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MEMORANDUM

TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

Date: September 30, 2005

RE: AMENDED STAFF REPORT FOR THE APPLICATION FOR EXTENSION OF WATER UTILITY OF GREATER TONOPAH, INC., AN ARIZONA CORPORATION FOR AN EXTENSION OF CERTIFICATE OF CONVENIENCE AND NECESSITY TO ENCOMPASS ALL OR PORTIONS OF SECTIONS 15, 17 AND 22, T2N, R5W, G&SRB&M, MARICOPA COUNTY, ARIZONA (AKA THE HASSAYAMAPA RANCH DEVELOPMENT) DOCKET NO. W-02450A-04-0837

Attached is the Amended Staff Report for the Water Utility of Greater Tonopah, Inc. application for the extension of its Certificate of Convenience and Necessity for water service. Staff's recommendation has changed from approval of an Order Preliminary in the original Staff Report to approval of the Certificate of Convenience and Necessity subject to compliance requirements.

EGJ:LAJ:red

Originator: Linda A. Jaress

Attachment: Original and 13 Copies

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Docket No. W-02450A-04-0837

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AMENDED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

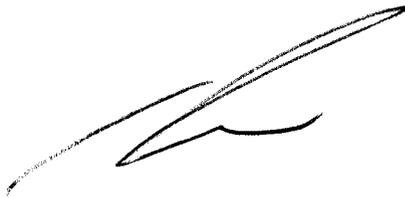
WATER UTILITY OF GREATER TONOPAH, INC.
DOCKET NO. W-02450A-04-0837

APPLICATION FOR EXTENSION
OF EXISTING CERTIFICATE OF
CONVENIENCE & NECESSITY

SEPTEMBER 30, 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Water Utility of Greater Tonopah, Inc. W-02450A-04-0837 was prepared by the Staff members signed below. Linda Jaress prepared the Staff Report, Dorothy Hains prepared the Engineering Report and Jim Dorf prepared the Finance and Regulatory Accounting Report.




Linda A. Jaress
Executive Consultant III



Dorothy Hains
Utilities Engineer



Jim Dorf
Chief Accountant

EXECUTIVE SUMMARY
WATER UTILITY OF GREATER TONOPAH, INC.
DOCKET NO. W-02450A-04-0837

On November 19, 2004, the Water Utility of Greater Tonopah ("Greater Tonopah" or "the Company") filed an application with the Arizona Corporation Commission ("Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in a portion of Maricopa County. Greater Tonopah operates 7 individual water systems. The largest system serves 72 customers while the smallest serves 6 customers. Only one of the systems has adequate production and storage capacity to serve existing customers.

The extension is requested to serve the Hassayampa Ranch master-planned community comprised of approximately 2066 acres. The developer intends to develop a total of approximately 6,000 connections in four phases and will commence work on Phase 1 in mid-2006.

Staff recommends the Commission approve the Greater Tonopah application for an extension of its CC&N within portions of Maricopa County, Arizona with the following compliance requirements:

1. The storage and production deficiencies outlined in the Company's system improvement plan submitted to Staff on September 9, 2005, be corrected no later than December 31, 2006.
2. The Company submit to the Commission's Docket Control Section as a compliance item in this case, a copy of the Arizona Department of Environmental Quality ("ADEQ") or Maricopa County Environmental Services Department ("MCESD") "Approval To Construct" for its water source/treatment plant and water distribution system within one year of the effective date of the final decision issued for this Application.
3. The Company file with the Commission's Docket Control Section as a compliance item in this case, a copy of the developer's Certificate of Assured Water Supply, where applicable or when required by statute, within one year of the effective date of the final decision for this Application.
4. The Company file with the Commission's Docket Control Section as a compliance item in this case, documents showing that its arsenic removal plan, including point of use, blending and centralized treatment, has been sent to MCESD by December 31, 2005.
5. Staff recommends that the Company be in full compliance with the requirements of the Maricopa County Drinking Water Program by December 31, 2005 and submits to the Docket Control Section as a compliance item in this case, the document showing

the Company is in full compliance with the requirements of the Maricopa County Drinking Water Program

