ORIGINAL

0000125781

MEMORANDUM

30A

TO: Docket Control Center

THRU: Ernest G. Johnson
Director
Utilities Division

FROM: Darron W. Carlson
Public Utilities Analyst Manager
Utilities Division

DATE: November 30, 2006

RE: SUPPLEMENT TO STAFF REPORT FOR SABROSA WATER COMPANY'S APPLICATION FOR ESTABLISHMENT OF PERMANENT RATES (DOCKET NO. W-02111A-06-0361)

Prior to resigning from his position as an Arizona Corporation Commission Staff Public Utilities Analyst III, Jim Beechey completed the attached Staff Report. Mr. Carlson has reviewed Mr. Beechey's Staff Report dated November 30, 2006, and adopts it for filing on behalf of Staff.

EGJ:DWC:red

Originator: Darron W. Carlson

Service List for: Sabrosa Water Company
Docket No. W-02111A-06-0361

Mr. Michael W. Patten
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One Arizona Center
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Mr. Dennis Schumacher
123 West Sabrosa Drive
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Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utility Division
Arizona Corporation Commission
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Ms. Lyn Farmer
Chief, Hearing Division
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STAFF REPORT
UTILITY DIVISION
ARIZONA CORPORATION COMMISSION

SABROSA WATER COMPANY

DOCKET NO. W-02111A-06-0361

APPLICATION FOR A
PERMANENT RATE INCREASE

NOVEMBER 30, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Sabrosa Water Company, Docket No. W-02111A-06-0361 was the responsibility of the Staff members listed below. Jim Beechey was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, and rate design. Dorothy Hains was responsible for the engineering and technical analysis. Bradley Morton was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.

Jim Beechey
Public Utilities Analyst III

Dorothy Hains
Utilities Engineer

Bradley Morton
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
SABROSA WATER COMPANY
DOCKET NO. W-02111A-06-0361

Sabrosa Water Company ("Company") currently serves approximately 51 customers in a portion of Maricopa County approximately twenty miles north of Phoenix in New River, Arizona. Due to abandonment by its owner, the Company is operating under the management of an interim operator appointed by the Arizona Corporation Commission ("Commission") per Decision No. 63136, November 16, 2000. Arizona-American Water Company served as interim Manager through February, 2005. Global Water Resources, LLC ("Global") has acted as the interim manager since March, 2005. On March 8, 2005, the Company filed a request for an interim emergency rate increase, which was granted by the Commission in Decision No. 67990, July 18, 2005. On May 1, 2006, the Company filed a request for a water hauling surcharge tariff, which was granted by the Commission in Decision No. 68745, June 5, 2006. The Company is requesting that the interim emergency rates and water hauling surcharge tariff be adopted as permanent rates.

The Company's proposed rates, will produce total operating revenue of $58,513, an unadjusted operating loss of $64,915, and no operating margin. As justification for the Company's proposed rates, the Company claims the problems that initiated and supported the request for interim emergency rate relief remain: inadequate water supplies; marginal to poor water quality; infrastructure that is aging and failing; and legal and financial problems as a result of ownership abandonment.

Utility Division Staff ("Staff") is recommending that the current interim emergency rates become permanent, with the condition that at the end of 2007 operating income for each preceding calendar year in excess of 20 percent operating margin be deposited in a separate interest bearing account. Additionally, Staff concurs with the Company's request that the interim water hauling surcharge tariff be adopted as permanent. Staff's recommended rates will produce the same total operating revenue of $58,513, as the Company, and an adjusted operating income of $21,219, for a 36.26 percent operating margin. Due to the abandonment by its owner and the unavailability of complete financial records prior to Global's appointment as interim manager under the circumstances presented in this matter, the return on rate base percentage is not an appropriate benchmark to use in determining the Company's revenue requirement, since the rate base figures for both the Company and Staff are estimates. Consequently, Staff will use operating margin to derive the revenue requirement.

Staff recommends approval of its recommended rates and charges as presented on Schedule JCB-4 of this report.

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SCHEDULES

ATTACHMENTS

FACT SHEET

Company: Sabrosa Water Company

Prior rates: Decision No. 57669, dated December 19, 1991.

Current rates: Decision No. 67990, dated July 18, 2005 (Interim emergency rates).
Decision No. 68745, June 5, 2006 (Water hauling surcharge tariff).

Type of ownership: On March 20, the Arizona Corporation Commission's Corporations Division mailed a Certificate of Dissolution to the Company stating that it had administratively dissolved the corporate entity due to the owner's failure to file its Corporate Annual Report. (Formerly it was an Arizona Subchapter "S" Corporation.)

Location: The Company currently serves approximately 51 customers in a portion of Maricopa County approximately twenty miles north of Phoenix in New River, Arizona.

Rates:

Monthly Usage Charge	Present (Interim Emergency Rates)	-Proposed Rates- Company	Staff
5/8 Inch Meter	$39.50	$39.50	$39.50
Gallons in Minimum	N/A	N/A	N/A

Commodity Rate (per 1,000 gallons): 5/8 Inch Meters	Present	Company	Staff
(0-3,000 Gallons)	$6.00	$6.00	$6.00
(3,001-10,000 Gallons)	9.00	9.00	9.00
(Over 10,000 Gallons)	10.80	10.80	10.80

5/8 Inch Meter Company & Staff	Gallons	Present Rates	Proposed Rates	Dollar Increase/ (decrease)	Percent Increase/ (decrease)
Median Usage	4,074	$39.50	$39.50	$0.00	0.0%

Customers:

Average number of customers in test year (3/31/2006): 58
Average test year residential customers by meter size:

5/8 - inch meter	54
3/4 - inch meter	1
1 - inch meter	3

Current residential customers by meter size:

5/8 - inch meter	46
3/4 - inch meter	1
1 - inch meter	4

Complaints:

2003 – One opinion regarding rate case.
2004 – Four complaints regarding water outages and nine inquiries regarding change in management.
2005 – Two inquiries regarding change in management; and two opinions regarding rate case.
2006 – No complaints or inquiries to date.

Notification:

Customer notification was mailed on July 21, 2006.

SUMMARY OF FILING

The Sabrosa Water Company ("Sabrosa" or "Company") selected a test year April 1, 2005 through March 31, 2006. Due to the interim emergency rates becoming effective August 1, 2005, Staff has adjusted test year total operating revenue to reflect a full twelve months at the present interim emergency rates, and for the reduced number of customers from approximately 58 to 51. Staff's adjustments increased test year total operating revenues by $14,957, from the $43,556 filed by the Company, to $58,513.

The Company's proposed rates, as filed and adjusted to the current level of 51 customers, will produce total operating revenue of $58,513, unadjusted total operating expenses of $123,428, an operating loss of $64,915, for no operating margin. The typical residential bill under the Company's proposed rates with a median usage of 4,074 gallons would be approximately $67.17, remaining the same as that reflected by the interim rates.

Utility Division Staff ("Staff") is recommending that the current interim emergency rates become permanent, with the condition that at the end of 2007 operating income for each calendar year in excess of 20 percent operating margin be deposited in a separate interest bearing account in order to fund the future plant requirements of the Company's infrastructure and water supply demands. The funds in this account shall be designated and treated as Contributions in Aid of Construction ("CIAC"). Ordinarily, these funds would be used solely to fund new plant requirements; however, in the instant case, Staff is recommending that the funds also be available for funding the Company's water loss reduction program as expressed in the attached Engineering Report. Staff's recommended rates will produce the same total operating revenue of $58,513, as the Company's adjusted total operating expenses of $37,294, an adjusted operating income of $21,219, for a 36.26 percent operating margin. The typical residential bill will remain the same as that reflected by the interim rates. Due to the abandonment by its owner and the unavailability of complete financial records prior to Global's appointment as interim manager under the circumstances presented in this matter, the return on rate base percentage is not an appropriate benchmark to use in determining the Company's revenue requirement, since the rate base figures for both the Company and Staff are estimates. Consequently, Staff will use operating margin to derive the revenue requirement.

BACKGROUND

Pursuant to Decision No. 67990 (July 18, 2005), on May 31, 2006, the Company filed an application for a permanent rate increase with the Commission. The Company's application was found deficient. After the Company filed corrections to its application on July 14, 2006 and July 24, 2006, the application was deemed sufficient on August 17, 2006. On July 28, 2006, Dennis Schumacher filed a request to intervene, which was granted on August 9, 2006.

The Company served approximately 58 customers in the test year ending 3/31/2006, and currently serves approximately 51 customers. The existing certificated area is of a rural nature with existing residential lots from three to five acres. On April 24, 2002, the Company filed a request for a moratorium on service line and meter installations which was granted on July 24, 2002. The number of service connections is limited to approximately 79 service connections. Consequently, limited growth is expected in the foreseeable future.

