ORIGINAL

MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: March 3, 2005

Arizona Corporation Commission
DOCKETED
MAR - 3 2005
DOCKETED BY

RE: STAFF REPORT FOR WOODRUFF WATER COMPANY, INC. AND WOODRUFF UTILITY COMPANY, INC., APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER AND WASTEWATER SERVICE TO A PORTION OF PINAL COUNTY (DOCKET NOS. W-04264A-04-0438 AND SW-04265A-04-0439)

ARIZONA WATER COMPANY, INC., - APPLICATION FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER SERVICE IN PINAL COUNTY, ARIZONA (DOCKET NO. W-01445A-04-0755)

Attached is the Staff Report for Woodruff Water Company, Inc., and Woodruff Utility Company for a Certificate of Convenience and Necessity ("CC&N") in Pinal County. Attached is the Staff Report for Arizona Water Company, Inc. for a CC&N extension. Staff recommends the Commission approve the application for a CC&N for Woodruff and Arizona Water with conditions.

EGJ:JEF:red

Originator: Jim Fisher

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Service List for: Woodruff Water Company, Inc. et al
Docket No. W-04264A-04-0438 et al

Mr. Jeffrey W. Crockett
One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004

Mr. Marvin S. Cohen
Sacks Tierney, P.A.
4250 North Drinkwater Boulevard
Floor
Scottsdale, Arizona 85251

Mr. Karl Polen, Jr.
Vice President
Woodruff Water Company
2555 East Camelback Road, Suite 700
Phoenix, Arizona 85016

Mr. Steven A. Hirsch
Bryan Cave, LLP
Two North Central
Suite 2200
Phoenix, Arizona 85004

Mr. Robert W. Geake
Arizona Water Company
Post Office Box 29006
Phoenix, Arizona 85038

Mr. Denis Fitzgibbons
Coolidge City Attorney
711 East Cottonwood
Suite E
Coolidge, Arizona 85230

Mr. K. Scott McCoy
Casa Grande City Attorney
510 East Florence Boulevard
Casa Grande, Arizona 85222

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

WOODRUFF WATER COMPANY, INC.
WOODRUFF UTILITY COMPANY, INC.
AND
ARIZONA WATER COMPANY

DOCKET NOS W-04264A-04-0438,
SW-04265A-04-0439 AND
W-01445A-04-0755

APPLICATION FOR A
CERTIFICATE OF CONVENIENCE
AND NECESSITY

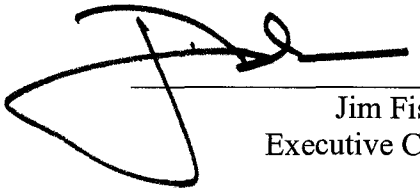
AND

APPLICATION FOR AN
EXTENSION OF ITS CERTIFICATE
OF CONVENIENCE
AND NECESSITY

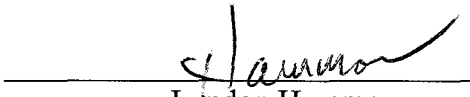
MARCH 2005

STAFF ACKNOWLEDGMENT

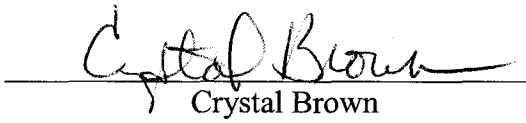
The Staff Report for Woodruff Water Company, Inc., Woodruff Utilities Company, Inc., and Arizona Water Company (Docket Nos. W-04264A-04-0438, SW-04265A-04-0439 and W-01445A-04-0755) was the responsibility of the Staff members signed below. Jim Fisher was responsible for the review and analysis of the Company's application. Lyndon Hammon was responsible for the engineering and technical analysis. Crystal Brown was responsible for the review and recommendation on rate base and usage rates.



Jim Fisher
Executive Consultant



Lyndon Hammon
Utilities Engineer



Crystal Brown
Public Utilities Analyst V

EXECUTIVE SUMMARY
WOODRUFF WATER COMPANY, INC, ET AL
AND ARIZONA WATER COMPANY, INC.
APPLICATION FOR A CC&N
DOCKET NOS. W-04264A-04-0438 ET AL

On June 10, 2004, Woodruff Water Company, Inc., ("Woodruff Water") and Woodruff Utility Company, Inc. ("Woodruff Sewer"), (collectively "Woodruff") filed applications for a Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "Commission") to provide water and wastewater services to a portion of Pinal County. On October 7, 2004, the Commission's Utilities Division Staff ("Staff") informed Woodruff the applications were sufficient for administrative purposes. A hearing was set for November.

On October 19, 2004, Arizona Water Company, ("Arizona Water" or "AWC") filed an application to extend its CC&N for water service to include the area sought by Woodruff and an adjacent parcel for an unrelated development. On January 20, 2005, Staff informed AWC that its application was sufficient for administrative purposes.

The Commission has long supported financially viable, interconnected utilities operating for long term compliance with the states water policy goals. Staff supports regional planning for water and wastewater to ensure an economy of scale for both services. Staff recognizes integrated utilities provide enhanced services to work in conjunction with public policy goals of clean water, use of reclaimed water for turf facilities and recharge of the aquifer.

Woodruff will be a financially viable, interconnected utility operating for long term compliance with the state's water and wastewater policy goals. Woodruff has demonstrated that it will ensure wastewaters are treated in conformance with the Clean Water Act as well as deliver potable water consistent with the Commission rules and policy goals. Woodruff is not precluded from entering into service arrangements with Arizona Water to obtain back-up resources and Central Arizona Project ("CAP") water treatment.

Arizona Water provides substantial value as a sophisticated, interconnected potable water provider. AWC has been requested to serve potable water to Martin Ranch. AWC has not received a request for service for any other parcel included in its application for extension, including the proposed Sandia development. Staff believes Arizona Water's request should be granted for Martin Ranch and denied for the area requested by Woodruff.

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 Pinal County to provide water service to the Martin Ranch development, specifically the South half of the Southwest quarter of Section 23 and the West half of the West half of Section 25 and all of Section 26 of Township 5 South, Range 7 for service to the Martin Ranch Project, 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 Docket Control a copy of an updated Arizona Department of Water Resources Physical Availability Determination inclusive of the requested territory in this application within two years of the effective date of the final decision and order in this matter.

3. To require Arizona Water Company to file the main extension agreement associated with the proposed extension area within 365 days of the effective date of any decision in this matter.

4. To require Arizona Water Company to docket a Arizona Department of Environmental Quality Certificate of Approval to Construct water production and storage facilities within the proposed extension area in Docket Control within 365 days of the effective date of any decision in this matter.

Staff further recommends that the Commission's Decision granting this extension of the 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 above conditions Nos. 2, 3 and 4 within the time specified.

Staff recommends that the Commission approve the Woodruff Water Company, Inc. application for a Certificate of Convenience and Necessity in a portion of Pinal County to provide water service, subject to compliance with the following conditions:

1. That the Commission find that the Woodruff Water Company, Inc. fair value of property devoted to water service is $4,458,876.

2. That the Commission authorize Woodruff Water Company, Inc., Staff's recommended water rates and charges shown on Schedule CRM-W4.

3. That the Commission require Woodruff Water Company, Inc., to file a tariff consistent with the rates and charges authorized by the Commission in Docket Control within 30 days of the decision in this matter.

4. That the Commission require Woodruff Water Company, Inc., to docket a backflow prevention and curtailment tariff in Docket Control within 60 days of any decision in this matter.

5. That the Commission require Woodruff Water Company, Inc., to file a rate application no later than three months following the fifth anniversary of any decision in this matter.

6. That the Commission require Woodruff Water Company, Inc., to file a copy of the Arizona Department of Environmental Quality's ("ADEQ") Approval to Construct in Docket Control within 2 years of any decision in this matter.

7. That the Commission require Woodruff Water Company, Inc., to file a report on the arsenic levels of the production wells in Docket Control within 365 days of any decision in this matter.

8. That the Commission require Woodruff Water Company to file with the Commission a copy of the developers' Certificate of Assured Water Supply, or as an alternative, a copy of its Designation of an Assured Supply for Woodruff Water Company within two years of the effective date of the final decision and order in this matter.

9. That the Commission require Woodruff Water Company, Inc., to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts for Water Utilities.

10. That the Commission require Woodruff Water Company, Inc., to notify the Compliance Section of the Utilities Division within 30 days of initiating service to customers in the proposed service area.

11. That the Commission authorize Woodruff Water Company, Inc., to use the depreciation rates as filed.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to the Woodruff Water Company, Inc., be considered null and void without further order from the Commission should Woodruff Water Company, Inc., fail to meet conditions 3, 4, 6, 7 and 8 within the time specified.

Wastewater

Staff recommends that the Commission approve Woodruff Utility Company, Inc.'s application for a Certificate of Convenience and Necessity to provide wastewater services, subject to the following conditions:

1. That the Commission find that Woodruff Utility Company, Inc., fair value of the property devoted to wastewater service is $7,914,418.

2. That the Commission authorize Woodruff Utility Company, Inc., the wastewater rates and charges shown on Schedule CRM-WW4.

3. That the Commission require Woodruff Utility Company, Inc., to file a tariff consistent with the rates and charges authorized by the Commission in Docket Control within 30 days of the decision in this matter.

4. That the Commission require Woodruff Utility Company, Inc., to file with the Commission a copy of the Arizona Department of Environmental Quality Unified (Aquifer Protection) Water Quality Permit for the Woodruff Wastewater Treatment Facility authorizing a treatment and disposal capacity for 3 million gallons per day within 24 months of the effective date of the final decision and order in this matter.

5. That the Commission require Woodruff Utility Company, Inc to file a rate application no later than three months following the fifth anniversary of any decision in this matter.

6. That the Commission require Woodruff Utility Company, Inc to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Water Utilities.

7. That the Commission require Woodruff Utility Company, Inc., to notify the Compliance Section of the Utilities Division within 30 days of initiating service to customers in the proposed service area.

8. That the Commission authorize Woodruff Utility Company, Inc., to use the depreciation rates as filed.

9. That the Commission deny Woodruff Utility Company, Inc.'s, request for Hook-up Fees.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to the Woodruff Utility Company, Inc., be considered null and void without further order from the Commission should Woodruff Utility Company, Inc. fail to meet conditions 3 and 4 within the time specified.

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Introduction

On June 10, 2004, Woodruff Water Company, Inc., ("Woodruff Water"), and Woodruff Utility Company, Inc., ("Woodruff Sewer") (collectively "Woodruff") filed Applications for a Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "Commission") to provide water and wastewater services to a portion of Pinal County. On June 30, 2004, the Commission's Utilities Division Staff ("Staff") informed Woodruff the applications were insufficient for administrative purposes.

On October 7, 2004, Staff informed Woodruff the applications were sufficient for administrative purposes. A hearing was set for November.

On October 19, 2004, Arizona Water Company, ("Arizona Water" or "AWC") filed an application to extend its CC&N for water service to include the area sought by Woodruff and an adjacent parcel for an unrelated development.

On November 12, 2004, Staff informed AWC that its application was insufficient for administrative purposes. On December 30, 2004, AWC provided additional materials to support its application. On January 20, 2005, Staff informed AWC that its application was sufficient for administrative purposes.

The AWC and Woodruff applications were consolidated on November 4, 2004.

Woodruff Background

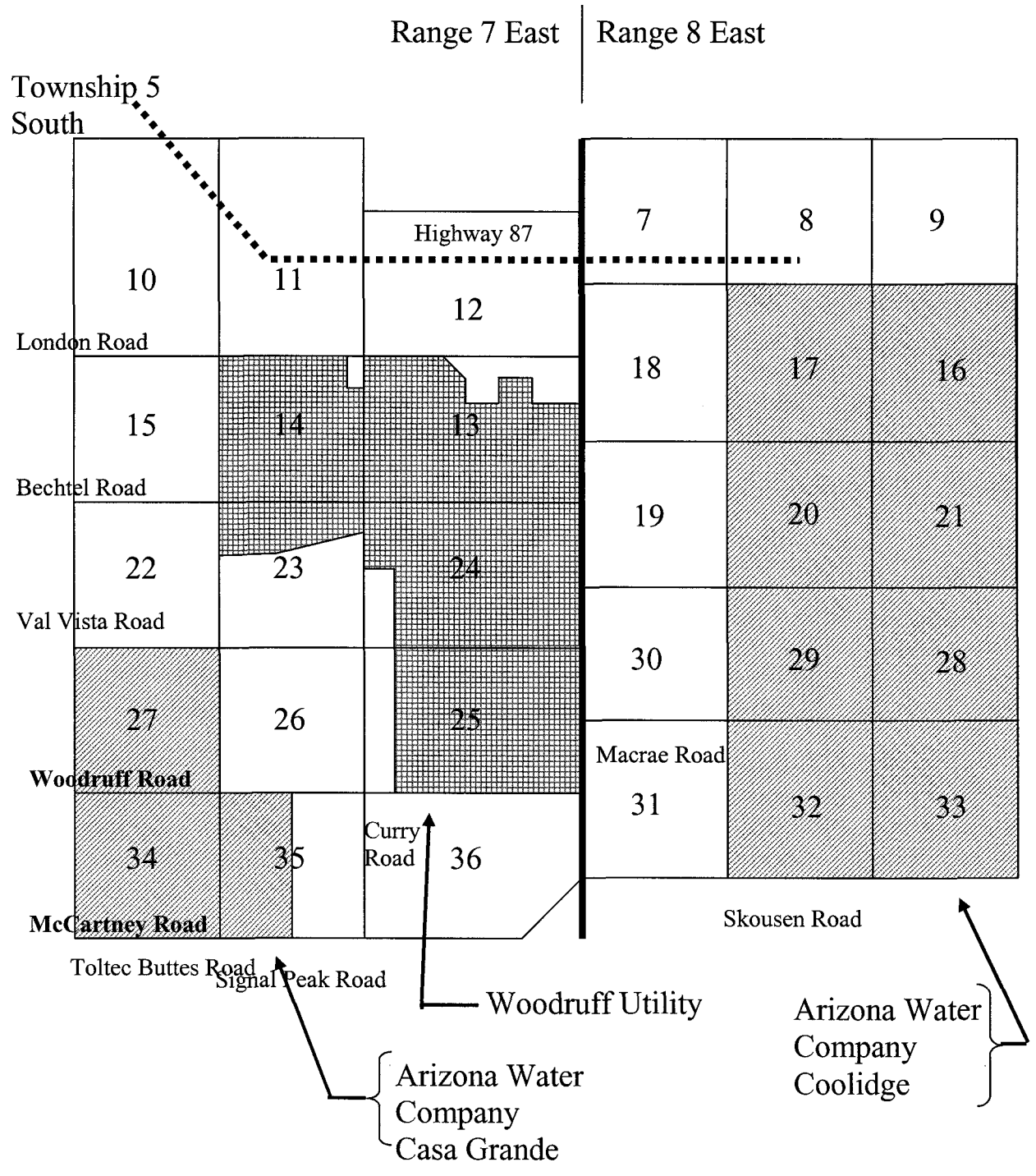
Woodruff Water and Woodruff Sewer are Arizona corporations in good standing with the Commission's Corporation Division. Woodruff is owned by the Pivotal Group, Inc., ("Pivotal") a private investment firm headquartered in Phoenix, Arizona. Mr. Karl Polen, a principle in Pivotal, is listed as the sole director of Woodruff.

Woodruff has been formed to serve the water and wastewater needs of a proposed master planned community, Sandia. The proposed development will consist of single family residential units, commercial units, schools, parks, a golf course, and other neighborhood amenities. The planned area development encompasses about 3,200 acres of undeveloped land and will eventually offer 9,500 dwelling units.

The property is currently owned by the Wuertz family and continues to be used for agriculture purposes. The Wuertz family and Pivotal have entered into a development agreement. Sandia will be developed in three equal phases at an estimated rate of 600 homes per year, with the first year growth rate estimated to be 300 homes. This estimated rate would provide for build out in 2022.

Woodruff is requesting to serve Sections 13, 14, 23, 24, and 25 of Township 5 South, Range 7 East. Exhibit 1 provides a vicinity map for the property.

Proposed CC&N For
Woodruff Utility & Woodruff Water Company



The certificated areas of AWC's, Casa Grande system and Coolidge system, respectively come within a mile on the west and east sides of this proposed planned development. Arizona Water has stated that it eventually plans to interconnect the Casa Grande and Coolidge water systems at some undisclosed future date.

Pivotal Group

Pivotal is an investment and development company focused on quality assets in distinct markets. Pivotal has been involved in real estate investment and development for the past twenty years. The company has been involved in residential and commercial development, apartments, office buildings, retail centers, and luxury hotel properties in excess of $1.5 billion in real estate value. Pivotal's management team has expertise in underwriting, development, asset management, planning, finance, construction, and marketing.

The Senior Executives of Pivotal include:

Mr. F. Francis Najafi, Chairman and Chief Executive Officer, holds a B.S. in Civil Engineering at Arizona State University, a Masters degree in international business from the American Graduate School of International Management, and a Masters in political economy from the University of Southern California, where he also completed Doctoral Studies. He is a member of Urban Land Institute. In addition, he serves or has served on several Arizona boards of directors, including Heard Museum, Arizona Science Museum, The Drachman Institute, and the Dean's Advisory Council at Arizona State University. Mr. Najafi is a Trustee of the Urban Land Foundation.

Mr. Karl Polen is an Executive Vice President of Pivotal Group, having joined the company subsequent to 15-years as the Chief Financial Officer of Robson Communities, a builder of master planned adult resort communities.

At Robson Communities, Mr. Polen arranged financing for the company's projects, managed the commercial real estate division, as well as water resources and environmental matters. (Robson affiliated public service companies in Arizona include Lago Del Oro Water Company, Pima Utility, Quail Creek Water Company, Picacho Utilities and Saddlebrooke Utility Company. The Robson affiliated companies currently provide service to an estimated 40,000 customers in Arizona.) Mr. Polen is also Chairman of the Board of the Arizona State Retirement System, a past board member of the Central Arizona Project ("CAP") and the Governors Water Management Commission.

Mr. Russ L. Shasky, the Senior Vice President of Land Development for Pivotal Group. He has over twenty-three years of experience in construction management, and land development. Mr. Shasky was previously employed by the Del Webb Corporation and UDC Homes.

Pivotal's other business interests include: the Ritz-Carlton, Phoenix; Century Plaza Hotel & Spa, Los Angeles; St. Regis Hotel, Los Angeles; and Red Mountain Spa, St. George,Utah.

The company also acquired the assets of Pacific Crossing Ltd. a former subsidiary of Global Crossing, which operates a fiber optic telecommunications network connecting Japan with the United States.

Arizona Water Company's Extension Request

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

AWC's Casa Grande and Coolidge water systems come within a mile on the west and east sides of this proposed Sandia development. On October 19, 2004, Arizona Water filed a competing application to extend its Coolidge system to include the proposed Sandia development. Arizona Water is also seeking approximately 565 acres of contiguous property in response to a request by Pulte Home Corporation ("Pulte"). The requested property is known as Martin Valley and is contiguous to the northeast corner of the Casa Grande system CC&N boundary.

