

ORIGINAL



0000017560

MEMORANDUM

30

TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson *EGJ*
Director
Utilities Division

Date: March 25, 2005

RE: STAFF REPORT FOR PALO VERDE UTILITIES COMPANY, L.L.C. AND
SANTA CRUZ WATER COMPANY, L.L.C. – APPLICATION FOR
EXTENSION OF CERTIFICATES OF CONVENIENCE AND NECESSITY
FOR WASTEWATER AND WATER SERVICES (DOCKET NOS. SW-
03575A-04-0767 AND W-03576A-04-0767)

Attached is the Staff Report for Palo Verde Utilities Company, L.L.C. and Santa Cruz Water Company, L.L.C. application for extension of their existing Certificates of Convenience and Necessity for wastewater and water services. Staff is recommending approval with conditions.

EGJ:BNC:red

Originator: Blessing Chukwu

Attachment: Original and 13 Copies

Arizona Corporation Commission
DOCKETED

MAR 25 2005

DOCKETED BY *KS*

AZ CORP COMMISSION
DOCUMENT CONTROL

2005 MAR 25 P 1:46

RECEIVED

Service List for: Palo Verde Utilities Company, L.L.C. and Santa Cruz Water Company, L.L.C.
Docket Nos. SW-03575A-04-0767 and W-03576A-04-0767

Ms. Cindy Liles
Vice President and Chief Financial Officer
Global Water Management
22601 North 19th Avenue, Suite 210
Phoenix, Arizona 85027

Mr. Raymond S. Heyman
Mr. Michael W. Patten
Roshka Heyman & DeWulf, PLC
One Arizona Center Street, Suite 800
Phoenix, Arizona 85004

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

PALO VERDE UTILITIES COMPANY, L.L.C.
AND
SANTA CRUZ WATER COMPANY, L.L.C.

DOCKET NOS. SW-03575A-04-0767
AND
W-03576A-04-0767

APPLICATION FOR EXTENSION
OF EXISTING CERTIFICATES OF
CONVENIENCE AND NECESSITY

MARCH 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Palo Verde Utilities Company, L.L.C. and Santa Cruz Water Company, L.L.C. (Docket Nos. SW-03575A-04-0767 and W-03576A-04-0767) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Companies' application. Dorothy Hains was responsible for the engineering and technical analysis.

A handwritten signature in black ink, appearing to be 'Blessing Chukwu', with a long horizontal line extending to the right.

Blessing Chukwu
Executive Consultant

A handwritten signature in black ink, appearing to be 'Dorothy Hains', written in a cursive style.

Dorothy Hains
Utilities Engineer

EXECUTIVE SUMMARY
PALO VERDE UTILITIES COMPANY, L.L.C. AND
SANTA CRUZ WATER COMPANY, L.L.C.
APPLICATION FOR EXTENSION OF CERTIFICATES OF CONVENIENCE AND
NECESSITY
DOCKET NOS. SW-03575A-04-0767 and W-03576A-04-0767

On October 25, 2004, Palo Verde Utilities Company, L.L.C. ("Palo Verde" or "Wastewater Company") and Santa Cruz Water Company, L.L.C. ("Santa Cruz" or "Water Company") collectively referred to as ("The Utilities") jointly filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of their respective Certificates of Convenience and Necessity ("CC&N") to provide wastewater and water services in portions of Pinal County, Arizona. On February 16, 2005, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of Arizona Administrative Code.

On September 23, 2004, the Commission issued Decision No. 67240, which authorized Palo Verde and Santa Cruz to extend their respective service territories and required compliance with numerous conditions. On January 27, 2005, the Utilities filed documentation to comply with portions of Decision No. 67240.

By this application, Palo Verde and Santa Cruz are seeking Commission authority to extend their service territory to include approximately seven and one-half (7.5) square miles. The proposed extension area is to be developed into several master planned communities comprised of over 17,000 lots.

Based on the present facilities and planned improvements, Staff believes both Palo Verde and Santa Cruz will have adequate production and treatment capacities to serve the requested area. Palo Verde and Santa Cruz are in compliance with the Arizona Department of Environmental Quality, the Commission, and the Arizona Department of Water Resources.

Staff recommends the Commission approve the application jointly filed by Palo Verde and Santa Cruz for an extension of their respective CC&N within portions of Pinal County, Arizona, as amended, to provide wastewater and water services, subject to compliance with the following conditions:

1. To require Santa Cruz to charge its authorized rates and charges in the extension area.
2. To require Santa Cruz to file a copy of the Arizona Department of Environmental Quality ("ADEQ") "Approval To Construct" ("ATC") for the Neely Well Production/Treatment Plant with Docket Control by December 31, 2005.
3. To require Santa Cruz to file a copy of the ATC for the Rancho Mirage Production/Treatment Plants and the Glennwilde Well Production/Treatment Plants with Docket Control by June 30, 2008.

4. To require Santa Cruz to file with Docket Control a copy of the amendment to its existing Designation of Assured Water Supply, stating that there is adequate water supply, where applicable or when required by statute, within a year of the effective date of the final decision and order issued pursuant to this application.
5. To require Santa Cruz to submit its ADEQ Certificate of ATC for arsenic treatment to Docket Control by November 30, 2005.
6. To require Santa Cruz to prepare an amended curtailment tariff to limit delivery to those irrigation customers who use drinking water to perform irrigation purpose during Stage 2, 3 and 4.
7. To require Santa Cruz to file its amended curtailment tariff for Staff's review and approval with Docket Control within thirty days of the effective date of the final decision and order issued pursuant to this application.
8. To require Santa Cruz to take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the three Neely Wells are owned by Santa Cruz, and to submit such to Docket Control within sixty days of the effective date of the decision in this case.
9. To require Santa Cruz to take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the two Glennwilde wells and the two Rancho Mirage wells are owned by Santa Cruz and to submit proof of such to Docket Control within one year of the effective date of the final decision and order issued pursuant to this application.
10. To require Santa Cruz to file a copy of the municipal franchise agreement for the current CC&N and the extension area, with Docket Control within 365 days of the decision in this matter.
11. To require Palo Verde to charge its authorized rates and charges in the extension area.
12. To require Palo Verde to file a copy of the ADEQ Engineering Completion Documents of the 3 MGD plant expansion project with Docket Control by December 31, 2006.
13. To require Palo Verde to file a copy of the amended CAAG Section 208 Plan with Docket Control by December 31, 2005.
14. To require Palo Verde to file a copy of the municipal franchise agreement for the current CC&N and the extension area, with Docket Control within 365 days of the decision in this matter.

Staff further recommends that the Commission's Decision granting the requested CC&N extensions to Palo Verde and Santa Cruz be considered null and void without further order from

the Commission should Palo Verde and Santa Cruz fail to meet Conditions Nos. 2, 3, 4, 5, 7, 8, 9, 10, 12, 13, and 14 listed above within the time specified.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INTRODUCTION | 1 |
| BACKGROUND..... | 1 |
| THE EXTENSION REQUEST | 2 |
| REQUEST FOR SERVICE..... | 3 |
| FINANCE OF UTILITY FACILITIES | 3 |
| THE WATER SYSTEM..... | 4 |
| ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE | 5 |
| ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE | 5 |
| ACC COMPLIANCE..... | 6 |
| ARSENIC..... | 6 |
| CURTAILMENT PLAN TARIFF | 6 |
| THE WASTEWATER SYSTEM..... | 6 |
| CLEAN WATER ACT SECTION 208 PLAN..... | 7 |
| ADEQ COMPLIANCE..... | 7 |
| ACC COMPLIANCE..... | 7 |
| PROPOSED RATES | 7 |
| MUNICIPAL FRANCHISE | 8 |
| RECOMMENDATIONS | 8 |
| WATER SERVICE CC&N EXTENSION | 8 |
| WASTEWATER SERVICE CC&N EXTENSION | 9 |

ATTACHMENT(S)

| | |
|-------------------------|---|
| ENGINEERING REPORT..... | A |
| ENGINEERING MAP | B |

Introduction

On October 25, 2004, Palo Verde Utilities Company, L.L.C. ("Palo Verde" or "Wastewater Company") and Santa Cruz Water Company, L.L.C. ("Santa Cruz" or Water Company") collectively referred to as ("The Utilities") jointly filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of their respective Certificates of Convenience and Necessity ("CC&N") to provide wastewater and water services in portions of Pinal County, Arizona. On November 12, 2004, the Utilities filed an amendment to the application to include an additional parcel of approximately 100 acres.