On May 11, 2000, the Commission issued a Complaint and Order to Show Cause against the Company alleging a lack of ability to provide adequate and continued water service to its customers, and for violation of the Rules of the Arizona Department of Environmental Quality ("ADEQ"). In Decision No. 63136, November 16, 2000, the Commission authorized Staff to engage a qualified management entity to operate and manage the Company in order to bring the Company into full compliance with Arizona law and the Commission's Rules and Orders.

On April 24, 2002, the Staff filed another complaint against the Company, alleging violations of law and Commission Rules and Orders, and requesting cancellation of the Company's Certificate of Convenience and Necessity ("Certificate" or "CC&N"). In Decision No. 65217, September 24, 2002, the Commission cancelled the Company's CC&N. On March 20, the Commission's Corporations Division mailed a Certificate of Dissolution to the Company stating that it had administratively dissolved the corporate entity due to the owner's failure to file its Corporate Annual Report. The Company was originally formed as a Subchapter "S" Corporation, with income/loss passing through to the owner's, Keith Morris, tax return. Global states that the Company does not have a federal or state Tax ID Number, and is not a registered company for tax purposes. Global states that federal and state income tax has not been filed for the Company since Global was appointed interim manager.

On December 6, 2000, Arizona-American Water Company was retained as interim manager and served through February, 2005. Global Water Resources, LLC ("Global") has acted as the interim manager since March, 2005.

On March 8, 2005, the Company filed a request for an interim emergency rate increase, which was granted by the Commission in Decision No. 67990, July 18, 2005. On May 1, 2006, the Company filed a request for water hauling surcharge tariff, which was granted by the Commission in Decision No. 68745, June 5, 2006. A moratorium on service line and meter installations continues per Decision No. 65041, July 24, 2002,

Several unresolved legal issues currently affect the Company and impact its future. The current owner of the Company, Keith J. Morris, has abandoned the utility, and according to the Company's application, still retains legal title to the utility's assets, including real property. According to the Company, a Notice of Intent to File Foreclosure Action was provided in August, 2005. This is in respect to the purchase of a tax lien by WOW-EM Properties LLC on centrally valued parcel identification number 606-29-700. The Company states they have been in contact with WOW-EM Properties LLC to discuss the claim; however, no further information was available from the Company. According to the Company, Otto Kruger Investments purchased the tax lien associated with parcel 202-21-171 (the Sabrosa Well Site and Storage Tank), and appears to have title to the land. The Company had no further information on the status of the tax lien and associated parcel.

The Maricopa County Treasurer's website lists parcel numbers associated with the Company, having a total tax due, including back taxes, of approximately $476,367. Only one of the parcels listed indicates a current tax due, which totals $395.88 for the 2006 tax year.

According to the Interim Management Agreement, the interim manager is entitled to a monthly fee equal to the costs incurred during the month, plus $100. If the funds and payments received from customers of the Company during any month are insufficient to recoup the monthly management fees, the deficit shall be considered a debt of the Company. During its five year term as interim manager, Arizona-American Water Company incurred losses as interim manager that are not included in Sabrosa's accounting records. Arizona-American Water Company has stated that they have written off their losses on the Company, and the losses are no longer considered a debt owed to Arizona-American Water Company.

CONSUMER SERVICES

A review of Consumer Service records for January 1, 2003, through May 17, 2006 revealed four complaints regarding water outages in 2004 and eleven inquiries regarding change in management. Two opinions were received opposing the interim rate case, but none were received for the permanent rate case. On July 28, 2006, Dennis Schumacher filed a request to intervene, which was granted on August 9, 2006.

A review of the Company's bill format indicates compliance with R14-2-409.B.2.a through R14-2-409.B.2.j of the Arizona Administration Code, Title 14, Chapter 4.

COMPLIANCE

The Compliance Section review showed the following outstanding compliance delinquencies:

- Decision No. 63136 (November 16, 2000)
  1. Compliance due date 12/4/2000: Sabrosa Water Company and Mr. Keith J. Morris shall pay jointly and severally a penalty of $5,000 which sum shall be paid within 15 days of the effective date of the Commission's Decision.

  2. Compliance due date 1/16/2001: Sabrosa Water Company and Mr. Keith J. Morris shall pay jointly and severally as additional financial penalties the sum of $1,000 a day from the fifteenth day following the effective date of the Commission's Decision until Mr. Morris either sells the utility and/or its assets to a Commission approved third party within 60 days of the effective date of this Decision or until he brings the utility into compliance with Arizona law.

  3. Compliance due date 1/16/2001: The financial penalties ordered will be waived if Sabrosa Water Company and Mr. Keith J. Morris, within 60 days of the effective date of the Commission's Decision, enter into an agreement for

the sale of the water utility and/or its assets to a Commission approved third party who will operate the water utility in compliance with Arizona law.

According to Global, the Company's Transaction Privilege Tax ("TPT") is collected and remitted under Santa Cruz Water Company's TPT identification number ("ID") and submittals, a water utility owned by Global. The Company does not have a state TPT ID and does not file its own TPT returns.

The Company stated it is has not received any 2005 property tax bills and is not currently paying property tax.

Sabrosa is current with the filing of their 2005 annual report.

The Company's general ledger account identification and description is not consistent with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform Systems of Accounts prescribed account description and numbering scheme. Additionally, the Company has not produced complete and sufficient records to substantiate actual test year costs. NARUC Accounting Instructions require each entry to be supported by such detailed information as will permit a ready identification, analysis, and verification of all relevant facts. The books and records shall include not only accounting records in a limited technical sense, but all other records, which may be useful in developing the history of, or facts regarding, any transaction.

ENGINEERING ANALYSIS

The Company owns and operates a water system that consists of three well sites. The Company serves approximately 51 metered customers; the majority of which are residential. Currently, the Sabrosa water system does not have adequate production and storage capacity to serve the existing base of customers. In Decision No. 68745, the Company was granted an interim water hauling surcharge tariff by the Commission. The Company is requesting, as part of their rate application, that the interim water hauling surcharge tariff become permanent. Staff concurs with the Company.

There are several options to resolve the production problem: (1) Option No. 1, Interconnection to Arizona American Water Company Anthem System; (2) Option No. 2, Interconnection to the Cave Creek Water System; (3) Option No. 3 Drill a new well. The Company prefers Option No. 2. Staff also concludes that Option No. 2 is probably the best solution of the three options being considered.

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") or parts per billion ("ppb") to 10 µg/l. The most recent lab analysis provided by the Company indicates that the arsenic levels in the wells used by the Company are 31 µg/l, 33 µg/l and 35 µg/l, which exceed the new arsenic MCL. The Maricopa County Department of Environmental Services ("MCDES") has stated that the new MCL must be complied with by December 31, 2006. The

Company did not submit its arsenic removal plan in this rate filing nor has it submitted its arsenic removal plan to MCDES for review. Global representatives have told Staff that action on Sabrosa's arsenic issue has not been taken due to the fact that the potential cost is high and Global is only acting as an interim manager. Please see the attached Engineering Report for options to resolve the existing arsenic problem.

Overall non-account water for the Company was calculated to be 20.12 percent during the test year, which exceeds acceptable limits. The Company is aware that water loss in the system is high; the Company proposes a two phase water loss reduction plan. For Phase I, the Company proposes to replace all meters over five years old and all well head check valves. Estimated cost of the Phase I work is between $9,500 and $12,500. Phase II will include installation of leak detection sensor heads and leak precluding spring-loaded check valves for each service meter. The Company's estimated cost of the Phase II work is $17,000.

Staff received compliance status reports from the Maricopa County Department of Environmental Services ("MCDES") dated May 31, 2006, in which MCDES stated that the system (PWS #07-052) has no major deficiencies except that its arsenic levels exceed the new MCL. MCDES has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Sabrosa is in the Phoenix Active Management Area, and the Company is in compliance with ADWR's monitoring and reporting requirements.

ESTIMATED RATE BASE

Due to the abandonment by its owner and the unavailability of complete financial records prior to Global's appointment as interim manager, plant in service included in rate base only reflects plant assets added by Global since its appointment as interim manager. Staff recommends a rate base of $62,904, as shown on Schedule JCB-2, page 1. This rate base represents a decrease of $23,024 from the Company's proposed $85,928 rate base, due to Staff's adjustment to plant in service, accumulated depreciation, and cash working capital. The adjustments are discussed below.

Adjustment A decreased plant in service by $29,777, based on Staff's following adjustments:

- Decreased account 320 Water Treatment Equipment by $14,455 reflecting legal costs incorrectly capitalized to plant.

