

ORIGINAL



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MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

Date: June 29, 2005

RE: STAFF REPORT FOR CEDAR GROVE WATER COMPANY – APPLICATION FOR EXTENSION OF CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE (DOCKET NO. W-02597A-04-0456)

Attached is the Staff Report for Cedar Grove Water Company application for extension of its existing Certificate of Convenience and Necessity for water service. Staff is recommending approval with conditions.

EGJ:BNC:lhbm

Originator: Blessing Chukwu

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Service List for: Cedar Grove Water Company  
Docket No. W-02597A-04-0456

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Cedar Grove Water Company  
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Phoenix, Arizona 85902

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STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

CEDAR GROVE WATER COMPANY

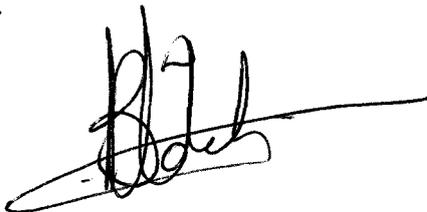
DOCKET NO. W-02597A-04-0456

APPLICATION FOR EXTENSION  
OF EXISTING CERTIFICATE OF  
CONVENIENCE AND NECESSITY

JULY 2005

## STAFF ACKNOWLEDGMENT

The Staff Report for Cedar Grove Water Company (Docket No. W-02597A-04-0456) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Del Smith was responsible for the engineering and technical analysis.

A handwritten signature in black ink, appearing to read 'B. Chukwu', with a long horizontal stroke extending to the right.

Blessing Chukwu  
Executive Consultant

A handwritten signature in black ink, appearing to read 'Del Smith', with a long horizontal stroke extending to the right.

Del Smith  
Engineering Supervisor

**EXECUTIVE SUMMARY**  
**CEDAR GROVE WATER COMPANY APPLICATION FOR EXTENSION OF**  
**CERTIFICATE OF CONVENIENCE AND NECESSITY**  
**DOCKET NO. W-02597A-04-0456**

On June 18, 2004, Cedar Grove Water Company ("Cedar Grove" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in Apache County, Arizona. On June 21, 2005, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the Arizona Administrative Code ("A.A.C.").

Cedar Grove is a sole proprietorship authorized to provide water service in an area east of Show Low, in Apache County. Cedar Grove is owned by Mr. Mark Grapp. According to the Company's Annual Report for the year ending December 31, 2004, the Company is serving 260 customers. The Company reported an annual revenue of \$90,271, expenses of \$110,596, and a loss of \$20,325. Cedar Grove reported \$108,308 in long-term debt to WIFA.

By this application, Cedar Grove is seeking Commission authority to add approximately one-quarter square mile to the Company's existing certificated area of approximately seven and one-half square miles. Cedar Grove is located approximately eleven miles east of Show Low in Apache County.

Based on Staff's review and analysis of the application, Staff believes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N area within a conventional five-year planning period and can reasonably be expected to develop additional storage and production as required in the future.

Staff recommends the Commission approve Cedar Grove application for an extension of its CC&N within portions of Apache County, Arizona, to provide water service, subject to compliance with the following conditions:

1. To require that Compliance Delinquencies associated with Decision No. 66175 referenced in Attachment C be resolved prior to the hearing in this matter.
2. To require Cedar Grove to charge its authorized rates and charges in the extension area.
3. To require Cedar Grove to file with Docket Control its Approval to Construct issued by the Arizona Department of Environmental Quality for the proposed system expansion within 365 days of an order approving this Application.
4. To require Cedar Grove to file a rate case application by March 31, 2006, using a 2005 test year.

Staff further recommends that the Commission's Decision granting the requested CC&N extension to Cedar Grove be considered null and void without further order from the Commission should Cedar Grove fail to meet Conditions No. 3 and 4 listed above within the time specified.

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## **Introduction**

On June 18, 2004, Cedar Grove Water Company ("Cedar Grove" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in Apache County, Arizona.

On July 15, 2004, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that the Company's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-402(C). A copy of the Insufficiency Letter was sent to the Company via U.S mail. In the Letter, Staff listed the deficiencies that needed to be cured for administrative purposes.

On October 18, 2004, December 1, 2004, and June 17, 2005, the Company provided additional documentation to support its relief requested.

