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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
for Director
Utilities Division

DATE: May 19, 2004

RE: ARIZONA WATER COMPANY, INC. - APPLICATION AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER SERVICE IN NAVAJO COUNTY, ARIZONA (DOCKET NO. W-01445A-04-0013)

Attached is the Staff Report for the above referenced application. Staff is recommending approval of the application.

EGJ:JEF:hml

Originator: Jim Fisher

Arizona Corporation Commission

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AZ CORP COMMISSION
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Service List for: Arizona Water Company, Inc.
Docket No. W-01445A-04-0013

Mr. Michael Whitehead
Vice President
Arizona Water Company
Post Office Box 29006
Phoenix, Arizona 85015

Mr. Robert W. Geake
Vice President and General Counsel
Arizona Water Company
Post Office Box 29006
Phoenix, Arizona 85015

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-04-0013

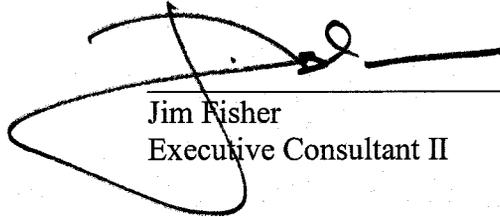
APPLICATION FOR AN EXTENSION OF ITS
CERTIFICATE OF CONVENIENCE & NECESSITY
TO PROVIDE WATER SERVICE IN NAVAJO COUNTY, ARIZONA

MAY 2004

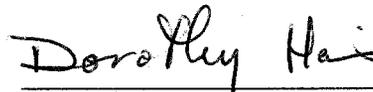
STAFF ACKNOWLEDGEMENT

The Staff Report for Arizona Water Company, Inc. (Docket No. W-01445A-04-0013) was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analysis of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis.

Contributing Staff:



Jim Fisher
Executive Consultant II



Dorothy Hains
Utilities Engineer

**EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0013**

On January 13, 2004, Arizona Water Company ("AWC") a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to include additional properties in Navajo County, Arizona.

AWC is an Arizona corporation, authorized by the ACC to provide water service within portions of Gila, Navajo, Cochise, Maricopa, Pima, Yavapai, Coconino and Pinal counties, Arizona. The ACC initially authorized AWC a CC&N in 1955. The Company currently serves approximately 65,000 customers. By this application, Arizona Water is seeking to extend a portion of its current 14 square mile Pinetop-Lakeside CC&N to include an additional one-sixteenth (1/16) square mile parcel located within the existing CC&N.

The Company has been requested by PK Development, LLC and Gentuc LLC ("Developers") to extend the CC&N to serve a proposed 42 lot development in the extension area. The existing water system can accommodate approximately 3,000 additional connections.

Staff recommends that the Commission approve the Arizona Water Company application for an extension of its Certificate of Convenience and Necessity in a portion of Navajo County to provide water service, subject to compliance with the following conditions:

1. To require the Arizona Water Company to charge its existing rates and charges in the proposed extension area.
2. To require Arizona Water Company to file, with the Director of the Utilities Division, the Main Extension Agreement associated with the proposed extension area within 365 days of the effective date of any decision in this matter.
3. To require Arizona Water Company to file, with the Director of the Utilities Division, a copy of the Arizona Department of Environmental Quality Certificate of Approval to Construct within 365 days of any decision in this matter.

Staff further recommends that the Commission's Decision granting this Extension of its Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet condition numbers 2 and 3 above within the time specified.

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Introduction

On January 13, 2004, Arizona Water Company ("AWC"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to include additional properties in Navajo County, Arizona.

Background

AWC is an Arizona corporation, authorized by the ACC to provide water service within portions of Gila, Navajo, Cochise, Maricopa, Pima, Yavapai, Coconino and Pinal counties, Arizona. The ACC initially authorized AWC a CC&N in 1955. The Company currently serves approximately 65,000 customers.

By this application, AWC is seeking to extend a portion of its current 14 square mile Pinetop-Lakeside CC&N to include an additional one-sixteenth (1/16) square mile parcel located within the existing CC&N.

The Extension Request

AWC is requesting the Commission allow the AWC to extend its service territory to include a small portion of the southern quarter of Section 25, Township 9 North, Range 22 East of the Gila and Salt River Base and Meridian. The requested property is adjoining the existing AWC CC&N.

AWC has been requested by PK Development, LLC and Gentuc LLC ("Developers") to extend the CC&N to serve a proposed 42 lot development in the extension area.

