES:**  
 (Refundable Pursuant to A.A.C. R14-2-405)

	<u>Present</u>	<u>Company Proposed</u>			<u>Staff Recommended</u>		
	<u>Total</u>	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
23 5/8" x 3/4 " Meter	\$ 250.00	\$ 430.00	\$ 130.00	\$ 560.00	\$ 430.00	\$ 130.00	\$ 560.00
24 3/4 " Meter	300.00	430.00	230.00	680.00	430.00	230.00	660.00
1" Meter	325.00	480.00	290.00	770.00	480.00	290.00	770.00
25 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
26 3" Meter	925.00	N/A	N/A	N/A	N/A	N/A	N/A
3" Turbine Meter	N/A	1,030.00	1,645.00	2,675.00	1,030.00	1,645.00	2,675.00
27 3" Compound Meter	N/A	1,150.00	2,520.00	3,670.00	1,150.00	2,520.00	3,670.00

28 <sup>14</sup> See Response to Staff Report at p 7-8.

4" Meter	1,150.00	N/A	N/A	N/A	N/A	N/A	N/A
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" Meter	2,600.00	N/A	N/A	N/A	N/A	N/A	N/A
5" Turbine Meter	N/A						
5" Compound Meter	N/A						
6" Meter	3,725.00	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

<u>SERVICE CHARGES:</u>	<u>Current Charges</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
Establishment	\$ 20.00	\$ 30.00	\$ 30.00
Establishment (After Hours)	40.00	50.00	50.00
Reconnection (Delinquent)	25.00	40.00	40.00
Reconnection (Delinquent) (After Hours)	N/A	60.00	60.00
Meter Test (If Correct)	15.00	40.00	40.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-establishment (Within 12 Months)	**	**	**
NSF Check	10.00	20.00	20.00
Deferred Payment	1.5% per month	1.5% per month	1.5% per month
Meter Re-Read (If Correct)	15.00	25.00	25.00
Late Fee	N/A	1.5% per month	1.5% per month
Main Extension	N/A	Cost	N/A

**BOTH SYSTEMS**

**Monthly Service Charge for Fire Sprinklers:**

4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

- \* Per Commission Rule A.A.C. R14-2-403(B)(3)
- \*\* Months off system times the minimum, per Commission Rule A.A.C. R14-2-403(D)
- \*\*\* Per Commission Rule A.A.C. R14-2-403(G)
- \*\*\*\* 2.00% of Monthly minimum for a comparable size meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct for the primary water service line.

48. SVWC currently has an inverted three-tier design with no gallons included in the minimum monthly charge for customers with the 5/8, 1 inch or 1 1/2 inch meters. The minimum charge for customers with a 3/4 inch or 2 inch meter includes 1,000 gallons. The difference in the gallons included in the minimum charge resulted when the most recent emergency rate decision only addressed the 5/8, 1 and 1 1/2 inch meters. Currently, the break-over points are at 10,000 and 20,000 gallons for all rate groups.

49. For both the Southern and Sonoita systems, the Company is proposing new Service Line and Meter installation Charges. Staff recommends adopting the Company's proposed charges.



1 Encinos system anytime there is an issue with Los Encinos' one well, pumping plant, or storage, or  
 2 when repairs are needed. The Company states it does not use the interconnection on a continual basis  
 3 because water pressure is reduced to approximately 25 psi when it is in use. Thus, the Company  
 4 argues the adjustments removing the cost of the interconnection and accumulated depreciation should  
 5 not be accepted, and the \$5,700 that was removed from Outside Services to reflect management fees  
 6 should be reclassified to account 331 to properly capitalize costs related to the interconnection.

7 56. Because the existing interconnection is under-sized and the Company plans to replace  
 8 it with a larger interconnection that will benefit both systems without adversely affecting water  
 9 pressures, the existing interconnection should not be included in rate base. The Company proposes to  
 10 utilize the proposed WIFA loan to replace the interconnection. In this case ratepayers are being  
 11 asked to pay the debt service on the WIFA loan by means of a surcharge. If the existing  
 12 interconnection is not removed from rate base, ratepayers would in effect, be paying twice for the  
 13 interconnection – once through the permanent base rates, and then again through the WIFA  
 14 surcharge. Ratepayers should not have to bear the costs associated with the Company's initial  
 15 decision to install an under-sized interconnection.