AWC is requesting the Commission extend its Casa Grande service territory to include the South half of the Southwest quarter of Section 23 and the West half of the West half of Section 25 and all of Section 26 of Township 5 South, Range 7 for service to the Marin Ranch Project.

AWC is requesting the Commission extend its Coolidge service territory by including Section 13, 14 and Section 23, except the South half of the Southwest quarter, Section 24 and 25 except the West half of the West half in Township 5 South, Range 7 East. AWC also requests Section 19 and 30 of Township 5 South, Range 8 East be included in the Coolidge service territory.

Request for Service

The Wuertz family is the landowner of the proposed Sandia development. The Wuertz family has requested water and wastewater service from Woodruff. Mr. Wuertz has also offered public comment in opposition to AWC certification of the property.

Arizona Water has been requested by Pulte to serve Martin Ranch, an adjacent proposed development to Sandia. AWC is requesting the Commission extend its Casa Grande service territory to include the Martin Ranch, which is described as the South half of the Southwest quarter of Section 23 and the West half of the West half of Section 25 and all of Section 26 of Township 5 South, Range 7.

AWC has not been requested to serve any other portion of the extension request.

A request for service is fundamental in determining whether a need for a CC&N should be made.

The Water System

Woodruff commissioned the consulting firm of Wood, Patel & Associates to develop a water system master plan. The master plan estimated water demand from all three phases through build-out, including peak day, peak hour, and fire flow. General design parameters were delineated for the wells, treatment facilities, water storage, and major water transmission mains. A schedule for construction phasing and implementation of the major water infrastructure was included. Facilities costs were estimated through Phase I.

Additionally, Woodruff engaged the firm of Southwest Groundwater Consultants, Inc., to perform a preliminary hydrological investigation of the potential water quantity and quality. This hydro-geology report will be used to demonstrate an assured and adequate water supply to the Arizona Department of Water Resources ("ADWR").

Woodruff's consultants identified six existing wells which will be used for the water source through build out. They are:

	Production
Well #905	1200 gal/min
Well #1065	1200 gal/min
Well #1075	1200 gal/min
Well #1096	1200 gal/min
Well #1100	1200 gal/min
Well #1110	1200 gal/min
TOTAL	7,200 gal/min

Estimated demand for Phase I is 1,187 gal/min. Estimated water demand at build out is 5,025 gal/min. Beginning with Phase I, two wells will be put in service, with either well capable of serving as the supplemental water source during a well outage. At build out, all six wells will be put into production, with any of the six wells serving as a back-up source in the event of a mechanical failure.

Arizona Water Offer to Serve Sandia

On December 30, 2004, AWC provided Staff with its plan to serve the Sandia development. AWC reports that it has adequate production and storage capacity within its water system to serve the first phase of the Sandia development. Therefore, AWC proposes to interconnect Sandia with the Coolidge system with 18,500 feet of 12-inch ductile iron pipe to serve the first 500 residential customers.

After the first 500 residential units, AWC will then require the developer to advance funds to drill the first 750 gallons per minute ("GPM") well, construct a one million gallon water storage tank and booster pump station. AWC will require Pivotal to advance funds for a second 750 GPM well when Sandia reaches 1,500 residential units, and every time another 1,500 residential connections are made. The developers advance is to be refunded on a per lot basis.

AWC provided a Physical Availability Demonstration reporting 13,510 acre feet per year of groundwater available in the Coolidge service area. In addition, according to AWC, treated CAP water will be available after completion of AWC's CAP treatment plant.

For the Martin Ranch area, well production will be boosted by one developer funded well within its boundaries. Off site storage at the Casa Grande system is adequate to serve Martin Ranch through build out.

Based on an evaluation of the existing and proposed water facilities, it is reasonable to conclude that AWC can develop and construct adequate water storage and production to serve its existing and anticipated customer base, and can treat and provide water which will meet the water quality standards required by the Arizona Administrative Code, Title 18 Chapter 4.

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 23, 2006.

Wells within the proposed Sandia development show arsenic concentrations between 3 and 78 µg/l. Therefore it is likely that arsenic treatment will be required. Woodruff has acknowledged this possibility and has tentatively chosen either granular ferric hydroxide adsorption, or coagulation/filtration for an arsenic removal process. A 1 million gallon per day ("MGD") coagulation/filtration arsenic removal plant was used to make an initial cost estimate, and those capital costs were included in the expenses. Beyond 1 MGD demand, Woodruff expects that it can meet the arsenic standard by blending treated water.

Based on this planning information, Staff concluded that Woodruff can develop and construct adequate water storage and production to serve its anticipated customer base, and can treat and provide water which will meet the water quality standards required by the Arizona Administrative Code, Title 18 Chapter 4.

AWC is designing and constructing Arsenic treatment facilities for Coolidge and Casa Grande. If arsenic treatment is required for Sandia and Martin Ranch, AWC will construct, with advances, arsenic treatment within those developments. There is also a possibility of meeting the arsenic standard through developer participation in the treatment plants at Casa Grande and Coolidge, and then blending at Sandia and Martin Ranch.

Based on an evaluation of the existing and proposed water facilities, it is reasonable to conclude that AWC can develop and construct adequate water storage and production to serve its existing and anticipated customer base, and can treat and provide water which will meet the water quality standards required by the Arizona Administrative Code, Title 18 Chapter 4.

The preliminary nature of this project precludes a precise cost estimate, however, the estimated costs for Phase I water, appear to be within historic magnitudes and reasonable expectations. No "used and useful" determination of the proposed plant in service was made, and no conclusion should be inferred for rate making or rate base purposes.

Staff recommends that Woodruff and AWC be required to file a report on the actual arsenic levels of its production wells, and the proposed treatment, if required, to ensure safe drinking water compliance within 365 days of any decision in this matter.

Arizona Department of Environmental Quality ("ADEQ") Capacity Development

ADEQ Capacity Development rules, effective September 23, 1999, require new public drinking water systems to meet (1) financial capacity, (2) managerial capacity, and (3) technical capacity requirements. ADEQ will accept a financial determination made by this Commission as meeting the financial capacity requirements for new water systems under the jurisdiction of the Commission. The technical and managerial capability is determined by ADEQ. All three components are combined in the final approval of the water company's "elementary business plan", pursuant to ADEQ rule R-18-4-606.

The three components are reviewed and approved sequentially, with the technical capacity approval and "Approval to Construct" being the last performed. The Approval to Construct acts as a control point in the process, and once an Approval to Construct has been issued, it can be assumed that the water company has complied with the capacity development rules. Therefore it is recommended that Woodruff Water submit a copy of the ADEQ "Approval to Construct" within one year of the effective date of the final decision and order in this matter.

Assured Water Supply

The Assured Water Supply ("AWS") program was created as part of the historic 1980 Groundwater Management Act, and operates within Arizona's five active management areas ("AMA"). Every developer is required to demonstrate an assured water supply that will be physically, legally, and continuously available for the next 100 years before the developer can record plats or sell parcels. The developer can prove a 100 year supply by satisfying the requirements to obtain a Certificate of Assured Water Supply ("CAWS") or by a written commitment of service from a provider with a Designation of Assured Water Supply.

In order to obtain a CAWS five criteria must be met:

1. The water supply must be physically, legally, and continuously available for the next 100 years.
2. The water must meet water quality standards or be of sufficient quality.
3. The proposed water use must be consistent with the management goal of the AMA.
4. The proposed water use must be consistent with the current management plan of the AMA.
5. The developer must demonstrate the financial capability to construct any necessary facilities.

In 1993, the legislature created the Central Arizona Groundwater Replenishment District ("CAGRD"). The purpose of the CAGRD is to provide a mechanism for landowners and water providers to demonstrate an assured water supply.

If a water provider or a landowner has access to groundwater and desires to rely exclusively on groundwater to demonstrate a 100 year water supply, it may do so, provided it joins the CAGRD. As a member of the CAGRD, the landowner or provider must pay the CAGRD to replenish any groundwater pumped by the member which exceeds the pumping limitations imposed by the AWS Rules.

In the Pinal AMA, up to 125 gallons per person per day can be mined groundwater. The balance of the 100 year water supply for new subdivisions must consist of renewable supplies, i.e., CAP water or other surface water. The CAGRD must replenish (or recharge) in each AMA the amount of groundwater pumped by or delivered to its members which exceeds the pumping limitations imposed by the AWS Rules.

Costs of the CAGRD are covered by a replenishment tax or replenishment assessment levied on CAGRD members. The amount of the replenishment tax/assessment is based on the CAGRD's total cost per acre-foot of recharging groundwater, including the capital costs of constructing recharge facilities and water acquisition costs.

Woodruff will be retiring irrigation wells as they develop Sandia. In calculating the available water for future development, retiring an irrigation well can result in a substantial reduction on the actual demand on the aquifer. Therefore, retiring irrigation sources can result in a credit in calculating the required water to demonstrate a 100 year supply.

The requested property is within the Pinal Active Management Area of the Arizona Department of Water Resources ("ADWR"). As such, each developer will be required to obtain a "Certificate of Assured Supply", or as an alternative, the Company may obtain a "Designation of Assured Supply" from ADWR for the entire development.

Southwest Groundwater Consultants, Inc. has applied to ADWR on behalf Woodruff for a designation of an assured supply. Therefore, it is recommended that Woodruff Water

Company be required to file with the Commission a copy of its Designation of an Assured Supply for Woodruff Water Company within two years of the effective date of the final decision and order in this matter.

AWC made application to ADWR and was granted approval for a 100 year physical availability demonstration ("PAD") of water for its Coolidge and Casa Grande water systems. Staff recommends that AWC be required to file an amended PAD within two years of the effective date of the final decision and order in this matter demonstrating the additional property authorized in this application is included in the PAD.

Proposed Water Rates

Woodruff is requesting initial water rates of a monthly minimum of $24.00 with a three tiered rate structure. Woodruff's proposed usage rates are $2.00 per 1,000 gallons up to 7,000 gallons, increased to $3.00 per 1,000 gallons, for usage up to 14,000 gallons and $4.00 for all usage in excess of 14,000 gallons. The Company is also seeking authorization for separate irrigation rates. (See Schedule CSB-W4 Attached).

Staff is recommending a $20.00 monthly minimum charge and three tiered commodity rate. plan. Staff proposed usage are $2.08 per 1,000 gallons, up to 4,000 gallons, $3.12 per 1,000 gallons up to 20,000 gallons of usage,, and $3.74 for each 1,000 gallons thereafter. Staff's proposed rates are designed to encourage conservation and be consistent with projected revenue levels.

The application contains pro forma revenues and expenses. Staff believes the projected expenses appear reasonable. The Company estimates water revenue of $102,600 with associated expenses of $347,363 resulting in an operating loss of $244,763 for the first year of operations. The Company estimates $733,145 in third year revenue, associated expenses of $713,697 resulting in an operating income of $19,448 for the year. The Company estimates $1,433,609 in fifth year revenue, with related expenses of $1,017,136, resulting in projected operating income of $416,473 for the year. (See Schedule CSB-W3, attached)

AWC intends to offer service to the Sandia development at its tariffed Coolidge rates.

Special Service Tariffs

A "Curtailment Plan Tariff" is an effective tool to allow a water company to manage its resources during periods of water shortages due to pump breakdowns, droughts, or other unforeseeable events. A "Cross Connection/Backflow Tariff" gives a private water utility the means and authority to implement a cross connection program as required by Arizona Revised Statutes and Administrative Codes. The cross connection tariff provides for the installation and testing of backflow devices and provides for corrective actions where cross connection hazards exist. Since Woodruff does not yet have either a curtailment tariff or cross connection tariff, this CC&N application provides an opportune time to prepare and file such tariffs.

Therefore, Staff recommends that the Company docket a curtailment tariff and a cross connection tariff within 60 days after the effective date of any decision and order pursuant to this application. The tariffs shall be submitted to the Director of Utilities Division for his review and certification. Staff also recommends that the tariffs shall generally conform to the sample tariffs found posted on the Commission's web site (www.cc.state.az.us/utility/water/forms.htm) or available upon request from Commission Staff.

Section 208 Plan Approval

The Federal Water Pollution Control Act as amended by the Water Quality Act of 1987 ("Clean Water Act") is a commitment by the federal government to the elimination of pollution in the nation's waters. Each state is required, under Section 208 of the Clean Water Act, to develop and implement area-wide water quality management plans for pollution control.

In Arizona, six (6) Councils of Government, ("COGs") have been designated by the Governor as "Water Quality Management Planning Agencies" under Section 208, of the Clean Water Act. The Central Arizona Associations of Governments ("CAAG") is designated by the Governor and the EPA as the area wide water quality management planning agency for Pinal County.

The guidelines for 208 planning set forth in the Clean Water Act are fairly broad so that the various water quality issues in different areas of the nation can be addressed appropriately. Each 208 Plan must identify the water quality management needs in its planning area and provide a program to develop solutions. The CAAG 208 planning process is an ongoing effort in response to changing water resource issues, regulations, treatment technologies and changing demographics.

On the federal level, the Environmental Protection Agency ("EPA") has the responsibility of overseeing the planning efforts necessary to meet the specific requirements of Section 208. ADEQ administers both the basin-wide planning and water quality monitoring programs. In addition, ADEQ is responsible for reviewing and enforcing water quality standards for the State. For the CAAG 208 Program, the EPA and ADEQ provides guidance in the terms of policy, procedure and review of documents to assure adherence to the requirements of the Clean Water Act.

A major effort of the 208 Plan is the Point Source Plan. Point Source Planning is primarily directed at compiling the preferred wastewater collection and treatment system for the affected area through the year 2020. Toward that end, the Point Source Plan examines population and wastewater flow projections, wastewater treatment plant siting, treatment methods, effluent disposal, reclaimed water reuse and sludge management.

ADEQ Permits

The objective of a Point Source Plan is to identify the preferred wastewater collection and treatment and effluent reuse or disposal systems for the affected area. The regulatory framework for management of water quality is comprised of permit compliance and monitoring of protected uses. The ADEQ defines, monitors and enforces water quality standards for protected uses of surface waters, aquifers and public water supplies. The ADEQ permit framework for point source management consists of three primary elements consisting of the Arizona Pollutant Discharge Elimination System ("AZPDES") the Aquifer Protection Permit ("APP") and the reclaimed water reuse permit program.

The purpose of the AZPDES permit programs is to regulate the quality of point source discharges into the waters of the nation. Based on specific criteria, discharges to rivers, tributaries to the rivers, dry washes and various lakes and canals within the affected area are subject to the AZPDES permit program provisions.

The ADEQ has established Surface Water Quality Standards ("SWQS") as required to meet the goals of the federal Clean Water Act and to protect the quality of surface waters in the state. The EPA incorporates the SWQS and federal regulation related to surface water quality and effluent discharge quality into the AZPDES permits. Pollutant levels established by the AZPDES permit programs vary among wastewater reclamation facilities depending upon the designated use of reclaimed water. Permits are typically issued for a term of five years.

Aquifer Protection Permit

The APP was established by the Environmental Quality Act of 1986 and implemented by rule in 1989. The purpose of the APP program is to protect the groundwater quality and public health from potential environmental risks posed by the facilities that discharge pollutants to the land surface, underlying soil, or groundwater that have a potential to reach an aquifer.

The APP permitting requirements are determined based on the type of facility or land use, capacity of the facility, and/or the type of discharges that the facility will produce. The most crucial requirements for obtaining an APP are demonstrating that the Best Available Demonstrated Control Technology ("BADCT") will be used to minimize the discharge of pollutants, Aquifer Water Quality Standards will not be violated and that the facility possesses the financial and technical capability to comply with the permit conditions.

The Environmental Quality Act requires that all domestic wastewater and disposal facilities requiring an APP use BADCT as part of their wastewater treatment process. The ADEQ adopted BADCT requirements for new sewage treatment facilities. The design review of sewage treatment facilities has been consolidated into the APP application review process. BADCT requirements are defined within the rules which require secondary treatment, removal

for new facilities and expansion of existing facilities. The revision of the APP rule took effect January 2001.

The reclaimed water use permit program, established in 1985, allows the reuse of reclaimed water for a variety of applications such as agriculture, urban lakes, golf course irrigation, ponds and industrial uses. Water reclamation plants are required by rules to have a reuse permit for the release of reclaimed water for reuse purposes.

There are two main categories of reclaimed water reuse including direct non-potable reuse and indirect reuse. Direct reuse consists of irrigation and makeup water for urban lakes. Indirect reuse typically involves aquifer recharge and recovery. The indirect reuse of reclaimed water usually involves recharge to an aquifer for storage and future recovery. The reclaimed water is typically allowed to infiltrate through the dry soils above the aquifer allowing additional treatment. Recharge projects using reclaimed water are required to obtain an APP.

Woodruff Wastewater System

Woodruff commissioned the consulting firm of LJ Farrington Engineers, Inc to develop a wastewater system master plan. The master plan identified land use, housing density, service areas, estimated sewage flows, location, capacity, and phasing of the sewage treatment plant, and the ultimate use and disposal of wastewater effluent. This master plan will serve as an application to amend the CAAG general §208 Plan. This §208 Plan Amendment will need approval from CAAG and also the ADEQ.

The Utility plans to construct a 3 million gallons per day ("MGD"), sequencing batch reactor ("SBR") wastewater treatment facility. The SBR's will be constructed in three, 1 MGD phases. The treatment plant will provide tertiary treatment, with de-nitrification and disinfection. Effluent disposal will be provided by landscape irrigation of a golf course, parks, and greenbelts, supplemented in the second phase by rapid infiltration basins.

There is a possibility that between phases I and II (1 MGD to 2 MGD), effluent may be generated in quantities beyond reuse and groundwater recharge capacities. If that should occur, the Company plans to discharge the excess effluent to either the East Maricopa Floodway, the Roosevelt Water Conservation District canal, or the San Carlos Wash under the authority of an AZPDES.

Based on the §208 Plan Amendment, Staff believes that Woodruff can design and construct adequate wastewater collection and treatment facilities. However, because of the limitations and uncertainties about effluent disposal, Staff cannot state that the Woodruff has demonstrated the ability to dispose of its wastewater effluent at the ultimate build out of 3 MGD. Staff also believes that the proper venue for this demonstration is the permit process of the ADEQ.

Therefore, Staff recommends that the granting of the CC&N shall be conditioned upon the issuance of a Unified (Aquifer Protection) Water Quality Permit by the Arizona Department

of Environmental Quality for the Woodruff Wastewater Treatment Facility. The permit shall have a treatment and disposal capacity for 3 MGD. A permit with a capacity of less than 3 MGD, will not satisfy this condition.

At the time of this writing, it is Staff's information that Woodruff has engaged in preliminary conferences with ADEQ, but has not formally applied for a water quality permit. Therefore, Staff would recommend a time limit of 24 months from the effective date of the final decision and order relevant to this application for filing a copy of the ADEQ water quality permit.