- Decreased account 348 Other Tangible Plant by $14,291 reflecting legal costs incorrectly capitalized to plant; and disallowed Nitrate Analyzer Design costs of $1,031 as not used and useful. The Company can include this item on its Balance Sheet as Account 103, Plant Held for Future Use.

Adjustment B decreased accumulated depreciation by $2,763 to reflect adjusted plant in service and application of the half year convention for first year plant in service at the Staff Engineer's recommended depreciation rates.

Adjustment C increased cash working capital by $3,990 to reflect Staff's inclusion of a working capital allowance using the formula method.

OPERATING REVENUES

Staff's adjustments to operating revenues resulted in an increase of $14,957 from $43,556 to $58,513, as shown on Schedule JCB-3, page 1. The adjustments are discussed below.

Adjustment A increased metered water revenues by $22,661 to reflect a full twelve month test year at the present interim emergency rates; and decreased metered water revenues by $7,704 to reflect a decline in customers from the approximate 58 during the test year to the current customer level of 51.

OPERATING EXPENSES

Staff's adjustments to operating expense resulted in a decrease of $86,134, from $123,428 to $37,294, as shown on Schedule JCB-3, page 1. The adjustments are discussed below.

Adjustment B decreased outside services expense by $94,931 as follows:

- Reclassified $2,180 legal expense to Regulatory Commission Expense.
- Adjusted billing charges for Global Services for Water Operations to a level Staff considers normal and reasonable, from $108,663 to $15,912.

Adjustment C increased water testing costs by $2,095 to reflect Staff's recommended annual monitoring expense reflecting the Company's mandatory participation in the Monitoring Assistance Program.

Adjustment D recorded Regulatory Commission Expense of $7,790 reflecting amortization over four years of $30,296 in rate case related legal expenses that were incorrectly capitalized by the Company to plant in service, and outside services expense.

Adjustment E decreased test year depreciation expense by $1,077 to reflect a full year application of Staff's recommended depreciation rates to Staff's adjusted plant in service.

Adjustment F recorded property tax of $395 based on the only parcel number associated with the Company that has a current year property tax bill listed on the Maricopa County Treasurer's website.

REVENUE REQUIRMENT

Due to the ongoing challenges facing the Company including inadequate water supplies, water quality, aging infrastructure, and financial condition, Staff concurs with the Company's proposed rates and is recommending that the current interim emergency rates become permanent, with the condition that at the end of 2007, operating income for each calendar year in excess of 20 percent operating margin be deposited in a separate interest bearing account in order to fund the future plant requirements of the Company's infrastructure and water quantity and quality demands. Staff's recommended rates will produce total operating revenue of \$58,513, adjusted total operating expense of \$37,294, an adjusted operating income of \$21,219, for a 36.26 percent operating margin. Staff's recommended 20 percent operating margin, or \$11,703, will provide the Company with adequate cash flow to meet recurring operating and maintenance expenses, recover legal expenses, and fund other contingencies. The remaining amount would be deposited in a separate interest bearing account to fund future plant requirements. The typical residential bill will remain the same as that reflected by the interim rates.

RATE DESIGN

Schedule JCB-4 of this Report shows a comparison of the Company's current and proposed rates, as well as Staff's recommended rates. Staff concurs with the Company's proposed rates and is recommending that the current interim emergency rates become permanent, with modifications to the monthly minimum charge for meter sizes greater than 1 inch. Staff concurs with the Company that the water hauling surcharge tariff should become permanent.

The Company's current and proposed rate structure consists of a \$39.50 monthly minimum service charge for all meter classifications, zero gallons included in the monthly minimum charge, and a three-tier commodity rate structure comprised of tier breaks at 3,000, 10,000, and over 10,000 gallons for all meter sizes. The commodity rate for each tier is \$6.00, \$9.00, and \$10.80 per each 1,000 gallons, respectively. Staff concurs with the Company's proposed rate structure with the exception of the monthly minimum charge for meter sizes greater than 1 inch as shown on Schedule JCB-4.

Although a moratorium on service line and meter installations is in effect per Decision No. 65041, July 24, 2002, the Company is proposing to increase its service line and meter installation charges in anticipation of any future activity when the moratorium is lifted. These proposed installation charges are within Staff's typical guidelines and therefore, should be adopted.

The Company is proposing to increase various service charges as indicated on Schedule JCB-4. Staff concurs with the proposed changes except for the Meter Test (If Correct) service charge. The Company is proposing an increase from \$25.00 to \$50.00. Staff recommends the increase be reduced to \$30.00 as being a normal and reasonable fee for a correct meter test.

STAFF RECOMMENDATONS

Staff recommends approval of its rates and charges as presented on Schedule JCB-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax.

Staff further recommends the Company adopt the depreciation rates shown in Exhibit 6, Water Depreciation Rates, of the attached Engineering Report, on a going-forward basis.

Staff further recommends that at the end of 2007, operating income for each calendar year in excess of 20 percent operating margin be deposited in a separate interest bearing account in order to fund the future plant requirements of the Company's infrastructure and water quantity and quality demands.

Staff further recommends that the moratorium on service line and meter installations per Decision No. 65041, July 24, 2002, remain in effect.

Staff further recommends that the interim water hauling surcharge tariff granted by the Commission in Decision No. 68745, June 5, 2006, become permanent effective the date of the Decision resulting from this proceeding.

Staff further recommends the Company maintain its books and records in conformity with the NARUC Uniform Systems of Accounts as required in Arizona Administrative Code R14-2-610(D.1), and keep general and auxiliary accounting records reflecting the actual cost of its properties, operating income and expense, assets and liabilities, and all accounting data necessary to give complete and authentic information as to its properties and operations.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, an affidavit attesting that its books and records are being maintained in compliance with the NARUC Uniform Systems of Accounts within 60 days of the date of the Decision resulting from this proceeding.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a plan subject to Staff approval, describing the actions it will take to obtain a TPT Identification Number, and become compliant with state TPT rules and law for tax collected since Gobal's appointment as interim manager, within 30 days after the Decision in this matter is issued.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a plan subject to Staff approval, describing the actions it will take to make current property tax payments and comply with Maricopa County property tax rules and law for property under its ownership since Gobal's appointment as interim manager, within 30 days after the Decision in this matter is issued.

Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a plan subject to Staff approval, describing the actions it will take to comply with Federal and State income tax rules and laws for the period since Gobal's appointment as interim manager, within 60 days after the Decision in this matter is issued.

Staff further recommends that the Company complete its Phase I water loss reduction program within two years of the effective date of the Commission's Decision in this matter. Staff further recommends the Company complete its Phase II water loss reduction program within three years of the effective date of the Commission's Decision in this matter.

Staff further recommends that the Company docket with the Commission a tariff schedule of its approved rates and charges, within 30 days after the Decision in this matter is issued. This tariff schedule should not be modified or changed and should appear in the same format as ordered by this Commission.

Sabrosa Water Company
Docket No. W-02111A-06-0361
Test Year Ended March 31, 2006

Schedule JCB-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	$43,501	$58,458	$58,458	$58,458
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	55	55	55	55
Total Operating Revenue	$43,556	**$58,513**	$58,513	**$58,513**
Operating Expenses:				
Operation and Maintenance	$118,979	$33,527	$118,979	$33,527
Depreciation	4,449	3,372	4,449	3,372
Property & Other Taxes	0	395	0	395
Income Tax	0	0	0	0
Total Operating Expense	$123,428	**$37,294**	$123,428	**$37,294**
Operating Income/(Loss)	($79,872)	**$21,219**	($64,915)	**$21,219**
Rate Base O.C.L.D.	$85,928	$62,904	$85,928	$62,904
Rate of Return - O.C.L.D.	-92.95%	33.73%	-75.55%	33.73%
Operating Margin	-183.38%	36.26%	-110.94%	36.26%

Sabrosa Water Company
Docket No. W-02111A-06-0361
Test Year Ended March 31, 2006

RATE BASE

	----------- Original Cost -------------- Company	Adjustment		Staff
Plant in Service	$89,787	($29,777)	A	$60,010
Less:				
Accum. Depreciation	4,449	(2,763)	B	1,686
Net Plant	$85,338	($27,014)		**$58,324**
Less:				
Plant Advances	$0	$0		$0
Accumulated Deferred Income Taxes	0	0		0
Total Advances	$0	$0		$0
Contributions Gross	$0	$0		$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	$0	$0		$0
Total Deductions	$0	$0		**$0**
Plus:				
1/24 Power	$0	$101	C	$101
1/8 Operation & Maint.	0	3,889	C	3,889
Inventory	0	0		0
Prepayments	590	0		590
Total Additions	$590	$3,989		**$4,579**
Rate Base	**$85,928**	**($23,024)**		**$62,904**

Explanation of Adjustment:
A. See Schedule JCB-2, page 2 of 3.
B. See Schedule JCB-2, page 3 of 3.
C. To reflect Staff's inclusion of a cash working capital allowance using the formula method.

