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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: July 20, 2005

W-01452A-04-0810
W-01452A-05-0082

RE: STAFF REPORT FOR CAVE CREEK WATER COMPANY APPLICATION FOR AN EXTENSION OF ITS' CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICES. DOCKET NO. W-01452A-04-0810

Attached is the Staff Report for the above referenced application. Staff recommends approval of the application subject to several conditions.

EGJ:LAJ:red

Originator: Linda Jaress

Attachment: Original and Thirteen Copies

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AZ CORP COMMISSION
DOCUMENT CONTROL

Service List for: Cave Creek Water Company
Docket No. W-01452A-04-0810

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

CAVE CREEK WATER COMPANY

DOCKET NO. W-01452A-04-0810

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

July 2005

STAFF ACKOWLEDGEMENT

The Staff Report for Cave Creek Water Company (Docket No. W-01452A-04-0810) was prepared by the Staff members listed below. Linda Jaress prepared the Staff Report. Dorothy Hains prepared the engineering report.

Contributing Staff:

Linda A. Jaress
Executive Consultant II

Dorothy Hains
Utilities Engineer

EXECUTIVE SUMMARY
CAVE CREEK WATER COMPANY
DOCKET NO. W-01452A-04-0810

Cave Creek Water Company ("Cave Creek" or "Company") is seeking to extend its CC&N to include an area of approximately 9.26 acres to serve a new development consisting of five residential homes. Cave Creek currently provides water service to 2,333 customers within the Town of Cave Creek located in northeast Maricopa County. Cave Creek is operating under rates that were approved in 1986 and applies a Central Arizona Project Water Development Tariff which was instituted in 1985. A portion of Cave Creek's water treatment plant is owned by Pacer Equities, its affiliate. Both companies were acquired by Global Water Resources, L.L.C. on March 3, 2005.

The Town of Cave Creek ("the Town") has intervened in this case to protect its interests. The Town intended to acquire Cave Creek Water Company through condemnation action but is currently in the process of negotiating a purchase price with the Company.

The Company has adequate production and storage to serve approximately 500 additional customers, significantly more than the 9 residential customers expected from the extension. The extension facilities will be comprised of 3,000 feet of 6-inch main and a booster pump station. The cost of these facilities is estimated to be $61,000. Cave Creek will finance the required facilities primarily with Advances in Aid of Construction from the developer. Construction of the extension is expected within six months of approval by the Town of the property's final plat.

Staff concludes that under certain conditions the requested extension of the Cave Creek's Certificate of Convenience and Necessity ("CC&N") is in the public interest and should be approved. Staff recommends approval under the following conditions:

1. Cave Creek must charge its existing rates and charges in the proposed extension area.

2. Cave Creek must file a rate case by May 31, 2006.

3. Cave Creek must file with the Commission's Docket Control as a compliance item within this docket by December 31, 2005, a copy of the Arizona Department of Environmental Quality's ("ADEQ") "Approval to Construct" for the Company's final arsenic treatment plan.

4. Cave Creek must file a copy of the developer's Certificate of Adequate Water Supply, stating that there is adequate water supply, where applicable or when required by statute, with the Commission's Docket Control as a compliance item in this docket within one year of the effective date of the final decision issued regarding this application.

5. Cave Creek must file a curtailment tariff with Docket Control as soon as possible, but no later than forty-five (45) days after the effective date of the final Decision and Order in this matter.

Staff further recommends that the Commission's Decision granting this extension of Cave Creek's CC&N be considered null and void without further order from the Commission should Cave Creek fail to meet conditions 2, 3 and 4 within the time specified.

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Introduction

On November 10, 2004, Cave Creek Water Company ("Cave Creek" or "Company"), a certificated Arizona public service company, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval to extend its existing Certificate of Convenience and Necessity, ("CC&N") to include additional property in Maricopa County, Arizona.

Cave Creek provides water service to 2,333 customers within the Town of Cave Creek ("the Town"), the Town of Carefree and unincorporated areas of Maricopa County. In addition, Cave Creek supplies bulk treated water to the Carefree Water Company and the Desert Hills Water Company. Cave Creek is seeking to extend its CC&N to include an area of approximately 9.26 acres to serve a new development adjacent to the Company's current service territory. The plotted area and legal description of the extension is attached as Exhibit 1.

