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ARIZONA CORPORATION COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

DOCKETED

DEC 29 2011

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13
14 IN THE MATTER OF THE
15 APPLICATION OF CLEAR SPRINGS
16 UTILITY CO., INC., FOR A RATE
17 INCREASE AND REQUEST FOR
18 FINANCING AUTHORIZATION

Docket No. W-01689A-05-0629

**NOTICE OF COMPLIANCE RE
WATER LOSS REPORT**

19 Pursuant to Decision No. 68443, Clear Springs Utility Co., Inc. hereby files its a
20 water loss report to directly address the water loss compliance provision set forth on page
21 14, ln. 24-27. See Attachment 1.

22 RESPECTFULLY SUBMITTED this 29th day of December, 2011.

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24 **MOYES SELLERS & HENDRICKS LTD.**

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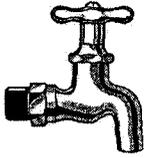
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Original and 13 copies of the foregoing
filed this 29th day of December, 2011, with:

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

Attachment 1



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.¹ 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.²

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.

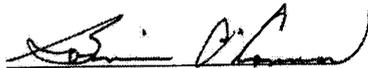
¹ The Company proposes that the meter replacement program include all customer meters.

² 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