

ORIGINAL



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MEMORANDUM

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

*EA for SMO*

Arizona Corporation Commission

DOCKETED

DEC 16 2011

DOCKETED BY *[Signature]*

DATE: December 16, 2011

RE: STAFF REPORT FOR DII - EMERALD SPRINGS, LLC'S APPLICATIONS FOR A PERMANENT RATE INCREASE (DOCKET NO. *WS*-20794A-11-0279) AND FOR ISSUANCE OF A NEW CERTIFICATE OF CONVENIENCE AND NECESSITY ("CC&N") (DOCKET NO. *WS*-20794A-11-0140)

Attached is the Staff Report for DII - Emerald Springs, LLC's applications for a permanent rate increase and for issuance of a new CC&N. Staff recommends approval of the rate increase application using Staff's recommended rates and charges. Staff further recommends approval of a new CC&N.

Pursuant to a Procedural Order issued November 21, 2011, any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before January 3, 2012.

SMO:BCA:kdh

Originator: Brendan C. Aladi

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2011 DEC 16 P 4:00  
AZ CORP COMMISSION  
DOCKET CONTROL

Service List for: DII - Emerald Springs, LLC  
Docket Nos.: SW-20794A -11-0279 (Rates)  
and SW-20794A -11-0140 (CC&N)

Dr. Henry Melendez  
DII - Emerald Springs, LLC  
212 East Rowland Street #423  
Covina, California 91723

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**DII - EMERALD SPRINGS, LLC**

**DOCKET NOS. SW- 20794A-11-0279 (RATES)  
SW-20794A -11-0140 (CC&N)**

**APPLICATIONS FOR  
A PERMANENT RATE INCREASE AND FOR ISSUANCE OF A NEW CERTIFICATE  
OF CONVENIENCE AND NECESSITY**

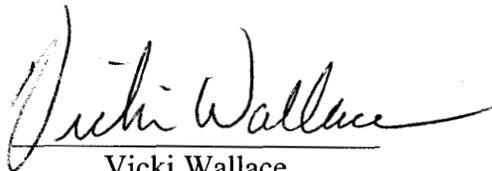
**December 16, 2011**

## STAFF ACKNOWLEDGMENT

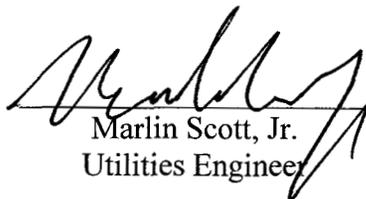
The Staff Report for DII - Emerald Springs, LLC, Docket Nos. SW-20794A-11-0279 and SW-20794-11-0140 was the responsibility of the Staff members listed below. Brendan C. Aladi was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Vickie Wallace was responsible for the CC&N review and Marlin Scott, Jr. was responsible for the engineering and technical analysis. Guadalupe Ortiz reviewed the Commission's records on customer complaints filed with the Commission.



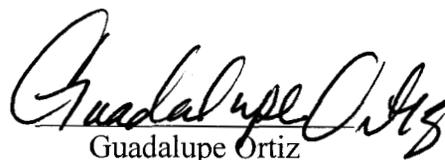
Brendan C. Aladi  
Public Utilities Analyst III



Vicki Wallace  
Executive Consultant



Marlin Scott, Jr.  
Utilities Engineer



Guadalupe Ortiz  
Public Utilities Consumer Analyst

**EXECUTIVE SUMMARY**  
**DII - EMERALD SPRINGS, LLC**  
**DOCKET NO. SW-20794A-11-0279 (Rates)**  
**DOCKET NO. SW-20794A-11-0140 (CC&N)**

DII - Emerald Springs, LLC ("Emerald Springs" or "Company") is a class D, for-profit Arizona public service corporation that provides wastewater service to one customer, a homeowners association, composed of about 43 completed residential connections.

On April 1, 2011, Emerald Springs filed an application with the Arizona Corporation Commission ("Commission") for a new Certificate of Convenience and Necessity ("CC&N") to provide wastewater service in an area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker, in La Paz County, Arizona. On July 15, 2011, the Company filed a rate application.

On September 15, 2011, a Procedural Order was issued consolidating the CC&N case and the rate case.

The existence of the Company was brought to the attention of Commission Staff ("Staff") upon an inquiry by the Arizona Department of Environmental Quality ("ADEQ"). After research, Staff determined that, although Emerald Springs was subject to Commission regulation, the Company was operating without the knowledge of the Commission. Staff subsequently contacted Dr. Henry Melendez, President of Emerald Springs, who stated that he was not aware of the Company's regulatory obligations.

In the rate application, the Company did not propose new rates and did not propose any specific increase over its test year revenue of \$32,164. The Company stated that it had no idea of how much of an increase to propose. Staff notes that the Company's current rates were not approved by the Commission. Staff also notes that the test year revenue equates to a monthly charge of \$62.33 per completed residential connection. However, the Company advises that it increased its billing rate subsequent to the end of the test year and it currently equates to a monthly charge of \$70.73 per completed residential connection. Based on the Company's revenue and Staff's adjusted expenses for the test year, the Company would apparently be incurring a \$32,751 operating loss.

Staff recommends total operating revenue of \$64,915; a \$32,751 or 101.83 percent increase over the test year revenue of \$32,164. Staff's recommended revenues would result in an operating income of \$0 for a 0 percent rate of return. Due to the large increase necessary to bring the Company to a "breakeven" status and using estimates for many of the costs, Staff concludes that it is appropriate to recommend no rate of return for the Company at this time. Staff recommends that the fixed monthly flat rate for the Company's single customer be replaced with a rate calculated as a flat charge of \$125.80 per completed residential connection. This rate is 101.83 percent higher than the test year rate, but just 77.86 percent higher than the current rate.

The Company verbally requested authorization of debt of \$250,000 that it incurred in 2008. It is not appropriate for Staff to make any financing recommendation without the filing of a financing application by the Company.

## RECOMMENDATIONS

Staff recommends approval of its recommended rates and charges as shown in Schedule BCA-4.

Staff further recommends that the Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of the Decision in this proceeding, at least three best management practices in the form of tariffs that substantially conform to the templates created by Staff, for the Commission's review and consideration.

Staff further recommends that the CC&N application be approved.

Staff further recommends that the Company be prohibited from connecting any service laterals outside the subdivision until further evaluation of the 2-inch force main has been completed by the Company and the evaluation indicates that adequate additional capacity is available.

Staff further recommends that Table D-1 – Plant-in-Service be used as a guideline for the plant-in-service review.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, within 6 months of the effective date of the Decision in this proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in compliance.

Staff further recommends that the Company adopt and use Staff's typical and customary depreciation rates as delineated in Table G-1.

Staff further recommends that the Company be ordered to re-notice, at a minimum, its homeowner's association customer, to inform it of the potential rate increase being recommended by Staff.

Staff further recommends that the Company be ordered to file a rate case within 3 years of the effective date of rates approved in this proceeding.

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**SCHEDULES**

Summary of Filing ..... Schedule BCA-1  
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**ATTACHMENTS**

Engineering Report ..... A  
CC&N Report ..... B

**Fact sheet**

**Company:**

Type of Ownership: Limited Liability Company (“LLC”).

DII – Emerald Springs is a class D for-profit Arizona public service corporation that provides wastewater service to one customer, a homeowners association, comprised of approximately 43 completed residential connections.

**Rates:**

Permanent rate increase application filed: July 15, 2011.

Current test year ended: December 31, 2010.

The Company’s rate application met sufficiency status on August 15, 2011.

CC&N Application filed on April 1, 2011.

<b>Monthly Service Charge:</b>	<b>Company Test Year Rates</b>	<b>Company Current Rates</b>	<b>Company Proposed Rates</b>	<b>Staff Recommended Rates</b>
Monthly Flat Charge	\$2,680.33 <sup>1</sup>	\$3,041.18	N/A	\$125.80 Per completed residential connection
Equivalent rates per completed residential connection (at 43 connections)	\$62.33	\$70.73	N/A	

**Customers**

Average number of customers in the current test year (12/31/10): 1 (comprised of 43 completed residential connections).

<sup>1</sup> Company was not charging Commission-authorized rates and the charge to the homeowners association changed during the test year. This rate represents the average monthly charge during the test year.

## **Fact Sheet (Continued)**

### **Notifications**

An affidavit of Publication was docketed on November 9, 2011, indicating that notification to the homeowners association and every member individually were mailed on October 5, 2011, and October 21, 2011 and that the newspaper *Parker Pioneer* published the notice on October 12, 2011, and October 26, 2011.

A search of the Consumer Service database from January 1, 2008 to November 4, 2011, revealed no complaints and three opinions opposed to the rate increase case.

### **Summary of Filing**

The test year results as adjusted by Utilities Division Staff (“Staff”) for DII – Emerald Springs, LLC (“Emerald Springs” or “Company”) show total operating revenue of \$32,164, an operating loss of \$32,751, and no rate of return, as shown on Schedule BCA-1. The original cost rate base (“OCRB”) as adjusted by Staff is \$311,350<sup>2</sup>.

The Company’s application, as filed, does not propose new rates and does not propose any specific increase over the adjusted test year total operating revenues of \$32,164. The Company stated that it had no idea of how much of an increase to propose. The Company-proposed test year revenue and expenses would produce an operating loss of \$31,886. The Company proposes an OCRB of \$451,132.

Staff recommends a \$32,751 or 101.83 percent increase over Staff’s adjusted test year revenue of \$32,164 to \$64,915. Staff’s recommended increase would produce an operating income of \$0 for a 0 percent rate of return. Due to the large increase necessary to bring the Company to a “breakeven” status and using estimates for many of the costs, Staff concludes that it is appropriate to recommend no rate of return for the Company at this time. Staff recommends that the fixed monthly flat rate for the Company’s single customer be replaced with a rate calculated as a flat charge of \$125.80 per completed residential connection.

According to the application, the Company requests a rate increase due to increases in the cost of operating the wastewater system. The Company has never had any rates established by the Arizona Corporation Commission (“Commission”).

### **Background**

During the test year ended December 31, 2010, Emerald Springs provided wastewater service to one customer, a homeowners association, comprised of an average of 43 completed residential connections.

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<sup>2</sup> The Company did not propose a fair value rate base that differs from its OCRB.

On April 1, 2011, Emerald Springs filed an application with the Commission for a new Certificate of Convenience and Necessity (“CC&N”) to provide wastewater service in a service area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker in La Paz County, Arizona. On July 15, 2011, the Company filed a rate application.

On September 15, 2011, a Procedural Order was issued consolidating the CC&N case and the rate case.

The existence of the Company was brought to the attention of Commission Staff upon an inquiry by the Arizona Department of Environmental Quality (“ADEQ”). After research, Staff determined that, although Emerald Springs was subject to Commission regulation, the Company was operating without the Commission’s knowledge. Staff subsequently contacted Dr. Henry Melendez, President of Emerald Springs, who stated that he was not aware of the Company’s regulatory obligations.

### **Consumer Services**

Staff reviewed the Commission’s records for the period January 1, 2008, to November 4, 2011, and found that there have been no complaints and three opinions filed opposed to the rate case.

### **Compliance**

Emerald Springs is in good standing with the Corporations Division of the Commission.

There is no evidence that Emerald Springs submitted an Arizona Department of Revenue tax clearance application form. It should be noted that wastewater service is exempt from Arizona transaction privilege taxes.

### **Engineering Analysis and Recommendations**

Staff inspected Emerald Springs’s plant facilities on August 31, 2011. A complete discussion of Staff’s technical findings and recommendations and a complete description of the wastewater system are provided in the attached Engineering Report.

### **CC&N Analysis:**

On April 1, 2011, Emerald Springs filed an application with the Arizona Corporation Commission (“Commission”) for a new CC&N to provide wastewater service in the area described previously in this Report. A complete discussion of Staff’s CC&N findings and recommendations are provided in the attached CC&N Report.

The CC&N report concludes that:

Emerald Spring's wastewater treatment plant has the capacity to serve its present customer base and reasonable growth.

The Company appears to possess the necessary technical and managerial ability.

The Company's wastewater treatment plant has the capacity to serve its present customer base and reasonable growth.

