ORIGINAL

OPEN MEETING ITEM

0000027851

COMMISSIONERS
JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

ARIZONA CORPORATION COMMISSION

22

DATE: December 13, 2005

DOCKET NO: W-04264A-04-0438, SW-04265A-04-0439 and W-01445A-04-0755

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Marc E. Stern. The recommendation has been filed in the form of an Opinion and Order on:

WOODRUFF WATER COMPANY, WOODRUFF UTILITIES COMPANY
(Applications for CC&Ns)

ARIZONA WATER COMPANY
(CC&N Extension)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

DECEMBER 22, 2005

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for Open Meeting to be held on:

JANUARY 24 AND 25, 2006

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF WOODRUFF WATER COMPANY, INC. FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER SERVICE IN PINAL COUNTY, ARIZONA.	DOCKET NO. W-04262A-04-0438
IN THE MATTER OF THE APPLICATION OF WOODRUFF UTILITY COMPANY, INC. FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE SEWER SERVICE IN PINAL COUNTY, ARIZONA.	DOCKET NO. SW-04265A-04-0439
IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, TO EXTEND ITS EXISTING CERTIFICATES OF CONVENIENCE AND NECESSITY AT CASA GRANDE AND COOLIDGE, PINAL COUNTY, ARIZONA.	DOCKET NO. W-01445A-04-0755 DECISION NO. _____ **OPINION AND ORDER**

DATE OF PRE-HEARING:	November 18, 2004
DATES OF HEARING:	November 30, 2004; April 30, May 23, 25, June 27, 29, 30, August 3, and 4, 2005
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Marc E. Stern
APPEARANCES:	Mr. Jeffrey W. Crockett, SNELL & WILMER, LLP, and Mr. Marvin S. Cohen, SACKS TIERNEY, P.A., on behalf of Woodruff Water Company, Inc. and Woodruff Utilities Company, Inc.; Mr. Robert W. Geake, Vice President and General Counsel, and Mr. Steven A. Hirsch, and Mr. Rodney Ott, BRYAN CAVE, L.L.P. on behalf of Arizona Water Company; Mr. Michael W. Patten, ROSHKA, DEWULF & PATTEN, on behalf of Pulte Home Corporation; and Ms. Diane Targovnik and Mr. Tim Sabo, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission,

BY THE COMMISSION:

On June 10, 2004, Woodruff Water Company, Inc. ("WWC") and Woodruff Utility Company, Inc. ("WUC"), each filed an application for a Certificate of Convenience and Necessity ("Certificate") with the Arizona Corporation Commission ("Commission") to provide public water and public wastewater utility service, respectively, to various parts of Pinal County, Arizona.

On June 30, 2004, the Commission's Utilities Division ("Staff") issued a notice of insufficiency which indicated that WWC's and WUCS's applications had not met the sufficiency requirements of A.A.C. R14-2-411(C), and A.A.C. R14-2-610(C).

On October 7, 2004, Staff issued a letter of administrative completeness to WWC and WUC.

On October 14, 2004, by Procedural Order, a hearing was set in this matter.

On October 19, 2004, Arizona Water Company ("AWC") filed an application to extend the Certificates of its Casa Grande system to include a large parcel being developed by Pulte Home Corporation ("Pulte") and its Coolidge system which includes the area for which WWC is seeking a Certificate to provide water service together with several adjacent parcels; an application to intervene in the WWC proceeding in the above-captioned matter; and a Motion to Consolidate the proceedings with respect to WWC's application to provide water service.

On November 4, 2004, by Procedural Order, AWC was granted intervention, the above-captioned matters consolidated for purposes of hearing, and a pre-hearing conference scheduled for November 18, 2004.

On November 5, 2004, Staff filed a Motion to Extend due to the issues raised by the competing applications filed by WWC and AWC with respect to the provision of water service in the areas sought to be certificated herein. Staff requested that the procedural schedule established by the Commission's October 14, 2004, Procedural Order in this proceeding be vacated and the time-frame for the above-captioned proceedings be extended to allow for the review and consideration of the competing applications in one hearing.

On November 10, 2004, AWC filed its Joinder in Staff's Motion to Extend. WWC and WUC filed a response indicating that they did not object to a short delay. WWC and WUC also indicated that public notice had been provided as previously ordered. By Procedural Order, Staff's Motion to

Extend was granted until Staff issued a letter of administrative completeness to AWC at which time the time-frame was to be restarted. It was further ordered that the pre-hearing conference scheduled for November 18, 2004, go forward as previously scheduled as well as the hearing scheduled on November 30, 2004, for public comment to be taken.

On November 12, 2004, Staff issued a notice to AWC that its application did not meet the sufficiency requirements of A.A.C. R14-2-411(C).

On November 18, 2004, a pre-hearing conference was convened with WWC, WUC, AWC and Staff present with counsel.

On November 30, 2004, the hearing was convened before a duly authorized Administrative Law Judge at its offices in Phoenix, Arizona. WWC, WUC, AWC and Staff were present with counsel and public comment was taken.

On December 16, 2004, Pulte, the developer of a large adjacent parcel to the area sought to be certificated by WWC, filed a Motion to Intervene and requested expedited consideration of the uncontested extension area which was included in AWC's application herein. There were no objections to Pulte's Motion to Intervene.

On December 30, 2004, by Procedural Order, Pulte was granted intervention in the above-captioned proceeding. Its additional request was taken under advisement.

On January 4, 2005, AWC filed a Response to the Insufficiency Letter.

On January 5, 2005, WWC and WUC filed a copy of their Affidavit of Publication.

On January 20, 2005, Staff issued a notice of administrative sufficiency to AWC pursuant to A.A.C. R14-2-411(C).

On January 24, 2005, by Procedural Order, the proceeding was scheduled for hearing on April 18, 2005.

On January 27, 2005, Staff filed a Motion to Reschedule Hearing because a key Staff witness would be unavailable to testify due to a scheduling conflict.

On January 31, 2005, by Revised Procedural Order, the Commission rescheduled the proceeding.

Prior to the rescheduling of the proceeding, AWC filed what was captioned as "Motion for

Procedural Order Concerning Prefiled Testimony" ("PF Motion") which requested that a Procedural Order be issued directing the parties to prefile prepared direct and rebuttal testimony and exhibits. Subsequently, Staff filed a response objecting to AWC's PF Motion.

On February 1, 2005, AWC, in support of the PF Motion, filed a reply to Staff's response.

On February 2, 2005, WWC and WUC filed their response supporting Staff's position and argued further that the proceeding would be unduly delayed if AWC's PF Motion is granted.

On February 7, 2005, AWC filed its reply to WWC's and WUC's response.

On February 8, 2005, by Procedural Order, AWC's PF Motion was denied.

On April 18, 2005, during a teleconference arranged by the parties, it was determined that because of the number of witnesses being called to testify by the parties that at least two to three days of hearing time would be required and that the hearing should be continued to a more appropriate date.

On April 19, 2005, by Procedural Order, the evidentiary hearing portion of the proceeding was continued to commence on May 23, 2005 and the timeframe rule suspended.

On April 30, 2005, an additional day of hearing was held for the purpose of taking public comment only.

On May 23, 2005, the hearing was reconvened as ordered with WWC, WUC, AWC, Pulte and Staff present with counsel for the taking of evidence.

On May 25, 2005, the parties agreed that additional time was needed for the evidentiary portion of the proceeding. It was agreed that the matter would reconvene on June 27, 2005 and that an additional day of hearing also be scheduled, if necessary.

On June 1, 2005, by Procedural Order, the hearing was scheduled to reconvene on June 27 and 29, 2005. The proceeding was reconvened as ordered and upon agreement of the parties, an additional day of hearing took place on June 30, 2005.

On June 30, 2005, the parties further agreed that the matter reconvene on August 1, 3 and 4, 2005, if all counsel were available. Subsequently, an attorney for WWC and WUC indicated telephonically that he would not be available on August 1, 2005.

On July 5, 2005, by Procedural Order, the hearing was scheduled to reconvene on August 3,

and 4, 2005.