6. The Company file with the Commission's Docket Control Section as a compliance item in this case, documents showing compliance with the new arsenic standard by June 30, 2006.
7. Staff continues to recommend that the Company submit, by December 31, 2005, proposed stand alone rates to be applied solely to the Hassayampa extension area. In the alternative, the Company should provide documentation to demonstrate that its existing customers will be positively impacted by the addition of the new water facilities necessary to serve the new CC&N if it intends to use its existing rates for the Hassayampa Ranch extension area, also by December 31, 2005.
8. The Company be ordered to file a copy of the applicable County franchise with Docket Control as a compliance item in this case, by December 31, 2006.

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Introduction

On November 19, 2004, the Water Utility of Greater Tonopah (“Greater Tonopah” or “the Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) for an extension of its Certificate of Convenience and Necessity (“CC&N”) to provide water service in a portion of Maricopa County. On June 20, 2005, Staff filed a letter indicating that the Company’s application met the sufficiency requirements of Arizona Administrative Code (“A.A.C.”) R14-2-402(C) and R14-2-602(B).

Background

Greater Tonopah operates under rates and charges effective January 1, 2002. The Company was formed by the combination of several other water companies over many years which account for the seven distinct water systems that comprise Greater Tonopah.

The Company is located west of Phoenix and serves various locations from 331st Avenue west to 555th Avenue and from Elliot Road north to Glendale. According to the 2004 annual report to the Commission, the Company serves 214 customers. The report also indicates that for the year ending December 31, 2004 the Company generated net income of \$6,787 from revenues of \$151,713.

The Company is a corporation in good standing with the Corporations Division of the Commission. According to the Utilities Division Compliance Section, the Company has no outstanding ACC compliance issues.

The extension is requested to serve the Hassayampa Ranch master-planned community comprised of approximately 2,066 acres in the vicinity of Camelback Road and 339th Avenue. The developer intends to develop a total of approximately 6,000 connections in four phases and will commence work on Phase 1 in mid-2006. The requested extension area is about 2 miles northeast of the Company’s current CC&N area and is not adjacent to it.

Changes from the Staff Report Filed August 2, 2005

The Staff report filed August 2, 2005, recommended the Commission issue an order preliminary based upon several unresolved issues relating to the Company’s compliance with Maricopa County Environmental Services Department (“MCESD”). Staff believes that before a utility further extend its service, that it should be in compliance with Commission rules and orders and with the rules of other government bodies.

On August 25, 2005, a hearing was held during which the Administrative Law Judge determined that an additional hearing was necessary and requested that the parties work to resolve some of the issues.

Since the hearing, the Company has provided Staff with additional information regarding its compliance with MCESD. The Company's seven systems are now in full compliance and are delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

Attached as Amended Exhibit 1 is Staff's Engineering Report which further discusses the systems and compliance issues and provides new recommendations.

Finance of Utility Facilities for Extension

Attached as Exhibit 2 is an Updated Finance and Regulatory Accounting Report that addresses the Company's objection to Staff's Recommendation No. 4 in its Staff report.

Recommendations

Staff recommends the Commission approve the Greater Tonopah application for an extension of its CC&N within portions of Maricopa County, Arizona with the following conditions:

1. The storage and production deficiencies outlined in the Company's system improvement plan submitted to Staff on September 9, 2005, be corrected no later than December 31, 2006.
2. The Company submit to the Commission's Docket Control Section, as a compliance item in this case, a copy of the Arizona Department of Environmental Quality ("ADEQ") or MCESD "Approval To Construct" for its water source/treatment plant and water distribution system within one year of the effective date of the final decision issued for this Application.
3. The Company file with the Commission's Docket Control Section, as a compliance item in this case, a copy of the developer's Certificate of Assured Water Supply, where applicable or when required by statute, within one year of the effective date of the final decision for this Application.
4. The Company file with the Commission's Docket Control Section, as a compliance item in this case, documents showing that its arsenic removal plan, including point of use, blending and centralized treatment, has been sent to MCESD by December 31, 2005.
5. Staff recommends that the Company be in full compliance with the requirements of the Maricopa County Drinking Water Program by December 31, 2005 and submit to the Docket Control Section, as a compliance item in this case, the document showing

the Company is in full compliance with the requirements of the Maricopa County Drinking Water Program.