On November 12, 2004, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that the Utilities' application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-402(C) and R14-2-602(B). A copy of the Insufficiency Letter was sent to the Utilities via U.S mail. In the Letter, Staff listed the deficiencies that need to be cured for administrative purposes.

On December 14 and 21, 2004, January 14 and 25, 2005, and February 14, 2005, the Utilities provided additional documentation to support their relief requested.

On February 16, 2005, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of A.A.C.

Background

Palo Verde and Santa Cruz are Arizona Limited Liability Companies ("LLCs"), in good standing, and engaged in providing wastewater utility service to approximately 3,300 customers and water utility service to approximately 3,400 customers, respectively, in portions of Pinal County, Arizona. The original CC&Ns for the Utilities were granted by the Commission in Decision No. 61943 (September 17, 1999) as Arizona corporations. On October 6, 2003, the Commission issued Decision No. 66394 which approved the transfer of the CC&Ns from the corporations to the LLCs.

The Utilities are wholly-owned subsidiaries of Global Water Resources, LLC ("GWR"). GWR is a utility holding company, formed as an LLC, and is engaged in the business of acquiring utility companies. To date, GWR owns three certificated utility companies in the State of Arizona including Palo Verde, Santa Cruz, and Cave Creek Water Company ("Cave Creek")¹ and acts as the Interim Manager for Sabrosa Water Company ("Sabrosa")². Altogether, GWR's subsidiaries provide utility service to approximately 10,000 customers in Arizona.

¹ Global Water Resources, Inc. ("GWRINC") a wholly-owned subsidiary of GWR, formed to acquire the stock of utility companies that are structured as corporations, purchased Cave Creek on March 3, 2005. Currently, Cave Creek provides water utility service to approximately 2,300 customers in Arizona.

²Pursuant to ACC Decision Nos. 62572 and 63136, the Utilities Division vested with the authority to appoint GWR as interim manager of Sabrosa located in New River, Arizona, entered into an Interim Management Agreement with

On September 23, 2004, the Commission issued Decision No. 67240, which authorized the Utilities to extend their service territories to include approximately 600 acres consistent with the associated conditions required by the Commission. The conditions included, among other things, a requirement for the Utilities to increase their current performance bonds to \$750,000 each, maintain such bonds for a minimum of five years, and to provide evidence on a quarterly basis of the maintenance of the required performance bond by filing of a letter of bond confirmation.

The Commission further required the Utilities to submit quarterly reports documenting compliance with all Arizona Department of Environmental Quality ("ADEQ"), Arizona Department of Water Resources ("ADWR"), and Commission requirements. The Commission also required GWR, the Utilities' parent company, to file an Acquisition Schedule describing each acquisition GWR makes in a utility. The Utilities and GWR were also ordered to notify the Commission of any proposed change in the ownership of their membership interests (including transfer or additional memberships), prior to execution, through filing of a Notice of Intent (which indicates the filing is made pursuant to Decision No. 67240).

On January 27, 2005, the Utilities filed Proof of Performance Bonds ("Proof") in compliance to Decision No. 67240. The Proof included riders increasing the bonds issued by Travelers Casualty and Surety Company of America from \$368,000 to \$750,000 for Palo Verde (Bond No. 104367406) and from \$332,000 to \$750,000 for Santa Cruz (Bond No. 104367407).

A check of the compliance database by the Utilities Division Compliance Section on March 16, 2005, indicated that there are no delinquencies for the Utilities.

The Extension Request

Palo Verde and Santa Cruz are currently certificated by the Commission to provide wastewater and water services to approximately a nine (9) square mile area within the corporate city limits of the City of Maricopa, in northwest Pinal County, Arizona. By this application, the Utilities are seeking Commission authority to extend their service territory to include approximately seven and one-half (7.5) square miles. The requested extension area includes approximately 5,000 acres. Approximately 4,900 acres of the requested extension area is located southeast of the existing CC&N area, whereas, the remaining approximately 100 acres is located southwest of the existing CC&N area.

The proposed extension area is to be developed into several master planned communities comprised of over 17,000 lots.

GWR on January 28, 2005. GWR took over the management of Sabrosa on January 31, 2005. Sabrosa provides water utility service to approximately 68 customers.

Request for Service

Below is a listing of the requesting developer/development and the number of lots to be served:

| <u>Developer/Development</u> | <u>Number of Lots</u> |
|---|------------------------------|
| L&R Contracting, Inc., Trap King, LLP, Sue Flores, Pro Active Remarketing LLC, Sean Aldrous and Guy Gedeon | 322 |
| Cook/El Dorado, L.L.C., Little/El Dorado, L.L.C., And William P. Gore and Margie L. Gore | 2,205 |
| Maricopa – Casa Grande Highway 813, L.C. And Western Pinal Industrial Park, L.C. | 4,322 |
| JNAN, LLC | 2,240 |
| Pitaco Farms Limited Partnership | 2,240 |
| Desert Sunrise, L.L.C. and Maricopa 240, L.L.C. | 1,680 |
| Mace Holdings, L.L.C., Maricopa 32, L.L.C., and Maricopa 400, L.L.C. | 2,240 |
| Kruse Farms | 1,680 |
| Bera Venture, L.L.C., DAC Maricopa Investment, L.L.C., JJD Development L.L.C., Maricopa Investment Group, L.L.C., JACOB/McCASLIN/EDEN, LLC and Mesquite Groves L.L.C. | 322 |

Finance of Utility Facilities

The Utilities indicated in the application and during a telephone conversation with Staff³ that they will finance the required utility facilities through a combination of shareholder equity and advances in aid of construction. Advances in aid of construction are often in the form of Main Extension Agreements (“MXAs”). MXAs are standard industry practice. The minimal acceptable criteria for line extension agreements between water and wastewater utilities and

³ Telephone conversation between the Utilities Representative, Cindy Liles, and Blessing Chukwu on March 18, 2005, at 2:30pm, regarding the financing of the required utility facilities and main extension agreements.

private parties are established by A.A.C. R14-2-406 and 606. These agreements 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 Company, the developer conveys the utility facilities through a warranty deed to the Utility Company. Utility Companies will often refund ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

Santa Cruz has model MXAs that have been reviewed and approved by Staff, which the Company offers to developers requesting service. According to the Company Representative, the MXAs will be executed upon Commission approval of this application.⁴ The model MXAs provide that the utility shall refund seven percent of the gross annual revenue received from associated facilities beginning four (4) years after the facilities are accepted by the utility. The utility will pay the seven (7) percent annual refund to the developer for twenty-two (22) years. This refund provision exceeds the minimum refund standard in the current applicable rule, A.A.C. R14-2-406(D).

Palo Verde has model MXAs that have been reviewed and approved by Staff, which the Company offers to developers requesting service. According to the Company Representative, the MXAs will be executed upon Commission approval of this application.⁵ The wastewater MXAs provide that the utility shall refund two and one-half (2.5) percent of the gross annual revenue received from the associated facilities beginning four (4) years after the facilities are accepted by the utility. The Utility will pay the two and one-half (2.5) percent annual refund to the developer for twenty-two (22) years. The Commission's rule on wastewater MXAs does not currently require a refund of the advance. As such, Palo Verde's refund provision exceeds the minimum refund standard in the current applicable rule.

The Water System

Santa Cruz operates a water system that consists of two drinking water wells (having a combined production rate of 3,150 gallons per minute), two storage tanks (having a combined capacity of 3,000,000 gallons), a booster pump station, two pressure tanks (having a combined capacity of 20,000 gallons) and one irrigation well. Santa Cruz has an existing customer base of approximately 3,400 customers. The Company currently experiences an average monthly growth rate of over 200 new connections and projects growth of more than 17,000 additional connections within the next five years.

