

ORIGINAL



0000041412

MEMORANDUM

30

TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

Date: March 24, 2006

RE: STAFF REPORT FOR THE APPLICATION OF UTILITY SOURCE, LLC FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER AND WASTEWATER SERVICE IN COCONINO COUNTY, ARIZONA (DOCKET NO. WS-04235A-05-0707)

Attached is the Staff Report for Utility Source, LLC for an extension of its existing Certificate of Convenience and Necessity for water service. Staff recommends denial due to lack of information upon which to make a recommendation for approval.

EGJ:LAJ:red

Originator: Linda A. Jaress

Attachment: Original and 13 Copies

RECEIVED
2006 MAR 24 P 3:34
AZ CORP COMMISSION
DOCUMENT CONTROL

Service List for: Utility Source, LLC
Docket No. W-04235A-05-0707

Mr. Richard Sallquist
Sallquist, Drummond & O'Connor
4500 South Lakeshore Drive, Suite 339
Tempe, Arizona 85282

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

UTILITY SOURCE, LLC
DOCKET NO. W-04235A-05-0707

APPLICATION FOR EXTENSION
OF EXISTING CERTIFICATE OF
CONVENIENCE AND NECESSITY

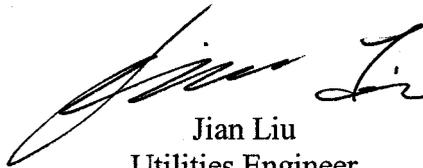
MARCH 24, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Utility Source, LLC, Docket No. W-04235A-05-0707, was the responsibility of the Staff members signed below. Linda Jaress reviewed and analyzed the application. Jian Liu performed the engineering and technical analysis.



Linda A. Jaress
Executive Consultant III



Jian Liu
Utilities Engineer

**EXECUTIVE SUMMARY
UTILITY SOURCE LLC
DOCKET NO. W-04235A-05-0707**

On October 6, 2005, Utility Source LLC ("Utility Source" or "the Company") filed an application for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water and wastewater services in Coconino County, Arizona. Utility Source presently serves approximately 300 water and wastewater customers located in its existing certificated area known as the Flagstaff Meadows Units I, II, and the Flagstaff Town Homes, in Bellemont, west of Flagstaff.

Utility Source has failed to demonstrate that it is serving water that does not exceed 10 parts per billion ("ppb") of arsenic, nor has it demonstrated sufficient water production and storage capacity to serve the combined number of customers in the existing and proposed areas. Utility Source did not provide an estimate of the water construction costs to serve the extension area. Utility Source has not demonstrated that there are sufficient water resources to provide water to the new extension areas.

For the wastewater extension, Staff concludes that the estimated construction costs for wastewater systems seem reasonable and appropriate. However, no "used and useful" determination of the proposed plant in service was made, and no particular future treatment should be inferred for rate making or rate base purposes. Utility Source's wastewater treatment plant is not in compliance with Arizona Department of Environmental Quality ("ADEQ").

The Company has not demonstrated that it will have the capacity to provide wastewater service to the existing and proposed areas.

Based upon the conclusions listed above, Staff recommends denial of the Company's request to extend its CC&N.

However, if the Commission determines that the CC&N should be extended, it should require Utility Source to file in Docket Control, as compliance items in this matter, the following: 1) a copy of its Approval to Construct the utility plant for the extension area within one year of the final decision in this case; 2) a copy of its franchise agreement with the appropriate municipal or county government, within one year of the final decision in this case; and 3) copies of the APP and Section 208 Permit that indicate approval of the proposed wastewater treatment plant within one year after the date of the final decision issued in this proceeding.

If the Commission approves the application for extension, the decision should be null and void, after due process, if the Company does not comply with the three recommendations listed above.

Due to the significance of the water availability issue in this case, Staff recommends that Utility Source file documentation from Arizona Department of Water Resources ("ADWR")

stating that Utility Source has a 100 year supply of water available to serve the requested CC&N before this Commission approves its CC&N extension.

TABLE OF CONTENTS

Page

INTRODUCTION	1
BACKGROUND	1
WATER PLANT CAPACITY	1
ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE - WATER	2
ARSENIC	2
ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) WATER CAPACITY	2
WASTEWATER CAPACITY	3
ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE - WASTEWATER	3
AQUIFER PROTECTION PERMIT AND SECTION 208 PERMIT	3
ARIZONA CORPORATION COMMISSION COMPLIANCE	4
CONCLUSIONS	4
RECOMMENDATIONS	4

EXHIBITS

ENGINEERING MAP	1
ENGINEERING REPORT	2

Introduction

On October 6, 2005, Utility Source LLC ("Utility Source" or "the Company") filed an application for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water and wastewater services in Coconino County, Arizona. Utility Source presently serves approximately 300 water and wastewater customers located in its existing certificated area known as the Flagstaff Meadows Units I, II, and the Flagstaff Town Homes, in Bellemont, west of Flagstaff.

The application is for approval to extend service to six additional parcels within the proposed CC&N area. Three of the parcels require water and wastewater service and two parcels require wastewater service only. The parcel not requiring water service is to be the site of the wastewater treatment plant. Attached as Exhibit 1 are maps illustrating the Company's current CC&N and the requested extension areas. Because the proposed service area falls within three townships and ranges, a fourth map is included in Exhibit 1 which combines the three previous maps to give the reader a broader perspective.

Background

In Decision No. 67446, dated January 4, 2005, the Commission granted Utility Source a CC&N to serve portions of Coconino County near Flagstaff. Utility Source had been providing service to approximately 200 customers before applying for a water and wastewater CC&N. According to the Decision, "The Company's actions, as detailed in the record of this proceeding, constitute one of the most egregious examples of unauthorized preemptory operations ever confronted by the Commission." Therefore, the Commission fined Utility Source \$20,000 for constructing a water system without obtaining a CC&N from the Commission and required the filing of a performance bond of \$250,000.

Decision No. 67446 also set rates at the level then being charged but required Utility Source to file a rate application in May, 2006 using 2005 as the test year. It also required existing and new customers to be informed that the rates would be likely to change and of the estimated level of rates that might be proposed by Staff in the rate case.

