

ORIGINAL

OPEN MEETING AGENDA ITEM
MEMORANDUM



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2012 AUG 13 A 8:35

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

EA for SMO

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL
DOCKETED

AUG 13 2012

Date: August 10, 2012

DOCKETED BY *JM*

RE: **SUPPLEMENT TO STAFF REPORT FOR SABROSA WATER COMPANY'S APPLICATIONS FOR A RATE INCREASE AND TWO AUTHORIZATIONS FOR FINANCING (DOCKET NOS. W-02111A-11-0272, W-02111A-11-0340 AND W-02111A-11-0435)**

1. INTRODUCTION

On April 5, 2012, the Utilities Division ("Staff") filed its Staff Report for Sabrosa Water Company's ("Sabrosa" or "Company") applications for a permanent rate increase and authorizations for financing. Staff filed amendments to the original Staff Report on April 9, 2012, and on April 30, 2012. The owner, Keith Morris abandoned the system and the Company has been operating under interim managers appointed by the Commission since December 2002. The purpose of this memorandum is to provide an update on current deficiencies of the Sabrosa water system.

On September 9, 2011, and December 6, 2011, the interim manager, on behalf of Sabrosa, applied for loans through the Water Infrastructure Financing Authority of Arizona ("WIFA"). WIFA has informed Staff that it will not be able to extend a loan to Sabrosa because Mr. Don Bohler is an interim manager, not the owner, and cannot sign the loan documents. Therefore, the arsenic treatment facilities and the deepening of the Zorillo well cannot proceed.

Based on the service meter data contained in Sabrosa's annual reports, the number of customers declined from 69 at the end of 2001 to 34 at the end of 2010. At the present time Sabrosa is serving 27 connections.

The Sabrosa water system continues to experience significant water loss, the water produced by the wells does not meet water quality standards, and the wells do not produce enough water to meet peak demand. Low water pressure and water outages are a common occurrence (See Attachment A, Supplemental Engineering Report).

2. EXCESSIVE WATER LOSS

The Sabrosa water system has a long history of severe water loss. The calculated water loss in the Sabrosa water system was 46 percent during the test year, which far exceeds Staff's recommended 10 percent threshold (See Attachment A to the Staff Report Section D. Non-Account Water). Staff suspects that leaks in the distribution lines and possible water theft are the primary reasons for Sabrosa's excessive water loss. Staff estimates that it could cost approximately \$500,000 to replace Sabrosa's distribution lines.

3. WATER QUALITY ISSUES

Maricopa County Environmental Services Department ("MCESD") has determined that the Sabrosa water system is currently not in compliance with its requirements. MCESD stated that there are major deficiencies in operation and maintenance and in water quality monitoring and reporting. The system has a major deficiency for exceeding the Maximum Contaminate Level for arsenic (See Attachment A to the Staff Report Section F. MCESD Compliance).

4. WATER PRODUCTION INADEQUATE

Sufficient water production is an issue for the water system during dry conditions when precipitation is not adequate to recharge the local aquifer. The Company's wells have not been able to produce enough water recently and the Company has had to resort to water hauling on a full-time basis to supply water to its customers. The Company's two wells have been producing little if any water since November of last year and the Company has been hauling water to fill its storage tank since then. The system has adequate storage capacity, but it does not have reliable, adequate well production (See Attachment A to the Staff Report Section C. Description of System).

5. OPTIONS AVAILABLE TO THE UTILITY CUSTOMERS

Staff scheduled and attended a public comment meeting on August 8, 2012. At the public comment meeting, Staff informed the customers of the possibility of Staff eventually recommending that the Commission approve abandonment of the Sabrosa water system. In addition, Staff discussed the following options that may be available to the customers:

- Forming a water district. This would allow the customers to actively own and manage their water system and remove one layer of government regulation.
- Each customer could drill their own well. Staff estimates that cost to be approximately \$10,000 per customer.

- Each customer could install their own holding tank, booster pump, and haul their own water. Staff estimates the cost for the holding tank and booster pump to be approximately \$7,500 per customer. The cost to purchase and transport the water would be an additional cost and Staff does not have a good estimate for that.
- All the customers on the Sabrosa system could contribute money to have Sabrosa drill a well deeper than the current well. The contributions will eventually be refunded back to the customer with a credit on their water bill. Estimates obtained from The Pump Company shows that it would cost about \$11,450 to \$14,451 to drill a replacement well to about 350 feet (See Attachment B, Public Comment Meeting Letter). Additionally, the cost of distribution line replacement that Staff estimated the cost to be approximately \$500,000 would have to be added to the drilling cost.
- Connect to the City of Phoenix water system. Since the Sabrosa water system is approximately six miles from the Phoenix water system, Staff estimates the line and interconnection would cost well over \$1,000,000.

Staff has been unable to locate the owner of Sabrosa, who has been absent more than ten years. Although locating the owner could enable the Company to incur debt, this would not solve the problems presented. Even if the loans could be approved, the amount of loan required to correct the problem would be extremely high relative to the customer base. Moreover, historically, as rates have increased and reliability has declined, customers have opted to obtain water from other sources and the reduction in the number of customers is expected to continue to decrease, making it even less likely that the customers could pay for the needed improvements.

SMO:BCA:tdp

Originator: Brendan C. Aladi

Service List For: Sabrosa Water Company
Docket Nos.: W-02111A-11-0272, et al

Mr. Don Bohler
Interim Manager
Sabrosa Water Company
303 East Gurley Street, PMB 445
Prescott, Arizona 86301

MEMORANDUM

DATE: August 1, 2012

TO: Brendan Aladi
Public Utilities Analyst III

FROM: Dorothy Hains, P. E. DH
Utilities Engineer

RE: Supplemental Engineering Report for Sabrosa Water Company, Inc. Rate Application (Docket No. W-02111A-11-0272) and Financing Applications (Docket Nos. W-02111A-11-0340 & W-02111A-11-0435)

The purpose of this memorandum is to provide an update on current deficiencies of the Sabrosa Water Company, Inc. ("Sabrosa") water system. The Sabrosa Water system continues to experience significant water loss, the water produced by the wells does not meet water quality standards and the wells do not produce enough water to meet peak demand. Low water pressure and water outages are a common occurrence.