16 57. Thus, we adopt Staff's recommended adjusted Original Cost Rate Base ("OCRB") of  
 17 \$177,668. The Company did not request a Reconstruction New Cost Rate Base, and thus, its Fair  
 18 Value Rate Base ("FVRB") is deemed to be the same as its OCRB.

#### 19 Operating Income and Expenses

20 58. In the test year, the Company reported total Operating Revenue of \$58,994 and  
 21 adjusted Operating Expenses of \$80,092, which resulted in an Operating Loss of \$21,098. Staff  
 22 recommended adjustments to test year Operating Expenses, that in the aggregate increased test year  
 23 Operating Expenses by \$480, resulting in an Operating Loss of \$21,572.<sup>16</sup>

24 59. Staff's adjustments decreased Outside Services by \$5,700, from \$34,864 to \$29,164,  
 25 to reflect management fees incurred related to the interconnection line because the amounts were not  
 26 expected to recur and because Staff believed that the line is not providing a benefit to ratepayers.

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28 <sup>16</sup> Ex S-1.

1 Staff also decreased Water Testing Expense by \$494, from \$3,211 to \$2,717, to reflect Staff's  
 2 determination of the Company's annual water testing costs; decreased Transportation Costs by \$420,  
 3 from \$10,280 to \$9,860, to remove the costs of water hauling that is not expected to continue upon  
 4 completion of the capital improvements; and increased Depreciation Expense by \$7,193, from  
 5 \$10,069 to \$17,262 to reflect the application of Staff's recommended depreciation rates and Staff's  
 6 recommended plant balances.

7 60. The Company did not object to Staff's recommended adjustments to Operating  
 8 Expenses as reflected in the Revised Staff Report.<sup>17</sup>

9 61. Staff's adjustments to test year revenue and expenses are reasonable. Thus, in the test  
 10 year, the Company experienced an Operating Loss of \$21,098, on total Operating Revenues of  
 11 \$58,994, and adjusted Operating Expenses of \$80,092.

#### 12 Revenue Requirement

13 62. The Company proposed new rates that would result in total revenues of \$175,148.

14 63. Staff recommends total revenue of \$153,673, which is comprised of the "permanent"  
 15 component of \$101,012 and the surcharge component of \$52,661 to service the WIFA loan. Staff  
 16 states that the permanent component is calculated to cover the Company's Operating Expenses and to  
 17 provide an 11.5 percent rate of return on FVRB.

18 64. Staff testified that its recommended 11.5 percent rate of return is the standard  
 19 recommendation it makes for small water companies.<sup>18</sup>

20 65. Staff's recommended revenue requirement and proposal to have a base rate for  
 21 operating expenses and a surcharge component for the debt service on the proposed WIFA loan is  
 22 reasonable and consistent with recent Commission practice for small water companies. Staff's rate  
 23 design is also reasonable and should be adopted.

24 66. Because an allowance for the Property Tax Expense of SVWC is included in its base  
 25 rates and will be collected from its customers, the Commission seeks assurances from the Company  
 26 that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has

27 <sup>17</sup> Staff had originally adjusted Rate Case Expense, but revised its recommendation when the Company provided  
 28 additional information about the composition of this account.

<sup>18</sup> Tr. at 203.

1 come to the Commission's attention that a number of water companies have been unwilling or unable  
 2 to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as  
 3 twenty years. It is reasonable, therefore, that as a preventive measure SVWC annually file, as part of  
 4 its annual report, an affidavit with the Utilities Division attesting that the Company is current in  
 5 paying its property taxes in Arizona.

6 **Finance Request**

7 67. The Company requests approval of a \$656,271, 30-year amortizing loan from WIFA  
 8 for the permanent interconnection of the Sonoita and Southern/Los Encinos systems, the replacement  
 9 of three rusted and leaking storage tanks as well as a new storage tank, and various improvements to  
 10 augment system pressure and reliability.