### **Rate Base**

Staff's adjustments decreased the Company's proposed rate base by \$139,782, from \$451,132 to \$311,350, as shown on Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

### ***Plant in Service***

Adjustment A decreases plant in service by \$9,117, from \$451,132 to 442,015, as shown on Schedule BCA-2, page 1 and 2. These cost were removed because they were the costs associated with correcting on ADEQ violation.

Structures and Improvements - Adjustment "a" increases this account by \$12,948, from \$0 to \$12,948, as shown on Schedule BCA-2, pages 2 and 3. Staff transferred this amount from the treatment and disposal equipment account.

Flow Measuring Devices – Adjustment "b" increases this account by \$210, from \$2,068 to \$2,278, as shown on Schedule BCA-2, pages 2 and 3. Staff moved this amount from the flow measuring installations account.

Flow Measuring Installations – Adjustment "c" decreases this account by \$210, from \$210 to \$0, as shown on Schedule BCA-2, pages 2 and 3. Staff transferred this balance to the flow measuring devices account.

Treatment and Disposal Equipment – Adjustment "d" decreases this account by \$22,065, from \$448,854 to \$426,789, as shown on Schedule BCA-2, pages 2 and 3. Staff calculated the ending balance of this account by reflecting \$448,854 in plant additions, transferring \$12,948 to structures and improvements and removing \$9,117 in costs of correcting the ADEQ notice of violations as identified by the Company and Staff.

### ***Accumulated Depreciation***

Adjustment B increases accumulated depreciation by \$135,660, from \$0 to \$135,660, as shown on Schedule BCA-2, pages 1 and 4. Staff calculated accumulated depreciation by reflecting plant additions and retirements as identified by Staff and the Company and applying the standard Commission-approved depreciation rates.

### ***Working Capital***

Emerald Springs did not claim any working capital allowance. Staff's adjustments C and D resulted in a net increase to working capital of \$4,995, from \$0 to \$4,995, as shown on Schedule BCA-2, pages 1 and 5.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

### **Operating Income Statement**

#### ***Operating Revenue***

Staff made no operating revenue adjustments.

#### **Operating Expenses**

Staff's adjustments to operating expenses resulted in a net increase of \$865, from \$64,050 to \$64,915, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments are presented below.

Salaries and Wages – Adjustment A decreases this account by \$11,400, from \$30,000 to \$18,600, as shown on Schedule BCA-3, pages 1 and 2. Emerald Springs plans to hire an Administrative Assistant to perform all functions that are currently done by Dr. Henry Melendez, which includes all communications and interactions with ADEQ, Commission employees, and operators, in addition to billings, accounts payable and accounts receivable. Staff reviewed the salary survey for an Administrative Assistant in Covina, California, and determined that the average salary for an Administrative Assistant is \$31,000. The prospective employee will work 24 hours per week. That is 60 percent of full time and 60 percent of \$31,000 is \$18,600.

Sludge Removal Expense - Adjustment B increases sludge removal expense by \$300, from \$1,800 to \$2,100, as shown on Schedule BCA-3, pages 1 and 2. Staff estimated annual sludge removal loads to be 7, as the Company's future annual loads removal is difficult to determine. The Company should be required to prove its annual sludge load removal cost in any future rate case.

Purchased Power – Adjustment C decreases purchased power expense by \$1,557, from \$5,250 to \$3,693, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the decrease of purchased power expense to a known and measurable amount.

Outside Services Expense – Adjustment D decreases outside services expense by \$2,240, from \$11,972 to \$9,732, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects the decrease to the updated and supported certified operator's expense.

Insurance – General Liability – Adjustment E decreases general liability insurance by \$736, from \$4,500 to \$3,764, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects the amount updated and supported by the Company's documentation for general liability insurance expense.

Miscellaneous Expense – Adjustment F increases miscellaneous expense by \$2,500, from \$0 to \$2,500, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects Staff's recognition of accounting and bookkeeping expenses going forward.

Depreciation Expense – Adjustment G increases depreciation expense by \$21,998, from \$0 to \$21,998, as shown on Schedule BCA-3, pages 1 and 2. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Taxes Other Than Income – Adjustment H decreases taxes other than income by \$5,000, from \$5,500 to \$500, as shown on Schedule BCA-3, pages 1 and 4. This adjustment reflects Staff's removal of \$5,000 in unnecessary ADEQ annual permit fees.

Income Tax Expense – Adjustment I decreases income tax expense by \$3,000, from \$3,000 to \$0, as shown on Schedule BCA-3, pages 1 and 4. The Company is a limited liability company and does not incur income taxes. The income tax passes through to the member(s) and it is not reflected as an expense for rate making purposes.

### **Debt**

Mr. Galo G. Pesantes infused \$250,000 into the Company on December 30, 2008, with promissory notes from Dr. Henry Melendez. The Company never applied for authorization to incur debt as required by A.R.S. § 40-301 and the Company has verbally requested authorization of the debt in this proceeding.

It is not appropriate for Staff to make any financing recommendation without the filing of a financing application by the Company.

### **Revenue Requirement**

The Company's narrative portion of the application states that the Company needs a rate increase to cope with rising operating costs.

The Company does not propose any specific increase over the adjusted test year revenue of \$32,164. The Company stated that it had no idea of how much of an increase to propose. The Company's adjusted test year revenue provides an operating loss of \$31,886 for no rate of return, as shown on Schedule BCA-1

Staff recommends total operating revenue of \$64,915, an increase of \$32,751, or 101.83 percent above the test year revenue of \$32,164. Staff's recommended revenue provides an operating income of \$0 for a zero percent rate of return as shown on Schedule BCA-1. Due to the large increase necessary to bring the Company to a "breakeven" status and using estimates for many of the costs, Staff concludes that it is appropriate to recommend no rate of return for the Company at this time. Staff recommends that the fixed monthly flat rate for the Company's single customer be replaced with a rate calculated as a flat charge of \$125.80 per completed residential connection, as shown on Schedule BCA-4. This rate is 101.83 percent high than the test year rate, but just 77.86 percent higher than the current rate.

Staff notes that the Company's current rates were not approved by the Commission. Staff also notes that the test year revenue equates to a monthly charge of \$62.33 per completed residential connection. However, the Company advises that it has already increased its billing rate to one that equates to a monthly charge of \$70.73 per completed residential connection. Based on the Company's revenue and Staff's adjusted expenses for the test year, the Company would suffer a \$32,751 operating loss.

Staff's recommended increase provides the Company with adequate cash flow to meet its normal operating expenses.

### **Rate Design**

Schedule BCA-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

### **Miscellaneous Service Charges**

The Company has proposed service charges for Reconnection/Delinquent, Re-Establishment within 12 Months, and Late Payment Penalty which are outside of typical rates and percentages approved for such services. Additionally, the Company failed to request a Deposit and Deposit Interest tariff.

Because the Arizona Administrative Code rules address a utility's right to charge for Deposit, Deposit Interest, Re-Establishment within 12 Months and Late Payment Penalty, Staff recommends that these services be assessed pursuant to the applicable rules.

In regard to Disconnect/Reconnect (Delinquent), Staff recognizes the fact that the costs involved in terminating sewer service to a customer for non payment can become excessively high. Therefore, Staff recommends that Disconnect/Reconnect (Delinquent) be charged to the customer at cost.

Staff recommends a Deferred Payment of 1.5% per month in order to remain consistent with other utility companies.

Staff recommends the following changes to the service charges:

**Eliminate:**

**Company-Recommended Service Charges:**

Reconnection/Delinquent (R14-2-603.D.1)	\$250.00
Deposit (R14-2-603.B.7)	No Charge
Deposit Interest (R14-2-603.8.3)	No Charge
Re-Establishment W/N 12 Months (R14-2-603.D.1)	\$150.00
Late Payment Penalty (R14-2-608.F.1)	10%

**Add:**

**Staff-Recommended Service Charges:**

Disconnect/Reconnect (Delinquent)	Cost***
Deposit (R14-2-603.B.7)	Per Rule*
Deposit Interest (R14-2-603.8.3)	Per Rule*
Re-Establishment W/N 12 Months (R14-2-603.D.1)	Per Rule**
Late Payment Penalty (R14-2-608.F.1)	1.5% / Mo.
Deferred Payment	1.5% / Mo.

\*Per Commission Rules (R14-2-603.B)

\*\*Months off the system times the monthly minimum (R14-2-603.D.1)

\*\*\*Actual Cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

**Service Line and Meter Installation Charges**

The Company requested a 4-inch service lateral installation charge of \$3,500. In its review, Staff found that all the service taps/laterals have been installed up to the property lines. In addition, since the Company does not own the collection system, Staff recommends that no charge be adopted as shown on Schedule BCA-4.

RECOMMENDATIONS

Staff recommends approval of its recommended rates and charges as shown in Schedule BCA-4.

Staff further recommends that the Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges, within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of a decision in this proceeding, at least three best management practices in the form of tariffs that substantially conform to the templates created by Staff, for the Commission's review and consideration.

Staff further recommends that the CC&N application be approved.

Staff further recommends that the Company be prohibited from connecting any service laterals outside the subdivision until further evaluation of the 2-inch force main has been completed by the Company and the evaluation indicates that adequate additional capacity is available.

Staff further recommends that Table D-1 – Plant-in-Service be used as a guideline for the plant-in-service review.

Staff further recommends that the Company file with Docket Control, as a compliance item, within 6 months of the effective date of the Decision in this proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in compliance.

Staff further recommends that the Company adopt and use Staff's typical and customary depreciation rates as delineated in Table G-1.

Staff further recommends that the Company be ordered to re-notice, at a minimum, its homeowners association customer to inform it of the potential rate increase being recommended by Staff.

Staff further recommends that the Company be ordered to file a rate case within 3 years of the effective date of rates approved in this proceeding.

**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&amp;N)

Test Year Ended: December 31, 2010

Schedule BCA-1

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Flat Rate Revenue	\$32,164	\$32,164	\$32,164	\$64,915
Measured Revenue	0	0	0	0
Other Waste Water Revenues	0	0	0	0
<b>Total Operating Revenue</b>	<b>\$32,164</b>	<b>\$32,164</b>	<b>\$32,164</b>	<b>\$64,915</b>
Operating Expenses:				
Operation and Maintenance	\$55,550	\$42,417	\$55,550	\$42,417
Depreciation	0	21,998	0	21,998
Taxes Other Than Income(ADEQ Fee)	5,500	500	5,500	500
Property & Other Taxes				
Income Tax	3,000	0	3,000	0
<b>Total Operating Expense</b>	<b>\$64,050</b>	<b>\$64,915</b>	<b>\$64,050</b>	<b>\$64,915</b>
Operating Income/(Loss)	(\$31,886)	<b>(\$32,751)</b>	(\$31,886)	<b>\$0</b>
Rate Base O.C.L.D.	\$451,132	\$311,350	\$451,132	\$311,350
Rate of Return - O.C.L.D.	N/M	N/M	N/M	0.00%
Operating Margin	N/M	N/M	N/M	0.00%

**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&amp;N)

Test Year Ended: December 31, 2010

Schedule BCA-2

Page 1 of 5

**RATE BASE**

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$451,132	(\$9,117)	A	\$442,015
Less:				
Accum. Depreciation	0	135,660	B	135,660
<b>Net Plant</b>	<b>\$451,132</b>	<b>(\$144,777)</b>		<b>\$306,355</b>
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
<b>Total Advances</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
<b>Total Deductions</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Plus:				
1/24 Power	\$0	\$154	C	\$154
1/8 Operation & Maint.	0	4,841	D	4,841
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$0</b>	<b>\$4,995</b>		<b>\$4,995</b>
<b>Rate Base</b>	<b>\$451,132</b>	<b>(\$139,782)</b>		<b>\$311,350</b>

*Explanation of Adjustment:*

- A - Refer to Schedule BCA-2, Page 2 of 5
- B - Refer to Schedule BCA-2, Page 4 of 5
- C - Refer to Schedule BCA-2, Page 5 of 5
- D - Refer to Schedule BCA-2, page 5 of 5