Since the CAAG §208 Plan represents a fundamental authority for the designation of a wastewater service area and a wastewater provider, Staff also recommends that Woodruff Utility be required to file a copy of CAAG's approval of the §208 Plan Amendment for Woodruff Utility within 1 year from the effective date of the final decision and order relevant to this CC&N application.

Table II delineates the phasing of the wastewater treatment plant.

Table II
Woodruff Utilities – WWTP Phasing

Phase	Years	Total dwelling units	Estimated total flow, annual average (gal/day)	Total design treatment capacity (gal/day)
I	2006-2011	3,300	870,000	1,000,000
II	2012-2016	6,300	1,650,000	2,000,000
III	2017-2022	9,500	2,450,000	3,000,000

Proposed Rates

Woodruff is requesting initial wastewater rates of a monthly minimum of $52.00. The utility is also seeking authorization to charge $300 per acre foot of treated effluent. Staff is recommending initial wastewater and effluent sale rates consistent with the Company's request. (See Schedule CSB-WW-4, attached).

The application contains pro forma revenues and expenses, Staff believes the projected expenses appear reasonable. Woodruff estimates wastewater revenue of $121,603 with associated expenses of $249,751 resulting in an operating loss of $128,148 for the first year of operations. Woodruff estimates $877,771 in third year revenue, associated expenses of $679,566 resulting in an operating income of $198,145 for the year. The Company estimates $1,727,293 in fifth year revenue, with related expenses of $1,321,529, resulting in projected operating income of $405,765 for the year. (See Schedule CSB-WW-3, attached).

County Franchise

On August 25, 2004, the Pinal County Supervisors granted Woodruff a county franchise for its service area.

Wastewater Depreciation Rates

Woodruff has proposed water and wastewater depreciation rates in section D, schedule 1a, page 1, in each of the water and wastewater applications. The Company's proposed depreciation rates reflect typical and customary depreciation rates within a range of anticipated equipment life. Staff recommends acceptance of both the proposed water and wastewater depreciation rates.

Staff Analysis of Competing Applications

In any CC&N proceeding, Staff is charged with reviewing the evidence submitted by an applicant to make a recommendation to the Commission as to whether the applicant is a fit and proper entity with the financial and technical capabilities to serve the public. In this case, Staff has been requested to determine which applicant is fit and proper to provide water and wastewater service to a proposed master planned development.

In the case of Woodruff, a property owner and developer have entered into a business plan for the long term development of agricultural property into a master planned development. The development requires potable water and wastewater treatment as essential services. In conjunction with the development plan, the property owner and developer are seeking certification of water and wastewater utilities.

The developer has demonstrated a strong background and success in formulating, developing and operating water and wastewater utilities in similar situated master planned developments. Pivotal has evidenced that it is capable of ensuring the utilities are financially capable of developing the assets necessary to serve the requested property with water and wastewater services.

Arizona Water is seeking Commission authority to provide water service to the proposed Sandia development. Arizona Water has demonstrated great success in formulating, developing and operating water utilities in Arizona.

Staff understands that Arizona Water's proposal could offer a number of benefits such as:

1.) Regional potable water supply planning.
2.) Economy of scale for potable water service.
3.) A proven record of success in potable water systems.
4.) Existing off site facilities for possible interconnection.
5.) The ability to develop additional potable water sources.
6.) Higher groundwater allowances for the development.

7.) Central Arizona Project water supplies.
8.) Lower water rates than proposed by Woodruff.

The Commission has long supported financially viable, interconnected utilities operating for long term compliance with the states water policy goals. AWC is such a utility. However, while Arizona Water provides substantial value as a sophisticated, interconnected potable water provider, AWC does not offer wastewater treatment services to the proposed community.

Water policy requires recognition of the value of appropriate treatment and use of wastewater in water scarce areas. Staff must base its recommendation on goals to ensure the long term viability and compliance of water and wastewater utilities. Staff supports regional planning for water and wastewater to ensure an economy of scale for both services. Staff recognizes integrated utilities provide enhanced services to work in conjunction with public policy goals of clean water, use of reclaimed water for turf facilities and recharge of the aquifer.

The Sandia property will extinguish grandfathered irrigation wells and obtain extinguishment credits for compliance with the groundwater regulations. On a going forward basis, Sandia will also produce effluent which could result in a recharge credit. Unified water and wastewater utilities should be better suited to comply with groundwater management requirements by sharing customer information between divisions, recognizing groundwater credits for irrigation well retirement and ensuring reuse permits obtain maximum value.

Woodruff offers Sandia a financially viable, interconnected utility operating for the long term compliance with Arizona's water and wastewater policy goals. Woodruff is not precluded from entering into service arrangements with Arizona Water to obtain back-up resources and CAP water treatment. Woodruff has demonstrated that it will ensure wastewaters are treated in conformance with the Clean Water Act as well as deliver potable water consistent with the Commission rules and policy goals.

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 Pinal County to provide water service to the Martin Ranch development, specifically the South half of the Southwest quarter of Section 23 and the West half of the West half of Section 25 and all of Section 26 of Township 5 South, Range 7 for service to the Martin Ranch Project, 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 Docket Control a copy of an updated Arizona Department of Water Resources Physical Availability Determination

inclusive of the requested territory in this application within two years of the effective date of the final decision and order in this matter.

3. To require Arizona Water Company to file the main extension agreement associated with the proposed extension area within 365 days of the effective date of any decision in this matter.

4. To require Arizona Water Company to docket a Arizona Department of Environmental Quality Certificate of Approval to Construct water production and storage facilities within the proposed extension area in Docket Control within 365 days of the effective date of any decision in this matter.

Staff further recommends that the Commission's Decision granting this extension of the 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 any of the above conditions within the time specified.

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

1. That the Commission find that the Woodruff Water Company, Inc. fair value of property devoted to water service is $4,458,876.

2. That the Commission authorize Woodruff Water Company, Inc., Staff's recommended water rates and charges shown on Schedule CRM-W4.

3. That the Commission require Woodruff Water Company, Inc., to file a tariff consistent with the rates and charges authorized by the Commission in Docket Control within 30 days of the decision in this matter.

4. That the Commission require Woodruff Water Company, Inc., to file a backflow prevention and curtailment tariff in Docket Control within 60 days of any decision in this matter.

5. That the Commission require Woodruff Water Company, Inc., to file a rate application no later than three months following the fifth anniversary of any decision in this matter.

6. That the Commission require Woodruff Water Company, Inc., to file a copy of the Arizona Department of Environmental Quality's ("ADEQ") Approval to Construct in Docket Control within 365 days of any decision in this matter.

7. That the Commission require Woodruff Water Company, Inc., to docket a report on the arsenic levels of the production wells in Docket Control within 365 days of any decision in this matter.

8. That the Commission require Woodruff Water Company, Inc. to file with the Commission a copy of the developers' Certificate of Assured Water Supply, or as an alternative, a copy of its Designation of an Assured Supply for Woodruff Water Company within two years of the effective date of the final decision and order in this matter.

9. That the Commission require Woodruff Water Company, Inc., to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts for Water Utilities.

10. That the Commission require Woodruff Water Company, Inc., to notify the Compliance Section of the Utilities Division within 30 days of initiating service to customers in the proposed service area.

11. That the Commission authorize Woodruff Water Company, Inc., to use the depreciation rates as filed.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to the Woodruff Water Company, Inc., be considered null and void without further order from the Commission should Woodruff Water Company, Inc., fail to meet conditions 3, 4, 6, 7 and 8 within the time specified.

Wastewater

Staff recommends that the Commission approve Woodruff Utility Company, Inc.'s application for a Certificate of Convenience and Necessity to provide wastewater services, subject to the following conditions:

1. That the Commission find that Woodruff Utility Company, Inc., fair value of the property devoted to wastewater service is $7,914,418.

2. That the Commission authorize Woodruff Utility Company, Inc., the wastewater rates and charges shown on Schedule CRM-WW4.

3. That the Commission require Woodruff Utility Company, Inc., to file a tariff consistent with the rates and charges authorized by the Commission in Docket Control within 30 days of the decision in this matter.

4. That the Commission require Woodruff Utility Company, Inc., to file with the Commission a copy of the Arizona Department of Environmental Quality Unified (Aquifer Protection) Water Quality Permit for the Woodruff Wastewater Treatment Facility authorizing a treatment and disposal capacity for 3 million gallons per day within 24 months of the effective date of the final decision and order in this matter.

5. That the Commission require Woodruff Utility Company, Inc to file a rate application no later than three months following the fifth anniversary of any decision in this matter.

6. That the Commission require Woodruff Utility Company, Inc to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Water Utilities.

7. That the Commission require Woodruff Utility Company, Inc., to notify the Compliance Section of the Utilities Division within 30 days of initiating service to customers in the proposed service area.

8. That the Commission authorize Woodruff Utility Company, Inc., to use the depreciation rates as filed.

9. That the Commission deny Woodruff Utility Company, Inc.'s, request for Hook-up Fees.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to the Woodruff Utility Company, Inc., be considered null and void without further order from the Commission should Woodruff Utility Company, Inc., fail to meet conditions 3, and 4 within the time specified.

ATTACHMENT A

MEMORANDUM

DATE: January 19, 2005

TO: James E. Fisher

FROM: L. Hammon

RE: Woodruff Utility Company and Woodruff Water Company, Inc.; and Arizona Water Company
New CC&N To Provide Water and Wastewater
Docket No. W-04265A-04-0438, (Woodruff)
Docket No. SW-04265A-04-0439, (Woodruff) and
Docket No W-01445A-04-0755 (Arizona Water Co.)
All Above Dockets Consolidated

I. Introduction

Woodruff Utility Company, Inc. and Woodruff Water Company, Inc, (herein also "Woodruff") have applied for a Certificate of Convenience and Necessity (CC&N) for the purpose of constructing and operating water and wastewater utilities which will serve the planned area development of Sandia. The proposed development of Sandia is within the political jurisdiction of Pinal County and will consist of single family residential units, commercial units, schools, parks, a golf course, and other neighborhood amenities. The planned area development encompasses about 3,200 acres of undeveloped land and will eventually offer 9,500 dwelling units. The water and wastewater utilities will serve Sections 13, 14, 23, 24, and 25 of Township 5 South, Range 7 East.

Sandia will be developed in three equal phases at an estimated rate of 600 homes per year, with the first year growth rate estimated to be 300 homes. This estimated rate would provide for build out in 2022.

Arizona Water Company (herein also "AWC") has also requested a drinking water Certificate of Convenience and Necessity for the same area, with the additional areas of the entire sections 23 and 26 (T5S R7E), and sections 19 and 30 within the different Township 5 South, Range 8 East. AWC's Casa Grande and Coolidge water systems, respectively come within a mile on the west and east sides of this proposed planned development. Arizona Water Company has stated that it eventually plans to interconnect the Casa Grande and Coolidge water systems at some future date. The proposed interconnection may be through or near the proposed development of Sandia.

Exhibit 1 provides a vicinity map for the property and requested CC&N's.

IIA. Water - WOODRUFF

Woodruff Water Company commissioned the consulting firm of Wood, Patel & Associates to develop a water system master plan. The master plan estimated water demand from all three phases through build-out, including peak day, peak hour, and fire flow. General design parameters for the wells, treatment facilities, water storage, and major water transmission mains were delineated. A schedule for construction phasing and implementation of the major water infrastructure was also included. Costs were estimated through phase I. Additionally, the firm of Southwest Groundwater Consultants, Inc. performed a preliminary hydrological investigation of the potential water quantity and quality. This hydro-geology report will be used to demonstrate an assured and adequate water supply to the Arizona Department of Water Resources (herein also DWR).

The "Wood,Patel" report identified six existing wells which will be used for the water source through build out. They are:

	Production
Well #905	1200 gal/min
Well #1065	1200 gal/min
Well #1075	1200 gal/min
Well #1096	1200 gal/min
Well #1100	1200 gal/min
Well #1110	1200 gal/min
TOTAL	7,200 gal/min

Estimated demand for Phase I is 1,187 gal/min. Estimated water demand at build out is 5,025 gal/min. Beginning with Phase I, two wells will be put in service, with either well capable of serving as the supplemental water source during a well outage. At build out, all six wells will be put into production, with any of the six wells serving as a back-up source in the event of a mechanical failure.

Arsenic – Wells within the certificated area show arsenic concentrations between 3 and 78 µg/l. Therefore it is likely that arsenic treatment will be required. The Company has acknowledged this possibility and has tentatively chosen either granular ferric hydroxide adsorption, or coagulation/filtration for an arsenic removal process. A 1 MGD coagulation/filtration arsenic removal plant was used to make an initial cost estimate, and those capital costs were included in the expenses. Beyond 1 MGD demand, the Company expects that it can meet the arsenic standard by blending treated water.

Based on this planning information, Staff concluded that the water company can develop and construct adequate water storage and production to serve its anticipated customer base, and can treat and provide water which will meet the water quality standards required by the Arizona Administrative Code, Title 18 Chapter 4.

The preliminary nature of this project precludes a precise cost estimate, however, the estimated costs for Phase I water, appear to be within historic magnitudes and reasonable expectations. No

"used and useful" determination of the proposed plant in service was made, and no conclusion should be inferred for rate making or rate base purposes.

IIB. Water - ARIZONA WATER CO.

AWC has adequate production and storage capacity within its Coolidge water system to serve the first phase of the Sandia project through a 12 inch diameter transmission main interconnection, funded by AWC. After the first 500 residential units, AWC plans to meet the additional water demands through six 750 gal/min wells within the Sandia development boundaries. The Sandia wells, storage tanks, and ancillary equipment will be funded by developer advances.

For the Martin Ranch area, well production will be boosted by one developer funded well within its boundaries. Off site storage at the Casa Grande system is adequate to serve Martin Ranch through build out.

Arsenic – AWC is designing and constructing Arsenic treatment facilities for Coolidge and Casa Grande. If arsenic treatment is required for Sandia and Martin Ranch, AWC will construct, with advances, arsenic treatment within those developments. There is also a possibility of meeting the arsenic standard through developer participation in the treatment plants at Casa Grande and Coolidge, and then blending at Sandia and Martin Ranch.

Based on an evaluation of the existing and proposed water facilities, it is reasonable to conclude that AWC can develop and construct adequate water storage and production to serve its existing and anticipated customer base, and can treat and provide water which will meet the water quality standards required by the Arizona Administrative Code, Title 18 Chapter 4.

IIC. Water – CC&N ANALYSIS

There are rationales and advantages for awarding the CC&N to either utility. Some of which are:

Award Water CC&N to Woodruff:

- Economy of affiliated water and sewer utilities. Sharing of maintenance, personnel and administrative tasks.
- Water use data is readily available to the sewer utility if the sewer company changes its rate structure from a flat rate to a rate structure based on usage.
- Woodruff has already invested resources in engineering, design, and hydrological investigation.
- Ultimate size of development is large enough for economic viability as "stand alone" system.

Award Water CC&N to Arizona Water Co.:

- AWC has existing off site facilities which could immediately serve the developments. It is equally achievable for AWC to develop additional sources and water infrastructure in the future.
- Interconnection of Coolidge, Casa Grande, Sandia, and Martin Ranch, achieves better operational economies and system reliability.
- AWC has proven record of successfully managing and operating water systems of large and small sizes.

III. Wastewater

Wastewater collection and treatment cannot be approached in a fragmented manner. Instead, it demands area wide planning and co-ordination between publicly owned treatment works, cities, sanitary districts, and privately owned wastewater treatment plants. Pursuant to that goal, Section 208 of the Federal Water Pollution Control Act (Public Law 92-500) provided for the preparation of "Certified Areawide Water Quality Management Plans" and the designation of entities to manage sewage treatment facilities and sewage collection systems in the respective planning area. The Central Arizona Association of Governments (CAAG) is the designated water quality planning agency for the requested Certificate of Convenience and Necessity (CC&N) area in this application.

Woodruff Utilities commissioned the consulting firm of LJ Farrington Engineers, Inc to develop a wastewater system master plan. The master plan identified land use, housing density, service areas, estimated sewage flows, location, capacity, and phasing of the sewage treatment plant, and the ultimate use and disposal of wastewater effluent. This master plan will serve as an application to amend the CAAG general §208 Plan. This §208 Plan Amendment will need approval from CAAG and also the Arizona Department of Environmental Quality.

The Utility plans to construct a 3.0 million gallon per day (MGD), sequencing batch reactor (SBR) wastewater treatment facility. The SBR's will be constructed in three, 1 MGD phases. The treatment plant will provide tertiary treatment, with de-nitrification and disinfection. Effluent disposal will be provided by landscape irrigation of a golf course, parks, and greenbelts, supplemented in the second phase by rapid infiltration basins. There is a possibility that between phases I and II (1 MGD to 2 MGD), effluent may be generated in quantities beyond reuse and groundwater recharge capacities. If that should occur, the Company plans to discharge the excess effluent to either the East Maricopa Floodway, the Roosevelt Water Conservation District canal, or the San Carlos Wash under the authority of an Arizona Pollution Discharge Elimination Permit (AZPDES). The difficulty with a surface water discharge in this particular case, is that the wastewater effluent may reach the Gila River Indian Reservation and this may not be acceptable to the Tribe. The Arizona Department of Environmental Quality is discussing potential water quality standards for surface water discharge with the Tribe, but there is no guarantee that accord will ever be reached.

Based on the §208 Plan Amendment, Staff believes that the Utility can design and construct adequate wastewater collection and treatment facilities. However, because of the limitations and uncertainties about effluent disposal, Staff cannot state that the Company has demonstrated the ability to dispose of its wastewater effluent at the ultimate build out of 3 MGD. Staff also believes that the proper venue for this demonstration is the permit process of the Arizona Department of Environmental Quality (herein also DEQ). Therefore, Staff recommends that the granting of the CC&N shall be conditional upon the issuance of a Unified (Aquifer Protection) Water Quality Permit by the Arizona Department of Environmental Quality for the Woodruff Wastewater Treatment Facility. The permit shall have a treatment and disposal capacity for 3.0 million gallons per day. A permit with a capacity of less than 3.0 MGD, will not satisfy this condition. At the time of this writing, it is Staff's information that the Company has only engaged in preliminary conferences with DEQ and has not yet formally applied for a water quality permit. Therefore, Staff would recommend a time limit of 24 months from the effective date of the final decision and order relevant to this application for filing a copy of the DEQ water quality permit. In the event the Unified Water Quality Permit is not filed, or does not have a permitted facility capacity of 3.0 million gallons per day, then the final decision and order in this matter shall become null and void without further order of the Commission, unless the Commission grants an extension of time for this requirement.

Since the CAAG §208 Plan represents a fundamental authority for the designation of a wastewater service area and a wastewater provider, Staff also recommends that Woodruff Utility shall file a copy of CAAG's approval of the §208 Plan Amendment for Woodruff Utility within one year from the effective date of the final decision and order relevant to this CC&N application.