11 68. With its application, the Company submitted an Opinion of Probable Costs from an  
 12 Engineering firm that had been hired to perform an assessment of needed system improvements. The  
 13 total project costs submitted with the application were as follows:

<b><u>Item Description</u></b>	<b><u>Cost</u></b>
<b>Area 1 Business</b>	
Meter Repair and replacement	\$10,000
<b>Area 1 Residential</b>	
Water distribution system reconnaissance (60 potholes, gps surveys, and field investigations)	\$35,000
Replace 2" with 6" 200 PVC	\$180,000
<b>Area 2 Residential</b>	
New reliable water source 1000 deep 8" casing	\$150,000
25 Hp Booster Station	\$35,000
40,000 gallon steel reservoir	\$40,000
Hydropneumatic Tank	\$13,500
Site electrical	\$10,000
<b>Subtotal</b>	<b>\$473,500</b>
Admin and Legal Expenses 2% of Construction Costs	\$9,470
Arch and Engineering Fees 8% of Constr. Fees	\$37,880
Other A and E Fees (survey, geotech, etc) 2% of costs	9,470
Project inspection Fees 3.5% of costs	\$16,572
<b>Subtotal</b>	<b>\$546,892</b>
Contingencies 20%	\$109,378
<b>Total Project Costs</b>	<b>\$656,271</b>

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 27  
 28 69. On November 10, 2010, the Company submitted revised estimated costs of

1 construction as follows:

Item	Estimated Cost	Notes
<b>Southern Water Co system - PWS 12-308</b>		
Meter Repair and Replacement	\$2,470	Water meter replacement for service connections in the business area of the Southern Water Co. system
<b>Southern Water Co PWS 12-010 and Sonoita Valley Water Co PWS 12-005</b>		
Replace 2" and 3" with 4" CL 200 PVC	\$270,000	Installing 4" Class 200 PVC and appurtenances. It is estimated that 3,250 LF will be installed along Colle Drive of PWS 12-005; 1200 LF will be installed along Park Drive of PWS 12-005; 2,900 LF will be installed to replace the emergency interconnection of PWS 12-002; and 3,210 LF will be installed along Boyd Lane and Toledo Road of PWS 12-010. These areas have been determined to be critical areas for pipe replacement due to existing and past pipe leaks and failures.
Los Encinos Well improvements	\$35,000	Replace the existing submersible pump and drop pipe as needed with a larger pump as required to provide system pressures and flows to all 79 customers. This will equip the Los Encinos well with a larger submersible pump (PWS 12-010). The replacement pump is estimated to be 10 HP. The duty point is estimated to be 50 gpm @ 490' total dynamic head with an overall efficiency of 75%.
25 Hp Booster Station	\$35,000	This booster station would include up to 4 new booster pumps to provide water demand to the distribution system, including suction and header piping, pressure gauges, flow meters, isolation and check valves, and pipe supports. This pump station will be installed near Well #4 of PWS 12-005.
40,000 gallon steel reservoir	\$40,000	There are 3 10,000 gallon storage structures. A 40,000 gallon reservoir would provide 1-day of storage during peak month water demands. The reservoir will have a ladder, level floats, isolation valves, access hatches, and sight gauges. This reservoir will be installed near Well # 4 of PWS 12-005.
Hydropneumatic Tank	\$33,500	A 3,000 gallon hydronuematic tank would serve as the control of the new booster pumps and would include a sight glass, foundation and support, an air compressor, valves, pressure gauges, and other appurtenances required. One tank near Well #4 of PWS 12-005 and one tank near the Los Encinos well of PWS 12-010.
Site Electrical	\$57,530	Site electrical would include all conduit, wire cables, controls and switches to the well, pumps, storage tank and hydroneumatic tank, a flood lamp, an equipment lamp. GFI receptacle,

		utility meter socket, main disconnect/transfer switch, combination meter. This work will be done at both well sites, Well #4 of PWS 12-005 and the Los Encinos well of PWS 12-010.
	Subtotal	\$473,500
	Admin and Legal - 2%	\$9,470
	Arch and Eng Fees - 8%	\$37,880
	Other A and E Fees - 2%	\$9,470
	Project Inspection Fees	\$16,572
	Subtotal	\$546,892
	Contingencies - 20%	\$109,378
	Total Project Costs	\$656,271

70. Staff concludes that the capital improvement projects and estimated costs, as described in the revised cost estimate, are appropriate and reasonable. Staff cautions, however, that its conclusions do not imply any particular future treatment for inclusion in rate base, and Staff is not making a "used and useful" determination with respect to the proposed plant, and warns that no conclusion should be inferred for rate making or rate base purposes.

