

ORIGINAL



0000128504

MEMORANDUM
RECEIVED

DATE: August 22, 2011 2011 AUG 22 P 2:45
TO: Docket Control AZ CORP COMMISSION
FROM: Steven M. Olea DOCKET CONTROL
Director Utilities Division
RE: Sonoita Valley Water Company
Compliance Filings (Decision No. 71830)
Docket No. W-20435A-09-0296 & W-20435A-09-0298

Arizona Corporation Commission
DOCKETED
AUG 22 2011

DOCKETED BY

Introduction

On June 4, 2009, Sonoita Valley Water Company ("SVWC" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a rate increase and an application for approval to incur debt of \$656,271.00 to finance water system improvements with a loan from the Water Infrastructure Finance Authority ("WIFA"). On August 10, 2010, the Commission issued Decision No. 71830, which set rates for SVWC. With respect to the financing application, the Commission ordered the Company to submit a detailed description and prioritization of construction projects to provide Staff with sufficient information so that Staff could prepare a revised Staff Report. The Commission would then determine whether the proposed financing of such projects complies with the requirements of A.R.S. 40-301 and -302, as discussed more fully in Decision No. 71830.

On May 3, 2011, the Company submitted Notice of Filing Description and Prioritization of Proposed Construction Projects, which included a cost estimate in the amount of \$292,540.68. This estimate is different than that requested by the Company in its June 4, 2009 application and its November 12, 2009 revision to its application.

Background

SVWC provides water utility service to approximately 98 customers in Santa Cruz County, Arizona. The Company is comprised of what used to be two different water companies- Sonoita Valley Water Company and Southern Water Company. The Company operates three water systems. The Sonoita system serves approximately 41 customers, the Southern/Los Encinos system serves approximately 38 customers and the Southern/Downtown system serves approximately 19 commercial customers. A portion of the Southern/Los Encinos system's service area is adjacent to the Sonoita system's service area and the two systems have an emergency interconnection. The Southern/Downtown system is approximately 2 miles north of

the other two systems. The Southern/Downtown system is not physically interconnected with the two other systems.

The Company's initial application requested approval of a \$656,271.00 (first estimate), 30-year amortizing loan from WIFA for the permanent interconnection of the Sonoita and Southern/Los Encinos systems, the replacement of three rusted and leaking storage tanks with a 40,000 gallon new storage tank, and various improvements to augment system pressure and reliability. With its financing application, the Company submitted its initial Opinion of Probable Costs from an Engineering firm that had been hired to perform an assessment of needed system improvements.

On November 12, 2009, the Company submitted its second Opinion of Probable Cost (labeled Estimate 2 in the attached) which appeared to remove some projects, such as a new well, but with the same \$656,271.00 cost estimate as the initial construction plan.

Discussion

In reviewing the third estimate (labeled Estimate 3 in the attached) that was submitted on May 3, 2011, SVWC submitted a construction plan with a \$292,540.68 cost estimate. Staff compared this third plan with the second plan referenced in Fact No.68 of Decision No. 71830. Staff noted several significant changes between the two plans and cost estimates with little or no explanation from the Company. The Comparison is attached as Exhibit A.

Staff also notes that on June 13, 2011, SVWC filed as a compliance item, a letter stating that it had reduced its water loss to 3.22 percent. On July 25, 2011, the Company filed an "evaluation of the Company" and water loss data sheets. A review of the water loss data sheets shows that the Company has **not** reduced its water loss to 3.22 percent as previously reported in the June 13, 2011 filing. A review of the latest water use data, while showing that the systems are experiencing reduced losses, also includes several inaccuracies, such as a "positive water loss" (meaning that the Company sold more water than it pumped), which calls into question the validity of this data. Therefore, Staff is unable to determine whether the Company is in compliance with the Decision No. 71830¹ regarding the reduction of water losses to less than 10 percent.

Staff would also note that in its July 25, 2011 update, the Company submitted a fourth estimate (labeled Estimate 4 in the attached) for tasks, submitting new amounts for pipe replacement and meter replacement. The cost of pipe replacement increased from \$270,000.00 to \$663,000.00 (the total cost of all proposed improvements was \$656,271.00 in the Company's first and second estimates). The total cost of meter replacement increased from \$2,470.00 (Estimate 2) to \$4,007.00 (Estimate 4). With all the conflicting data submitted by the Company, Staff is unable to determine with any certainty what projects the Company is proposing as actually necessary.