Sabrosa Water Company
Docket No. W-02111A-06-0361
Test Year Ended March 31, 2006

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	$8,501	$0		$8,501
302 Franchises	0	0		0
303 Land & Land Rights	0	0		0
304 Structures & Improvements	0	0		0
307 Wells & Springs	0	0		0
311 Pumping Equipment	768	0		768
320 Water Treatment Equipment	41,163	(14,455)	A	26,708
330 Distribution Reservoirs & Star	0	0		0
331 Transmission & Distribution M	0	0		0
333 Services	0	0		0
334 Meters & Meter Installations	1,028	0		1,028
335 Hydrants	0	0		0
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipm	0	0		0
340 Office Furniture & Equipment	0	0		0
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipm	0	0		0
344 Laboratory Equipment	0	0		0
345 Power Operated Equipment	0	0		0
346 Communication Equipment	0	0		0
347 Miscellaneous Equipment	0	0		0
348 Other Tangible Plant	38,327	(15,322)	B	23,005
105 C.W.I.P.	0	0		0
TOTALS	$89,787	($29,777)		**$60,010**

Explanation of Adjustment:

A Dissallowed emergency rate and permanent rate case, property tax, and ownership related legal costs incorrectly capitalized to plant in service, and dissallowed nitrate analyzer design cost as not used and useful.

B Dissallowed emergency rate and permanent rate case, property tax, and ownership related legal costs incorrectly capitalized to plant in service.

Sabrosa Water Company
Docket No. W-02111A-06-0361
Test Year Ended March 31, 2006

ACCUMULATED DEPRECIATION ADJUSTMENT

	Amount	
Accumulated Depreciation - Per Company	$4,449	
Accumulated Depreciation - Per Staff	1,686	A
Total Adjustment	**($2,763)**	

Explanation of Adjustment:

A Reduced accumulated depreciation to reflect adjusted plant in service and half year convention for first year plant in service at Staff recommended rates.

Sabrosa Water Company
Docket No. W-02111A-06-0361
Test Year Ended March 31, 2006

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	$43,501	$14,957	A	$58,458
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	55	0		55
Total Operating Revenue	$43,556	$14,957		**$58,513**
Operating Expenses:				
601 Salaries and Wages	$0	$0		$0
610 Purchased Water	0	0		0
615 Purchased Power	2,419	0		2,419
618 Chemicals	401	0		401
620 Repairs and Maintenance	1,481	0		1,481
621 Office Supplies & Expense	0	0		0
630 Outside Services	110,843	(94,931)	B	15,912
635 Water Testing	1,814	2,095	C	3,909
641 Rents	0	0		0
650 Transportation Expenses	0	0		0
657 Insurance - General Liability	0	0		0
659 Insurance - Health and Life	0	0		0
666 Regulatory Commisssion Expense - Rate Case	0	7,790	D	7,790
675 Miscellaneous Expense	2,021	(406)		1,615
403 Depreciation Expense	4,449	(1,077)	E	3,372
408 Taxes Other Than Income	0	0		0
408.11 Property Taxes	0	395	F	395
409 Income Tax	0	0		0
Total Operating Expenses	$123,428	($86,134)		**$37,294**
OPERATING INCOME/(LOSS)	**($79,872)**	**$101,091**		**$21,219**
Other Income/(Expense):				
419 Interest and Dividend Income	$0	$0		$0
421 Non-Utility Income	0	0		0
427 Interest Expense	0	0		0
4XX Reserve/Replacement Fund Deposit	0	0		0
426 Miscellaneous Non-Utility Expense	0	0		0
Total Other Income/(Expense)	$0	$0		$0
NET INCOME/(LOSS)	**($79,872)**	**$101,091**		**$21,219**

Sabrosa Water Company
Docket No. W-02111A-06-0361
Test Year Ended March 31, 2006

STAFF ADJUSTMENTS

A -	METERED WATER REVENUE - Per Company	$43,501	
	Per Staff	58,458	$14,957

Increased metered water revenue by $15,401 to reflect a full twelve month test year at the present interim emergency rates; and to reflect the current 51 customer level from the test year average of 58.

5/8 (54 cust per bill count = 61,072) - (8 cust x's 89.13 ave cost=8,556) =52,516
3/4 (1 cust = 2,394)
1" (3 cust = 2,696) + (1 cust x's 70.50 ave cost x's 12=852)=3,548
52,516+2,394+3,548=58,458

B -	OUTSIDE SERVICES - Per Company	$110,843	
	Per Staff	15,912	($94,931)

Decreased outside services expense by $94,931 as follows:
- reclassified $2,180 in legal expense to Regulatory Commission expense.
- decreased Company's unsubstantiated remaining asserted expenses from $108,663 to $15,912, an amount considered by Staff to be fair and reasonable based on the averaged costs of 35 small water companies, @ $26.00 per customer per month. for 51 current customers. (26x51x12=15,912). Averaged costs include salaries, outside services, rent, office & supplies, telephone, insurance, and transportation expense.

C -	WATER TESTING - Per Company	$1,814	
	Per Staff	3,909	$2,095

Increased water testing costs by $2,095 to reflect Staff's recommended annual monitoring expense reflecting the Company's mandatory participation in the Monitoring Assistance Program.

D -	REGULATORY COMMISSION EXPENSE - RATE CASE		
	- Per Company	$0	
	Per Staff	7,790	$7,790

Recorded Regulatory Commission Expense of $7,790 reflecting amortization over four years of $30,296 in rate case related legal expenses that were incorrectly capitalized by the Company to plant in service and outside services expense.

STAFF ADJUSTMENTS (Cont.)

E -	DEPRECIATION - Per Company	$4,449	
	Per Staff	3,372	($1,077)

Explanation of Adjustment:
Pro Forma Annual Depreciation Expense:

Plant in Service	$60,010
Less: Non Depreciable Plant	8,501
Fully Depreciated Plant	0
Depreciable Plant	$51,509
Times: Staff Proposed Depreciation Rate	6.55%
Pro Forma Annual Depreciation Expense	**$3,372**

F -	PROPERTY TAXES - Per Company	$0	
	Per Staff	395	$395

Recorded property tax based on only parcel number associated with the Company that has a current year (2006) property tax listed on the Maricopa County Treasurer's website. (See Schedule JCB-6 for parcel and tax information.)

Sabrosa Water Company
Docket No. W-02111A-06-0361
Test Year Ended March 31, 2006

Schedule JCB-4

RATE DESIGN

Monthly Usage Charge	Present Rates	-Proposed Rates- Company	Staff
5/8" x 3/4" Meter	$39.50	$39.50	$39.50
3/4" Meter	39.50	39.50	39.50
1" Meter	39.50	39.50	39.50
1½" Meter	39.50	39.50	200.00
2" Meter	39.50	39.50	320.00
3" Meter	39.50	39.50	600.00
4" Meter	39.50	39.50	1,000.00
6" Meter	39.50	39.50	2,000.00
Gallons Included in Minimum	0	0	0
Commodity Rate, Excess of Minimum - per 1,000 Gallons:			
0 - 3,000 gallons - per 1,000 gallons	$6.00	$6.00	$6.00
3,001 - 10,000 gallons - per 1,000 gallons	$9.00	$9.00	$9.00
Over 10,000 gallons - per 1,000 gallons	$10.80	$10.80	$10.80
Water Hauling Surcharge:	***	***	***
Service Line and Meter Installation Charges			
5/8" x 3/4" Meter	$278.00	$400.00	$400.00
3/4" Meter	309.00	440.00	440.00
1" Meter	360.00	500.00	500.00
1½" Meter	552.00	715.00	715.00
2" Meter Turbo	779.00	1,170.00	1,170.00
2" Meter Compound		1,700.00	1,700.00
3" Meter Turbo	1,010.00	1,585.00	1,585.00
3" Meter Compound		2,190.00	2,190.00
4" Meter Turbo	1,703.00	2,540.00	2,540.00
4" Meter Compound		3,215.00	3,215.00
6" Meter Turbo	3,769.00	4,815.00	4,815.00
6" Meter Compound		6,270.00	6,270.00
Service Charges			
Establishment	$15.00	$25.00	$25.00
Establishment (After Hours)	30.00	50.00	50.00
Reconnection (Delinquent)	25.00	30.00	30.00
Meter Test (If Correct)	25.00	50.00	30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	25.00	25.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	15.00	25.00	25.00

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** Surchage calculated by dividing the total Water Hauling Costs incurred in a given month by the amount of water sold that month. The resulting rate per 1,000 gallons will then be multiplied by the gallons used in that month for each customer to arrive at the surcharge per 1,000 gallons, appearing in the next month bill as a separate line item.