6. The Company file with the Commission's Docket Control Section, as a compliance item in this case, documents showing compliance with the new arsenic standard by June 30, 2006.
7. Staff continues to recommend that the Company submit, by December 31, 2005, proposed stand alone rates to be applied solely to the Hassayampa extension area. In the alternative, the Company should provide documentation to demonstrate that its existing customers will be positively impacted by the addition of the new water facilities necessary to serve the new CC&N if it intends to use its existing rates for the Hassayampa Ranch extension area, also by December 31, 2005.
8. The Company be ordered to file a copy of the applicable County franchise with Docket Control, as a compliance item in this case, by December 31, 2006.

M E M O R A N D U M

DATE September 14, 2005

TO: Linda Jaress

FROM: Dorothy Hains *DH*

RE: **AMENDED ENGINEERING REPORT**
Water Utility of Greater Tonopah, Inc. Application to extend its
CC&N to provide water service
Docket Nos. W-02450A-04-0837

I. Introduction

Water Utility of Greater Tonopah (“WUGT”) has submitted a Certificate of Convenience and Necessity (CC&N) extension application to provide water services near the City of Buckeye in southwest Maricopa County. WUGT currently serves approximately a 62 square mile area. The requested extension area is approximately three square miles in size and northeast of the existing CC&N area but not adjacent to it.

II. Water System Analysis

A. Existing Water Systems

WUGT operates seven individual water systems: (1) B&D/Buckeye Ranch System; (2) Roseview System; (3) Tufte & WPE #7 System; (4) Garden City/Big Horn System; (5) Dixie System; (6) WPE #6 System and (7) Sunshine System. The following table lists specific information about each of these systems:

System Name	B&D/Buckeye Ranch	Roseview	Tufte WPE #7	Garden City/Big Horn	Dixie	WPE #6	Sunshine
PWS ID#	07-618	07-082	07-617	07-037	07-030	07-733	07-071
# of wells	2	1	1	1	1	1	1
Total production (GPM)	145	30	20	30	40	20	130
# of storage tank	2	1	1	2	1	1	1

Total storage capacity (gallons)	155,000	10,000	5,000	45,000	10,000	7,500	100,000
Existing # of customers	65	14	6	15	21	21	72
Does system contain fire flow?	Yes	No	No	No	No	No	Yes
Is a storage and production capacity adequate?	Yes	Yes	Yes	Yes	Yes	Yes	No

Staff recommends that the storage and production deficiencies outlined in the Company's system improvement plan submitted to Staff on September 9, 2005, be corrected no later than December 31, 2006.

B. Proposed Water System

The proposed system will be a separate, stand alone system. The proposed system will consist of a minimum of seven wells which will have a total production rate of at least 250 gallons per minute ("gpm"). Two of the seven wells will be backup wells. The system will also include a 3 million gallon storage tank. According to the Company, all of these facilities will be installed prior to completion of the development which is expected to occur in mid-2006. The Company indicated two wells will be installed initially. Staff estimates that a minimum of three wells with production rate of 250 gpm may be necessary to meet demand if the three year growth projection of 1,900 connections actually occurs. The Company agrees to install more wells if and when they are needed to meet the demand based on actual growth.