On March 14, 2002, Mr. McCleve, partial owner of Utility Source, was fined \$1,000 for selling five lots within the Flagstaff Meadows Development without obtaining a public report.

Water Plant Capacity

Utility Source's water system consists of six wells, two storage tanks for effluent from the wastewater plant and two storage tanks for potable water, a booster system and distribution system. The water plant is described in more detail in Staff Engineering Memorandum attached as Exhibit 2.

On November 3, 2005, Staff requested that the Company provide a drinking water design report, a set of design plans for the proposed water facilities, and an estimate of the water construction costs necessary to serve the proposed CC&N extension area. The Company responded that it will not need to expand the water system to serve current customers along with expected customers in the proposed extension area. However, because the Company did not file a water use data sheet, Staff is unable to determine if the proposed water system will have source production and storage capacities to serve the proposed CC&N extension area. Furthermore, no cost estimates of the extension plant were provided so Staff is unable to determine if they are reasonable.

Because the Company has not demonstrated its ability to provide sufficient water to the combined current customers and to the customers expected in the extension area, Staff recommends that the Commission deny the Utility Source application for a CC&N extension to provide water service. Staff believes that it is not in the public interest for the Commission to grant an extension of a CC&N without evidence that the current and future customers will receive adequate service.

Arizona Department of Environmental Quality (“ADEQ”) Compliance - Water

Based on an ADEQ report dated February 7, 2006, the water system has no deficiencies and ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

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 Company has not provided information sufficient for Staff to determine if the Company is delivering water that does not exceed 10 ppb of arsenic. Staff believes it is not in the public interest to allow a water utility to extend service to new service territories when the arsenic level has not been determined.

Arizona Department of Water Resources (“ADWR”) Water Capacity

In the Company’s previous filing before this Commission which resulted in Decision No. 67446 mentioned above, a letter from ADWR was filed indicating that water supplies for the Company were inadequate. Ultimately ADWR determined that there was sufficient supply, but to a smaller area than the Company had originally requested. Therefore, water supply is an important issue in the determination of Staff’s recommendations in this case.

In December 2005, Utility Source submitted an application for a physical availability demonstration (“PAD”) to the Arizona Department of Water Resources (ADWR) to address the area at issue in this case. An evaluation has not yet been completed. The application indicates that all the wells owned by Utility Source can support a total annual supply of 771 acre-feet but

the Company did not file information sufficient for Staff to verify this information. Staff recommends that before the Commission approves the proposed CC&N extension, the Commission require Utility Source to supply documentation from ADWR stating that Utility Source has a 100 year supply of water available to serve the requested CC&N.

Wastewater Capacity

Utility Source's wastewater treatment plant is comprised of a 150,000 gallon per day activated sludge process with de-nitrification. The plant has been operating at approximately 45,000 gallons per day (gpd) with peak usage in December, 2004 of 246 gpd per service. A more detailed description of the plant is found in Exhibit 2, attached. Staff concludes that the existing system has the capacity to serve the existing 300 customers.

According to the Company, the proposed new Flagstaff Meadows Site 2 wastewater treatment plant (WWTP) will be constructed in two phases to accommodate the increase flow from the existing and proposed CC&N extension area. Both phases will treat 75,000 gpd each for a total of 150,000 gpd, therefore, total plant capacity will be 300,000 gpd at full buildout. However, based on sewage flow on peak day in December 2004, the 300,000 gpd plant will not be able to properly treat the expected flow at buildout. Therefore, the Company has not demonstrated that it will be able to provide adequate service to the combination of the current customers and the customers in the proposed extension area.

Arizona Department of Environmental Quality Compliance - Wastewater

According to an ADEQ report dated March 21, 2006, the wastewater facilities are in compliance with ADEQ regulations.

The ADEQ Certificate of Approval to Construct ("ATC") for facilities to be used to serve the requested areas has not been submitted to Staff by Utility Source. If this application is approved, Staff recommends that Utility Source be required to file with Docket Control, as a compliance item in this docket, a copy of the ATC for facilities needed to service the area within one year of the effective date of an order in this proceeding.

Aquifer Protection Permit and Section 208 Permit

Utility Source has applied for an Aquifer Protection Permit ("APP") and Section 208 Permit for the proposed Flagstaff Meadows Site 2 wastewater treatment plant. If the Commission approves this extension request, Staff recommends that Utility Source file with Docket Control, as compliance items in this docket, copies of the APP and Section 208 Permit that indicate approval of the proposed wastewater treatment plant within one year after the date of the final decision issued in this proceeding.

The estimated project cost for the facility equipment and its construction and installation totals \$743,940 for Phase 1 which equates to about \$9.92 per gallon of treated effluent which is

near the high end of a reasonable range of \$8 to \$10 per gallon. Staff concludes that the estimated construction costs seem reasonable and appropriate.

Arizona Corporation Commission Compliance

A check with the Utilities Division Compliance Section showed no outstanding Commission compliance issues for Utility Source. The Consumer Services Section's review of its records indicated no complaints were filed against Utility Source since it received its CC&N in Decision No 67446, dated January 4, 2005.

Conclusions

Utility Source has failed to demonstrate that it is serving water that does not exceed 10 ppb of arsenic, nor has it demonstrated sufficient water production and storage capacity to serve the combined number of customers in the existing and proposed areas. Utility Source did not provide an estimate of the water construction costs to serve the extension area. Utility Source has not demonstrated that there are sufficient water resources to provide water to the new extension areas.

For the wastewater extension, Staff concludes that the estimated construction costs for wastewater systems seem reasonable and appropriate. However, no "used and useful" determination of the proposed plant in service was made, and no particular future treatment should be inferred for rate making or rate base purposes.

The Company has not demonstrated that it will have the capacity to provide wastewater service to the existing and proposed areas.

In order to recommend approval of a CC&N extension, Staff must have sufficient information to determine that the utility at issue is fit and proper and is able to provide adequate service to the extension area.

