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MEMORANDUM

TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

Date: October 28, 2005

RE: STAFF REPORT FOR ARIZONA WATER COMPANY TO EXTEND ITS
EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY AT
THREE AREAS IN ITS COOLIDGE WATER SYSTEM, PINAL COUNTY,
ARIZONA (DOCKET NO. W-01445A-05-0389)

Attached is the Staff Report for the application of Arizona Water Company for an extension of its existing Certificate of Convenience and Necessity. Staff recommends approval with conditions.

EGJ:WPG:red

Originator: William P. Gehlen

Attachment: Original and 13 copies

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DOCUMENT CONTROL

Service List for: Arizona Water Company
Docket Nos. W-01445A-05-0389

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-05-0389

APPLICATION FOR EXTENSION
OF ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY

OCTOBER 28, 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Water Company (Docket No. W-01445A-05-0389) was prepared by the Staff members listed below. William P. Gehlen performed the review and analysis of the Company's application. Dorothy Hains prepared the engineering report.

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

William P. Gehlen
Public Utility Analyst V

A handwritten signature in black ink, appearing to read 'Dorothy Hains', written in a cursive style.

Dorothy Hains
Utilities Engineer

**EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
DOCKET NO. W-01445A-05-0389**

On May 31, 2005, Arizona Water Company ("Arizona Water" or "the Company") filed an application for approval of an extension to its Certificate of Convenience and Necessity ("CC&N") for its Coolidge water system for three separate parcels. This application adds approximately one square mile to the Company's existing 30 square miles of certificated area in its Coolidge system, which includes the Town of Coolidge. The Company estimates 100 new customers will be served over a five-year period in the extension areas with a total of 1,050 new connections at build out.

Staff recommends approval subject to compliance with the following:

1. The Company should file in Docket Control, as a compliance item in this docket, a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval to Construct for the extension facilities within one year from the date of the decision in this matter.
2. The Company should charge its authorized system rates and charges to the customers within the extension areas.
3. The Company should file in Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply for the requested extension areas, where applicable or when required by statute, within one year from the date of the decision in this matter.
4. The Company should file in Docket Control, as a compliance item in this docket, any main extensions utilized to serve the areas applied for, within one year from the date of the decision in this matter.

Staff further recommends that the Commission's Decision granting the requested CC&N extension to Arizona Water be considered null and void should the Company fail to meet conditions 1, 3, and 4 listed above within the time specified.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
THE EXTENSION AREAS REQUESTED	1
THE WATER SYSTEM	1
CONSTRUCTION COSTS OF THE EXTENSION FACILITIES	1
ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE	2
ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE	2
ACC COMPLIANCE AND COMPLAINTS	2
CURTAILMENT TARIFF	2
ARSENIC	2
PROPOSED RATES	3
RECOMMENDATIONS	3

ATTACHMENT(S)

ENGINEERING REPORT	1
ENGINEERING MAP	2

Introduction

On May 31, 2005, Arizona Water Company ("Arizona Water" or "the Company") filed an application for approval of three extensions to its Certificate of Convenience and Necessity ("CC&N") at Coolidge in Pinal County, Arizona. On June 13, 2005, Staff found the application to be insufficient and filed a letter in Docket Control so indicating. The Company provided information to Staff on August 23, 2005, which satisfactorily addressed the issues in the June 13, 2005, Insufficiency letter. Staff filed a Sufficiency Letter August 25, 2005, indicating the application for extensions of its CC&N had met the sufficiency requirements of the Arizona Administrative Code.

The Company is a corporation providing water utility service to approximately 75,000 customers in eight counties in Arizona. The Company's Coolidge water system, to which these extensions will be added, serves approximately 3,545 customers. According to the Company's Annual Report to the Arizona Corporation Commission, Arizona Water generated \$40.0 million of revenue resulting in net income of \$9.4 million during 2004.

The Extension Areas Requested

The proposed extensions add approximately 1 square-mile to the Company's existing 30 square-miles of certificated area that includes the Town of Coolidge. The extension areas contain three separate parcels (Vail, McIntyre, and Skousen Farms). The attached Exhibit 2 illustrates the extension areas and provides the legal description of the extensions.