On June 21, 2005, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

## **Background**

Cedar Grove is a sole proprietorship authorized to provide water service in an area east of Show Low, in Apache County. In Decision No. 57990, issued on August 26, 1992, the Commission authorized the transfer of Sunrise Vista Water Company to Mr. Mark Grapp, its certified operator, doing business as Cedar Grove Management. Cedar Grove purchased the utility for \$6,881 in debt forgiveness, back taxes and vendor charges.

Mr. Grapp, the owner of Cedar Grove, also owns three other water systems, namely: Silverwell Service Corporation dba Watco, Inc., Serviceberry Water Company, and A. Petersen Water Company, Inc. The systems are current on property taxes.

According to the Company's Annual Report for the year ending December 31, 2004, the Company is serving 260 customers. The Company reported an annual revenue of \$90,271, expenses of \$110,596, and a loss of \$20,325. Cedar Grove reported \$108,308 in long-term debt to WIFA.

By this application, Cedar Grove is seeking Commission authority to add approximately one-quarter square mile to the Company's existing certificated area of approximately seven and one-half square miles. Cedar Grove is located approximately eleven miles east of Show Low in Apache County.

## **The Water System**

Cedar Grove has in existence three wells with a total production capacity of 99 gal/min, 322,500 gallons of storage capacity, booster pumps, pressure tanks, and a distribution system serving 260 connections.<sup>1</sup> Based on historical growth rates, it is anticipated that the existing service area would have 365 total customers at the end of five years.<sup>2</sup> The Company has predicted an additional 12 customers for the proposed CC&N extension, at the end of five years. The existing production and storage can serve approximately 385 connections.<sup>3</sup> Therefore, Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N area within a conventional five-year planning period and can reasonably be expected to develop additional storage and production as required in the future.

The requested service area is contiguous to Cedar Grove's existing certificated service area. The Company has acquired a well that is located in the requested area and wants to develop that well into a domestic water source for its existing water system. The Company plans to construct 2,700 feet of new transmission main to connect the new well to the existing system. In addition, the Company plans to construct a pumphouse and 15,000 gallon storage tank adjacent to the new well. The Company provided a cost estimate of \$36,000 to complete the planned construction.<sup>4</sup> While these proposed improvements and the cost estimate seem reasonable, no conclusions about the proposed plant should be inferred for rate-making purposes.

Staff recommends that the Company be required to file with the Commission's Docket Control Section its Approval to Construct issued by the Arizona Department of Environmental Quality ("ADEQ") for the proposed system expansion within 365 days of an order approving this Application.

## **Finance of Utility Facilities**

The Company indicated in the application that the required utility facilities will be financed through owner investment.

## **Arizona Department of Environmental Quality ("ADEQ") Compliance**

ADEQ regulates the water system under ADEQ Public Water System I.D. # 01-049. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.<sup>5</sup>

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<sup>1</sup> Information reported in Company's 2004 Commission Annual Report (*See Water Company Plant Description*).

<sup>2</sup> Historical growth rate based on number of connections added during the years 2000 thru 2004 (*See Annual Reports for period*).

<sup>3</sup> Capacity calculations were based on Water Use Data information reported for 2004 (*See 2004 Annual Report*).

<sup>4</sup> Letter from Fleetwood Engineering LLC to Commission Staff docketed June 17, 2005.

<sup>5</sup> ADEQ Drinking Water Compliance Status Report dated 10-26-04.

### **Arizona Department of Water Resources (“ADWR”) Compliance**

Cedar Grove Water Company is not within any Active Management Area (“AMA”), and consequently is not subject to reporting and conservation rules.

According to the application, the extension area will consist of approximately 12 lots. Since the extension area is not a subdivision, the developer(s) is not required by ADWR to demonstrate an adequate water supply that will be physically, legally, and continuously available for the next 100 years before the developer can record plats or sell parcels.

### **ACC Compliance**

According to the Utilities Division Compliance Section, Cedar Grove has no outstanding ACC compliance issues. However, Silverwell Service Corporation now known as Watco, which is also a water system owned and operated by Mark Grapp is out of compliance with ACC Decision No. 66175 issued August 13, 2003. Mr. Grapp has been notified of the delinquent compliance filings on several occasions but has failed to comply to date. A delinquency report is attached as Attachment C.