Finance of Facilities

AWC will finance the required transmission and distribution facilities primarily with Advances in Aid of Construction ("AIAC"). AIAC are often in the form of Main Extension Agreements ("MXA"). MXA generally require the developer to design, construct and install (or cause to be), all facilities to provide adequate service to the development. The developer is required to pay all costs of constructing the required facilities necessary to serve the development. Upon acceptance of the facilities by the utility the developer will convey the water facilities by way of a warranty deed. The utility will often refund ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

The Company estimates approximately 1,200 feet of distribution line will be installed at an approximate cost of \$50,000 to serve the extension area.

A MXA has not been finalized between the parties. Once the parties have finalized a MXA, Staff recommends the agreement be forwarded to Staff for review consistent with Arizona Administrative Code R14-2-406.

Water Production Capacity

AWC at Pinetop-Lakeside has seven wells with a total production capacity of 2,156 gallons-per-minute ("GPM") and 3.7 million gallons of storage capacity. The system has approximately 4,450 service connections.

Using a simple analysis of overall well production and storage for the Pinetop-Lakeside system, the existing water system can accommodate approximately 3,000 additional connections.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to 10 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis by the Company indicated that the wells in the Pinetop-Lakeside system meet the new arsenic MCL.

Arizona Department of Environmental Quality Compliance

Arizona Department of Environmental Quality ("ADEQ") regulates the Pinetop-Lakeside system under ADEQ Public Water System ("PWS") I.D. # 09-003. Based on data received from ADEQ, ADEQ has determined that the system is currently delivering water that does not exceed any maximum contaminant level ("MCL") and meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The developer has not completed the final design of the proposed distribution system and therefore has not obtained the Certificate of Approval to Construct from the ADEQ. Staff recommends that the Commission require AWC to provide a copy of the ADEQ Certificate of Approval to Construct within 365 days of any decision in this matter.

Arizona Department of Water Resources Compliance

The Arizona Water Pinetop-Lakeside system is not within any Arizona Department of Water Resources ("ADWR") Active Management Area.

ACC Compliance

A check with the Utilities Division Compliance Section showed a single compliance item related to a decade old conservation report requirement. Conservation reports were to be submitted by AWC to ADWR per a July 16, 1991 order ("Stipulation and Order on Review") of ADWR. Decision No. 58120 required that AWC provide the Director of the Utilities Division copies of the conservation reports that were delivered by AWC to ADWR. In an April 28, 2004 letter to Staff, AWC stated that the ADWR requirement for the conservation reports has expired. Per AWC, these reports are no longer filed with ADWR. Therefore, there are no longer any

reports to provide to the Director of the Utilities Division pursuant to the ADWR conservation report requirement within Decision No. 58120. Staff is currently reviewing this claim.

Proposed Rates

Arizona Water has proposed to extend service to the property at its tariffed rates.

City Permit Franchise

Arizona Water has been authorized the necessary Pinetop-Lakeside Right of Way permit to ensure the Company is able to operate facilities within the public easements.

Recommendations

Staff recommends that the Commission approve the Arizona Water Company application for an extension of its Certificate of Convenience and Necessity in a portion of Navajo County to provide water service, subject to compliance with the following conditions:

1. To require the Arizona Water Company to charge its existing rates and charges in the proposed extension area.
2. To require Arizona Water Company to file, with the Director of the Utilities Division, the Main Extension Agreement associated with the proposed extension area within 365 days of the effective date of any decision in this matter.
3. To require ARIZONA Water Company to file, with the Director of the Utilities Division, a copy of the ADEQ Certificate of Approval to Construct within 365 days of any decision in this matter.

Staff further recommends that the Commission's Decision granting this Extension of its Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet condition numbers 2 and 3 above within the time specified.

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Wells *bw*
Information Technology Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: January 26, 2004

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-04-0013)**

The area requested by Arizona Water for an extension has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached is a copy of the map for your files.