Table II delineates the phasing of the wastewater treatment plant.

Table II
Woodruff Utilities – WWTP Phasing

Phase	Years	Total dwelling units	Estimated total flow, annual average (gal/day)	Total design treatment capacity (gal/day)
I	2006-2011	3,300	870,000	1,000,000
II	2012-2016	6,300	1,650,000	2,000,000
III	2017-2022	9,500	2,450,000	3,000,000

The preliminary nature of this project precludes a definitive cost estimate, however, the estimated costs for Phase I wastewater treatment, appear to be within historic magnitudes and reasonable expectations. The sewage collection mains will be financed by advances in aid of construction and were excluded from any cost estimation. No "used and useful" determination of the proposed plant in service was made, and no conclusion should be inferred for rate making or rate base purposes.

IV. Regulatory Compliance

Since this is a proposed utility which has yet to become operational, there is no historical compliance data for Woodruff Utilities or Woodruff Water Company from the Arizona Corporation Commission, the Arizona Department of Water Resources, or the Arizona Department of Environmental Quality.

Compliance data for Coolidge and Casa Grande were requested in the pending Arizona Water Company rate case (Docket No 01445A-04-0650). DEQ reported that those water systems were in total compliance and are delivering water which meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

IV. Arizona Department of Environmental Quality (ADEQ) Capacity Development

ADEQ Capacity Development rules, effective September 23, 1999, require new public drinking water systems to meet (1) financial capacity, (2) managerial capacity, and (3) technical capacity requirements. ADEQ will accept a financial determination made by this Commission as meeting the financial capacity requirements for new water systems under the jurisdiction of the Commission. The technical and managerial capability is determined by ADEQ. All three components are combined in the final approval of the water company's "elementary business plan", pursuant to ADEQ rule R-18-4-606. The three components are reviewed and approved sequentially, with the technical capacity approval and "Approval To Construct" being the last performed. The Approval to Construct acts as a control point in the process, and once an Approval to Construct has been issued, it can be assumed that the water company has complied with the capacity development rules.

If the water CC&N is awarded to Woodruff, then it is recommended that Woodruff Water Company shall submit a copy of the ADEQ "Approval To Construct" within two years of the effective date of the final decision and order in this matter.

V. Assured Water Supply

Woodruff Water Company is within the Pinal Active Management Area of the Arizona Department of Water Resources. As such, each developer will be required to obtain a "Certificate of Assured Supply", or as an alternative, the Company may obtain a "Designation of Assured Supply" from DWR for the entire development. Southwest Groundwater Consultants, Inc. has applied to DWR on behalf the Water Company, for a designation of an assured supply. If the water CC&N is awarded to Woodruff, then it is recommended that Woodruff Water Company shall file with the Commission a copy of its Designation of an Assured Supply for Woodruff Water Company within two years of the effective date of the final decision and order in this matter.

Arizona Water Company made application to DWR and was granted approval for a 100 year physical availability demonstration (PAD) of water for its Coolidge and Casa Grande water

systems. If the CC&N was awarded to AWC, then it is recommended that AWC update its physical availability demonstration to include the service areas in this CC&N application. AWC shall file such an amended PAD within two years of the effective date of the final decision and order in this matter.

VI. Depreciation Rates

Woodruff has proposed water and wastewater depreciation rates in section D, schedule 1a, page 1, in each of the water and wastewater applications. The Company's proposed depreciation rates reflect typical and customary depreciation rates within a range of anticipated equipment life. Staff recommends acceptance of both the proposed water and wastewater depreciation rates.

The Commission has approved similar depreciation rates for Arizona Water Co., based on their specific company experience. Staff recommends that AWC continue to use its existing Commission approved rates. If different depreciation rates are approved in the pending rate case, then these subsequent rates would supersede the present depreciation rates.

VII. Special Service Tariffs

A **"Curtailment Plan Tariff"** is an effective tool to allow a water company to manage its resources during periods of water shortages due to pump breakdowns, droughts, or other unforeseeable events. A **"Cross Connection/Backflow Tariff"** gives a private water utility the means and authority to implement a cross connection program as required by Arizona Revised Statutes and Administrative Codes. The cross connection tariff provides for the installation and testing of backflow devices and provides for corrective actions where cross connection hazards exist. Since Woodruff Water Company does not yet have either a curtailment tariff or cross connection tariff, this CC&N application provides an opportune time to prepare and file such tariffs.

Therefore, Staff recommends that Woodruff file a curtailment tariff and a cross connection tariff within 60 days after the effective date of any decision and order pursuant to this application. The tariffs shall be filed within the current docket of record for this water CC&N application (Docket No. W-04265A-04-0438). Staff also recommends that the tariffs shall generally conform to the sample tariffs found posted on the Commission's web site (www.cc.state.az.us/utility/water/forms.htm) or available upon request from Commission Staff.

Arizona Water Company updated its company-wide curtailment tariff in the Eastern division rate case in fall of 2004. AWC has a company-wide backflow tariff on file.

VIII. Recommendations

1. Staff recommends that the granting of the wastewater certificate of convenience and necessity shall be conditional upon the issuance of a Unified (Aquifer Protection) Water Quality Permit by the Arizona Department of Environmental Quality for the Woodruff Wastewater Treatment Facility. The permit shall have a treatment and disposal capacity for 3.0 million gallons per day. A copy of the Unified Water Quality Permit shall be filed within 24 months from the effective date of the final decision and order relevant to this application.

   In the event the Unified Water Quality Permit is not filed, or does not have a permitted facility capacity of 3.0 million gallons per day, then the final decision and order in this matter shall become null and void without further order of the Commission, unless the Commission grants an extension of time for this requirement.

2. Staff recommends that Woodruff Utility shall file a copy of CAAG's approval of the §208 Plan Amendment for Woodruff Utility within one year from the effective date of the final decision and order relevant to this CC&N application.

If Woodruff is granted the Water CC&N:

1. It is recommended that Woodruff Water Company shall file with the Commission a copy of the developers' Certificate of Assured Water Supply, or as an alternative, a copy of its Designation of an Assured Supply for Woodruff Water Company within two years of the effective date of the final decision and order in this matter.

2. It is recommended that Woodruff Water Company shall submit a copy of the ADEQ "Approval To Construct" within two years of the effective date of the final decision and order in this matter.

3. Staff recommends acceptance of Company's proposed water and wastewater depreciation rates delineated in section D, schedule 1a, page 1, in each of the water and wastewater applications.

4. Staff recommends that the Company file a curtailment tariff and a cross connection tariff within 60 days after the effective date of any decision and order pursuant to this application. The tariffs shall be filed within the current docket of record for this water CC&N application (Docket No. W-04265A-04-0438). Staff also recommends that the tariffs shall generally conform to the sample tariffs found posted on the Commission's web site (www.cc.state.az.us/utility/water/forms.htm) or available upon request from Commission Staff.

ATTACHMENT A

If Arizona Water Co. is granted the Water CC&N:

1. It is recommended that AWC update its physical availability demonstration to include the service areas in this CC&N application. AWC shall file such an amended PAD within two years of the effective date of the final decision and order in this matter.

2. It is recommended that AWC continue to use its existing Commission approved depreciation rates. If different depreciation rates are approved in the pending rate case, then these subsequent rates would supersede the present depreciation rates.

Proposed CC&N's For
Woodruff Utility & Woodruff Water Company
And Arizona Water Company

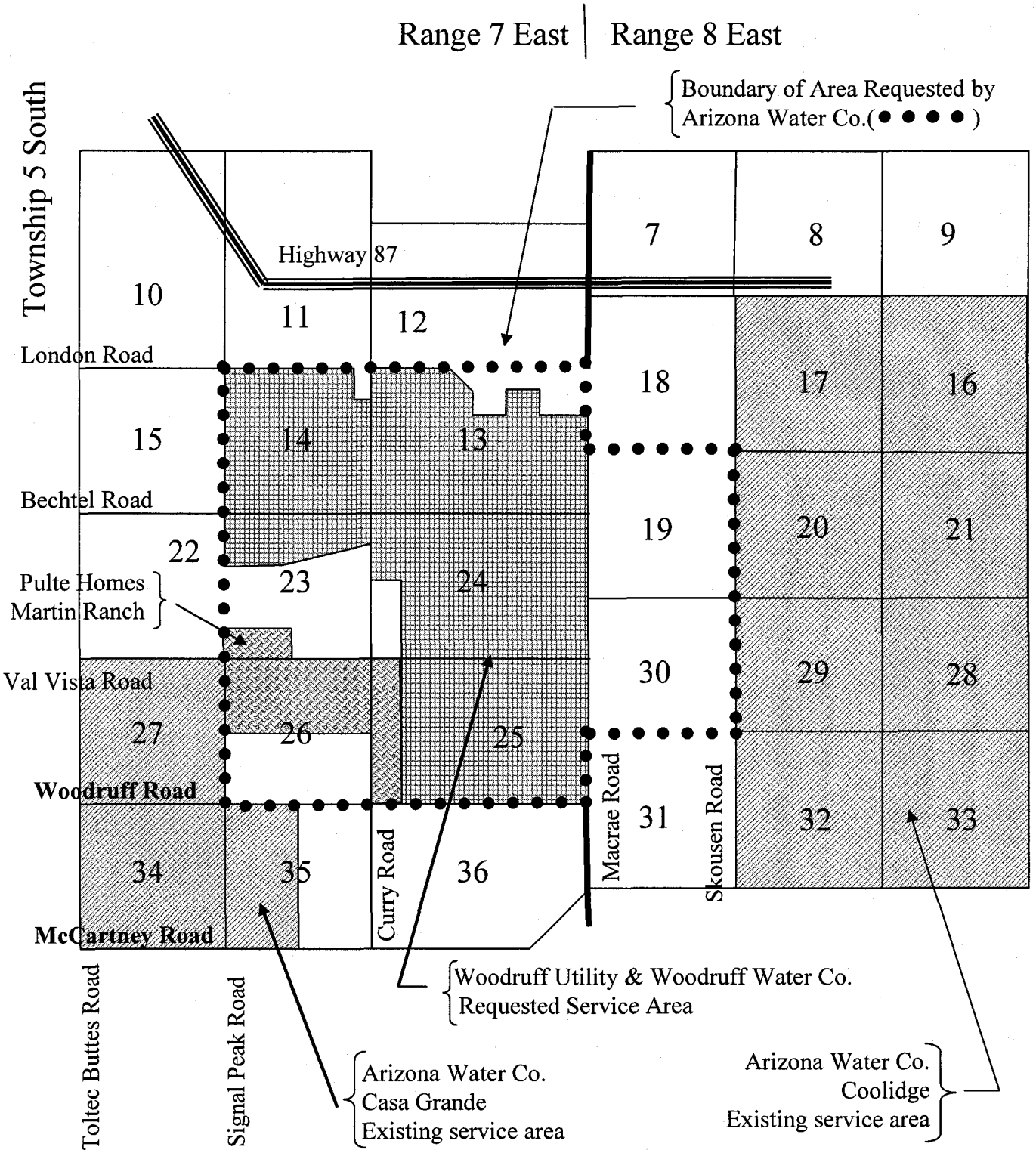
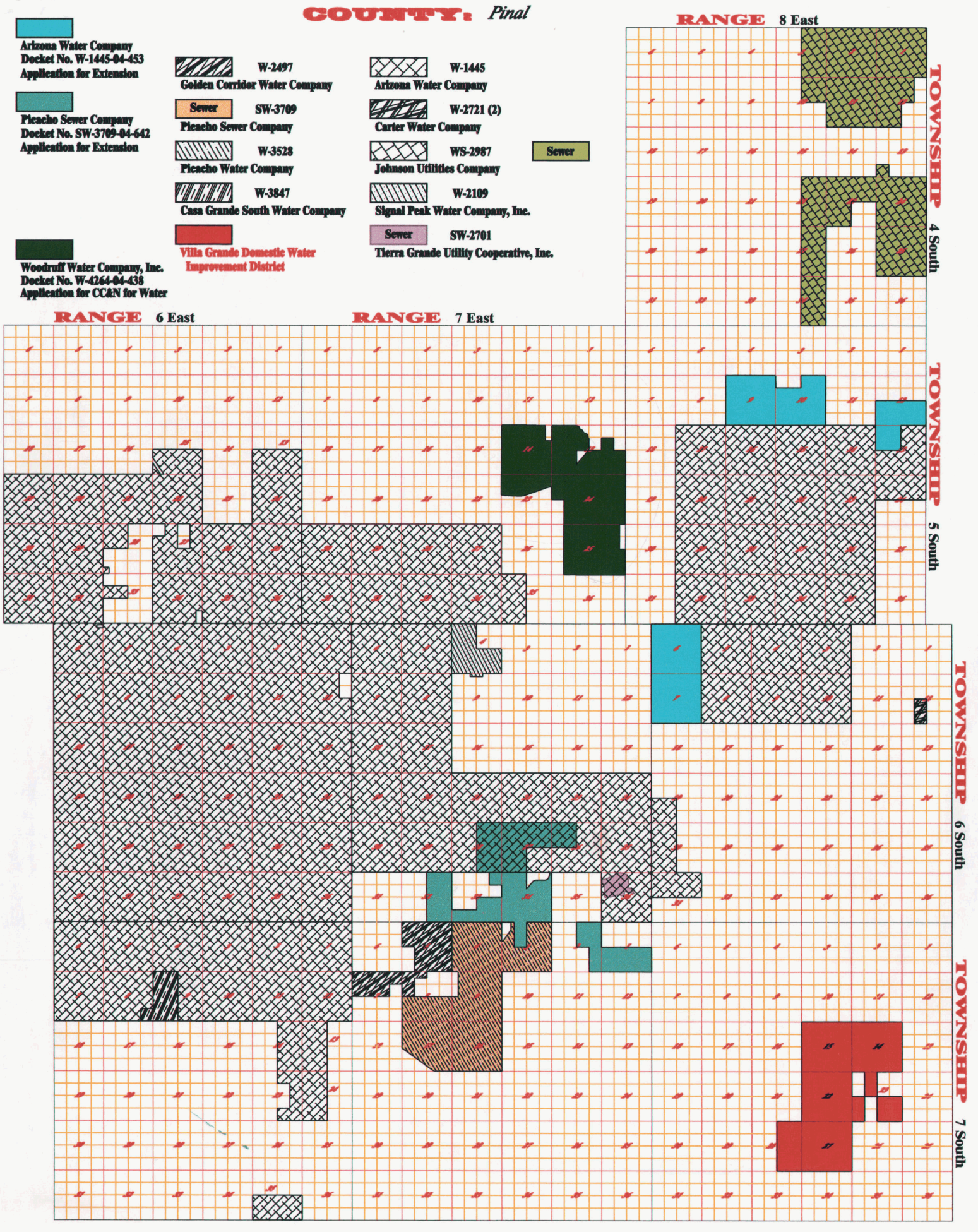
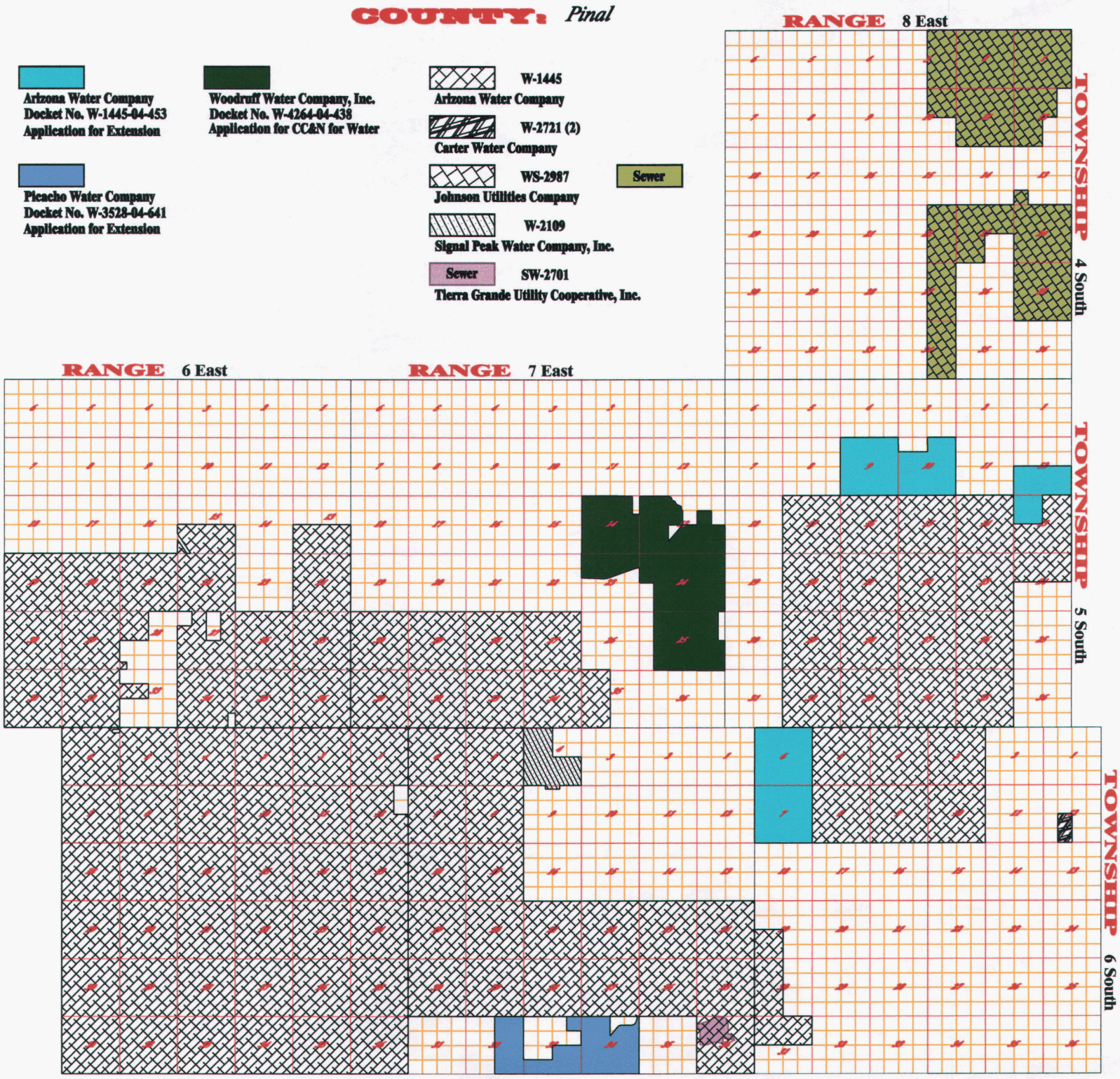