Recommendations

Based upon the conclusions listed above, Staff recommends denial of the Company's request to extend its CC&N.

However, if the Commission determines that the CC&N should be extended, it should require Utility Source to file in Docket Control, as compliance items in this matter, the following: 1) a copy of its Approval to Construct the utility plant for the extension area within one year of the final decision in this case; 2) a copy of its franchise agreement with the appropriate municipal or county government, within one year of the final decision in this case; and 3) copies of the APP and Section 208 Permit that indicate approval of the proposed wastewater treatment plant within one year after the date of the final decision issued in this proceeding.

If the Commission approves the application for extension, the decision should be null and void, after due process, if the Company does not comply with the three recommendations listed above.

Due to the significance of the water availability issue in this case, Staff recommends that Utility Source file documentation from Arizona Department of Water Resources ("ADWR") stating that Utility Source has a 100 year supply of water available to serve the requested CC&N before this Commission approves its CC&N extension.

MEMORANDUM

TO: Linda Jaress
Executive Consultant III
Utilities Division

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

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: March 15, 2006

RE: **UTILITY SOURCE, L.L.C. (DOCKET NO. WS-04235A-05-0707)**
AMENDED LEGAL DESCRIPTION

The area requested by Utility Source for an extension for water and sewer service has been plotted with no complications using a couple of amended legal descriptions, which have been docketed. The legal description attached is correct and should be used in place of the original description submitted with the application.

Also attached are copies of the maps for your files.

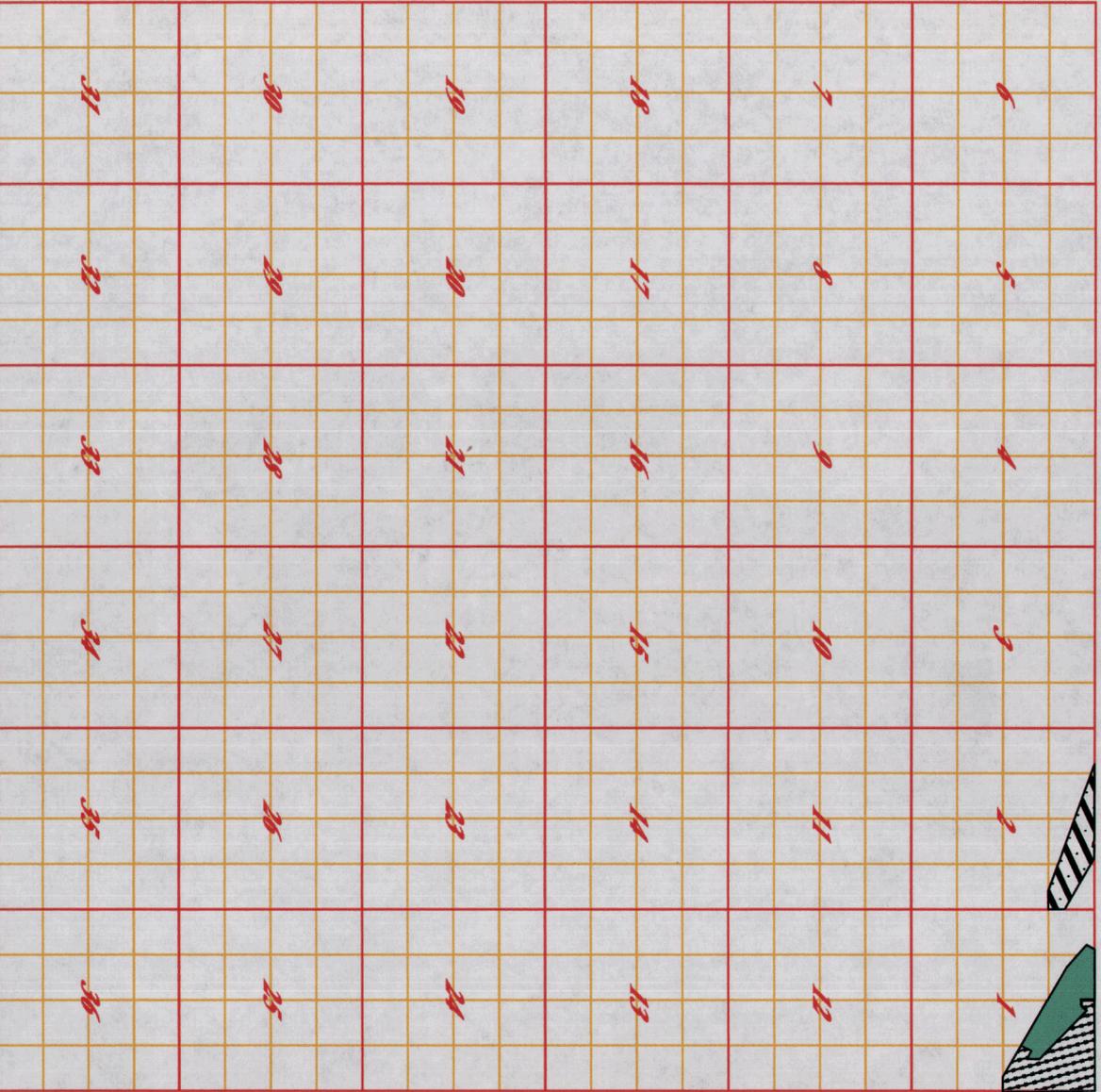
:bsw

Attachments

cc: Docket Control
Mr. Richard Sallquist
Ms. Deb Person (Hand Carried)
File

COUNTY OF Coconino

RANGE 5 East



TOWNSHIP

21 North



W-2526 (2)

Belmont Water Company



WS-4235 (2)