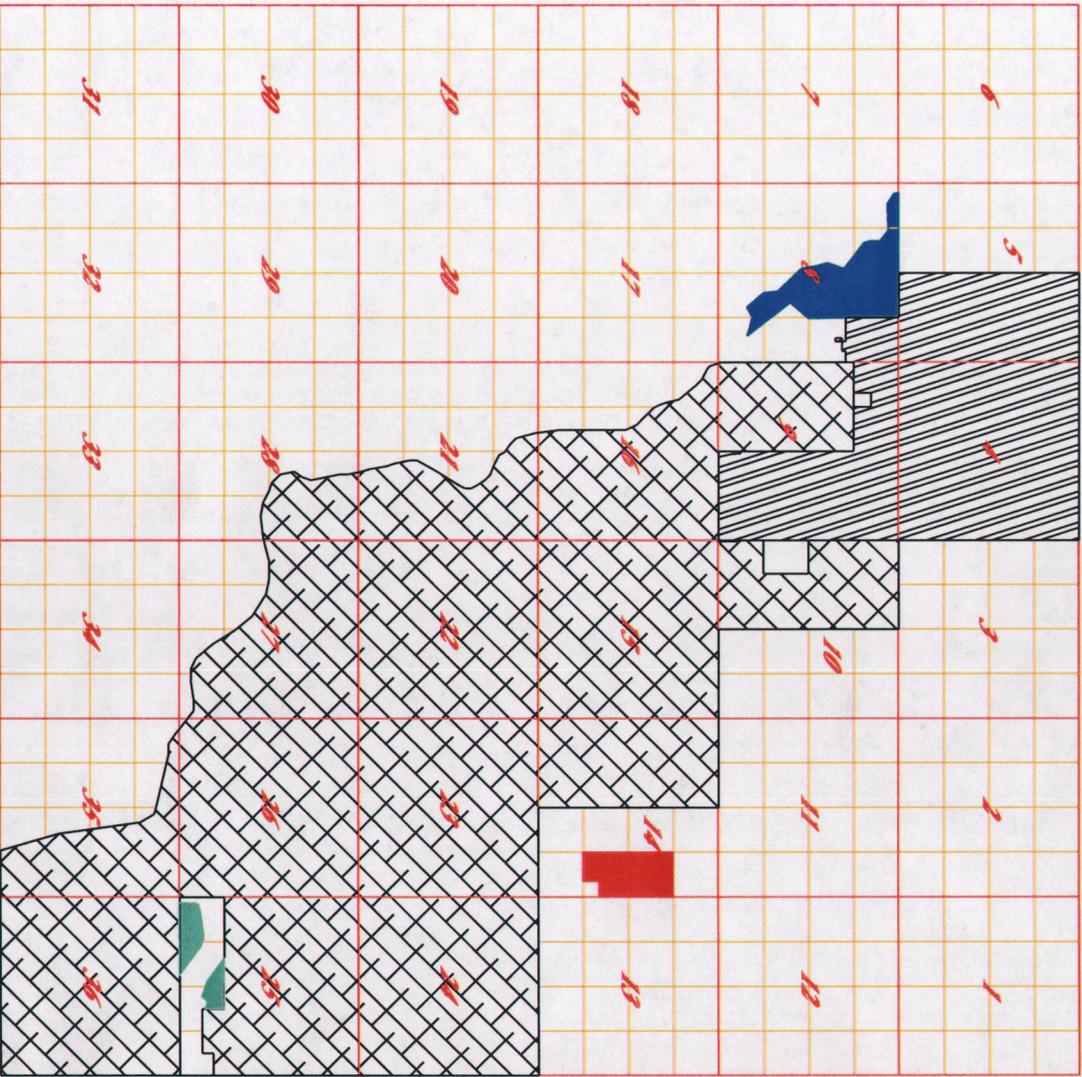
:bsw

Attachments

cc: Docket Control
Mr. Robert Geake
Deb Person (Hand Carried)
File

COUNTY: Navajo

RANGE 22 East



TOWNSHIP 9 North

-  W-1445 (6)(3)
Arizona Water Company (Lakeside)
-  W-1676 (2)
Pine View Land & Water Company
-  (1)
Porter Creek Domestic Water Improvement District (Nonjurisdictional)
- 
Pineview Water Company
Docket No. W-1676-03-254
Application for Extension
- 
Arizona Water Company
Docket No. W-1445-04-013
Application for Extension

EXHIBIT "1"

PARCEL 1

A parcel of land lying in the Southwest quarter of Section 25, Township 9 North, Range 22 East of the Gila and Salt River Base and Meridian, Navajo County, Arizona, and being a part of the unsubdivided areas of WONDERLAND ACRES subdivision as recorded in Book 7, Page 22 of Plats, and filed in the Navajo County Recorder's office and being more particularly described as follows:

Beginning at the South quarter corner of said Section 25;
Thence N25°41'02"E, a distance of 713.03 feet to the corner of Lot 179, said corner being the TRUE POINT OF BEGINNING for this parcel;
Thence N71°04'23"W, a distance of 495.98 feet;
Thence N53°17'24"W, a distance of 866.93 feet;
Thence N89°11'19"E, a distance of 1,500.30 feet;
Thence S01°02'14"E, a distance of 605.30 feet;
Thence N63°45'00"W, a distance of 127.30 feet to a point on a curve;
Thence southwesterly along said curve to the left, having a radius of 121.42 feet, through a central angle of 75°45'23", an arc length of 160.54 feet;
Thence S40°29'37"W, a distance of 85.26 feet to a point on a curve;
Thence southwesterly along said curve to the left, having a radius of 162.55 feet, through a central angle of 22°56'22", an arc length of 65.08 feet to the TRUE POINT OF BEGINNING for this parcel.