The Town of Cave Creek

On April 26, 2005, the Town filed an application to intervene in this case, citing the expectation that the Town would "acquire and take possession of" the Company through a condemnation case filed on April 6, 2005 in Maricopa County Superior Court. The Administrative Law Judge issued a Procedural Order on May 9, 2005 granting the Town intervention.

On June 21, 2005, the Town announced its intention to negotiate a purchase price rather than proceed with a lengthy and costly court proceeding. The length of the negotiations and their ultimate outcome are unknown. Therefore, the Company has not withdrawn this application and would like to proceed regardless of the status of the negotiations.

Background

Cave Creek received its initial CC&N in Decision No. 28958, dated May 24, 1955. The CC&N has been subsequently amended numerous times to include additional territory. According to Cave Creek's 2004 Annual Report to the Commission, the Company serves approximately 2,333 customers. The Company also reported revenues of $1.8 million and net income of $19,848. Cave Creek's current rates and charges were established in Decision No. 55269, dated October 30, 1986.

Approximately twenty years ago, in Decision No. 54396, dated March 4, 1985, the Commission approved Cave Creek's Tariff No. 8, the Central Arizona Project Water Development Tariff, which requires owners of new subdivisions seeking water service from Cave Creek to pay their pro rata share of certain Central Arizona Project ("CAP") costs. The tariff is less than straight forward, was the focus of a law suit (since settled) and was based upon cost estimates and circumstances in existence in 1985. Since then, the Commission has adopted in other cases more appropriate CAP tariffs that should be considered for Cave Creek.

Cave Creek indicated that it does not own all the property being used for public service. A portion of the water treatment plant, including a building, filter, backwash ponds and drying beds are owned by Pacer Equities ("Pacer"), an affiliate of Cave Creek.

On March 3, 2005, both Cave Creek and Pacer were acquired by Global Water Resources, LLC, ("Global") in a stock purchase. The Commission has previously reviewed Global during the acquisition of Palo Verde Utilities and Santa Cruz Water Company. Global has been described as founded to aggregate and consolidate small and medium size water and wastewater utilities in the Southwestern United States. Global has expressed its intention to operate Pacer and Cave Creek as one entity.

Staff believes that due to the vintage of the Cave Creek CAP tariff and its general rates and charges, and because costs may have changed significantly under new ownership, the Commission should order Cave Creek to file a general rate case on or before May 30, 2006. A rate case will provide Staff and the Commission the opportunity to review in detail the CAP tariff, the revenues and expenditures from the CAP tariff, the financial impact of new ownership, transactions with Pacer and the general level of rates and charges.

The Extension Request

Cave Creek is seeking to extend its CC&N to include an area of 9.26 acres located adjacent to the northeast portion of the current CC&N. Cave Creek provides water service within the Town of Cave Creek located in northeast Maricopa County.

The extension area is owned by Derald D. Ulmer dba Upper Black Mt. Estates. Who supplied a letter of request for service dated November 20, 2003. The project will be known as Black Mountain Vistas and will be comprised of 5 residential lots.

Water Production Capacity

The Cave Creek water system consists of a surface water treatment plant that can treat 2 million gallons per day of CAP water, 695,000 gallons of storage capacity, wells capable of producing 860 gallons per minute and a distribution system serving approximately 2,300 customers. The CAP water is the Company's main source of supply, while the wells are used as backup supply. The Company has adequate production and storage to serve approximately 500 additional customers, significantly more than the residential customers expected in this development. A further description of the water system and the extension is contained in the Engineering Report attached as Exhibit 2.

Finance of Facilities

Cave Creek will finance the required facilities with Advances in Aid of Construction from the developer. Advances in aid of construction are often in the form of main extension agreements. Main extension agreements generally require the developer to be responsible for the

design, construction and installation of 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 forwarded to Staff for review consistent with Arizona Administrative Code R14-2-406.

The Extension Facilities

The extension facilities will be comprised of 3,000 feet of 6-inch main and a booster pump station. The cost of these facilities is estimated to be $61,000.