On August 3, 2005, the proceeding was reconvened pursuant to the Commission's Procedural Order. The parties were present with counsel and upon completion of the presentation of evidence, the parties were ordered to file, by September 16, 2005, Closing Briefs in lieu of closing arguments. Subsequently, the parties were granted leave telephonically to file their briefs on September 19, 2005, and the matter was taken under advisement pending submission of a Recommended Opinion and Order to the Commission.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. WWC and WUC are Arizona corporations[1] that were formed to provide public water and wastewater treatment service to a 3,200 acre parcel that is to be called Sandia and is to be developed by Pivotal Group ("Pivotal") into a master-planned subdivision consisting of approximately 9,500 or more residential units along with commercial development, schools, parks and a golf course on land that has previously been used for agricultural purposes in an area located between Casa Grande and Coolidge, Pinal County, Arizona.

2. Pursuant to authority granted by the Commission, AWC is an Arizona corporation which is engaged in the business of providing water service to approximately 80,000 customers in portions of Gila, Navajo, Cochise, Maricopa, Pima, Yavapai, Coconino and Pinal counties, Arizona.

3. On June 10, 2004, WWC and WUC each filed an application for a Certificate to provide public water and public wastewater treatment service, respectively, to what is to be the subdivision known as Sandia in Pinal County, whose legal description is set forth in Exhibit A, attached hereto and incorporated herein by reference.

4. On October 19, 2004, AWC filed an application to extend its Casa Grande Certificate to provide water to an adjacent parcel consisting of approximately 565 acres for which it has received

[1] WWC and WUC are owned by Pivotal Sandia, L.L.C. which in turn is controlled by Pivotal Group X, L.L.C. which is in turn controlled by the F. Francis Najafi Family Trust. Mr. Francis Najafi is the sole director of both WWC and WUC.

a request for service from Pulte that is to be developed into a subdivision known as Martin Ranch where approximately 1,500 residential units will be built. AWC's application also includes an extension of its Coolidge system for the Sandia parcel and extensions to other surrounding parcels for which it has not received requests for service, whose legal description is set forth in Exhibit B and incorporated by reference.[2]

WWC and WUC Applications

5. In support of their applications, WWC and WUC called the following witnesses: Mr. Francis Najafi, CEO of Pivotal Group; Mr. Carl Polen, Executive Vice-President of Pivotal Group and Vice-President of both WWC and WUC; Ms. Lisa Farrington, CEO of LJ Farrington Engineers, Inc.; Mr. Troy Bontrager, a civil engineer with Wood/Patel and Associates; Mr. Steve Noel, a geologist and CEO of Southwest Ground Water Consultants; and Mr. Ronald L. Kozoman, a CPA.

6. Pursuant to the Commission's Procedural Order, WWC and WUC filed certification that public notice had been given of the proceeding and hearing thereon.

7. Although there are no other municipal or public water or wastewater utilities within the area sought to be certificated by WWC and WUC, AWC provides public water service to the west in Casa Grande and to the east in Coolidge close to the area sought to be certificated herein by WWC and WUC.

8. The area which Pivotal intends to develop as Sandia has been owned by the Wurtz family and has been utilized for agricultural purposes for a number of years. The family is selling its land to Pivotal and has requested water and wastewater service from WWC and WUC. The family's request for water service will provide a mechanism to convert their irrigation rights to water rights that can be used for development and private purposes.

9. Mr. Najafi described the activities of Pivotal as a successful broadly based multi-faceted multimillion dollar development company dealing in both residential and commercial properties along with master-planned communities outside of Arizona and also including the operation of the Century Plaza Hotel in Los Angeles, California. He explained that the Company had

[2] AWC's Coolidge and Casa Grande systems are part of AWC's Western Group of systems.

a 30-year plus track record of investing and developing real estate and has a capital base in excess of $500 million.

10. Mr. Najafi explained that Pivotal Sandia, LLC had been formed to develop Sandia as a master-planned community in Pinal County because of Pivotal's desire to expand its presence in the Phoenix area where its base of operations is located.

11. Mr. Najafi estimated that the development of Sandia will take approximately 20 years until total build out with approximately 25,000 to 30,000 people living in the area. He anticipated that this development would ultimately be annexed by the City of Coolidge, Arizona[3] which is located just to the east of the area sought to be certificated by WWC and WUC.

12. Since Pivotal has not been directly involved in the operation of either a water or wastewater treatment facility in Arizona, Pivotal began to prepare for WWC's and WUC's operations by having Mr. Polen join in their initial operations because he has previously worked with Robson Communities ("Robson") for a number of years in the development and management of their public utility companies.

13. Pivotal has approximately $300 million available to make capital infusions into WWC and WUC and to purchase equity positions over time as required for the expansion of the companies. Mr. Najafi indicated that the utilities would not incur debt in securing funding from Pivotal.

14. Pivotal made a "strategic decision" to start WWC and WUC to provide water and wastewater service to Sandia because over the estimated 20 years it will take to complete the master-planned community, billions of dollars will be invested and it is important that such a critical service element be included in the project.

15. Sandia was described as a project which will have housing products varying in price from approximately $140,000 to $350,000 and will include a 27 or 36 hole golf course as part of the active adult portion of the community that will be constructed during the second phase of Sandia's development. Also included in the development plans during the first phase are sites for three or four elementary schools and an area that will be used in the future for a high school.

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[3] Subsequent to the hearing, on September 12, 2005, the City of Coolidge annexed the entire Sandia subdivision.

16. While it appears that Pivotal has ample capital to invest in the operation of the utilities, Mr. Najafi indicated that Pivotal is willing to post performance bonds to insure the continuation of service if the need ever arises for funding and Pivotal does not have ready funds available.

17. Mr. Polen, Pivotal's Executive Vice-President, previously was employed by Robson as its Chief Financial Officer. He also served on the Board of Directors of the Central Arizona Water Conservation District from approximately 1996 to 2000 overseeing the operations of the Central Arizona Project in formulating water policy for the State of Arizona.

18. Mr. Polen testified that while he was at Robson he was heavily involved in the management of the various communities' integrated water and sewer utilities such as Sun Lakes and Saddlebrook that were developed in conjunction with the various master-planned communities which Robson developed.

19. Mr. Polen is responsible for the management of the Sandia project and he is Vice-President of both WWC and WUC, where he will be involved in the overall operations of the utilities.

20. Mr. Polen testified that Pivotal approached the development of its utilities for Sandia as an integrated solution which could not be offered by AWC because it is only engaged in the provision of water service. By approaching the development of WWC and WUC as an integrated solution to the required public utilities for Sandia, the provision of water service will be integrated with that of the wastewater treatment system and enable the utilities to develop a reuse program which Mr. Polen termed "essential" and would be beneficial from a water conservation standpoint.

21. Pivotal plans to reuse 100 percent of the effluent which is generated by WUC in parks, greenbelts and ultimately, on the golf courses.

22. According to Mr. Polen, the City of Coolidge is not able to provide Sandia with wastewater treatment service, and will not be in a position to provide wastewater treatment to the flows projected to develop at Sandia in the future due to limitations on Coolidge's present wastewater treatment system, an aerated lagoon system. In fact, Coolidge supported WUC's efforts to get its own 208 permit in order to establish a separate wastewater treatment system for Sandia.

23. It is anticipated that the first phase of development for the construction of homes in

Sandia will begin in the last quarter of 2006 or sometime in 2007.

24. Mr. Polen testified that in preparation for further development, WWC and WUC have secured franchises for the area sought to be certificated herein from the Pinal County Board of Supervisors.

25. WUC has also received approval for the Central Arizona Association of Governments ("CAAG") 208 permit in order to provide wastewater treatment service. Additionally, an application for an Aquifer Protection Permit ("APP") has been filed with the Arizona Department of Environmental Quality ("ADEQ").

26. According to Mr. Polen, WWC has filed an initial request to establish a service area right by converting an irrigation grandfathered right to what is known as a Type One Right which is a non-irrigation right permitting the use of water for non-irrigation purposes after the property owner ceases the use of water on farm crops.

27. In order to secure its service area right, WWC is required to provide service for one year and toward this end, WWC has been providing water service to the owners of the farm that sold their land to Pivotal. The application for the service area right was filed on or about September 1, 2004, and according to the rules of the Arizona Department of Water Resources ("ADWR"), Mr. Polen expected that the service area right would be established by September, 2005.

