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ARIZONA CORPORATION COMMISSION
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May 5, 2005
Arizona Corporation Commission

DOCKETED

MAY 05 2005

HAND-DELIVERED

Mr. Jim Fisher
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007-2927

DOCKETED BY

Re: Circle City Water Company - Application for an Extension of its
Certificate of Convenience and Necessity (CC&N);
Docket No. W-03510A-05-0146

W-03510A-05-0145

Dear Mr. Fisher:

I am in receipt of your March 30, 2005 letter in the above-captioned matter. In that letter, you state Staff's conclusion that Circle City Water Company's ("Circle City" or "Company") application for a CC&N extension is insufficient. I do not agree.

A.A.C. R14-2-402 enumerates the items to be included in a request concerning a certificate of convenience and necessity and Circle City's application included each of the required items. In contrast, the items Staff requests to cure the alleged deficiency are not required by the Commission rules and therefore constitute additional information Staff should request through discovery. In short, Circle City's application should have been deemed sufficient by Staff.

That said, Circle City desires to work cooperatively with Staff to ensure Staff has all of the information it needs to analyze the pending application and to prepare a Staff report that advocates for the relief sought by Circle City. As a consequence, enclosed are the materials and other information requested in your March 30, 2005 letter. With this submission, there should be no dispute that Circle City's application is sufficient. Accordingly, we ask Staff to immediately issue a letter deeming the application sufficient.

FENNEMORE CRAIG, P.C.

Mr. Jim Fisher

May 5, 2005

Page 2

1. **The Application indicates Circle City Water Company is currently \$2.1 million in debt to an associated company, please provide a copy of the documents evidencing the debt of Circle City Water Company.**

Response: The debt is reflected in the balance sheet provided with the application. There are no additional documents reflecting this liability.

2. **Please provide a copy of the Commission Decision authorizing the utility to incur \$2.1 million in debt.**

Response: There is no Commission decision authorizing this debt.

3. **Please describe how the debt was incurred for use and useful prudent expenses for the benefit of current customers.**

Response: The parent company provided monies to pay for operating expenses, including, most notably, the annual capital charges on the Company's Central Arizona Project water allocation. While these costs are, arguably, not a present benefit to the ratepayers of Circle City, the costs are prudent and necessary for the long-term growth and financial future of the Company as demonstrated by the request for an extension of its CC&N.

4. **Please describe how Circle City Water Company will eliminate the debt.**

Response: The Company will convert the debt to equity.

5. **Please describe how Circle City Water Company will eliminate the debt if no extension of territory is granted by the Commission.**

Response: See Response to item No. 4, above.

6. **Please provide any other information which will allow the Commission to analyze and conclude that the company has sufficient capital, or can obtain sufficient capital, to service the existing and future demands from the proposed CC&N.**

Response: The CC&N Balance sheet, Income statement, and Statement of Cash flows demonstrate the financial viability of the proposed CC&N extension. Because the debt noted in the Company's balance sheet will be converted to equity, Circle City will have sufficient capital and financial strength to sustain operations going forward.

FENNEMORE CRAIG, P.C.

Mr. Jim Fisher

May 5, 2005

Page 3

7. **The Application indicates the extension area will be served, in part, through Circle City's Central Arizona Project water allocation. Please provide evidence of Circle City's Central Arizona Project water allocation, including volume, scheduled delivery and treatment capabilities.**

Response: Attached is a copy of the Company's CAP subcontract.

8. **Please clarify if land costs are included in the proposed water treatment plant costs, in the event land costs are included please identify them.**

Response: The land costs were not included in the proposed water treatment plant costs. The treatment plant will be similar to the Cave Creek Water Co. treatment plant. The plant will require approximately two acres at an estimated cost of \$50,000.

9. **The Application includes Exhibit III, the Master Water Plan, at page 4 of the report the estimated well production is 320 gallons per minute with eleven (11) wells. Please provide the hydrology report or studies that support this production and long term withdrawal at this groundwater production rates.**

Response: The 320 gallons per minute is the estimated production rate for the maximum time of the year. The wells will pump at 320 gallons per minute during the summer, however, during the winter they will only pump part of the day. Overall, the first six wells are anticipated to pump about 70% of the time (17 hours per day on average). The CAP water treatment plant will be completed before the 7th well is brought online. Therefore, wells 7 through 11 will be used to help offset the summer peak demand. The peak demand is not an additional demand, but rather it is supplying water over a specific period of time versus being averaged over an entire day. These wells (7 thru 11) will only be used during the peak demand periods, estimated to be about 25% of the year. With this additional detail, the hydrogeological study determined that the drawdown for the long-term withdrawal would be acceptable under current regulations. Attached for reference is **Table 1** that summarizes the projected 100 year depth to water at each well based on the proposed pumping rates. Review of the projected drawdown at each well indicates that one-third of the saturated thickness remains after 100 years of pumping. This remaining thickness is by design and maximizes the ground-water resources. The locations of the wells are presented in **Figure 1**.

