ORIGINAL

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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: May 18, 2005

Arizona Corporation Commission
DOCKETED
MAY 18 2005
DOCKETED BY

RE: ARIZONA WATER COMPANY, INC. - APPLICATION FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY ("CC&N") TO PROVIDE WATER SERVICE IN PINAL COUNTY, ARIZONA (DOCKET NO. W-01445A-04-0729)

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

EGJ:JEF:red

Originator: Jim Fisher

Attachment: Original and Thirteen Copies

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2005 MAY 18 P 12: 46
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DOCUMENT CONTROL

AZWATER0729

Service List for: Arizona Water Company, Inc.
Docket No. W-01445A-04-0729

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-04-0729

APPLICATION FOR AN EXTENSION OF ITS CC&N
TO PROVIDE WATER SERVICE IN PINAL COUNTY, ARIZONA

MAY, 2005

STAFF ACKOWLEDGEMENT

The Staff Report for Arizona Water Company, Inc. (Docket No. W-01445A-04-0729) was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analysis of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis.

Contributing Staff:

Jim Fisher
Executive Consultant II

Dorothy Hains
Utilities Engineer

EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0729

On October 15, 2004, Arizona Water Company, ("Arizona Water" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity, ("CC&N") to include additional property in Pinal County, Arizona. On April 20, 2005, Utilities Division Staff ("Staff") informed the Company that the application was sufficient for administrative purposes.

Arizona Water is an Arizona corporation, authorized by the ACC to provide water service within portions of Arizona currently serving approximately 65,000 customers. By this application, Arizona Water is seeking to extend its current Oracle CC&N to include an additional 1,200 acres located adjacent to the current CC&N.

Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N extension area within a conventional five-year-planning period and can reasonably be expected to develop additional production and storage as required in the future.

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, 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 the developer's Certificate of Assured Water Supply related to the proposed extension area within 365 days of the effective date of any decision in this matter.
3. To require Arizona Water Company to file 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 file with Docket Control an Arizona Department of Environmental Quality Certificate of Approval to Construct water facilities within the proposed extension area 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 conditions 2, 3 and 4 within the time specified.

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Introduction

On October 15, 2004, Arizona Water Company, ("Arizona Water", "AWC" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity, ("CC&N") to include additional property in Pinal County, Arizona. On November 12, 2004, Utilities Division Staff ("Staff") informed the Company that the application was insufficient for administrative purposes.

On April 20, 2005, Staff informed the Company that the application was sufficient for administrative purposes.

Background

AWC is an Arizona corporation, authorized by the ACC to provide water service within portions of Gila, Navajo, Cochise, Maricopa, Pima, Yavapai, Coconino and Pinal counties, Arizona. The ACC initially authorized AWC a CC&N in 1955. The Company currently serves approximately 73,000 customers.

By this application, Arizona Water is seeking to extend its current Oracle CC&N to include approximately 1,200 acres located adjacent to the current CC&N.

The Extension Request

On August 4, 2004, Fidelity National Title Agency, Inc., as Trustee for 730 acres, requested Arizona Water extend its CC&N to include the parcel. Arizona Water is also seeking certification of approximately 600 acres interconnecting the requested parcel with the currently certificated area. The property is located near the town of Oracle approximately one mile south of Highway 25.

Arizona Water is requesting the Commission allow the Company to extend its service territory to include the North half of Sections 4 and 5 of Township 10 South, Range 15 East. The Company is also requesting all of Section 2 of Township 10 South, Range 15 East, except for approximately 80 acres in the Northwest quarter of the section.

According to the Company's application, 75 customers are expected in the extension area during the initial five-year-period.

No other Commission regulated water utility is situated to extend an offer of service.

Water Production Capacity

Existing Utility Plant

According to water use data submitted by Arizona Water, the Oracle system has three (3) wells producing 1,140 gallons per minute ("GPM"), 1.6 million gallons of storage capacity, and a distribution system serving 1,465 service connections.

The existing production and storage can serve approximately 4,300 connections. The Company intends to extend service through a combination of 12-inch, 8-inch and 6-inch mains from the existing Oracle water storage tank to serve the requested area. The Company estimates the total cost of required facilities will be $2.3 million.

Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N extension area within a conventional five-year-planning period and can reasonably be expected to develop additional production and storage as required in the future.