**DII- Emerald Springs**Docket No. SW-20794A-11-0279 (Rates)  
SW-20794A-11-0140 (CC&N)

Test Year Ended: December 31, 2010

Schedule BCA-2  
Page 2 of 5**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment		Staff Adjusted
351 Organization	\$0	\$0		\$0
352 Franchises	0	0		0
353 Land & Land Rights	0	0		0
354 Structures & Improvements	0	12,948	a	12,948
355 Power Generation Equipment	0	0		0
360 Collection Sewers - Force	0	0		0
361 Collection Sewers - Gravity	0	0		0
362 Special Collection Structures	0	0		0
363 Services to Customers	0	0		0
364 Flow Measuring Devices	2,068	210	b	2,278
365 Flow Measuring Installations	210	(210)	c	0
370 Receiving Wells	0	0		0
371 Pumping Equipment	0	0		0
380 Treatment and Disposal Equipment	448,854	(22,065)	d	426,789
381 Plant Sewers	0	0		0
382 Outfall Sewer Lines	0	0		0
389 Other Plant and Misc. Equipment	0	0		0
390 Office Furniture and Fixture	0	0		0
391 Transportation Equipment	0	0		0
393 Tools, Shop and Garage	0	0		0
394 Laboratory Equipment	0	0		0
395 Power Operated Equipment	0	0		0
396 Communications Equipment	0	0		0
<b>TOTALS</b>	<b>\$451,132</b>	<b>(\$9,117)</b>	<b>A</b>	<b>\$442,015</b>

*Explanation of Adjustment:*

See Schedule BCA -2, Page 3 of 5

**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&N)

Test Year Ended: December 31, 2010

Schedule BCA-2

Page 3 of 5

**STAFF PLANT ADJUSTMENTS**

a -	STRUCTURES AND IMPROVEMENTS - Per Company	\$	-		
	Per Staff		12,948	\$	12,948
	To add \$12,948 from treatment and disposal equipment to Structures and improvements..				
b -	FLOW MEASURING DEVICE - Per Company	\$	2,068		
	Per Staff		2,278	\$	210
	To add \$210 from flow measuring installations to flow measuring device.				
c -	FLOW MEASURING INSTALLATIONS - Per Company	\$	210		
	Per Staff		-	\$	(210)
	To transfer \$210 to flow measuring device.				
d -	TREATMENT AND DISPOSAL EQUIPMENT - Per Company	\$	448,854		
	Per Staff		426,789	\$	(22,065)
	To transfer \$12,948 to structures and improvements and remove \$9,117 in cost of correcting ADEQ notice of violations.				

**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&amp;N)

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**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$0
Accumulated Depreciation - Per Staff	135,660 B
<b>Total Adjustment</b>	<b><u>\$135,660</u></b>

*Explanation of Adjustment:*

- B - Staff calculated accumulated depreciation by using the beginning balances and made adjustments for depreciation expense, additions and retirements through the end of the test year, using Staff's recommended depreciation rates.

ACCT	Staff	Company	Staff
<u>NO.</u> <u>DESCRIPTION</u>	<u>Calculated</u>	<u>Application</u>	<u>Adjustment</u>
354 Structure and Improvements	2,802	-	2,802
355 Power Generation Equipment	-	-	-
361 Collection - Gravity	-	-	-
363 Services to Customers	-	-	-
364 Flow Measuring Device	342	-	342
367 Reuse Meter and Meter Installation	-	-	-
370 Receiving Wells	-	-	-
371 Electric Pumping Equipment	-	-	-
380 Treatment and Disposal Equipment	132,516	-	132,516
390 Office Furniture and Equipment	-	-	-
391 Transportation Equipment	-	-	-
393 Tools, Shop and Garage Equip.	-	-	-
394 Laboratory Equipment	-	-	-
395 Power Operated Equipment	-	-	-
396 Communications Equipment	-	-	-
	-	-	-
Total Adjustment	<u>\$ 135,660</u>	<u>\$ -</u>	<u>\$ 135,660</u>

**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&N)

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**STAFF PLANT ADJUSTMENTS**

C - WORKING CAPITAL (1/24 Purchased Pwr & Wtr) Per Company  
Per Staff

\$0  
\$154 \$ 154

To reflect Staff's calculation of cash working capital based on Staff's recommendations for purchased power and purchased water.

D - WORKING CAPITAL (1/8 operation & Maint exp.) Per Company  
Per Staff

\$0  
4,841 \$ 4,841

To reflect Staff's calculation of cash working capital based on Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).

**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&amp;N)

Test Year Ended: December 31, 2010

Schedule BCA-3

Page 1 of 4

**STATEMENT OF OPERATING INCOME**

	Company Exhibit	Staff Adjustments	Staff Adjusted
<b>Revenues:</b>			
521 Flat Rate Revenue	\$32,164	\$0	\$32,164
522 Measured Revenue	0	0	0
536 Other Waste Water Revenue	0	0	0
<b>Total Operating Revenue</b>	<b>\$32,164</b>	<b>\$0</b>	<b>\$32,164</b>
<b>Operating Expenses:</b>			
701 Salaries and Wages	\$30,000	(\$11,400) A	\$18,600
710 Purchased Wastewater Treatment	0	0	0
710 Sludge Removal Expense	1,800	300 B	2,100
715 Purchased Power	5,250	(1,557) C	3,693
716 Fuel For Power Production	0	0	0
718 Chemicals	2,028	0	2,028
720 Materials and Supplies	0	0	0
731 Contractual Services - Certified Operator	11,972	(2,240) D	9,732
735 Contractual Services - Testing	0	0	0
740 Rents	0	0	0
750 Transportation Expense	0	0	0
755 Insurance Expense	4,500	(736) E	3,764
765 Regulatory Commission Expense	0	0	0
775 Miscellaneous Expense (Accting & Tax Prep)	0	2,500 F	2,500
403 Depreciation Expense	0	21,998 G	21,998
408 Taxes other than Income (ADEQ Fee)	5,500	(5,000) H	500
408.11 Property Taxes	0	0	0
409 Income Taxes	3,000	(3,000) I	0
<b>Total Operating Expenses</b>	<b>\$64,050</b>	<b>\$865</b>	<b>\$64,915</b>

<b>OPERATING INCOME/(LOSS)</b>	<b>(\$31,886)</b>	<b>(\$865)</b>	<b>(\$32,751)</b>
--------------------------------	-------------------	----------------	-------------------

## Other Income/(Expense):

419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
426 Non-Utility - Depreciation	0	0	0
426 Non-Utility - Amortization	0	0	0
427 Interest Expense	0	0	0

Total Other Income/(Expense)	\$0	\$0	\$0
------------------------------	-----	-----	-----

<b>NET INCOME/(LOSS)</b>	<b>(\$31,886)</b>	<b>(\$865)</b>	<b>(\$32,751)</b>
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**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&N)

Test Year Ended: December 31, 2010

Schedule BCA-3

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**STAFF ADJUSTMENTS**

A -	SALARIES AND WAGES = Per Company	\$30,000	
	Per Staff	18,600	<u>(\$11,400)</u>
	To reflect salaries and wages for a prospective Office Administrative Assistant employee going forward.		
B -	SLUDGE REMOVAL EXPENSE - Per Company	\$1,800	
	Per Staff	2,100	<u>\$300</u>
	To increase sludge removal expense due to the increase in the number of occupied houses since the test year.		
C -	PURCHASED POWER - Per Company	\$5,250	
	Per Staff	\$3,693	<u>(\$1,557)</u>
	To decrease purchase power expense to known and measurable amount.		
D -	CONTRACTUAL SERVICES - Per Company	\$11,972	
	Per Staff	\$9,732	<u>(\$2,240)</u>
	To decrease to the updated and supported Certified Operators expense.		
E -	GENERAL LIABILITY INSURANCE - Per Company	\$4,500	
	Per Staff	\$3,764	<u>(\$736)</u>
	To recognize \$3,764 in general liability insurance expense going forward.		
F -	MISCELLANEOUS EXPENSE - Per Company	\$0	
	Per Staff	\$2,500	<u>\$2,500</u>
	To recognize \$2,500 in accounting and bookkeeping expense going forward.		

**STAFF ADJUSTMENTS (Cont.)**

G - DEPRECIATION - Per Company \$0  
Per Staff 21,998 \$21,998

To reflect application of Staff's recommended depreciation rates to Staff's recommended plant, by account.

**Pro Forma Annual Depreciation Expense:**

Operating Income Adjustment I - Test Year Depreciation Expense

LINE NO.	DESCRIPTION	[A] Plant In Service Per Staff	[B] NonDepreciable or Fully Depreciated Plant	[C] Depreciable Plant (Col A - Col B)	[D] Depreciation Rate	[E] Depreciation Expense (Col C x Col D)
1	351 Organization	\$0	\$ -	-	0.00%	-
2	352 Franchises	-	-	-	0.00%	-
3	353 Land & Land Rights	-	-	-	0.00%	-
4	354 Structures & Improvements	12,948	-	12,948	3.33%	431
5	355 Power Generation Equipment	-	-	-	5.00%	-
6	360 Collection Sewers - Force	-	-	-	2.00%	-
7	361 Collection Sewers - Gravity	-	-	-	2.00%	-
8	362 Special Collection Structures	-	-	-	2.00%	-
9	363 Services to Customers	-	-	-	2.00%	-
10	364 Flow Measuring Devices	2,278	-	2,278	10.00%	228
11	365 Flow Measuring Installations	-	-	-	10.00%	-
12	370 Receiving Wells	-	-	-	3.33%	-
13	371 Pumping Equipment	-	-	-	12.50%	-
14	380 Treatment and Disposal Equipment	426,788	-	426,788	5.00%	21,339
15	381 Plant Sewers	-	-	-	5.00%	-
16	382 Outfall Sewer Lines	-	-	-	3.33%	-
17	389 Other Plant and Misc. Equipment	-	-	-	6.67%	-
18	390 Office Furniture and Fixture	-	-	-	6.67%	-
19	391 Transportation Equipment	-	-	-	20.00%	-
20	393 Tools, Shop and Garage	-	-	-	5.00%	-
21	394 Laboratory Equipment	-	-	-	10.00%	-
22	395 Power Operated Equipment	-	-	-	5.00%	-
23	396 Communications Equipment	-	-	-	10.00%	-
24	397 Miscellaneous Equipment	-	-	-	10.00%	-
25	398 Other Tangible Plant	-	-	-	10.00%	-
26		-	-	-	-	-
27	Total Plant	442,014	\$0	442,014		21,998
28						
29	Composite Depreciation Rate (Depr Exp / Depreciable Plant):					4.98%
30	CIAC:					\$ -
31	Amortization of CIAC (Line 33 x Line 34):					\$ -
32						
33	<b>Pro Forma Annual Depreciation Expense</b>					
34						
35	Plant in Service					\$442,014
36	Less: Non Depreciable Plant					-
37	Fully Depreciable Plant					-
38	Depreciable Plant					\$442,014
39	Times: Staff Proposed Depreciation Rate					4.98%
40	Depreciation Expense Before Amortization of CIAC:					\$ 21,998
41	Less Amortization of CIAC:					\$ -
42	<b>Test Year Depreciation Expense - Staff:</b>					<b>\$ 21,998</b>
43	Depreciation Expense - Company:					\$0
44	<b>Staff's Total Adjustment:</b>					<b>\$ 21,998</b>

**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&N)

Test Year Ended: December 31, 2010

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**STAFF ADJUSTMENTS**

H -	TAXES OTHER THAN INCOME - Per Company	\$5,500	
	Per Staff	\$500	<u>(\$5,000)</u>

To remove \$5,000 in unnecessary ADEQ annual permit fees.

I -	INCOME TAX - Per Company	\$3,000	
	Per Staff	\$0	<u>(\$3,000)</u>

To remove \$3,000 in income tax expense.