Exhibit 1

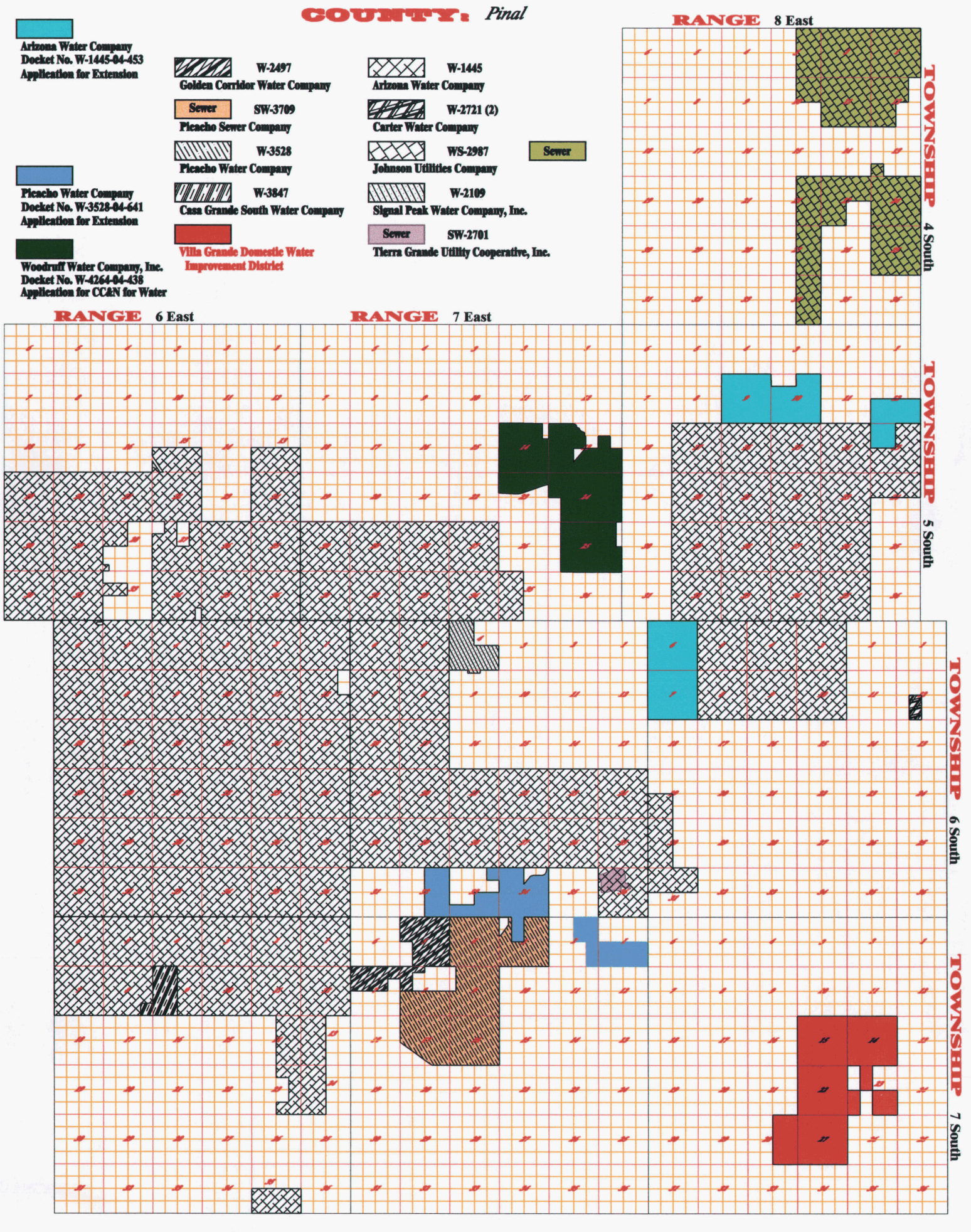
ATTACHMENT B



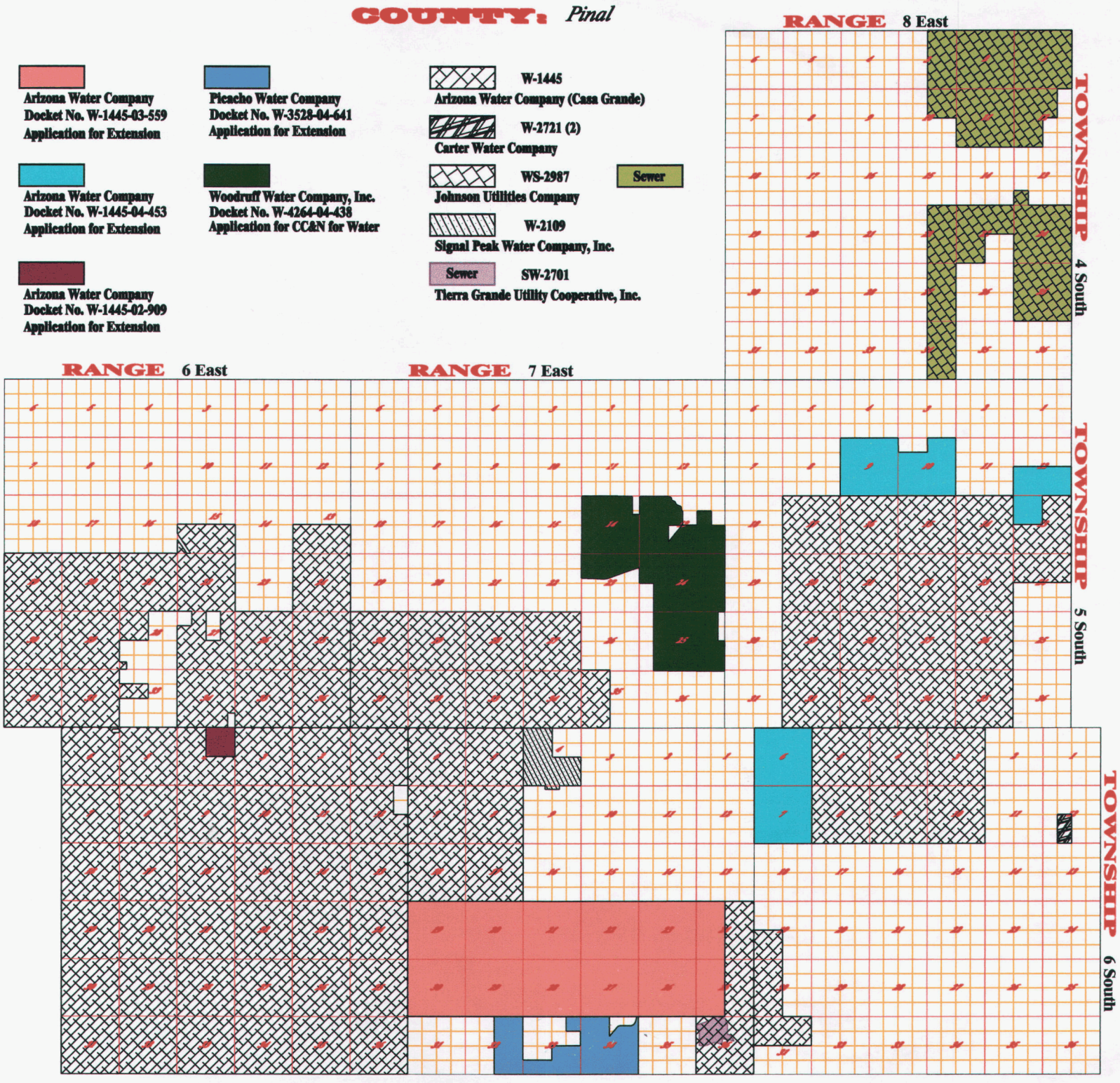
ATTACHMENT B



ATTACHMENT B



ATTACHMENT B



ATTACHMENT B

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 1, 2004

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-04-0755)**

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). However, a competing application has been filed by Woodruff Water Company for a portion of the area Arizona Water is requesting in this application.

Also attached are copies of the maps for your files.

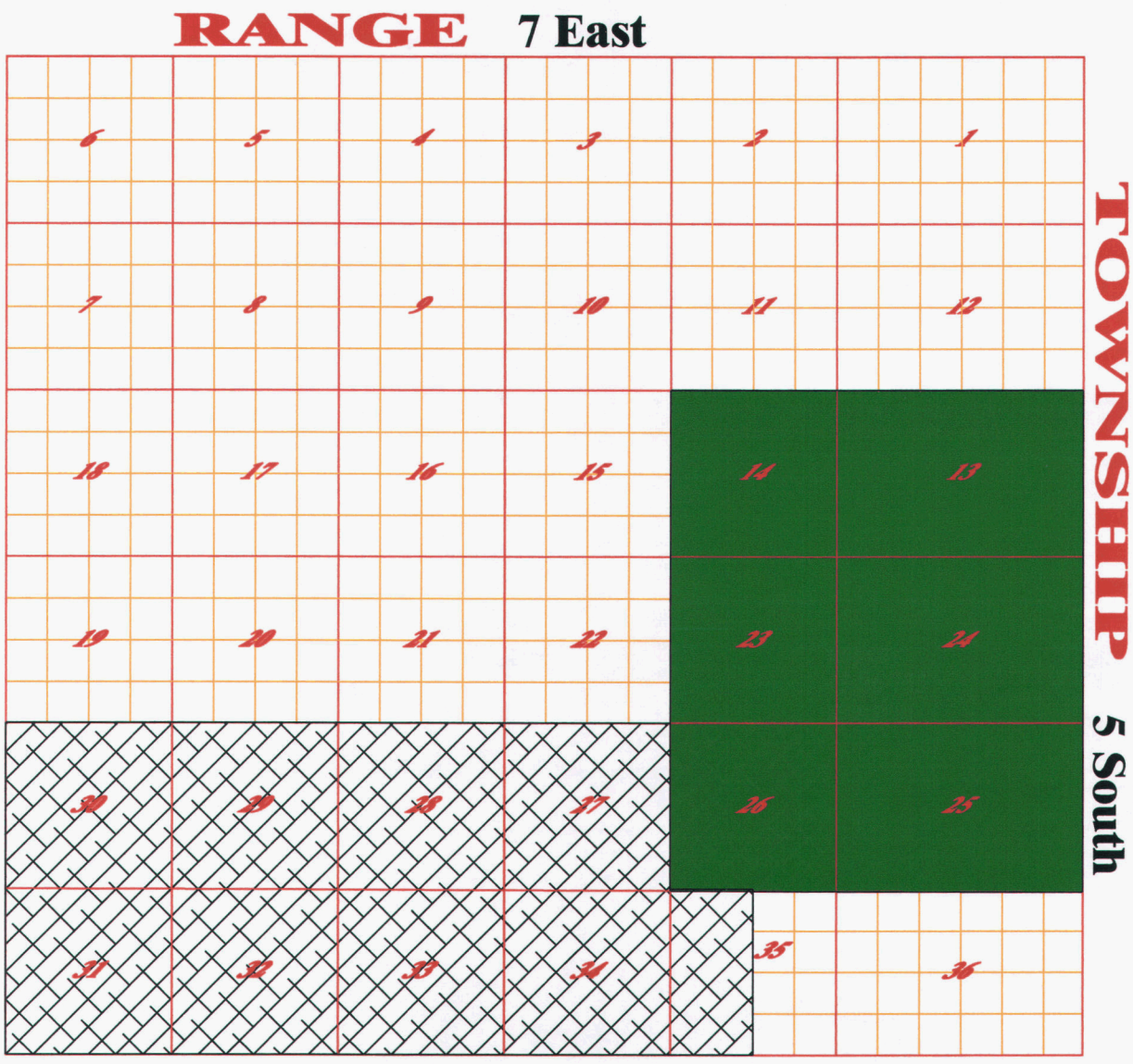
:bsw

Attachments

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

Map No. 19

COUNTY: *Pinal*



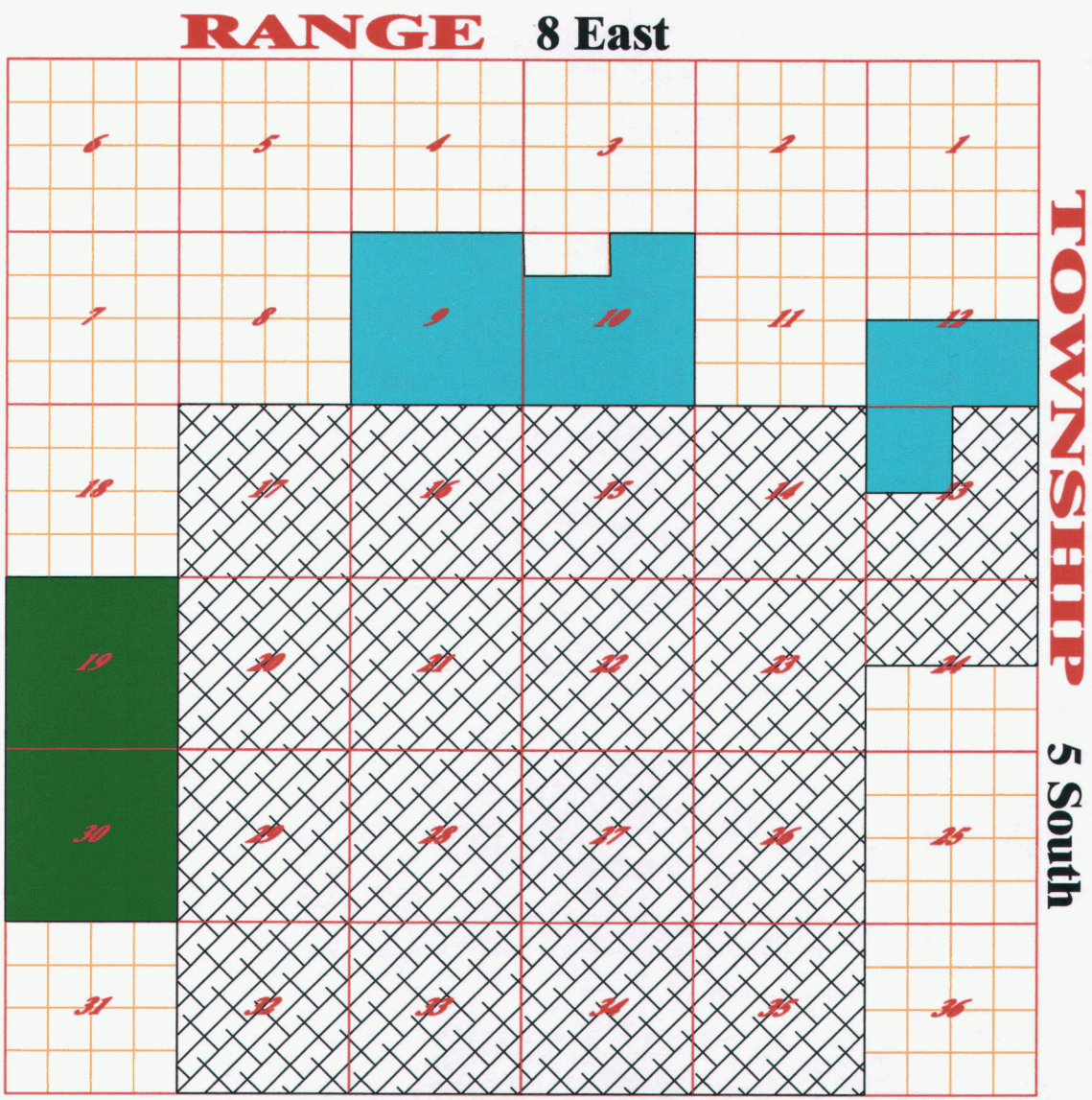
W-1445 (34)(9)
Arizona Water Company (Casa Grande)

Arizona Water Company
Docket No. W-1445-04-755
Application for Extension

TR5S7E 19 JUN 1998

Map No. 20

COUNTY: *Pinal*



W-1445 (34)(2)
Arizona Water Company (Coolidge)

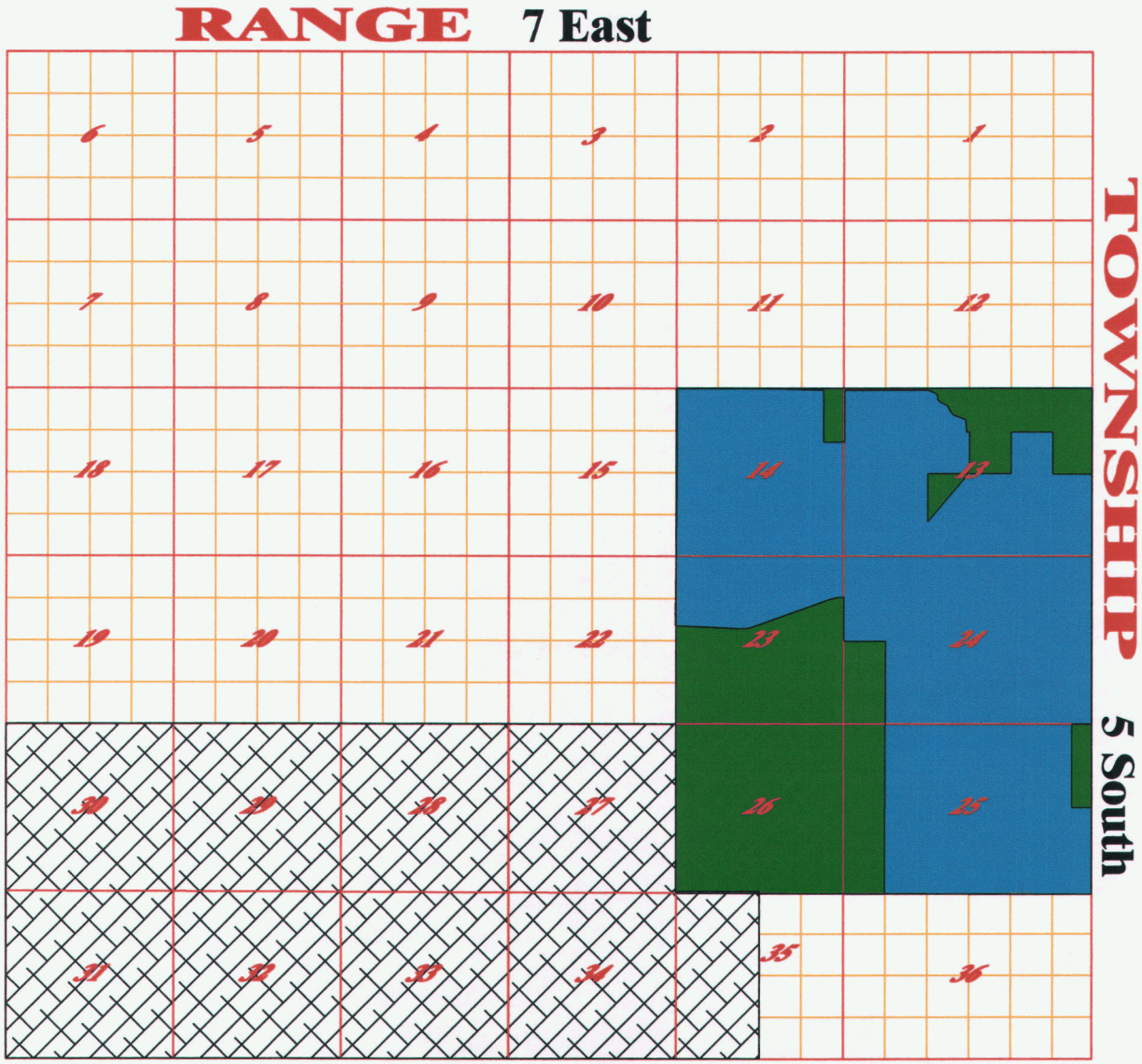
Arizona Water Company
Docket No. W-1445-04-453
Application for Extension

Arizona Water Company
Docket No. W-1445-04-755
Application for Extension

TR5S8E 27 FEB 1998

Map No. 19

COUNTY: *Pinal*



W-1445 (34)(9)
Arizona Water Company (Casa Grande)

Woodruff Water Company, Inc.
Docket No. W-4264-04-438
Application for CC&N for Water

Arizona Water Company
Docket No. W-1445-04-755
Application for Extension

TR5S7E 19 JUN 1998

EXHIBIT "1"

Area to be added to Casa Grande CC&N

The South half of the Southwest quarter of Section 23 and The West half of the West half of Section 25 and all of Section 26 of Township 5 South, Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

Area to be added to Coolidge CC&N

Sections 13, 14 and Section 23, except the South half of the Southwest quarter thereof, Section 24 and Section 25, except the West half of the West half thereof in Township 5 South, Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona; Together with:

Sections 19, 30 of Township 5 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona

ATTACHMENT B

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: June 17, 2004

RE: **WOODRUFF WATER COMPANY, INC. (DOCKET NO. W-04264A-04-0438)**

The area requested by Woodruff for a CC¢N 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.