28. WWC plans to provide water service by means of four new wells and one existing well that meet current water quality standards. The four new wells will actually be replacing four existing irrigation wells.

29. Following WWC's application for a physical availability determination ("PAD") for water, ADWR has reviewed the application with supporting data and determined that there is a physically available assured water supply for the provision of water service to Sandia. On August 2, 2004, ADWR sent a letter to Mr. Polen which indicated that the department had determined that sufficient ground water is physically available to meet the projected demand of approximately 8,159-acre feet of water per year for 100 years for assured water supply purposes under the department's rule.

30. During each phase of development, Pivotal will apply for a Certificate of Assured

Water Supply ("CAWS"), which is issued by ADWR.

31. Initially, WWC and WUC will contract with a grade four water and wastewater operator who will be their certified operator. However, as Sandia grows, WWC and WUC will hire their own employees who will be its certified operators.

32. Mr. Polen indicated that WWC and WUC will comply with Staff's recommendations including the use of Staff's recommended rates and charges as set forth in the Staff Report and that the utilities will be operated in compliance with Arizona law.

33. Based on Mr. Polen's review of the economic models for WWC and WUC, he believes that by their third year of operations, the utilities will be earning a profit and be viable in part because of the large scale of the Sandia project.

34. WWC and WUC have no current plans to serve any areas outside of Sandia.

35. WWC has no plans to seek a Central Arizona Project ("CAP") allocation because its management believes that it will have adequate water for Sandia from the new wells which will be developed.

36. Mr. Polen acknowledged that while WUC will operate its wastewater system in Sandia, a Coolidge wastewater treatment collection line will extend in a public utility easement on Val Vista Road through Sandia in order to connect Coolidge's wastewater treatment system to Pulte's Martin Ranch subdivision which is adjacent to and west of Sandia.

37. Ms. Farrington, a self-employed engineer who has been involved in the design of wastewater treatment systems for both municipalities and private providers for almost 20 years, was hired by WUC to design and supervise the construction of the Sandia wastewater treatment and water reclamation plant.

38. Ms. Farrington described how WUC's wastewater treatment and water reclamation plant would be located along the northern edge of the Sandia development, which is located at a down gradient so that the system will be able to utilize gravity flow for the collection of wastewater. WUC will produce A plus effluent, the highest level of effluent that ADEQ currently permits. This effluent will be able to be used in lakes, on golf courses, greenbelts, schoolyards, parks and also for recharge purposes when effluent quality is greater than the effluent needed for irrigation.

39. WUC will initially be able to treat up to 250,000 gallons of wastewater a day with expansion planned eventually to treat up to three million gallons of wastewater a day when the entire service area requires wastewater treatment.

40. While there is evidence that the City of Coolidge will be developing a wastewater treatment facility that could perhaps provide treatment for some of Sandia's wastewater, the best evidence in the record is the letter from the City of Coolidge which states that it does not plan to serve the Sandia subdivision. This fact is further borne out by amended CAAG 208 plan of Coolidge. An additional problem appears to be the fact that Coolidge's treated effluent would not achieve A plus quality until some time after 2007 or 2008.

41. Delays would also develop with Coolidge's 208 plan since, from an engineering stand point, the plan does not provide for a way to get treated effluent to the Sandia subdivision and would require that a new 208 plan be approved.

42. Mr. Troy Bontrager worked as the lead engineer to design the water facilities and related infrastructure to serve Sandia. He described that, at build-out, WWC would have six ground water wells whose water would be pumped to a centralized treatment system and then stored in two 2.5 million gallon storage tanks. The water would then be pumped into transmission mains which would be looped so that there would be "adequate redundancy" to serve customers in the entire subdivision.

43. However, in the initial phase of construction, WWC would construct only one of the 2.5 million gallon storage tanks and have only two wells on line.

44. To treat WWC's water to remove arsenic and fluoride which it expects is in the water, WWC is planning to use an activated alumina system, and it is estimated that centralized treatment will cost approximately $.95 per 1,000 gallons to treat WWC's water for arsenic and fluoride when it is required.

45. WWC's wells will be drilled in such a way that total dissolved solids ("TDS") and nitrates will be screened off to minimize their effects on the water.

46. The capital costs of water treatment facilities for WWC for the first phase of development will be approximately $1 million and at full build-out, the cost will be approximately $2

million.

47. Mr. Bontrager disagreed with AWC's proposal to serve the first phase of 500 homes to be constructed in Sandia with only a single main extending over 18,000 feet from AWC's Coolidge system to the first phase construction site.

48. Mr. Steve Noel, a geologist, developed Sandia's PAD for ADWR and based on Mr. Noel's study, WWC projects a demand of 8,159 acre feet of water per year or flows of 5,058 gallons of water per minute at build-out.

49. Mr. Ron Kozoman, a CPA, testified on behalf of WWC and WUC with respect to their proposed rates and charges and for the proposed plant values, expenses, taxes and depreciation based on data provided by Ms. Farrington and Mr. Bontrager.

50. After reviewing Staff's recommended rates and charges for both WWC and WUC, Mr. Kozoman indicated that he found Staff's recommended rates and charges acceptable to the utilities if they are awarded Certificates to provide both water and wastewater treatment because Staff's proposed rates produced similar revenue levels to those proposed by WWC and WUC.

51. Based on Staff's recommended rates and charges, an average monthly bill for a WWC customer would be approximately $47 per month.

52. These recommended rates are approximately $18 per month more than an average customer bill on the Coolidge system.[4]

53. According to Mr. Kozman, AWC's rates may not be as reasonable as they appeared at the time of hearing based on the fact that it is his understanding that AWC will file a rate case in 2007 based on a 2006 test year. Additionally, if the Casa Grande and the Coolidge systems are combined into one system with the Sandia project, an arsenic treatment expense would surface as would the cost of treating CAP water. Whereas, since WWC is in agreement with Staff's recommendations with respect to the proposed rates and charges he believes that WWC's rates will be stable for at least five years.

54. Mr. Kozoman testified that he believes higher operating costs will result for WUC in

[4] Based on AWC's recently authorized rates for its Western Group including both the Coolidge and Casa Grande systems in Decision No. 68302 (November 14, 2005).

the area of what would be common costs such as billing, operations and maintenance expense result if WWC is not approved as the water provider to Sandia.

AWC Application

55. In support its application, AWC called the following witnesses: Mr. William M. Garfield, President; Mr. Michael Whitehead, Vice-President of Engineering; and Mr. Ralph Kennedy, Vice-President and Treasurer.

56. On February 17, 2005, pursuant to the Commission's Procedural Order, AWC provided notice of the application and hearing thereon.

57. AWC has been in the water business for 50 years and has 115 wells in Arizona producing in excess of 55,000 gallons of water per minute or approximately 80 million gallons of water per day. AWC has approximately $225 million worth of plant in service with another $10 million worth of construction work in progress.

58. AWC is growing by approximately 3,700 customers per year with approximately 500 customers added per year in the Coolidge area.

59. AWC has plans to combine both its Casa Grande and Coolidge systems which are situated on both sides of Sandia as its master plan is developed for the Pinal Valley area. With AWC's plans for the extension of its Casa Grande Certificate in order to provide public water service to Martin Ranch, and the possible extension of AWC's Coolidge Certificate to include Sandia, AWC has renewed its plan to provide for the eventual interconnection of the two systems. Mr. Garfield indicated that AWC has been discussing this possibility with ADWR and ADEQ for many years believing that it makes sense to regulate one large utility rather than multiple small utilities.

60. If the Commission approves AWC's entire application, Pulte's Martin Ranch extension area will be served by AWC's Casa Grande system at Casa Grande's rates, and Sandia will be provided with water service by means of AWC's Coolidge system at Coolidge's rates.

61. AWC's Casa Grande system has approximately 17,400 customers and water production of approximately 22 million gallons a day. AWC's Coolidge system provides service to approximately 3,500 customers and has water production capacity of approximately 6 to 7 million gallons per day.