Maricopa County Environmental Services Department ("MCDES") Compliance

MCDES has determined that Cave Creek is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and 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") 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 six out of Cave Creek's eight wells exceed the new arsenic standard. The Company is proposing to use blending to reduce the arsenic concentration in its well water to meet the new arsenic standard. In its January 28, 2005 Annual O&M Inspection Report, MCDES reported that the Company's full-scale well water arsenic removal pilot testing was in progress. Staff recommends that the Company file with the Commission's Docket Control as a compliance item under this docket number a copy of the ADEQ or MCDES "Approval to Construct" for the Company's final arsenic treatment plan by December 31, 2005.

Curtailment Plan Tariff

A curtailment tariff is an effective tool for managing resources during periods of water shortages whether from equipment breakdowns or events of nature. The Company does not have a curtailment tariff. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the final Decision and Order in this matter. The tariff shall be filed with Docket Control as a compliance item under this docket number for Staff's review and certification.

Staff further recommends that the curtailment tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us. Staff recognizes that the Company may need to make minor modifications according to their specific management, operational, and design requirements as necessary and appropriate.

ACC Compliance

The Utilities Division Compliance Section reported no outstanding compliance issues for the Company.

Proposed Rates

Cave Creek will charge its current, approved rates to the new customers in the extension area.

County Franchise

Cave Creek has been authorized the necessary Maricopa County franchise for the extension area.

Conclusions and Recommendations

Staff concludes that under certain conditions the requested extension of the Cave Creek's CC&N is in the public interest and should be approved. Staff recommends approval under the following conditions:

1. Cave Creek must charge its existing rates and charges in the proposed extension area.

2. Cave Creek must file a rate case by May 31, 2006.

3. Cave Creek must file with the Commission's Docket Control as a compliance item within this docket by December 31, 2005, a copy of the ADEQ or MCDES "Approval to Construct" for the Company's final arsenic treatment plan.

4. Cave Creek must file a copy of the developer's Certificate of Adequate Water Supply, stating that there is adequate water supply, where applicable or when required by statute, with the Commission's Docket Control as a compliance item in this docket within one year of the effective date of the final decision issued regarding this application.

5. Cave Creek must file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the final Decision and Order in this matter. The tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us. Staff recognizes that the Company may need to make minor

modifications according to their specific management, operational, and design requirements as necessary and appropriate.

Staff further recommends that the Commission's Decision granting this extension of Cave Creek's CC&N be considered null and void without further order from the Commission should Cave Creek 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: December 3, 2004

RE: **CAVE CREEK WATER COMPANY (DOCKET NO. W-01452A-04-0810)**
AMENDED LEGAL DESCRIPTION

The area requested by Cave Creek has been plotted using a revised legal description, which has been docketed. This legal description is attached and should be used in place of the original description submitted with the application.

Also attached is a copy of the map for your files along with an enlargement of the area. NOTE: a portion of the requested area has already been certificated to this company.

