

ORIGINAL



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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

Date: September 30, 2005

RE: STAFF REPORT FOR COTTONWOOD WATER WORKS, INC.
APPLICATION FOR APPROVAL OF THE TRANSFER OF ASSETS AND
FOR CANCELLATION OF THE CERTIFICATE OF CONVENIENCE AND
NECESSITY. (DOCKET NO. W-01045A-05-0578)

Attached is the Staff Report for Cottonwood Water Works, Inc. application for the approval of the transfer of assets and cancellation of its Certificate of Convenience and Necessity. Staff recommends approval of the transfer of assets and the cancellation of its Certificate of Convenience and Necessity.

EGJ: WPG:tdp

Originator: William Gehlen

Attachment: Original and 13 Copies

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Docket No. W-01045A-05-0578

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

COTTONWOOD WATER WORKS, INC.
DOCKET NO. W-01045A-05-0578

APPLICATION FOR CANCELLATION OF ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY AND TRANSFER OF ASSETS

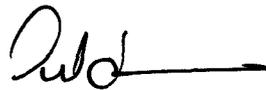
SEPTEMBER 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Cottonwood Water Works, Inc., Docket No. W-01045A-05-0578 was the responsibility of the Staff members signed below. William Gehlen 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 'W. Gehlen', with a long horizontal stroke extending to the right.

William Gehlen
Public Utility Analyst V

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
COTTONWOOD WATER WORKS, INC.
APPLICATION FOR APPROVAL OF THE TRANSFER OF ASSETS AND FOR
CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY
DOCKET NO. W-01045A-05-0578

On August 2, 2005, Cottonwood Water Works ("CWW") entered into an Asset Purchase Agreement ("Agreement") with the City of Cottonwood ("Cottonwood"), and the Town of Clarkdale ("Clarkdale") whereby Cottonwood and Clarkdale will acquire the assets of CWW.

On August 9, 2005, CWW filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for approval for the transfer of assets and the cancellation of its Certificate of Convenience and Necessity ("CC&N") to provide water service in a portion of Yavapai County, Arizona.

Upon execution of the Agreement CWW will no longer have any facilities, or customers to serve. Cottonwood and Clarkdale will operate the system and make system improvements that will increase fire flow in certain parts of the system that lack sufficient capability, and ensure compliance with the new arsenic standard of 10 micrograms per liter that becomes effective January 23, 2006.

Staff recommends that the Commission approve the CWW application for the transfer of assets and cancellation of its CC&N both of which will become effective upon execution of the Asset Purchase Agreement ("APA").

Staff further recommends that CWW be required to file with Docket Control notification that the APA has been signed within 30 days of the date of execution of the APA.

Staff further recommends that CWW be required to file with Docket Control notification that all customers' deposits have been credited within 60 days of the date of the execution of the APA.

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Introduction

On August 9, 2005, Cottonwood Water Works, Inc. ("CWW" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for approval of the transfer of assets to the City of Cottonwood ("Cottonwood") and the Town of Clarkdale ("Clarkdale"), and to cancel its Certificate of Convenience and Necessity ("CC&N") to provide water service in a portion of Yavapai County, Arizona.

On September 8, 2005, the application was deemed administratively complete pursuant to Arizona Revised Statutes ("A.R.S.") section 41-1074 (C).

Water System

CWW has two water systems. These systems have in existence twelve wells with a total production capacity of 3,060 gal/min, 3.2 million gallons of storage capacity, booster pumps, pressure tanks, fire flow capability and a distribution system serving approximately 4,900 connections.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the CWW systems under ADEQ Public Water System Identification (PWS ID) Nos. 13-024 and 13-025. ADEQ cannot determine if PWS ID 13-024 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. ADEQ reported that this system has major deficiencies for Monitoring and Reporting Status. ADEQ has determined that PWS ID 13-025 is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Staff's Engineering Report is attached as Exhibit A and provides a more complete description of these compliance issues.