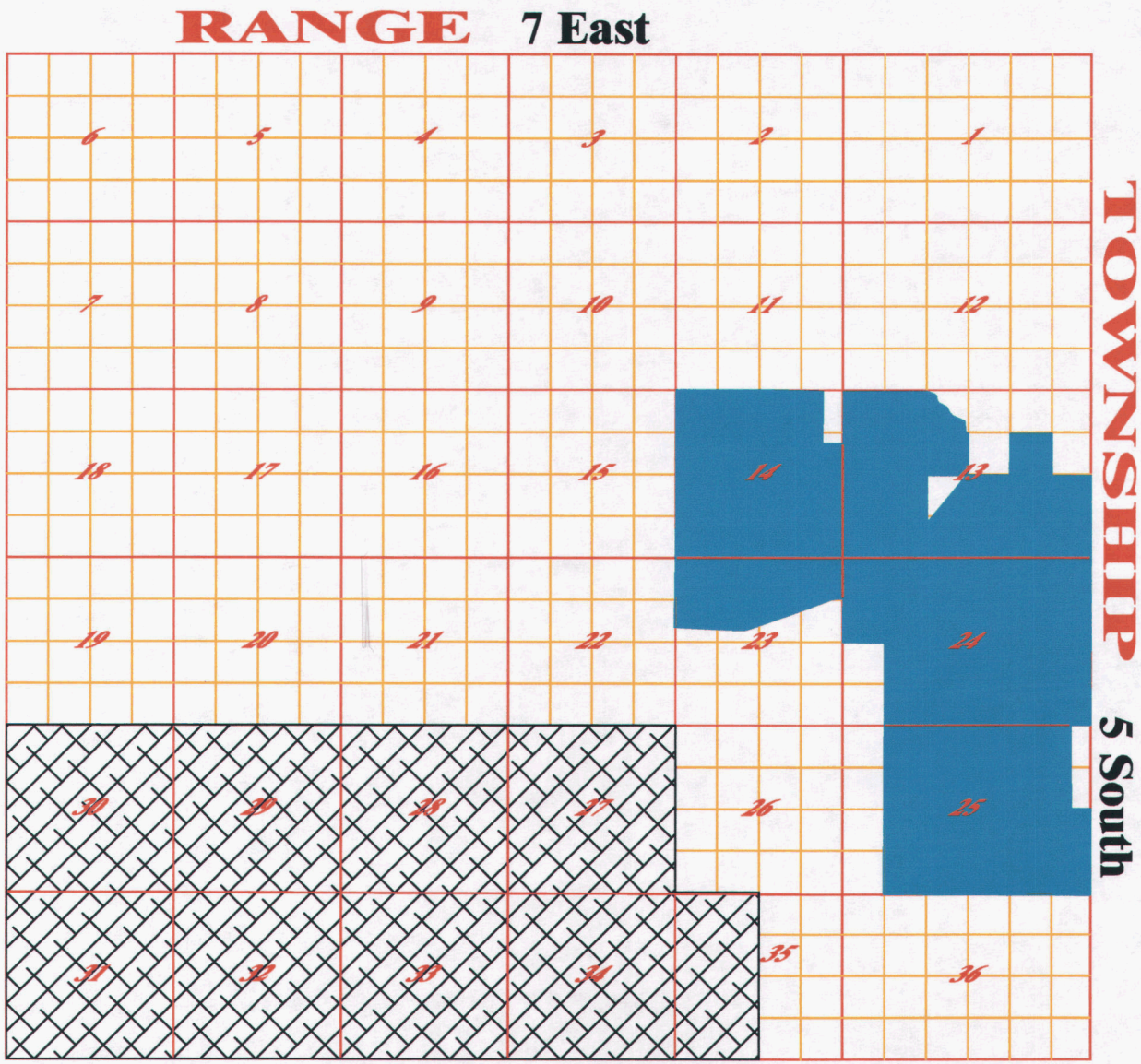
:bsw

Attachments

cc: Docket Control
Mr. Norman James
Ms. Deb Person (Hand Carried)
File

Map No. 19

COUNTY: *Pinal*



W-1445 (35)(10)
Arizona Water Company (Casa Grande)

Woodruff Water Company, Inc.
Docket No. W-4264-04-438
Application for CC&N

TR5S7E 19 JUN 1998

ATTACHMENT B-1

Legal Description
Property Located in Sections 13, 14, 23, 24, and 25,
Township 5 South, Range 7 East,
of the Gila and Salt River Base and Meridian
May, 13, 2004

The following legal description has been prepared based on the ALTA Surveys prepared by WRG Design, Inc., for the Sandia properties. This legal description is a composite legal description for both of the above described properties and sets for the total combined gross area of both properties.

A parcel of land located in Sections 13, 14, 23, 24, and 25 Township 5 South, Range 7 East, of the Gila and Salt River Base and Meridian, Pinal County, Arizona, more particularly described as follows.

Beginning at a 5/8" iron rod monumenting the southwest corner of Section 14; thence N 00°31'43" E 2642.66 feet along the West line of Section 14, to a 3/4" iron rod monumenting the West quarter corner of said Section 14; Thence continuing along said West line N 00°00'36" W 2635.33 feet to a 3/4" iron rod monumenting the northwest corner of said Section 14; Thence N 89°52'59" E 2631.86 feet along the North line of said Section 14, to a 3/4" iron rod monumenting the North quarter corner of Section 14; Thence continuing along said North line S 88°45'43" E 1991.02 feet, to a point at the northeast corner of the West half of the northeast quarter of the northeast quarter, Section 14; Thence S 00°12'14" W 1640.93 feet to the southwest corner of the North 5 acres of the East half of the southeast quarter of the northeast quarter, Section 14; thence S 89°36'16" E 661.75 feet along the South line of North 5 acres of the East half of the southeast quarter of the northeast quarter, Section 14, to a point on the East line of said Section 14; Thence N 00°16'03" E 1631.17 feet along said East line, to the northeast corner of said Section 14; Thence N 89°59'59" E 2624.14 feet along the North line of Section 13, to a G.L.O. brass cap monument at the North quarter corner of said Section 13; Thence S 82°35'33" E 398.40 feet, to a point; Thence S 74°19'38" E 104.24 feet, to a point; Thence S 61°20'53" E 82.69 feet, to a point; Thence S 53°04'34" E 514.00 feet, to a point; Thence S 49°01'16" E 382.30 feet, to a point; Thence S 44°04'05" E 146.45 feet, to a point; Thence S 41°57'17" E 658.86 feet, to a point; Thence S 89°32'32" E 815.13 feet, to a point on the West line of Government Lot 2;

ATTACHMENT B-1

Thence S 00°06'43" W 37.10 feet, to the southwest corner of said Lot 2 and coincident with the northwest corner of Government Lot 5; Thence S 89°49'58" E 1312.70 feet along the North line of Lot 5, to the northeast corner thereof; Thence S 00°07'43" W 1317.49 feet along the East line of Lot 5 to the southeast corner thereof and coincident with the northwest corner of Government lot 7; Thence S 89°41'56" E 1158.92 feet along the North line of Lot 7, to an iron rod at the East quarter corner of Section 13; Thence S 00°05'12" E 2654.10 feet along the East line of Section 13, to the southeast corner thereof; Thence S 00° 05'12" E 441.54 feet along the East line of Section 24, to a point; Thence continuing along said East line S 01°20'51" E 2206.52 feet, to the East quarter corner of said Section 24; Thence continuing along said East line S 01°20'51" E 447.15 feet, to a point; Thence continuing along said East line S 00°13'24" W 2200.06 feet, to a half inch iron rod at the southeast corner of said Section 24; Thence N 89°37'03" W 601.05 feet along the South line of said Section 24 and the North line of Section 25, to a point; Thence S 00°04'16" E 2644.39 to a point on the South line of the North half of Section 25; Thence
S 89°38'34" E 609.06 feet, to the southeast corner of said North half, Section 25; Thence S 00°14'41" E 2644.19 feet along the East line of said South half, Section 25, to an aluminum cap monument marking the southeast corner thereof; Thence N 89°42'47" W 5206.93 feet along the South line of said Section 25, to an aluminum cap in hand hole monumenting the South quarter corner of said Section 25; Thence continuing along said South line N 89°44'11" W 1324.50 feet to a point at the southwest corner of the East half of the southwest quarter of said Section 25; Thence N 00°13'12" E 5303.16 feet along the West line of said East half of the southwest and northwest quarter, Section 25, to a point on the North line of said Section 25 and coincident with the South line of said Section 24; thence N 00°12'38" E 2649.12 feet along said West line, to a point on the North line of the South half of said Section 24; Thence N 89°34'00" W 1323.99 feet along said North line, to a 5/8" iron rod monumenting the West quarter corner of said Section 24; Thence N 00°31'10" E 1347.44 feet along the West line of said Section 24, to a point on the southerly top of bank of the Southside Canal Aqueduct; Thence S 89°52'59" E 331.11 feet along said southerly top of bank, to the beginning of a 580.10 foot radius non-tangent curve to the left; Thence along said curve and continuing along said top of bank 509.80 feet through a central angle of 50°21'10" and a long chord of which bears N 65°49'56" E 493.55 feet, to a point; Thence continuing along said southerly top of bank N 40°07'06" E 1423.14 feet, to a point on the North line of said Section 24;

ATTACHMENT B-1

Thence N 89°52'59" W 0.29 feet along said North line, to a point; Thence continuing along said southerly top of bank N 40°00'29" E 1796.47 feet, to a point; Thence continuing along said southerly top of bank N 40°05'37" E 1633.45 feet to a point on the North line of the South half of Section 13; Thence S 89°41'56" E 1355.63 feet along said North line, to the southwest corner of said Lot 5; Thence N 00°06'43" E 1314.42 feet along the West line of said Lot 5, to the northwest corner thereof; Thence N 89°49'58" W 1313.35 feet, to a point on the East line of the northeast quarter of said Section 13; Thence S 00°05'42" W 1190.33 feet along said East line to a point on the northerly top of bank of the Southside Canal Aqueduct; Thence S 39°53'42" W 157.06 feet along said top of bank, to a point on the south line of the northeast quarter, Section 13; Thence N 89°41'56" W 1212.44 feet along said South line, to a point on the West line of the southeast quarter, Section 13; Thence
S 00°04'41" W 1458.40 feet along said West line, to a point on the northerly top of bank of the Southside Canal Aqueduct; Thence S 39°59'32" W 1532.07 feet along said northerly top of bank, to a point; Thence continuing along said northerly top of bank S 39°58'10" W 1395.05 feet, to the beginning of a 559.16 foot radius non-tangent curve to the right; Thence along said curve and continuing along said northerly top of bank 499.62 feet through a central angle of 51°11'42" and a long chord of which bears S 67°22'31" W 483.17 feet to a point; Thence continuing along said northerly top of bank S 89°43'30" W 496.20 feet, to the beginning of a 1185.35 foot radius non-tangent curve to the left; Thence along said curve and continuing along said northerly top of bank 412.46 through a central angle of 19°56'14" and a long chord of which bears S 74°39'56" W 410.39 feet, to a point; Thence continuing along said northerly top of bank S 70°12'37" W 882.53 feet, to a point; Thence continuing along said northerly top of bank S 70°21'29" W 1569.12 feet, to the beginning of a 1071.48 foot radius non-tangent curve to the right; Thence along said curve and continuing along said northerly top of bank 388.24 feet through a central angle of 20°45'38" and a long chord of which bears S 81°29'47" W 386.12 feet, to a point; Thence continuing along said northerly top of bank N 87°21'43" W 942.22 feet, to a point; Thence continuing along said northerly top of bank N 87°19'51" W 1107.10 feet, to a point on the West line of said Section 23; Thence N 00°43'28" E 2178.88 feet along said West line, to the **Point of Beginning**.

ATTACHMENT B-1

Excepting there a parcel of land located in the northeast quarter of Section 13, Township 5 South, Range 7 East, of the Gila and Salt River Base and Meridian, Pinal County, Arizona, more particularly described as follows:

Commencing at a G.L.O. brass cap monument at the North quarter corner of Section 13; Thence S 00°04'41" W 31.14 feet along the West line of the northeast quarter said Section 13, to the **Point of Beginning**; Thence S 78°02'45" E 230.09 feet, to a point; Thence S 44°12'32" E 95.61 feet, to a point; Thence S 03°24'38" E 144.61 feet, to a point; thence S 46°23'44" E 101.26 feet, to a point; Thence S 61°31'23" E 274.04 feet, to a point; Thence S 27°17'20" E 204.04 feet, to a point; thence S 44°20'46" E 135.27 feet, to a point; Thence S 67°42'29" E 410.63 feet, to a point; Thence S 04°59'49" E 330.74 feet, to a point; Thence S 89°37'30" E 489.84 feet, to a point; Thence N 37°58'54" W 659.97 feet, to a point; Thence N 51°54'29" W 1063.14 feet, to a point; Thence N 83°35'27" W 461.27 feet, to the **Point of Beginning**.

The above described properties total gross area is 138,427,484 square feet or 3,177.858 acres, more or less.

REGISTERED LAND SURVEYOR
CERTIFICATE NO.
36326
RICHARD A
STOCKMAN
Date Signed 5-14-04
ARIZONA, U.S.A.

ATTACHMENT B

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: June 17, 2004

RE: **WOODRUFF WATER COMPANY, INC. (DOCKET NO. W-04264A-04-0438)**

The area requested by Woodruff for a CC¢N 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.

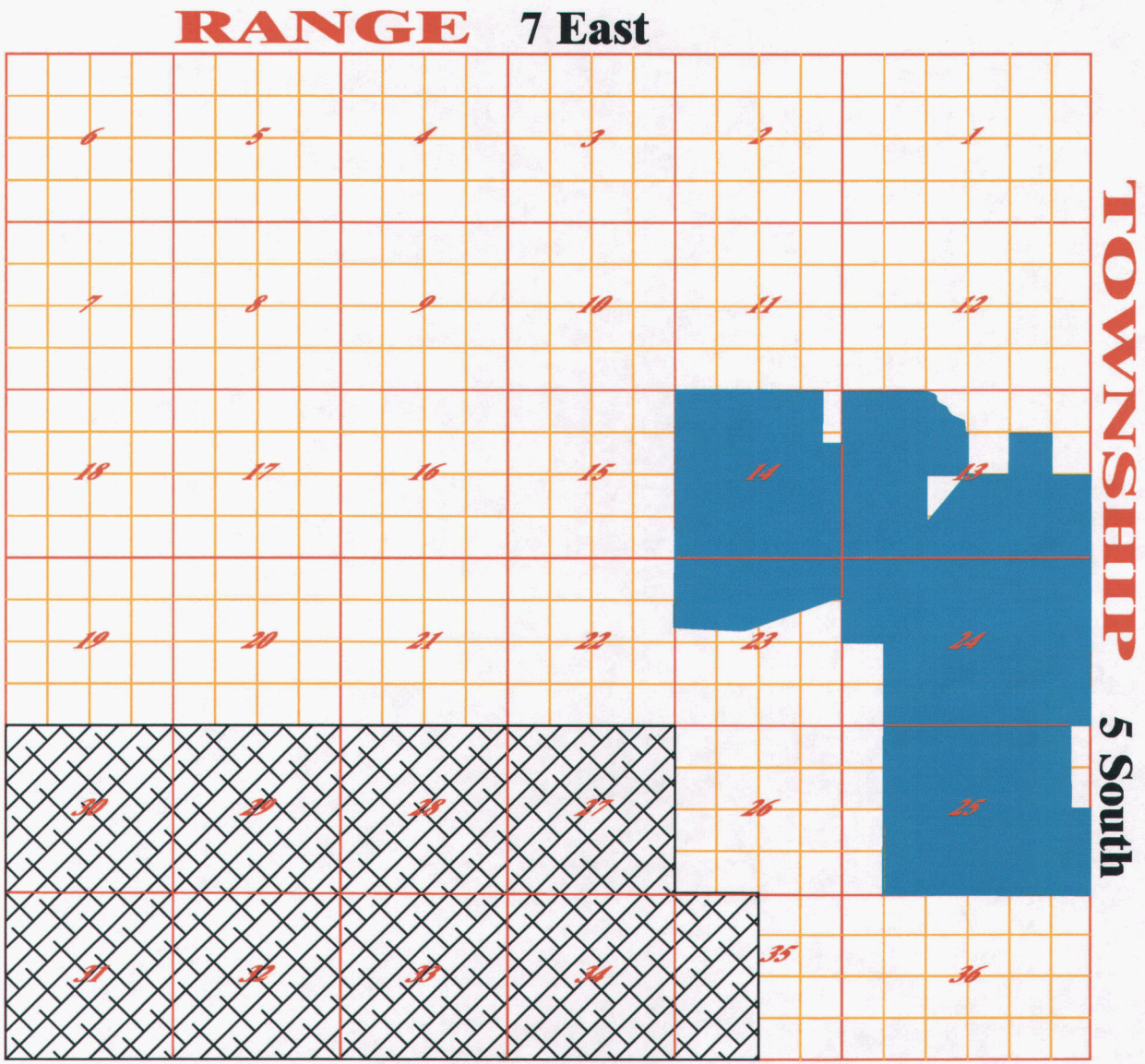
:bsw

Attachments

cc: Docket Control
Mr. Norman James
Ms. Deb Person (Hand Carried)
File

Map No. 19

COUNTY: *Pinal*



W-1445 (35)(10)
Arizona Water Company (Casa Grande)

Woodruff Water Company, Inc.
Docket No. W-4264-04-438
Application for CC&N

TR5S7E 19 JUN 1998

ATTACHMENT B-1

Legal Description
Property Located in Sections 13, 14, 23, 24, and 25,
Township 5 South, Range 7 East,
of the Gila and Salt River Base and Meridian
May, 13, 2004

The following legal description has been prepared based on the ALTA Surveys prepared by WRG Design, Inc., for the Sandia properties. This legal description is a composite legal description for both of the above described properties and sets for the total combined gross area of both properties.

