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MEMORANDUM

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FROM: Ernest G. Jones
Director
Utilities Division

AZ CORP COMMISSION
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DATE: February 24, 2005

RE: DIABLO VILLAGE WATER COMPANY APPLICATION FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER SERVICE IN PIMA COUNTY, ARIZONA (DOCKET NO. W-02309A-05-0501)

Attached is the Amended Staff Report for the above referenced application. Staff recommends approval of the requested extension.

EGJ:LAJ:red

Originator: Linda A. Jaress

Service List for: Diablo Village Water Company
Docket No. W-02039A-05-0501

Mr. Robin Thim
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**AMENDED STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

DIABLO VILLAGE WATER COMPANY

Docket No. W-02039A-05-0501

**APPLICATION FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE
AND NECESSITY
TO PROVIDE WATER SERVICE IN PIMA COUNTY, ARIZONA**

FEBRUARY 24, 2006

STAFF ACKNOWLEDGEMENT

The Amended Staff Report for Diablo Village Water Company (Docket No. W-02039A-05-0501) was prepared by the Staff members listed below. Linda Jaress performed the review and analyses of the Company's application. Dorothy M. Hains performed the engineering and technical analysis.



Linda A. Jaress
Executive Consultant III



Dorothy M. Hains
Utilities Engineer

On July 14, 2005, Diablo Village Water Company ("Diablo" or "the Company") filed an application for approval to extend its Certificate of Convenience and Necessity ("CC&N") to serve one additional section of land, approximately one square mile. Diablo serves approximately 360 customers near the Tucson Airport in Pima County, Arizona. The Company is currently in compliance with previous Commission decisions.

On December 16, 2005, Staff filed its Staff Report in this matter recommending denial of the extension or, in the alternative, the issuance of an Order Preliminary. The recommendation was based on the lack of showing by the Company that there was a need for service. On December 20, 2005, the Company filed what it titled a "response" to the Staff Report. The response set forth completely new plans for the proposed extension area which Staff needed to analyze before making a recommendation.

In the response, the Company represented that the section of land at issue had been sold to two related entities which plan to develop a 40-acre pomegranate orchard and a residential development of fifteen hundred homes. Due to the new circumstances, Staff requested a 30-day extension of time to perform appropriate analysis. The Procedural Order issued on January 5, 2006, extended the hearing and ordered Staff to file an addendum to the Staff Report addressing issues raised in the response by the Company. Another Procedural Order issued on January 30, 2006, extended the hearing and the filing date of the addendum to February 24, 2006.

Diablo's Water System

The Diablo system includes one 210,000 gallon storage tank and one well which is capable of producing 400 gallons per minute ("GPM"). Both were installed in 2002. The Company also has a contract with the City of Tucson ("City") in which the City agrees to sell 44,000 ccf per year of potable water. However, the contract contains language limiting additional capacity to serve additional customers.

According to Section 2.A of the Covenants of the contract, "If Company acquires new customers after the effective date of this agreement, the designated capacity shall expand by 190 ccf per residential connection. Company shall not be entitled to expand its designated capacity for customers acquired through the development of subdivisions under the Assured Water Supply requirements of the Arizona Department of Water Resources."

The Company proposes to construct a new well, two 5,000 gallon pressure tanks and one 300,000 gallon storage tank. Staff's Engineering Report, attached as Exhibit 1, indicates that the proposed additional well and storage should be sufficient to serve the development along with expected growth in the existing area. The Engineering Report also indicates that the Company has not been able to provide satisfactory information on potential water usage by the pomegranate farm, but that if additional capacity is needed, it is reasonable to assume that the Company will develop the additional capacity.

City of Tucson

On February 10, 2006, the City of Tucson ("the City" or "Tucson") filed a request for intervention in this matter. Tucson also filed a copy of a map of its "50-year Service Area" within which Diablo and the proposed extension are located. The 50-year Service Area exceeds the City's boundaries but is the area the City has long-term plans to serve.