The Company estimates 100 new customers would be served over a five-year period in the requested extension areas with a total of 1,050 new connections at build out.

The Water System

The existing Company Coolidge water system is comprised of five wells with production flow rate of approximately 4,677 gallons per minute ("GPM"), 1,807,000 gallons of storage capacity, and a distribution system serving 3,545 existing customers. Staff's Engineering Report is attached as Exhibit 1 and provides a more complete description of the current system. Staff concludes that the existing production and storage is adequate to serve the existing and proposed CC&N extension areas.

Construction Costs of the Extension Facilities

The Company is planning to extend existing mains to each of the three separate parcels (Vail, McIntyre, and Skousen Farms). Staff concludes that the proposed plant facilities and their cost estimate of \$528,000 seem reasonable. However, no "used and useful" determination of the plant items was made, and no particular treatment should be inferred for rate-making or rate-base purposes.

Arizona Department of Environmental Quality (“ADEQ”) Compliance

ADEQ regulates the Coolidge water system under ADEQ Public Water System I.D. No. 11-014. ADEQ reported no deficiencies and has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The Company has not submitted the ADEQ Certificate of Approval to Construct (“ATC”) for the proposed facilities in the requested areas. Staff recommends that the Company submit copies of the ATC issued by ADEQ as a docketed, compliance item, within one year of the effective date of the order in this proceeding.

Arizona Department of Water Resources (“ADWR”) Compliance

The Company’s Coolidge system is within the ADWR Pinal Active Management Area, and is in compliance with ADWR’s reporting and conservation rules.

Staff recommends that the Company file in Docket Control within one year of the effective date of an order in this docket a copy of the developer’s Certificate of Assured Water Supply for the requested areas, where applicable or when required by statute.

ACC Compliance and Complaints

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

Curtailment Tariff

The Company has an approved curtailment tariff for “All Service Areas” that became effective on July 23, 2004, per Decision No. 66235.

Arsenic

The U.S. Environmental Protection Agency (“EPA”) has reduced the arsenic maximum allowable contaminant level (“MCL”) in drinking water from 50 micrograms per liter (“µg/l”) or parts per billion (“ppb”) to 10 µg/l. The date for compliance with the new MCL is January 23, 2006.

The most recent lab analysis by the Company indicated that the arsenic level in its four wells are producing water that will comply with the new arsenic MCL.

Proposed Rates

Arizona Water will provide water utility service to customers within the extension areas under its currently authorized rates and charges.

Recommendations

Staff recommends that the Commission approve the application of Arizona Water for approval of extensions of its CC&N subject to compliance with the following conditions:

1. The Company should file in Docket Control, as a compliance item in this docket, a copy of the ADEQ Approval to Construct for the extension facilities within one year from the date of the decision in this matter.
2. Arizona Water should charge its authorized system rates and charges to the customers within the extension areas.
3. The Company should file in Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply for the requested extension areas, where applicable or when required by statute, within one year from the date of the decision in this matter.
4. The Company should file in Docket Control, as a compliance item in this docket, any main extension agreements utilized to serve the areas applied for, within one year from the date of the decision in this matter.

Staff further recommends that the Commission's Decision granting the requested CC&N extension to Arizona Water be considered null and void should Arizona Water fail to meet the conditions 1, 3, and 4 listed above within the time specified.

MEMORANDUM

DATE October 19, 2005

TO: William Gehlen

FROM: D. Hains *DH*

RE: **Arizona Water Company**
Application for an Extension of its Certificate of Convenience &
Necessity to Provide Water Service in the Coolidge Area
Docket No. W-01445A-05-0389

Introduction

Arizona Water Company ("Company") has applied to extend its Certificate of Convenience and Necessity ("CC&N"). The extension area contains three separate parcels (Vail parcel, McIntyre parcel, and Skousen Farms parcel) located in the Town of Coolidge. This application would add approximately one square mile to the Company's existing 30 square mile certificated area that includes the Town of Coolidge. The Company estimates 100 new customers would be served over a five-year period in the extension area with a total of 1,050 new connections at build out. The Company's Coolidge system would be used to provide service.

