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IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AGUA FRIA WATER
DISTRICT, FOR AN EXTENSION OF THE
SERVICE AREA UNDER ITS EXISTING
CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER
UTILITY SERVICES

DOCKET NO. WS-01303A-02-0633

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN, SUN CITY
WEST WATER DISTRICT FOR A
TRANSFER OF A PARCEL TO THE
AGUA FRIA DISTRICT

ARIZONA-AMERICAN WATER
COMPANY'S RESPONSE TO
STAFF REPORT

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN,
ANTHEM/AGUA FRIA DISTRICT
[DISTCO] FOR AN EXTENSION OF THE
SERVICE AREA UNDER ITS EXISTING
CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE
WASTEWATER UTILITY SERVICE

INTRODUCTION

Arizona-American Water Company ("Arizona-American") hereby responds to the November 8, 2002, Staff Report submitted in this matter. Arizona-American is appreciative of Staff's efforts, and generally supports the recommendations contained in its Report. However, there are three issues that Arizona-American wishes to address in order to clarify its position. These issues are: 1) expansion of its certificate of convenience and necessity ("CC&N") to include certain areas other than those which evidence a present need for service; 2) the rates to be charged to approximately twenty

1 (20) existing customers in the Sun City West parcel Arizona-American is requesting to
2 transfer to its Agua Fria service area; and 3) authorization to use Arizona-American's
3 existing non-potable water tariff in the proposed extension area. With the possible
4 exception of the first issue, Arizona-American does not believe that its position on these
5 issues conflicts with Staff's recommendations.

6 **DISCUSSION**

7 **1. The Entire CC&N Extension Request is in the Public Interest and**
8 **Should Be Approved.**

9 As of the date of the Application (August 20, 2002), Arizona-American had
10 entered into a main extension agreement with Del Webb Corporation to finance the
11 facilities needed to service Del Webb's planned 718 acre Pleasant Valley Country Club
12 project. Additionally, the Arizona State Land Department had made a formal request for
13 service on May 23, 2002, requesting the inclusion of eleven (11) sections of State lands
14 into the proposed extension area. Staff recommends that Arizona-American's CC&N be
15 extended to these particular areas because there has been a demonstration of need.

16 Arizona-American is also requesting to extend its CC&N to encompass smaller
17 developments and parcels, including but not limited to projects being pursued by
18 1) Grosvenor Holdings; 2) Woodside Homes; and 3) William Lyon Homes. Arizona-
19 American is negotiating main extension agreements with these developers and expects to
20 supplement the record and provide additional evidence of need in these areas. The
21 company appreciates Staff's willingness to revise its Report to reflect those facts.
22 However, Arizona-American believes that its extension request demonstrates that the
23 broader area is under accelerated development, requiring both short-term and long-term
24 planning that only a certificated utility can provide.

25 Arizona-American provided a Summary of the Maricopa Department of
26 Transportation ("MDOT") construction plan (attached hereto as Exhibit A) in its

1 Application. Several major developers have scheduled home closings in 2003 and 2004,
2 expending significant funds to entitle and plat their developments. They have also
3 contributed significant funds toward the construction of the 303 Freeway and major
4 roadway arterials in the region. It is certain that water and wastewater infrastructure will
5 be required sometime in the near future to service these developments. Likewise, the City
6 of Peoria has given its support (attached hereto as Exhibit B) to Arizona-American's
7 Application because it is not feasible for the City to provide water service in areas
8 adjacent the City's planning area in the near future.

9 It would be both expensive and time consuming for Arizona-American to extend its
10 CC&N on a piecemeal basis in order to accommodate the numerous developments
11 occurring in the region. Recognizing this fact, and hoping to avoid a "checker-board"
12 service area in which facilities are planned and constructed for individual developments,
13 Arizona-American has sought to pursue a regional approach to developing the
14 infrastructure that will be needed to properly serve the area. Granted, there may be small
15 areas of the requested extension area that may not need service within the next few years.
16 However, Arizona-American's overall regional plan represents the only viable plan for
17 serving those parcels that provides for economies of scale and good utility practice,
18 consistent with the Commission's public policy goal of developing regional service
19 providers. Accordingly, the Arizona-American's application for the entire extension area
20 should be approved.

21 **2. The Transfer Parcel and Rates to be Charged.**

22 Arizona-American appreciates Staff's concern that customers should receive
23 comparable service wherever they are connected to a public service company or located in
24 its service area. Currently, there are approximately only 20 customers in the proposed
25 transfer parcel, which is comprised of mostly vacant, undeveloped land. Arizona-
26 American is proposing to interconnect the small Cool Well system into the planned

1 regional water system for operational redundancy and reliability reasons. Upon
2 completion of the transfer, the tariffs applicable under A.A.C. R14-2-409.D.1 and R14-2-
3 608.D.1 with respect to the transfer parcel will be the Agua Fria Water District and
4 **DistCo** tariffs, meaning any new customers should be required to take service under
5 applicable Agua Fria Water District and **DistCo** tariffs.

