

ORIGINAL



0000054813

MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson  
*EGJ* Director  
Utilities Division

Date: June 15, 2006

RE: STAFF REPORT FOR FARMERS WATER COMPANY – APPLICATION  
FOR EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE  
AND NECESSITY (DOCKET NO. W-01654A-05-0845)

Attached is the Staff Report for Farmers Water Company's application for extension of its existing Certificate of Convenience and Necessity to provide water service. Staff is recommending approval with conditions.

EGJ:BNC:red

Originator: Blessing Chukwu

RECEIVED  
2006 JUN 15 1 P 3: 22  
AZ CORP COMMISSION  
DOCUMENT CONTROL

Service List for: Farmers Water Company  
Docket No. W-01654A-05-0845

Mr. Warren E. Culbertson  
Farmers Water Company  
P.O. Box 7  
Sahuarita, Arizona 85629

Mr. T. Patrick Griffin  
One South Church Avenue, Suite 900  
Tucson, Arizona 85701-1620  
Attorneys for Applicant

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

FARMERS WATER COMPANY

W-01654A-05-0845

APPLICATION FOR EXTENSION OF ITS EXISTING  
CERTIFICATE OF CONVENIENCE AND NECESSITY

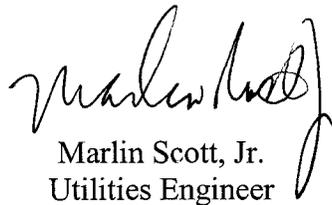
JUNE 2006

## STAFF ACKNOWLEDGMENT

The Staff Report for Farmers Water Company (Docket No. W-01654A-05-0845) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis.

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

Blessing Chukwu  
Executive Consultant III

A handwritten signature in black ink, appearing to read 'Marlin Scott, Jr.', with a long horizontal line extending to the right.

Marlin Scott, Jr.  
Utilities Engineer

**EXECUTIVE SUMMARY  
FARMERS WATER COMPANY  
DOCKET NO. W-01654A-05-0845**

On November 18, 2005, Farmers Water Company ("Farmers" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in portions of Pima County, Arizona. On January 12, 2006, the Company filed an amendment to the applications to include a revised legal description. On April 27, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of Arizona Administrative Code.

Farmers is an Arizona Corporation, in good standing with the Corporations Division, and engaged in providing water utility service to customers in portions of Pima County, Arizona. The original CC&N for the Company was granted by the Commission in Decision No. 32055, issued on January 28, 1960. According to the Corporations Division's record, the Company became incorporated on February 11, 1959. According to the Company's Annual Report for the year ending September 30, 2005, the Company is serving 1,788 customers. The Company reported an annual revenue of \$455,088, expenses of \$519,587, and a net loss of \$64,499.

By this application, Farmers is seeking Commission authority to add approximately 1/8 square-mile to the Company's existing 19 square-miles of certificated area that also covers two other water systems; Continental and Green Valley Systems. The Company's Sahuarita System is located approximately 18 miles south of Tucson in Pima County.

Based on Staff's review and analysis of the application, Staff believes that the existing system and the proposed plant facilities will have adequate well and storage capacities to serve the existing and proposed CC&N extension area within a conventional five year planning period. Staff also believes that the proposed plant facilities for the request area and its cost estimate totaling \$484,122 seem reasonable. However, no "used and useful" determination of the proposed plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.

Staff recommends the Commission approve Farmers' application for extension of its existing Certificate of Convenience and Necessity to provide water service in Pima County subject to compliance with the following conditions:

1. To require Farmers to charge its authorized rates and charges in the extension area.
2. To require Farmers to file with Docket Control as a compliance item in this docket a copy of the Arizona Department of Environmental Quality Approval To Construct ("ATC") for facilities needed to serve the requested areas within one year of the effective date of an order in this proceeding.

3. To require Farmers to file with Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute within one year of the effective date of an order in this proceeding.
4. To require Farmers to file a rate case application by June 30, 2007, using a 2006 test year.

Staff further recommends that the Commission's Decision granting the requested CC&N extension be considered null and void, after due process, should the Company fail to meet the Condition Nos. 2, 3 and 4 listed above within the time specified.