Capacity

The Company's Coolidge water system consists of five wells which have a total flow rate of 4,677 gallons per minute ("gpm"), 1,807,000 gallons of storage capacity and a distribution system serving 3,545 existing customers. Staff concludes that the system has adequate production and storage capacity to serve the existing customer base and new customers in the extension area.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the Coolidge system under ADEQ Public Water System ("PWS") I.D. # 11-014. ADEQ has determined that the Coolidge system is currently delivering water that does not exceed any maximum contaminant level ("MCL") and meets water quality standards required by Arizona Administrative

Code, Title 18, Chapter 4.¹

Arizona Department of Water Resources (“ADWR”) Compliance

The Company’s Coolidge system is within the ADWR Pinal Active Management Area, and is in compliance with ADWR’s reporting and conservation rules (GPCD requirements). Staff recommends that the Company shall file with the Commission a copy of the developers’ Certificate of Assured Water Supply, where applicable or when required by statute within 365 days of the effective date of any decision and order issued pursuant to this application.

Construction Cost

The Company is planning to extend its existing main along McGee Road to serve 50 connections in the McIntyre parcel. The Company plans to extend its existing main along Van Kin Inn Road to serve 500 connections in the Skousen Farms parcel. The Company also plans to extend a main from Highway 87 one mile along Kleck Road to serve 500 connections in the Vail parcel. Staff has reviewed the Company’s costs estimates to build the required main extensions which are expected to cost approximately \$528,000. Staff believes that the estimated costs are reasonable.

ACC Compliance

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

Arsenic

The U.S. Environmental Protection Agency (“EPA”) has reduced the arsenic maximum contaminant level (“MCL”) in drinking water from 50 micrograms per liter (“µg/l”) to 10 µg/l. The date for compliance with the new MCL is January 23rd, 2006. The most recent lab analysis provided by the Company indicates that the four Coolidge system wells are producing water that will comply with the new arsenic MCL.

¹ ADEQ Compliance report dated April 5, 2005.

Summary

I. Recommendations:

1. Staff recommends that the Company shall file with the Commission a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within 365 days of the effective date of any decision and order issued pursuant to this application.

II. Findings:

1. Arizona Water's Coolidge system has adequate production and storage capacity to serve the existing customer base and new customers in the extension area.
2. ADEQ has determined that Coolidge system is currently delivering water that does not exceed any maximum contaminant level ("MCL") and meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
3. The Company's Coolidge system is within the ADWR Pinal Active Management Area, and is in compliance with ADWR's reporting and conservation rules (GPCD requirements).
4. The most recent lab analysis provided by the Company indicates that the four Coolidge system wells are producing water that will comply with the new arsenic MCL.
5. Staff concludes that based on the scope of work the Company's cost estimate to serve the extension area is reasonable.
6. A check with the Utilities Division Compliance Unit showed no outstanding ACC compliance issues.

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: June 28, 2005

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-05-0389)**

The area requested by Arizona Water for an extension has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached are copies of the maps for your files.