**DII- Emerald Springs**

Docket No. SW-20794A-11-0279 (Rates)

SW-20794A-11-0140 (CC&N)

Test Year Ended: December 31, 2010

Schedule BCA-4

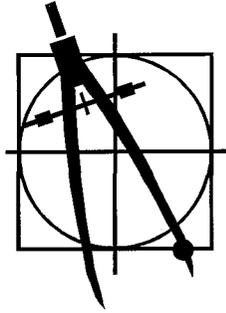
**RATE DESIGN**

<u>Monthly Usage Charge</u>	Test Year	Present	<u>-Proposed Rates-</u>	
	Rates	Rates	Company	Staff
Residential (All Sizes, Flat Rate)	\$ 2,680.33	\$ 3,041.18	N/A	\$ 125.80 Per Completed Residential Connection
Equivalent rate per completed customer connection (at 43 connections)	\$ 62.33	\$ 70.73	N/A	
<u>Service Lateral Installation Charge</u>				
4-inch Lateral		NT	\$ 3,500	NT
<u>Other Service Charges</u>				
Disconnect/Reconnect/Deliquent (R14-2-603.D.1)		NT	\$ 250	Cost***
Deposit (R14-2-603.B.7)		NT	No Charge	Per Rule*
Deposit Interest (R14-2-603.8.3)		NT	No Charge	Per Rule*
Re-Establishment W/N 12 Months (R14-2-603.D.1)		NT	\$ 150	Per Rule**
Late Payment Penalty (R14-2608.F.1)		NT	10%	1.50%
Deferred Payment		NT	NT	1.50%

\*Per Commission Rules (R14-2-603.B)

\*\*Months off the system times the monthly minimum (R14-2-603.D.1)

\*\*\* Actual cost of physical disconnection and reconnection ( if same customer)



**Engineering Report  
for  
DII Emerald Springs, LLC**

**Docket No. SW-20794A-11-0140 (CC&N)  
Docket No. SW-20794A-11-0279 (Rates)**

**By Marlin Scott, Jr.** *MSJ*

**November 9, 2011**

**CONCLUSION**

- A. DII Emerald Springs, LLC's ("Company") wastewater treatment plant has the capacity to serve its present customer base and reasonable growth.

**RECOMMENDATIONS**

1. Staff recommends that the Company be prohibited from connecting any service laterals outside the subdivision until further evaluation of the 2-inch force main has been completed by the Company and the evaluation indicates that adequate additional capacity is available.
2. Staff recommends that Table D-1 – Plant-in-Service be used as a guideline for the plant-in-service review.
3. According to the Arizona Department of Environmental Quality ("ADEQ"), the Company is not in compliance with ADEQ regulations. Staff recommends that the Company file with Docket Control, as a compliance item, within 6 months of the effective date in the proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in compliance.
4. Staff recommends that the Company adopt Staff's typical and customary depreciation rates and further recommends that the Company use these depreciation rates delineated in Table G-1.
5. Staff recommends that no Service Lateral Installation Charges be approved for this Company.

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## **A. INTRODUCTION**

On April 1, 2011, DII Emerald Springs, LLC (“Company”) filed a Certificate of Convenience and Necessity (“CC&N”) application to provide sewer service. On July 15, 2011, DII Emerald Springs, LLC (“Company”) filed a rate application. This Engineering Report constitutes Staff’s engineering evaluation relative to the Company’s CC&N and rate applications.

### Location of Company

The Company serves the Emerald Springs Subdivision (“Subdivision”) located approximately one mile north of Ehrenberg along the Colorado River. Figure 1 shows the location of the Company within La Paz County and Figure 2 shows the requested CC&N for the Subdivision covering approximately 49.6 acres or 0.08 square-miles. The Company’s wastewater treatment plant (“WWTP”), located approximately 2,500 feet or 0.5 miles east of the Subdivision, is outside the requested CC&N.

## **B. DESCRIPTION OF THE SEWER SYSTEM**

The sewer system was field inspected on August 31, 2011, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Henry Melendez, owner, and James Grimes, operator for the Company.

The sewer treatment system has a 20,000 gallon per day (“GPD”) package wastewater treatment plant (“WWTP”) consisting of bar screening, flow equalization, anoxic and aerobic treatment, secondary clarification, chlorination with dechlorination, and an aerobic sludge digester. This package WWTP is installed above ground. The effluent is discharged to two unlined basins for infiltration/evaporation and all the sludge is hauled off site. The Company owns this WWTP.

The 53-lot Subdivision’s sewer collection system consists of approximately 1,350 feet of 8-inch sewer mains and five manholes serving approximately 40 service laterals, with 5 to 8 homes being permanent customers, during the test year ending December 2010. Flows from the collection system are connected at a lift station (equipped with two 2-Horsepower pumps) and then transported through 2,500 feet of 2-inch force main to the WWTP. According to the Company, the Emerald Springs Home Owners Association (“HOA”) is the only customer and the HOA owns the collection system and the force main.

A sewer system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1. Treatment Plant

Name	Plant Capacity
Emerald Springs Unit 1 WWTP	20,000 GPD extended aeration treatment plant

Table 2. Force Main and Lift Station

Location	Plant Facilities	Quantity
Lift Station	2-Hp pumps	2 each
Force Main	2-inch PVC	2,500 feet

Tables 3a & 3b. Collection System

Mains		
Diameter	Material	Length (ft.)
8-inch	PVC	1,350

Manholes	
Size	Quantity
Standard	5

Table 4. Service Laterals

Lateral Size	Quantity
4-inch	40
6-inch	
8-inch	
Total:	40

Prior Sewer Service by Thompson

In 2000 the Subdivision was constructed which at that time pumped the wastewater flow to a 40,000 GPD WWTP owned by Doyle Thompson. Thompson's WWTP is located approximately one-quarter mile east of the Company's WWTP. In 2004 Thompson had a conflict with the HOA, resulting in discontinuing service to the then 8 to 10 homes being served.

The HOA continued its own service by collecting the wastewater flow at the lift station and contracting a pumping service to remove the waste. This pumping service continued until the Company constructed its 20,000 GPD WWTP in 2004.