Tucson has not indicated that it has requests for service from the development, the pomegranate farm or any other potential resident in the service area requested by Diablo. However, Tucson does own and operate a 12-inch water main that runs near the southern boundary of Diablo's current service territory from which Diablo receives its water under the contract mentioned above.

Staff believes that over the long run it is in public interest for Tucson to serve its entire planned 50-year Service Area, including Diablo's current area and extension area due to obvious economies of scale which Diablo will be unable to achieve. However, Diablo has documented requests for service. It is unknown if Tucson would be able to meet the time frame and the level of costs which Diablo has offered the entity requesting service.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is in the Tucson Active Management Area ("AMA") as designated by ADWR, and is in compliance with Tucson AMA requirements.

Arizona Department of Environmental Quality ("ADEQ")

Diablo is in compliance with ADEQ. Diablo's water meets the new arsenic standards.

Conclusions and Recommendations

Staff has sufficient information to determine that Diablo has the capacity to serve its current customers along with the customers in the proposed development. Staff does not have sufficient information to conclude that Diablo has or has planned sufficient capacity to serve both the development and the orchard but believes that Diablo will install adequate capacity when needed. Staff also believes that the cost estimates for the proposed plant are reasonable.

Staff recommends approval of the extension. Staff also recommends that the Commission order Diablo to submit the following documents in this docket as compliance filings. If Diablo does not comply within the time specified, after due process, the approval of the extension should be null and void.

1. A copy of Pima County's ATC for the proposed 300,000 gallons storage tank within one year of the effective date of an order approving the requested extension.

2. A curtailment tariff within thirty (30) days of the final decision and order issued pursuant to this Application.
3. A copy of the developer's Certificate of Assured Water Supply, where applicable or when required by statute within three years of the effective date of the final decision and order issued pursuant to this Application.

MEMORANDUM

DATE January 25, 2006

TO: Linda Jaress

FROM: Dorothy Hains

RE: **AMENDED ENGINEERING REPORT**
Diablo Village Water Co.
Application to extend its CC&N to provide water service
Docket Nos. W-02309A-05-0501

I. Introduction

Diablo Village Water Company ("Diablo Village" or the "Company") filed comments addressing the Staff Report for Diablo Village CC&N extension application on December 23, 2005. Diablo Village stated that the requested area had sold to two companies, Arboreal Agricultural Resources ("Arboreal"), LLC and Pomegranate Farms I, ("Pomegranate") LLC. Arboreal owns 40 acres and plans to develop this parcel of land into an orchard farm. Pomegranate plans to develop the remaining 600 acres of land into a 1,500 unit housing project.

II. Water System Analysis

A. Existing System

Diablo Village owns and operates a system which includes one well which is capable of producing 400 gallons per minute ("GPM") and one 210,000 gallon storage tank. This plant was installed in 2002. The Company also holds a service agreement from the City of Tucson ("City") in which the City agrees to sell 500 GPM of water to the Company whenever the Company needs it. Diablo Village existing water system has adequate storage and production capacity to serve the existing customer base of 500 connections plus an additional 750 connections.

B. Proposed Plant Additions

Pomegranate is in the process of constructing new plant which will be used to serve its development; this plant includes a well with a production rate of 550 GPM, two 5,000 gallon pressure tanks and one 300,000 gallon steel storage tank. Based on Staff's calculations, this plant, coupled with the City water and the well and storage capacity of the existing Diablo Village system, should be adequate to serve the 1,500

housing project and expected growth in the existing service area.¹ Pima County Department of Environmental Quality Technical Services Division ("Pima County") has issued an Approval to Construct (ATC) for the well and two 5,000 gallon pressure tanks. Staff recommends that Diablo Village file with the Commission's Docket Control as a compliance item in this docket a copy of Pima County's ATC for the proposed 300,000 gallons storage tank within one year of the effective date of an order approving the requested extension.