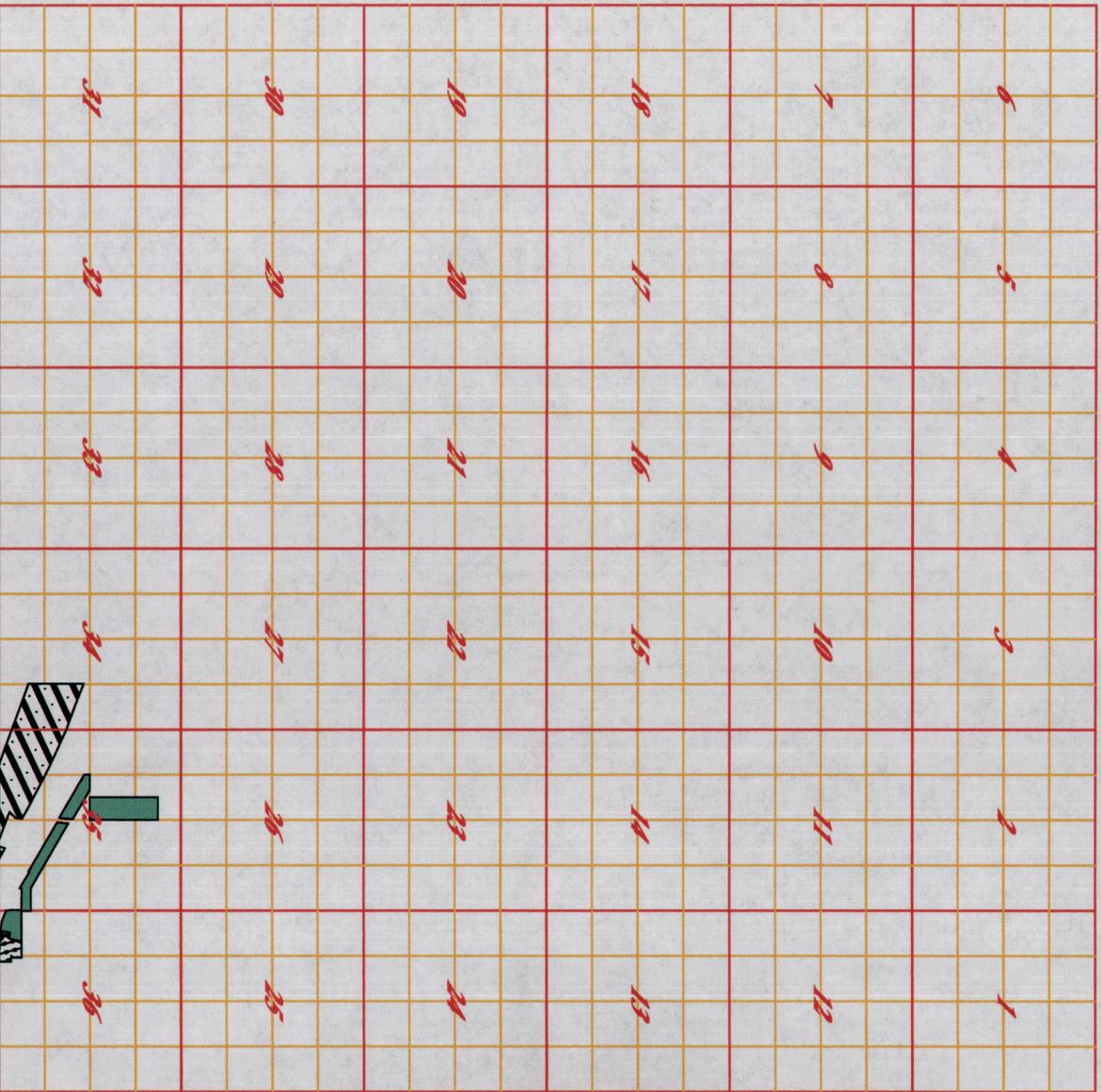
Utility Source, LLC



Utility Source, LLC
Docket No. WS-04235A-05-0707
Application for Extension

COUNTY OF Coconino

RANGE 5 East



TOWNSHIP 22 North



W-2526 (2)

Bellmont Water Company



WS-4235 (2)

Utility Source, LLC



Utility Source, LLC
 Docket No. WS-04235A-05-0707
 Application for Extension

COUNTY:

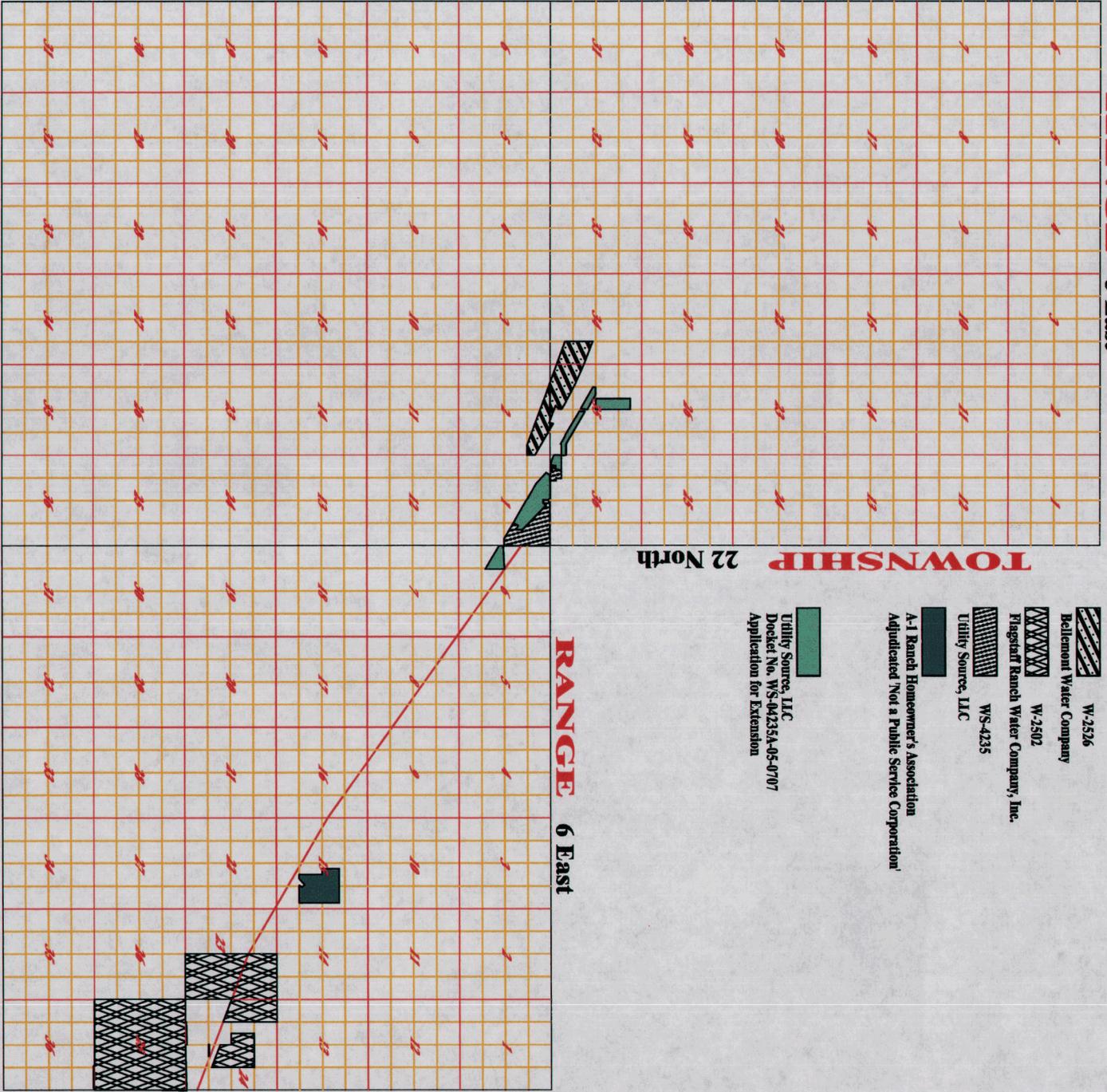
Cocino

RANGE 5 East

RANGE 6 East

TOWNSHIP 22 North

TOWNSHIP 21 North



W-2526
Belmont Water Company

W-2502
Flagstaff Ranch Water Company, Inc.

WS-4235
Utility Source, LLC

A-1 Ranch Homeowner's Association
Adjudicated 'Not a Public Service Corporation'

Utility Source, LLC
Docket No. WS-04235A-05-0707
Application for Extension

Exhibit A

PARCEL NO. 1:

That portion of the Northeast quarter of Section 1, Township 21 North, Range 5 East, Gila and Salt River Base and Meridian, Coconino County, Arizona, described as follows:

COMMENCING at the North quarter corner of said Section 1;
THENCE South 00° 10' 18" East along the North-South midsection line of said Section 1, a distance of 362.63 feet to the TRUE POINT OF BEGINNING;
THENCE North 89° 49' 53" East, a distance of 176.16 feet;
THENCE North 43° 51' 25" East, a distance of 186.12 feet to a point on the South right-of-way line of Shadow Mountain Drive, as dedicated on plat of Flagstaff Meadows Unit 1 recorded in Case 8, Maps 57-57D, records of Coconino County, Arizona;
THENCE South 46° 08' 35" East along said South right-of-way line, a distance of 1967.51 feet to the Northwest corner of Tract "B" of said Flagstaff Meadows Unit 1;
THENCE South 00° 12' 57" West along the West line of said Tract "B", a distance of 367.81 feet to the Northeast corner of Tract "F" of said Flagstaff Meadows Unit 1;
THENCE North 60° 13' 33" West along the Northerly line of said Tract "F", a distance of 277.14 feet to the Northwest corner thereof;
THENCE South 27° 47' 14" West along the Westerly line of said Tract "F", a distance of 339.37 feet to the Southwest corner thereof;
THENCE North 60° 03' 20" West, a distance of 1524.14 feet to a point on the North-South midsection line of said Section 1;
THENCE North 00° 10' 18" West along the North-South midsection line of said Section 1, a distance of 998.12 feet to the TRUE POINT OF BEGINNING.

PARCEL NO. 2:

That portion of Section 1, Township 21 North, Range 5 East of the Gila and Salt River Base and Meridian, Coconino County, Arizona, described as follows:

BEGINNING at a found 5/8" rebar with plastic cap "LS 19344" at the Northwest corner of Section 1, from which a found 3 1/2" aluminum cap "LS 14671" at the North quarter corner of Section 1 bears North 89° 52' 51" East, a distance of 2648.12 feet (measured on basis of bearing for this description) per revised ALTA/ACSM Land and Title Survey by Earl G. Watts, RLS 27253, on 4/22/04;

THENCE along the North Section line of said Section 1, North 89° 52' 51" East (record South 89° 58' 00" East), a distance of 1167.68 feet to a set 1/2" rebar with aluminum cap "LS 27253";

THENCE continuing along said line, North 89° 52' 51" East (record South 89° 58' 00" East), a distance of 654.73 feet to the TRUE POINT OF BEGINNING;

THENCE continuing along said line, North 89° 52' 51" East (record South 89° 58' 00" East), a distance of 825.71 feet to a found 3 1/2" aluminum cap "LS 14671" at the North quarter corner of said Section 1;

THENCE leaving said line, South 00° 24' 00" East, a distance of 1360.53 feet (record South 00° 14' 21" East, 1360.49 feet) to a found 5/8" rebar with plastic cap "LS 19344" on the North right-of-way line of Interstate Highway 40, as created in instrument recorded in Docket 211, page 240, records of Coconino County, Arizona;

THENCE along said right-of-way line, North 60° 16' 09" West, a distance of 1115.91 feet (record North 60° 03' 10" West, 1113.27 feet) to a found ADOT aluminum cap;

THENCE continuing along said right-of-way line, North 48° 41' 23" West (record North 48° 29' 10" West), a distance of 207.40 feet;

THENCE leaving said right-of-way line, South 89° 57' 57" East, a distance of 290.99 feet;

PARCEL A

THENCE North 00° 07' 09" West, a distance of 668.63 feet to the North line of said Section 1 and the TRUE POINT OF BEGINNING.