Data on arsenic concentration for PWS ID 13-024 shows compliance with the new arsenic standard of 10 micrograms per liter that becomes effective January 23, 2006. Data for PWS ID 13-025 shows arsenic concentrations from several sources that exceed the new arsenic standard. Cost data included in the ADEQ Arsenic Master Plan indicates the least cost arsenic removal technology for this system would involve capital expenditures between 1.5 and 2 million dollars.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is not located within an Active Management Area ("AMA") and as such is not subject to ADWR reporting and conservation rules.

Compliance

The Utilities Division database indicated there were no delinquencies for CWW.

Transaction

CWW is an Arizona public service corporation engaged in providing water utility service to approximately 4,900 customers in Yavapai County, Arizona. The Company's CC&N covers an area roughly 25 square miles in size in Townships 15 and 16 North, Range 3 East and includes Cottonwood and Clarkdale and the adjacent portions of Yavapai County. Cottonwood and Clarkdale are located approximately ten (10) miles northwest of Camp Verde along State Highway 279. Attachment B illustrates Company's CC&N area.

Cottonwood is a municipal corporation and is duly authorized by the laws of the State of Arizona, and by virtue of an election held March 13, 2001, to construct, purchase, acquire or lease any plant or property devoted to the business services rendered by a public water utility, either within or without the corporate limits of the city, as set forth in A.R.S., section 9-511.

Clarkdale is duly authorized by the State of Arizona, and by virtue of an election held on March 14, 2000, to construct, purchase, acquire or lease any plant or property devoted to the business or services rendered by a public water utility within the town limits, as set forth in A.R.S. section 9-511.

Cottonwood Municipal Property Corporation ("Cottonwood MPC") is a non-profit corporation organized under existing Arizona law, which was formed to assist Cottonwood in acquiring and financing public infrastructure and improvements, including but not limited to, financing the costs of acquisition of the privately owned water utility systems that serve residents of Cottonwood.

On August 2, 2005, CWW, Cottonwood, Cottonwood MPC and Clarkdale, executed an Asset Purchase Agreement ("Agreement") where Cottonwood and Clarkdale, through Cottonwood MPC will acquire the assets of CWW.

At properly noticed meetings, the mayors and city councils of Cottonwood and Clarkdale approved the CWW acquisition. Cottonwood and Clarkdale have determined that it is in the best interests of their citizens for this water system to be municipally owned and operated. Cottonwood and Clarkdale indicated that they will move expeditiously to insure compliance with the arsenic standard of 10 micrograms per liter by January 23, 2006. In addition, Cottonwood and Clarkdale indicated that they will enhance fire safety by increasing fire flows in areas that lack sufficient capability.

Upon completion of the asset sale, CWW will have no facilities or customers to serve.

Continuation of Service

Cottonwood and Clarkdale will assume all outstanding main extension agreements and honor as written. All existing CWW customers will continue to receive service from Cottonwood or Clarkdale.

Customer Deposits

Pursuant to the Agreement, CWW is responsible for refunding all customer deposits. CWW will refund the remaining balance for customer deposits as a credit to each customer's bill and provide documentation of same to Cottonwood and Clarkdale.

Recommendation

Staff recommends that the Commission approve Cottonwood Water Works, Inc., application for the transfer of assets and for cancellation of its CC&N both of which shall be effective upon execution of the Asset Purchase Agreement ("APA").

Staff further recommends that CWW be required to file with Docket Control notification that the APA has been signed within 30 days of the date of execution of the APA.

Staff further recommends that CWW be required to file with Docket Control notification that all customers' deposits have been credited within 60 days of the date of the execution of the APA.

MEMORANDUM

DATE: September 19, 2005

TO: William Gehlen

FROM: Del Smith *DS*

RE: Application of Cottonwood Water Works, Inc. for approval of the transfer of assets and cancellation of Certificate of Convenience and Necessity (Docket No. W- 01045A-05-0578)

Introduction

Cottonwood Water Works, Inc. ("CWW" or "the Company") has applied to transfer its assets and cancel its Certificate of Convenience and Necessity ("CC&N"). Under the proposal the Company's assets would be transferred to the City of Cottonwood ("Cottonwood") and the Town of Clarkdale ("Clarkdale"). The Company's CC&N covers an area roughly 25 square miles in size in Townships 15 and 16 North, Range 3 East and includes Cottonwood and Clarkdale. Cottonwood and Clarkdale are located approximately ten (10) miles northwest of Camp Verde along State Highway 279.