Finance of Facilities

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

A main extension agreement has not been finalized between the parties. Once the parties have finalized an Agreement, Staff recommends the agreement be filed for Staff's review consistent with Arizona Administrative Code R14-2-406.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the water system under ADEQ Public Water System I.D. No. 11-019. According to an ADEQ compliance report received April 1, 2005, ADEQ has determined that the Oracle water system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

Certificate of Approval to Construct

The ADEQ Certificate of Approval to Construct ("ATC") for facilities needed to serve the requested area has not been submitted by the Company. Staff recommends that the Company docket as a compliance item in this case within one year of the effective date of an order in this proceeding a copy of the ATC issued by ADEQ.

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") to10 µg/l. The date for compliance with the new MCL is January 23rd, 2006.

The most recent lab analysis provided by the Company indicates that the Oracle system wells are producing water that will comply with the new arsenic MCL.

Arizona Department of Water Resources ("ADWR") Compliance

Arizona Water's Oracle system is within the ADWR Tucson Active Management Area, and is in compliance with ADWR's reporting and conservation rules.

Certificate of Assured Water Supply

Staff recommends that Arizona Water be required to file with the Commission's Docket Control a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within 365 days of any decision in this matter.

Curtailment Plan Tariff

The Company has an approved curtailment tariff for "All Service Areas" that became effective on July 23, 2004 per Decision No. 66235.

ACC Compliance

A check with the Utilities Division, Compliance Section showed no outstanding compliance issues for the Company.

Proposed Rates

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

County Franchise

Arizona Water has been authorized the necessary Pinal County franchise for the extension area.

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, 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 the developers' Certificate of Assured Water Supply related to the proposed extension area within 365 days of the effective date of any decision in this matter.
3. To require Arizona Water Company to file 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 file with Docket Control an Arizona Department of Environmental Quality Certificate of Approval to Construct water facilities within the proposed extension area 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 its Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet conditions 2, 3 and 4 within the time specified.