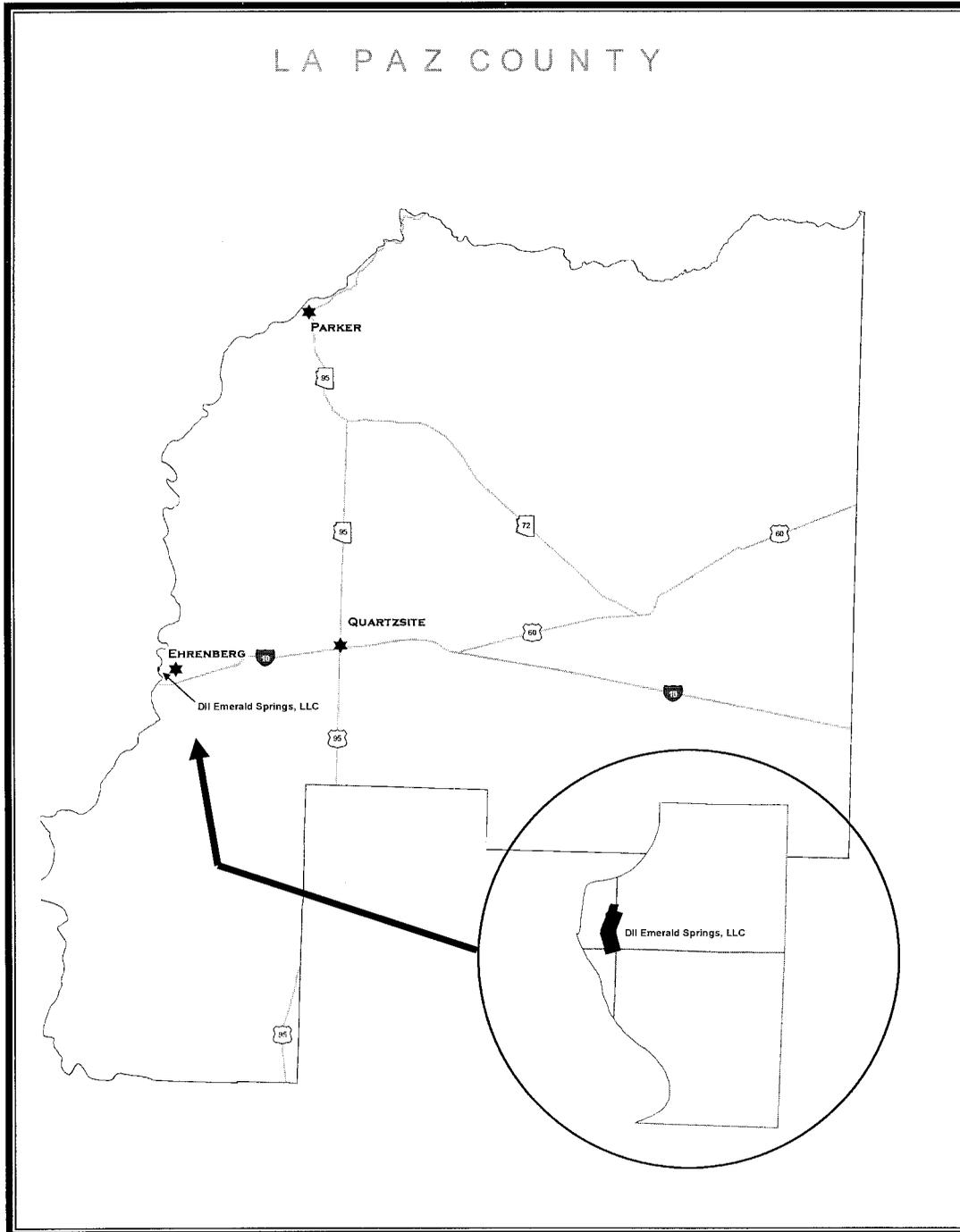


Figure 1. County Map

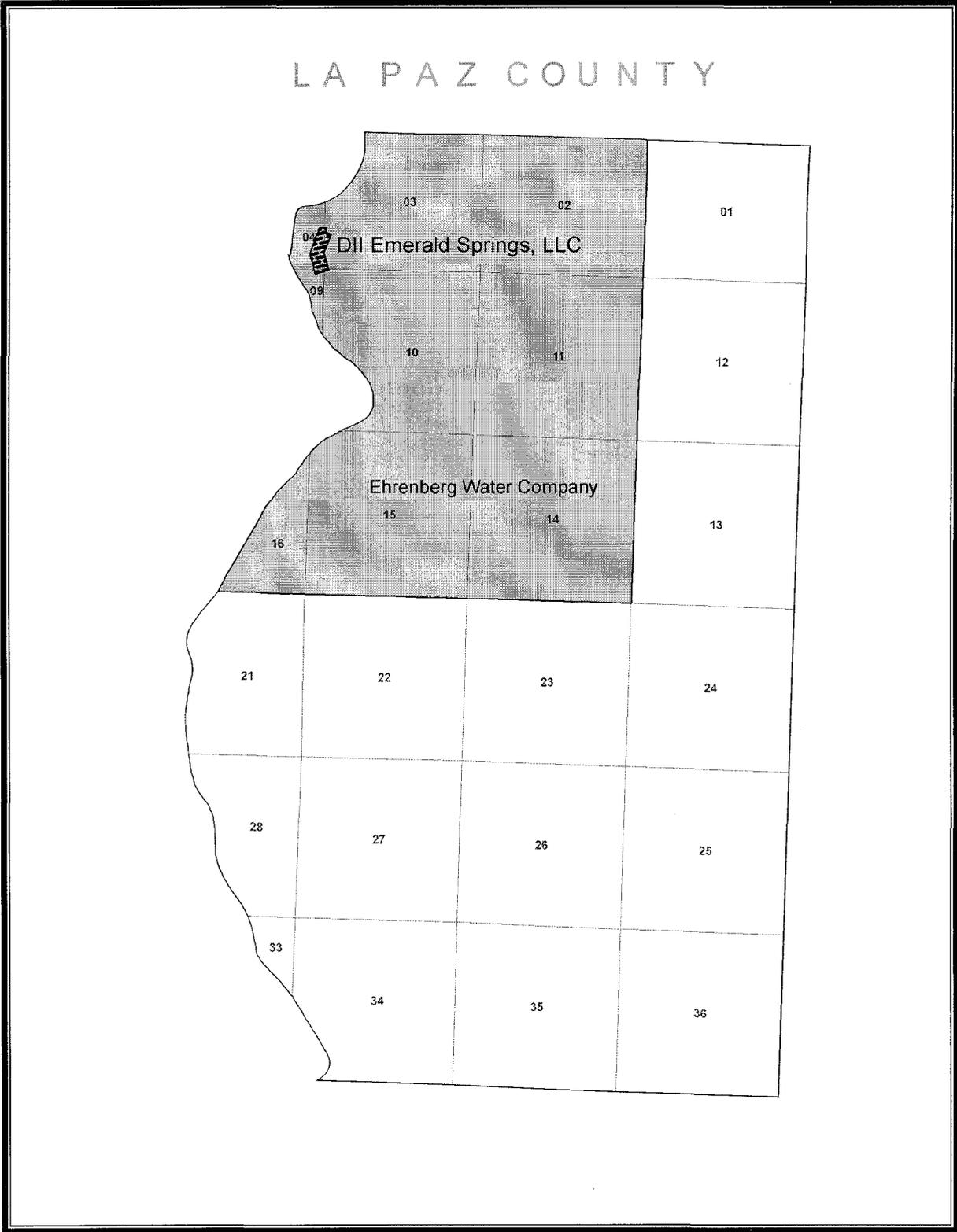


Figure 2. Certificated Area

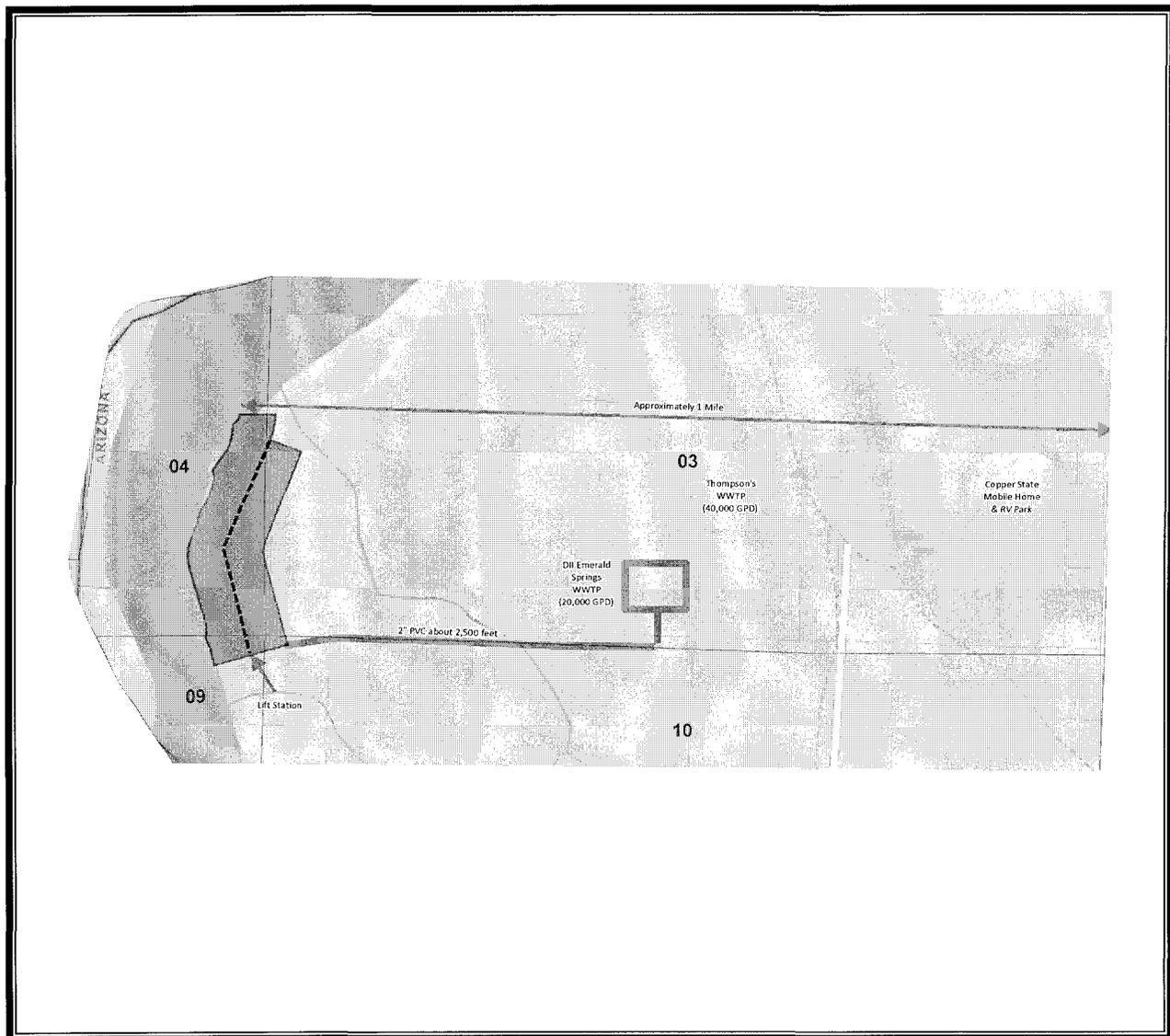


Figure 3. System Schematic

**C. SEWER FLOWS**

Sewer Flows

Based on the information provided by the Company, sewer flows for part of the 2010 test year and the first quarter of 2011 are presented in Figure C-1. For the average daily flows, September 2010 experienced the highest flow of 140 gallons per day (“GPD”) per service lateral. For the peak day flows, September 2010 also had the highest flow when 5,910 gallons were treated in one day.

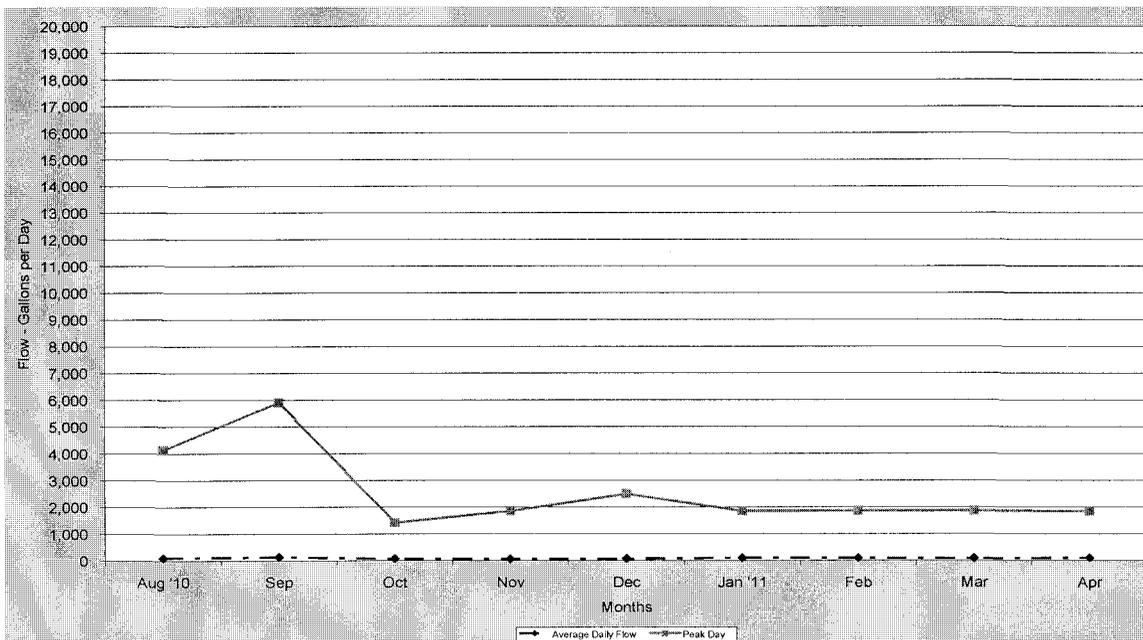


Figure C-1. Sewer Flows

Month	Average Daily Flow, in GPD per service lateral	Peak Day, in GPD
Aug '10	99	4,130
Sep	140	5,910
Oct	75	1,430
Nov	66	1,860
Dec	75	2,490
Jan '11	102	1,850
Feb	100	1,870
Mar	88	1,870
Apr	107	1,860

Table C-1. Sewer Flows

### System Analysis

According to the Company, there are currently 40 homes, of which 5 to 8 homes have permanent residents, and the remaining homes are second, vacation, weekend or vacation rental homes. If each of the 53 subdivision lots were to use 280 GPD (140 GPD x 2 (peaking factor)), then the flow would equate to approximately 15,000 GPD. As a result, the 20,000 GPD WWTP capacity is adequate to serve the present customer base and reasonable growth.

Staff has taken notice of the 2-inch force main and questioned why this minimal size main was constructed. Although it appears that this force main is adequate for the present customer base, Staff followed up with the Company's operator to inquire if any deficient operations were experienced with this force main. The Company has indicated to Staff that no operational problems have been experienced as a result of the sizing of this force main. While the Company believes this force main is adequate to serve the present customer base, it may not be adequate to serve an expanded service area beyond the subdivision. Staff believes that further evaluation of this plant is needed prior to any extension of service beyond the subdivision. Therefore, Staff recommends that the Company be prohibited from connecting any service laterals outside the subdivision until further evaluation of this force main by the Company has been completed and the evaluation shows that the force main has adequate additional capacity.

### **D. PLANT-IN-SERVICE**

The Company submitted its plant-in-service at \$451,131. Staff has reviewed this plant-in-service and has correlated the plant items to match the costs as shown in Table D-1 below. This Table D-1 should be used as a guideline for the plant-in-service review.

Table D-1. Plant-in-Service

Acct. No.	Plant-in-Service	2000	2004	2005	2006	2007	2008	2009	2010	TOTAL
301	Organization		-	-	-	-	-	-	-	
302	Franchise		-	-	-	-	-	-	-	
353	Land & Land Rights		-	-	-	-	-	-	-	
354	Structures & Improvements		-	-	-	-	-	-	-	
	Chain link fencing, 300 ft x 300 ft		12,948	-	-	-	-	-	-	\$ 12,948
360	Collection Sewer - Force		-	-	-	-	-	-	-	
	Lift station - two 2-Hp pumps	CIAC	-	-	-	-	-	-	-	
	2,500 ft. of 2-inch main	CIAC	-	-	-	-	-	-	-	
361	Collection Sewer - Gravity		-	-	-	-	-	-	-	
	1,350 ft. of 8-inch main	CIAC	-	-	-	-	-	-	-	
	Manholes, 5 ea.	CIAC	-	-	-	-	-	-	-	
363	Service to Customers		-	-	-	-	-	-	-	
	4-inch laterals, 40 ea.	CIAC	-	-	-	-	-	-	-	
364	Flow Measuring Devices		-	-	-	-	-	-	-	
	Flow meter		-	-	-	-	-	2,278	-	\$ 2,278
380	Treatment & Disposal Equipment		-	-	-	-	-	-	-	
	20,000 GPD WWTP		315,527	-	-	-	-	-	-	\$ 315,527
	Electrical, site finish		62,045	-	-	-	-	-	-	\$ 62,045
	Engineering, permits		16,604	1,705	1,155	7,059	-	-	-	\$ 26,523
	APS power service		2,840	-	-	-	-	-	-	\$ 2,840
	ADEQ APP		1,000	708	410	2,882	3,675	4,754	1,109	\$ 14,538
	Legal fees for 208 plan, NOVs		-	-	-	14,432	-	-	-	\$ 14,432
			410,964	2,413	1,565	24,373	3,675	7,032	1,109	\$ 451,131

## E. GROWTH

Since its inception in 2000, the 53-lot subdivision now has 40 service laterals as of the test year ending December 2010. This would equate to an average growth rate of 4 service laterals per year. However, according to the Company, the Company projects no growth at this time due to the economic climate.

## F. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

### Aquifer Protection Permit ("APP")

On May 27, 2004, an APP application was submitted to ADEQ. On June 10, 2010, ADEQ issued the APP, No. P-105513, that authorized the construction, operation and maintenance of the Company's WWTP. During this APP approval process, the Company had to address and correct Notice of Violations and Consent Orders issued by ADEQ.

### Compliance

In an ADEQ compliance status report, dated June 29, 2011, ADEQ reported the Company's wastewater system, No. 105513, was not in compliance with ADEQ regulations.

Based on the Company's APP requirements, the Company has not complied with numerous monitoring and reporting requirements. In addition, the Company has requested an APP Amendment to reduce the monitoring frequencies. This Amendment request is still under review and is not yet issued. Therefore, the Company should still monitor and report its requirements based on the current APP requirements.

Staff recommends that the Company file with Docket Control, as a compliance item, within 6 months of the effective date of a decision in this proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in compliance.

#### **G. DEPRECIATION RATES**

The Commission has been adopting Staff's typical and customary depreciation rates. These rates are presented in Table G-1 and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners.