CWW Systems

CWW has two water systems. These two systems have in existence twelve wells with a total production capacity of 3,060 gal/min, 3.2 million gallons of storage capacity, booster pumps, pressure tanks, fire flow capability and a distribution system serving approximately 4,900 connections.¹ CWW has entered into an agreement whereby Cottonwood and Clarkdale will purchase these systems. CWW will no longer have any facilities or customers to serve.² Cottonwood and Clarkdale will make system improvements that will increase fire flow in certain parts of these systems that currently lack sufficient capability.³

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the CWW water systems under ADEQ Public Water System Identification (PWS ID) Nos. 13-024 and 13-025. ADEQ cannot determine if PWS ID 13-024 is currently delivering water that meets the water quality

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

² Application at Page 5, Paragraph XVII.

³ Application at Page 3, Paragraph XII.

standards required by Arizona Administrative Code, Title 18, Chapter 4.⁴ ADEQ reported that this system has major deficiencies for Monitoring and Reporting Status. ADEQ has determined that PWS ID 13-025 is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.⁵

Data on arsenic concentration for PWS ID 13-024 shows compliance with the new arsenic standard of 10 micrograms per liter that becomes effective January 23, 2006. Data for PWS ID 13-025 shows arsenic concentrations from several sources that exceed the new arsenic standard.⁶ Cost data included in the ADEQ Arsenic Master Plan indicates that the least cost arsenic removal technology for this system would involve capital expenditures between 1.5 and 2 million dollars. Cottonwood and Clarkdale will expeditiously and effectively move to reduce the level of arsenic in their water supplies to levels that meet the new arsenic standard.⁷

Arizona Department of Water Resources (“ADWR”) Compliance

CWW is not within any Active Management Area, and consequently is not subject to ADWR reporting and conservation rules.

ACC Compliance

A check of the Utilities Division compliance database indicated that there were no delinquencies for CWW.⁸

Conclusions

1. CWW has entered into an agreement whereby Cottonwood and Clarkdale will purchase these systems. CWW will no longer have any facilities or customers to serve.
2. Cottonwood and Clarkdale will make system improvements that will increase fire flow in certain parts of these systems that currently lack sufficient capability.

⁴ ADEQ Drinking Water Compliance Status Report dated 8-30-05.

⁵ ADEQ Drinking Water Compliance Status Report dated 8-20-04.

⁶ Based on information reported in Company's 2004 Commission Annual Report and contained in the ADEQ Arsenic Master Plan.

⁷ Application at Page 3, Paragraph XI.

⁸ Per Compliance Section email dated 9-19-05.

3. ADEQ cannot determine if PWS ID 13-024 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
4. Data for PWS ID 13-025 shows arsenic concentrations from several sources that exceed the new arsenic standard.
5. Cottonwood and Clarkdale will expeditiously and effectively move to reduce the level of arsenic in their water supplies to levels that meet the new arsenic standard.

MEMORANDUM

TO: William Gehlen
Public Utilities Analyst V
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: September 19, 2005

RE: **COTTONWOOD WATER WORKS, INC. (DOCKET NO. W-01045A-05-0578)**

Cottonwood has filed an application to cancel their CC#N. Their area will be served by City of Cottonwood and Town of Clarkdale.

Attached are copies of the maps for your files.