71. In reviewing the Finance Request, Staff conducted a financial analysis based on the Company's December 31, 2008, financial statements. As of December 31, 2008, the Company had a capital structure comprised of 113.3 percent long term debt and 13.3 percent negative equity. The Company's balance sheet included \$226,300 in debt that was not approved by the Commission, and Staff reclassified the unapproved debt as paid in capital.<sup>19</sup> Staff performed a pro-forma analysis, assuming the issuance of a \$656,271, 20-year amortizing loan, and calculated that the Company would have a capital structure consisting of 2.4 percent short-term debt, 74.3 percent long-term debt and 23.3 percent equity.

72. Staff reclassification of the capital provided by Mr. Lewis is appropriate and reasonable, as the Company did not obtain Commission approval of the debt.

73. Staff noted that the Company lacks sufficient operating cash flow to meet its proposed long-term debt obligation, and consequently, Staff believes that a surcharge to provide funds for the debt service on the WIFA loan is appropriate. Because the terms of the WIFA loan will not be

<sup>19</sup> The Company's shareholder had advanced \$226,300 to the Company on a short-term basis to cover operating shortfalls and capital improvements, but the Company was never able to repay the advances. The Company has no other notes payable.

1 known until after the Company closes on the loan, Staff recommends implementation of a surcharge  
2 mechanism to match the surcharge revenues with the debt service of the actual loan.

3 74. Staff recommended that the surcharge component be calculated to provide the  
4 principal and interest ("debt service") on the WIFA loan. Staff calculated an estimated surcharge  
5 component based on the debt service for a \$656,271 20-year amortizing loan at an estimated interest  
6 rate of 5.0 percent. Staff determined the monthly and annual debt service on the estimated loan  
7 would be \$4,388 and \$52,661, respectively. Since the actual loan terms are unknown at this time,  
8 Staff utilized a 20-year loan period. Further, the WIFA loan surcharge mechanism that Staff suggests  
9 would allow for the adjustment of the surcharge revenue to reflect the actual loan terms upon closing  
10 of the loan. Staff's estimate of the monthly WIFA surcharge using its proposed methodology results  
11 in the following surcharge amounts:

Meter Size	NARUC Meter Capacity Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter
5/8"	1	\$43.13	\$43.13
3/4"	1.5	\$43.12	\$64.70
1"	2.5	\$43.12	\$107.83
1 1/2"	5	\$43.12	\$215.65
2"	8	\$43.12	\$345.04
3"	15	\$43.12	\$690.08
4"	25	\$43.12	\$1,078.25
6"	50	\$43.12	\$2,156.50

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20 75. Staff concludes that the proposed WIFA loan is an appropriate financial instrument to  
21 finance the proposed capital improvements. Staff further concludes that issuance of an 18 to 30-year  
22 amortizing loan for the \$656,271 estimated cost of the capital improvements is appropriate, is within  
23 the Company's corporate powers, is compatible with the sound financial practices assuming that  
24 sufficient provisions for debt service coverage are authorized in this proceeding.

25 76. Staff recommends that the Commission authorize the Company to obtain an 18- to 30-  
26 year amortizing loan at an interest rate not to exceed the prevailing WIFA rate at the time the loan is  
27 executed (currently estimated at the prime rate plus 2 percent, but not less than 6 percent, less an  
28 estimated WIFA subsidy of 20 percent, or approximately 5.0 percent rounded). Staff states that the

1 loan amount should not to exceed \$656,271 for the purposes of financing the proposed infrastructure  
2 improvements, including the permanent interconnection of the Sonoita and Southern/Los Encinos  
3 systems, the replacement of three rusted and leaking storage tanks as well as a new storage tank, and  
4 various improvements to improve system pressure and reliability.

5 77. Staff further recommends the following:

6 (a) That the Commission approve Staff's rates and charges, and that SVWC collect  
7 from its customers a proportionate share of any privilege sales or use tax per Commission Rules 14-  
8 2-409D.5.

9 (b) That the Company be ordered to docket with the Commission, a schedule of its  
10 approved rates and charges within 30 days after the Decision in this matter is issued.

11 (c) That the Commission authorize the Company to pledge its assets in the State of  
12 Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan

13 (d) That the Commission authorize the Company to engage in any transactions and to  
14 execute any documents necessary to effectuate the authorizations granted.

15 (e) That the Company be ordered to file copies of the executed loan documents, as a  
16 compliance item in this docket, within 60 days of the execution of any transactions.

17 (f) That any authorization to incur debt granted in this proceeding that remains unused  
18 twelve months after the issuance date of a Decision in this matter expire immediately at the end of  
19 that twelve month period.