Santa Cruz is in the process of reconstructing three irrigation wells (Neely West, Neely East, and Neely North), known herein as the Neely Well Production/Treatment Plant, to meet drinking water well standards. The Company expects these three wells to add additional flow of 6,000 gallons per minute ("GPM") to the system. These three wells are expected to be in service

⁴ Id

⁵ Id

in June of this year. This will give the Company adequate capacity to meet the needs of its existing customer base and growth for approximately three years. Santa Cruz has told Staff that it will acquire four additional wells (the Rancho Mirage wells and Glennwilde wells) upon Commission approval of this application. Although it did not provide any flow data on these wells, Staff believes that Santa Cruz will have adequate production capacity to serve its existing service area and the extension area for the next five year planning horizon once these wells have been added to the system.

Staff recommends that Santa Cruz file a copy of the ADEQ "Approval To Construct" ("ATC") for the Neely Well Production/Treatment Plant with Docket Control by December 31, 2005.

Staff also recommends that Santa Cruz take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the three Neely Wells are owned by Santa Cruz. Staff further recommends that Santa Cruz submit a copy of the corrected ADWR records to Docket Control within sixty days of the effective date of the final decision and order issued pursuant to this application.

Staff, in addition, recommends that Santa Cruz file a copy of the ATC for the Rancho Mirage Production/Treatment Plants and the Glennwilde Well Production/Treatment Plants with Docket Control by June 30, 2008.

Staff also recommends that Santa Cruz take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the two Glennwilde wells and two Rancho Mirage wells are owned by Santa Cruz. Staff further recommends that Santa Cruz submit a copy of the corrected ADWR records to Docket Control within one year of the effective date of the final decision and order issued pursuant to this application.

Arizona Department of Environmental Quality Compliance

The ADEQ regulates the water system under ADEQ Public Water System I.D. No. 11-131. Staff received a compliance status report from ADEQ dated October 15, 2004, in which ADEQ stated that it has determined that Santa Cruz is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources Compliance

There are five (5) Active Management Areas ("AMAs") in Arizona and each has a different goal depending on the water supply need of the area. Santa Cruz is located in the Pinal AMA, as designated by ADWR. The goal of the Pinal AMA is to allow the development of non-irrigation water uses, extend the life of the agricultural economy for as long as feasible, and preserve water supplies for future non-agricultural uses. As a result, Santa Cruz is subject to the reporting and conservation rules of ADWR. ADWR has indicated that Santa Cruz is in compliance with the Pinal AMA requirements.

Staff recommends that Santa Cruz be required to file with Docket Control a copy of the amendment to its existing Designation of Assured Water Supply, stating that there is adequate water supply, where applicable or when required by statute, within a year of the effective date of the final decision and order issued pursuant to this application.

ACC Compliance

According to the Utilities Division Compliance Section, Santa Cruz has no outstanding ACC compliance issues.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g}/\text{l}$ ") or parts per billion ("ppb") to 10 $\mu\text{g}/\text{l}$. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis provided by Santa Cruz indicates that the arsenic levels in both Wells are 10.1 $\mu\text{g}/\text{l}$ and 17.71 $\mu\text{g}/\text{l}$ which are above the new arsenic MCL. Santa Cruz indicated that a blending method will be used to reduce its arsenic level; however Santa Cruz's proposed treatment plan has not been submitted to ADEQ for its review and approval. Therefore, Staff recommends that Santa Cruz submit its ADEQ Certificate of ATC for arsenic treatment to Docket Control by November 30, 2005.

Curtailment Plan Tariff

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

Santa Cruz has an approved curtailment tariff (See Decision No. 66394). During the site inspection, Staff was informed that some manmade lakes were filled by drinking water. According to Santa Cruz, the Company sells drinking water to some of its customers who utilizes the drinking water for commercial large irrigation purposes, such as filling lakes and rivers. Therefore, Staff recommends that Santa Cruz prepare an amended curtailment tariff to limit delivery to those customers during Stage 2, 3, and 4. Staff further recommends that Santa Cruz file its amended curtailment tariff for Staff's review and approval with Docket Control within thirty days of the effective date of the final decision and order issued pursuant to this application.

The Wastewater System

Palo Verde owns and operates an enclosed one million gallons per day ("MGD") sequential batch reactor treatment plant, sand filters, ultra violet disinfection units and an effluent reuse and/or surface water disposal system to serve its existing CC&N area. The existing plant does not have adequate capacity to properly treat wastewater flow from the requested extension area. However, Palo Verde is in the process of expanding the plant's treatment capacity to 3

MGD (Phase II Expansion). Palo Verde indicates that the plant expansion project is scheduled to be completed by the end of December 2005. ADEQ has granted an Aquifer Protection Permit ("APP") that allows Palo Verde to build a 3 MGD treatment plant. Palo Verde states that it will expand its treatment capacity to 9 MGD (Phase III) in the future.

Staff recommends that Palo Verde file a copy of the ADEQ Engineering Completion Documents for the 3 MGD plant expansion project with Docket Control by December 31, 2006.

Clean Water Act Section 208 Plan

Pursuant to Section 208 of the Federal Water Pollution Control Act, the Central Arizona Association of Governments ("CAAG") is the designated water quality planning agency for the requested CC&N extension area. The CAAG has the authority to develop and approve general wastewater plans which include land development policies, service areas, objectives, principles, and standards for local growth and development.

A majority of the requested extension area is located in Palo Verde's existing CAAG Section 208 Plan; however, a portion of the extension area southwest of the current CC&N area (specifically, the Bera Venture, L.L.C., DAC Maricopa Investment, L.L.C., JJD Development L.L.C., Maricopa Investment Group, L.L.C., JACOB/McCASLIN/EDEN, LLC and Mesquite Groves L.L.C. area collectively referred to as ("Bera Venture area")) is excluded. Palo Verde stated that an amended Section 208 Plan had been submitted to the CAAG for review and approval.

Staff recommends that Palo Verde file a copy of the amended Section 208 Plan with Docket Control by December 31, 2005.

ADEQ Compliance

Staff received a compliance status report from ADEQ dated January 10, 2005, in which ADEQ stated that Palo Verde is in total compliance.

ACC Compliance

According to the Utilities Division Compliance Section, Palo Verde has no outstanding ACC compliance issues.

Proposed Rates

Palo Verde and Santa Cruz have proposed to provide utility services to the extension area under their respective authorized rates and charges.

Municipal Franchise

Every applicant for a CC&N and/or CC&N extension is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or permit from the proper authority. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

Palo Verde and Santa Cruz entered into franchise agreements with Pinal County at the time the City of Maricopa was unincorporated. Since the City of Maricopa is now incorporated, this application provides an opportune time for the Utilities to obtain franchise agreements from the City of Maricopa and file with the ACC. Staff recommends that Palo Verde and Santa Cruz be required to file a copy of the municipal franchise agreements from the City of Maricopa pursuant to this application, with Docket Control within 365 days of the decision in this matter.

Recommendations

Water Service CC&N Extension

Staff recommends the Commission approve the Santa Cruz application for an extension of its CC&N within portions of Pinal County, Arizona, as amended, to provide water service, subject to compliance with the following conditions:

1. To require Santa Cruz to charge its authorized rates and charges in the extension area.
2. To require Santa Cruz to file a copy of the Arizona Department of Environmental Quality ("ADEQ") "Approval To Construct" ("ATC") for the Neely Well Production/Treatment Plant with Docket Control by December 31, 2005.
3. To require Santa Cruz to file a copy of the ATC for the Rancho Mirage Production/Treatment Plants and the Glennwilde Well Production/Treatment Plants with Docket Control by June 30, 2008.
4. To require Santa Cruz to file with Docket Control a copy of the amendment to its existing Designation of Assured Water Supply, stating that there is adequate water supply, where applicable or when required by statute, within a year of the effective date of the final decision and order issued pursuant to this application.
5. To require Santa Cruz to submit its ADEQ Certificate of ATC for arsenic treatment to Docket Control by November 30, 2005.
6. To require Santa Cruz to prepare an amended curtailment tariff to limit delivery to those irrigation customers who use drinking water to perform irrigation purpose during Stage 2, 3 and 4.

7. To require Santa Cruz to file its amended curtailment tariff for Staff's review and approval with Docket Control within thirty days of the effective date of the final decision and order issued pursuant to this application.
8. To require Santa Cruz to take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the three Neely Wells are owned by Santa Cruz, and to submit such to Docket Control within sixty days of the effective date of the decision in this case.
9. To require Santa Cruz to take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the two Glennwilde wells and the two Rancho Mirage wells are owned by Santa Cruz and to submit proof of such to Docket Control within one year of the effective date of the final decision and order issued pursuant to this application.
10. To require Santa Cruz to file a copy of the municipal franchise agreement for the current CC&N and the extension area, with Docket Control within 365 days of the decision in this matter.

