

ORIGINAL



0000133159

1 Steve Wene, No. 019630  
2 MOYES SELLERS & HENDRICKS LTD.  
3 1850 N. Central Avenue, Suite 1100  
4 Phoenix, Arizona 85004  
5 (602)-604-2189  
6 swene@law-msh.com  
7 Attorneys for Clear Springs Utility Co., Inc.

RECEIVED

2011 DEC 29 P 2:31

AZ CORP COMMISSION  
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

8 GARY PIERCE, CHAIRMAN  
9 PAUL NEWMAN  
10 SANDRA D. KENNEDY  
11 BOB STUMP  
12 BRENDA BURNS

Arizona Corporation Commission

DOCKETED

DEC 29 2011

DOCKETED BY [Signature]

14 APPLICATION OF CLEAR SPRINGS  
15 UTILITY CO., INC., FOR AN INCREASE  
16 IN RATES

Docket No. W<sub>5</sub>-01689A-11-0402

RESPONSE TO LETTER OF  
DEFICIENCY

18 Clear Springs Utility Co., Inc. ("Company" or "Applicant"), hereby responds to  
19 Staff's Letter of Deficiency as follows:

20  
21 1. In Decision No. 68443 ("Decision"), the Commission ordered Clear Springs Water  
22 Company to reduce its water loss to 10% or less in Public Water System ("PWS") #02-  
23 008 before filing its next rate case or, in the alternative, to demonstrate why it is not  
24 reasonable or economical to reduce water loss to 10 percent or less. (See page 14, lines  
25 24-27 of the Decision.) The application indicates that PWS # 02-008 experienced a 43%  
26 water loss during the test year. Clear Springs is in violation of the Decision and must  
27 correct this compliance item before a sufficiency determination can be made.  
28

1           **Response: Decision No. 68443 expressly states the Company “shall reduce its**  
2 **water loss to 10 percent or less in PWS # 02-008 before filing its next rate case, in**  
3 **the alternative [the Company] shall demonstrate why it is not reasonable or**  
4 **economical to reduce water loss to 10 percent or less.” See id. at p. 14, ln. 24-27.**

5  
6 **The following provision ordered the Company to file a report explaining how it will**  
7 **address the water loss issue. See id. at p. 15, ln. 1-4. Accordingly, on July 21, 2006,**  
8 **the Company filed as a compliance item correspondence explaining that the**  
9 **Company plans to decrease water loss by upgrading the system. See Attachment 1.**

10  
11           **The Company was under the impression that this filing satisfied the**  
12 **compliance items set forth in Decision No. 68443 regarding water loss. This belief**  
13 **was reinforced in April 2007 when the Company received Staff’s First Notice of Past**  
14 **Due Compliance, which did not mention the water loss compliance issue. See**  
15 **Attachment 2. Nevertheless, prompted by Staff’s deficiency letter in the case, the**  
16 **Company has drafted a water loss report to directly address the water loss**  
17 **provision. See Attachment 3.**

18  
19  
20  
21       2.       Also in Decision No. 68443, the Commission ordered Clear Springs to take action  
22 to resolve the storage deficiencies of PWS #02-048 and #02-050 before filing its next rate  
23 case. (See page 14, lines 18-20 of the Decision.) The water analysis results show  
24 inadequate storage capacities in both PWS #02-050 and #02-048. Clear Springs filed a  
25 financing application to purchase a 5,000 gallon tank for PWS #02-048; however, Clear  
26 Springs failed to address the storage problem in PWS #02-050. Clear Springs is in  
27 violation of the Decision and must correct this compliance item before a sufficiency  
28



# **Attachment 1**

ORIGINAL

CLEAR SPRINGS UTILITY COMPANY, INC.  
PO BOX 85160  
TUCSON, ARIZONA 85754  
520-623-5172  
FAX 520-792-0377

50

July 20, 2006

Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Re: Docket #W-01689A-05-0629, Decision #68443 - Compliance Item

In regard to the above referenced Docket number we submit the following as ordered as a compliance item on Page 15, line 1 through 4 of Decision #68443

Statement:

It is further Ordered that Clear Springs Utility Company, Inc. shall file with the Commission a water loss report no later than 180 days after the effective date of this order. This report shall detail how the Company will work to address the water loss issue and what steps the Company is taking to decrease water loss on their system.