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Beginning at a 5/8" iron rod monumenting the southwest corner of Section 14; thence N 00°31'43" E 2642.66 feet along the West line of Section 14, to a 3/4" iron rod monumenting the West quarter corner of said Section 14; Thence continuing along said West line N 00°00'36" W 2635.33 feet to a 3/4" iron rod monumenting the northwest corner of said Section 14; Thence N 89°52'59" E 2631.86 feet along the North line of said Section 14, to a 3/4" iron rod monumenting the North quarter corner of Section 14; Thence continuing along said North line S 88°45'43" E 1991.02 feet, to a point at the northeast corner of the West half of the northeast quarter of the northeast quarter, Section 14; Thence S 00°12'14" W 1640.93 feet to the southwest corner of the North 5 acres of the East half of the southeast quarter of the northeast quarter, Section 14; thence S 89°36'16" E 661.75 feet along the South line of North 5 acres of the East half of the southeast quarter of the northeast quarter, Section 14, to a point on the East line of said Section 14; Thence N 00°16'03" E 1631.17 feet along said East line, to the northeast corner of said Section 14; Thence N 89°59'59" E 2624.14 feet along the North line of Section 13, to a G.L.O. brass cap monument at the North quarter corner of said Section 13; Thence S 82°35'33" E 398.40 feet, to a point; Thence S 74°19'38" E 104.24 feet, to a point; Thence S 61°20'53" E 82.69 feet, to a point; Thence S 53°04'34" E 514.00 feet, to a point; Thence S 49°01'16" E 382.30 feet, to a point; Thence S 44°04'05" E 146.45 feet, to a point; Thence S 41°57'17" E 658.86 feet, to a point; Thence S 89°32'32" E 815.13 feet, to a point on the West line of Government Lot 2;

ATTACHMENT B-1

Thence S 00°06'43" W 37.10 feet, to the southwest corner of said Lot 2 and coincident with the northwest corner of Government Lot 5; Thence S 89°49'58" E 1312.70 feet along the North line of Lot 5, to the northeast corner thereof; Thence S 00°07'43" W 1317.49 feet along the East line of Lot 5 to the southeast corner thereof and coincident with the northwest corner of Government lot 7; Thence S 89°41'56" E 1158.92 feet along the North line of Lot 7, to an iron rod at the East quarter corner of Section 13; Thence S 00°05'12" E 2654.10 feet along the East line of Section 13, to the southeast corner thereof; Thence S 00° 05'12" E 441.54 feet along the East line of Section 24, to a point; Thence continuing along said East line S 01°20'51" E 2206.52 feet, to the East quarter corner of said Section 24; Thence continuing along said East line S 01°20'51" E 447.15 feet, to a point; Thence continuing along said East line S 00°13'24" W 2200.06 feet, to a half inch iron rod at the southeast corner of said Section 24; Thence N 89°37'03" W 601.05 feet along the South line of said Section 24 and the North line of Section 25, to a point; Thence S 00°04'16" E 2644.39 to a point on the South line of the North half of Section 25; Thence
S 89°38'34" E 609.06 feet, to the southeast corner of said North half, Section 25; Thence S 00°14'41" E 2644.19 feet along the East line of said South half, Section 25, to an aluminum cap monument marking the southeast corner thereof; Thence N 89°42'47" W 5206.93 feet along the South line of said Section 25, to an aluminum cap in hand hole monumenting the South quarter corner of said Section 25; Thence continuing along said South line N 89°44'11" W 1324.50 feet to a point at the southwest corner of the East half of the southwest quarter of said Section 25; Thence N 00°13'12" E 5303.16 feet along the West line of said East half of the southwest and northwest quarter, Section 25, to a point on the North line of said Section 25 and coincident with the South line of said Section 24; thence N 00°12'38" E 2649.12 feet along said West line, to a point on the North line of the South half of said Section 24; Thence N 89°34'00" W 1323.99 feet along said North line, to a 5/8" iron rod monumenting the West quarter corner of said Section 24; Thence N 00°31'10" E 1347.44 feet along the West line of said Section 24, to a point on the southerly top of bank of the Southside Canal Aqueduct; Thence S 89°52'59" E 331.11 feet along said southerly top of bank, to the beginning of a 580.10 foot radius non-tangent curve to the left; Thence along said curve and continuing along said top of bank 509.80 feet through a central angle of 50°21'10" and a long chord of which bears N 65°49'56" E 493.55 feet, to a point; Thence continuing along said southerly top of bank N 40°07'06" E 1423.14 feet, to a point on the North line of said Section 24;

ATTACHMENT B-1

Thence N 89°52'59" W 0.29 feet along said North line, to a point; Thence continuing along said southerly top of bank N 40°00'29" E 1796.47 feet, to a point; Thence continuing along said southerly top of bank N 40°05'37" E 1633.45 feet to a point on the North line of the South half of Section 13; Thence S 89°41'56" E 1355.63 feet along said North line, to the southwest corner of said Lot 5; Thence N 00°06'43" E 1314.42 feet along the West line of said Lot 5, to the northwest corner thereof; Thence N 89°49'58" W 1313.35 feet, to a point on the East line of the northeast quarter of said Section 13; Thence S 00°05'42" W 1190.33 feet along said East line to a point on the northerly top of bank of the Southside Canal Aqueduct; Thence S 39°53'42" W 157.06 feet along said top of bank, to a point on the south line of the northeast quarter, Section 13; Thence N 89°41'56" W 1212.44 feet along said South line, to a point on the West line of the southeast quarter, Section 13; Thence
S 00°04'41" W 1458.40 feet along said West line, to a point on the northerly top of bank of the Southside Canal Aqueduct; Thence S 39°59'32" W 1532.07 feet along said northerly top of bank, to a point; Thence continuing along said northerly top of bank S 39°58'10" W 1395.05 feet, to the beginning of a 559.16 foot radius non-tangent curve to the right; Thence along said curve and continuing along said northerly top of bank 499.62 feet through a central angle of 51°11'42" and a long chord of which bears S 67°22'31" W 483.17 feet to a point; Thence continuing along said northerly top of bank S 89°43'30" W 496.20 feet, to the beginning of a 1185.35 foot radius non-tangent curve to the left; Thence along said curve and continuing along said northerly top of bank 412.46 through a central angle of 19°56'14" and a long chord of which bears S 74°39'56" W 410.39 feet, to a point; Thence continuing along said northerly top of bank S 70°12'37" W 882.53 feet, to a point; Thence continuing along said northerly top of bank S 70°21'29" W 1569.12 feet, to the beginning of a 1071.48 foot radius non-tangent curve to the right; Thence along said curve and continuing along said northerly top of bank 388.24 feet through a central angle of 20°45'38" and a long chord of which bears S 81°29'47" W 386.12 feet, to a point; Thence continuing along said northerly top of bank N 87°21'43" W 942.22 feet, to a point; Thence continuing along said northerly top of bank N 87°19'51" W 1107.10 feet, to a point on the West line of said Section 23; Thence N 00°43'28" E 2178.88 feet along said West line, to the **Point of Beginning**.

ATTACHMENT B-1

Excepting there a parcel of land located in the northeast quarter of Section 13, Township 5 South, Range 7 East, of the Gila and Salt River Base and Meridian, Pinal County, Arizona, more particularly described as follows:

Commencing at a G.L.O. brass cap monument at the North quarter corner of Section 13; Thence S 00°04'41" W 31.14 feet along the West line of the northeast quarter said Section 13, to the **Point of Beginning**; Thence S 78°02'45" E 230.09 feet, to a point; Thence S 44°12'32" E 95.61 feet, to a point; Thence S 03°24'38" E 144.61 feet, to a point; thence S 46°23'44" E 101.26 feet, to a point; Thence S 61°31'23" E 274.04 feet, to a point; Thence S 27°17'20" E 204.04 feet, to a point; thence S 44°20'46" E 135.27 feet, to a point; Thence S 67°42'29" E 410.63 feet, to a point; Thence S 04°59'49" E 330.74 feet, to a point; Thence S 89°37'30" E 489.84 feet, to a point; Thence N 37°58'54" W 659.97 feet, to a point; Thence N 51°54'29" W 1063.14 feet, to a point; Thence N 83°35'27" W 461.27 feet, to the **Point of Beginning**.

The above described properties total gross area is 138,427,484 square feet or 3,177.858 acres, more or less.

MEMORANDUM

TO: Jim Fisher
Executive Consultant
Utilities Division

FROM: Crystal Brown
Public Utilities Analyst V
Financial and Regulatory Analysis Section,
Utilities Division

DATE: November 5, 2004

RE: WOODRUFF WATER COMPANY
DOCKET NO. W-04264A-04-0438

Introduction

On June 12, 2004, Woodruff Water Company ("Woodruff" or "Company"), filed an Application with the Arizona Corporation Commission ("Commission") for a Certificate of Convenience and Necessity ("CC&N") to provide potable water service to a planned community located west of Coolidge in Pinal County, Arizona. The area currently has no service.

Historical operating and financial information does not exist to provide a basis for establishing rates for this water system. Therefore, consistent with Commission rules, Woodruff's filing included the required five-year projections for plant values, operating revenue, operating expenses, and customers.

Staff's recommended rates are based on the Company's five-year projections, as adjusted by Staff. Staff recommends no change to the Company proposed revenue of $1,433,609. The recommended revenue would generate operating income of $416,473 resulting in a 9.34 percent rate of return on a Staff adjusted original cost rate base of $4,458,876 as shown on Schedule CSB-W1.

Projected Fair Value Rate Base ("FVRB")

The Company provided a schedule showing the elements of the projected original cost rate base as shown on Schedule CSB-W2. Staff evaluated the projected original cost rate base as the fair value rate base. Staff recommends a fair value rate base of $4,458,876.

Projected Plant in Service

In the first year, the Company plans to invest $5,345,800 in backbone plant and on-site facilities. The Company plans additional investments of: $1,341,500 in year two, $253,700 in year three, $772,900 in year four and $707,725 in year five for a projected Plant in Service total of $8,552,625 by the end of year five. The Company's Attachment C-4, entitled "Plant In Service", does not include the cost of land needed for the water system. The Company, however, provided plant projections from a registered professional engineer showing land value of $87,500. Staff increased Plant In Service by $87,500[1], from $8,552,625 to $8,640,125 as a result of recommending the land value provided by the registered professional engineer.

Accumulated Depreciation

The Company's projected Accumulated Depreciation balances are shown by year on Schedule CSB-W2. In the fifth year, the Company anticipates a $1,914,155 Accumulated Depreciation balance. Staff made no adjustments to Accumulated Depreciation.

Projected Advances In Aid of Construction ("AIAC")

The Company projects that the net cumulative balance for advances obtained from developers will be $2,025,094 in year five. Additionally, the Company projects that the net cumulative balances for service line and meter advances obtained from customers will be $242,000 in year five, for a total AIAC balance of $2,267,094.

As shown on Schedule CSB-W2, Staff decreased rate base by $2,267,094, from $6,340,044 to $4,458,876 as a result of reflecting AIAC.

Projected Operating Income

The Company provided projected revenues and expenses for five years. Staff's analysis, while taking into account all of the years presented, is concentrated on the fifth year of operation when breakeven or profitability is usually expected.

Projected Operating Revenues

Staff reviewed the Company's calculation of revenue based on the five year projection and found it to be reasonable. Schedule CSB-W3 reflects operating revenues of $1,433,609.

Projected Operating Expenses

Staff reviewed the operating expenses and found them to be reasonable. Specifically, Staff reviewed the Company proposed depreciation rates and found them to be consistent, without exception, with those recommended by Staff Engineering. Schedule CSB-W3 reflects operating expenses of $1,017,136 in year five.

[1] Company application, Tab C, Attachment C-3

Rate Design

Schedule CSB-W4 presents a complete list of the Company's proposed, and Staff's recommended[2] rates and charges. The Company expects that in the fifth year of operations it will serve 2,700 residential and 20 commercial customers with 5/8-inch meters and one school with a 2-inch meter.

5/8-Inch Meter Rate Structure

Staff reviewed the proposed 5/8-inch meter rate structure and determined that the distribution of revenue generated from the monthly customer charge and from the commodity charge was unreasonable. Under the Company's proposed rates, 51 percent of revenue is generated from the monthly customer charge and 49 percent from the commodity charge. The Company did not perform a projected cost of service study to support its proposed rates.

Staff's recommended rate structure distributes revenue between the monthly customer charge and the commodity charge in percentages that will allow customers greater control over their bills. Staff's recommended rates generate 42 percent of revenue from the monthly customer charge and 58 percent from the commodity charge.

2-Inch Meter / Schools Rate Structure

The Company proposed two separate rate structures for the 2-inch meter: one for schools and another for all other customers. The Company did not provided any evidence showing a difference in the cost to serve schools versus customers who are not schools. Therefore, Staff recommends the same rate structure for all 2-inch meter customers to avoid price discrimination.

Tier Break-over Levels

Staff adjusted the tier break-over levels for all meter sizes to prevent the possibility of a customer on a smaller meter paying more than a customer on a larger meter for the same amount of water.

Service Charges

Staff decreased the Establishment (After Regular Working Hours), the Reconnection (Delinquent), and the NSF Check charges to reflect charges currently recommended by Staff for similar utilities. The Company did not provide any cost justification to support its proposed charges.

Typical Bill Analysis

Staff's recommended rate structure generates essentially the same amount of revenue as the Company's proposed rates for a reasonable projected rate of return. Staff's recommended

[2] Assumes that Woodruff is awarded the CC&N over competing utilities.

rates for the 5/8-inch meter customers would result in a monthly residential bill of $47.04[3] based on average usage of 10,000 gallons per month. The Company's proposed rates would result in a monthly residential bill of $47.00[4].

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule CSB-W4.

Staff recommends that the Commission make a fair value finding of $4,458,876.

Staff further recommends that Woodruff continue to utilize the depreciation rates stated in the attached Engineering Memorandum.

[3] $20 + (4 x $2.08 per thousand gallons) + (6 x $3.12 per thousand gallons) = $47.04
[4] $24 + (7 x $2.00 per thousand gallons) + (3 x $3.00 per thousand gallons) = $47.00

Woodruff Water Company, Inc.
Docket No. W-04264A-04-0438 Schedule CSB - W1
Test Year Ended: Fifth Year of Operation

SUMMARY OF FILING

	-- Proposed Rates --	
	Company as Filed	Staff as Adjusted
Revenues:		
Metered Water Revenue	$1,415,459	$1,415,459
Unmetered Water Revenue	0	0
Other Water Revenues	18,150	18,150
Total Operating Revenue	$1,433,609	**$1,433,609**
Operating Expenses:		
Operation and Maintenance	$400,595	$400,595
Depreciation	479,619	479,619
Property & Other Taxes	32,987	32,987
Income Tax	103,935	103,935
Total Operating Expense	$1,017,136	**$1,017,136**
Operating Income/(Loss)	$416,473	**$416,473**
Rate Base O.C.L.D.	$6,638,470	**$4,458,876**
Rate of Return - O.C.L.D.	6.27%	9.34%
Operating Margin	29.05%	29.05%

NOTE: Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

Woodruff Water Company, Inc.
Docket No. W-04264A-04-0438
Test Year Ended: Fifth Year of Operation

Schedule CSB - W2

PROJECTED ORIGINAL COST RATE BASE

	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments		Staff Adjusted
Plant in Service	$5,476,800	$6,818,300	$7,072,000	$7,844,900	$8,552,625	$87,500	A	$8,640,125
Less:								
Accum. Depreciation	177,900	562,186	985,375	1,434,536	1,914,155	0		$1,914,155
Net Plant	$5,298,900	$6,256,114	$6,086,625	$6,410,364	$6,638,470	$87,500		**$6,725,970**
Less:								
Advances in Aid of Construction	0	0	0	0	0	$2,025,094		$2,025,094
Meter and Service Line Advances	0	0	0	0	0	242,000		242,000
Total Advances	$0	$0	$0	$0	$0	$2,267,094	B	$2,267,094
Contributions Gross	$0	$0	$0	$0	$0	$0		$0
Less:								
Amortization of CIAC	0	0	0	0	0	0		0
Net CIAC	$0	$0	$0	$0	$0	$0		$0
Total Deductions	$0	$0	$0	$0	$0	$2,267,094		**$2,267,094**
Plus:								
Cash Working Capital	$0	$0	$0	$0	$0	$0		$0
Materials and Supplies Inventory	0	0	0	0	0	0		0
Prepayments	0	0	0	0	0	0		0
Total Additions	$0	$0	$0	$0	$0	$0		**$0**
Rate Base	**$5,298,900**	**$6,256,114**	**$6,086,625**	**$6,410,364**	**$6,638,470**	**($2,179,594)**		**$4,458,876**

Explanation of Adjustment:

A - To reflect land values provided by registered professional engineer.
B - To reflect advances in aid of construction.