Staff further recommends that the Commission's Decision granting the requested CC&N extension to Santa Cruz be considered null and void without further order from the Commission should Santa Cruz fail to meet Conditions Nos. 2, 3, 4, 5, 7, 8, 9, and 10 listed above within the time specified.

Wastewater Service CC&N Extension

Staff recommends the Commission approve the Palo Verde application for an extension of its CC&N within portions of Pinal County, Arizona, as amended, to provide wastewater service, subject to compliance with the following conditions:

1. To require Palo Verde to charge its authorized rates and charges in the extension area.
2. To require Palo Verde to file a copy of the ADEQ Engineering Completion Documents of the 3 MGD plant expansion project with Docket Control by December 31, 2006.
3. To require Palo Verde to file a copy of the amended CAAG Section 208 Plan with Docket Control by December 31, 2005.
4. To require Palo Verde to file a copy of the municipal franchise agreement for the current CC&N and the extension area, with Docket Control within 365 days of the decision in this matter.

Staff further recommends that the Commission's Decision granting the requested CC&N extension to Palo Verde be considered null and void without further order from the Commission

Palo Verde Utilities Company, L.L.C. and Santa Cruz Water Company, L.L.C.

Docket Nos. SW- 03575A-04-0767 and W-03576A-04-0767

Page 10

should Palo Verde fail to meet the Conditions Nos. 2, 3, and 4 listed above within the time specified.

MEMORANDUM

DATE March 17, 2005

TO: Blessing Chukwu

FROM: Dorothy Hains

RE: **Water & Wastewater CC&N Extension for Santa Cruz Water & Palo Verde Utilities, LLC**
Docket Nos. W-03576A-04-0767 & SW-03575A-04-0767

I. Introduction

Santa Cruz Water Co. ("Santa Cruz") and Palo Verde Utilities Co. ("Palo Verde") have submitted Certificate of Convenience and Necessity (CC&N) extension applications to provide water and wastewater services near the City of Maricopa in northwest Pinal County. Both Santa Cruz and Palo Verde currently serve nine square mile areas. The requested extension area is approximately seven and one-half square miles in size and southeast of the existing CC&N area.

II. Water System

A. System Analysis

Santa Cruz operates a water system that consists of two drinking water wells (having a combined production rate of 3,150 gallons per minute), two storage tanks (having a combined capacity of 3,000,000 gallons), a booster pump station, two pressure tanks (having a combined capacity of 20,000 gallons) and one irrigation well. Santa Cruz has an existing customer base of approximately 3,365 customers. The Company currently experiences an average monthly growth rate of over 200 new connections and projects growth of more than 17,000 additional connections within the next five years.

Santa Cruz is in the process of reconstructing three irrigation wells (Neely West, Neely East and Neely North), known herein as the Neely Well Production/Treatment Plant, to meet drinking water well standards. The Company expects these three wells to add additional flow of 6,000 gallons per minute ("GPM") to the system. These three wells are expected to be in service in June of this year. This will give the Company adequate capacity to meet the needs of its existing customer base and growth for approximately three years. Santa Cruz has told Staff that it will acquire four additional wells (the Rancho Mirage wells and Glennwilde wells) upon Commission approval of this application. Although it did not provide any flow data on these wells, Staff

believes that Santa Cruz will have adequate production capacity to serve its existing service area and the extension area for the next five year planning horizon once these wells have been added to the system.

Staff recommends that Santa Cruz file a copy of the Arizona Department of Environmental Quality ("ADEQ") "Approval To Construct" ("ATC") for the Neely Well Production/Treatment Plant to Docket Control by December 31, 2005. Staff further recommends that Santa Cruz file a copy of the ATC for the Rancho Mirage and Glennwilde Well Production/Treatment Plant to Docket Control by June 30, 2008.

B. Arizona Department of Environmental Quality ("ADEQ")

Staff received a compliance status report from ADEQ dated October 15, 2004, in which ADEQ stated that it has determined that Santa Cruz is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

C. Arizona Department of Water Resources ("ADWR")

Santa Cruz is located in Pinal Active Management Area ("AMA"), as designated by ADWR. ADWR has indicated that Santa Cruz is in compliance with the Pinal AMA requirements.

D. Arizona Corporation Commission ("ACC")

According to the Utilities Division Compliance Section, Santa Cruz has no outstanding ACC compliance issues.

E. Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") or parts per billion ("ppb") to 10 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis provided by Santa Cruz indicates that the arsenic levels in both Wells are 10.1 $\mu\text{g/l}$ and 17.71 $\mu\text{g/l}$ which are above the new arsenic MCL. Santa Cruz indicated that a blending method will be used to reduce its arsenic level; however Santa Cruz's proposed treatment plan has not been submitted to ADEQ for its review and approval. Therefore, Staff recommends that Santa Cruz submit its ADEQ Certificate of ATC for arsenic treatment to Docket Control by November 30, 2005.

F. Curtailment Tariff

Santa Cruz has an approved curtailment tariff (See Decision No. 66394). During the site inspection, Staff was informed that some manmade lakes were filled by

drinking water. According to Santa Cruz, the Company sells drinking water to some of its customers who utilizes the drinking water for commercial large irrigation purposes, such as filling lakes and rivers. Therefore, Staff recommends that Santa Cruz prepare an amended curtailment tariff to limit delivery to those customers during Stage 2, 3, and 4. Staff further recommends that Santa Cruz file its amended curtailment tariff for staff's review and approval with Docket Control within thirty days of the effective date of the final decision and order issued pursuant to this application.

G. Neely Wells, Glennwilde Wells and Rancho Mirage Wells

1. Staff recommends that Santa Cruz take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the Neely Wells are owned by Santa Cruz. Staff further recommends that Santa Cruz submit a copy of the corrected ADWR records to Docket Control within sixty days of the effective date of the final decision and order issued pursuant to this application.
2. Staff recommends that Santa Cruz take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the Glennwilde wells and Rancho Mirage wells are owned by Santa Cruz. Staff further recommends that Santa Cruz submit a copy of the corrected ADWR records to Docket Control within one year of the effective date of the final decision and order issued pursuant to this application.

III. Wastewater System

A. Wastewater System

Palo Verde owns and operates an enclosed one million gallons per day ("MGD") sequential batch reactor treatment plant, sand filters, ultra violet disinfection units and an effluent reuse and/or surface water disposal system to serve its existing CC&N area. The existing plant does not have adequate capacity to properly treat wastewater flow from the requested extension area. However, Palo Verde is in the process of expanding the plant's treatment capacity to 3 MGD (Phase II Expansion). Palo Verde indicates that the plant expansion project is scheduled to be completed by the end of December 2005. ADEQ has granted an Aquifer Protection Permit ("APP") that allows Palo Verde to build a 3 MGD treatment plant. Palo Verde states that it will expand its treatment capacity to 9 MGD (Phase III) in the future. Staff recommends that Palo Verde file a copy of the ADEQ Engineering Completion Documents for the 3 MGD plant expansion project to Docket Control by December 31, 2006.

B. Clean Water Act Section 208 Plan

A majority of the requested extension area is located in Palo Verde's existing Section 208 Plan; however, a portion of the extension area near the City of Maricopa (specifically, the Bera Venture area) is excluded. Palo Verde stated that an amended Section 208 Plan had been submitted to the Central Arizona Associated Government ("CAAG") for review and approval. Staff recommends that Palo Verde file a copy of the amended Section 208 Plan to Docket Control by December 31, 2005.

C. ADEQ Compliance

Staff received a compliance status report from ADEQ dated January 10, 2005, in which ADEQ stated that Palo Verde is in total compliance.

D. ACC Compliance

According to the Utilities Division Compliance Section, Palo Verde has no outstanding ACC compliance issues.

Summary

I. Conclusions

1. Staff concludes that both Santa Cruz and Palo Verde are in compliance with ADEQ's regulation.
2. Staff concludes that Santa Cruz is in compliance with ADWR Pinal AMA monitoring and reporting program.
3. When the plant improvements discussed herein are completed, Staff believes both Santa Cruz and Palo Verde will have adequate production and treatment capacities to serve the requested area.