:bsw

Attachments

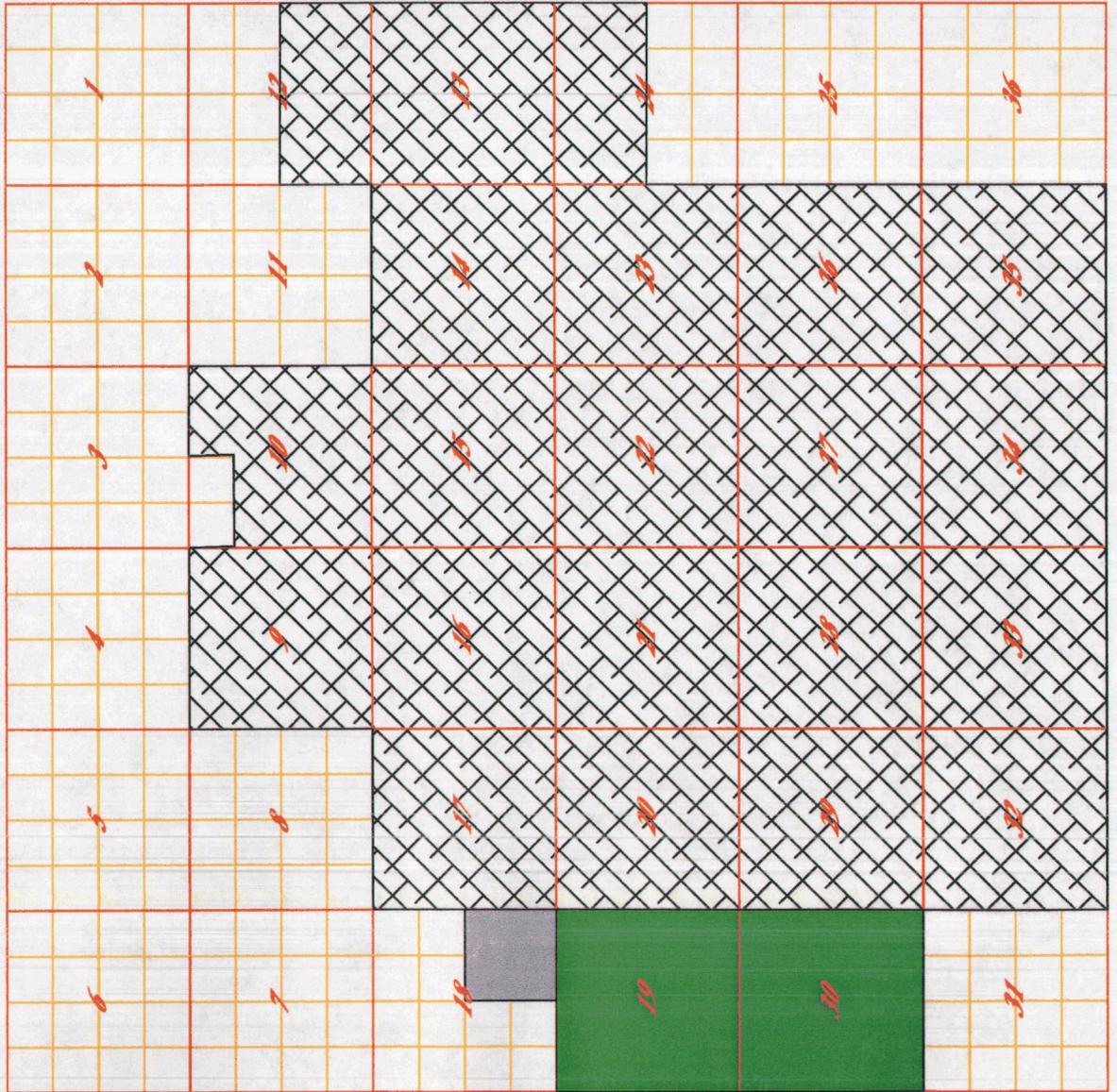
cc: Docket Control
Mr. Robert Geake
Ms. Deb Person (Hand Carried)
File

COUINTRY Pinal

RANGE 8 East

TOWNSHIP 5 South

-  W-1445 (34)(2)
Arizona Water Company (Coolidge)
-  Arizona Water Company
Docket No. W-1445-04-755
Application for Extension
-  Arizona Water Company
Docket No. W-1445-05-389
Application for Extension