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: October 13, 2004

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-04-0729)**

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

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

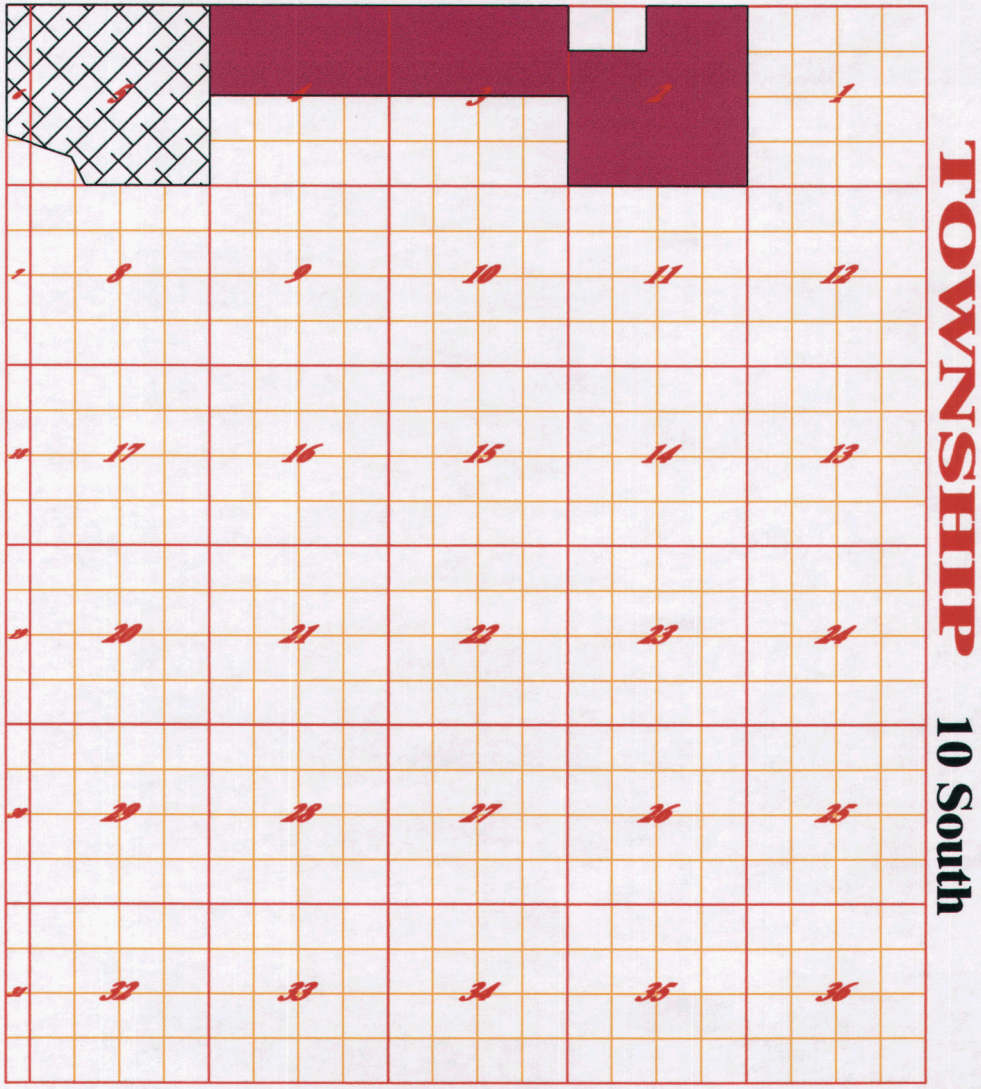
:bsw

Attachments

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

COUNTY: *Pinal*

RANGE 15 East



W-1445 (34)(5)
Arizona Water Company (Oracle)

Arizona Water Company (Oracle)
Docket No. W-1445-04-729
Application for Extension

TR10S15E 12 MAR 2004

EXHIBIT "1"

Legal Description

The North half of Section 3, the North half of Section 4 in Township 10 South, Range 15 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona; and

All of Section 2, Township 10 South, Range 15 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona, EXCEPT the West 2,310 of the North half of the Northwest quarter of said Section 2.

MEMORANDUM

DATE April 20, 2005

TO: James E. Fisher

FROM: D. Hains DH

RE: **Arizona Water Company**
Application for an Extension of Certificate of Convenience & Necessity to Provide Water Service in Oracle Area
Docket No. W-01445A-04-0729

Introduction

Arizona Water Company ("Company") has applied to extend its Oracle system Certificate of Convenience and Necessity ("CC&N"). This application would add approximately a one and one-half square mile area to the Company's existing approximately twenty five and one-half square mile certificated area in the Town of Oracle in Pima County. The requested area is adjacent to the Company's existing CC&N area. The Company estimates 75 new customers would be served over a five-year period in the extension area.

Capacity

The Oracle system consists of three wells which have a total flow rate of 1,140 gallons per minute ("gpm"), 1, 571, 000 gallons of storage capacity and a distribution system serving approximately 1,465 existing customers. This system has adequate storage and production capacity to serve approximately 4,300 customers.

Arizona Department of Water Resources ("ADWR") Compliance

The Oracle system is within the ADWR Tucson Active Management Area, and is in compliance with ADWR's reporting and conservation rules (GPCD requirements). Staff recommends that the Company shall file with the Commission a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within 365 days of the effective date of any decision and order issued pursuant to this application.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the Oracle system under ADEQ Public Water System ("PWS") I.D. No. 11-019. ADEQ has determined that the Oracle system is currently delivering water that does not exceed any maximum contaminant level ("MCL") and meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.[1]

Construction

The Company will extend a combination of 12-inch, 8-inch and 6-inch mains from its existing one million gallon Oracle system storage tank to serve the requested area. In order to maintain the needed service pressure within the requested area, the Company plans to install a new 150,000 gallon storage tank and booster pump station. The Company estimates that the total project cost including tank, pump station and mains will be approximately 2.3 million dollars. Staff concludes that based on the scope of work proposed the Company's cost estimate is reasonable. However, Staff is not making any determination of the capital improvements as "used and useful" at this time, but defers this determination until the Company files its next rate application.

ACC Compliance

A check with the Utilities Division, Compliance Section showed no outstanding compliance issues for the Company.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic MCL in drinking water from 50 micrograms per liter ("μg/l") to 10 μg/l. The date for compliance with the new MCL is January 23rd, 2006. The most recent lab analysis provided by the Company indicates that the Oracle system wells are producing water that will comply with the new arsenic MCL.

[1] ADEQ Compliance report dated March 17, 2005, received on April 1, 2005.

Summary

I. Recommendations:

1. Staff recommends that the Company shall file with the Commission a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within 365 days of the effective date of any decision and order issued pursuant to this application.

II. Findings:

1. The Oracle system has adequate production and storage capacity to serve the existing customer base and new customers in the extension area.

2. ADEQ has determined that the Oracle system is currently delivering water that does not exceed any maximum contaminant level ("MCL") and meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

3. The most recent lab analysis provided by the Company indicates that the Oracle's wells are producing water that will comply with the new arsenic MCL.

4. Staff concludes that based on the scope of work the Company's cost estimate to serve the extension area is reasonable.