II. Recommendations

1. Staff recommends that Santa Cruz file a copy of the Arizona Department of Environmental Quality ("ADEQ") "Approval to Construct" ("ATC") for the Neely Well Production/Treatment Plant to Docket Control by December 31, 2005.
2. Staff further recommends that Santa Cruz file a copy of the ATC for the Rancho Mirage Well Production/Treatment Plant and Glennwilde Well Production/Treatment Plant to Docket Control by June 30, 2008.

3. Staff recommends that the Company file with the Commission a copy of the amendment to its existing Designation of Assured Water Supply, stating that there is adequate water supply, where applicable or when required by statute, to Docket Control within a year of the effective date of the final decision and order issued pursuant to this application.

4. Staff recommends that Santa Cruz submit its ADEQ Certificate of ATC for arsenic treatment to Docket Control by November 30, 2005.

5. Staff recommends that Santa Cruz prepare an amended curtailment tariff to limit delivery to those irrigation customers who use drinking water to perform irrigation purpose during Stage 2, 3 and 4.

6. Staff further recommends that Santa Cruz file its amended curtailment tariff for staff's review and approval with Docket Control within thirty days of the effective date of the final decision and order issued pursuant to this application.

7. Staff recommends that Santa Cruz take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the three Neely Wells are owned by Santa Cruz, and submit such to Docket Control within sixty days of the effective date of the decision in this case.

8. Staff recommends that Santa Cruz take appropriate action so that the necessary corrections to ADWR registration records are made to indicate that the Glennwilde wells and the Rancho Mirage wells are owned by Santa Cruz and submit proof of such to Docket Control within one year of the effective date of the final decision and order issued pursuant to this application.

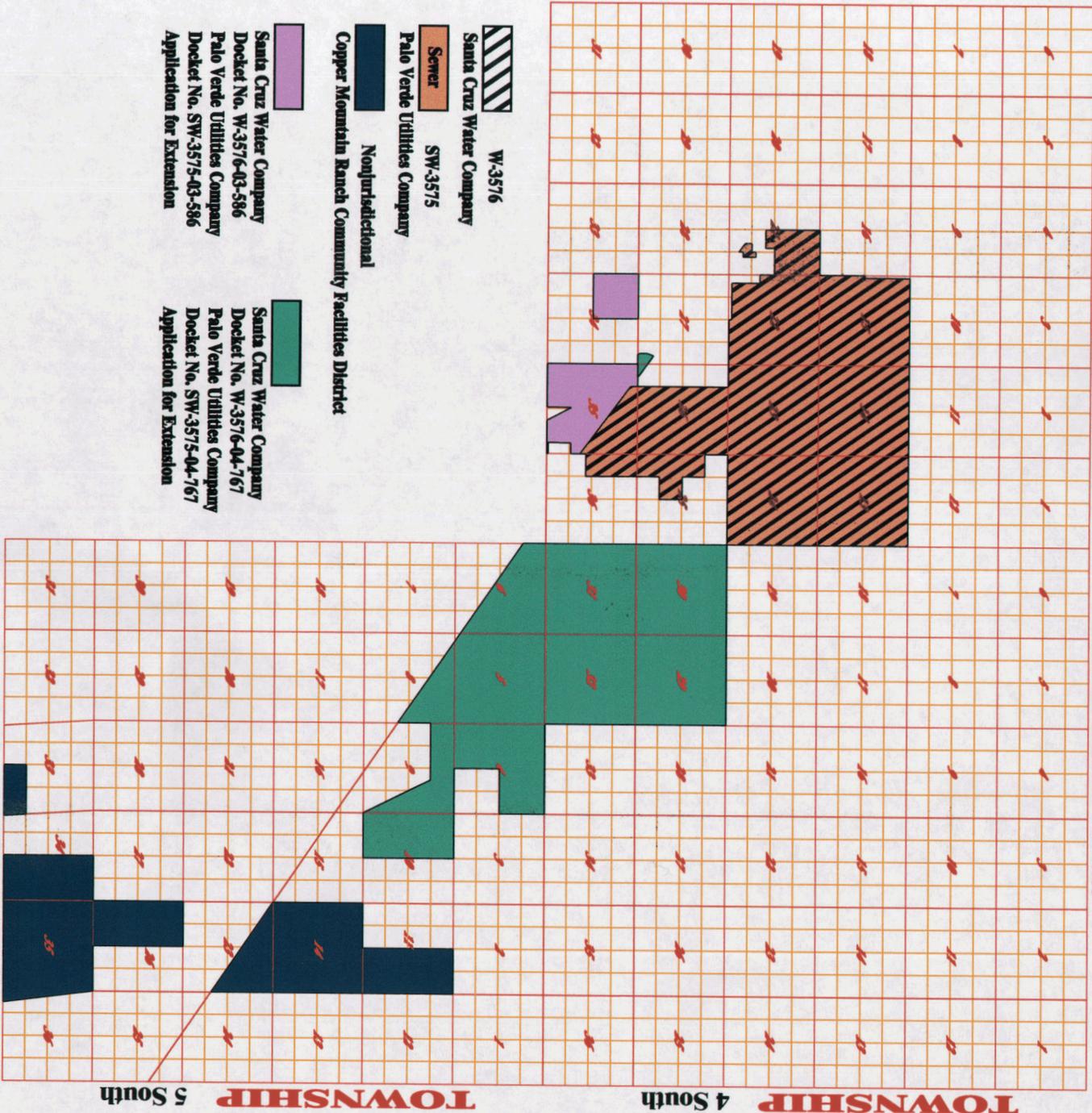
9. Staff recommends that Palo Verde file a copy of the ADEQ Engineering Completion Documents of the 3 MGD plant expansion project to Docket Control by December 31, 2006.

10. Staff recommends that Palo Verde file a copy of the amended Section 208 Plan to Docket Control by December 31, 2005.

COUNTY: Pinal

RANGE 3 East

RANGE 4 East



W-3576

Santa Cruz Water Company



SW-3575

Pale Verde Utilities Company



Nonjurisdictional

Copper Mountain Ranch Community Facilities District



Santa Cruz Water Company
Docket No. W-3576-03-586
Pale Verde Utilities Company
Docket No. SW-3575-03-586
Application for Extension



Santa Cruz Water Company
Docket No. W-3576-04-767
Pale Verde Utilities Company
Docket No. SW-3575-04-767
Application for Extension

TOWNSHIP 4 South

TOWNSHIP 5 South

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: November 29, 2004

RE: **AMENDED LEGAL DESCRIPTION**
SANTA CRUZ WATER COMPANY (DOCKET NO. W-03576A-04-0767)
PALO VERDE UTILITIES COMPANY (DOCKET NO. SW-03575A-04-0767)

Santa Cruz and Palo Verde have filed an amended legal description to include a parcel that was inadvertently left out of the original application. The correct legal description (in its entirety) is attached and should be used in place of the original description submitted with the application.

Also attached is a copy of the map which shows the additional parcel for your files. The two maps that show the original area are attached to my memo dated November 3, 2004.