1. Excessive Water Loss

The Sabrosa water system has a long history of severe water loss. The calculated water loss in the Sabrosa water system was 46 percent during the test year, which far exceeds Staff's recommended 10 percent threshold (See Attachment A to the Staff Report Section D. Non-Account Water). Staff suspects that leaks in the distribution lines are the primary reason for Sabrosa's excessive water loss. Staff estimates that it could cost approximately \$500,000 to replace Sabrosa's distribution lines.

2. Water Quality Issues

Maricopa County Environmental Services Department ("MCESD") has determined that the Sabrosa water system is currently not in compliance with its requirements. MCESD stated that there are major deficiencies in Operation and Maintenance and in water quality monitoring and reporting. The system has a major deficiency for exceeding the Maximum Contaminate Level for arsenic (See Attachment A to the Staff Report Section F. MCESD Compliance).

3. Water Production Inadequate

Sufficient water production is an issue for the water system during dry conditions when precipitation is not adequate to recharge the local aquifer. Recently the Company has had to rely on water hauling to keep up with the demand. As indicated above, the Company's wells have not been able to produce enough water recently and the Company has had to resort to water hauling on a full time basis to supply water to its customers. The Company's two wells have been producing little if any water since November of last year and the Company has been hauling water to fill its storage tank since then. The system

has adequate storage capacity, but it does not have reliable, adequate well production (See Attachment A to the Staff Report Section C. Description of System).

The number of customers served by the Sabrosa water system may continue to decline. Based on the service meter data contained in Sabrosa's annual reports, the number of customers declined from 69 at the end of 2001 to 34 at the end of 2010. At the present time Sabrosa is serving 27 connections.

SABROSA WATER COMPANY, INC.
303 E. Gurley PMB 445 Prescott AZ 86301
(928) 778-1888

July 23, 2012

Dear Sabrosa Customer,

We are writing this letter to inform you of the recent information we received on the Water Rate Increase case. We were informed by the Arizona Corporation Commission recently that Wifa will not loan Sabrosa Water the funds to deepen the well or for the Arsenic Treatment project as Don Bohlier is the Interim Manager and not the "OWNER" of Sabrosa Water Co. Therefore we want to pass on some potential options for you.

- 1) Each customer could drill their own well.
- 2) Each customer could have their own holding tank and booster pump installed.
- 3) All the customers on the Sabrosa system could contribute money to have us drill a well deeper than the current well. This would be eventually refunded back to the customer with a credit on their water bill.

We are getting quotes from well drillers to see what our costs would be.

Your input is very important to us to know how to proceed with drilling the well. PLEASE mail us back your input or call us with your input and if we do not answer PLEASE leave us a message with your name and address.

Thank you!

Sincerely,

Don Bohlier
Interim Manager
Sabrosa Water Company

SABROSA WATER COMPANY, INC.

P.O. Box 12742 Prescott AZ 86304

Phone (928) 778-1888

Fax (928) 775-8541

July 27, 2012

Dear Sabrosa Customers,

Today I received a bid to drill a well to 350 ft by The Pump Company. This is the best price we have received yet. The breakdown of the cost is as follows:

Total Permits:	\$ 325.00
Drill well to 350 ft	\$6,370.00
4 ½ casing @ 350 ft	\$2,926.88
Surface Seal	\$1,050.00
Sales tax	\$ 779.05
Water Quality Analysis For new water source-ADEQ	\$3,000.00
Total	<u>\$14,450.93</u>

If this cost were divided by the current 28 residents, it would cost each resident upfront, approximately \$516.00 each to pitch in and get the well drilled. This being refunded back to each resident, over a period of time, after the completion of the well drilling and a monthly amount yet to be determined.

This seems like the best option yet as this will eliminate water hauling charges that for some of you pay close this amount in 1 months water hauling. If this is the direction you want to go, we ask all customers to submit a separate payment and a receipt will be sent to you. I believe this option will also increase the value of your property to have a more assured water supply.

Given the current situation with water hauling and the denial of the Wifa loan I feel like this is the best option possible. I know that you do not want to continue to pay water hauling charges and I am trying to do the best thing possible being "Interim Manager" for this Water Company. Please let us know as soon as possible if this is an acceptable solution for you. I am anxious to get this situation resolved and get rid of the water hauling charges as soon as possible! Please call us & let us know your opinion!

Thank you,

Don Bohler

Interim Manager
Sabrosa Water Company

FAX ALAN

602-542-2129

Craig

THE PUMP COMPANY

327 N. 1ST STREET
 BUCKEYE, ARIZONA 85326
 OFFICE 623-327-1200
 FAX 623-386-7776

Estimate

Date	Estimate #
7/25/2012	1679

Name / Address
Sabrosa Water Don Bohler 928.713.3772, AZ

Project

Item	Description	Qty	Cost	Total
Permits	Permits	1	325.00	325.00T
Drilling	Drilling	350	18.20	6,370.00T
Casing	4 1/2" PVC casing	350	8.36251	2,926.88T
Surface Seal	Surface Seal	1	1,050.00	1,050.00T
This will be an Air drilled hole. If we have to go to mud there will be an additional \$5.00 per foot for mud drilling.				
			Subtotal	\$10,671.88
			Sales Tax (7.3%)	\$779.05
			Total	\$11,450.93