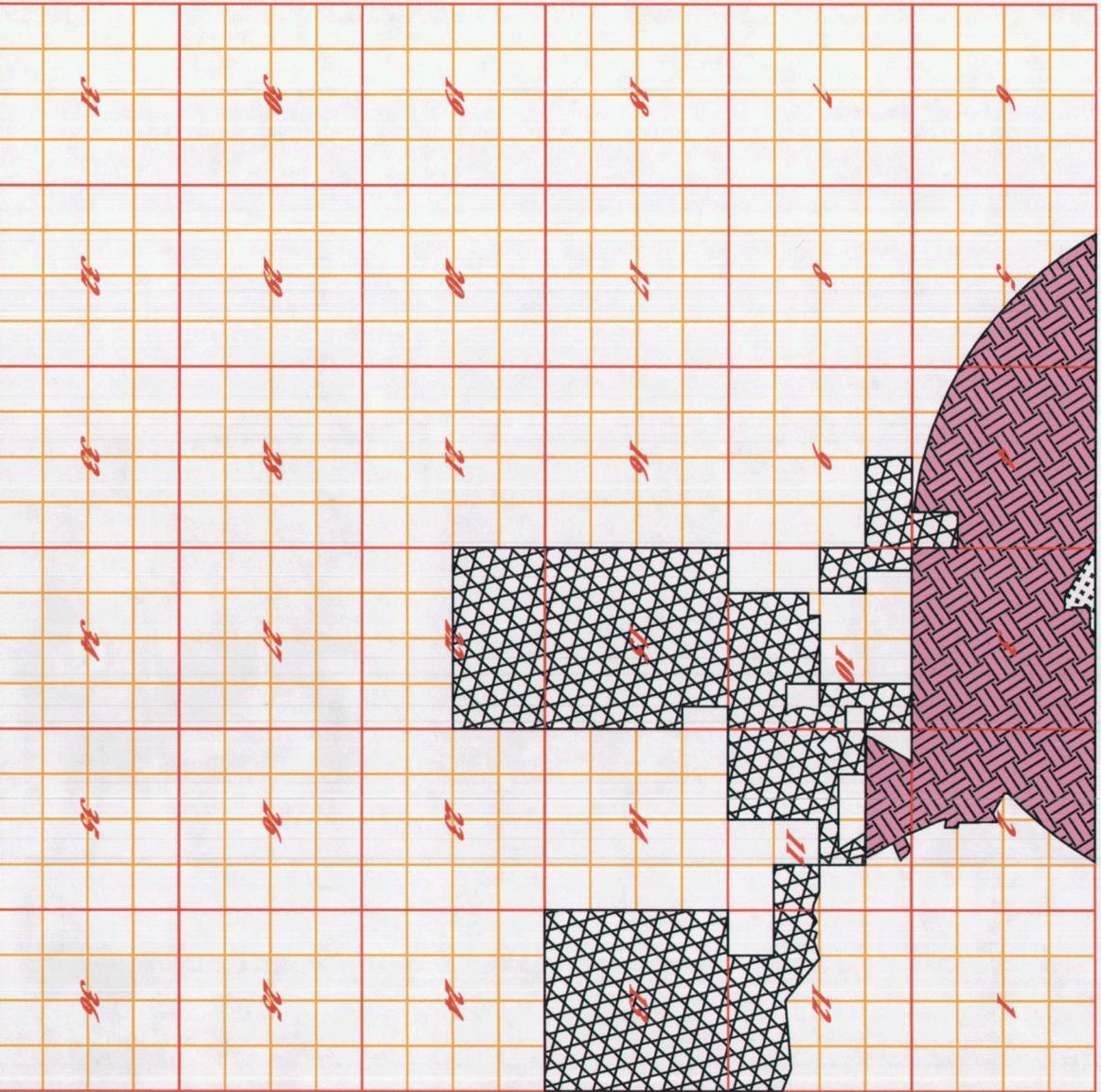
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Attachments