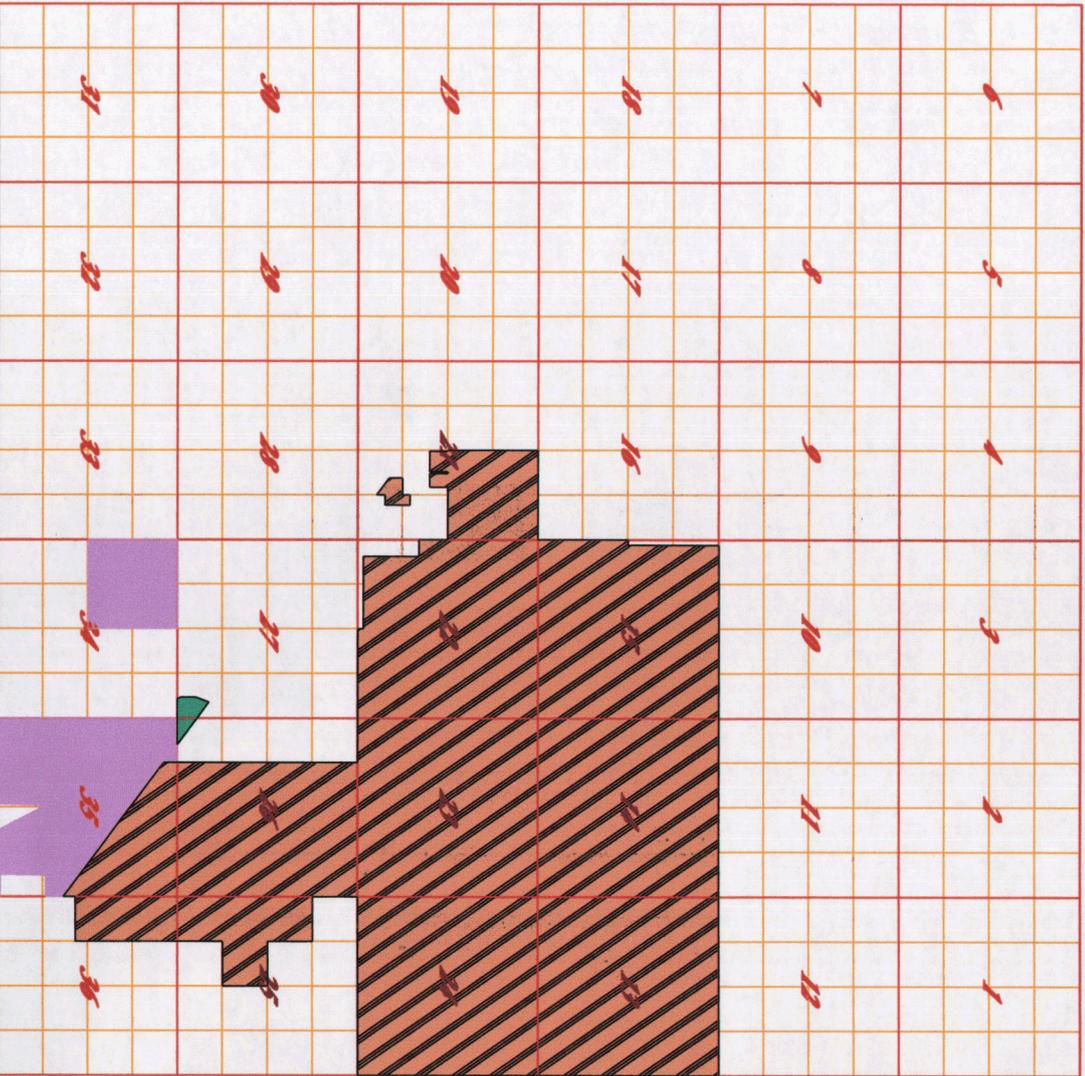
:bsw

Attachments

cc: Docket Control
Ms. Cindy Liles
Deb Person (Hand Carried)
File

COUNTY: Pinal

RANGE 3 East



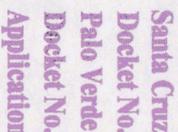
TOWNSHIP 4 South

 W-3576 (1)
Santa Cruz Water Company

 Sewer SW-3575 (1)
Palo Verde Utilities Company





 Santa Cruz Water Company
Docket No. W-3576-03-586
Palo Verde Utilities Company
Docket No. SW-3575-03-586
Application for Extension

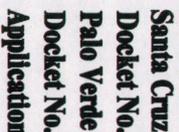
 Santa Cruz Water Company
Docket No. W-3576-04-767
Palo Verde Utilities Company
Docket No. SW-3575-04-767
Application for Extension

EXHIBIT "3"
(AMENDED)
LEGAL DESCRIPTION

LEGAL DESCRIPTION FOR PORTION OF EXPANSION EAST OF CURRENT SERVICE AREA:

COMMENCING AT THE NORTHWEST CORNER OF SECTION 30, TOWNSHIP 4 SOUTH, RANGE 4 EAST, GILA & SALT RIVER BASE & MERIDIAN, PINAL COUNTY, ARIZONA, SAID NORTHWEST CORNER OF SAID SECTION 30 BEING THE TRUE POINT OF BEGINNING;

THENCE EASTERLY ALONG THE NORTH LINE OF SAID SECTION 30 AND CONTINUING EASTERLY ALONG THE NORTH LINE OF SECTION 29, TOWNSHIP 4 SOUTH, RANGE 4 EAST, TO THE NORTHEAST CORNER OF SAID SECTION 29;

THENCE SOUTHERLY ALONG THE EASTERLY LINES OF SAID SECTION 29 AND SECTION 32, TOWNSHIP 4 SOUTH, RANGE 4 EAST, TO THE SOUTHEASTERLY CORNER OF SAID SECTION 32;

THENCE EASTERLY ALONG THE NORTH LINE OF SECTION 4, TOWNSHIP 5 SOUTH, RANGE 4 EAST, TO THE NORTHEAST CORNER OF SAID SECTION 4;

THENCE SOUTHERLY ALONG THE EASTERLY LINE OF SAID SECTION 4 TO THE EAST QUARTER CORNER THEREOF;

THENCE WESTERLY ALONG THE EAST-WEST MIDSECTION LINE OF SAID SECTION 4 TO THE CENTER OF SAID SECTION 4;

THENCE SOUTHERLY ALONG THE NORTH-SOUTH MIDSECTION LINE OF SAID SECTION 4 TO THE SOUTH QUARTER CORNER THEREOF;

THENCE EASTERLY ALONG THE COMMON EAST-WEST SECTION LINE BETWEEN SAID SECTION 4 AND SECTION 9, TOWNSHIP 5 SOUTH, RANGE 4 EAST TO THE SOUTHEASTERLY CORNER OF SAID SECTION 4;

THENCE CONTINUING EASTERLY ALONG THE NORTH LINE OF SECTION 10, TOWNSHIP 5 SOUTH, RANGE 4 EAST TO THE NORTH QUARTER CORNER OF SAID SECTION 10;

THENCE SOUTHERLY ALONG THE NORTH-SOUTH MIDSECTION LINE OF SAID SECTION 10 TO THE SOUTH QUARTER CORNER OF SAID SECTION 10;

THENCE WESTERLY ALONG THE SOUTH LINE OF SAID SECTION 10 TO THE SOUTHWEST CORNER OF SAID SECTION 10;

THENCE NORTHWESTERLY ALONG A LINE DESCRIBED AS FOLLOWS:
BEGINNING AT THE COMMON SOUTHERLY SECTION CORNER BETWEEN
THE AFOREMENTIONED SECTIONS 9 AND 10, THENCE NORTHWESTERLY
ON A LINE TOWARDS THE NORTH QUARTER CORNER OF SAID SECTION 9
TO A POINT, SAID POINT BEING DESCRIBED AS THE INTERSECTION OF SAID
NORTHWESTERLY LINE AND AN EAST-WEST LINE LYING 1397.53 FEET
SOUTH, AND PARALLEL TO THE NORTH LINE OF SAID SECTION 9;

THENCE WESTERLY ALONG THE LINE WHICH LIES 1397.53 FEET
SOUTHERLY OF THE NORTH LINE OF SECTION 9 TO THE WEST LINE OF
SAID SECTION 9;

THENCE SOUTHERLY ALONG THE WEST LINE OF SAID SECTION 9 TO THE
INTERSECTION OF THE WEST LINE OF SAID SECTION 9 AND THE
NORTHERLY RIGHT-OF-WAY LINE OF THE UNION PACIFIC RAILROAD;

THENCE NORTHWESTERLY ALONG THE UNION PACIFIC RAILROAD RIGHT-
OF-WAY TO THE INTERSECTION OF SAID RAILROAD RIGHT-OF-WAY AND
THE WEST LINE OF SECTION 6, TOWNSHIP 5 SOUTH, RANGE 4 EAST;

THENCE NORTHERLY ALONG THE WEST LINE OF SAID SECTION 6 TO THE
NORTHWEST CORNER THEREOF;

THENCE CONTINUING NORTHERLY ALONG THE WEST LINES OF SECTIONS
31 AND 30, TOWNSHIP 4 SOUTH, RANGE 4 EAST, TO THE NORTHWEST
CORNER OF SAID SECTION 30 AND THE TRUE POINT OF BEGINNING.