Woodruff Water Company, Inc.
Docket No. W-04264A-04-0438
Test Year Ended: Fifth Year of Operation

Schedule CSB - W3

PROJECTED STATEMENT OF OPERATING INCOME

	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments	Staff Adjusted
Revenues:							
461 Metered Water Revenue	$93,600	$360,290	$714,965	$1,069,579	$1,415,459	$0	$1,415,459
460 Unmetered Water Revenue	0	0	0	0	0	0	0
474 Other Water Revenues	9,000	18,180	18,180	18,150	18,150	0	18,150
Total Operating Revenue	$102,600	$378,470	$733,145	$1,087,729	$1,433,609	$0	**$1,433,609**
Operating Expenses:							
601 Salaries and Wages	$68,500	$70,555	$72,672	$74,852	$77,097	$0	$77,097
610 Purchased Water	0	0	0	0	0	0	0
615 Purchased Power	8,100	32,811	67,264	101,717	134,938	0	134,938
618 Chemicals	6,000	9,000	12,000	15,000	18,000	0	18,000
620 Repairs and Maintenance	2,000	6,000	9,000	12,000	15,000	0	15,000
621 Office Supplies & Expense	7,700	18,845	32,744	46,643	60,533	0	60,533
630 Contractual Services	54,000	55,620	57,289	59,007	60,777	0	60,777
635 Water Testing	1,500	4,525	7,555	10,580	13,605	0	13,605
641 Rents	3,000	3,090	3,183	3,278	3,377	0	3,377
650 Transportation Expenses	2,500	2,575	2,652	2,732	2,814	0	2,814
657 Insurance - General Liability	0	0	0	0	0	0	0
659 Insurance - Health and Life	0	0	0	0	0	0	0
666 Regulatory Commisssion Expense - R	0	0	0	0	0	0	0
675 Miscellaneous Expense	13,400	13,652	13,912	14,179	14,454	0	14,454
403 Depreciation Expense	177,900	384,286	423,189	449,161	479,619	0	479,619
408 Taxes Other Than Income	0	0	0	0	0	0	0
408.11 Property Taxes	2,713	5,604	12,187	22,186	32,987	0	32,987
409 Income Tax	50	50	50	50	103,935	0	103,935
Total Operating Expenses	$347,363	$606,613	$713,697	$811,385	$1,017,136	$0	**$1,017,136**
OPERATING INCOME/(LOSS)	**($244,763)**	**($228,143)**	**$19,448**	**$276,344**	**$416,473**	**$0**	**$416,473**
Other Income/(Expense):							
419 Interest and Dividend Income	$375	$878	$3,040	$10,526	$0	$0	$0
421 Non-Utility Income	0	0	0	0	0	0	0
427 Interest Expense	0	0	0	0	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0	0	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0	0	0	0	0
Total Other Income/(Expense)	$375	$878	$3,040	$10,526	$0	$0	$0
NET INCOME/(LOSS)	**($244,388)**	**($227,265)**	**$22,488**	**$286,870**	**$416,473**	**$0**	**$416,473**

RATE DESIGN

	-Proposed Rates-	
Monthly Customer Charges	Company	Staff
5/8" x 3/4" Meter	$24.00	$20.00
3/4" Meter	24.00	30.00
1" Meter	60.00	50.00
1½" Meter	120.00	100.00
2" Meter	192.00	160.00
3" Meter	384.00	300.00
4" Meter	600.00	500.00
6" Meter	1,200.00	1,000.00
8" Meter	1,920.00	1,600.00
10" Meter	2,760.00	2,300.00
12" Meter	5,160.00	4,300.00
Gallons Included in Monthly Customer Charge	0	0
Commodity Charges - Per 1,000 Gallons of Usage		
5/8 x 3/4-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 14,000 gallons	$3.00	n/a
14,001 and above gallons	$4.00	n/a
0 to 4,000 gallons	n/a	$2.08
4,001 to 20,000 gallons	n/a	$3.12
20,001 and above gallons	n/a	$3.74
3/4-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 14,000 gallons	$3.00	n/a
14,001 and above gallons	$4.00	n/a
0 to 4,000 gallons	n/a	$2.08
4,001 to 20,000 gallons	n/a	$3.12
20,001 and above gallons	n/a	$3.74
1-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 35,000 gallons	$3.00	n/a
35,001 and above gallons	$4.00	n/a
0 to 25,000 gallons	n/a	$3.12
25,001 and above gallons	n/a	$3.74
1 1/2 - Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 70,000 gallons	$3.00	n/a
70,001 and above gallons	$4.00	n/a
0 to 42,000 gallons	n/a	$3.12
42,001 and above gallons	n/a	$3.74

RATE DESIGN
Continued

Commodity Charges - Per 1,000 Gallons of Usage

	-Proposed Rates-	
	Company	Staff
2-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 112,000 gallons	$3.00	n/a
112,001 and above gallons	$4.00	n/a
0 to 63,000 gallons	n/a	$3.12
63,001 and above gallons	n/a	$3.74
School / 2-Inch Meters		
0 to 100,000 gallons	$2.00	n/a
100,001 to 500,000 gallons	$3.00	n/a
500,001 and above gallons	$4.00	n/a
0 to 63,000 gallons	n/a	$3.12
63,001 and above gallons	n/a	$3.74
3-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 224,000 gallons	$3.00	n/a
224,001 and above gallons	$4.00	n/a
0 to 120,000 gallons	n/a	$3.12
120,001 and above gallons	n/a	$3.74
4-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 350,000 gallons	$3.00	n/a
350,001 and above gallons	$4.00	n/a
0 to 180,000 gallons	n/a	$3.12
180,001 and above gallons	n/a	$3.74
6-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 700,000 gallons	$3.00	n/a
700,001 and above gallons	$4.00	n/a
0 to 207,000 gallons	n/a	$3.12
207,001 and above gallons	n/a	$3.74
8-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 1,120,000 gallons	$3.00	n/a
1,120,001 and above gallons	$4.00	n/a
0 to 235,000 gallons	n/a	$3.12
235,001 and above gallons	n/a	$3.74

RATE DESIGN
Continued

Commodity Charges - Per 1,000 Gallons of Usage

	-Proposed Rates- Company	Staff
10-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 1,610,000	$3.00	n/a
1,610,001 and above gallons	$4.00	n/a
0 to 262,000 gallons	n/a	$3.12
262,001 and above gallons	n/a	$3.74
12-Inch Meters		
0 to 7,000 gallons	$2.00	n/a
7,001 to 3,010,000	$3.00	n/a
3,010,001 and above gallons	$4.00	n/a
0 to 290,000 gallons	n/a	$3.12
290,001 and above gallons	n/a	$3.74

Service Line and Meter Installation Charges

5/8" x 3/4" Meter	$400.00	$400.00
3/4" Meter	440.00	440.00
1" Meter	500.00	500.00
1½" Meter	715.00	715.00
2" Meter (Turbo)	1,170.00	1,170.00
2" Meter (Compound)	1,700.00	1,700.00
3" Meter (Turbo)	1,585.00	1,585.00
3" Meter (Compound)	2,190.00	2,190.00
4" Meter (Turbo)	2,540.00	2,540.00
4" Meter (Compound)	3,215.00	3,215.00
6" Meter (Turbo)	4,815.00	4,815.00
6" Meter (Compound)	6,270.00	6,270.00
8" Meter (Turbo)	Cost (a)	Cost (a)
8" Meter (Compound)	Cost (a)	Cost (a)
10" Meter (Turbo)	Cost (a)	Cost (a)
12" Meter (Compound)	Cost (a)	Cost (a)

(a) Cost to include parts, labor, overhead, and all applicable taxes, including income taxes

RATE DESIGN
Continued

	-Proposed Rates-	
Service Charges	Company	Staff
Establishment	$30.00	$30.00
Establishment (After Hours)	50.00	45.00
Reconnection (Delinquent)	50.00	35.00
NSF Check	30.00	25.00
Meter Re-Read (If Correct)	30.00	30.00
Meter Test (If Correct)	30.00	30.00
Deferred Payment	1.50%	1.50%
Deposit Interest	*	*
Deposit	*	*
Re-Establishment (Within 12 Months)	**	**
Late Payment Penalty (Per Month)	1.50%	1.50%
Monthly Service Charge for Fire Sprinkler		
4" or Smaller	$0.00	***
6"	0.00	***
8"	0.00	***
10"	0.00	***
Larger than 10"	0.00	***

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

MEMORANDUM

TO: Jim Fisher
Executive Consultant
Utilities Division

FROM: Crystal Brown
Public Utilities Analyst V
Financial and Regulatory Analysis Section
Utilities Division

DATE: November 5, 2004

RE: WOODRUFF UTILITY COMPANY
DOCKET NO. SW-04265A-04-0439

Introduction

On June 12, 2004, Woodruff Utility Company ("Woodruff" or "Company"), filed an Application with the Arizona Corporation Commission ("Commission") for a Certificate of Convenience and Necessity ("CC&N") to provide wastewater service to a planned community located west of Coolidge in Pinal County, Arizona. The area currently has no wastewater service.

Historical operating and financial information does not exist to provide a basis for establishing rates for this wastewater system. Therefore, consistent with Commission rules, Woodruff's filing included the required five-year projections for plant values, operating revenue, operating expenses, and customers.

Staff's recommended rates are based on the Company's five-year projections, as adjusted by Staff. Staff recommends no change to the Company proposed revenue of $1,727,293 in year five. The recommended revenue would generate operating income of $405,764 resulting in a 5.13 percent rate of return on a Staff adjusted original cost rate base of $7,914,418 as shown on Schedule CSB-WW1.

Projected Fair Value Rate Base ("FVRB")

The Company provided information that was sufficient to calculate the projected original cost rate base ("OCRB") as shown on Schedule CSB-WW2. Staff evaluated the projected

OCRB as the fair value rate base. Staff recommends a fair value rate base in year five of $7,914,418.

Projected Plant in Service

In the first year, the Company plans to invest $1,225,000 in land and $7,586,280 in backbone plant and on-site facilities for a total investment of $8,811,280. The Company plans additional investments of: $1,207,500 in year two, $2,234,500 in year three, $1,207,500 in year four and $1,207,500 in year five for a projected Plant in Service total of $14,668,280 by the end of year five.

Accumulated Depreciation

The Company's projected Accumulated Depreciation balances are shown by year on Schedule CSB-WW2. In the fifth year, the Company anticipates a $1,623,730 Accumulated Depreciation balance. Staff made no adjustments to Accumulated Depreciation.

Projected Advances In Aid of Construction ("AIAC") and Contributions In Aid of Construction ("CIAC")

The Company projects that the net cumulative balance for AIAC will be $3,830,132 in year five. Additionally, the Company projects that the net cumulative balances for CIAC will be $1,300,000 in year five.

Projected Operating Income

The Company provided projected revenues and expenses for five years. Staff's analysis, while taking into account all of the years presented, is concentrated on the fifth year of operation when breakeven or profitability is usually expected.

Projected Operating Revenues

Staff reviewed the Company's calculation of revenue based on the five-year projection and found it to be reasonable. Schedule CSB-WW3 reflects operating revenues in year five of $1,727,293.

Projected Operating Expenses

Staff reviewed the operating expenses and found them to be reasonable. Specifically, Staff reviewed the Company proposed depreciation rates and found them to be consistent, without exception, with those recommended by Staff Engineering. Schedule CSB-WW3 reflects operating expenses of $1,321,529 in year five.

Rate Design

Schedule CSB-WW4 presents a complete list of the Company's proposed, and Staff's recommended rates and charges. The Company expects that in the fifth year of operations it will serve 2,700 residential customers, 20 commercial customers, and one school.

Monthly Flat Rate

The Company proposed monthly flat rate is based upon customers' water meter sizes. The Company used the National Association of Regulatory Utility Commissioners ("NARUC") recommended multipliers to increase the flat rate based upon the size of the customers' water meter with the exception of those customers with a ¾-inch meter. The rate for the ¾-inch customers is the same as that for customers on a 5/8-inch x ¾-inch water meter. Staff recommends adopting the Company's proposed rates.

Effluent Sales

The Company proposes to sell effluent at two different rates. The Company did not perform a projected cost of service study to support its proposed rates. The Company did not provide any cost justification to support a difference in the cost of effluent. Therefore, Staff recommends that the rate be the same to avoid price discrimination.

Service Charges

Staff decreased the Establishment (After Regular Working Hours), Service Call Out (After Regular Working Hours) and the NSF Check charges to reflect charges currently recommended by Staff for similar utilities. The Company did not provide any cost justification to support its proposed charges.

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule CSB-WW4.

Staff further recommends that the Commission make a fair value finding of $7,914,418.

Staff further recommends that Woodruff continue to utilize the depreciation rates stated in the attached Engineering Memorandum.

Staff further recommends that the Company be ordered to file for a rate review in its sixth year of operations, using the fifth year as the test year.

Woodruff Utility Company, Inc.
Docket No. SW-04265A-04-0439 Schedule CSB - WW1
Test Year Ended: Fifth Year of Operation

SUMMARY OF FILING

	-- Proposed Rates --	
	Company as Filed	Staff as Adjusted
Revenues:		
Flat Rate Revenues	$1,531,662	$1,531,662
Measured Revenues, Effluent Sales	177,481	177,481
Establishment Charges	18,150	18,150
Total Operating Revenue	$1,727,293	**$1,727,293**
Operating Expenses:		
Operation and Maintenance	$501,332	$501,332
Depreciation	525,482	525,482
Property & Other Taxes	39,637	39,637
Income Tax	255,078	255,078
Total Operating Expense	$1,321,529	**$1,321,529**
Operating Income/(Loss)	$405,764	**$405,764**
Rate Base O.C.L.D.	$7,914,418	**$7,914,418**
Rate of Return - O.C.L.D.	5.13%	5.13%
Operating Margin	23.49%	23.49%

NOTE: Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

Woodruff Utility Company, Inc.
Docket No. SW-04265A-04-0439
Test Year Ended: Fifth Year of Operation

Schedule CSB -WW2

PROJECTED ORIGINAL COST RATE BASE

	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments		Staff Adjusted
Plant in Service	$8,811,280	$10,018,780	$12,253,280	$13,460,780	$14,668,280	$0		$14,668,280
Less:								
Accum. Depreciation	66,905	280,145	615,891	1,074,033	1,623,730	0		$1,623,730
Net Plant	$8,744,375	$9,738,635	$11,637,389	$12,386,747	$13,044,550	$0		$13,044,550
Less:								
Advances in Aid of Construction	500,000	1,400,000	2,300,000	3,200,000	4,100,000	$0		$4,100,000
Advance Refunds	0	11,257	54,814	141,019	269,868	0		269,868
Net Advances	$500,000	$1,388,743	$2,245,186	$3,058,981	$3,830,132	$0	A	$3,830,132
Contributions Gross	150,000	452,500	757,000	1,059,500	1,362,000	$0		$1,362,000
Less:								
Amortization of CIAC	1,500	7,525	19,620	37,785	62,000	0		62,000
Net CIAC	$148,500	$444,975	$737,380	$1,021,715	$1,300,000	$0	B	$1,300,000
Total Deductions	$648,500	$1,833,718	$2,982,566	$4,080,696	$5,130,132	$0		$5,130,132
Plus:								
Cash Working Capital	$0	$0	$0	$0	$0	$0		$0
Materials and Supplies Inventory	0	0	0	0	0	0		0
Prepayments	0	0	0	0	0	0		0
Total Additions	$0	$0	$0	$0	$0	$0		$0
Rate Base	**$8,095,875**	**$7,904,917**	**$8,654,823**	**$8,306,051**	**$7,914,418**	**$0**		**$7,914,418**

Explanation of Adjustment:

A - To reflect advances in aid of construction.
B - To reflect contributions in aid of construction.

Woodruff Utility Company, Inc.
Docket No. SW-04265A-04-0439
Test Year Ended: Fifth Year of Operation

Schedule CSB - WW3

PROJECTED STATEMENT OF OPERATING INCOME

	Per Company Year 1	Per Company Year 2	Per Company Year 3	Per Company Year 4	Per Company Year 5	Staff Adjustments	Staff Adjusted
Revenues:							
Flat Rate Revenues	$102,600	$394,110	$771,630	$1,149,150	$1,531,662	$0	$1,531,662
Measured Revenues, Effluent Sales	9,973	41,453	87,901	134,348	177,481	0	177,481
Establishment Charges	9,030	18,150	18,180	18,150	18,150	0	18,150
Total Operating Revenue	$121,603	$453,713	$877,711	$1,301,648	$1,727,293	$0	**$1,727,293**
Operating Expenses:							
Salaries and Wages	$68,500	$70,555	$72,672	$74,852	$77,097	$0	$77,097
Sludge Removal Expense	3,000	3,090	3,183	3,278	3,377	0	3,377
Purchased Power, Pumping Equip	12,906	52,714	108,670	182,626	236,431	0	236,431
Sewage Treatment and Testing	16,000	20,180	24,365	28,556	32,753	0	32,753
Repairs and Maintenance	2,000	6,000	9,000	12,000	15,000	0	15,000
Office Supplies and Expense	3,709	13,863	26,762	39,661	52,551	0	52,551
Outside Services	54,800	56,444	58,137	59,881	61,678	0	61,678
Rents	6,000	6,180	6,365	6,556	6,753	0	6,753
Transportation Expenses	3,500	3,605	3,713	3,825	3,939	0	3,939
Insurance - General Liability	4,000	4,120	4,244	4,371	4,502	0	4,502
Depreciation Expense	65,405	207,215	323,652	439,977	525,482	0	525,482
Income Tax	50	50	17,364	161,090	255,078	0	255,078
Property Tax	2,881	6,434	14,317	26,528	39,637	0	39,637
Miscellaneous Expense	7,000	7,060	7,122	7,185	7,251	0	7,251
Total Operating Expenses	$249,751	$457,510	$679,566	$1,050,386	$1,321,529	$0	**$1,321,529**
OPERATING INCOME/(LOSS)	**($128,148)**	**($3,797)**	**$198,145**	**$251,262**	**$405,764**	**$0**	**$405,764**
Other Income/(Expense):							
419 Interest and Dividend Income	$375	$939	$3,950	$6,093	$14,580	$0	$14,580
421 Non-Utility Income	0	0	0	0	0	0	0
427 Interest Expense	0	0	0	0	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0	0	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0	0	0	0	0
Total Other Income/(Expense)	$375	$939	$3,950	$6,093	$14,580	$0	$14,580
NET INCOME/(LOSS)	**($127,773)**	**($2,858)**	**$202,095**	**$257,355**	**$420,344**	**$0**	**$420,344**

Woodruff Utility Company, Inc. **Schedule CSB-WW4**
Docket No. SW-04265A-04-0439
Test Year Ended: Fifth Year of Operation

RATE DESIGN

Monthly Customer Charges - Based on Water Meter Size

	-Proposed Rates- Company	Staff
5/8" x 3/4" Meter	$52.00	$52.00
3/4" Meter	52.00	52.00
1" Meter	130.00	130.00
1½" Meter	260.00	260.00
2" Meter	416.00	416.00
3" Meter	832.00	780.00
4" Meter	1,300.00	1,300.00
6" Meter	2,600.00	2,600.00

Effluent Sales - General Irrigation

Per Acre Foot (or 325,851 gallons) for General Irrigation	$300.00	$300.00
Per 1,000 Gallons for General Irrigation	$0.92	$0.92

Effluent Sales - Agricultural Irrigation

Treated Effluent per Acre Foot	$32.59	n/a
Treated Effluent per 1,000 Gallons	$0.10	n/a
Per Acre Foot (or 325,851 gallons) of treated effluent	n/a	$300.00
Per 1,000 Gallons of treated effluent	n/a	$0.92

Service Charges

	-Proposed Rates- Company	Staff
Establishment of Service (a)	$30.00	$30.00
Establishment, After Regular Working Hours	50.00	35.00
Re-establishment	**	**
Reconnection	30.00	30.00
Service Call Out, After Regular Hours (per hour)	50.00	35.00
Minimum Deposit	35.00	35.00
Deposit Interest	*	*
NSF Check Charge	35.00	25.00
Late Payment Penalty (Per Month)	1.50%	1.50%
Deferred Payment	1.50%	1.50%
Main Extension and additional facilities agreements	@ cost	@ cost
All revenue related taxes will be charged customers		

(a) Collected only if customer is not also a water customer.
* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)