6 In contrast, the 20 existing customers applied for service and are presently being
7 served under Sun City West Water District tariffs. Arizona-American's proposal was
8 submitted to comply with the provisions of A.A.C. R14-2-409.D.1 and R14-2-608.D.1
9 requiring service to be provided "under the applicable tariff indicated in the customer's
10 application for service" and as an accommodation to the 20 existing customers so that
11 their rates would not increase. Arizona-American's proposal to charge the existing
12 customers the currently effective Sun City West Water District tariff rate, if approved,
13 would comply with Staff's recommendation not to revise the rates of existing customers
14 outside of a rate case. This does not appear to be an area of disagreement, but rather one
15 that needed clarification to illustrate Arizona-American's desire to effectuate the transfer
16 without disrupting the small number of customers presently paying rates under the
17 SCWWD tariff. With this clarification, Arizona-American supports Staff's
18 recommendation concerning the transfer.

19 **3. Arizona-American is Requesting a Tariff for a New Service in its**
20 **Application.**

21 Arizona-American is seeking approval of a Non-Potable Water Service - Restricted
22 Source tariff, at a rate of \$0.62 per 1000 gallons. The request is for a new service to be
23 provided by the Agua Fria Water District. The Agua Fria Water District's existing Non-
24 Potable water tariff is for "unrestricted" sources, and can be sourced through a variety of
25 means, including Central Arizona Project ("CAP") water, groundwater and effluent. The
26 new golf course to be served in the extension area is located outside the limits of any

1 municipality. Under Maricopa County ordinance, groundwater may not be used as a
2 source of supply for this golf course, creating the need for a new class of non-potable
3 service from a restricted source of supply. The only difference between the two tariffs are
4 minor differences in the Special Conditions and Terms and Conditions of service
5 necessary to eliminate groundwater as a potential source of supply. Arizona-American
6 takes responsibility for not pointing out this subtle difference in its Application, and does
7 not suggest that Staff's treatment of this issue in its Report was improper. Arizona-
8 American hopes that this clarification provides Staff the information needed to
9 recommend its approval.

10 CONCLUSION

11 Arizona-American has sought to answer the Commission's call to approach water
12 and wastewater infrastructure development from a regional point of view. While the
13 requested extension area represents pieces in a puzzle (both private and state lands),
14 Arizona-American has been developing both short and long-term plans to make that
15 puzzle eventually fit. Arizona-American contends that the Staff Report and the
16 recommendations contained therein go a long way in helping to bring about a regional
17 approach to water planning in Arizona, and the company will supplement the record to
18 demonstrate short-term need in a large majority of the Extension Area. Arizona-
19 American respectfully requests that the Commission take that final step and approve the
20 entire Extension Area, in the interest of both judicial economy and the overall public
21 interest.

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DATED this 18th day of December, 2002.

FENNEMORE CRAIG, P.C.

By: 
Norman D. James
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Attorneys for Arizona-American Water
Company

Original and thirteen copies were filed
this 18th day of December, 2002, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

A Copy of the foregoing was delivered
this 18th day of December, 2002, to:

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Administrative Law Judge
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Phoenix, Arizona 85007

Ernest Johnson, Director
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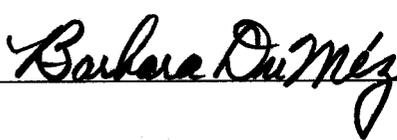
By: 

EXHIBIT A

**ARIZONA-AMERICAN WATER COMPANY
NORTHEAST AGUA FRIA WATER/SEWER CC&N EXTENSION AREA
SUMMARY OF REGIONAL TRANSPORTATION PLAN**

Resulting from upfront developer financial contributions and anticipated rapid growth in this region, the Maricopa Department of Transportation (MDOT) has accelerated construction of the portion of the State Route 303 Freeway from Grand Avenue to Lake Pleasant Road. Attachment 1 provides an overview of the 303 Freeway construction in this region. The 303 Freeway in this region is divided up into two phases. Phase 2A is the section from Grand Avenue to El Mirage Road. Phase 2B is the section from El Mirage Road over the Agua Fria River (includes the bridge crossing) to Lake Pleasant Road.

The construction for Phase 2A of the 303 Freeway commenced on July 8, 2002. In an effort to reduce costs and to meet scheduled development demands, MDOT has accelerated the construction of this phase to be completed in 7 months with the contract requiring construction work to be performed 12 hours a day/7 days a week. The contract completion date for Phase 2A is February 20, 2003. MDOT is funding the entire portion of this \$9 million dollar Phase 2A construction project.