**LEGAL DESCRIPTION FOR PORTION OF EXPANSION SOUTH OF THE
UNION PACIFIC RAILROAD:**

**Lots 1 through 3, inclusive, Block 43, and Lots 1 through 8, inclusive, Block 45,
MARICOPA TOWNSITE, according to the plat of record in the office of the
County Recorder of Pinal County, Arizona, recorded in Book 3 of Maps, Page 6;**

**EXCEPT all of Lot 2, and a portion of Lots 1 and 3, Block 45, MARICOPA
TOWNSITE, according to the plat of record in the office of the County Recorder of
Pinal County, Arizona, recorded in Book 3 of Maps, Page 6, a subdivision located in
Section 26 and 27, Township 4 South, Range 3 East, of the Gila and Salt River Base
and Meridian, Pinal County, Arizona, more particularly described as follows;**

**Commencing at the South quarter corner of said Section 26, from which the
Southwest corner of Section 26 bears South 89 degrees 05 minutes 38 seconds West,
a distance of 2635.13 feet;**

**thence South 89 degrees 05 minutes 38 seconds West along the South line of the
Southwest quarter of said section 26, to the intersection of the South line of the**

Southwest quarter of said Section 26 with the Southerly right-of-way line of the Southern Pacific Railroad, a distance of 1811.49 feet;

thence North 53 degrees 52 minutes 12 seconds West along said Southerly right-of-way line to a point 30 feet North of the South line of the Southwest quarter of Section 26, a distance of 49.81 feet and the POINT OF BEGINNING;

thence South 89 degrees 05 minutes 38 seconds West and parallel with the South line of the Southwest quarter of Section 26 to a point on the East line of the Southeast quarter of said Section 27 that bears North 00 degrees 03 minutes 29 seconds East a distance of 30.00 feet from the Southeast corner of said Section 27, a distance of 783.38 feet;

thence South 89 degrees 05 minutes 38 seconds West and parallel with the South line of the Southwest quarter of Section 26, a distance of 0.23 feet;

thence North 89 degrees 51 minutes 46 seconds West and parallel with the South line of the Southeast quarter of Section 27, a distance of 569.55 feet;

thence North 24 degrees 43 minutes 54 seconds West along the West line of the Santa Rosa Wash Easement recorded in Fee number 2003-008603, a distance of 121.99 feet;

thence North 00 degrees 47 minutes 54 seconds West along the West line of said easement, a distance of 428.42 feet;

thence North 20 degrees 03 minutes 27 seconds East along the West line of said easement, to the intersection of the West line of said easement with the Southerly right-of-way line of the Southern Pacific Railroad, a distance of 421.29 feet;

thence South 53 degrees 52 minutes 12 seconds East along the Southerly right-of-way line of the Southern Pacific Railroad to the intersection of said Southerly right-of-way line with the East line of the Southeast quarter of said Section 27, a distance of 597.88 feet;

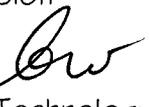
thence South 53 degrees 52 minutes 12 seconds East along said Southerly right-of-way line, a distance of 969.05 feet to the POINT OF BEGINNING; and

EXCEPT all oil, gas and other mineral rights as reserved in instrument recorded in Docket 15, Page 66, records of Pinal County, Arizona.

CC&N EXPANSION CONTAINS 5,000 ACRES, MORE OR LESS.

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: November 3, 2004

RE: **SANTA CRUZ WATER COMPANY (DOCKET NO. W-03576A-04-0767)**
PALO VERDE UTILITIES COMPANY (DOCKET NO. SW-03575A-04-0767)

The area requested by Santa Cruz and Palo Verde 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 are copies of the maps for your files.

