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Transcript Exhibit(s)

W-1445A-05-0874

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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

FILE COPY

Date: *for* September 23, 2005

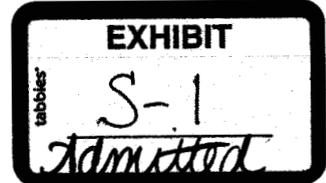
RE: STAFF REPORT FOR ARIZONA WATER COMPANY TO EXTEND ITS
EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY AT TWO
AREAS IN ITS VALLEY VISTA SYSTEM, YAVAPAI COUNTY, ARIZONA
(DOCKET NO. W-01445A-05-0374)

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:rdp

Originator: William P. Gehlen

Attachment: Original and 13 copies



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SEP 23 2005

LEGAL DIV.
ARIZ. CORPORATION COMMISSION

Service List for: Arizona Water Company
Docket Nos. W-01445A-05-0374

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-05-0374

APPLICATION FOR EXTENSION
OF ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY

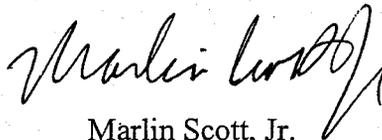
SEPTEMBER 2005

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Water Company (Docket No. W-01445A-05-0374) was prepared by the Staff members listed below. William P. Gehlen performed the review and analysis of the Company's application. Marlin Scott, Jr. prepared the engineering report.



William P. Gehlen
Public Utility Analyst V



Marlin Scott, Jr.
Utilities Engineer

**EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
APPLICATION TO EXTEND ITS CERTIFICATE OF CONVENIENCE AND
NECESSITY
DOCKET NO. W-01445A-05-0374**

On May 25, 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 Valley Vista system in two different areas. The proposed extensions will add approximately 1/2 square-mile to its 1-1/2 square-miles of local certificated area. Six customers are expected to be served in the extension areas. A five lot development is anticipated in one requested area, and service to a new Forest Ranger Station in the second requested area make up the six customers.

Staff recommends approval subject to compliance with the following;

1. Arizona Water 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 Letter of Adequate Water Supply for the requested extension area, 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, the main extension agreements, to serve the area applied for, with Staff 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.

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Introduction

On May 25, 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 two areas in its Valley Vista Service area in Yavapai County, Arizona. On June 23, 2005, Staff found the application to be insufficient and filed a letter in Docket Control so indicating. The insufficiency letter contained a Data Request requesting technical and financial information. The Company response to the Data Request provided additional information and Staff filed a Sufficiency Letter August 1, 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 Valley Vista service area, to which this extension will be added, serves approximately 730 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 1/2 square-mile to the Company's existing 1-1/2 square-miles of certificated area. The extension areas are adjacent to Arizona Water's existing certificated areas within its Valley Vista Service area near the Village of Oak Creek in Yavapai County. The attached Exhibit 1 illustrates the extension areas and provides the legal description of the extensions.

The area within Section 19 (see Exhibit 1) is anticipating a five lot development and could be served by extending the water system using main extension agreements or with service line and meter installations, depending on the lot developments.

The area within Section 25 (see Exhibit 1) is proposing to extend the water system for a new Forest Service Ranger Station.

The Water System

The existing Valley Vista System is comprised of five wells with production capacity of approximately 500 gallons per minute ("GPM"), 550,000 gallons of storage capacity, and a distribution system serving 730 connections. Staff's Engineering Report is attached as Exhibit 2 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 within a conventional five-year planning period and can reasonably be expected to develop additional production and storage in the future.

Financing of the Extension Facilities

The facilities necessary to provide service to the extension area within Section 19 will be financed by main extension agreements or with service line and meter installations, dependent on the lot developments.

The facilities necessary to connect the new Forest Service Ranger Station within Section 25 will be financed by advances. Staff also concludes that the proposed plant facilities and its cost estimate of \$420,838 seem reasonable. See Staff Engineering Report Exhibit 2 for a breakdown of construction costs. 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 water system under ADEQ Public Water System I.D. #13-114. Based on a Compliance Status Report dated August 15, 2005, 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

Arizona Water's Valley Vista System is not located in an Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.

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 Letter of Adequate 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 (" $\mu\text{g}/\text{l}$ ") or parts per billion ("ppb") to 10 $\mu\text{g}/\text{l}$. 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 five wells range from 45 ppb to 52 ppb. Based on these arsenic levels, the Company is in the process of constructing treatment plants to comply with the new arsenic standard. Decision No. 66400 approved an accounting order for cost recovery of arsenic related costs for Company arsenic treatment costs for its Northern Group. The Valley Vista System is part of the Northern Group.