cc: Docket Control
Ms. Deborah Scott
Ms. Deb Person (Hand Carried)
File

COUNTY OF YAVAPAI

RANGE 3 East



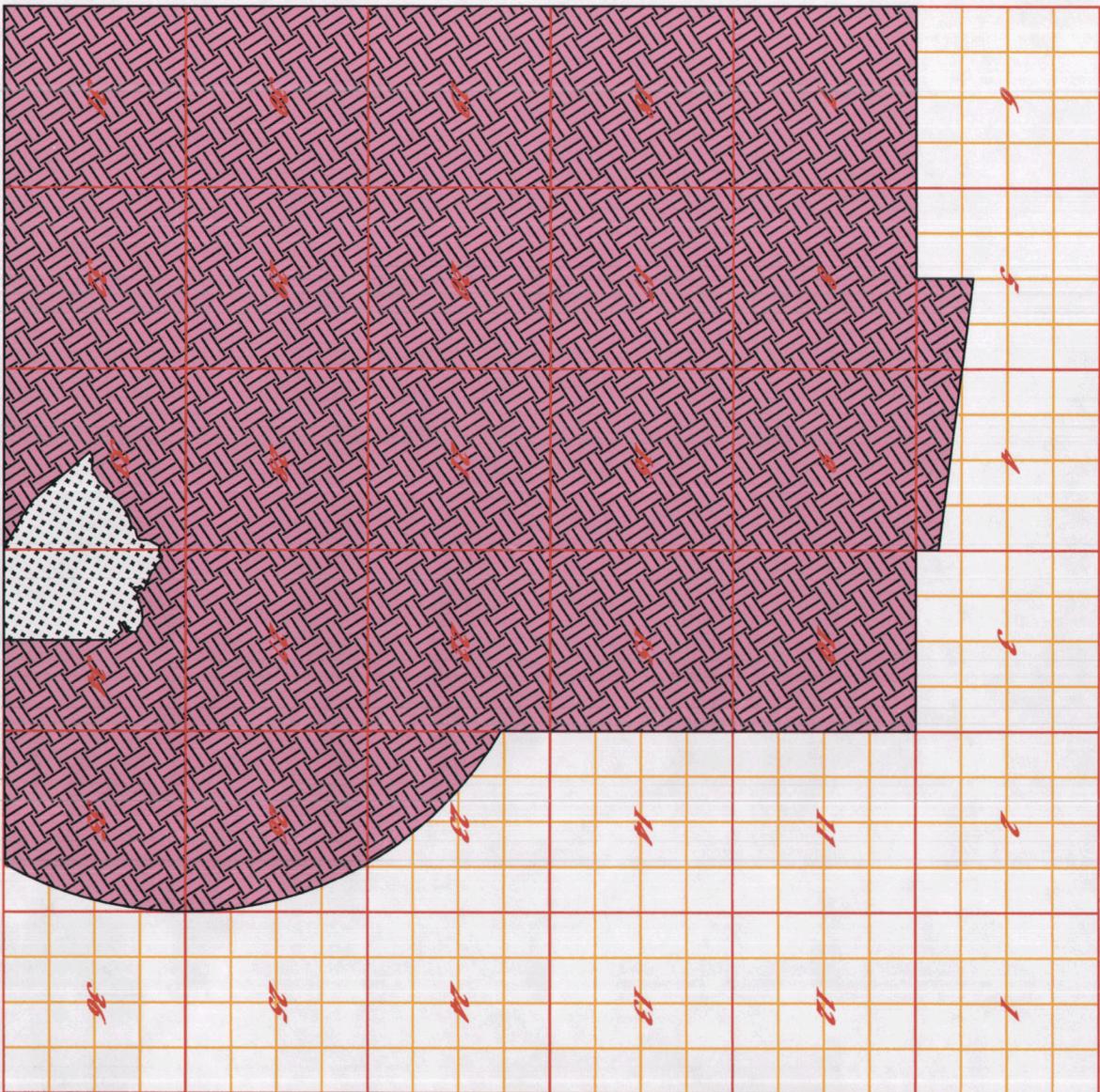
TOWNSHIP 15 North

-  W-1278 (2)
Clemenceau Water Company
-  W-2060 (3)
Cordes Lakes Water Company (Verde Village)
-  W-1045 (2)
Cottonwood Water Works, Inc.
-  (2)
Cottonwood Water Works, Inc.
Docket No. W-01045A-05-0578
Application to Cancel CC&N - to
City of Cottonwood and Town of Clarkdale

COUNTY

Yavapai

RANGE 3 East



TOWNSHIP 16 North



W-1278 (2)

Clemenceau Water Company



W-1045 (2)

Cottonwood Water Works, Inc.



(2)

Cottonwood Water Works, Inc.
Docket No. W-01045A-05-0578
Application to Cancel CC&N - to
City of Cottonwood and Town of Clarkdale