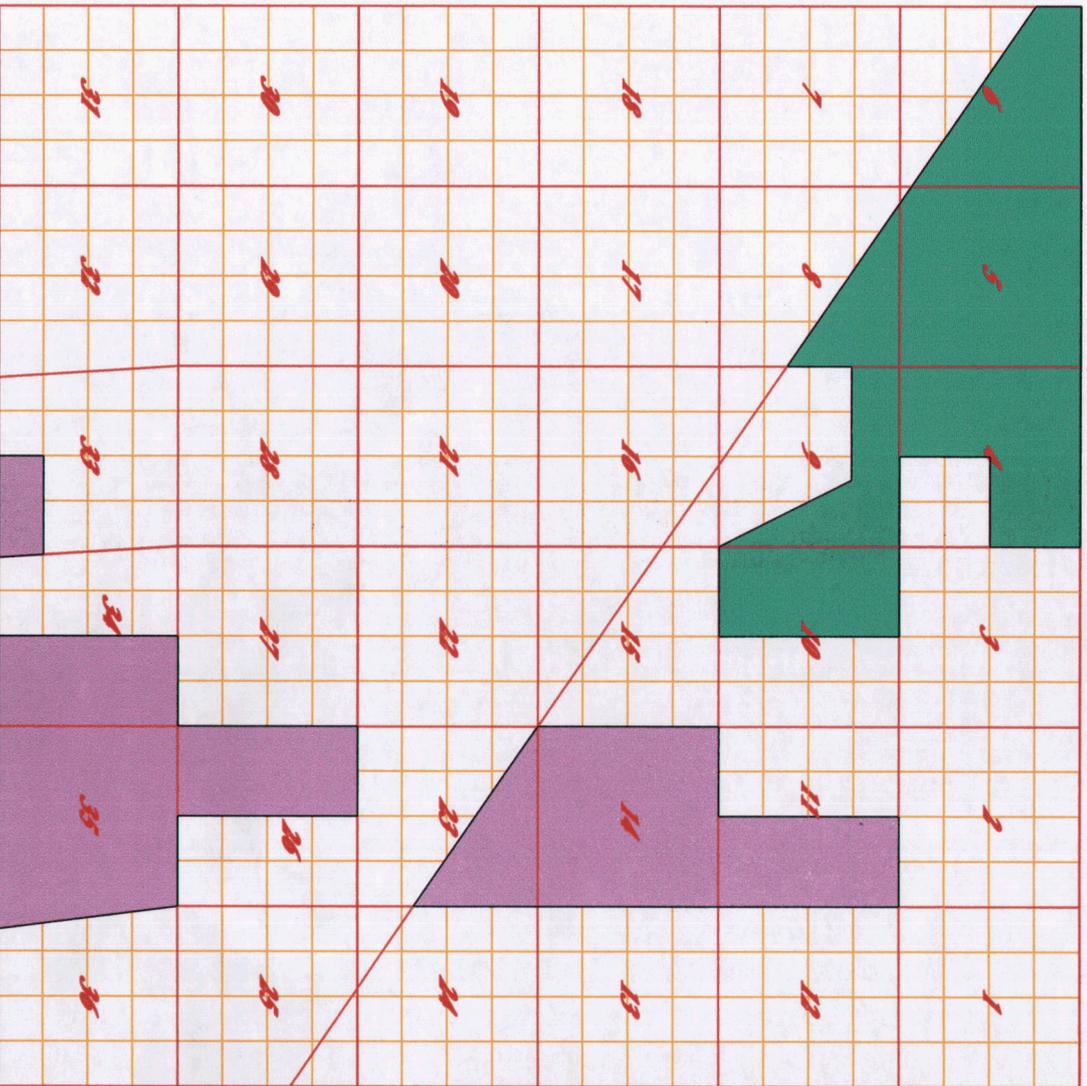
:bsw

Attachments

cc: Docket Control
Ms. Cindy Liles
Ms. Deb Person (Hand Carried)
File

COUNTY: Pinal

RANGE 4 East



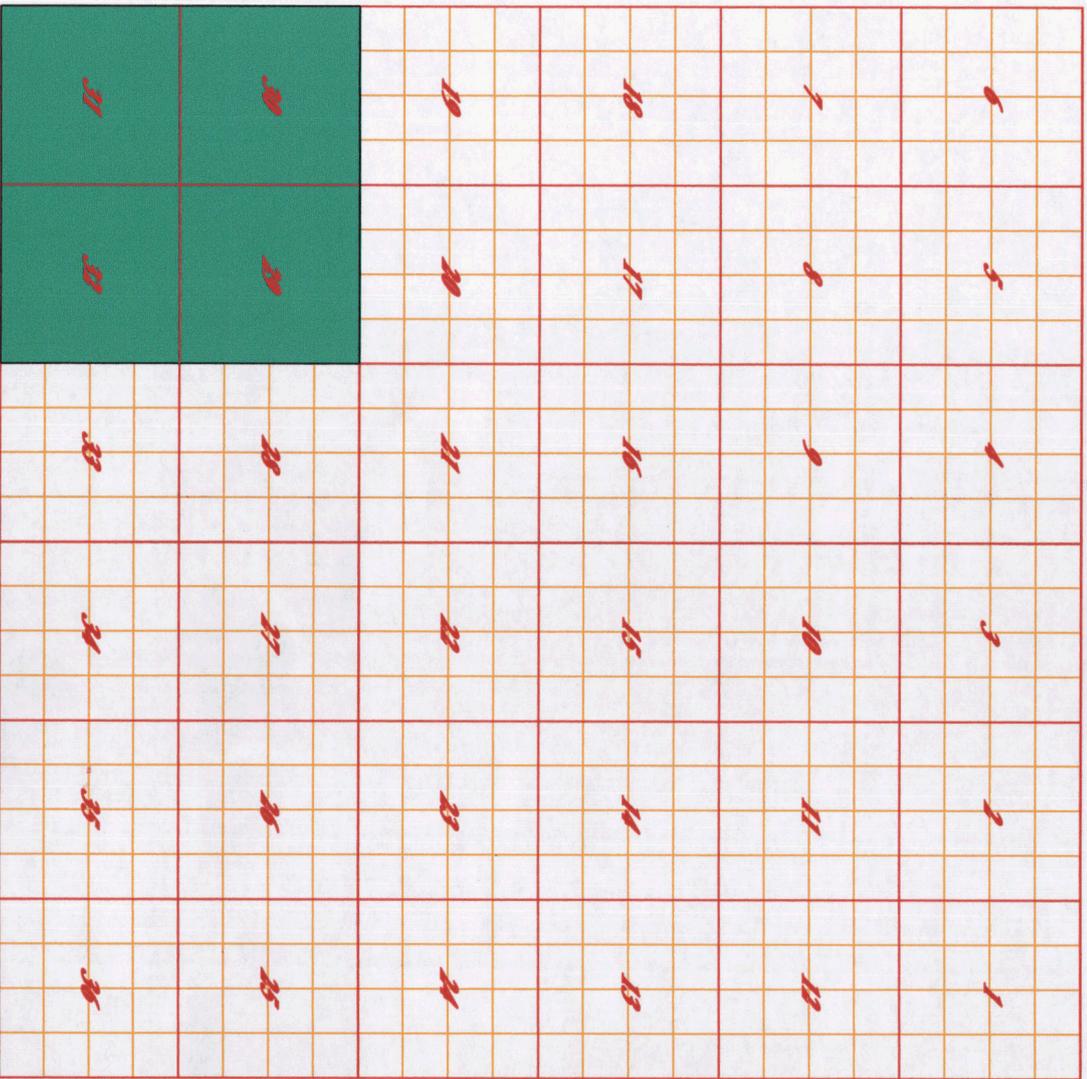
TOWNSHIP 5 South

 Nonjurisdictional (2)
Copper Mountain Ranch Community Facilities District

 W-3576
Santa Cruz Water Company
Docket No. W-3576-04-767
Palo Verde Utilities Company
Docket No. SW-3575-04-767
Application for Extension

COUNTY: Pinal

RANGE 4 East



TOWNSHIP 4 South

W-3576

Santa Cruz Water Company
Docket No. W-3576-04-767
Palo Verde Utilities Company
Docket No. SW-3575-04-767
Application for Extension

EXHIBIT "3"
LEGAL DESCRIPTION

COMMENCING AT THE NORTHWEST CORNER OF SECTION 30, TOWNSHIP 4 SOUTH, RANGE 4 EAST, GILA & SALT RIVER BASE & MERIDIAN, PINAL COUNTY, ARIZONA, SAID NORTHWEST CORNER OF SAID SECTION 30 BEING THE TRUE POINT OF BEGINNING;

THENCE EASTERLY ALONG THE NORTH LINE OF SAID SECTION 30 AND CONTINUING EASTERLY ALONG THE NORTH LINE OF SECTION 29, TOWNSHIP 4 SOUTH, RANGE 4 EAST, TO THE NORTHEAST CORNER OF SAID SECTION 29;

THENCE SOUTHERLY ALONG THE EASTERLY LINES OF SAID SECTION 29 AND SECTION 32, TOWNSHIP 4 SOUTH, RANGE 4 EAST, TO THE SOUTHEASTERLY CORNER OF SAID SECTION 32;

THENCE EASTERLY ALONG THE NORTH LINE OF SECTION 4, TOWNSHIP 5 SOUTH, RANGE 4 EAST, TO THE NORTHEAST CORNER OF SAID SECTION 4;

THENCE SOUTHERLY ALONG THE EASTERLY LINE OF SAID SECTION 4 TO THE EAST QUARTER CORNER THEREOF;

THENCE WESTERLY ALONG THE EAST-WEST MIDSECTION LINE OF SAID SECTION 4 TO THE CENTER OF SAID SECTION 4;

THENCE SOUTHERLY ALONG THE NORTH-SOUTH MIDSECTION LINE OF SAID SECTION 4 TO THE SOUTH QUARTER CORNER THEREOF;

THENCE EASTERLY ALONG THE COMMON EAST-WEST SECTION LINE BETWEEN SAID SECTION 4 AND SECTION 9, TOWNSHIP 5 SOUTH, RANGE 4 EAST TO THE SOUTHEASTERLY CORNER OF SAID SECTION 4;

THENCE CONTINUING EASTERLY ALONG THE NORTH LINE OF SECTION 10, TOWNSHIP 5 SOUTH, RANGE 4 EAST TO THE NORTH QUARTER CORNER OF SAID SECTION 10;

THENCE SOUTHERLY ALONG THE NORTH-SOUTH MIDSECTION LINE OF SAID SECTION 10 TO THE SOUTH QUARTER CORNER OF SAID SECTION 10;

THENCE WESTERLY ALONG THE SOUTH LINE OF SAID SECTION 10 TO THE SOUTHWEST CORNER OF SAID SECTION 10;

THENCE NORTHWESTERLY ALONG A LINE DESCRIBED AS FOLLOWS: BEGINNING AT THE COMMON SOUTHERLY SECTION CORNER BETWEEN THE AFOREMENTIONED SECTIONS 9 AND 10, THENCE NORTHWESTERLY ON A LINE TOWARDS THE NORTH QUARTER CORNER OF SAID SECTION 9 TO A POINT, SAID POINT BEING DESCRIBED AS THE INTERSECTION OF SAID NORTHWESTERLY LINE AND AN EAST-WEST LINE LYING 1397.53 FEET SOUTH, AND PARALLEL TO THE NORTH LINE OF SAID SECTION 9;

THENCE WESTERLY ALONG THE LINE WHICH LIES 1397.53 FEET SOUTHERLY OF THE NORTH LINE OF SECTION 9 TO THE WEST LINE OF SAID SECTION 9;

THENCE SOUTHERLY ALONG THE WEST LINE OF SAID SECTION 9 TO THE INTERSECTION OF THE WEST LINE OF SAID SECTION 9 AND THE NORTHERLY RIGHT-OF-WAY LINE OF THE UNION PACIFIC RAILROAD;

THENCE NORTHWESTERLY ALONG THE UNION PACIFIC RAILROAD RIGHT-OF-WAY TO THE INTERSECTION OF SAID RAILROAD RIGHT-OF-WAY AND THE WEST LINE OF SECTION 6, TOWNSHIP 5 SOUTH, RANGE 4 EAST;

THENCE NORTHERLY ALONG THE WEST LINE OF SAID SECTION 6 TO THE NORTHWEST CORNER THEREOF;

THENCE CONTINUING NORTHERLY ALONG THE WEST LINES OF SECTIONS 31 AND 30, TOWNSHIP 4 SOUTH, RANGE 4 EAST, TO THE NORTHWEST CORNER OF SAID SECTION 30 AND THE TRUE POINT OF BEGINNING.

CC&N EXPANSION CONTAINS 4900 ACRES, MORE OR LESS.