III. Maricopa County Environmental Services Department ("MCESD") Compliance

A. Existing Systems

Staff received compliance status reports from MCESD. Summaries of the reports are listed below:

System Name	B&D	Buckeye Ranch	Roseview	WPE #7	Garden City/Big Horn	Dixie	WPE #6 & Tufte	Sunshine
PWS ID#	07-618	07-706	07-082	07-617	07-037	07-030	07-733	07-071
Status	Public system	Inactive	Public system	Semi-public	Public system	Public system	Public system	Public system
Regulated by MCESD?	Yes	No	Yes	No	Yes	Yes	Yes	Yes
Compliance status	Compliance	-	Compliant	-	Substantial Compliance	Compliant	Compliant	Compliant
Date received MCESD report	September 8, 2005		June 6, 2005		June 13, 2005	June 3, 2005	May 27, 2005	June 6, 2005

MCESD reported Garden City system has water quality monitoring/reporting deficiencies due to (1) fail to report lead and copper monitoring; and (2) fail to provide public notice for fluoride exceedance. However, MCESD has determined that all WUGT's systems are delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that the Company be in full compliance with the requirements of the Maricopa County Drinking Water Program by December 31, 2005 and submit to the Docket Control Section as a compliance item in this case, the document showing the Company is in full compliance with the requirements of the Maricopa County Drinking Water Program.

B. Proposed System

ADEQ Capacity Development rules, effective September 23, 1999, require new public drinking water systems to meet (1) financial capacity, (2) managerial capacity, and (3) technical capacity requirements. ADEQ will accept a financial determination made by this Commission as meeting the financial capacity requirements for new water systems under the jurisdiction of the Commission. The technical and managerial capability is determined by ADEQ. All three components are combined in the final approval of the water company's "elementary business plan", pursuant to ADEQ rule R-18-4-606. The three components are reviewed and approved sequentially, with the technical capacity approval and "Approval to Construct" being the last performed. The Approval to Construct acts as a control point in the process, and once an Approval to Construct has been issued; it can be assumed that the water company has complied with the capacity development rules. Therefore, it is recommended that

WUGT submit to the Commission's Docket Control Section a copy of the ADEQ (or MCESD) "Approval To Construct" for water source/treatment plant and water distribution system within one year of the effective date of the final decision and order issued pursuant to this Application.

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

WUGT is located in the Phoenix Active Management Area ("AMA"), as designated by ADWR. ADWR has indicated that WUGT is in compliance with the Phoenix AMA requirements. Staff recommends that WUGT shall file with the Commission a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within one year of the effective date of the final decision and order issued pursuant to this Application.

V. Arizona Corporation Commission ("ACC") Compliance

According to the Utilities Division Compliance Section, WUGT has no outstanding ACC compliance issues.

VI. Other Issues

A. Arsenic

(a) Existing System

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") or parts per billion ("ppb") to 10 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis provided by the Company indicates that the arsenic levels in all wells except the Dixie well are between 11 $\mu\text{g/l}$ and 110 $\mu\text{g/l}$ which are above the new arsenic MCL. The Company states that it will install point of use, blending and centralized treatment to meet the new arsenic standard. Staff recommends the Company file with the Commission's Docket Control documents showing that its arsenic removal plan including point of use, blending and centralized treatment, has been sent to MCESD by December 31, 2005. Staff further recommends that the Company file with the Commission's Docket Control documents showing compliance with the new arsenic standard by June 30, 2006.

(b) Proposed water system

The Company states that an Arsenic Activated Alumina system will be installed as part of the proposed water system, if arsenic concentration in the proposed wells exceeds the new standard.

B. Curtailment Tariff

WUGT has an approved Curtailment Tariff that has been in effect since January 26, 2005.

VII. Summary

I. Conclusions

1. WUGT has no outstanding ACC compliance issues.
2. WUGT is in compliance with ADWR monitoring and reporting requirements.
3. MCESD has determined that all WUGT's systems are delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