PARCEL NO. 3:

That portion of Section 1, Township 21 North, Range 5 East of the Gila and Salt River Base and Meridian, Coconino County, Arizona, described as follows:

BEGINNING at a found 5/8" rebar with plastic cap "LS 19344" at the Northwest corner of Section 1, from which a found 3 1/2" aluminum cap "LS 14671" at the North quarter corner of Section 1 bears North 89° 52' 51" East, a distance of 2648.12 feet (measured and basis of bearing for this description) per revised ALTA/ACSM Land and Title Survey by Earl G. Watts, RLS 27253, on 4/22/04;

THENCE along the North Section line of said Section 1, North 89° 52' 51" East (record South 89° 58' 00" East), a distance of 1167.68 feet to a set 1/2" rebar with aluminum cap "LS 27253" and the TRUE POINT OF BEGINNING;

THENCE continuing along said line, North 89° 52' 51" East (record South 89° 58' 00" East), a distance of 654.73 feet;

THENCE leaving said line, South 00° 07' 09" East, a distance of 668.63 feet;

THENCE North 89° 57' 57" West, a distance of 290.99 feet to the intersection with the Northerly right-of-way line of Interstate Highway 40, as created in instrument recorded in Docket 211, page 240, records of Coconino County, Arizona;

THENCE along said right-of-way line, North 48° 41' 23" West, a distance of 664.13 feet to a found ADOT aluminum cap stamped "NO. 1015";

THENCE leaving said right-of-way line, North 30° 19' 06" East, a distance of 264.91 feet to the North Section line of said Section 1 and the TRUE POINT OF BEGINNING.

LEGAL DESCRIPTION

The East half of the Southeast quarter of the Northwest quarter and the Southeast quarter of the Northeast quarter of the Northwest quarter of Section 35, Township 22 North, Range 5 East of the Gila and Salt River Base and Meridian, Coconino County, Arizona.

PARCEL B

LEGAL DESCRIPTION:

Parcel No. 1:

That part of section 35, Township 22 North, Range 5 east of the Gila and Salt River Base and Meridian, Coconino County, Arizona. Described as follows:

From the southeast corner of said section 35, a brass cap in hand hole, run N 01° 04' 15" E along the section line a distance of 662.95 feet to the true point of beginning;

Thence N 89° 57' 56" W, a distance of 659.88 feet;

Thence S 0° 58' 32" E, a distance of 51.96 feet to the northerly right of way line of Interstate 40;

Thence N 60° 03' 10" W along the northerly right of way line of Interstate 40, a distance of 548.63 feet;

Thence S 29° 56' 50" W a distance of 25.00 feet;

Thence N 60° 03' 10" W, a distance of 1655.04 feet to a point on Old Timber Road;

Thence N 5° 00' E along the easterly right of way line of Old Timber Road, a distance of 330.87 feet;

Thence S 60° 03' 10" E, a distance of 2188.72 feet;

Thence S 89° 57' 56" E, a distance of 659.28 feet to the east line of said Section 35;

Thence S 1° 04' 15" E along the section line, a distance of 268.49 feet to the true point of beginning.

Parcel No. 2:

That part of Section 35, Township 22 North, Range 5 east of the Gila and Salt River Base and Meridian, Coconino County, Arizona, described as follows:

From the center of said section 35, run S 89° 57' 27" W along the mid-section line, a distance of 870.23 feet to the true point of beginning;

Thence S 89° 57' 27" W along the midsection line, a distance of 445.53 feet;

Thence S 0° 23' 57" east, a distance of 156.97 feet to the northerly right of way line of Interstate 40;

Thence S 60° 03' 10" E along the northerly right of way line of Interstate 40, a distance of 1451.69 feet to the Old Timber Road;

Thence N 5° 00' E along the westerly right of way line of Old Timber Road, a distance of 394.95 feet;

Thence N 60° 03' 10" W, a distance of 978.53 feet to the true point of beginning.

PARCEL C

Lot 1

A portion of the Southwest quarter of Section 36, Township 22 North, Range 5 East of the Gila and Salt River Base and Meridian, Coconino County, Arizona, more particularly described as follows:

Commencing at the Southwest corner of said Section 36;
Thence North $01^{\circ} 03' 21''$ West along the West line of the Southwest quarter of said Section 36 a distance of 226.41 feet to the point of beginning;

Thence continuing North $01^{\circ} 03' 21''$ West 436.64 feet to a USDA aluminum cap rebar marked "S-S 1/64 S35/S36 RLS 9431 1989";

Thence South $89^{\circ} 54' 02''$ East 666.59 feet;

Thence South $00^{\circ} 20' 15''$ East 371.51 feet;

Thence South $89^{\circ} 40' 18''$ West 33.94 feet;

Thence South $00^{\circ} 13' 15''$ West 223.11 feet;

Thence North $89^{\circ} 44' 08''$ West 113.88 feet to the beginning of a 743.51 foot radius non-tangent curve, concave to the North, a radial to said beginning bears South $00^{\circ} 12' 16''$ West;

Thence Westerly, along said curve, through a central angle of $29^{\circ} 44' 56''$ an arc distance of 386.04 feet;

Thence non-tangent to said curve, North $67^{\circ} 27' 22''$ West 155.35 feet to the point of beginning.

REVISED PARCEL D

EXHIBIT "A"

PARCEL NO. 1:

That part of Section 6, Township 21 North, Range 6 East, Gila and Salt River Base and Meridian, Coconino County, Arizona, described as follows:

BEGINNING at the West quarter corner of said Section 6, being the POINT OF BEGINNING;

THENCE South 00° 01' 16" West along the West line of said Section 6, a distance of 251.25 feet measured (251.65 feet recorded) to the Northerly line of U.S. Interstate Highway 40, as described in instrument recorded in Docket 211, page 240, records of Coconino County, Arizona;

THENCE South 60° 02' 56" East, a distance of 895.05 feet measured (South 60° 03' 10" East, 895.05 feet recorded);

THENCE North 21° 40' 56" East, a distance of 806.30 feet to a point on the East-West midsection line;

THENCE South 87° 15' 51" West, a distance of 1074.61 feet measured (1053 feet recorded) to the POINT OF BEGINNING.