Response: 5/19/06 - 6/21/06

Water Loss Report -	<u>7,359,500</u>	-	<u>6,292,530</u>	=	<u>1,066,970</u>	/	<u>7,359,500</u>	x	100	=	<u>14.50%</u>
	Master Meter		Metered Sales		Difference		Master Meter Amount				% Loss

The steps that will be taken to prevent water loss will be in the form of new construction upgrades to the system. Upgrades are scheduled within the next eighteen months.

Regards,

  
Bonnie O'Connor, Sec. Treas

Arizona Corporation Commission  
DOCKETED

JUL 21 2006

           ne ]

RECEIVED  
2006 JUL 21 11:19 AM  
AZ CORP COMMISSION  
DOCUMENT CONTROL

# **Attachment 2**

**COMMISSIONERS**  
MIKE GLEASON - Chairman  
WILLIAM MUNDELL  
JEFF HATCH-MILLER  
KRISTEN K MAYES  
GARY PIERCE

**ORIGINAL**



303m

**ARIZONA CORPORATION COMMISSION  
UTILITIES DIVISION  
1200 W. WASHINGTON STREET  
PHOENIX, AZ 85007**

**AZ CORP COMMISSION  
DOCUMENT CONTROL**

**2007 MAY -4 A 11: 15**

**RECEIVED**

**First Notice of Past Due Compliance**

April 10, 2007

Clear Springs Utility Company - Water Division  
PO Box 1690  
Sierra Vista, AZ 85636-0000

**RE: COMPLIANCE REQUIREMENTS Docket #: W-01689A-05-0629**

To Whom It May Concern:

After several attempts to resolve these past due compliance items, we are notifying you in writing that Clear Springs Utility Company - Water Division still has not met certain compliance requirements ordered by the Commission as referenced in the attached report. You must comply with the dated requirements within fifteen days from the date of this letter. Attached is a Compliance Report that describes the nature of the requirements. Other compliance requirements may be attached that do not have an actual due date, but may also require immediate action.

When responding to this notice, please refer to the Docket Number and Decision Number. Please mail all compliance matters in accordance with the following:

You must file an original and thirteen (13) copies of the documents with:

Arizona Corporation Commission  
Docket Control  
1200 West Washington  
Phoenix, AZ 85007

If you believe that this notice is in error, or, if I can answer any questions, please contact the compliance section at (602) 542-0895.

Sincerely,

Shannon Kanlan  
Compliance and Enforcement  
Utilities Division

Arizona Corporation Commission  
**DOCKETED**

**MAY -4 2007**

DOCKETED BY	nr
-------------	----

Enclosures

## COMPLIANCE REQUIREMENTS

**UTILITY:** Clear Springs Utility Company - Water Division

**DBA:**

**DOCKET:** W-01689A-05-0629

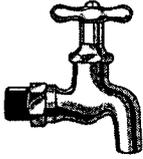
**DECISION NO:** 68443

**ACTION:** The Company will, within 14 months of the effective date of the Decision, file in Docket Control, as a compliance item, documents showing that the required well meters have been installed.

**COMPLIANCE DUE DATE:** 4/2/2007  Compliance Past Due

---

# Attachment 3



**CLEAR SPRINGS UTILITY CO.  
WATER DIVISION  
P O Box 85160, TUCSON, AZ 85754  
(520) 623-5172 FAX 792-0377**

Arizona Corporation Commission  
Utilities Division  
Attn: Docket Control  
1300 W. Washington St.  
Phoenix, Arizona 85007

December 27, 2011

Re: Compliance Item.  
Docket No. W-01689A-05-0629

Pursuant to Arizona Corporation Commission ("Commission") Decision No. 40186, the purpose of this letter is to demonstrate why it is not economically feasible for Clear Springs Utility Company, Inc. ("Company") to reduce water loss to 10% or less in Public Water System 02-008 ("PWS 02-008").