62. Mr. Garfield described AWC's water resources available for its Casa Grande service area by means of a PAD of 62,000 acre-feet of ground water per year for the next 100 years and an additional 8,884 acre-feet of CAP water allotment. With respect to AWC's Coolidge service area, AWC has a PAD of 13,510 acre-feet of ground water and a CAP allotment of 2,000 acre-feet.

63. AWC employs in excess of 100 certified operators to operate its various water utility systems throughout the State of Arizona, and the majority of these operators work in the field and are not based at the Phoenix office. AWC has its own in house engineering and drafting departments that are available to its systems as needed, and its own accounting and billing departments in order to service its various utility systems throughout Arizona.

64. In support of AWC's application, Mr. Garfield testified that AWC has been involved with the United States Environmental Protection Agency ("EPA") in the operation of two demonstration arsenic treatment plants which have been operating since June 2004. He also described that while WWC's experts discussed treatment for arsenic by utilizing an activated alumina system, AWC has been investigating an ion based media, another technology called ion exchange, and a third more cost effective method, coagulation/filtration which can be used for larger systems.

65. Mr. Garfield also pointed out that although reverse osmosis could also be used to treat excess arsenic found in ground water it creates problems because it produces almost 20 percent wastewater which most wastewater providers do not want discharged into their systems because of problems with the clean water act and compliance with the Arizona Pollutant Discharge Elimination System ("AZPEDES") limitations.

66. At various times over the past years, AWC has taken over smaller systems in the area of Coolidge that failed catastrophically requiring a tie-in with AWC's distribution system.

67. Mr. Garfield referenced Commission Decision No. 62993 (November 3, 2000) which approved Staff's recommendations in the form of a report regarding the Commission's Water Task Force ("WTF").[5]

68. In Decision No. 62993, the Commission ordered Staff to work with interested parties

[5] The WTF was established by the Commission in Decision No. 60829 (April 24, 1998).

such as ADWR, ADEQ, the Residential Utility Consumer Office and representatives of water companies and citizens groups to develop policies and to address issues that concern water utilities in Arizona.

69. Subsequently, on June 29, 2001, the WTF filed a memorandum to the Commission which included among other things a plan for the Commission to adopt which would promote the elimination of numerous non-viable water systems. This proposal, which was never formally adopted by the Commission, set forth a methodology recommended by Staff describing how an applicant for a new Certificate to provide water service must demonstrate that existing water utilities have refused to extend their territories if the applicant were to be considered for a new Certificate to provide water service to the area which requested service.

70. Mr. Garfield pointed out that a primary requirement under the terms of Staff's initial recommendations had been that the applicant wishing to provide new service present evidence in the form of refusals from existing water utilities before its application would be considered by the Commission for a new Certificate and that it was in the public interest for a new Certificate to be issued. Mr. Garfield argued that since AWC is desirous of providing public water service to the Sandia subdivision, it would not be in the public interest for a new Certificate to be issued to WWC by the Commission.

71. Mr. Garfield further pointed out that AWC operates with economies of scale and has only filed two rate applications in the past 20 years, leading to overall rate stability.

72. Due to AWC's large service area in the Pinal Valley, AWC will be able to provide more options to secure water service for Sandia in the event that certain of the wells in the immediate geographic area of Sandia are found not to be usable.

73. AWC's CAP treatment facility is located southeast of the City of Coolidge and approximately and one-half mile from the CAP canal. AWC envisions treating both the Coolidge and Casa Grande CAP allocations at this one centralized plant, which it is estimated will be completed between 2010 and 2012.

74. Although AWC does not provide public wastewater service, in a number of the Company's certificated areas there are both private and municipal wastewater systems which provide

wastewater service in conjunction with AWC's provision of water service such as in Casa Grande.

75. In areas where there are unrelated wastewater providers, AWC provides information to wastewater providers and informs them when a customer begins to receive water service in order that the wastewater provider may begin to bill for its services. Depending on the needs of the wastewater provider, AWC provides whatever information is required to wastewater providers such as in the Robson community, Saddlebrook Ranch, where AWC provides water and a Robson subsidiary provides wastewater treatment. AWC also works with the wastewater provider to provide an integrated approach which meets the overall water needs of a master-planned community.

76. Mr. Garfield believes AWC could perform a combined water/wastewater treatment billing to achieve an economy of scale and lower billing costs for WUC. In conjunction with this issue, Mr. Garfield cited Decision No. 66998 (May 24, 2004) in which the Commission approved a tariff at variance from A.A.C. R14-2-410(A)(2), and which permits Arizona-American Water Company ("AZAM"), the water provider to Bullhead City, to aid the city which provides the wastewater treatment, in the collection of delinquent wastewater bills by allowing AZAM to terminate water service to sewer customers who do not pay the city for their wastewater treatment bills when due.

77. AWC is ready, willing and able to provide service to Martin Ranch and will comply with the conditions recommended by Staff.

78. Neither Sandia's developer nor the Cardon Hiatt Companies ("CHC") that own a 720 acre parcel east of Sandia have requested inclusion of their parcels within AWC's requested extension area for its Coolidge system.

79. AWC will have areas which it can interconnect its Coolidge and Casa Grande systems in the future even if AWC is not certificated to provide water service to the Sandia project due to the location of public utility easements.

80. AWC has not determined when the Coolidge and Casa Grande systems will be integrated for rate making purposes.

81. AWC is willing to provide water service for any of the surrounding areas described in Exhibit B where it has requested an extension of its Certificate herein.

82. Mr. Whitehead, AWC's vice-president of engineering testified concerning the engineering aspects of AWC's application and also described the progress that AWC has made on approximately 30 sites where it is constructing arsenic treatment plants in order to meet the new federally mandated arsenic level of 5 parts per billion ("ppb") by January 23, 2006.

83. To serve the Martin Ranch subdivision consisting of approximately 1,500 residential units and some commercial customers, AWC will connect its existing Casa Grande system to Martin Ranch's distribution system by means of a three and one-half mile main extension at a cost of approximately $750,000 which will be funded by means of a main extension agreement with Pulte. Pursuant to the terms of the agreement, Pulte will provide property and fund the drilling of a new well to serve additional customers.

84. Martin Ranch will fall under the PAD of AWC's Casa Grande system. AWC has both the financial ability and the operational ability to develop the water system required to serve Martin Ranch.

85. Mr. Whitehead believes that an interconnection between AWC's Coolidge and Casa Grande systems will occur sometime in the next two years and as a result, AWC wishes to carefully plan the location of its various transmission mains. He explained that AWC is working towards this goal in order to achieve an economy of scale through the utilization of one common distribution system.

86. While explaining the overall master plan, Mr. Whitehead explained how AWC has developed various pressure zones within the Pinal Valley area in order to maintain water pressure for its customers by incorporating elevated storage tanks which use the force of gravity flow in its distribution system in place of relying on a hydro-pneumatic system because a gravity flow system is "far superior" to a hydro-pneumatic system.

87. In explaining AWC's system further, Mr. Whitehead described Casa Grande's two five million gallon storage tanks and a two million gallon storage tank which are constructed at elevations which enable AWC to use gravity flow to provide pressure on this system.

88. With respect to the City of Coolidge areas and areas in the eastern portion of the Pinal Valley including Sandia, although AWC has an old 100,000 gallon elevated storage tank, AWC has

recently acquired a piece of property on Signal Peak where it intends to construct the first of two five million gallon storage tanks beginning in 2006 that will be used to provide gravity flows of water in those areas.

89. Upon completion of the construction of the initial five million gallon storage tank on Signal Peak, AWC will "valve off" its 100,000 gallon storage tank because it is old and has been in use since 1934.

90. AWC has numerous plans for the development of its system throughout the Pinal Valley area because of its present estimate of approximately an additional 50,000 residential units already planned for construction in approximately 30 new developments that have approached AWC for service.

91. Because of Sandia's location between Casa Grande and Coolidge, Mr. Whitehead believes the project is essential to AWC in order to interconnect the two city systems in an efficient loop.

92. AWC's initial service to Sandia from its Coolidge system can be achieved by an interconnection with its Coolidge system at the Heartland subdivision which is approximately one mile east of Sandia's border. AWC is willing to install a 16-inch main, but only charge Pivotal for a 12-inch main and will pay the difference itself.