:bsw

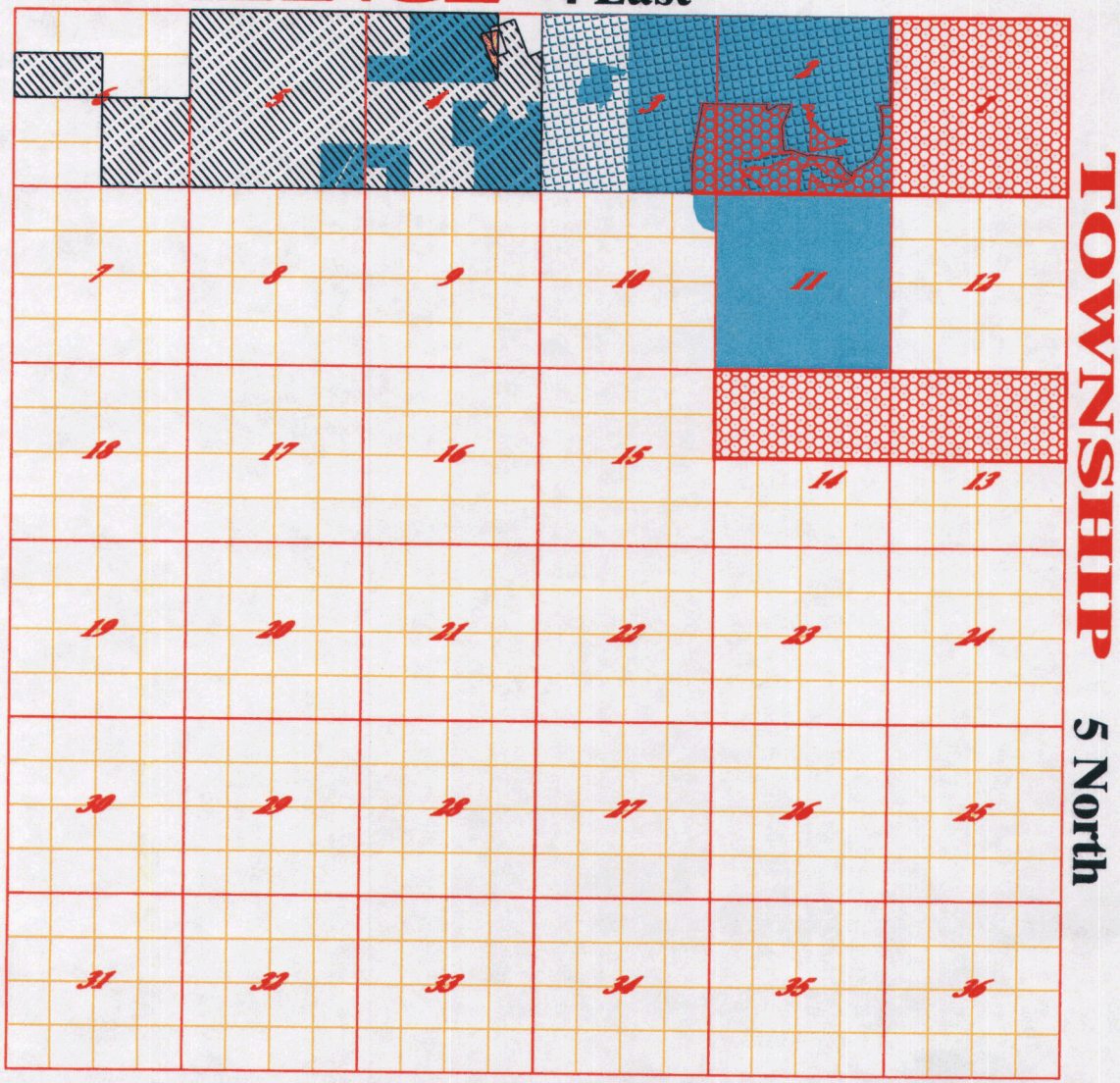
Attachments

cc: Docket Control
Ms. Kristin Magin
Deb Person (Hand Carried)
File

COUNTY: *Maricopa*

RANGE 4 East

TOWNSHIP 5 North



W-1452 (4)
Cave Creek Water Company

Sewer
SW-2361 (2)
Black Mountain Sewer Corporation

C-0011 (5)
City of Scottsdale (Nonjurisdictional)

C-0023 (3)
Town of Carefree (Nonjurisdictional)

