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~~MEMORANDUM~~

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TO: Docket Control
 Arizona Corporation Commission

FROM: Ernest G. Johnson
 Director
 Utilities Division

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AZ CORP COMMISSION
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Arizona Corporation Commission
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DATE: March 15, 2005

RE: MOUNTAIN GLEN WATER SERVICE, INC. - MOTION TO EXTEND COMPLIANCE DEADLINES. DECISION NO. 67163 DOCKET NO. W-03875A-03-0737 AND DOCKET NO. W-03875A-03-0870.

In Decision No. 67163, the Arizona Corporation Commission ("A.C.C." or "Commission") ordered that Mountain Glen Water Service, Inc. ("Mountain Glen" or "Company") shall:

"File an arsenic removal treatment plan in this docket the earlier of December 31, 2004 or within 30 days after receiving preliminary approval of a loan from WIFA for financing arsenic treatment facilities."

Decision No. 67163 further ordered that:

"the record in this consolidated docket shall remain open until December 31, 2004 for the purpose of receiving, if necessary, Mountain Glen's amended request for financing and for establishment of an arsenic surcharge, once the costs of the company's arsenic treatment plan are known."

On December 30, 2004, Mountain Glen filed a motion to extend the deadlines for both of the above-mentioned compliance items. The Company requests that the compliance timeframes be extended from December 31, 2004 (no loan approval has been received from WIFA) to the June 30, 2005 timeframe for both the arsenic removal treatment plan and for the timeframe that the record will be kept open.

The Company's application indicates that determination of a treatment plan includes engineering work and financing review which has been ongoing. On October 5, 2004, Miller Brooks Environmental (the engineering firm retained to prepare an Arsenic Mitigation Design Proposal) provided the Company with two arsenic remediation options - an Arsenic Removal System and a New Water Supply System. Upon receiving approval from WIFA and consulting its engineer, Mountain Glen has determined to move forward with the option of drilling a new well rather than building a new treatment plant. The Company feels that it will be better able to submit a final

arsenic removal plan once it evaluates the feasibility of drilling a new well. Further, Mountain Glen indicated that it had filed an exception to the Proposed Order asking that the deadline be extended until June 30, 2005 but was told that an extension could be made at the necessary time.

Staff notes that the Company is conducting an involved engineering, financing, and design process to determine its arsenic treatment options and to identify the most efficient plan for treatment. This is an uncertain process which requires significant analysis and due diligence prior to selecting the best option. Further, Staff notes that the request for extension was filed prior to the original December 31, 2004 compliance deadlines.

Staff contacted Bea Parker at Mountain Glen to discuss the June 30, 2005 requested date for completion of its arsenic removal treatment plan. Ms. Parker indicated that it could take longer than originally thought and referred Staff to Mr. Waseem Khan of the engineering firm Miller Brooks Environmental, Inc.. Mr. Khan suggested that the design process, which would lead to the arsenic removal treatment plan being filed, is impacted by a land acquisition which remains under discussion and negotiation.

Given that the arsenic rules call for compliance by January 2006, Staff does not feel justified in recommending a long extension in this matter. Rather, the Company should do everything it can to move the process for determining the arsenic treatment plan forward to a conclusion - as it is running out of time to comply with the pending arsenic rules.

After consideration of the above, Staff concludes that the short extension originally requested by the Company (June 30, 2005) is appropriate at this time. It provides the Company with the opportunity to continue the arsenic treatment plan process while simultaneously keeping the record open. Staff, therefore, recommends that the Company be granted an extension of the above mentioned timeframes until June 30, 2005.

Originator: Brian K. Bozzo

SERVICE LIST FOR:
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MOUNTAIN GLEN WATER SERVICE, INC.
W-03875A-03-0737 AND
W-03875A-03-0870.

Decision No. 67163

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