93. If AWC is awarded a Certificate to provide water service to Sandia, it will enter into agreements for advances in aid of construction, portions of which will be refundable and portions of which will be non-refundable. The non-refundable portions would consist primarily of fire hydrants which do not produce revenue. The remainder of the facility such as storage tanks, transmission and distribution lines, wells, and booster pump stations which all generate revenue will be refundable pursuant to A.C.C. R14-2-406. AWC will also utilize a form of rapid recovery refund in some instances.

94. Based on the initial projections from Sandia that there will be approximately 9,000 residential units, AWC determined that six wells would be required to provide water service, however, with the development of AWC's Signal Peak five million gallon storage tank, AWC does not believe that it will need any ground storage tanks in the Sandia service area to provide the

subdivision with water service.

95. If AWC is permitted to provide water service to Sandia, AWC will ultimately interconnect Sandia to Martin Ranch which is adjacent to the Pivotal project.

96. Mr. Whitehead believes that WWC's consultant overestimated the capacity of six planned wells at 1,200 gallons of water per minute. AWC views the water production from its six projected wells at a more realistic 750 gallons per minute because Mr. Whitehead insists that in order to have good water quality, you have to sacrifice some production by sealing off some of the aquifer.

97. AWC's wells for the Coolidge system are below the new minimum standard for arsenic effective January 23, 2006.

98. AWC's choice for the treatment option for excessive arsenic alone is by blending by connecting to existing water systems with low concentrations of arsenic.

99. AWC favors using coagulation/filtration as a methodology for treating water with high TDS and arsenic content.

100. While indicating that AWC currently has 1.7 million gallons of storage capacity in Coolidge to serve Coolidge and the new Sandia area, Mr. Whitehead pointed out that once the initial Signal Peak five million gallon storage tank is completed, the issue of available water will not be significant.

101. With respect to the provision of service to Martin Ranch and Sandia, AWC has franchises from both Pinal County and the City of Coolidge.

102. Although AWC's Casa Grande wells have arsenic content in excess of the new minimum arsenic standard, they will be treated in order that AWC's water will not violate the new minimum arsenic standard of 5 ppb effective January 23, 2006.

103. Six new wells will have to be drilled for AWC to serve Sandia because existing capacity in Coolidge is reserved for existing customers.

104. AWC estimates that if arsenic treatment is necessary for wells to provide water service to the Sandia project, it will add approximately $600,000 to the cost of each well.

105. As with all of its main extension agreements, if AWC is awarded a Certificate to provide water service to Sandia, AWC will submit all extension agreements with Pivotal for

Commission approval.

106. AWC's vice-president and treasurer, Mr. Kennedy, described AWC as a closely held corporation owned by approximately 50 inter-related family members.

107. Over the 50 years that AWC has been in business, it has developed financial relationships with banks and insurance companies in order to carry on its business and has also issued bonds to interested investors.

108. AWC is suggesting that financing for Sandia be made through refundable developer advances, with a more favorable method of refunding than the typical 10 percent 10 year refund discussed in the Commission's rule at A.A.C. R14-2-406. AWC would instead utilize what it terms a "rapid pay back approach". This pay back provides for refunding all of the costs advanced by the developer for back-bone infrastructure at the time the development is fully built out or within six months of that date.

109. AWC believes that the developer should fund backbone plant because it believes that the risk of development should fall on the developer rather than on rate payers.

110. AWC will enter into separate main extension agreements covering the cost of the distribution system which will be subject to the above-referenced 10-year, 10 percent refund described in the Commission's rules.

111. Upon request, AWC is willing to provide water sales information to wastewater treatment utilities in a form which will be useful to them and in return charge a nominal fee for the service such as the $50 a month fee it charges to the City of Mesa.

Staff's Position

112. During Staff's presentation, Mr. Steve Olea, Assistant Director of the Utilities Division, testified in support of Staff's position and adopted the recommendations made in the Staff Report by Mr. Jim Fisher, a former Staff executive consultant.

113. Staff received an e-mail dated March 30, 2005, from the City of Coolidge's economic development director which verified that the City of Coolidge is not going to provide wastewater treatment service to Sandia and that it supports WUC's application for a Certificate in this proceeding.

114. Mr. Olea, as a former member of the Commission's WTF, recalled that although Staff had recommended in Decision No. 62993 the Commission adopt certain policies with respect to the granting of new Certificates for water utilities, the Commission has not adopted any such policies formally in the form of a signed Order.

115. Concerning the application of the Commission's rule A.A.C. R14-2-406, as it relates to whether the developer or the water provider should pay the costs of constructing backbone plant, Mr. Olea explained that the main reason behind the Commission's decision making is that a public water utility should not take the risk the developer is taking in developing his property.

116. Mr. Olea clarified Staff's recommendation in its report which requires AWC to file a copy of an updated ADWR PAD for the areas requested to be certificated by AWC, stating that the documentation could be in a form of "something from the Department that says there's a 100 years worth of water there to serve this development."

117. With respect to the competing application of WWC and AWC to provide water service to Sandia, Mr. Olea opined that, "there was going to be a Woodruff wastewater utility regardless," and because of Staff's past experience with stand alone wastewater utility companies failing, Staff selected an integrated approach choosing WWC as its recommended water provider.

118. According to Mr. Olea, the WTF's recommendation to the Commission was a plan to prevent and stop, from a public policy prospective, the certification of water companies for smaller 100 to 200 lot subdivisions and not the development of larger water companies formed to provide service to 5,000 to 6,000 lots projects.

119. In concluding his testimony, Mr. Olea pointed out that with respect to AWC's application, Staff is recommending only that the extension area be approved for Martin Ranch as including all of Section 26 of Township 5 South, Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona which is marked Exhibit C, attached hereto and incorporated herein by reference. He stated further that no other portions of the areas described in Exhibit B were recommended for approval including Sandia where AWC had not received specific requests for service because no need for service had been shown.

120. In the Staff Report filed on March 3, 2005, Staff recommended approval of WWC's

and WUC's applications for Certificates in order to provide public water and wastewater treatment service, respectively, for the area described in Exhibit A. With respect to AWC's application, Staff is recommending approval of its application for an extension for only the area described in Exhibit C. In the event that the Commission approves AWC's application for an extension of its Certificate to provide water service to Sandia, Mr. Olea further recommended that the same conditions which would apply to AWC's extension of its Certificate for Martin Ranch would be applicable in the case of Sandia also.

121. The initial rates and charges for WWC's and WUC's public water and wastewater treatment utility systems, respectively, as proposed by Staff and as agreed upon by Applicant[6] are as follows:

WWC Water Rates

MONTHLY CUSTOMER CHARGE:

5/8" x ¾" Meter	$ 20.00
¾" Meter	30.00
1" Meter	50.00
1 ½" Meter	100.00
2" Meter	160.00
3" Meter	300.00
4" Meter	500.00
6" Meter	1,000.00
8" Meter	$1,600.00
10" Meter	2,300.00
12" Meter	4,300.00

Commodity Charges – Per 1,000 Gallons of Usage:

5/8" x 3/4" Meters	
0 to 4,000 gallons	$2.08
4,001 to 20,000 gallons	3.12
20,001 and above gallons	3.74
3/4" Meters	
0 to 4,000 gallons	2.08
4,001 to 20,000 gallons	3.12
20,001 and above gallons	3.74
1" Meters	
0 to 25,000 gallons	3.12

[6] During the hearing, WWC and WUC indicated that Staff's proposed rates were acceptable to both utilities because Staff's proposed rates would produce similar revenue levels to those proposed by WWC and WUC.