Table G-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.00
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398 – Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

**H. OTHER ISSUES**

Service Lateral Installation Charges

The Company requested a 4-inch service lateral installation charge of \$3,500. In its review, Staff found that all the service taps/laterals have been installed up to the property lines. In addition, since the Company does not own the collection system, Staff recommends that no charge be adopted as shown in Table H-1 below:

Table H-1. Service Lateral Installation Charge

Lateral Size	Company's Proposed Charges	Staff's Proposed Charges
4-inch	\$3,500	\$0

DII-EMERALD SPRINGS, LLC  
DOCKET NOS. WS-20794A-11-0140 AND WS-20794A-11-0279

STAFF REPORT OF VICKI WALLACE

REGARDING APPLICATION FOR A CERTIFICATE OF CONVENIENCE  
AND NECESSITY TO PROVIDE WASTEWATER SERVICE

DECEMBER 16, 2011

**EXECUTIVE SUMMARY**  
**DII-EMERALD SPRINGS, LLC**  
**DOCKET NOS. WS-20794A-11-0140 AND WS-20794A-11-0279**

On April 4, 2011, DII-Emerald Springs, LLC ("Company") filed an application with the Arizona Corporation Commission ("ACC") for a new Certificate of Convenience and Necessity ("CC&N") to provide wastewater services in a service area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker in La Paz, Arizona.

ACC Utilities Division ("Staff") concludes that:

- The Company appears to possess the technical and managerial ability.
- The Company's wastewater treatment plant has the capacity to serve its present customer base and reasonable growth.
- According to the Arizona Department of Environmental Quality ("ADEQ"), the Company is not currently in compliance with ADEQ regulations.

Staff recommends that the CC&N application be approved subject to the following conditions:

1. The Company be prohibited from connecting any service laterals outside the subdivision until further evaluation of the 2-inch force main has been completed by the Company, and the evaluation indicates that adequate additional capacity is available.
2. Table D-1, Plant-in-Service, of the Engineering Staff Report be used as a guideline for the plant-in-service review.
3. The Company be required to file with Docket Control, as a compliance item, within six months of the effective date in the proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and Company is in compliance.
4. The Company adopt and use Staff's typical and customary depreciation rates as delineated in Table G-1 of Attachment A, Staff's Engineering report.
5. No Service Lateral Installation Charges be approved for this Company.

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**EXHIBITS**

Agreement Regarding Sewer Services.....	Exhibit 1
Legal Description and Maps of Service Area .....	Exhibit 2
La Paz County Special Use Permit .....	Exhibit 3

## **INTRODUCTION**

On April 4, 2011, DII-Emerald Springs, LLC (“DII”, “Company” or “Applicant”) filed an application with the Arizona Corporation Commission (“Commission or “ACC”) for a new Certificate of Convenience and Necessity (“CC&N”) to provide wastewater services in a service area adjacent to the Colorado River in Ehrenberg, approximately 45 miles south of Parker in La Paz, Arizona.

On May 2, 2011, the ACC Utilities Division Staff (“Staff”) filed a Notice to Docket Regarding Sufficiency, explaining that DII and Staff had worked together to evaluate DII’s unique situation and had agreed that the established 30-day timeline for Staff to determine the sufficiency of DII’s CC&N application should be waived to allow for the concurrent processing of a rate case. On July 15, 2011, the referenced rate application was filed with the ACC.

On August 24, 2011, Staff issued a Sufficiency Letter.

On September 15, 2011, a Procedural Order was issued consolidating the CC&N docket and the Rate docket. On October 7 2011, a revised Procedural Order was issued establishing a hearing and procedural dates.

## **BACKGROUND**

DII initially came to the attention of ACC Staff upon receiving a telephone call from the Arizona Department of Environmental Quality (“ADEQ”) questioning whether the ACC regulated the Company. ADEQ was told that ACC did not know of DII’s operations, nor had Staff been contacted by DII. ADEQ provided Staff the contact information for the Company. Staff contacted Mr. Henry Melendez, President of DII, who indicated that he was not aware of ACC regulatory requirements. Mr. Melendez was advised that it appeared DII was operating as a public service corporation and that he could either file an Application for Adjudication Not a Public Service Corporation or file an Application for a CCN to serve as a sewer utility service provider.

According to the Company, DII owns the wastewater treatment plant (“WWTP”), and the Emerald Springs Homeowners Association (“HOA”) owns, operates, and maintains everything outside the treatment plant, i.e., the collection system and the force mains for the sewer system. The Company asserts that the HOA is and always has been its only customer per a July 2004 Agreement Regarding Sewer Services (“Agreement”) between Dynamic Financial & Investment Services dba Dynamic Homes (“Dynamic”) and the HOA. Under that Agreement, Mr. Melendez was required to provide sewer service that would serve the homes of the 53-lot Emerald Springs subdivision (“Subdivision”) and, in return, he was allowed to bill and receive specific payments from the HOA for such sewer service. The contract between Dynamic and the HOA is attached as Exhibit 1.

Mr. Melendez advised Staff that he and the HOA had past and current contractual disagreements. Staff was also contacted by the HOA president, Dennis Price, who confirmed

this conflict. The HOA and Mr. Melendez were advised that the ACC does not resolve private contractual disputes between parties prior to the time rates are set by the ACC. The HOA was urged on several occasions to file for intervention in the CC&N and rate cases. Specific instructions on filing for intervention were given to Dennis Price, who is the Manager of Ehrenberg Improvement Association ("EIA"), an ACC-regulated water utility in that area. To date, no such intervention has been filed.

## **SERVICE AREA**

The service area requested encompasses the 53-lot (40 homes built but not all occupied) Subdivision to which the Company has been providing wastewater service since 2004. Staff's legal description and engineering maps of the service area are attached as Exhibit 2. The Subdivision is located approximately one mile north of Ehrenberg along the Colorado River. Figures 1 and 2 that are attached to Staff's Engineering Report (Attachment A) show more detailed maps of the location within the County. The Company's WWTP, located approximately 2,500 feet or 0.5 miles east of the Subdivision, is outside the requested CC&N.

## **OWNERSHIP AND OPERATION**

On June 20, 2003, DII purchased 33 of 54 lots (53 lots and 1 common area) located within the Subdivision in Ehrenberg, Arizona. This is a gated community with an existing HOA. The sewer provider at that time was Doyle Thompson ("Thompson"), who owned a property neighboring the Subdivision. In early 2004, Mr. Thompson terminated sewer service to the HOA, which was then forced to contract with a pumping service to empty the lift station a couple times per day. The difficulty this presented became a critical problem that the entire community felt would hinder further development of the lots. Mr. Melendez was a homeowner/landowner in the Subdivision. Dynamic, an affiliate of DII, was in the process of constructing a sewer plant to service the lots owned by DII. Pursuant to the Agreement, Dynamic contracted to provide sewer service to all lot owners within the Subdivision. The collection system infrastructure already existed; Dynamic just intercepted the 2-inch line that was originally connected to Thompson's plant and diverted the flow to its sewer plant. The Applicant indicated that during that time, the water utility company serving the area ("EIA") indicated that it would be forming a sewer district. To date, the EIA has made no attempt to provide sewer service to the HOA, and in fact, the EIA has related to Staff that it has no intention of owning the sewer facility or providing sewer service in this area. Additionally, there are no other utility service providers in close proximity to the area.

DII is in good standing with the ACC Corporations Division. DII is currently owned by Blue Tower Holdings, LLC ("Blue Tower"), and Blue Tower is the sole member of the Company. Henry Melendez is the President of Blue Tower and is in charge of the operations; he is not a shareholder. The directors/shareholders and their respective percentage of ownership are as follows:

Agustin & Eith Dea Melendez	47.62%
Guisella M. Pesantes	47.62%
R. Steffen Blumenthal	4.76%

The Officers are:

Henry Melendez, President  
Guisella M. Pesantes, Secretary & Treasurer  
Agustin Melendez, Vice President  
R. Steffen Blumenthal, Vice President

After Staff questioned Mr. Melendez' role in DII, since he did not receive a salary and was not a shareholder, he explained that his parents controlled 47.62 percent of the stock and, therefore, has an interest on his part. He further explained the Company owned a Waste to Energy Technology Patent registered in Europe and the United States, and the Company was currently promoting the technology for the development of renewable energy projects from trash to electricity. Upon successful marketing and development of those types of projects, there would be a financial reward for Mr. Melendez. It was also projected, that all or most of the shares owned by his parents would be transferred to him eventually.

Prior to Blue Tower's ownership of the Company, Dynamic was the sole member of DII and Henry Melendez was the sole owner of Dynamic. In 2008, Dynamic, dba DII Emerald Springs, LLC, filed for chapter 11 Bankruptcy protection in order to get an extension from the lender to continue exploring the possibility of putting together a project that would allow the Company to repay the lender. Eventually, the Lender and Company agreed on a settlement, and the Company requested that the case be dismissed. The case was dismissed by the Bankruptcy Court in 2010.

Thereafter, there was a foreclosure on the property on which the sewer plant is located as well as property located in other areas within and outside the Subdivision. The new owner of the property is WALTCO, located in Los Angeles, California. The Company also lost some lots (had 33 lots and lost all but 3) and other lands around the Subdivision due to the foreclosure. Mr. Melendez states that Blue Tower, dba DII, still owns the sewer plant. There are currently friendly negotiations with the new land owner about continuing to provide sewer service in the area, and there appears to be no claim by the new land owner to ownership of the sewer plant. Notice of the Company's filing and of future ACC proceedings was sent to WALTCO in addition to the HOA and its members. Mr. Melendez indicates that WALTCO has committed to

cooperate with the process, and Mr. Melendez is waiting for a formal leasing document on the two acres of property occupied by the WWTP.

## **DII EMERALD SPRINGS WASTEWATER SYSTEM**

The Company explained that it established a package sewer plant on an emergency basis in 2004, with permission from ADEQ, but that the situation has since become permanent. Per Staff's Engineering Report (Attachment A), a field visit was conducted, and the inspection revealed that the sewer treatment system has a 20,000 gallon per day ("GPD") package wastewater treatment plant that processes wastewater.

The 53-lot Subdivision's sewer system consists of approximately 1,350 feet of 8-inch sewer mains and 5 manholes serving approximately 40 service laterals, with only 5 to 8 homes having permanent customers. Flows from the collection system are connected at a lift station (equipped with two 2-horsepower pumps) and then transported through 2,500 feet of force main to the WWTP. As indicated in other sections of this Report, the HOA of this Subdivision is the only customer, and the HOA owns the collection system and the force main. According to the Company, no further growth is anticipated due to the current economic climate.

Further detailed information concerning the wastewater system and operation, including schematics, sewer flows, growth, etc., can be found in Staff's Engineering Report.

According to the Company, there are currently 40 homes, of which 5 to 8 homes have permanent residents, and the remaining homes are second, vacation, weekend or vacation rental homes. If each of the 53 subdivision lots were to use 280 GPD (140 GPD x 2 (peaking factor)), then the flow would equate to approximately 15,000 GPD. As a result, the 20,000 GPD WWTP capacity is adequate to serve the present customer base and reasonable growth.

As discussed in Staff's Engineering Report, Staff has taken notice of the 2-inch force main and questioned why this small size main was constructed. Although it appears that this force main is adequate for the present customer base, Staff followed up with the Company's operator to inquire if any deficient operations were experienced with this force main. The Company has indicated to Staff that no operational problems have been experienced as a result of the sizing of this force main. While the Company believes this force main is adequate to serve the present customer base, it may not be adequate to serve an expanded service area beyond the subdivision. Staff believes that further evaluation of this plant is needed prior to any extension of service beyond the subdivision. Therefore, Staff recommends that the Company be prohibited from connecting any service laterals outside the subdivision until further evaluation of this force main by the Company has been completed and the evaluation shows that the force main has adequate additional capacity.

### Plant-In-Service

The Company submitted its plant-in-service at \$451,131. Staff has reviewed this plant-in-service and has correlated the plant items to match the costs as shown in Table D-1 Staff's Engineering Report. Table D-1 should be used as a guideline for the plant-in-service review.

### Depreciation Rates

The Commission has been adopting Staff's typical and customary depreciation rates. These rates are presented in Table G-1 of Staff's Engineering Report, and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners.