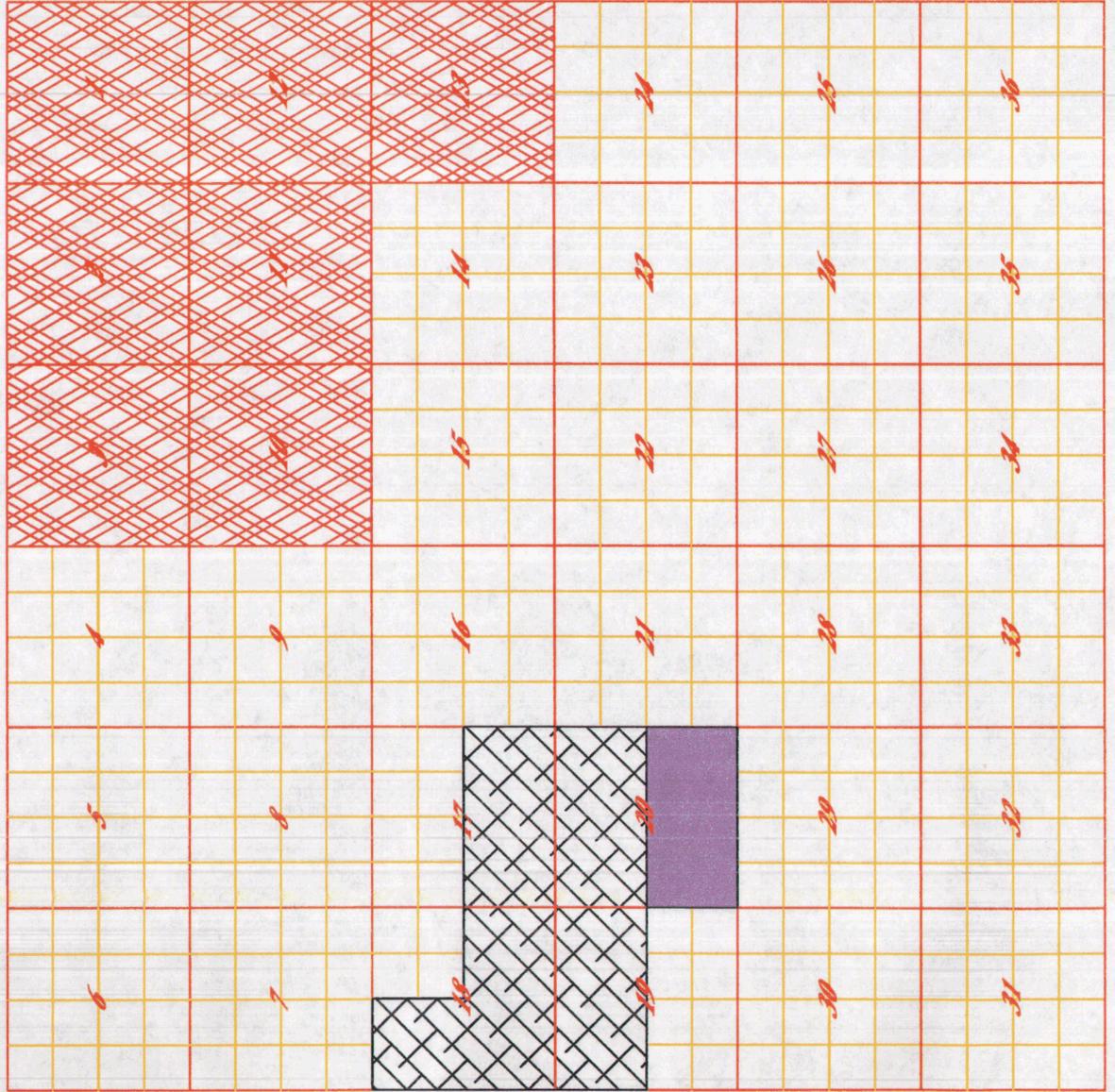


COUINTY Pinal

RANGE 9 East

TOWNSHIP 5 South

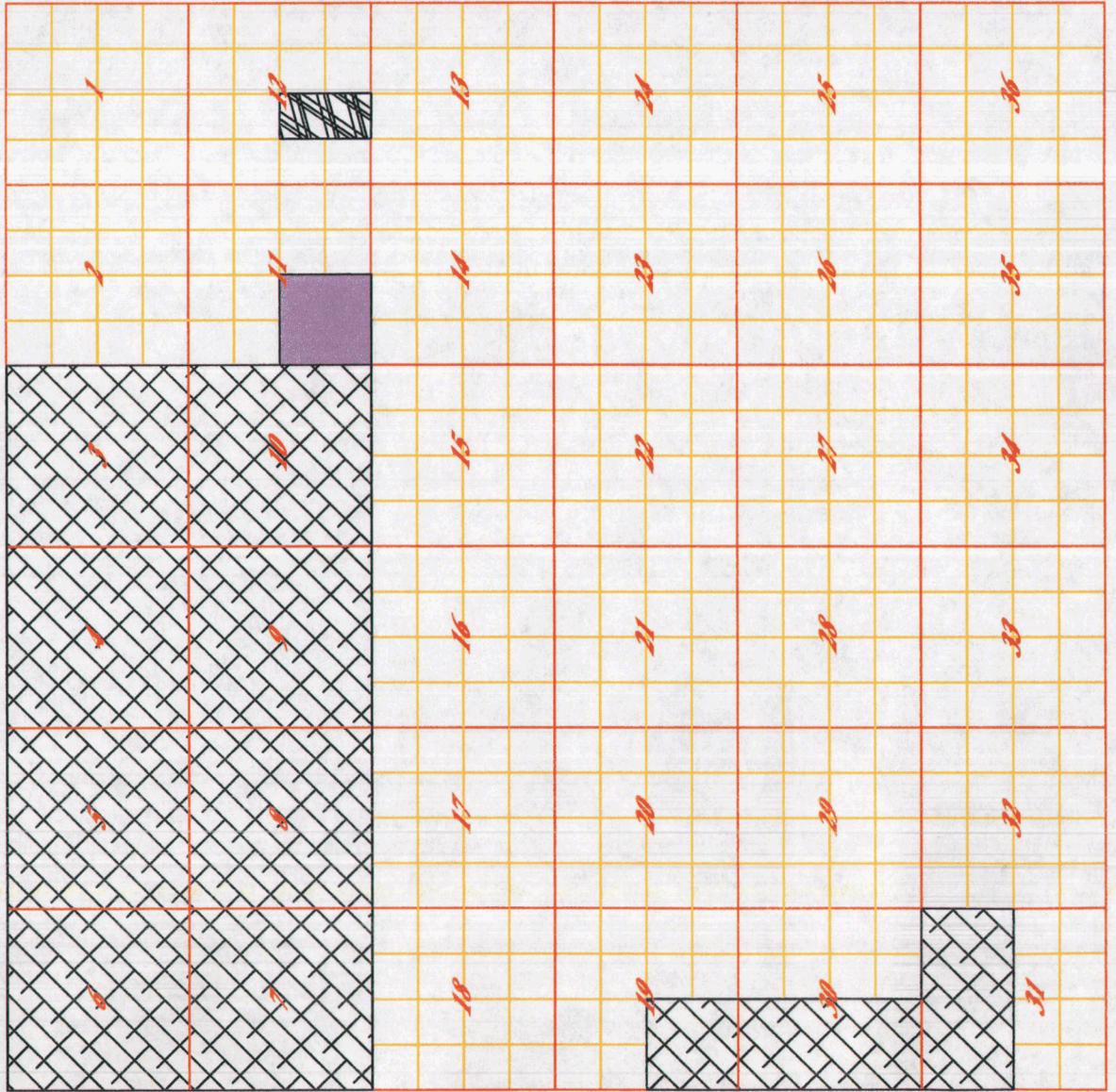
-  W-1445 (34)(2)
Arizona Water Company (Coolidge)
-  C-0005 (4)
City of Florence (Nonjurisdictional)
-  Arizona Water Company
Docket No. W-1445-05-389
Application for Extension



COUNTY: Pinal

RANGE 8 East

TOWNSHIP 6 South



- 
 W-1445 (34)(9)
 Arizona Water Company (Casa Grande)
- 
 W-2721 (2)
 Carter Water Company
- 
 Arizona Water Company
 Docket No. W-1445-05-389
 Application for Extension

EXHIBIT 1

CC&N This Application

PARCEL ONE

The Southeast quarter of Section 18 of Township 5 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

PARCEL TWO

The South half of Section 20, Township 5 South, Range 9 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

PARCEL THREE

The Southwest quarter of Section 11, Township 6 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.