The Company believes the substantial water loss is due primarily to three factors. First, the transmission and distribution lines have substantial leaks that have not been located because the lines are buried and the leaking water is percolating downward rather than towards the surface. Second, all of the customer meters connected to PWS 02-008 are more than 20 years old and almost assuredly fail to register all of the water being delivered to the customers. Third, several fire hydrants are in disrepair and have substantial leaks.

Currently, the Company has 563 active customers overall. However, under its current rate structure, the Company does not generate sufficient revenue to implement a leak detection and infrastructure replacement program. In 2010, for example, the Company's water division lost \$15,205. Therefore, as explained in more detail below, any major equipment replacement program is cost prohibitive at this time.

#### **Pipeline Replacement Program**

Finding and repairing the leaking underground pipes would be very expensive. When contemplating this issue, it is important to keep in mind just one gallon per minute leak results in more than 500,000 gallons of water loss

per year. When a buried pipeline has such a leak, often the water percolates downward and there is no noticeable above-ground indicator of a leak.

According to Company management and engineers consulted, it would cost approximately \$40,000 to simply conduct a leak detection study to locate substantial system leaks. It is not known how much leak repairs would cost because it is not known how many leaks exist. Most of the transmission and distribution lines are more than 40 years old and the Company suspects that there are many small leaks and resolving the line leak issue would involve essentially replacing miles of pipeline. This would be very expensive.

#### **Meter Replacement Program**

Similarly, testing and replacing defective customer meter is cost-prohibitive at this time. The Company has 563 customer meters.<sup>1</sup> Each meter costs approximately \$100.00 to purchase and install. Thus, replacing the meters will cost approximately \$56,300.00. The Company cannot afford to implement the meter replacement program at this time.

#### **Fire Hydrant Replacement Program**

Finally, the Company has identified 10 fire hydrants that need to be replaced. This will cost approximately \$1,500 per fire hydrant. Thus, replacing the leaking fire hydrants will cost approximately \$15,000. Again, the Company cannot afford this additional expense at this time.

#### **Potential Solution**

Obviously, the only way for the Company to generate revenue to pay for these plant replacements is to raise the customer rates. Weighing the cost and benefit of potential improvements, the Company believes that it could implement the meter replacement program at a reasonable cost to its customers. With an additional \$1,000 per month in revenue, which could be generated by a \$2.00 customer surcharge, the Company could replace 10 meters per month and all of the meters would be replaced in approximately 5 years.<sup>2</sup>

If the Commission added another \$1.00 to the proposed surcharge, then the Company could replace a leaking fire hydrant every three months, and all 10 leaking fire hydrants would be replaced in approximately 2 ½ years.

---

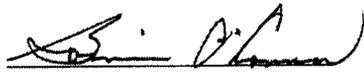
<sup>1</sup> The Company proposes that the meter replacement program include all customer meters.

<sup>2</sup> To be clear, these numbers are for illustrative purposes only. The Company understands that the meter replacement costs and surcharge revenue would be calculated so that the revenue meets, but does not materially exceed, the expense.

Hence, two of the three primary leakage issues would be resolved in a reasonable time at a reasonable cost to the customers.

Unfortunately, there is no effective way to detect and repair the underground pipeline leaks at a reasonable cost. The entire transmission and distribution line system needs to be replaced. However, once the meters and fire hydrants are replaced, then the Company can focus on the line leaks and will better understand the extent of the problem.

Respectfully,



Bonnie O'Connor, President  
Southwestern Utility Management, Inc.  
for  
Clear Springs Utility Company