The design for Phase 2B of the 303 Freeway is currently in the final phases and will be completed in September 2002. This project is scheduled to be bid in October 2002 and start construction in November 2002. MDOT's construction contract will be to complete this project in 15 months. However, MDOT will also try to accelerate the construction of this phase of the 303 Freeway to meet the timeline for development in the area. The current plan is to accelerate the eastern portion of the 303 Freeway, between 115th Ave. and 99th Ave., and complete this portion within a year to meet Lakeland Village's scheduled first home closing of October 2003. Total construction costs for Phase 2B of the 303 Freeway is \$16 million. To expedite the construction schedule, two major developers in the region with scheduled first home closings in late 2003 have contributed over half of the construction dollars for Phase 2B of the 303 Freeway construction. Woodside Homes is contributing \$3.5 million and Lakeland Village is contributing \$5 million to the construction of Phase 2B. The remaining balance on the construction will be funded by MDOT.

There are several major developers in this proposed CC&N expansion area that have scheduling home closings in 2003 and 2004. These developers have already expended significant funds to entitle and plat their developments. They have also contributed or committed significant funds toward the construction of the 303 Freeway and major roadways arterials in the region. These developers include Woodside Homes, Del Webb

(Pulte Homes), Robson Homes and Lakeland Village. Attachment 2 provides an overview of the major developments and proposed arterial roadways in the region.

Morrison Homes, in addition to their major investment in the 303 Freeway, will be constructing a four lane arterial roadway from the 303 Freeway to the entrance of their property. Morrison Homes is the developer representing the Cross River, Rio Sierra and Dos Rios developments shown on Attachment 2. This arterial roadway will be constructed from the 303 Freeway at the new El Mirage Road alignment (east end of Phase 2A), down El Mirage Road for 1.25 miles and across Williams Road to their development entry. Since this will be the only entry into the Woodside developments during their first phase, MDOT is requiring that the connection and arterial roadway be constructed. Woodside has already started the design of this arterial roadway and is scheduled to have construction completed by late 2003.

Lakeland Village, in addition to their major investment in the 303 Freeway, will be constructing significant sections of the major arterial roadways in the region. Lakeland will be constructing the Agua Fria Blvd. as an entry arterial roadway into their development. The Agua Fria Blvd. will connect into the 303 Freeway at the 115th Ave. alignment and will extend northwest to their development. The City of Peoria is requiring that Lakeland Village complete this arterial roadway prior to closing on their first home scheduled in October 2003. Lakeland Village will be starting construction on this arterial roadway extension in late 2002.

Lakeland Village and Robson Homes (Rancho Cabrillo) will be sharing in the costs to construct the extension of Happy Valley Road between Lake Pleasant Road and Dysart Road and the extension of El Mirage Road between the 303 Freeway and Jomax Road. The time schedule for each of these arterial roadways extensions has not yet been determined.

Del Webb (Pleasant Valley Country Club) will be allowed to utilize the existing Deer Valley Road to access their development for their initial phase. Del Webb is already clearing the land and is moving aggressively forward to close their first home in June 2003. Del Webb is being required by MDOT to extend El Mirage up to the 303 Freeway during a later phase of development.

In summary, the entire section of the State Route 303 Freeway between Grand Ave. and Lake Pleasant Road is currently under construction and will be completed by late 2003 or in the first quarter of 2004. MDOT and the major developers in the region, realizing the urgency and market growth have committed significant amount of upfront and committed funding to the completion of this section of the 303 Freeway. The major developers in the region have also made major commitments to construction the major arterial roadways in the region. The first phase of these arterial roadways, which is the construction of the Agua Fria Blvd. and the extension of El Mirage to serve the Woodside developments, will be completed by the developers prior to the end of 2003. The completion of this section of the 303 Freeway and the major arterials in the region will provide the required access and catalyst for all the development in the region.

EXHIBIT B



City of Peoria

*Deputy City Manager's Office
for Community & Development Services*

8401 West Monroe Street, Peoria, Arizona 85345
Phone: 623-773-7324 Fax: 623-773-7292

July 29, 2002

Blaine Akine, Director of Engineering
Arizona-American Water Company
12425 W. Bell Road, Suite 306
Surprise, AZ 85374

Dear Mr. Akine,

The City of Peoria is aware that the Arizona-American Water Company is filing a Certificate of Convenience and Necessity (CC&N) application with the Arizona Corporation Commission to extend its CC&N for water service to include an area located adjacent to the City of Peoria's current planning area. The proposed CC&N extension area is bounded on the north by the Jomax Road alignment; on the West by the Litchfield Road, 135th Avenue, and El Mirage Road alignments; and on the South and East by the Agua Fria River.

The City of Peoria is also aware that the Arizona-American Water Company is filing within its CC&N application to transfer an existing Arizona-American Water Company water CC&N area from the Sun City Water to the Agua Fria Division. This area is bounded on the North by the Dynamite Road alignment; on the West by the Agua Fria River; on the South by the Happy Valley Road alignment; and on the East by the 99th Avenue and 103rd Avenue alignments.

While Peoria is exploring annexation of much of this area, it is not feasible for the City to provide water service there in the near future. Therefore, the City of Peoria supports Arizona-American Water Company on their CC&N application to include these areas.

If you have any questions, please call me at 623-773-7324.

Sincerely,

A handwritten signature in cursive script, appearing to read "Meredith R. Flinn".

Meredith R. Flinn
Deputy City Manager