Cave Creek Water Company
Docket No. W-1452-04-810
Application for Extension

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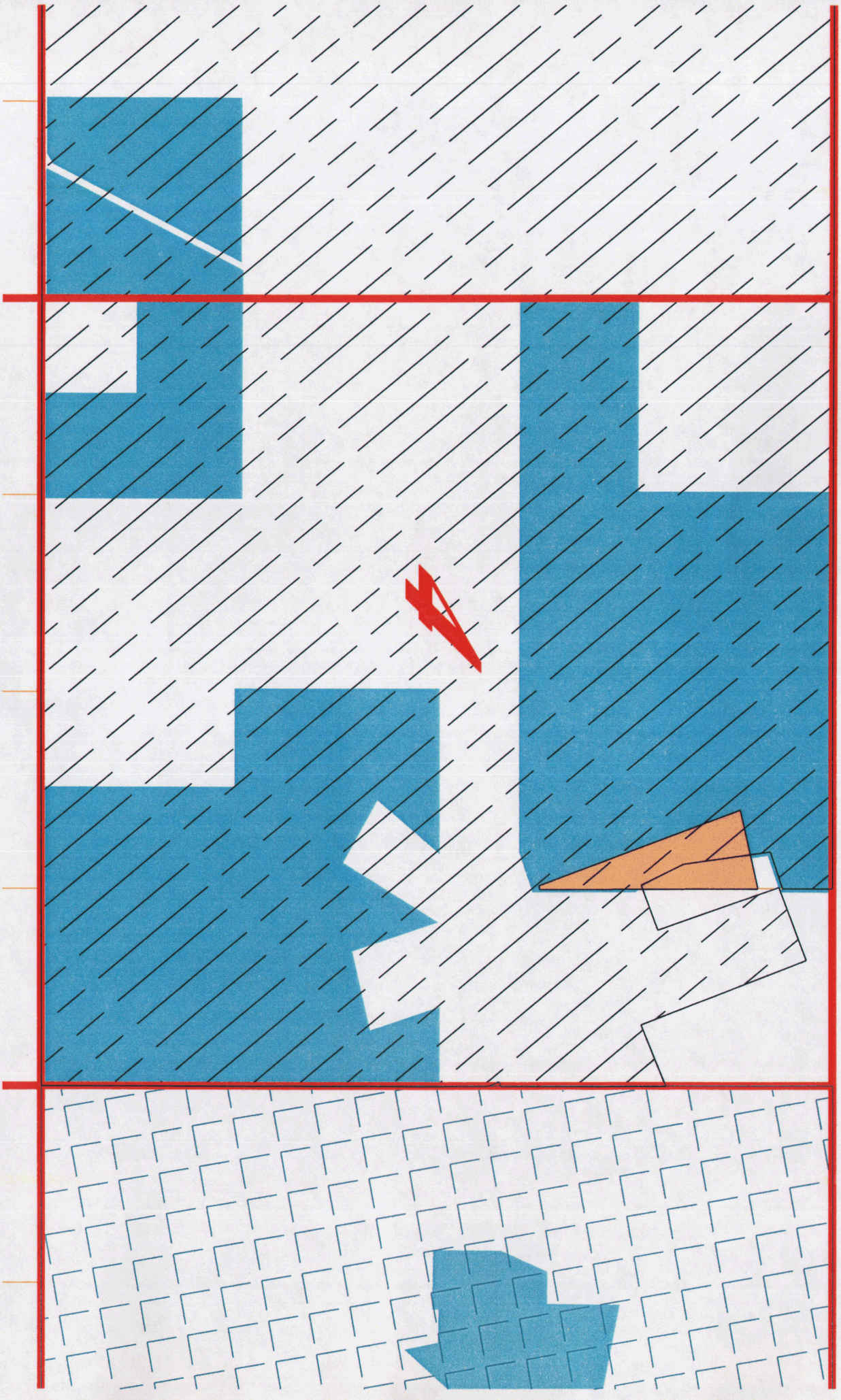

EXHIBIT A

LEGAL DESCRIPTION

THAT PART OF THE LITTLE HOPE MINING CLAIM IN THE NORTHWEST QUARTER OF THE NORTHEAST QUARTER AND IN THE SOUTHWEST QUARTER OF THE NORTHEAST QUARTER OF SECTION 4, TOWNSHIP 5 NORTH, RANGE 4 EAST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, MARICOPA COUNTY, ARIZONA, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

COMMENCING AT THE NORTHWEST CORNER OF THE NORTHEAST QUARTER OF THE NORTHEAST QUARTER OF SAID SECTION 4;

THENCE SOUTH 00 DEGREES 07 MINUTES 22 SECONDS EAST (RECORD SOUTH 00 DEGREES 07 MINUTES 48 SECONDS EAST) A DISTANCE OF 494.41 FEET (RECORD 494.48 FEET) TO THE TRUE POINT OF BEGINNING;

THENCE SOUTH 00 DEGREES 07 MINUTES 22 SECONDS EAST (RECORD SOUTH 00 DEGREES 07 MINUTES 48 SECONDS EAST) A DISTANCE OF 1454.39 FEET (RECORD 1454.42 FEET);

THENCE SOUTH 77 DEGREES 30 MINUTES 39 SECONDS WEST (RECORD SOUTH 77 DEGREES 30 MINUTES 35 SECONDS WEST) A DISTANCE OF 26.03 FEET;

THENCE NORTH 20 DEGREES 40 MINUTES 50 SECONDS WEST A DISTANCE OF 1435.12 FEET (RECORD 1435.15 FEET);

THENCE NORTH 77 DEGREES 29 MINUTES 46 SECONDS EAST (RECORD NORTH 77 DEGREES 32 MINUTES EAST) A DISTANCE OF 541.99 FEET TO THE TRUE POINT OF BEGINNING.