20 (g) That the Commission approve a financing surcharge mechanism to enable the  
21 Company to meet its principal and interest obligation on the proposed WIFA loan.

22 (h) That the Company be ordered to file with the Commission a WIFA loan surcharge  
23 tariff application within 60 days of the loan closing. Staff further recommends that the Company be  
24 required to follow the same methodology presented in the Staff Report to calculate its proposed  
25 WIFA surcharge.

26 (i) That a surcharge be implemented only after Commission approval of the loan  
27 surcharge tariff.

28 (j) That any authorizations for a WIFA loan surcharge mechanism approved herein be

1 rescinded if the Company has not drawn funds from the loan authorized herein within twelve months  
2 of the date of the Decision in this matter.

3 (k) That the Company be ordered to file, as a compliance item in this docket, by June  
4 30, 2011,<sup>20</sup> a copy of the ADEQ Certificate for Approval of Construction for each of the  
5 improvement projects, as delineated in Table D of the Engineering Report filed in this matter and  
6 attached to the Staff Report.

7 (l) That the Company file as a compliance item in this docket, no later than December  
8 31, 2010, documentation issued by ADWR indicating that the Company's three systems meet ADWR  
9 requirements.

10 (m) That the Company adopt and use Staff's typical and customary depreciation rates  
11 as delineated in Table B of the Engineering Report.

12 78. After reviewing the revised cost estimate, Staff did not include a new well as one of  
13 the projects that should be financed with the WIFA loan. In arriving at its position, Staff accepted the  
14 conclusion of the engineer who prepared the revised cost estimate that a new water source was not a  
15 necessary component of the needed system upgrades.<sup>21</sup>

16 79. The Company agrees with Staff's proposal to implement a surcharge to cover the  
17 WIFA debt service. The Company believed that the surcharge would allow it to lessen the rate  
18 impact on ratepayers by phasing in the projects, because it thought the surcharge could be increased  
19 only as specific projects were completed. The Company, however, did not agree with the conclusion  
20 of the engineer that it had hired, and who completed the cost estimates, that a new well was not  
21 needed.<sup>22</sup> The Company believes that a new well may be required to address supply needs, and  
22 requests that the financing authority include a new well as a possible use of the WIFA loan proceeds.

23 80. In its post-hearing Status Report, Staff notes that the Company needs to submit a  
24 comprehensive construction work plan delineating the projects or system improvements that are  
25 needed, and Staff recommends that any determination of the need for a new water source should be

26 <sup>20</sup> Tr. at 160. Staff revised its recommended compliance deadline during the hearing in this matter. In the Staff Report,  
27 Staff had recommended a compliance deadline of December 31, 2010. Staff's revised recommendation applies only to  
the date for the ADEQ Certificate of Approval of Construction.

28 <sup>21</sup> Tr. at 166 and 170.

<sup>22</sup> Tr. at 28.

1 confirmed by the Company's engineer in consultation with Staff.

2 81. It is clear that this Company requires significant system upgrades. Even at this point  
3 in time, however, it does not appear that the Company has a concrete engineering plan for how to  
4 prioritize the upgrades. The Company has provided two cost estimates for the planned upgrades that  
5 both total \$656,271, however, the estimates are inconsistent about which projects should be included  
6 and whether or not a new well should be included. The revised cost estimate, which is more detailed  
7 and more likely to be accurate, does not include the cost of a new well, but does include the costs of  
8 refurbishing an existing well. The Company has stated that it would phase-in the projects in an  
9 attempt to lower costs and the resultant effect on rates, however, at this point, the Company has not  
10 provided a construction work plan that can be reviewed to determine if the planned phase-in would  
11 have the stated desired effect.

12 82. A.R.S. §40-302 requires that the Commission determine whether the issuance of debt  
13 is reasonably necessary or appropriate for the purposes specified in the Order. In addition, A.R.S. §  
14 40-301 provides that the Commission should only approve the financing request if it complies with  
15 sound financial practices and with the proper performance by the applicant of service as a public  
16 service corporation and will not impair its ability to perform that service.