Proposed Rates

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

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:

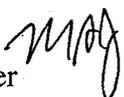
1. Arizona Water should file in Docket Control, as a compliance item in this docket, a copy of the ADEQ Approval to Construct for the extension facilities within one year from the date of the decision in this matter.
2. Arizona Water should charge its authorized system rates and charges to the customers 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 Letter of Adequate Water Supply for the requested extension area, 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, the main extension agreements, to serve the area applied for, with Staff 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: August 23, 2005

TO: William P. Gehlen
Public Utilities Analyst V

FROM: Marlin Scott, Jr. 
Utilities Engineer

RE: Arizona Water Company – Sedona Division (Valley Vista System)
Docket No. W-01445A-05-0374 (CC&N Extension)

Introduction

Arizona Water Company – Sedona Division has applied to extend its Certificate of Convenience and Necessity (“CC&N”) for its Valley Vista System (“Company”) in two different areas. The requested areas will add approximately 1/2 square-mile to the Company’s existing 1-1/2 square-miles of local certificated area. The Company serves the Village of Oak Creek in Yavapai County.

Capacity

Existing Utility Plant

According to water use data submitted by the Company, the Company has five wells producing 514 gallons per minute (“GPM”), 550,000 gallons of storage capacity, and a distribution system serving 730 service connections. Using the historical growth rate for the Sedona Division (2.5% per year), it is anticipated that the Valley Vista service area could grow to approximately 825 connections at the end of five years. The Company has predicted an additional six connections for the proposed CC&N extensions at the end of five years, resulting in a projected total customer base of approximately 830 at the end of five years. Based on the existing well production and storage capacities, the system can serve approximately 800 service connections.

Proposed Plant Facilities

In one area (within Section 25), the Company is proposing to extend its water system for a new Forest Service Ranger Station. The proposed main extension will be financed by advances and will consist of the following plant facilities:

William P. Gehlen

August 23, 2005

Page 2

1.	12-inch D.I.P. water main, 4,900 feet	\$377,300
2.	2-inch service	\$ 2,200
3.	2-inch compound meter	\$ 536

	Subtotal:	\$380,036
	Overhead:	\$ 22,802
		=====
	TOTAL:	\$402,838

In the other area (within Section 19), the Company is anticipating that the five lot development could be served by extending the water system using main extension agreements or with service line and meter installations, depending on the lot developments.

Conclusions

Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N extension areas within a conventional five year planning period and can reasonably be expected to develop additional production and storage as required in the future.

Staff also concludes that the proposed plant facilities for the new Forest Service Ranger Station and its cost estimate totaling \$402,838 seem reasonable. However, no "used and useful" determination of the proposed 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

Compliance Status

ADEQ regulates the water system under ADEQ Public Water System I.D. #13-114. Based on a Compliance Status Report dated August 15, 2005, 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, and Chapter 4.

Certificate of Approval to Construct

The ADEQ Certificate of Approval to Construct ("ATC") for facilities needed to serve the requested areas have not been submitted by the Company. Staff recommends that the Company docket as a compliance item in this case copies of the ATC issued by ADEQ within one year of the effective date of an order approving the extension.

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL is January 23, 2006.

The Company's arsenic levels for its five wells range from 45 ppb to 52 ppb. Based on these levels, the Company is in the process of constructing treatment plants to comply with the new arsenic standard. In Decision No. 66400, dated October 14, 2003, the Commission approved the implementation of an Arsenic Cost Recovery Mechanism which would allow the Company to recover arsenic treatment costs for its Northern Group. The Valley Vista System is part of this Northern Group.

Arizona Department of Water Resources Compliance

Compliance Status

The Company is not located in an Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.

Letter of Adequate Water Supply

Staff recommends that the Company docket as a compliance item in this case within one year of the effective date of an order in this proceeding a copy the developer's Letter of Adequate Water Supply for the requested areas, where applicable or when required by statute.

Arizona Corporation Commission Compliance

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

Curtailment Tariff

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

Summary

Conclusions

- A. Staff concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N extension areas within a

conventional five year planning period and can reasonably be expected to develop additional production and storage as required in the future.