PARCEL NO. 2:

That part of the Northwest quarter of the Southwest quarter of Section 6, Township 21 North, Range 6 East, Gila and Salt River Base and Meridian, Coconino County, Arizona, described as follows:

COMMENCING at the West quarter corner of said Section 6;

THENCE East (assumed bearing) along the North line of said Northwest quarter of the Southwest quarter, a distance of 1074.61 feet (1053.00 feet recorded) to a point, said point being West (assumed bearing), a distance of 267.00 feet from the Northeast corner of the Northwest quarter of the Southwest quarter of said Section 6, said point being the POINT OF BEGINNING;

THENCE South 21° 40' 56" West, a distance of 806.30 feet (751.57 feet recorded) to the Northeasterly right-of-way line of Interstate Highway No. 40 as described in instrument recorded in Docket 222, page 383, records of Coconino County, Arizona;

THENCE Southeasterly South 60° 02' 56" East (60° 03' 30" West recorded) along said right-of-way of Interstate Highway 40, a distance of 679.51 feet (692.87 feet record), more or less, to the East line of the Northwest quarter of the Southwest quarter of said Section 6;

THENCE North along the East line of said Northwest quarter of the Southwest quarter North 00° 25' 53" West, a distance of 1102.20 feet (1027.00 feet recorded), more or less, to the Northeast corner of the Northwest quarter of the Southwest quarter of said Section 6;

THENCE West along the North line of the Northwest quarter of the Southwest quarter of said Section 6, South 87° 15' 51" West, a distance of 282.83 feet (267.00 feet recorded) to the POINT OF BEGINNING

SECOND REVISED PARCEL E

Filed February 28, 2006

LOT 2

A PORTION OF THE SOUTHWEST QUARTER OF SECTION 36, TOWNSHIP 22 NORTH, RANGE 5 EAST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, COCONINO COUNTY, ARIZONA, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

COMMENCING AT THE SOUTHWEST CORNER OF SAID SECTION 36;
THENCE SOUTH 89°56'29" EAST ALONG THE SOUTH LINE OF THE SOUTHWEST QUARTER OF SAID SECTION 36, A DISTANCE OF 1141.95 FEET;
THENCE NORTH 02°24'39" WEST 24.44 FEET;
THENCE NORTH 89°54'33" WEST 211.55 FEET TO THE POINT OF BEGINNING;

THENCE CONTINUING NORTH 89°54'33" WEST 271.24 FEET;
THENCE NORTH 87°13'35" WEST 36.57 FEET;
THENCE NORTH 00°13'15" EAST 264.70 FEET;
THENCE NORTH 89°40'18" EAST 33.94 FEET;
THENCE NORTH 00°20'15" WEST 371.51 FEET;
THENCE SOUTH 89°54'02" EAST 293.21 FEET;
THENCE SOUTH 19°55'51" WEST 389.44 FEET;
THENCE SOUTH 45°56'35" WEST 87.94 FEET;
THENCE SOUTH 00°50'20" WEST 60.34 FEET;
THENCE SOUTH 13°35'23" WEST 33.78 FEET;
THENCE SOUTH 20°11'26" EAST 45.04 FEET;
THENCE NORTH 69°13'19" EAST 67.83 FEET;
THENCE SOUTH 37°02'07" EAST 84.38 FEET;
THENCE SOUTH 60°50'07" EAST 65.03 FEET TO THE POINT OF BEGINNING.

PARCEL F

MEMORANDUM

DATE: March 21, 2006

TO: Linda Jaress
Executive Consultant III

FROM: Jian W. Liu
Utilities Engineer 

RE: Utility Source L.L.C
CC&N Extension – Water & Wastewater
Docket No. WS-04235A-05-0707

Introduction

Utility Source L.L.C. (“Utility Source” or “Company”) has applied to extend its Certificate of Convenience and Necessity (“CC&N”) for its water and wastewater service. The requested areas for water, composed of 4 parcels, will add 0.208 square-mile or 133 acres to existing 0.214 square-mile or 137 acres of certificated area. The requested areas for wastewater, composed of 6 parcels, will add 0.286 square-mile or 183 acres to existing 0.214 square-mile or 137 acres of certificated area. Utility Source presently has approximately 300 water and wastewater customers located in its existing certificated area known as the Flagstaff Meadows Units I, II, and the Flagstaff Town Homes, west of Flagstaff, near Bellemont in Coconino County.

CapacityWaterExisting Utility Plant

Water system consists of three deep wells (107 gpm total capacity), three shallow wells (44 gpm total capacity), two storage tanks (285,000 gallons, for excess effluent from the wastewater plant, and 422,000 gallons for potable water), booster system, and a distribution system.

Based on the information Staff was able to obtain from the Company, Staff can not determine if the existing system has source production and storage capacities to serve the existing customers.

Proposed Plant Facilities

Utility Source submitted a physical availability demonstration ("PAD") application to the Arizona Department of Water Resources ("ADWR") in December 2005. An evaluation has not yet been completed. The application states that ... groundwater production from Deep Well 4 (drilled in 2005) is estimated at 600 acre-feet per year.

Staff requested the Company to provide a drinking water design report, a set of design plans for the proposed water facilities, and an estimate of the water construction costs to the Applicant, necessary to serve the proposed CC&N in the insufficiency letter dated November 3, 2005.

Utility Source responded to this insufficiency in its letter dated January 17, 2006 by saying "The Company will not need to expand its water system to serve the expansion area ..."

As stated earlier, Staff can not determine if the existing and proposed water systems have source production and storage capacities to serve the existing and proposed CC&N extension area based on the information available as of March 21, 2006.

Wastewater

Existing Utility Plant

Wastewater treatment is provided by a 150,000 gallon per day ("gpd") SANTEC activated sludge process with de-nitrification. Treatment includes a flow equalization chamber, aeration basins, anoxic basins, and re-aeration in the secondary clarifier, influent pump stations, head works, and chlorination/dechlorination basins. There are two lift stations and one evaporation lagoon. An automated phone dialer was added to notify the operator in the event of an overflow. The plant has been operating at approximately 45,000 gpd.