PARCEL 2

A parcel of land lying in the Southwest quarter of Section 25, Township 9 North, Range 22 East of the Gila and Salt River Base and Meridian, Navajo County, Arizona, and being a part of the unsubdivided areas of WONDERLAND ACRES subdivision as recorded in Book 7, Page 22 of Plats, and filed in the Navajo County Recorder's office and being more particularly described as follows:

Beginning at the South quarter corner of said Section 25;
Thence S89°27'28"W, along the South line of said Section 25, a distance of 315.76 feet to the TRUE POINT OF BEGINNING for this parcel;
Thence continuing, S89°27'28"W, a distance of 2,157.68 feet;
Thence N00°20'19"W, a distance of 493.41 feet;
Thence N20°17'09"E, a distance of 115.74 feet;
Thence N76°13'11"E, a distance of 246.79 feet;
Thence N82°27'11"E, a distance of 751.35 feet;
Thence S70°28'31"E, a distance of 292.84 feet;
Thence S53°17'24"E, a distance of 1,072.57 feet back to the TRUE POINT OF BEGINNING for this parcel.

MEMORANDUM

DATE April 29, 2004

TO: James E. Fisher

FROM: D. Hains

RE: **Arizona Water Company (Pinetop-Lakeside Service Area) -
Application for an Extension of its Certificate of Convenience &
Necessity To Provide Water Service
Docket No. W-01445A-03-0487**

Introduction

Arizona Water Company ("Arizona Water" or "Company") has applied to extend its Certificate of Convenience and Necessity ("CC&N") to provide water service in its Pinetop-Lakeside service area. The requested area consists of three parcels of land (Parcels 212-29-182B, 212-29-182A and 212-29-181). The requested parcels are in Section 25 of Township 9 North, Range 22 East located northwest of the Town of Pinetop-Lakeside. The requested area would add approximately one-sixteenth square mile to the Company's existing fourteen square mile Pinetop-Lakeside certificated area.

Capacity

In the Pinetop-Lakeside service area, the Company owns and operates a system containing seven wells with a total flow rate of 2,156 gallons per minute and has 3,651,000 gallons of storage capacity. This system is currently serving 4,458 customers and has the capacity to serve an additional 3,058 customers. The Company expects to connect 92 additional customers in the requested area. Staff concludes that the Company has adequate production and storage capacity to serve the requested area.

Arizona Department of Environmental Quality (ADEQ) Compliance

ADEQ regulates the Arizona Water Pinetop-Lakeside system under the ADEQ's Public Water System I.D. # 09-003. ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona

Administrative Code, Title 18, Chapter 4¹.

Arizona Department of Water Resources (“ADWR”) Compliance

The Lakeside system is not within any ADWR Active Management Area, and consequently is not subject to reporting and conservation rules (GPCD requirements). Staff recommends that Arizona Water file with the Commission’s Utilities Division Compliance Section a copy of the developers’ Letter of Adequate Water Supply, where applicable or when required by statute within 365 days of the effective date of the Commission’s decision in this matter.

Construction Cost

According to the Company, approximately 1,180 feet of 8 inch ductile iron pipe will be installed to serve the requested areas at an estimated construction cost of \$49,900 (approximately \$42/ft.) Staff considers this cost estimate reasonable for the scope of work provided.

Other Issues:

I. Arsenic

The U.S. Environmental Protection Agency (“EPA”) has reduced the arsenic maximum contaminant level (“MCL”) in drinking water from 50 micrograms per liter (“µg/l”) to 10 µg/l. The date for compliance with the new MCL is January 23rd, 2006. The most recent lab analysis by the Company indicated that all the Pinetop-Lakeside system wells comply with the new Arsenic MCL standard.

Summary

I. Recommendations:

1. Staff recommends that the approval of this extension be conditioned upon Arizona Water filing with the Commission a copy of the developers’ Letter of Adequate Water Supply, where applicable or when required by statute within 365 days of the effective date of the Commission’s decision in this matter.

II. Conclusions:

¹ ADEQ Compliance Status Report received on January 29, 2004.

1. Staff concludes that the Pinetop-Lakeside system has adequate production and storage capacity to serve existing customers in the CC&N area and new customers in the requested area within a conventional five year planning period. Arizona Water can reasonably be expected to develop additional storage and production if it is required in the future.
2. The most recent lab analysis by the Company indicated that all the Pinetop-Lakeside system wells comply with the new Arsenic MCL standard.
3. ADEQ has determined that the Pinetop-Lakeside system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.