- B. Staff concludes that the proposed plant facilities for the new Forest Service Ranger Station and its cost estimate totaling \$402,838 seem reasonable. However, no "used and useful" determination of the proposed plant items was made and no particular treatment should be inferred for rate making or rate base purposes.
- C. Based on a Compliance Status Report dated August 15, 2005, ADEQ reported no deficiencies and has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.
- D. The Company's arsenic levels for its five wells range from 45 ppb to 52 ppb. Based on these levels, the Company is in the process of constructing treatment plants to comply with the new arsenic standard. In Decision No. 66400, dated October 14, 2003, the Commission approved the implementation of an Arsenic Cost Recovery Mechanism which would allow the Company to recover arsenic treatment costs for its Northern Group. The Valley Vista System is part of this Northern Group.
- E. The Company is not located in an Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.
- F. A check with the Utilities Division Compliance Section showed no outstanding compliance issues for the Company.
- G. The Company has an approved curtailment tariff for "All Service Areas" that became effective on July 23, 2004 per Decision No. 66235.

Recommendations

1. Staff recommends that the Company docket as a compliance item in this case copies of the ATC issued by ADEQ within one year of the effective date of an order approving the extension.
2. Staff recommends that the Company docket as a compliance item in this case within one year of the effective date of an order in this proceeding a copy the developer's Letter of Adequate Water Supply for the requested areas, where applicable or when required by statute.

MEMORANDUM

TO: William Gehlen
Public Utilities Analyst V
Utilities Division

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

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: June 23, 2005

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-05-0374)**

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.

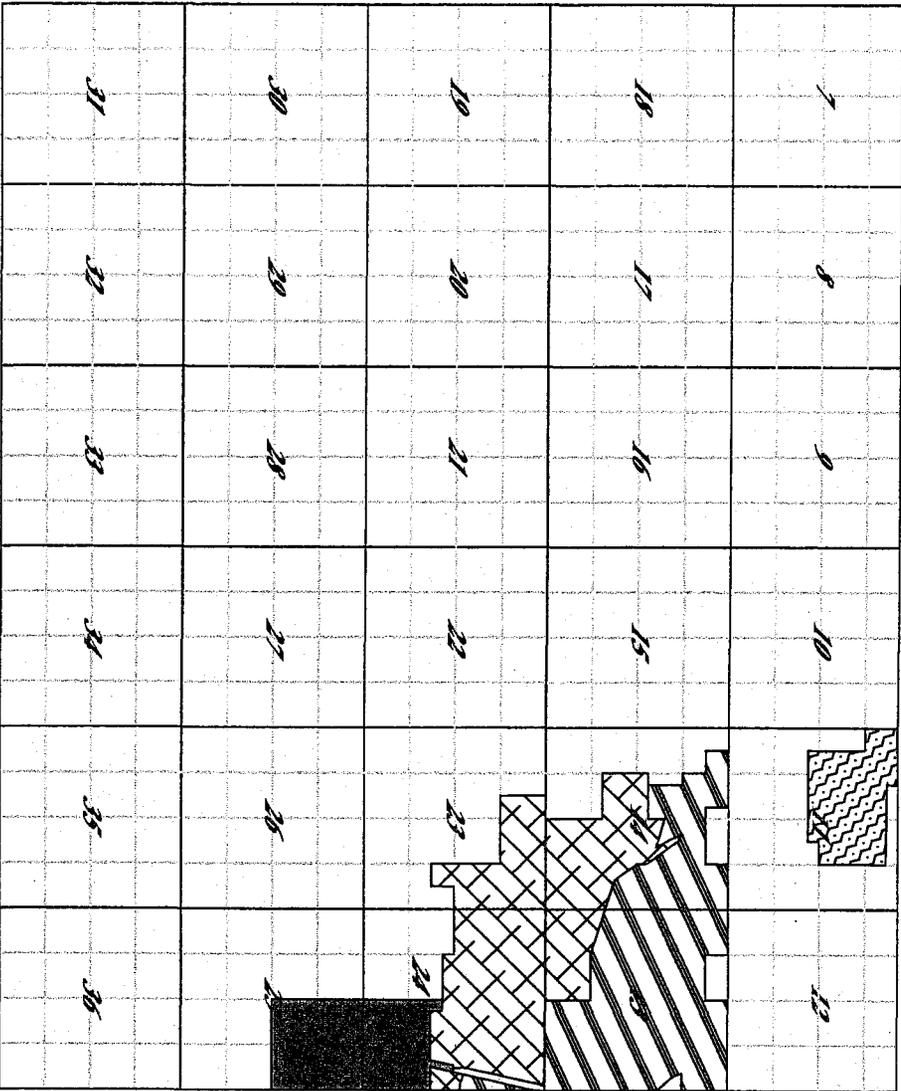
:bsw

Attachments

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

COUNTY: Yavapai

RANGE 5 East



TOWNSHIP 16 North



W-1445 (4)(5)

