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**ARIZONA CORPORATION COMMISSION**

February 8, 2006

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Michael W. Patten  
Roshka DeWulf & Patten, PLC  
One Arizona Center Street  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

RE: Palo Verde Utilities Company, L.L.C. and Santa Cruz Water Company, L.L.C. -  
Applications for Extensions of its Certificate of Convenience and Necessity (CC&N)  
Docket No. SW-03575A-05-0926 and W-03576A-05-0926  
INSUFFICIENCY LETTER

Dear Sir:

In reference to the above mentioned application filed on December 28, 2005, this letter is to inform you that the application has not met the sufficiency requirements as outlined in the Arizona Administrative Code. The deficiencies are:

1. Please provide a copy of the water usage data for the last 13 months for Santa Cruz Water system.
2. Please provide a map that shows the geophysical boundary of each phase of the proposed water treatment plant.
3. Please provide a copy of the construction schedule for Phase I of the water treatment plant.
4. Please provide the estimated itemized engineering costs for the construction of Phase I of the water treatment facility.
5. According to the Application, the proposed water treatment plant is located on the east side of Section 37, Township 5 South and Range 4 East. However, there are only 36 sections in Township 5 South and Range 4 East. There is no Section 37. Please provide the location of the proposed water treatment plant.
6. According to the Application, the proposed South East Service Area ("SESA") water system will provide 17 million gallons per day ("MGPD") firm capacity. It is Staff's understanding that only the production from one of the largest well production is reserved

for storage capacity. No single well can produce 17 MGD (approximately 11,800 gallons per minute ("GPM")), unless the Company has other source such as CAP water.

- Does Santa Cruz intend to use CAP water in the requested area? If so, please provide information on the CAP water treatment plant. Is this the same CAP water treatment plant that was referenced in Docket No. W-03575A-05-0470 or is it a different CAP water treatment plant? Does Santa Cruz have a CAP water tariff?
  - If Santa Cruz does not intend to use CAP water in the requested area, please provide the accurate capacity calculation.
7. Please provide a copy of the Arizona Department of Water Resources ("ADWR") Designation of Assured Water Supply or Certificate of Assured Water Supply for area requested. If none of these are available, please provide a copy the ADWR's Physical Availability Determination. If a determination of Assured Water Supply has not been obtained from ADWR, please inform Utilities Division Staff ("Staff") of the status of the application for that determination.
  8. Please provide a copy of the Arizona Department of Environmental Quality's Approval to Construct the water facilities to serve the proposed extension area. If the Approval to Construct has not been issued, please inform Staff of the status of the application for the Approval to Construct.
  9. Please provide any other information which will allow the Commission to analyze and conclude that Santa Cruz has sufficient water production capacity, or can develop enough drinking water capacity to service the existing and future demands from the proposed extension area.
  10. Please provide a copy of the wastewater flow records for the last 13 months for Palo Verde.
  11. Please provide a map that shows the geophysical boundary of each phase of the proposed wastewater treatment plant.
  12. Please provide a copy of the construction schedule for Phase I of the wastewater treatment plant.
  13. Please provide a copy of the approved Central Arizona Association of Government ("CAAG") Section 208 Plan which includes the proposed extension area. If the Section 208 Plan has not been issued, please inform Staff of the status of the application for the Section 208 Plan.

14. According to the Application, the lift station will be converted to the main influent pump station for the planned Palo Verde Utility Company's Campus #3 Water Reclamation Treatment plant that will be located at the NW corner of "Tract 40", T5S and R4E. Please specify the physical location of "Tract 40".
15. According to the Application, the company will not install the new SESA wastewater treatment plant until the combined wastewater from Palo Verde's existing area and the requested area reaches 2 million gallons per day. It appears that the projected growth in the Palo Verde's existing CC&N area is not growing as fast as it was originally predicted. Please explain why the company filed this Application for extension of its CC&N (by approximately 19 square miles) within six months of its last CC&N extension application, since the growth rate in the existing area is not growing as fast as projected.
16. Please provide a copy of the preliminary construction drawing of the lift station which will intercept wastewater from the requested area.
17. It appears that there are industrial users in the requested area. Has Palo Verde filed its Wastewater Industrial User Pretreatment tariff? If so, when was it filed?
18. It appears that the requested area is adjacent to Santa Rosa Utility Company. Please explain why Santa Rosa Utility Company is not a better sewer provider than Palo Verde Utility to serve the requested area.
19. Please provide a copy of the Pinal County franchise agreement that includes the proposed extension area. If the franchise agreement(s) has not been issued, please inform Staff of the status of the application for the franchise agreement.

Staff would like to use this opportunity to bring the following to your attention:

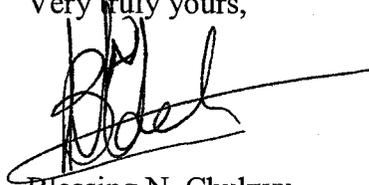
- Pursuant to the Arizona Administrative Code ("A.A.C.") R-14-2-411(C), upon meeting sufficiency requirements, the Commission has 150 calendar days for its substantive review. This includes conducting a hearing and preparing Opinion and Order to present to the Commission at an Open Meeting; and
- Pursuant to A.A.C. R14-2-411(C)(3), Staff may terminate an application if the applicant does not remedy all deficiencies within 60 calendar days of the notice of deficiency.

**Please file your response to this Insufficiency Letter with Docket Control.**

Palo Verde & Santa Cruz (Docket No. SW-03575A-05-0926 and W-03576A-05-0926)  
Insufficiency Letter  
2/8/2006  
Page 4 of 4

If you have any questions concerning this matter, please do not hesitate to contact me at 602-542-0840 or Dorothy Hains at 602-542-7274.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Blessing N. Chukwu', with a long horizontal line extending to the right.

Blessing N. Chukwu  
Executive Consultant III

BNC

cc: Docket Control  
Del Smith  
Lyn Farmer  
Brian Bozzo  
Vicki Wallace