17 83. Absent a more detailed construction work plan, the Commission cannot make a  
18 finding with any certainty that the capital improvement plan complies with sound financial practices,  
19 with the proper performance of the Company of service as a public service corporation and that it will  
20 not impair its ability to perform that service. The addition of debt in the amount of \$656,271 will  
21 have a substantial impact on ratepayers and it does not appear to matter if the projects are phased-in  
22 with separate WIFA loans with separate surcharge amounts, because the totality of the surcharges  
23 would ultimately be the same.<sup>23</sup> In order to approve a WIFA loan surcharge, the Commission has the  
24 obligation to determine that the surcharge amount is just and reasonable. With a more detailed  
25 construction plan, the Commission will be able to better evaluate the reasonableness of the surcharge.

26 84. The Company should submit a more detailed proposal, which includes prioritizing the  
27

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28 <sup>23</sup> Tr. at p 200.

1 capital projects for WIFA financing. The permanent portion of Staff's proposed rates should become  
2 effective immediately, so that the Company can cover its on-going costs of operations, however,  
3 before the Commission authorizes the requested debt financing, the Company should provide  
4 additional information for review by Staff. Staff should issue a revised Staff Report for the financing  
5 request as part of this docket. Although we do not authorize a specific debt authorization at this  
6 time, approving a surcharge mechanism for a future WIFA loan is reasonable. We agree this system  
7 is in need of important capital improvements, but more information is needed in order to approve a  
8 specific loan amount.<sup>24</sup>

9 **CONCLUSIONS OF LAW**

10 1. SVWC is a public service corporation pursuant to Article XV of the Arizona  
11 Constitution and A.R.S. §§ 40-250 and 40-251.

12 2. The Commission has jurisdiction over SVWC and the subject matter of the  
13 application.

14 3. Notice of the application and hearing was provided in accordance with the law.

15 4. SVWC's FVRB is \$177,668.

16 5. The rates, charges and conditions of service approved herein are just and reasonable  
17 and in the public interest.

18 6. More information is necessary to determine if the requested financing authority is  
19 compatible with the public interest, with sound financial practices, and with the proper performance  
20 by SVWC of service as a public service corporation, and whether it will not impair SVWC's ability  
21 to perform the service.

22 **ORDER**

23 IT IS THEREFORE ORDERED that Sonoita Valley Water Company shall file with the  
24 Commission on or before July 1, 2010, revised schedules of rates and charges, consistent with the  
25 rates approved below:

26 ...

27 \_\_\_\_\_

28 <sup>24</sup> In the next rate case, the Company and staff should ensure that ratepayers are not asked to pay twice for plant that that they have already paid for as part of a future WIFA surcharge.

**MONTHLY USAGE CHARGE:**

1	5/8" x 3/4" Meter	\$ 30.00
2	3/4" Meter	45.00
3	1" Meter	75.00
4	1-1/2" Meter	150.00
5	2" Meter	240.00
6	3" Meter	480.00
7	4" Meter	750.00
8	5" Meter	N/A
9	6" Meter	1,500.00

**COMMODITY CHARGES:  
(Per 1,000 Gallons)**

9	0 – 3,000 Gallons	\$ 7.23
10	3,001 – 10,000 Gallons	10.85
11	Over 10,000 Gallons	13.02
12	Bulk Water – Per 1,000 Gallons	\$ 13.02

**SERVICE LINE AND METER INSTALLATION CHARGES:  
(Refundable Pursuant to A.A.C. R14-2-405)**

	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>	
14	5/8" x 3/4 " Meter	\$ 430.00	\$ 130.00	\$ 560.00
15	3/4 " Meter	430.00	230.00	660.00
16	1" Meter	480.00	290.00	770.00
17	1-1/2" Meter	535.00	500.00	1,035.00
18	2" Meter	N/A	N/A	N/A
19	2" Turbine Meter	815.00	1,020.00	1,835.00
20	2" Compound Meter	815.00	1,665.00	2,680.00
21	3" Turbine Meter	1,030.00	1,645.00	2,675.00
22	3" Compound Meter	1,150.00	2,520.00	3,670.00
23	4" Turbine Meter	1,460.00	2,630.00	4,090.00
24	4" Compound Meter	1,640.00	3,595.00	5,235.00
25	5" Turbine Meter	N/A	N/A	N/A
26	5" Compound Meter	N/A	N/A	N/A
27	6" Turbine Meter	2,180.00	4,975.00	7,155.00
28	6" Compound Meter	2,300.00	6,870.00	9,170.00