Sabrosa Water Company
Docket No. W-02111A-06-0361
Test Year Ended March 31, 2006

Schedule JCB-5

TYPICAL BILL ANALYSIS

General Service 5/8 - Inch Meter

Average Number of Customers: 54

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,514	$89.13	$89.13	$0.00	0.0%
Median Usage	4,074	$67.17	$67.17	$0.00	0.0%
Staff Recommend					
Average Usage	6,514	$89.13	$89.13	$0.00	0.0%
Median Usage	4,074	$67.17	$67.17	$0.00	0.0%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$39.50	$39.50	0.0%	$39.50	0.0%
1,000	45.50	45.50	0.0%	45.50	0.0%
2,000	51.50	51.50	0.0%	51.50	0.0%
3,000	57.50	57.50	0.0%	57.50	0.0%
4,000	66.50	66.50	0.0%	66.50	0.0%
5,000	75.50	75.50	0.0%	75.50	0.0%
6,000	84.50	84.50	0.0%	84.50	0.0%
7,000	93.50	93.50	0.0%	93.50	0.0%
8,000	102.50	102.50	0.0%	102.50	0.0%
9,000	111.50	111.50	0.0%	111.50	0.0%
10,000	120.50	120.50	0.0%	120.50	0.0%
15,000	174.50	174.50	0.0%	174.50	0.0%
20,000	228.50	228.50	0.0%	228.50	0.0%
25,000	282.50	282.50	0.0%	282.50	0.0%
50,000	552.50	552.50	0.0%	552.50	0.0%
75,000	822.50	822.50	0.0%	822.50	0.0%
100,000	1,092.50	1,092.50	0.0%	1,092.50	0.0%

Engineering Report

Sabrosa Water Company
By Dorothy Hains, P. E.
Docket No. W-02111A-06-0361
(Rates)

EXECUTIVE SUMMARY

Recommendations

1. Staff recommends that Sabrosa Water Company ("the Company") use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6, in the future. These rates should be used to calculate the annual depreciation expense for the Company in this application. (See §K and Exhibit 6 for a discussion and a tabulation of the recommended rates.)

2. Staff recommends approval of the meter and service line installation charges listed in the right-hand column of Table 9. (See §L of report for discussion and details.)

3. Water testing expenses are based upon participation in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program. Annual testing expenses should be adjusted to $3,909. (See §J and Tables 8 for discussion and details.)

4. Staff recommends that the Company complete its Phase I water loss reduction program within two years of the effective date of the Commission's Decision in this matter. Staff further recommends the Company complete its Phase II water loss reduction program within three years of the effective date of the Commission's Decision in this matter. (See §E of report for discussion and details.)

Conclusions:

1. The most recent lab analysis provided by the Company indicates that the arsenic levels in the wells used by the Company are exceeding the new arsenic MCL.

2. Sabrosa Water Company is in Arizona Department of Water Resources ("ADWR") Phoenix Active Management Area, and the Company is in compliance with ADWR's monitoring and reporting requirements.

3 A check of the Compliance Section database indicated that the Company had no delinquencies.

4. The Company is in compliance with ADEQ water quality standards and is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. However, Maricopa County Department of Environmental Services will enforce the new arsenic rule after 12/31/06. (See §G of report for discussion and details.)

5. The Company has to monitor nitrate in the Wright Well on a weekly basis. (See §G of report for discussion and details.)

TABLE OF CONTENTS

EXHIBITS

ENGINEERING REPORT
SABROSA WATER COMPANY, INC
DOCKET NO. W-01157A-06-0004 (RATES)

A. PURPOSE OF REPORT

This report was prepared in response to the application of Sabrosa Water Company. ("Sabrosa" or "Company") with the Arizona Corporation Commission ("ACC" or "the Commission") for a rate increase. An inspection and evaluation of the Company's water systems was conducted by Dorothy Hains, Water Engineer, in the accompaniment of Graham Symmonds, a representative from the Global Water Resources ("Global"), on August 28, 2006. Global is acting as the operator of the Sabrosa system under an Interim Manager Agreement entered into with the Commission.

B. LOCATION OF SYSTEM

The Company is located northwest of the Town of Cave Creek and east of I-17 near the Carefree Highway, in Maricopa County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission regulated companies in Maricopa County and in the immediate area. The Company serves an area approximately one square mile in size that includes a portion of Section 5, of Township 6 North, Range 3 East.

C. DESCRIPTION OF SYSTEM

I. System Description

The Company owns and operates a water system that consists of three well sites. The Company serves approximately 52 metered customers; the majority of which are residential. Exhibit 3 is a schematic drawing of the water system. A detailed listing of the Company's water system facilities are as follows:

Table 1 Well Data

Well Name	ADWR ID No. (55-xxxxxx)	Pump (HP)	Yield (GPM)	Casing Size (in inches) & Depth (in ft)	(Meter Size inches)	Year drilled
Zorillo Well1	527012	5	31½	5"x205'	2	1990
Wright Well	527010		15	8"x202'	2	1990

1 This well was shot down in June 2006, due to water level decline in Zorillo Well.

Sabrosa Well	635812		1½	12"x	2	1982
		TOTAL:	48			

Table 1A Plant Not Used and Useful

Well Name	ADWR ID No. (55-xxxxxx)	Location	Pump (HP)	Yield (GPM)	Casing Size (in inches) & Depth (in ft)	Year abandoned from service	Year drilled
N/A	N/A	Wright Well Site	N/A	N/A	N/A	1990	1990
			TOTAL:	N/A			

Table 2 Storage Tank

Capacity (Gallons)	Quantity	Location
24,000	1	Sabrosa Well Site
Total: 24,000 gallons		

Table 3 Distribution Mains

Diameter (inches)	Material	Length (feet)
6	polyvinyl chloride ("PVC")	19,700

Table 4 Meters

Size (inches)	Quantity
5/8 x 3/4	52
¾	0
1	3
1½	
2	
Total	55

II. System Analysis

This system does not have adequate production and storage capacity to serve the existing base of customers.

D. ARSENIC

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") or parts per billion ("ppb") to 10 µg/l. The most recent lab analysis provided by the Company indicates that the arsenic levels in the wells used by the Company are 31 µg/l, 33 µg/l and 35 µg/l, which exceed the new arsenic MCL. The Maricopa County Department of Environmental Services ("MCDES") has stated that the new MCL must be complied with by December 31, 2006. The Company did not submit its arsenic removal plan in this rate filing nor has it submitted its arsenic removal plan to MCDES for review. Global representatives have told Staff that action on Sabrosa's arsenic issue has not been taken due to the fact that the potential cost is high and Global is only acting as an interim manager. Further discussion will be in §L below.

E. WATER USAGE

Tables 6A through 6C summarize water usage in the Company's CC&N area. Exhibits 4A through 4F are graphs that show water consumption data in gallons per day per connection for the system for the period of March 2005 through March 2006.

Table 6A Water Usage

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Mar 05	64	308,000	370,000	0	155
Apr 05	62	411,000	557,000	0	221
May 05	62	441,000	650,000	0	229
Jun 05	62	510,000	618,000	0	274
Jul 05	58	699,000	687,000	0	389
Aug 05	58	424,000	578,000	0	236
Sep 05	56	441,000	551,000	0	263
Oct 05	56	330,000	468,000	0	190
Nov 05	55	261,000	327,000	0	158
Dec 05	55	307,000	352,000	0	180
Jan 06	55	248,000	312,000	0	145
Feb 06	52	220,000	290,000	0	151
Mar 06	52	282,000	385,000	0	175
Total		4,915,640	6,145,000		
Average					213

The calculated overall water loss was **20.12%** during the test year.

I. Water Sold

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 213 gallons per day ("gpd") per customer, a high use of 389gpd per customer and a low use of less than 145 gpd per customer. The highest total monthly use occurred in May, when a total of 441,000 gallons were sold to 62 customers. The lowest total monthly use occurred in February, when 220,000 gallons were sold to 52 customers.

II. Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. Overall non-account water for the Company was calculated to be 20.12 percent during the test year, which exceeds acceptable limits. The Company is aware that water loss in the system is high; the Company proposes a two phase water loss reduction plan. For Phase I, the Company proposes to replace all meters over five years old and all well head check valves. Estimated cost of the Phase I work is between $9,500 and $12,500. Phase II will include installation of leak detection sensor heads and leak precluding spring-loaded check valves for each service meter. The Company's estimated cost of the Phase II work is $17,000. Staff recommends that the Company complete its Phase I water loss reduction program within two years of the effective date of the Commission's Decision in this matter. Staff further recommends the Company complete its Phase II water loss reduction program within three years of the effective date of the Commission's Decision in this matter.