Arizona Water Company (Sedona)



W-1624 (2)

Big Park Water Company



W-2192 (2)

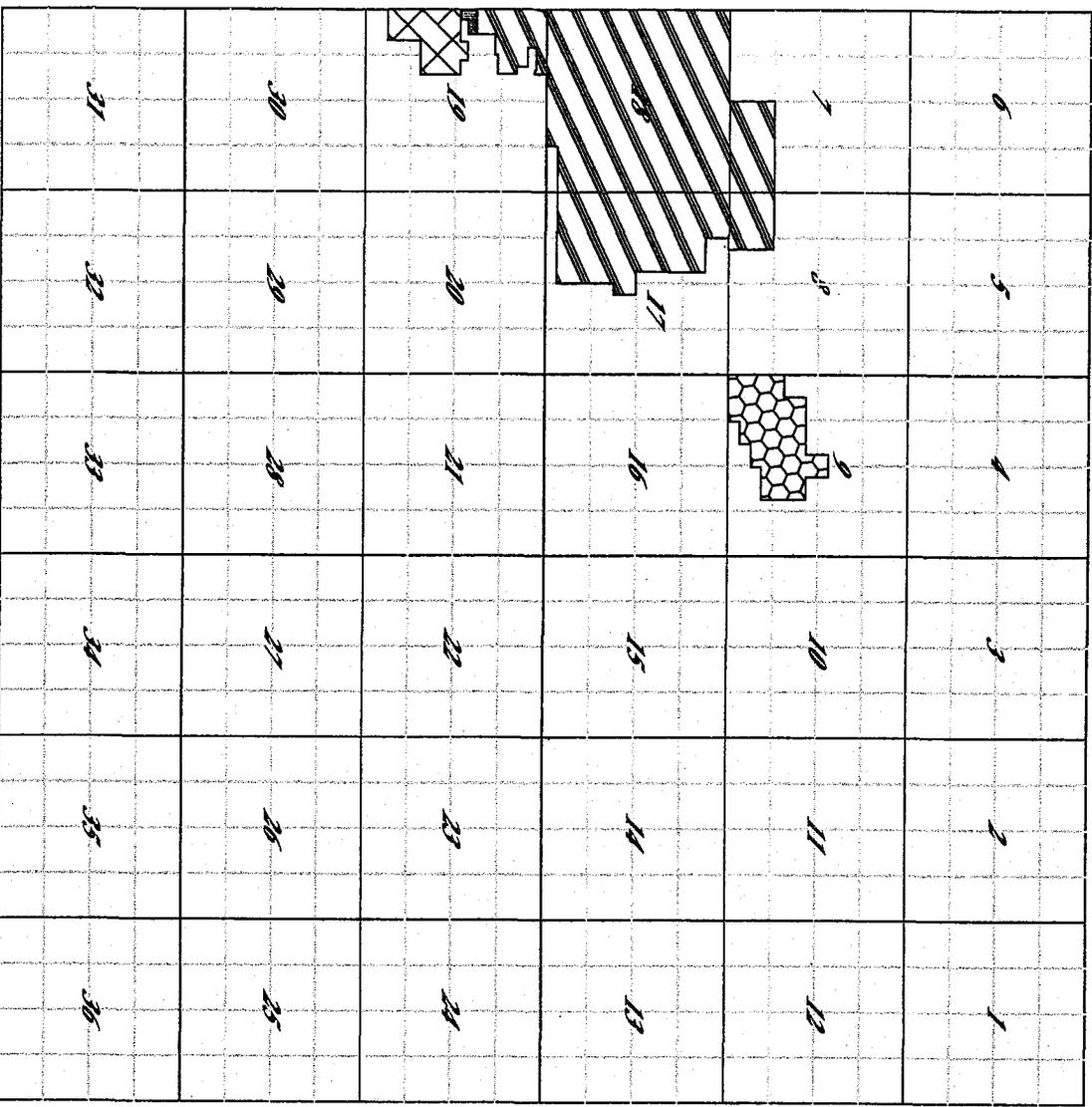
Little Park Water Company, Inc.