**SERVICE CHARGES:**

25	Establishment	\$ 30.00
26	Establishment (After Hours)	50.00
27	Reconnection (Delinquent)	40.00
28	Reconnection (Delinquent) (After Hours)	60.00
	Meter Test (If Correct)	40.00
	Deposit	*

1	Deposit Interest	*
	Re-establishment (Within 12 Months)	**
2	NSF Check	20.00
	Deferred Payment	1.5% per month
3	Meter Re-Read (If Correct)	25.00
	Late Fee	1.5% per month
4	Main Extension	N/A

6 **Monthly Service Charge for Fire Sprinklers:**

7	4" or Smaller	****
	6"	****
	8"	****
8	10"	****
	Larger than 10"	****

- 9 \* Per Commission Rule A.A.C. R14-2-403(B)(3)
- 10 \*\* Months off system times the minimum, per Commission Rule A.A.C. R14-2-403(D)
- 11 \*\*\* Per Commission Rule A.A.C. R14-2-403(G)
- 12 \*\*\*\* 2.00% of Monthly minimum for a comparable size meter connection, but no less than  
13 \$10.00 per month. The service charge for fire sprinklers is only applicable for service  
14 lines separate and distinct for the primary water service line.

14 IT IS FURTHER ORDERED that the revised schedules of rates and charges approved herein  
15 shall be effective for all service rendered on and after July 1, 2010.

16 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall notify its customers  
17 of the revised schedules of rates and charges authorized herein in a form approved by Staff, by an  
18 insert in its next customer bill, or within 30 days by separate mailing.

19 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall collect from its  
20 customers a proportionate share of any privilege sales or use tax per Commission Rule A.A.C. 14-2-  
21 409D.5.

22 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall annually file as part  
23 of its annual report, an affidavit with the Utilities Division attesting that the Cooperative is current in  
24 paying its property taxes in Arizona.

25 IT IS FURTHER ORDERED that a financing surcharge mechanism to meet the principal and  
26 interest obligation under a proposed WIFA loan, consistent with Staff's recommendations in this  
27 proceeding is approved.

28 IT IS FURTHER ORDERED that the record in the financing application shall remain open in

1 order for Sonoita Valley Water Company to file a detailed description and prioritization of  
2 construction projects to provide Staff with sufficient information to prepare a revised Staff Report for  
3 the Commission's determination as to whether the proposed financing of such projects complies with  
4 the requirements of A.R.S. §§ 40-301 and -302 as discussed herein.

5 IT IS FURTHER ORDERED that no financing surcharge shall be implemented until the  
6 Commission has approved the financing and requested loan surcharge tariff.

7 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall evaluate each water  
8 system and prepare a report for corrective measures demonstrating how the Company will reduce  
9 water losses to less than 10 percent. Water loss shall be reduced to less than 10 percent by June 30,  
10 2011. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective,  
11 the Company shall submit a report, containing a detailed cost analysis and explanation demonstrating  
12 why the water loss reduction to less than 10 percent is not cost effective. In no case shall water loss  
13 be allowed to remain over 15 percent. The Company shall file the corrective measures or cost  
14 effectiveness report with Docket Control, as a compliance item in this docket, by June 30, 2011.

15 IT IS FURTHER ORDERED that Sonoita Valley Water Company file as a compliance item  
16 in this docket, no later than December 31, 2010, documentation issued by the Arizona Department of  
17 Water Resources indicating that the Company's three systems meet Arizona Department of Water  
18 Resources requirements.

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1 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall adopt and use Staff's  
2 typical and customary depreciation rates as delineated in Table B of the Engineering Report.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.  
5  
6

7 CHAIRMAN

COMMISSIONER

8  
9 COMMISSIONER

COMMISSIONER

COMMISSIONER

10  
11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
12 Executive Director of the Arizona Corporation Commission,  
13 have hereunto set my hand and caused the official seal of the  
14 Commission to be affixed at the Capitol, in the City of Phoenix,  
15 this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

16 \_\_\_\_\_  
17 ERNEST G. JOHNSON  
18 EXECUTIVE DIRECTOR

19 DISSENT \_\_\_\_\_

20 DISSENT \_\_\_\_\_  
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1 SERVICE LIST FOR: SONOITA VALLEY WATER COMPANY

2 DOCKET NOS.: W-20435A-09-0296 and W-20435A-09-0298

3  
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9 Janice Alward, Chief Counsel  
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12 Steven Olea, Director  
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