25,001 and above gallons	3.74
1 1/2" Meters	
0 to 42,000 gallons	3.12
42,001 and above gallons	3.74
2" Meters	
0 to 63,000 gallons	3.12
63,001 and above gallons	3.74
School/2" Meters	
0 to 63,000 gallons	3.12
63,001 and above gallons	3.74
3" Meters	
0 to 120,000 gallons	3.12
120,001 and above gallons	3.74
4" Meters	
0 to 180,000 gallons	3.12
180,001 and above gallons	3.74
6" Meters	
0 to 207,000 gallons	3.12
207,001 and above gallons	3.74
8" Meters	
0 to 235,000 gallons	3.12
235,001 and above gallons	3.74
10" Meters	
0 to 262,000 gallons	3.12
262,001 and above gallons	3.74
12" Meters	
0 to 290,000 gallons	3.12
290,001 and above gallons	3.74

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-40-5)

5/8" x ¾" Meter	$ 400.00
¾" Meter	440.00
1" Meter	500.00
1 ½" Meter	715.00
2" Meter (Turbo)	1,170.00
2" Meter (Compound)	1,700.00
3" Meter (Turbo)	1,585.00
3" Meter (Compound)	2,190.00
4" Meter (Turbo)	2,540.00
4" Meter (Compound)	3,215.00
6" Meter (Turbo)	4,815.00
6" Meter (Compound)	6,270.00
8" Meter (Turbo)	Cost (a)
8" Meter (Compound)	Cost (a)
10" Meter (Turbo)	Cost (a)

12 Meter (Compound)	Cost (a)

(a) Cost to include parts, labor, overhead and all applicable taxes including income taxes.

SERVICE CHARGES:

Establishment	$30.00
Establishment (After Hours)	45.00
Reconnection (Delinquent)	35.00
NSF Check	25.00
Meter Re-Read (If Correct)	30.00
Meter Test (If Correct)	30.00
Deferred Payment (per month)	1.50%
Deposit Interest (per annum)	*
Deposit	*
Re-Establishment (within 12 months)	**
Late Payment Penalty (per month)	1.50%

Monthly Service Charge for Fire Sprinklers:

4" or smaller	***
6"	***
8"	***
10"	***
Larger than 10"	***

* Per Commission Rules R14-2-403(B).

** Number of months off system times the monthly minimum – R14-2-403(D).

*** 1.00% of monthly minimum for a comparable sized meter connection, but no less than $5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

WUC WASTEWATER RATES

MONTHLY CUSTOMER CHARGES BASED ON WATER METER SIZE:

5/8" x ¾" Meter	$ 52.00
¾" Meter	52.00
1" Meter	130.00
1 ½" Meter	260.00
2" Meter	416.00
3" Meter	780.00
4" Meter	1,300.00
6" Meter	2,600.00

Effluent Sales – General Irrigation:

Per Acre Foot (or 325,851 gallons) for

General Irrigation	$300.00
Per 1,000 Gallons for general irrigation	0.92
Effluent Sales – Agricultural Irrigation:	
Per Acre Foot (or 325,851 gallons) of treated effluent	$300.00
Per 1,000 Gallons of treated effluent	0.92
SERVICE CHARGES	
Establishment of Service (a)	$30.00
Establishment, After Regular Working Hours	35.00
Re-establishment	**
Reconnection	30.00
Service Call Out, After Regular Hours (per hour)	35.00
Minimum Deposit	35.00
Deposit Interest (per annum)	*
NSF Check Charge	25.00
Late Payment Penalty (per month)	1.50%
Deferred Payment (per month)	1.50%
Main Extension and additional facilities agreements	At cost
All revenue related taxes will be charged customers	At cost

(a) Collected only if customer is not also a water customer.
* Per Commission Rules R14-2-603(B).
** Number of months off system times the monthly minimum R14-2- 603(D).

122. With respect to WWC, Staff made additional recommendations as follows:

1. that the Commission find that WWC's FVRB devoted to water service is projected to $4,458,876;
2. that the Commission approve Staff's proposed rates for WWC;
3. that the Commission order WWC to file, within 30 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a tariff consistent with the rates and charges authorized herein by the Commission;
4. that the Commission order WWC to file, within 60 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a backflow prevention tariff and a curtailment tariff;

5. that the Commission order WWC to file, not later than three months following the fifth anniversary of the effective date of this Decision, with the Commission's Docket Control, a rate application;
6. that the Commission order WWC to file, within two years of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a copy of the ADEQ CAC;
7. that the Commission order WWC to file, within 365 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a report on the arsenic levels of its production wells;
8. that the Commission order WWC to file, within two years of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a copy of the developer's Certificate of Assured Water Supply, or as an alternative, a copy of its designation of an assured water supply issued by ADWR;
9. that the Commission order WWC to maintain its books and records in accordance with the National Association of Regulatory Utility Commission ("NARUC") Uniform System of Accounts for Water Utilities;
10. that the Commission order WWC to notify, within 30 days of initiating service to its first customer, the Compliance Section of the Utilities Division; and
11. that the Commission authorize WWC to use the depreciation rates as filed.

123. Staff further recommends that the Commission's approval of a certificate for WWC should be rendered null and void should WWC fail to meet condition numbers three, four, six, seven and eight of Findings of Fact No. 122 within the time specified above.

124. With respect to WUC, Staff made additional recommendations as follows:

1. that the Commission find that WUC's projected fair value of the property devoted to wastewater service is $7,914,418;
2. that the Commission approve Staff's proposed wastewater rates and

charges;

3. that the Commission order WUC to file, within 30 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a tariff consistent with the rates and charges authorized herein by the Commission;
4. that the Commission order WUC to file, within two years of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a copy of the ADEQ Aquifer Protection Permit for the WUC wastewater treatment facility authorizing treatment and disposal capacity to 3 million gallons per day;
5. that the Commission order WUC to file, not later than three months following the fifth anniversary of the effective date of this Decision, a rate application;
6. that the Commission order WUC to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Wastewater Treatment Utilities;
7. that the Commission order WUC to notify, within 30 days of initiating service to its first customer, the Compliance Section of the Utilities Division; and
8. that the Commission authorize WUC to use the depreciation rates as filed.

125. Staff further recommends that the Commission's approval of a certificate for WUC should be rendered null and void if WUC fails to meet condition numbers three and four of Findings of Fact No. 124 within the time specified.

126. With respect to AWC, Staff made the following additional recommendations for the provision of service to the Martin Ranch subdivision:

1. that the Commission order AWC to charge its existing rates and charges for Casa Grande in the Martin Ranch subdivision;
2. that the Commission order AWC to file, within two years of the effective

date of this Decision, with the Commission's Docket Control, as a compliance item, a copy of an updated ADWR PAD for the Martin Ranch subdivision;

3. that the Commission order AWC to file, within 365 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a copy of the main extension agreement associated with the proposed Martin Ranch subdivision; and
4. that the Commission order AWC to file, within two years of the effective date of this Decision, with the Commission's Docket Control, as a compliance item, a copy of the ADEQ CAC for water production and storage facilities within the Martin Ranch subdivision.

127. Staff also recommended that, in the event the Commission approves AWC's application to provide water service to Sandia, that the conditions set forth above for service to Martin Ranch be applied to Sandia with the exception that the water rates and charges charged in the Sandia extension area would be those of the Coolidge system.

128. Staff further recommends that the Commission's approval of an extension of AWC's Certificate should be rendered null and void should AWC fail to meet condition numbers two, three and four of Findings of Fact Nos. 126 and 127 as set forth above within the time specified.

129. Under the circumstances herein, following a thorough review of the record, we believe that the competing applications of WWC and AWC have relatively equal merit. While Staff places more weight on the integrated approach of WWC and WUC achieving an economy of scale by integrating their operations to provide both water and wastewater utility service, we believe in the long run that the public interest will be best served by approving AWC's application to provide water service to Sandia because as Staff stated in the Staff Report "the Commission has long supported financially viable, interconnected utilities operating for long-term compliance with the State's water policy goals." We believe that the public interest in this case dictates that prospective customers who will ultimately reside in Sandia will receive reliable quality service at a just and reasonable rate from AWC, a Class A water utility, now and in the future. As Staff pointed out in its report, AWC's

application is in the public interest for the following reasons: AWC will offer Sandia the opportunity to be part of a regional potable water supply planning operation; AWC will provide service under an economy of scale; AWC has a proven record of success as a public water utility; AWC has existing off-site facilities available for possible interconnection; AWC has the ability to develop additional potable water sources; AWC has higher ground water allowances for development; AWC is in the process of developing additional water supplies under its allotment from the CAP; and much lower existing water rates than those proposed by WWC. Further, AWC has testified that it will work with WUC to provide an integrated approach to providing utility service.