### **Arsenic**

The U.S. Environmental Protection Agency (“EPA”) has reduced the arsenic maximum contaminant level (“MCL”) in drinking water from 50 micrograms per liter (“ $\mu\text{g/l}$ ”) or parts per billion (“ppb”) to 10  $\mu\text{g/l}$ . The date for compliance with the new MCL is January 23, 2006. Recent data on arsenic concentration shows the Company’s three wells comply with the new arsenic standard of 10  $\mu\text{g/l}$ .<sup>6</sup>

### **Curtailment Plan Tariff**

A Curtailment Plan Tariff (“CPT”) 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. Cedar Grove has an approved Curtailment Plan Tariff that has been in effect since August 25, 2004.

### **Proposed Rates**

Cedar Grove has proposed to provide water service to the extension area under its authorized rates and charges.

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<sup>6</sup> Based on a sample date of January 10, 2005 using three points of entry (*Information contained in Company’s 2004 Commission Annual Report*).

### **County Franchise**

Every applicant for a CC&N and/or CC&N extension is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or permit from the proper authority. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

Cedar Grove filed, in the docket, a copy of the franchise agreement it had entered into with Apache County.

### **Recommendations**

Staff recommends the Commission approve Cedar Grove application for an extension of its CC&N within portions of Apache County, Arizona, to provide water service, subject to compliance with the following conditions:

1. To require that Compliance Delinquencies associated with Decision No. 66175 referenced in Attachment C be resolved prior to the hearing in this matter.
2. To require Cedar Grove to charge its authorized rates and charges in the extension area.
3. To require Cedar Grove to file with Docket Control its Approval to Construct issued by the Arizona Department of Environmental Quality for the proposed system expansion within 365 days of an order approving this Application.
4. To require Cedar Grove to file a rate case application by March 31, 2006, using a 2005 test year.

Staff further recommends that the Commission's Decision granting the requested CC&N extension to Cedar Grove be considered null and void without further order from the Commission should Cedar Grove fail to meet Conditions No. 3 and 4 listed above within the time specified.

## MEMORANDUM

DATE: June 23, 2005

TO: Blessing Chukwu

FROM: Del Smith

RE: Cedar Grove Water Company Application to extend its Certificate of Convenience and Necessity (Docket No. W- 02597A-04-0456)

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### **Introduction**

Cedar Grove Water Company ("Cedar Grove" or "Company") has applied to extend its Certificate of Convenience and Necessity ("CC&N"). The requested service area will add approximately one-quarter square mile to the Company's existing certificated area which comprises roughly seven and one-half square miles. Cedar Grove is located approximately eleven miles east of Show Low in Apache County.

### **Capacity**

Cedar Grove has in existence three wells with a total production capacity of 99 gal/min, 322,500 gallons of storage capacity, booster pumps, pressure tanks, and a distribution system serving 260 connections.<sup>1</sup> Based on historical growth rates, it is anticipated that the existing service area would have 365 total customers at the end of five years.<sup>2</sup> The Company has predicted an additional 12 customers for the proposed CC&N extension, at the end of five years. The existing production and storage can serve approximately 385 connections.<sup>3</sup> Therefore, Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N area within a conventional five year planning period and can reasonably be expected to develop additional storage and production as required in the future.

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<sup>1</sup> Information reported in Company's 2004 Commission Annual Report (*See Water Company Plant Description*).

<sup>2</sup> Historical growth rate based on number of connections added during the years 2000 thru 2004 (*See Annual Reports for period*).

<sup>3</sup> Capacity calculations were based on Water Use Data information reported for 2004 (*See 2004 Annual Report*).

### **Proposed System Expansion**

The requested service area is contiguous to Cedar Grove's existing certificated service area. The Company has acquired a well that is located in the requested area and wants to develop that well into a domestic water source for its existing water system. The Company plans to construct 2,700 feet of new transmission main to connect the new well to the existing system. In addition, the Company plans to construct a pumphouse and 15,000 gallon storage tank adjacent to the new well. The Company provided a cost estimate of \$36,000 to complete the planned construction.<sup>4</sup> While these proposed improvements and the cost estimate seem reasonable, no conclusions about the proposed plant should be inferred for rate-making purposes. Staff recommends that the Company be required to file with the Commission's Docket Control Section its Approval to Construct issued by the Arizona Department of Environmental Quality ("ADEQ") for the proposed system expansion within 365 days of an order approving this Application.