F. GROWTH PROJECTION

Based on the service meter data contained in the Company's Application, the number of customers declined. The Company's Annual Reports fail to provide metered customers' data between 2000 and 2004 (prior to Global becoming interim manager). The number of customers declined from 64 at the end of March 2005 to 51 by the end of March 2006.

G. MARICOPA COUNTY DEPARTMENT OF ENVIRONMENTAL SERVICES ("MCDES") COMPLIANCE

Staff received compliance status reports from MCDES dated May 31, 2006, in which MCDES stated that the system (PWS #07-052) has no major deficiencies except that its arsenic levels exceed the new MCL. MCDES has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

H. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Sabrosa is in the Phoenix Active Management Area, and the Company is in compliance with

ADWR's monitoring and reporting requirements.

I. ACC COMPLIANCE

A check of the Compliance Section database indicated that the Company had no delinquencies.

J. WATER TESTING EXPENSES

Sabrosa is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, nitrates, and bacteria.

2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented as a pro forma expense on an annualized basis.

3. MAP fees were calculated from the ADEQ MAP rules.

4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and two points of entry.

5. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs would dramatically increase.

Table 8 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount shown in Table 8, a total of **$3,909**.

Table 8 Water Testing Cost

Monitoring – 3 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological – monthly	$25	36	$900	$300
Inorganics (& secondary)	$300	3	$900	$300
Radiochemical – (1/ 4 yr)	$60	¾	$45	MAP
IOC's, SOC's, VOC's	$2,805	3	$8,415	MAP
Nitrites	$20	3	$60	MAP
Nitrates – annual	$40	162[1]	$6,480	$2,160

Asbestos – per 9 years	$180	⅓	$60	MAP
Lead & Copper – annual	$45	15	$675	$225
TTHM	$150	9	$1,350	$450
HAAS	$250	9	$2,250	$750
MAP fees (annual)				$473.59
Total				**$3,909**

Note
#1 Because nitrate levels in Wright Well exceed the MCL and the Company needs to harvest the water from this well due to production declines in the Zorillo Well, MCDES is requiring that the Company do weekly monitoring of the Wright Well to assure that nitrate levels do not exceed the MCL.

K. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Exhibit 6, and should be used to calculate the annual depreciation expense for the Company in this application. It is recommended that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6, in the future.

L. OTHER ISSUES

I. Service Line and Meter Installation Charges

The Company is proposing to revise its meter and service line installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's experience of what are reasonable and customary charges. Therefore, Staff recommends approval of meter and service line installation charges proposed by the Company as shown in Table 9.

Table 9. Service Line and Meter Installation Charges

Meter Size	Current Charges	Proposed Charges	Staff Recommendation
5/8 x3/4-inch	$278	$400	$400
3/4-inch	$309	$440	$440
1-inch	$360	$500	$500
1-½-inch	$552	$715	$715
2-inch (turbo)	$779	$1,170	$1,170
2-inch (compound)	N/A	$1,700	$1,700
3-inch (turbine)	$1,010	$1,585	$1,585
3-inch (compound)	N/A	$2,190	$2,190
4-inch (turbine)	$1,703	$2,540	$2,540
4-inch (compound)	N/A	$3,215	$3,215
5-inch (turbine)	$2,736	N/A	N/A
6" (turbine)	$3,769	$4,815	$4,815
6-inch (compound)	N/A	$6,270	$6,270

II. Curtailment Tariff

The Company has an approved curtailment tariff on file with the Commission.

III. Increasing Production

There are several options to resolve the production problem: (1) Option #1, Interconnection to Arizona American Water Company Anthem System; (2) Option #2, Interconnection to the Cave Creek Water System; (3) Option #3 Drill a new well.

Option #1 will require installation of a one and one-half mile long water main extension and a booster station; however, Arizona American Water Company has indicated that it is not interested in participating in such a project at this time.

Option #2 will require the extension of at least a two mile long, 6-inch water main to interconnect the Cave Creek system with the Sabrosa system[2]. The Company estimates a *minimum* cost of $792,000 for the two mile extension.

Option #3 is to install a new well. Staff believes that Option #3 is probably not a very viable option due to the poor quality of groundwater and a declining groundwater table in the Sabrosa area.

Global prefers Option #2. Staff also concludes that Option #2 is probably the best solution of the three being considered.

IV. Arsenic Removal

To resolve the existing arsenic problem, there are several options that the Company could choose: (1) Option #1 Point of Use ("POU"); (2) Option #2 blending; and (3) Option #3 install an arsenic treatment unit at each well head.

1. Option #1 POU
Because Sabrosa's customer base is below 100, this may be a viable option and a good fit based on ADEQ's POU guidelines. Staff has estimated the capital cost for the option to be approximately $18,720[3] with annual maintenance costs of approximately $2,600[4]. However, this option would require the Company to get eventually 100% of the customers to agree.

2. Option #2 Blending
This option would require that an interconnection be established with the Cave Creek system. Cave Creek obtains water from the Central Arizona Project ("CAP") whose arsenic level is below the new MCL which could be blended with or entirely replace the water from the Sabrosa system.

3. Option #3 Centralized Treatment Plant
Staff has calculated a preliminary estimate of the cost to implement this option based on ADEQ's Arsenic Master Plan (AMP). Staff's estimate is $273,102[5] in capital cost and $15,428[6] for annual O&M cost. Staff's estimate assumes (1) arsenic removal will be required for both

---

2 This assumes that the Commission will approve Cave Creek's pending request to extend its CC&N which would bring Cave Creek facilities closer to the Sabrosa system., otherwise the extension will need to be at least 5½ miles long and will require a booster station.

3 Estimated capital cost is $310 per unit and $50/unit of installation fee. For a 52 customer base, total cost is approximately $18,720.

4 The annual service fee is estimated for $50/unit.

5 This estimate limits Zorillo Well due to water table declines and it has been shot down. $130,563 for Sabrosa Well and $142,539 for Wright Well.

6 This estimate limits Zorillo Well due to water table declines and it has been shot down. $6,492 for Sabrosa Well and $15,428 for Wright Well.

Wright Well and Sabrosa Well and treatment will occur at the well heads, (2) arsenic will be removed to meet 5 µg/l by Single Column Fe-AA (iron-modified active alumina) Treatment.