130. In authorizing AWC to provide water service to Sandia, we shall also direct AWC to cooperate in all respects with WUC to assist in its provision of wastewater service to wastewater customers in Sandia.

131. With respect to AWC's application to provide water service to the Martin Ranch area as recommended by Staff, we concur with Staff's recommendation for the Martin Ranch development as set forth in the Staff Report, and we also concur with Staff's recommendation that additional areas which have not requested service should not be included in AWC's certificated area at this time.

132. With respect to WUC's application for a Certificate to provide wastewater treatment service to Sandia, we believe that Staff's recommendations in this regard are proper and that the application of WUC should be approved along with Staff's additional recommendations being adopted and complied with by WUC.

133. Additionally, we believe that since there is no evidence in the record which reveals that WUC has any prior experience in successfully operating a public utility, a performance bond in the amount of $250,000 should ensure that WUC will be able to continue operations for a reasonable period without Pivotal's financial support, if necessary.

134. Because an allowance for the property tax expenses of AWC and WUC are included in the respective company's rates and will be collected from their customers, the Commission seeks assurances from the companies that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water

companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure AWC and WUC shall annually file, as part of their annual reports, affidavits with the Utilities Division attesting that they current in paying their property taxes in Arizona.

CONCLUSIONS OF LAW

1. Upon beginning operations, WUC will be a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

2. AWC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282 and 40-252.

3. The Commission has jurisdiction over WWC, WUC and AWC and the subject matter of the applications.

4. Notice of the applications and the hearing thereon was given in accordance with the law.

5. The public convenience and necessity require the issuance of extensions of AWC's Certificate(s) authorizing it to provide water service to the public in the areas sought to be certificated in Exhibits A and C attached hereto and incorporated herein by reference.

6. The public convenience and necessity require the issuance of a Certificate to WUC authorizing it to provide wastewater treatment service to the public in the area described in Exhibit A.

7. AWC is a fit and proper entity to provide water service and to receive extensions of its Certificate(s) which encompass the areas more fully described in Exhibits A and C.

8. WUC is a fit and proper entity to provide wastewater treatment service to the public and to receive a Certificate which encompasses the areas more fully described in Exhibit A.

9. WWC's application for a Certificate to provide water service to the public should be denied.

10. WUC's application for a Certificate to provide wastewater treatment service to Sandia should be approved subject to Staff's recommendations and the Company's compliance with the conditions set forth in Findings of Fact No. 124 or the Certificate authorized hereinafter should be null and void.

11. The rates and charges authorized hereinafter for WUC are just and reasonable.

12. AWC's application for extensions of its Certificate(s) to provide public water service to Sandia and to Martin Ranch should be approved subject to Staff's recommendations and AWC's compliance with the conditions set forth in Findings of Fact Nos. 126 and 127 for the extensions to AWC's Certificate(s) or the respective extension hereinafter should be null and void.

13. WUC should post a performance bond of $250,000 prior to serving its first wastewater treatment customer.

ORDER

IT IS THEREFORE ORDERED that the application of Woodruff Utility Company, Inc. for a Certificate of Convenience and Necessity for the operation of a public wastewater treatment utility in the areas more fully described in Exhibit A be, and is hereby, approved.

IT IS FURTHER ORDERED that the application of Woodruff Water Company, Inc. for a Certificate of Convenience and Necessity for the operation of a public water utility in the areas more fully described in Exhibit A be, and is hereby, denied.

IT IS FURTHER ORDERED that Woodruff Utility Company, Inc. shall charge those customers in the areas more fully described in Exhibit A Staff's recommended rates and charges as set forth in Findings of Fact No. 121 until further Order of the Commission.

IT IS FURTHER ORDERED that the approval of Woodruff Utility Company, Inc.'s application for a Certificate of Convenience and Necessity shall be expressly contingent upon Woodruff Utility Company, Inc.'s filing with Docket Control, as a compliance item in this Docket, at least 15 days before it first provides wastewater service to any customer, a copy of a form of performance bond in the amount of $250,000 to ensure Woodruff Utility Company, Inc. shall meet its obligations arising under its Certificate. The performance bond shall be maintained and copies of same filed annually on the anniversary date of the initial filing until further order of the Commission or ten years have passed, whichever is sooner, at which time the bonding requirement may be terminated upon Woodruff Utility Company, Inc.'s application for same.

IT IS FURTHER ORDERED that Woodruff Utility Company, Inc. shall comply in all respects with Findings of Fact No. 124 and Conclusion of Law No. 10 above.

IT IS FURTHER ORDERED that the Certificate of Convenience and Necessity granted to Woodruff Utility Company, Inc. for the areas described in Exhibit A shall be deemed to be null and void if Woodruff Utility Company, Inc. does not timely comply with condition numbers three and four or file copies of the required documentation as set forth in Findings of Fact No. 124 above.

IT IS FURTHER ORDERED that Woodruff Utility Company, Inc. shall annually file as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that the application of Arizona Water Company for extensions of its Certificate of Convenience and Necessity for the operation of a public water utility in the areas more fully described in Exhibits A and C be, and is hereby, approved.

IT IS FURTHER ORDERED that Arizona Water Company shall charges those customers in the areas more fully described in Exhibit A its existing rates and charges for its Coolidge system as established in Decision No. 68302 until further Order of the Commission.

IT IS FURTHER ORDERED that Arizona Water Company shall charge those customers in the areas more fully described in Exhibit C its existing rates and charges for its Casa Grande system pursuant to Decision No. 68302 until further Order of the Commission.

IT IS FURTHER ORDERED that Arizona Water Company shall comply with all respects with Findings of Fact Nos. 126 and 127 and Conclusion of Law No. 12 above.

IT IS FURTHER ORDERED that in the event that Arizona Water Company does not timely comply with condition numbers two, three and four or file copies of the required documentation as described in Findings of Fact Nos. 126 and 127 for the respective areas described in Exhibits A and C, then the respective extension of its Certificate of Convenience and Necessity for the area in which it is deficient shall be deemed to be null and void.

IT IS FURTHER ORDERED that Arizona Water Company shall cooperate in all respects with Woodruff Utility Company to assist in its provision of wastewater service to wastewater customers in Sandia including providing water usage information by its customers in Sandia.

. . .

. . .

IT IS FURTHER ORDERED that Arizona Water Company shall annually file as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2006.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

MES:mj

SERVICE LIST FOR: WOODRUFF WATER COMPANY, INC., WOODRUFF UTILITY COMPANY, INC. AND ARIZONA WATER COMPANY

DOCKET NOS.: W-04264A-04-0438, SW-04265A-04-0439 and W-01445A-04-0755

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Legal Description
Property Located in Sections 13, 14, 23, 24, and 25,
Township 5 South, Range 7 East,
of the Gila and Salt River Base and Meridian
May, 13, 2004

The following legal description has been prepared based on the ALTA Surveys prepared by WRG Design, Inc., for the Sandia properties. This legal description is a composite legal description for both of the above described properties and sets for the total combined gross area of both properties.

A parcel of land located in Sections 13, 14, 23, 24, and 25 Township 5 South, Range 7 East, of the Gila and Salt River Base and Meridian, Pinal County, Arizona, more particularly described as follows.