### **ADEQ Compliance**

ADEQ regulates the water system under ADEQ Public Water System I.D. # 01-049. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.<sup>5</sup> Recent data on arsenic concentration shows compliance with the new arsenic standard of 10 micrograms per liter that becomes effective January 23, 2006.<sup>6</sup>

### **Arizona Department of Water Resources ("ADWR") Compliance**

Cedar Grove Water Company is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.

### **ACC Compliance**

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

### **Other Issues**

Cedar Grove has an approved Curtailment Tariff that has been in effect since August 25, 2004.

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<sup>4</sup> Letter from Fleetwood Engineering LLC to Commission Staff docketed June 17, 2005.

<sup>5</sup> ADEQ Drinking Water Compliance Status Report dated 10-26-04.

<sup>6</sup> Based on a sample date of January 10, 2005 using three points of entry (*Information contained in Company's 2004 Commission Annual Report*).

### **Conclusions**

1. Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N area within a conventional five year planning period and can reasonably be expected to develop additional storage and production as required in the future.
2. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Recent data on arsenic concentration shows compliance with the new arsenic standard of 10 micrograms per liter that becomes effective January 23, 2006.
3. Cedar Grove Water Company is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.
4. As it relates to Cedar Grove, a check with the Utilities Division Compliance Section showed no outstanding compliance issues.

### **Recommendations**

Staff recommends that the Company be required to file with the Commission's Docket Control Section its Approval to Construct issued by the Arizona Department of Environmental Quality for the proposed system expansion within 365 days of an order approving this Application.

### **Conclusions**

1. Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N area within a conventional five year planning period and can reasonably be expected to develop additional storage and production as required in the future.
2. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Recent data on arsenic concentration shows compliance with the new arsenic standard of 10 micrograms per liter that becomes effective January 23, 2006.
3. Cedar Grove Water Company is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.
4. A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

### **Recommendations**

Staff recommends that the Company be required to file with the Commission's Docket Control Section its Approval to Construct issued by the Arizona Department of Environmental Quality for the proposed system expansion within 365 days of an order approving this Application.

MEMORANDUM

TO: Jim Fisher  
Executive Consultant II  
Utilities Division

FROM: Barb Wells *bw*  
Information Technology Specialist  
Utilities Division

THRU: Del Smith *DS*  
Engineering Supervisor  
Utilities Division

DATE: October 18, 2004

RE: **CEDAR GROVE WATER COMPANY (DOCKET NO. WI-02597A-04-04501)**

The area requested by Cedar Grove 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.