FENNEMORE CRAIG, P.C.

Mr. Jim Fisher

May 5, 2005

Page 4

10. **For the eleven (11) wells described in the application provide a schedule indicating the arsenic concentration and inorganic maximum contaminant level concentrations in each existing well. For each proposed well provide the estimated arsenic and estimated inorganic maximum contaminant level concentrations.**

Response: The arsenic of the existing well that is servicing Circle City has an arsenic level of 0.003 mg/l, which is below the new federal standard of .010 mg/l to be effective in 2006. The proposed wells are in the same aquifer as the existing Circle City well. It is therefore anticipated that the water quality of the new wells will be similar to the water quality of the existing well.

11. **In the event the arsenic concentrations reported above exceed the new federal standard, please provide a water treatment design report detailing how the water will be treated to ensure compliance with the new federal standard.**

Response: It is not anticipated that the new wells will require treatment since the existing well has such good water quality. However, in the case that the arsenic concentrations do not meet the new standards, the well water will be treated at the CAP treatment plant site. The type of treatment that will be used for the CAP water also does an excellent job of removing arsenic when ferric chloride is used in the treatment process. Currently, this type of treatment is resulting in over 90% arsenic removal from the Trident Water Treatment Plants. Since the existing water quality is compliant, it is assumed the rest of the wells will also meet potable drinking water standards.

When the wells are drilled, zonal sampling will be taken, allowing only the layers of good water to be tapped. Therefore, the chances are minimal that water treatment will be necessary. However, if water treatment is required, the water can be blended or treated at a central plant since all the wells will be pumped to a common location. If necessary, a central treatment plant can be built adjacent to the tank and booster pumps.

12. **For the eleven (11) wells described in the application provide a schedule indicating the water quality in each existing well and the estimated water quality for each proposed well.**

Response: Since the wells are all in the same aquifer, it is anticipated that the water will be of similar quality to the existing water well for Circle City. This existing well meets all drinking water standards, including the new arsenic rule that is scheduled for 2006.

FENNEMORE CRAIG, P.C.

Mr. Jim Fisher

May 5, 2005

Page 5

13. **Please explain the proposed water system construction phasing, particularly the proposed transitional timeframe from ground water to surface water.**

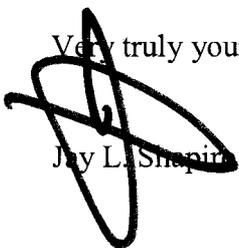
Response: The first phase of the project will rely on the groundwater wells. Once the sixth well is drilled, construction of the CAP water treatment plant will start. CAP water will serve the development before the seventh well is put into production. The last five wells provide additional capacity to meet the summer peaks. It is anticipated that upon completion of the project, the majority of the water supply will be CAP surface water, with the wells serving mainly as a back up supply for the CAP water.

14. **Please provide any other information which will allow the Commission to analyze and conclude that the company has sufficient water production capacity, or can develop enough drinking water capacity to service the existing and future demands from the proposed CC&N.**

Response: The CAP water allocation is enough to provide water for over 10,000 units. This should be enough for both the proposed new service area and the existing service area demands. The wells will give redundancy to the system should the CAP water be interrupted. Currently, there is very little redundancy for emergency situations in the Circle City area. Water for the golf course should ultimately come from the reuse water that will be provided from the wastewater treatment plant. With all of these items in place, the future demands of the proposed CC&N should be met.

With the submission of the enclosed materials, we feel Circle City's Application is sufficient and, again, we respectfully ask that Staff promptly issue a sufficiency determination. We are informed that the developer is anxiously awaiting a decision by the Commission.

Very truly yours,


Jay L. Shapiro

JSHA/mlh-Enclosures

cc: Docket Control (w/o encl.)
Robert T. Hardcastle (w/encl.)
Todd C. Wiley (w/encl.)
Del Smith (w/encl.)
Lyn Farmer (w/o encl.)
Brian Bozzo (w/o encl.)
Vicki Wallace (w/o encl.)