EXHIBIT 1

Sabrosa Certificate Service Area

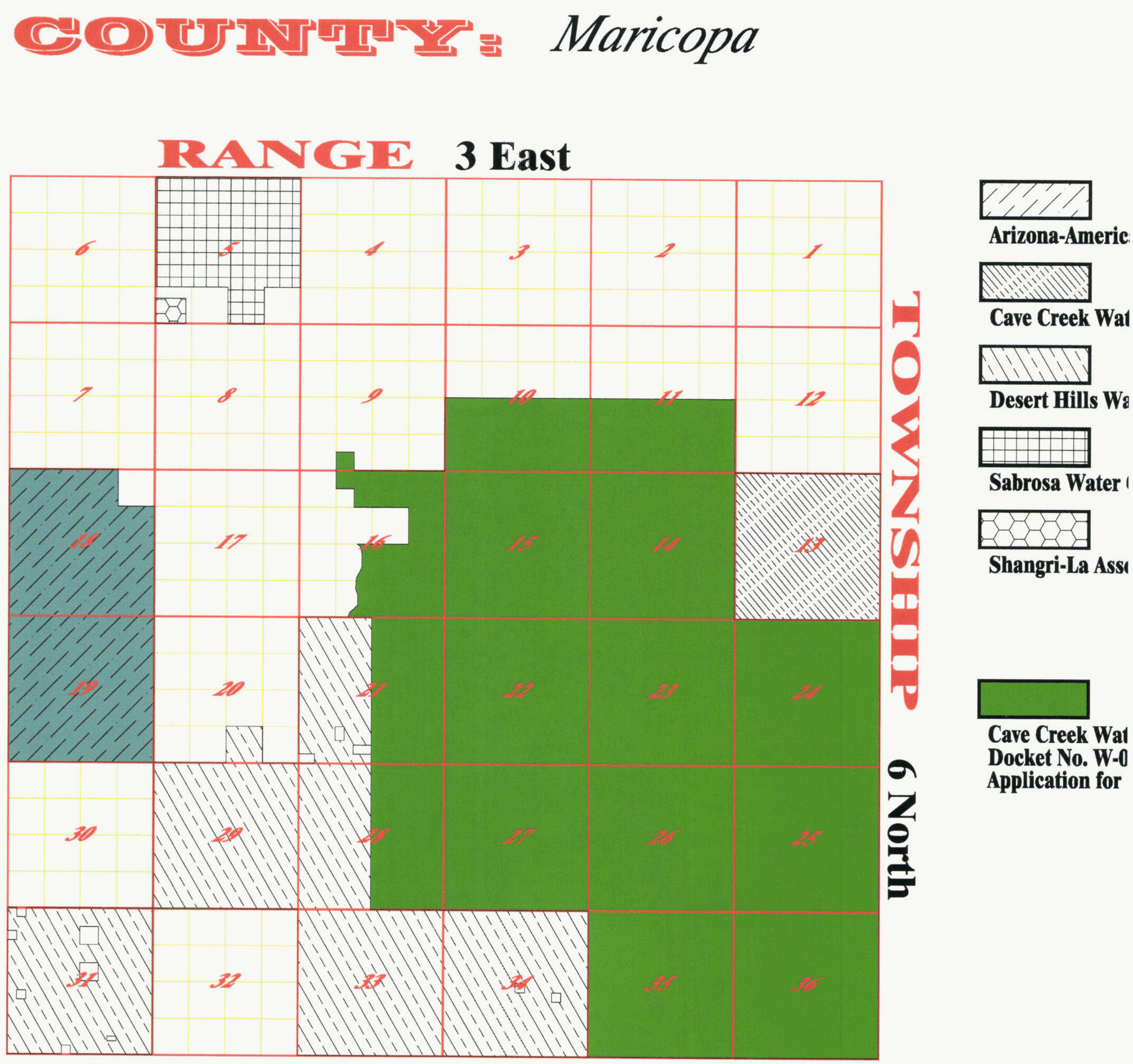

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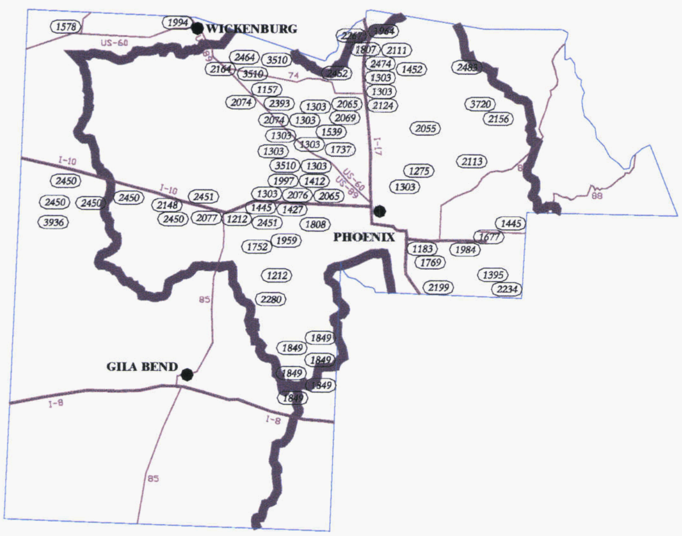
EXHIBIT 2.

LOCATION OF SABROSA WATER COMPANY SERVICE AREA

MARICOPA COUNTY



1997	ADAMAN MUTUAL WATER COMPANY	2164	MORRISTOWN WATER COMPANY
1578	AGUILA WATER SERVICES, INC.	1737	NEW RIVER UTILITY COMPANY
2077	ALLENVILLE WATER COMPANY, INC.	2199	PIMA UTILITY COMPANY
1303	ARIZONA-AMERICAN WATER COMPANY	2464	PUESTA DEL SOL WATER COMPANY
1445	ARIZONA WATER COMPANY	1395	QUEEN CREEK WATER COMPANY
2074	BEARDSLEY WATER COMPANY, INC.	1808	RIGBY WATER COMPANY
1275	BERNEIL WATER COMPANY	2156	RIO VERDE UTILITIES, INC.
1964	BLACK CANYON RETREAT WATER COMPANY	1539	ROSE VALLEY WATER COMPANY
1994	CABALLEROS WATER COMPANY, INC.	2111	SABROSA WATER COMPANY
1452	CAVE CREEK WATER COMPANY	1183	SENDE VISTA WATER COMPANY, INC.
2113	CHAPARRAL CITY WATER COMPANY	2474	SHANGRI-LA ASSOCIATES, INC.
2393	CHAPARRAL WATER COMPANY	2280	SOUTH RAINBOW VALLEY WATER COOPERATIVE
3510	CIRCLE CITY WATER COMPANY L.L.C.	2069	SUNRISE WATER COMPANY, INC.
1752	CLEARWATER UTILITIES COMPANY, INC.	2076	TIERRA BUENA WATER COMPANY
1984	DAIRYLAND WATER CORPORATION	2483	TONTO HILLS UTILITY COMPANY
2124	DESERT HILLS WATER COMPANY, INC.	1677	TURNER RANCHES WATER & SANITATION COMPANY
3936	EAGLETAIL WATER COMPANY LC	1212	VALENCIA WATER COMPANY
1959	GRANDVIEW WATER COMPANY, INC.	1412	VALLEY UTILITIES WATER COMPANY, INC.
2234	H2O, INC.	2148	VALLEY VIEW WATER COMPANY, INC.
2055	JAMES P. PAUL WATER COMPANY	2451	WATER UTILITY OF GREATER BUCKEYE, INC.
1769	KYRENE WATER COMPANY	2450	WATER UTILITY OF GREATER TONOPAH, INC.
2452	LAKE PLEASANT WATER COMPANY	3720	WATER UTILITY OF NORTHERN SCOTTSDALE, INC.
1427	LITCHFIELD PARK SERVICE COMPANY	1157	WEST END WATER COMPANY
2267	MCADAMS WATER COMPANY	2065	WILHOIT WATER COMPANY, INC.
1849	MOBILE WATER COMPANY	1807	WRANGLERS ROOST WATER COMPANY