II. Recommendations

1. Staff recommends that the storage and production deficiencies outlined in the Company's system improvement plan submitted to Staff on September 9, 2005, be corrected no later than December 31, 2006.
2. Staff recommends that WUGT submit to the Commission's Docket Control Section as a compliance item in this case, a copy of the ADEQ (or MCESD) "Approval To Construct" for water source/treatment plant and water distribution system within one year of the effective date of the final decision and order issued pursuant to this Application.
3. Staff recommends that WUGT shall file with the Commission Docket Control Section as a compliance item in this case, a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within one year of the effective date of the final decision and order issued pursuant to this Application.
4. Staff recommends the Company file with the Commission's Docket Control Section as a compliance item in this case, documents showing that its arsenic removal plan including point of use, blending and centralized treatment, has been sent to MCESD by December 31, 2005. Staff further recommends that the Company file with the Commission's Docket Control Section as a compliance item in this case, documents showing compliance with the new arsenic standard by June 30, 2006.
5. Staff recommends that the Company be in full compliance with the requirements of the Maricopa County Drinking Water Program by December 31, 2005 and submit to the Docket Control Section as a compliance item in this case,

the document showing the Company is in full compliance with the requirements of the Maricopa County Drinking Water Program

DATE: September 26, 2005

TO: Linda Jaress
Executive Consultant III

From: James J. Dorf
Chief Accountant

RE: Updated Finance and Regulatory Report
Water Utility of Greater Tonopah, Inc.
Docket No. W-02450A-04-0873 (CC&N Extension)

Introduction

Water Utility of Greater Tonopah, Inc. ("Company") has submitted to the Arizona Corporation Commission ("Commission") an application to extend its current Certificate of Convenience and Necessity ("CC&N") to provide domestic water service to an area northwest of, but not adjacent to, its current service territory. The Company is seeking to expand its certificated area to serve a proposed development known as the Hassayampa Ranch ("Hassampaya").

Staff issued its initial Report on the Company's application on August 7, 2005.

On September 9, 2005, the Company filed additional documentation including its Water Infrastructure Financing Authority loan application and financial projections through the year 2025. Staff is currently reviewing this information and may require additional information to complete its analysis.

The Company's Objection to Recommendation No. 4

On August 17, 2005, the Company filed objections to the Staff Report. Among other issues, the Company objected to Staff recommendation No. 4 that requires the Company file for Commission approval by December 31, 2005, stand-alone rates to be applied solely to the extension area.

The Company contends that "Staff has made no showing, nor can it, that applying the rates already approved for its existing customers to the extension area somehow disadvantages the existing customers."

Staff's objective in not applying existing rates to the extension area was to protect both the new customers as well as existing customers. Based upon Staff's preliminary evaluation, the Hassayampa Ranch stand alone pro forma monthly bill would be \$66.17, versus the Company's existing rates which would produce a monthly bill of \$41.67.¹

¹ Staff Report, dated August 2, 2005, Schedule JJD-7.

Since the Company has not demonstrated that existing customers will benefit from the Hassayampa development, their rates should not be affected.

Conversely, if the Company initially utilizes existing rates for the Hassayampa development, those customers would face a significant increase in their rates when the Company files for new rates.

The Company has provided Staff with new pro forma financial statements which are currently being evaluated. The pro forma amounts indicate that in the year 2010 the consolidated² net plant balance will approximate \$9,226,296.³ The projected total for meter deposits, advances in aid of construction ("AIAC"), contributions in aid of construction ("CIAC") will total \$8,077,663. This means that approximately 87 percent of the water company plant is funded by developers and customers. The other 13 percent is provided by internally generated funds and a WIFA loan during the first five years. The pro forma projections indicate that no new equity will be contributed by the Company.

Staff generally recommends that any combination of AIAC and CIAC not exceed 25-30 percent of the capital expenditure costs. Staff's concern is that privately owned water companies that have no rate base and low equity balances may not be committed to providing long term customer service.

Staff Recommendations

Staff continues to recommend that the Company submit, by December 31, 2005, proposed stand alone rates to be applied solely to the Hassayampa extension area. In the alternative, the Company should provide documentation to demonstrate that its existing customers will be positively impacted by the addition of the new water facilities necessary to serve the new CC&N if it intends to use its existing rates for the Hassayampa Ranch extension area, also by December 31, 2005.

² Includes existing customers and the Hassayampa extension.

³ Exhibit 3 – B Five Year Projections, Company memorandum dated September 9, 2005.