MEMORANDUM

DATE July 18, 2005

TO: Linda Jaress

FROM: Dorothy Hains DH

RE: Cave Creek Water Co.
Application for an Extension of its Certificated Convenience & Necessity to Provide Water Service
Docket No. W-01452A-04-0810

I. Introduction

Cave Creek Water Co. ("Cave Creek" or "Company") has applied to extend its Certificated Convenience & Necessity ("CC&N") to provide water service in an area south of the Town of Cave Creek, north of the City of Phoenix, in Maricopa County. The requested service area that is within the Black Mountain Vistas Subdivision is adjacent to the Company's existing service area and is located in the northeast quarter of Section 4 in Township 5 North, Range 3 East. The requested area would add approximately twenty acres to the Company's approximately nineteen square miles of existing service area.

II. System Analysis

Cave Creek Water Co. consists of a surface water treatment plant that can treat 2 million ion gallons per day ("MGD") of CAP water, 695,000 gallons of storage capacity, well capable of producing 860 gallons per minute ("GPM") and a distribution system serving 2,292 customers. The CAP water is the Company's main source; the wells are used as backup supply. The Company has adequate production and storage to serve approximately 500 additional customers. The application states only five new connections are expected to be served within the requested area.

III. Cost Analysis

Cave Creek Water Co. estimates that the cost of installing the proposed water system that includes 3, 000 feet of 6-inch main and a 20-30 HP booster pump station would be $61,000 which includes $31,000 for installation of the main and $30,000 for the booster pump station. Staff believes this estimated cost is reasonable.

IV. Maricopa County Environmental Services Department ("MCDES") Compliance

MCDES regulates the Cave Creek water systems under the Public Water System ID No. 07-016. MCDES reported that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

V. Arizona Department of Water Resources ("ADWR") Compliance

The Company is located in Phoenix Active Management Area, as designated by ADWR. Cave Creek is in compliance with ADWR's reporting and conservation rules (GPCD requirements).

VI. Arizona Corporation Commission (ACC)

A check with the Utilities Division Compliance Unit showed no outstanding compliance issues.

VII. Others Issues

A. 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") or parts per billion ("ppb") to 10 µg/l. The date for compliance with the new MCL is January 23, 2006. The latest lab test results show six out of eight wells exceed the new arsenic standard. The results are in the range of 12 µg/l and 92 µg/l. The Company states that a bending technique is proposed for treating the arsenic removal. In the January 28, 2005 Annual O&M Inspection Report, MCDES states that the Company's full-scale well water arsenic removal pilot testing was in progress. Staff recommends that the Company file with the Commission's Docket Control as a compliance item under the same docket number a copy of the ADEQ or MCDES "Approval to Construct" for the Company's final arsenic treatment plan by December 31, 2005.

B. Curtailment Tariff

A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not have a curtailment tariff, this application provides an opportune time to prepare and file such a tariff. Staff recommends that the Company file a curtailment tariff as soon as possible, but no

later than forty-five (45) days after the effective date of the final Decision and Order in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification.

Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us. Staff recognizes that the Company may need to make minor modifications according to their specific management, operational, and design requirements as necessary and appropriate.

Summary

I. Conclusions

1. Staff concludes that the proposed water system will have adequate production and storage capacity to serve the proposed area within a conventional five year planning period.

2. Cave Creek is in compliance with ADWR's reporting and conservation rules (GPCD requirements).

2. The Company's plant additions and estimated costs to serve the requested area appear reasonable and appropriate.

3. A check with the Utilities Division Compliance Unit showed no outstanding compliance issues.

II. Recommendations

1. Staff recommends that Cave Creek Water Company file with the Commission's Docket Control as a compliance item under the same docket number a copy of the ADEQ or MCDES "Approval to Construct" for the Company's final arsenic treatment plan by December 31, 2005.

2. Staff recommends that Cave Creek Water Co. file with the Commission's Docket Control as a compliance item under the same docket number Commission a copy of the developers' Certificate of Adequate Water Supply, stating that there is adequate water supply, where applicable or when required by statute, within one year of the effective date of the final decision and order issued pursuant to this application.

3. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the final Decision and Order in this matter. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us. Staff recognizes that the Company may need to make minor

modifications according to their specific management, operational, and design requirements as necessary and appropriate.