## **MANAGERIAL/TECHNICAL/FINANCIAL CAPABILITY TO PROVIDE REQUESTED SERVICES**

### Managerial Expertise

Henry Melendez supervises the day-to-day operations of the DII sewer plant. Mr. Melendez has been active in Arizona real estate for more than two decades. During that time, he has been involved with the construction of water and wastewater systems necessary to develop property.

The Company has been operating the plant since late 2004 (the date of installation). The Plant has always worked properly and has been operated by a professional-licensed individual, Jim Grimes.

Neither the Company nor its members have ever owned a utility company prior to this endeavor. However, they have successfully managed and operated the subject plant as indicated above. In past endeavors the company and Mr. Melendez have successfully managed hundreds of employees and dozens of contractors, vendors, buyers, etc.

Mr. Melendez has further explained that, prior to the collapse of the economy, DII was a residential real estate development company that had numerous employees and subcontractors working on projects. Mr. Melendez was personally in charge of the construction projects in Arizona and in California. He also dealt with the banking institutions, fund control, and inspection companies.

### Technical Expertise

James Grimes, who is the certified operator for DII, has been successfully operating the plant since 2004.

### Financial Capability

The Financial and Regulatory Analysis Staff Report addresses the Company's financial ability to provide the requested services. All of the financial information, including proposed rates, is covered in that report.

### **ADEQ COMPLIANCE**

#### Aquifer Protection Permit ("APP")

On May 27, 2004, an APP application was submitted to ADEQ. On June 10, 2010, ADEQ issued the APP, No. P-105513, that authorized the construction, operation and maintenance of the Company's WWTP. During this APP approval process, the Company had to address and correct Notices of Violation and Consent Orders issued by ADEQ.

#### Compliance

In an ADEQ compliance status report, dated June 29, 2011, ADEQ reported the Company's wastewater system, No. 105513, was not in compliance with ADEQ regulations. Based on the Company's APP requirements, the Company has not complied with numerous monitoring and reporting requirements. In addition, the Company has requested an APP Amendment to reduce the monitoring frequencies. This Amendment request is still under review and is not yet issued. Therefore, the Company should still monitor and report its requirements based on the current APP requirements.

Staff recommends that the Company file with Docket Control, as a compliance item, and within 6 months of the effective date of a decision in this proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and the Company is in compliance.

### **LA PAZ COUNTY PERMIT**

Attached as Exhibit 3 is the Company's Special Use Permit issued by the La Paz County Board of Supervisors to construct a WWTP.

### **CONCLUSIONS AND RECOMMENDATIONS**

Staff concludes that:

- The Company appears to possess the technical and managerial ability.
- The Company's WWTP has the capacity to serve its present customer base and reasonable growth.

- According to the ADEQ, the Company is not currently in compliance with ADEQ regulations.

Staff recommends that the CC&N application be approved subject to the following conditions:

1. The Company be prohibited from connecting any service laterals outside the subdivision until further evaluation of the 2-inch force main has been completed by the Company, and the evaluation indicates that adequate additional capacity is available.
2. Table D-1, Plant-in-Service, of the Engineering Staff Report be used as a guideline for the plant-in-service review.
3. The Company be required to file with Docket Control, as a compliance item, within six months of the effective date in the proceeding, a copy of an updated ADEQ Compliance Status Report indicating that the noted deficiencies have been corrected and Company is in compliance.
4. The Company adopt and use Staff's typical and customary depreciation rates as delineated in Table G-1 of Attachment A, Staff's Engineering Report.
5. No Service Lateral Installation Charges be approved for this Company.

## AGREEMENT REGARDING SEWER SERVICES

This Agreement Regarding Sewer Services (the "**Agreement**") is effective as of the 10<sup>th</sup> day of July, 2004, by and between DYNAMIC FINANCIAL & INVESTMENT SERVICES, INC., a California corporation, dba Dynamic Homes ("**Dynamic**"), and the EMERALD SPRINGS HOMEOWNERS' ASSOCIATION, an Arizona nonprofit corporation (the "**HOA**").

### RECITALS:

A. Emerald Springs ("**Emerald Springs**") is a residential subdivision located in La Paz County, Arizona, consisting of approximately (52) lots (individually referred to as a "**Lot**").

B. The HOA is the owner's association for Emerald Springs.

C. Approximately nineteen (19) Lots in Emerald Springs are owned by individual lot owners who have constructed homes on their respective lots (the "**Individual Lot Owners**").

D. DII-Emerald Springs, L.L.C., an Arizona limited liability company ("**DII**"), an affiliate of Dynamic, has acquired the remaining Lots in Emerald Springs and intends to develop, market and sell the remainder of the Lots in Emerald Springs after constructing homes thereon.

E. Dynamic is in the process of installing a twenty thousand (20,000) gallon capacity sewer treatment plant (the "**Initial Sewer Plant**") in order to provide sewer treatment services to the DII Lots in Emerald Springs. Dynamic also intends to construct one (1) or more additional sewer treatment plants (the "**Additional Sewer Plants**"), if necessary, to accommodate the sewer treatment needs of Emerald Springs Lots. Hereinafter, the Initial Sewer Plant and the Additional Sewer Plants are individually and collectively referred to as the "**Sewer Plant**".

F. The Existing Lot Owners are currently receiving sewer treatment services from an adjoining property owner on a temporary basis.

G. The Existing Lot Owners wish to terminate such temporary sewer services and, utilize in lieu thereof, the Sewer Plant.

H. Dynamic is willing to allow all Lot owners within Emerald Springs to connect to the Sewer Plant upon the terms and conditions set forth herein.

SERVICES  
STARTED 10-1-04

1. The HOA is the representative of the Existing Lot Owners and has full authority to enter into this Agreement on behalf of the Existing Lot Owners.

Now, therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, HOA and Dynamic hereby agree as follows:

**AGREEMENTS:**

1. **Recitals.** The parties hereby acknowledge the accuracy of the Recitals set forth above.

2. **Sewer Plant.** Dynamic hereby agrees that, upon completion of the Sewer Plant, all owners of Lots in Emerald Springs shall be entitled to connect to the Sewer Plant, including, but not limited to, the Existing Lot Owners and DII, so long as the Sewer Plant has adequate capacity for such Lots. It is anticipated that the Initial Sewer Plant will be in operation by or around July 10, 2004.

3. **Fees.** The per Lot fees for connection and use of the Sewer Plant shall be as follows:

A. The HOA shall pay to Dynamic, on behalf of each Existing Lot Owner that has not paid a similar sewer connection fee to the temporary sewer treatment provider, a one (1) time connection fee of One Thousand Five Hundred and No/100 Dollars (\$1,500.00), upon the execution of this Agreement. Thereafter, the HOA shall pay to Dynamic a one (1) time connection fee of One Thousand Five Hundred and No/100 Dollars (\$1,500.00) for each Lot connecting to the Sewer Plant.

B. The HOA shall pay to Dynamic a monthly sewer service fee of Fifty-Five and No/100 Dollars (\$55.00) per month for each Existing Lot commencing upon connection to the Sewer Plant. The monthly sewer service fee for each subsequently improved Lot will commence upon issuance of the certificate of occupancy for such Lot by La Paz County.

C. The amount of the monthly sewer service fee will be reviewed by Dynamic after the Initial Sewer Plant has been in service for six (6) months, at which time Dynamic shall be entitled to increase or decrease the monthly sewer service fee either in order to reflect the actual expenses incurred by Dynamic in operating the Sewer Plant. Thereafter, Dynamic shall be entitled to adjust the monthly sewer service fee annually based on its review of the actual costs of operating the Sewer Plant, provided, however, said monthly sewer service fee shall not be increased by more than ten percent (15%) per twelve (12) month period.

4. **Maintenance.** Dynamic will be responsible for maintenance of the Sewer Plant. The HOA will be responsible for maintenance of the pump, electricity to the pump and the piping between the Sewer Plant and the Lots in Emerald Springs.

5. **Insurance.** Dynamic shall maintain adequate liability insurance for its ownership and operation of the Sewer Plant.

6. **Payment.** On or before the tenth (10<sup>th</sup>) day of each calendar month, Dynamic shall provide the HOA with a monthly statement showing all connection and monthly sewer service fees due from the HOA for the preceding calendar month. Each such statement will be due and payable on or before the twenty-fifth (25<sup>th</sup>) day of the same calendar month. All connection and sewer service fees due to Dynamic shall be paid by the HOA. The HOA in turn shall be entitled to pass on such charges to the Existing Lot Owners and subsequent Lot owners through the collection of HOA assessments.

7. **Default.** In the event of any default by either party of its obligations under this Agreement, the non-defaulting party shall have all rights and remedies available under applicable law. In addition, in the event that the HOA fails to make any payment required pursuant to this Agreement, Dynamic shall have the right to (1) collect a late fee equal to 10% of the payment due, (2) disconnect the Sewer Plant upon thirty (30) days prior written notice if the default is not cured within said thirty (30) day period.

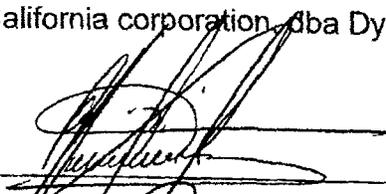
8. **Governing Law.** This Agreement shall be governing construed according to Arizona law.

9. **Execution.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall be deemed one and the same Agreement. Signatures to this Agreement may be exchanged by telecopy.

DYNAMIC FINANCIAL & INVESTMENT SERVICES,  
INC., a California corporation dba Dynamic Homes

By \_\_\_\_\_

Its \_\_\_\_\_

  
PRESIDENT

7/10/04

[Dynamic]

EMERALD SPRINGS HOMEOWNERS' ASSOCIATION,  
an Arizona nonprofit corporation

By *Robert W. [unclear] President* *7-10-04*

Its \_\_\_\_\_

[HOA]

**MEMORANDUM**

TO: Vicki Wallace  
Executive Consultant III  
Utilities Division

FROM: Lori H. Miller *llm*  
Programs & Projects Specialist  
Utilities Division

THRU: Del Smith *DS*  
Engineering Supervisor  
Utilities Division

DATE: September 27, 2011

RE: **DII-EMERALD SPRINGS, LLC (DOCKET NO. WS-20794A-11-0140)**  
**SECOND AMENDED LEGAL DESCRIPTION**

The area requested by DII-Emerald Springs, LLC for a CC&N has been plotted using the Company's second amended legal description. Attached is the legal description which will replace (in its entirety) the legal description filed with its application.

Also attached are copies of the maps for your files.