Staff concludes that the existing system has the capacity to serve the existing customers.

Proposed Plant Facilities

The proposed new Flagstaff Meadows Site 2 wastewater treatment plant ("WWTP") will be built in two phases to accommodate the increase flow from the existing and proposed CC&N extension area. Both phases will treat 75,000 gpd each for a total of 150,000 gpd, therefore, total plant capacity would be 300,000 gpd at full buildout.

The sewage flow on peak day in December 2004 was 246 gpd per service connection. This equates to approximately 140% of the design flow of 175 gpd per unit. Submitted design report states that peak flow to the aeration tank and other downstream treatment

units is limited to 125% of the design flow. These numbers indicate that the capacity of the plant at full buildout will be inadequate.

Prior to Staff recommending approval for this CC&N extension, Utility Source shall submit documentation stating that existing and proposed WWTP will have the capacity to handle this peak flow.

Arizona Department of Environmental Quality (“ADEQ”) Compliance

Water

Compliance Status

ADEQ regulates the Company’s Bellemont Truck Center System under ADEQ Public Water System (“PWS”) #03-300. Based on compliance information submitted by the Company, the system has no deficiencies and ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated February 7, 2006).

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. Prior to Staff recommending approval for this CC&N extension, the Company shall submit documentation from ADEQ stating that it is delivering water that does not exceed 10 ppb of arsenic.

Certificate of Approval to Construct

The ADEQ Certificate of Approval to Construct (“ATC”) for facilities needed to serve the requested areas has not been submitted to Staff by Utility Source. If this application is approved, Staff recommends that Utility Source be required to file with Docket Control, as a compliance item in this docket, a copy of the ATC for facilities needed to service the area within one year of the effective date of an order in this proceeding if this extension is approved.

Wastewater

Compliance Status

ADEQ regulates the wastewater system under Inventory #104083, Permit # 32797. The letter from ADEQ dated March 21, 2006 has indicated the facility is in compliance with ADEQ regulations.

Certificate of Approval to Construct

The ADEQ Certificate of Approval to Construct ("ATC") for facilities needed to serve the requested areas has not been submitted to Staff by Utility Source. If this application is approved, Staff recommends that Utility Source be required to file with Docket Control, as a compliance item in this docket, a copy of the ATC for facilities needed to service the area within one year of the effective date of an order in this proceeding if this extension is approved.

Aquifer Protection Permit ("APP") and Section 208 Permit

Utility Source has applied for an APP and the Section 208 Permit for the proposed Flagstaff Meadows Site 2 WWTP. Since an APP and the Section 208 Permit represent fundamental authority for the designation of a wastewater service area and a wastewater provider, Staff recommends that Utility Source file with Docket Control, as compliance items in this docket, copies of the APP and Section 208 Permit that indicates approval of the proposed WWTP within one year after a decision is issued in this proceeding if this extension is approved.

Arizona Department of Water Resources Water Capacity

In December 2005, Utility Source submitted a PAD application to ADWR. An evaluation has not yet been completed. The application makes the argument that all the wells owned by Utility Source can support a total annual supply of 771 acre-feet.

Staff recommends that Utility Source supply documentation from ADWR stating that Utility Source has a 100 year supply of water available to serve the requested CC&N prior to Staff recommending approval for the water CC&N extension in this application.

Arizona Corporation Commission Compliance

A check with the Utilities Division Compliance Section showed no outstanding Commission compliance issues for Utility Source.

Cost Analysis

Water

Utility Source did not provide an estimate of the water construction costs to serve the proposed CC&N extension area. The Company should submit this information prior to Staff recommending approval of the water CC&N extension in this application

Wastewater

Wastewater treatment plants at this high level of environmental sophistication usually cost between 8 and 10 dollars per gallon of treated effluent, excluding effluent disposal costs. The estimated project costs for the proposed wastewater system (Phase 1) in this application are as follows:

Facility Equipment:	\$673,940
Facility Construction & Installation:	\$70,000
O & M:	\$49,472
Facility Decommissioning:	\$40,000
Total:	\$833,412

The total cost for Facility Equipment, Facility Construction & Installation (Phase 1) equates to about \$9.92 per gallon of treated effluent.

Staff concludes that the estimated construction costs seem reasonable and appropriate. However, no "used and useful" determination of the proposed plant in service was made, and no particular future treatment should be inferred for rate making or rate base purposes.

Summary

Conclusions

- A. Based on compliance information submitted by the Company, the Water System has no deficiencies and ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.
- B. Staff can not determine if the existing and proposed water systems have source production and storage capacities to serve the existing and proposed CC&N extension area based on the information available as of March 21, 2006.
- C. ADEQ regulates the wastewater system under Inventory #104083, Permit # 32797. The letter from ADEQ dated March 21, 2006 has indicated the facility is in compliance with ADEQ regulations.
- D. Staff concludes that the estimated construction costs for wastewater systems seem reasonable and appropriate. However, no "used and useful" determination of the proposed plant in service was made, and no particular future treatment should be inferred for rate making or rate base purposes.

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

Recommendations

- A. 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. Prior to Staff recommending approval for this CC&N extension, the Company shall submit documentation from ADEQ stating that it is delivering water that does not exceed 10 ppb of arsenic.
- B. Staff requests that Utility Source provide an estimate of the water construction costs to serve the proposed CC&N extension area.
- C. Staff recommends that Utility Source supply documentation from ADWR stating that Utility Source has a 100 year supply of water available to serve its entire CC&N area both existing and requested areas.
- D. ADEQ Certificate of Approval to Construct ("ATC") for both water and wastewater facilities needed to serve the requested areas has not been submitted to Staff by Utility Source. If this application is approved, Staff recommends that Utility Source be required to file with Docket Control, as a compliance item in this docket, a copy of the ATC for facilities needed to service the area within one year of the effective date of an order in this proceeding if this extension is approved.