While Diablo Village has indicated that Arboreal will need service immediately, the Company has not been able to provide Staff with satisfactory information on how much water will be used by the orchard farm. Staff, however, believes that there should be adequate capacity since the area to be farmed is only 40 acres in size and the Company is expected to have surplus capacity.² Furthermore, if additional well and/or storage capacity is needed in the future, it is reasonable to assume that Diablo Village will develop the additional capacity needed.

Staff's conclusion that Diablo Village will have adequate capacity to serve the existing and proposed CC&N area assumes that 500 GPM of City water will continue to be available to serve Diablo Village customers. Without City water Diablo Village will not have adequate capacity to serve the existing and proposed CC&N area.

III. Arizona Department of Environmental Quality ("ADEQ") Compliance

The Company is in compliance with water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See previous Staff Report docketed on December 16, 2005.)

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

The Company is in Tucson Active Management Area ("AMA") as designated by ADWR, and is in compliance with Tucson AMA requirements. (See previous Staff Report docketed on December 16, 2005.)

V. Arizona Corporation Commission ("ACC") Compliance

The Company is in compliance with ACC's decisions. (See previous Staff Report docketed on December 16, 2005.)

¹ According to Staff's calculations the Company will have adequate capacity to serve approximately 2,600 connections.

² The Company will have enough capacity to serve an additional 600 residential connections.

VI. Other Issues

A. Arsenics

Test results from samples taken from the proposed well show that the arsenic concentration is 1.3 micro grams per liter (or 1.3 ppb) which is below the new arsenic standard of 10 ppb. The arsenic level in Diablo Village existing well is also below the new standard of 10 ppb.

B. Costs

The Company has estimated its total construction cost to be \$388,949. The itemized costs are listed below:

Description	Quantity	Cost (\$)
300,000 gallon storage tank)	1	200,000
Well (12-inch casing, 820' deep	1	122,345
pump	1	66,604.35
Total		388,949

Staff believes that these estimated costs are reasonable and appropriate. However, Staff has not made a determination of the capital improvements as "used and useful" at this time, but defers this determination until Diablo Village files its next rate application.

C. Curtailment Tariff

The Company has an approved Curtailment Tariff for a Consecutive Water System, Since, the Company is no longer operating as a secondary water supplier (as a consecutive system), the Company has to file a modified curtailment tariff to reflect this. The revised curtailment tariff may have to implement the management of water to be used by the pomegranate farm (See previous Staff Report docketed on December 16, 2005.)

VII. Summary

Conclusion

1. Staff concludes that Diablo Village will have adequate storage and production capacities to serve entire requested area. Furthermore if additional well and/or storage capacity is needed in the future it is reasonable to assume that Diablo Village will develop the additional capacity needed. Staff's conclusion that Diablo Village will have adequate capacity to serve the existing and proposed

CC&N area assumes that 500 GPM of City water will continue to be available to serve Diablo Village customers. Without City water Diablo Village will not have adequate capacity to serve the existing and proposed CC&N area.

2. Staff concludes that the proposed plant costs are reasonable and appropriate.
3. There is no arsenic problem in the proposed well.
4. Diablo Village has no outstanding ACC compliance issues.
5. Diablo Village is in compliance with ADWRT monitoring and reporting requirements.
6. ADEQ has determined that the Diablo Village 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.

Recommendation

1. Staff recommends that Diablo Village file with the Commission's Docket Control as a compliance item in this docket a copy of Pima County's ATC for the proposed 300,000 gallons storage tank within one year of the effective date of an order approving the requested extension.
2. Staff recommends that Diablo Village files its curtailment tariff in this Docket. Staff further recommends that the Company file this curtailment tariff within the Commission's Docket Control, as a compliance item, with thirty (30) days of the final decision and order issued pursuant to this Application.
3. Staff recommends that Diablo Village file with the Commission Docket Control a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within three years of the effective date of the final decision and order issued pursuant to this Application.