Beginning at a 5/8" iron rod monumenting the southwest corner of Section 14; thence N 00°31'43" E 2642.66 feet along the West line of Section 14, to a 3/4" iron rod monumenting the West quarter corner of said Section 14; Thence continuing along said West line N 00°00'36" W 2635.33 feet to a 3/4" iron rod monumenting the northwest corner of said Section 14; Thence N 89°52'59" E 2631.86 feet along the North line of said Section 14, to a 3/4" iron rod monumenting the North quarter corner of Section 14; Thence continuing along said North line S 88°45'43" E 1991.02 feet, to a point at the northeast corner of the West half of the northeast quarter of the northeast quarter, Section 14; Thence S 00°12'14" W 1640.93 feet to the southwest corner of the North 5 acres of the East half of the southeast quarter of the northeast quarter, Section 14; thence S 89°36'16" E 661.75 feet along the South line of North 5 acres of the East half of the southeast quarter of the northeast quarter, Section 14, to a point on the East line of said Section 14; Thence N 00°16'03" E 1631.17 feet along said East line, to the northeast corner of said Section 14; Thence N 89°59'59" E 2624.14 feet along the North line of Section 13, to a G.L.O. brass cap monument at the North quarter corner of said Section 13; Thence S 82°35'33" E 398.40 feet, to a point; Thence S 74°19'38" E 104.24 feet, to a point; Thence S 61°20'53" E 82.69 feet, to a point; Thence S 53°04'34" E 514.00 feet, to a point; Thence S 49°01'16" E 382.30 feet, to a point; Thence S 44°04'05" E 146.45 feet, to a point; Thence S 41°57'17" E 658.86 feet, to a point; Thence S 89°32'32" E 815.13 feet, to a point on the West line of Government Lot 2;

DECISION NO. _____

EXHIBIT A

Thence S 00°06'43" W 37.10 feet, to the southwest corner of said Lot 2 and coincident with the northwest corner of Government Lot 5; Thence S 89°49'58" E 1312.70 feet along the North line of Lot 5, to the northeast corner thereof; Thence S 00°07'43" W 1317.49 feet along the East line of Lot 5 to the southeast corner thereof and coincident with the northwest corner of Government lot 7; Thence S 89°41'56" E 1158.92 feet along the North line of Lot 7, to an iron rod at the East quarter corner of Section 13; Thence S 00°05'12" E 2654.10 feet along the East line of Section 13, to the southeast corner thereof; Thence S 00° 05'12" E 441.54 feet along the East line of Section 24, to a point; Thence continuing along said East line S 01°20'51" E 2206.52 feet, to the East quarter corner of said Section 24; Thence continuing along said East line S 01°20'51" E 447.15 feet, to a point; Thence continuing along said East line S 00°13'24" W 2200.06 feet, to a half inch iron rod at the southeast corner of said Section 24; Thence N 89°37'03" W 601.05 feet along the South line of said Section 24 and the North line of Section 25, to a point; Thence S 00°04'16" E 2644.39 to a point on the South line of the North half of Section 25; Thence
S 89°38'34" E 609.06 feet, to the southeast corner of said North half, Section 25; Thence S 00°14'41" E 2644.19 feet along the East line of said South half, Section 25, to an aluminum cap monument marking the southeast corner thereof; Thence N 89°42'47" W 5206.93 feet along the South line of said Section 25, to an aluminum cap in hand hole monumenting the South quarter corner of said Section 25; Thence continuing along said South line N 89°44'11" W 1324.50 feet to a point at the southwest corner of the East half of the southwest quarter of said Section 25; Thence N 00°13'12" E 5303.16 feet along the West line of said East half of the southwest and northwest quarter, Section 25, to a point on the North line of said Section 25 and coincident with the South line of said Section 24; thence N 00°12'38" E 2649.12 feet along said West line, to a point on the North line of the South half of said Section 24; Thence N 89°34'00" W 1323.99 feet along said North line, to a 5/8" iron rod monumenting the West quarter corner of said Section 24; Thence N 00°31'10" E 1347.44 feet along the West line of said Section 24, to a point on the southerly top of bank of the Southside Canal Aqueduct; Thence S 89°52'59" E 331.11 feet along said southerly top of bank, to the beginning of a 580.10 foot radius non-tangent curve to the left; Thence along said curve and continuing along said top of bank 509.80 feet through a central angle of 50°21'10" and a long chord of which bears N 65°49'56" E 493.55 feet, to a point; Thence continuing along said southerly top of bank N 40°07'06" E 1423.14 feet, to a point on the North line of said Section 24;

Thence N 89°52'59" W 0.29 feet along said North line, to a point; Thence continuing along said southerly top of bank N 40°00'29" E 1796.47 feet, to a point; Thence continuing along said southerly top of bank N 40°05'37" E 1633.45 feet to a point on the North line of the South half of Section 13; Thence S 89°41'56" E 1355.63 feet along said North line, to the southwest corner of said Lot 5; Thence N 00°06'43" E 1314.42 feet along the West line of said Lot 5, to the northwest corner thereof; Thence N 89°49'58" W 1313.35 feet, to a point on the East line of the northeast quarter of said Section 13; Thence S 00°05'42" W 1190.33 feet along said East line to a point on the northerly top of bank of the Southside Canal Aqueduct; Thence S 39°53'42" W 157.06 feet along said top of bank, to a point on the south line of the northeast quarter, Section 13; Thence N 89°41'56" W 1212.44 feet along said South line, to a point on the West line of the southeast quarter, Section 13; Thence
S 00°04'41" W 1458.40 feet along said West line, to a point on the northerly top of bank of the Southside Canal Aqueduct; Thence S 39°59'32" W 1532.07 feet along said northerly top of bank, to a point; Thence continuing along said northerly top of bank S 39°58'10" W 1395.05 feet, to the beginning of a 559.16 foot radius non-tangent curve to the right; Thence along said curve and continuing along said northerly top of bank 499.62 feet through a central angle of 51°11'42" and a long chord of which bears S 67°22'31" W 483.17 feet to a point; Thence continuing along said northerly top of bank S 89°43'30" W 496.20 feet, to the beginning of a 1185.35 foot radius non-tangent curve to the left; Thence along said curve and continuing along said northerly top of bank 412.46 through a central angle of 19°56'14" and a long chord of which bears S 74°39'56" W 410.39 feet, to a point; Thence continuing along said northerly top of bank S 70°12'37" W 882.53 feet, to a point; Thence continuing along said northerly top of bank S 70°21'29" W 1569.12 feet, to the beginning of a 1071.48 foot radius non-tangent curve to the right; Thence along said curve and continuing along said northerly top of bank 388.24 feet through a central angle of 20°45'38" and a long chord of which bears S 81°29'47" W 386.12 feet, to a point; Thence continuing along said northerly top of bank N 87°21'43" W 942.22 feet, to a point; Thence continuing along said northerly top of bank N 87°19'51" W 1107.10 feet, to a point on the West line of said Section 23; Thence N 00°43'28" E 2178.88 feet along said West line, to the **Point of Beginning**.

Excepting there a parcel of land located in the northeast quarter of Section 13, Township 5 South, Range 7 East, of the Gila and Salt River Base and Meridian, Pinal County, Arizona, more particularly described as follows:

Commencing at a G.L.O. brass cap monument at the North quarter corner of Section 13; Thence S 00°04'41" W 31.14 feet along the West line of the northeast quarter said Section 13, to the **Point of Beginning**; Thence S 78°02'45" E 230.09 feet, to a point; Thence S 44°12'32" E 95.61 feet, to a point; Thence S 03°24'38" E 144.61 feet, to a point; thence S 46°23'44" E 101.26 feet, to a point; Thence S 61°31'23" E 274.04 feet, to a point; Thence S 27°17'20" E 204.04 feet, to a point; thence S 44°20'46" E 135.27 feet, to a point; Thence S 67°42'29" E 410.63 feet, to a point; Thence S 04°59'49" E 330.74 feet, to a point; Thence S 89°37'30" E 489.84 feet, to a point; Thence N 37°58'54" W 659.97 feet, to a point; Thence N 51°54'29" W 1063.14 feet, to a point; Thence N 83°35'27" W 461.27 feet, to the **Point of Beginning**.

The above described properties total gross area is 138,427,484 square feet or 3,177.858 acres, more or less.

REGISTERED LAND SURVEYOR
CERTIFICATE NO.
36326
RICHARD A
STOCKMAN
Date Signed 5-14-04
ARIZONA, U.S.A.

Area to be added to Casa Grande CC&N

The South half of the Southwest quarter of Section 23 and The West half of the West half of Section 25 and all of Section 26 of Township 5 South, Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

Area to be added to Coolidge CC&N

Sections 13, 14 and Section 23, except the South half of the Southwest quarter thereof, Section 24 and Section 25, except the West half of the West half thereof in Township 5 South, Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona; Together with:

Sections 19, 30 of Township 5 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona

Area to be added to Casa Grande CC&N

The South half of the Southwest quarter of Section 23 and The West half of the West half of Section 25 and all of Section 26 of Township 5 South, Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.