¹ Decision No. 71830 at 25: 7-14.

For the storage tank, Staff notes that in its pre-filed Engineering Report (also, Fact No.29 of Decision No. 71830 and Fact No. 22 of Decision No.69259), the existing 10,000 gallon storage capacity was not adequate to serve the present customer base in Los Encinos system and that the storage capacity should be increased. The Company, in its filing, did not explain how its new proposal addresses the storage capacity. Therefore, Staff cannot conclude that the proposed 10,000 gallon storage tank is appropriate and adequate to serve the Company's needs. This latest proposal does not include a new well that was discussed as a possible necessity by the Company at hearing.

For the administrative and other project fees, the Company provided no explanation in its filing on the reasons for the changes in percentages between cost estimates. Therefore, Staff cannot conclude that the proposed fees are reasonable.

Conclusions

Due to the deficiencies, described above, coupled with the Company's July 25, 2011 filing, Staff does not have sufficient information to revise its Staff Report regarding the Company's proposed capital improvements and estimated costs, or to conclude that the Company is in compliance with Decision No. 71830 regarding its water losses at this time.

SMO:KS:red

Originator: Katrin Stukov

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

Ms. Joy Vargo
PO Box 956
Sonoita, Arizona 85637

Mr. Steve Wene
1850 North Central Avenue, Suite 1100
Phoenix, Arizona 85004

Arizona Reporting Services, Inc.
2200 North Central Avenue, Suite 502
Phoenix, Arizona 85004-1481

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

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

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Exhibit A

Task	Description	System	Estimate #	Quantity	Unit cost	cost	Notes
1	Meter Replacement	Downtown	Est. 2	19	\$130	\$2,470.00	
		Downtown& Los Encinos	Est. 3	54	\$75	\$4,050.00	
		Downtown	Est. 4	17	\$65	\$1,105.00	
		Los Encinos	Est. 4	34	\$65	\$2,210.00	
		Los Encinos	Est. 4	1	\$692	\$692.00	Well meter
2	Waterline Replacement	Sonoita, Los Encinos & Interconnect	Est. 2	10,560 lf	\$25.5	\$270,000.00	
		Sonoita & Los Encinos	Est. 3	3,220 lf 10,500 lf	\$25.5 \$0.76	\$82,110.00 \$7,980.00	Locating water line
		Sonoita & Los Encinos	Est.4	10,200 lf	\$65	\$663,000.00	
3	Well site	Los Encinos	Est. 2	1	\$35,000		Well pump replacement
		Los Encinos	Est. 3			\$5,503.11 \$11,626.02 \$3,005.60	Piping & appurtences New fence Concrete slab
4	Booster station	Sonoita	Est. 2	4 pumps		\$35,000.00	For both system
		Los Encinos	Est. 3	2 pumps	4,437.90	\$8,875.80	For Los Encino only
5	Storage Tank	Sonoita	Est. 2	40,000gal	\$40,000	\$40,000.00	Replace 3x10,000gal Tanks in both systems
		Los Encinos	Est. 3	10,000gal		\$35,000.00	For Los Encino only
6	Hydro Pneumatic tank	Sonoita	Est. 2	3,000 gal	\$16,750	\$16,750.00	
		Los Encinos	Est. 2	3,000 gal	\$16,750	\$16,750.00	
		Sonoita	Est. 3	2,000 gal	\$14,865	\$14,865.00	
		Los Encinos	Est. 3	2,000 gal	\$14,865	\$14,865.00	
7	Electrical system	Sonoita & Los Encinos	Est. 2			\$57,530.00	For both system
		Los Encinos	Est. 3			\$9,782.10	For Los Encino only
	Subtotal		Est. 2 Est. 3 Est.4			\$473,500.00 \$197,663.63 \$667,007.00	
	Administration & Legal fees		Est. 2 Est. 3		2% 10%	\$9,470.00 \$19,766.26	
	Engineering Fees		Est. 2 Est. 3		8% 8%	\$37,880.00 \$15,813.01	
	Survey Fees		Est. 2 Est. 3		2% 5%	\$9,470.00 \$9,883.13	
	Project Inspection Fees		Est. 2 Est. 3		3.5% 10%	\$16,572.00 \$19,766.26	
	Contingencies Fees		Est. 2 Est. 3		20% 15%	\$109,378.00 \$29,649.39	

	Total	Est. 2			\$656,271.00	
		Est. 3			\$292,540.68	
		Est. 4			\$667,007.00	