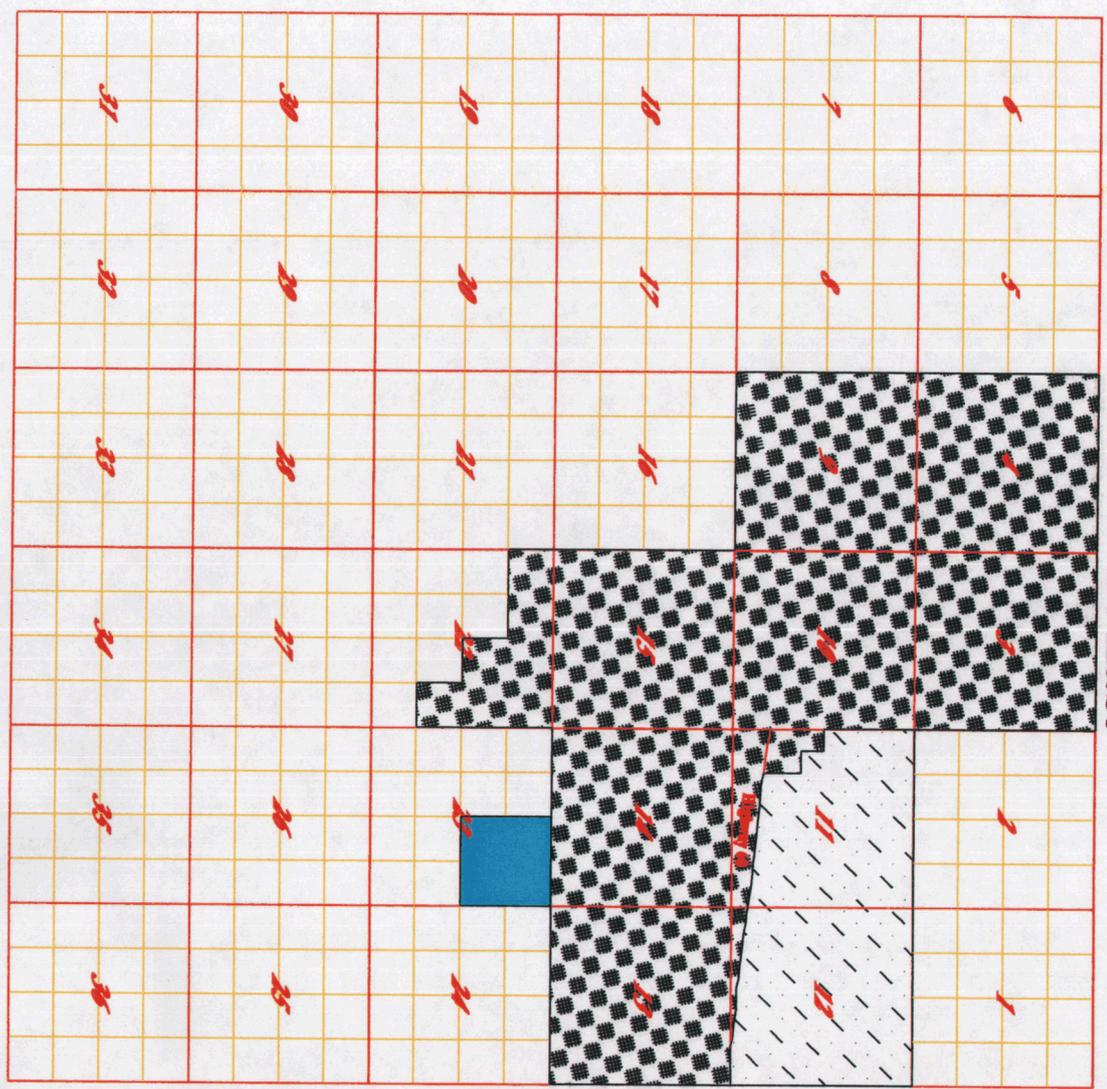
:bsw

Attachments

cc: Docket Control  
Mr. Mark Grapp  
Deb Person (Hand Carried)  
File

# COUNTY: Apache

## RANGE 24 East



 W-2597 (2)

Cedar Grove Water

 W-2479 (2)

Lord Arizona Water Systems, Inc.



Cedar Grove Water  
Docket No. W-2597-04-456  
Application for Extension

# TOWNSHIP 10 North

CEDAR GROVE WATER COMPANY  
DOCKET # W-02597-04-0456

**COPY**

Legal Description is as follows: All of the Northeast Quarter of Section 23, Township 10 North, Range 24 East of the Gila and Salt River Base and Meridian, Apache County, Arizona.

**RECEIVED**

OCT 18 2004

AZ Corporation Commission  
Director Of Utilities

AZ CORP COMMISSION  
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**COMPLIANCE DELINQUENCIES**

**UTILITY:** Silverwell Service Corporation

**DOCKET:** W-01979A-02-0900      **DECISION NO:** 66175

**ACTION:** Submit a report to the Compliance Section of the Utilities Division stating the amount refunded by customer name within 30 days of the effective date of the completion of the refunds.

**COMPLIANCE DUE DATE:** 4/1/2004       **Compliance Past Due**

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**UTILITY:** Silverwell Service Corporation

**DOCKET:** W-01979A-02-0900      **DECISION NO:** 66175

**ACTION:** Report annually to the Commission the number of meters replaced and the annual non-account water as a percentage of water pumped. Submit the annual water loss reports by April 15th following the year of the effective date of this Decision. The water loss reports shall continue until the water loss is less than 10 percent, but in no case continue less than three years.

**COMPLIANCE DUE DATE:** 4/15/2004       **Compliance Past Due**

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**UTILITY:** Silverwell Service Corporation

**DOCKET:** W-01979A-02-0900      **DECISION NO:** 66175

**ACTION:** File all past and current line extension agreements with the Commission for approval within 60 days of the effective date of this Decision.

**COMPLIANCE DUE DATE:** 10/15/2003       **Compliance Past Due**

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