Arizona Water Company
Docket No. W-1445-05-374
Application for Extension

COUNTY OF YAVAPAI

RANGE 6 East



TOWNSHIP 16 North

-  W-1445 (4)(5)
Arizona Water Company (Sedona)
-  W-1624 (2)
Big Park Water Company
-  W-2181 (1)
Pine Valley Water Company
- 
Arizona Water Company
Docket No. W-1445-05-374
Application for Extension

EXHIBIT "1"

CC&N This Application

PARCEL 1:

A parcel of land being a portion of Lot 2 in the Southwest quarter of the Northwest quarter of Section 19, Township 16 North, Range 6 East, Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Beginning at the West quarter corner of said Section 19;
Thence North 0 degrees 01 minutes 18 seconds East, 180.00 feet along the West line of said Section 19;
Thence South 89 degrees 59 minutes 21 seconds East, 97.10 feet to the TRUE POINT OF BEGINNING;
Thence North 0 degrees 01 minutes 18 seconds East, 208.00 feet;
Thence South 89 degrees 59 minutes 21 seconds East, 209.00 feet;
Thence South 0 degrees 01 minutes 18 seconds West, 208.00 feet;
Thence North 89 degrees 59 minutes 21 seconds West, 209.00 feet to the TRUE POINT OF BEGINNING.

PARCEL 2:

A parcel of land being a portion of Lot 2 in the Southwest quarter of the Northwest quarter of Section 19, Township 16 North, Range 6 East, Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Beginning at the West quarter corner of said Section 19;
Thence North 0 degrees 01 minutes 18 seconds East, 180.00 feet along the West line of said Section 19;
Thence South 89 degrees 59 minutes 21 seconds East, 30.00 feet to the TRUE POINT OF BEGINNING;
Thence North 0 degrees 01 minutes 18 seconds East, 416.00 feet;
Thence South 89 degrees 59 minutes 21 seconds East, 67.10 feet;
Thence South 0 degrees 01 minutes 18 seconds West, 416.00 feet;
Thence North 89 degrees 59 minutes 21 seconds West, 67.10 feet to the TRUE POINT OF BEGINNING.

PARCEL 3:

A parcel of land being a portion of Lot 2 in the Southwest quarter of the Northwest quarter of Section 19, Township 16 North, Range 6 East, Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Beginning at the West quarter corner of said Section 19;
Thence North 0 degrees 01 minutes 18 seconds East, 180.00 feet along the West line of said Section 19;
Thence South 89 degrees 59 minutes 21 seconds East, 97.10 feet to the Southwest corner of the property described in Book 581 of Official records, page 654, records of Yavapai County, Arizona;
Thence North 0 degrees 01 minutes 18 seconds East, 208.0 feet along the West line of said property to the POINT OF BEGINNING;
Thence North 0 degrees 01 minutes 18 seconds East, 208.0 feet;
Thence South 89 degrees 59 minutes 21 seconds East, 629.0 feet;
Thence South 0 degrees 01 minutes 18 seconds West, 208.0 feet to a point on the North line of the property described in Book 580 of Official records, page 789, records of Yavapai County, Arizona;
Thence North 89 degrees 59 minutes 21 seconds West, along said North line, 629.0 feet to the POINT OF BEGINNING.

EXHIBIT "1"

Property Description

PARCEL 4:

A parcel of land being part of the Southwest quarter of the Northwest quarter of Section 19, Township 16 North, Range 6 East, Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the West quarter corner of said Section 19;
Thence North 00 degrees 01 minutes 18 seconds East, 626.00 feet along the West line of said Section 19;
Thence South 89 degrees 59 minutes 21 seconds East, 30.00 feet to the TRUE POINT OF BEGINNING;
Thence South 89 degrees 59 minutes 21 seconds East, 696.10 feet;
Thence South 00 degrees 01 minutes 18 seconds West, 30.00 feet;
Thence North 89 degrees 59 minutes 21 seconds West, 696.10 feet;
Thence North 00 degrees 01 minutes 18 seconds East, 30.00 feet to the TRUE POINT OF BEGINNING.

PARCEL 5:

The Southeast quarter of Section 24 and the Northeast quarter of Section 25, Township 16 North, Range 5 East of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.

Except any portion already within Arizona Water Company's Certificate of Convenience and Necessity.