10/25/05

EXHIBIT 3

SYSTEMATIC DRAWING

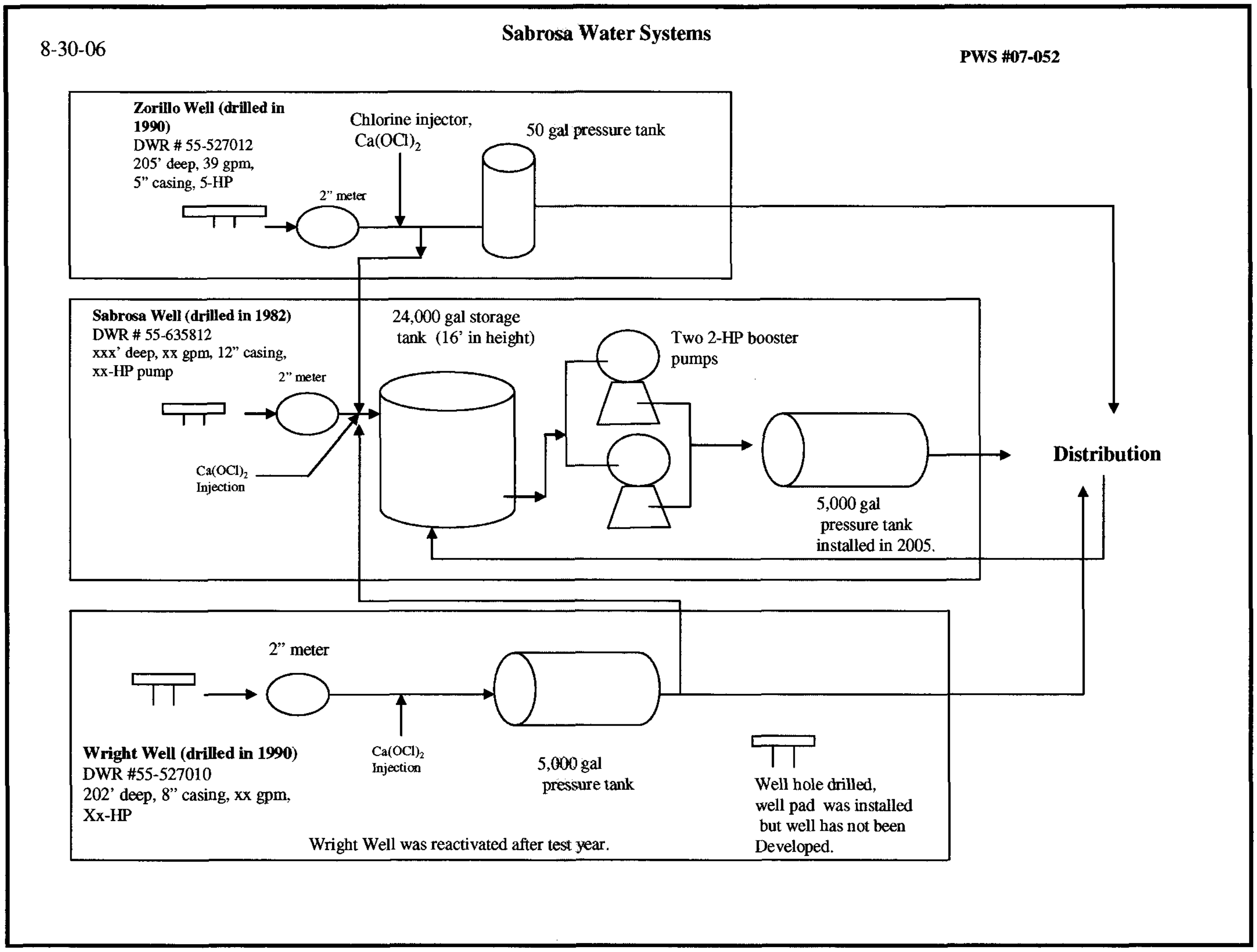


EXHIBIT 4

WATER USAGE ON THE SABROSA WATER COMPANY SERVICE AREA

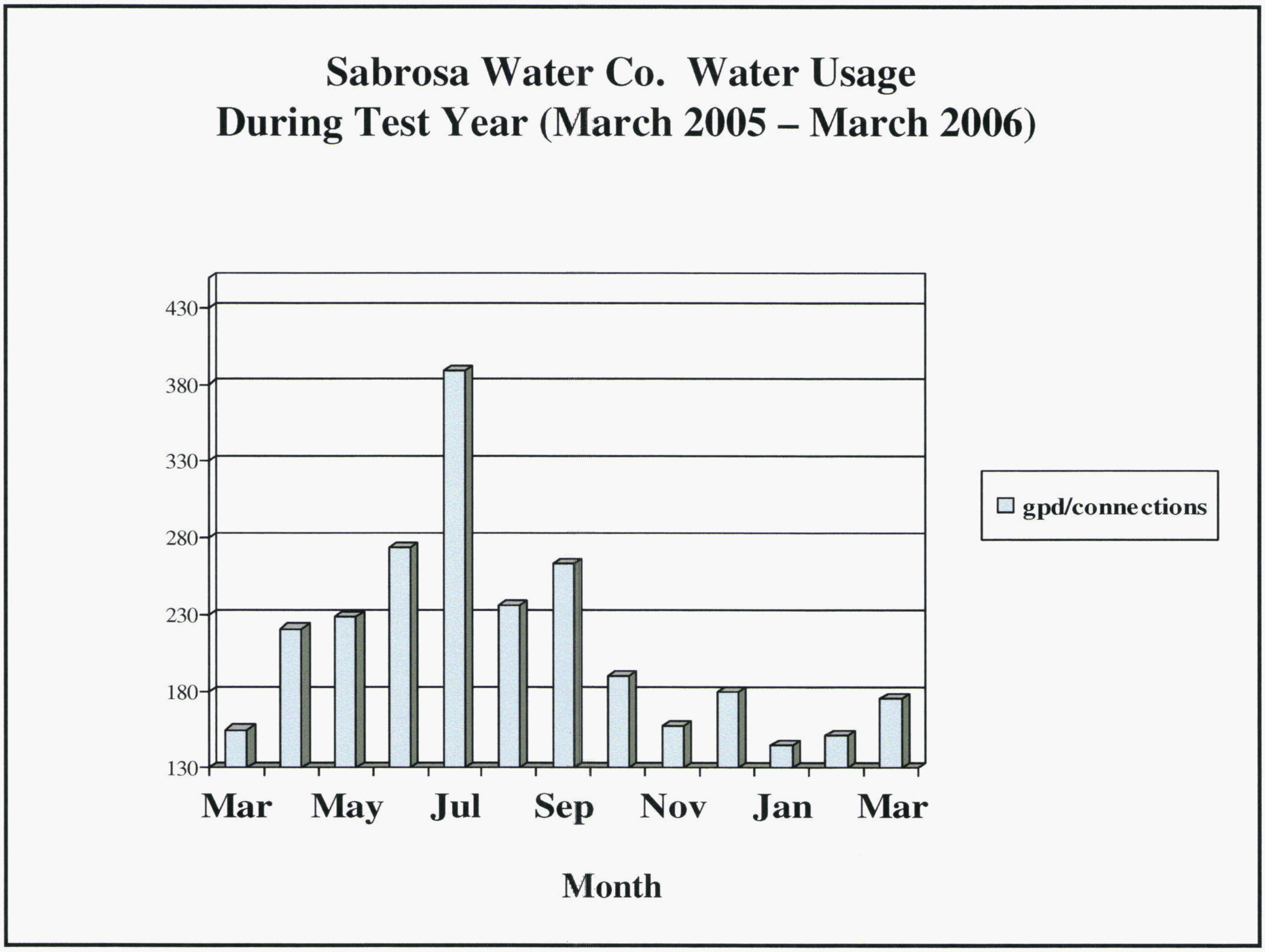


EXHIBIT 5

ACTUAL AND PROJECTED GROWTH IN SABROSA WATER COMPANY SERVICE AREA

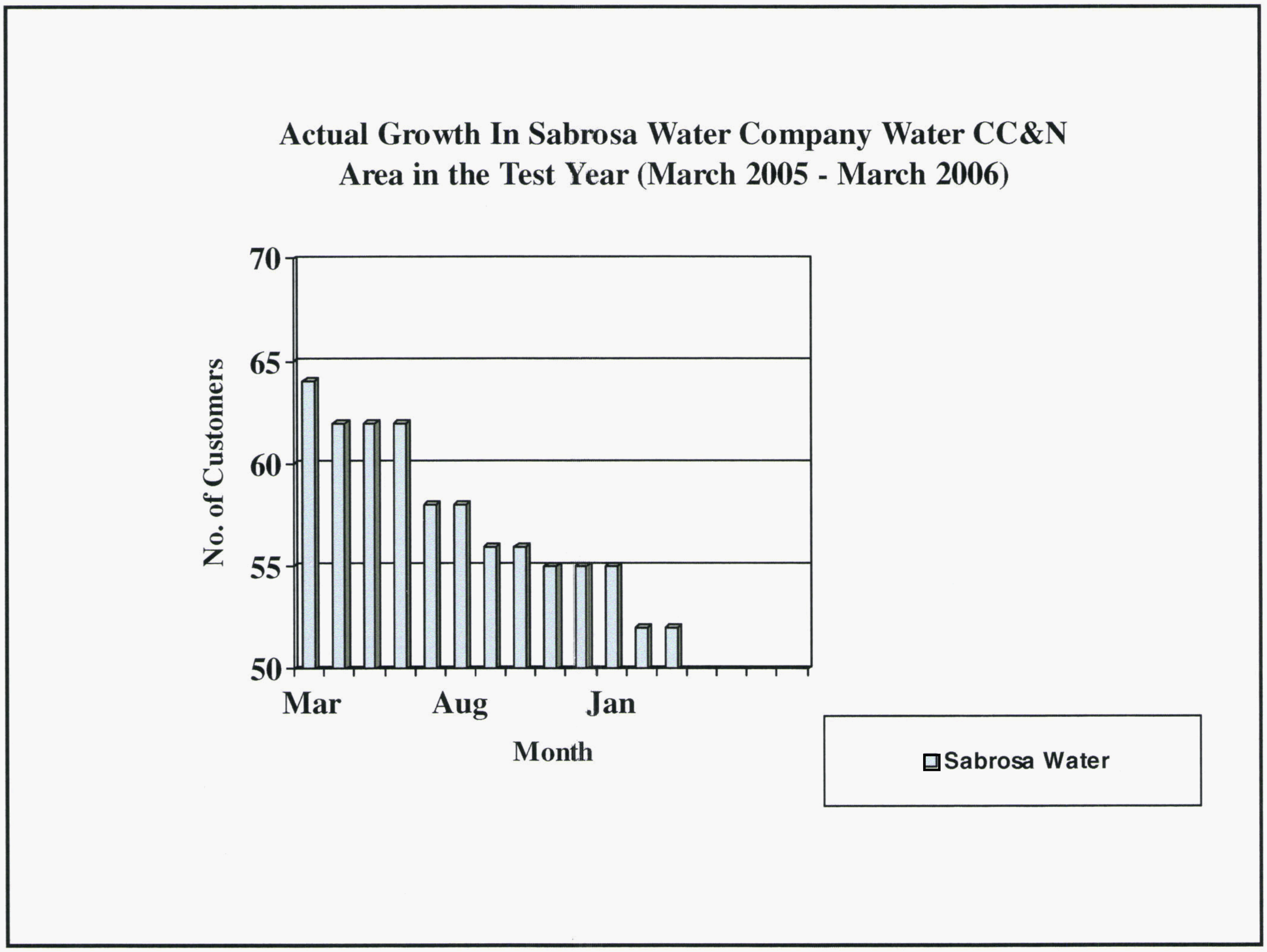


Exhibit 6

Water Depreciation Rates

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----