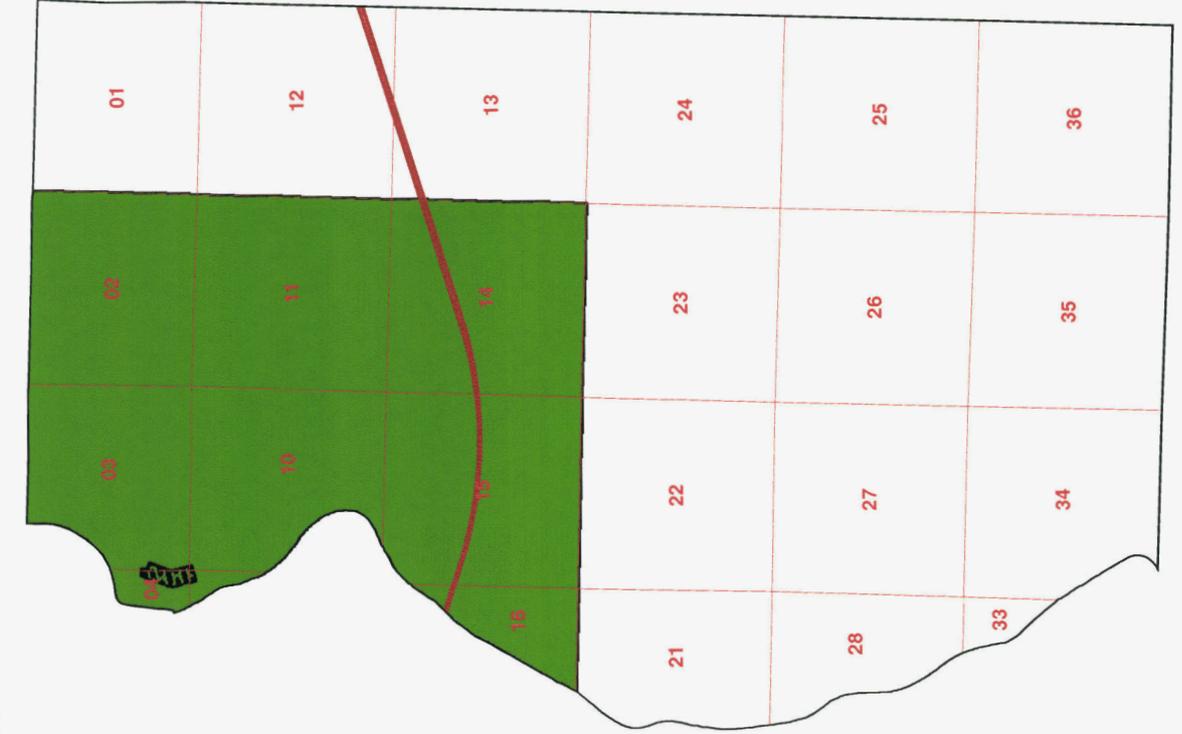
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Attachments

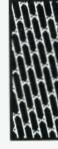
cc: Mr. Henry Melendez  
Ms. Deb Person (Hand Carried)  
Ms. Marlin Scott, Jr.  
File

LA PAZ COUNTY

RANGE 22 West




 W-02273A (2)  
 Ehrenberg Improvement Association  
 dba Ehrenberg Water Company


 (1)  
 DII-Emerald Springs, LLC  
 Docket No. WS-20794A-11-0140  
 Application for CC&N for Sewer

TOWNSHIP 3 North



DII-EMERALD SPRINGS, LLC  
DOCKET NO. WS-20794A-11-0140  
AMENDED LEGAL DESCRIPTION

BEGINNING at the Northeast corner of LOT FOUR (4) of Section 3, Township 3 North, Range 22 West, of the Gila and Salt River Base and Meridian, La Paz County, Arizona, said corner being North 00 degrees 21 minutes 04 seconds West a distance of 1320.02 feet from the Southeast corner of said Section 3;

THENCE North 89 degrees 52 minutes 45 seconds West along the north line of Lot 4 a distance of 735.77 feet to the Northwest corner of said Lot 4:

THENCE North 87 degrees 44 minutes 45 seconds West a distance of approximately 1747.91 feet to a point on the east line of Section 25, Township 6 South, Range 23 East, San Bernardino Base and Meridian;

THENCE N 87-44-45 W a distance of approximately 2762.07 feet to the left descending bank of the Colorado River and the TRUE POINT OF BEGINNING;

THENCE South 16 degrees 28 minutes 38 seconds West a distance of 35.99 feet;

THENCE South 45 degrees 54 minutes 34 seconds West a distance of 44.55 feet;

THENCE South 04 degrees 58 minutes 11 seconds West a distance of 23.09 feet;

THENCE South 10 degrees 36 minutes 47 seconds West a distance of 82.63 feet;

THENCE South 20 degrees 07 minutes 38 seconds West a distance of 50.01 feet;

THENCE South 35 degrees 50 minutes 50 seconds West a distance of 51.66 feet;

THENCE South 35 degrees 50 minutes 50 seconds West a distance of 51.66 feet;

THENCE South 30 degrees 21 minutes 48 seconds West a distance of 50.64 feet;

THENCE South 11 degrees 06 minutes 08 seconds East a distance of 39.12 feet;

THENCE South 06 degrees 49 minutes 06 seconds East a distance of 19.23 feet;

THENCE South 16 degrees 41 minutes 57 seconds West a distance of 50.16 feet;

THENCE South 16 degrees 41 minutes 57 seconds West a distance of 50.15 feet;

THENCE South 29 degrees 14 minutes 34 seconds West a distance of 50.49 feet;

THENCE South 31 degrees 28 minutes 37 seconds West a distance of 50.80 feet;

THENCE South 17 degrees 50 minutes 22 seconds West a distance of 50.09 feet;

THENCE South 11 degrees 35 minutes 08 seconds West a distance of 34.46 feet;

THENCE South 22 degrees 43 minutes 38 seconds West a distance of 25.44 feet;

THENCE South 20 degrees 40 minutes 56 seconds West a distance of 60.62 feet;

THENCE South 19 degrees 49 minutes 35 seconds West a distance of 63.03 feet;

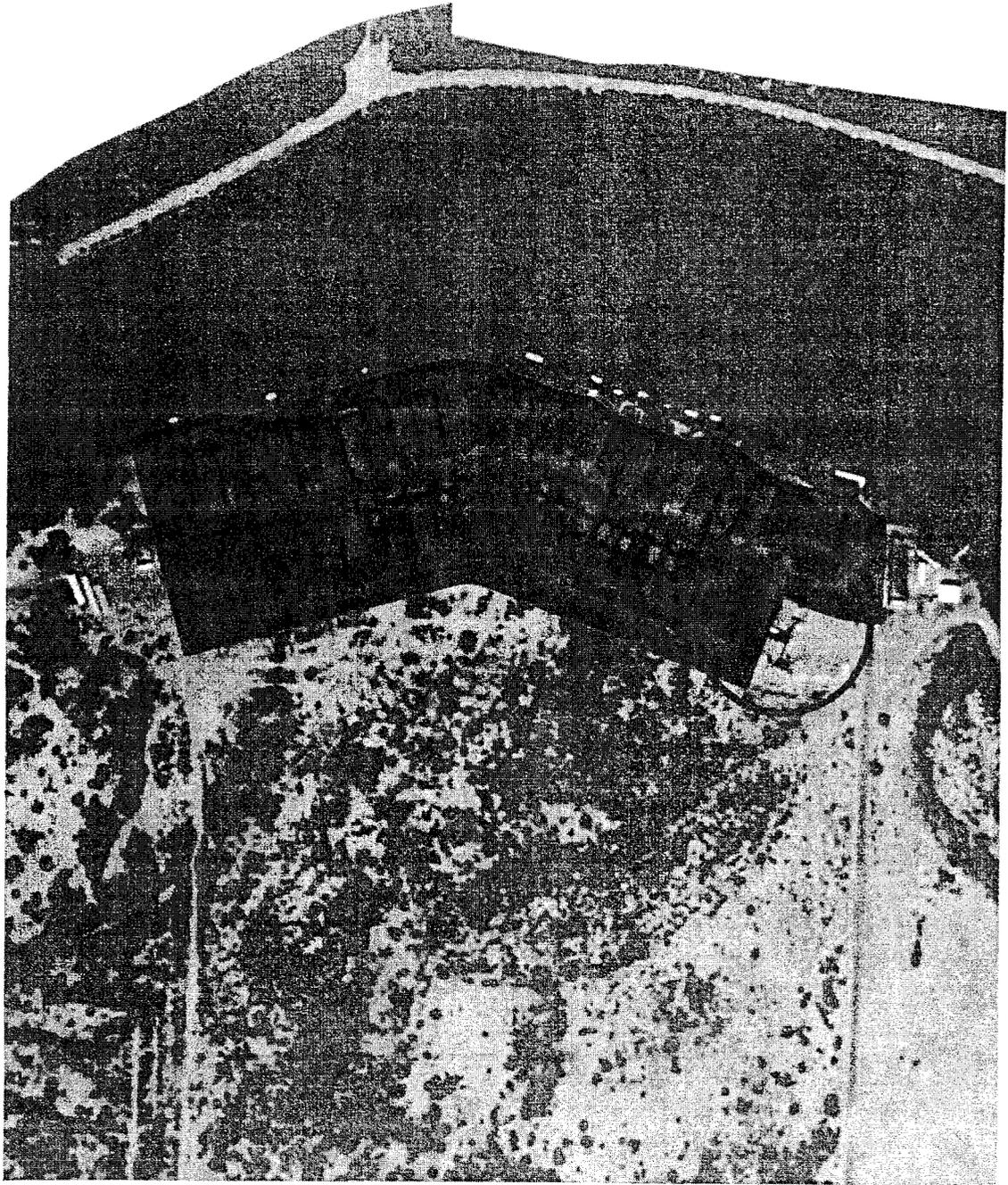
Arizona Corporation Commission

DOCKETED

SEP 15 2011

DOCKETED BY *[Signature]*

THENCE South 03 degrees 56 minutes 50 seconds West a distance of 34.61 feet;  
THENCE South 09 degrees 04 minutes 44 seconds West a distance of 27.74 feet;  
THENCE South 09 degrees 47 minutes 08 seconds East a distance of 61.73 feet;  
THENCE South 15 degrees 53 minutes 19 seconds East a distance of 61.31 feet;  
THENCE South 15 degrees 11 minutes 30 seconds East a distance of 50.00 feet;  
THENCE South 19 degrees 45 minutes 56 seconds East a distance of 50.16 feet;  
THENCE South 17 degrees 28 minutes 56 seconds East a distance of 50.04 feet;  
THENCE South 17 degrees 28 minutes 56 seconds East a distance of 50.04 feet;  
THENCE South 16 degrees 20 minute 15 seconds East a distance of 50.01 feet;  
THENCE South 16 degrees 20 minute 15 seconds East a distance of 50.01 feet;  
THENCE South 01 degrees 46 minutes 34 seconds East a distance of 34.94 feet;  
THENCE South 05 degrees 00 minutes 45 seconds West a distance of 17.06 feet;  
THENCE South 10 degrees 13 minutes 28 seconds West a distance of 25.40 feet;  
THENCE South 23 degrees 23 minutes 52 seconds East a distance of 27.34 feet;  
THENCE South 16 degrees 22 minutes 27 seconds East a distance of 21.79 feet;  
THENCE South 24 degrees 21 minutes 16 seconds East a distance of 28.57 feet;  
THENCE South 11 degrees 45 minutes 29 seconds East a distance of 50.09 feet;  
THENCE South 17 degrees 28 minutes 56 seconds East a distance of 50.04 feet;  
THENCE North 74 degrees 48 minutes 30 seconds East a distance of 457.00 feet;  
THENCE North 15 degrees 11 minutes 30 seconds West a distance of 550.00 feet to the  
beginning of a tangent curve to the right having a radius of 125.00 feet, an angle of  
36 degrees 27 minutes 53 seconds and a length of 79.55 feet;  
THENCE North 21 degrees 16 minutes 23 seconds East a distance of 600.00 feet;  
THENCE North 68 degrees 43 minutes 37 seconds West a distance of 200.00 feet;  
THENCE North 21 degrees 16 minutes 23 seconds East a distance of 24.78 feet to the  
beginning of a tangent curve to the left having a radius of 362.40 feet, an angle of  
21 degrees 00 minutes 00 seconds and a length of 132.84 feet;  
THENCE North 89 degrees 43 minutes 45 seconds West a distance of 50.00 feet;  
THENCE North 87 degrees 44 minutes 45 seconds West a distance of 175.00 feet to the  
POINT OF BEGINNING.





**La Paz County Department of Community Development**  
**B. Scott Bernhart, Director**

1112 Joshua • Suite 202 • Parker, Arizona 85344  
 (928) 669-6138 • Fax (928) 669-5503 • TDD (928) 669-8400

December 12, 2006

Mr. Henry Melendez  
 DII Emerald Springs  
 1050 Lakes Drive, Ste. 150  
 West Covina, CA 91790

**Re: Docket No. SU2006-012 - APN: 302-63-070B**

Dear Mr. Melendez:

The La Paz County Board of Supervisors at their Regular Meeting of December 4th, 2006 **approved** Docket No. SU2006 012, Emerald Springs, Phase I/Henry Melendez - APN: 302-63-070B requesting a Special Use Permit to construct of a Waste Water Treatment Plant (WWTP), located at 15445 Comber Blvd., Ehrenberg.

In accordance with State Law, the Special Use Permit request will become effective 30 (thirty) days after the approval of the November 6th, 2006 Board of Supervisors minutes (effective January 2, 2007).

If you have any questions, please call (928) 669-6138 or visit our office at the above address

Sincerely,

s/s  
 Scott Bernhart, Director  
 La Paz County Department of Community Development

cc: APN file  
 Darrell Scott – GIS Coordinator

Planning

Building & Safety

Floodplain Coordinator

GIS Services