**TABLE OF CONTENTS**

	<u>Page</u>
INTRODUCTION.....	1
BACKGROUND.....	1
FINANCE OF UTILITY FACILITIES .....	2
THE WATER SYSTEM.....	2
ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE .....	3
ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE .....	3
ACC COMPLIANCE.....	4
ARSENIC.....	4
CURTAILMENT PLAN TARIFF .....	4
PROPOSED RATES.....	4
FRANCHISE .....	4
RECOMMENDATIONS .....	5

**ATTACHMENT(S)**

ENGINEERING REPORT.....	A
ENGINEERING MAP .....	B

## **Introduction**

On November 18, 2005, Farmers Water Company ("Farmers" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in portions of Pima County, Arizona. On January 12, 2006, the Company filed an amendment to the applications to include a revised legal description.

On December 15, 2005, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that the Company's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C."). A copy of the Insufficiency Letter was sent to the Company via U.S mail. In the Letter, Staff listed the deficiencies that needed to be cured for administrative purposes.

On March 30, 2006, the Company provided additional documentation to support the relief requested.

On April 27, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of A.A.C. R14-2-402.

## **Background**

Farmers is an Arizona Corporation, in good standing with the Corporations Division, and engaged in providing water utility service to customers in portions of Pima County, Arizona. The original CC&N for the Company was granted by the Commission in Decision No. 32055, issued on January 28, 1960. According to the Corporations Division's record, the Company became incorporated on February 11, 1959. According to the Company's Annual Report for the year ending September 30, 2005, the Company is serving 1788 customers. The Company reported an annual revenue of \$455,088, expenses of \$519,587, and a net loss of \$64,499.

By this application, Farmers is seeking Commission authority to add a Baptist Church, a Pima County Park (Sahuarita Park), and a development by Tierra Sahuarita, L.L.C. to its certificated area. The requested area will add approximately 1/8 square-mile to the Company's existing 19 square-miles of certificated area that also covers two other water systems; Continental and Green Valley Systems. The Company's Sahuarita System is located approximately 18 miles south of Tucson in Pima County.

According to the Application, both the Baptist Church and the Pima County Park have their own wells. However, the Baptist Church well does not have adequate flow for fire protection and as such desire to obtain sufficient fire flow from Farmers to meet Pima County Code; while Sahuarita Park currently uses its own well for irrigation purposes only and desire to obtain drinking water from Farmers.

### Finance of Utility Facilities

The Company is proposing to finance the required utility facilities through advances in aid of construction. Advances in aid of construction are often in the form of Main Extension Agreements ("MXAs"). MXAs are standard industry practice. The minimal acceptable criteria for line extension agreements between water utilities and private parties are established by A.A.C. R14-2-406. These agreements generally require the developer to design, construct and install (or cause to be), all facilities to provide adequate service to the development. The developer is required to pay all costs of constructing the required facilities necessary to serve the development. Upon acceptance of the facilities by the Utility Company, the developer conveys the utility facilities through a warranty deed to the Utility Company. Utility Companies will often refund ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

Staff recommends that Farmers file with Docket Control, as a Compliance item, for Staff's review and approval, a copy of the fully executed main extension agreements for water facilities for the extension area within 365 days of a decision in this case.

### The Water System

According to Water Use Data Sheet submitted by the Company, the Sahuarita System has two wells producing 750 gallons per minute ("GPM"), two storage tanks (total capacity of 35,000 gallons), no fire hydrants and a distribution system serving 89 service connections. Based on historical growth rates, it is anticipated that the existing Sahuarita service area could grow to approximately 123 connections at the end of five years. The Company has predicted an additional 74 connections for the proposed CC&N extension at the end of five years, resulting in a projected total customer base of approximately 197 at the end of five years. Based on the existing well production and storage capacities, the Sahuarita System (having no fire hydrants) can serve approximately 250 service connections.

The Company is proposing to extend its distribution system into the requested area. The installation of proposed plant facilities to serve the properties of Estes Corporation, Pima County Parks & Recreation, and the Sahuarita Baptist Church will consist of:

1. Supply line to storage facility:
  - a. 6-inch PVC pipe, 3,100 lineal feet \$ 71,300
  - b. Traffic control \$ 8,000
2. 150,000 gallon storage tank \$105,000
3. Booster station with chlorination facility:
  - a. Site Work \$ 15,000
  - b. Plant piping \$ 45,000
  - c. Building \$ 20,000

d. Pumps	\$ 25,000
e. Chlorination facility	\$ 20,000
f. Electrical	\$ 60,000
g. Disinfection and testing	\$ 5,000
h. Perimeter fencing	\$ 6,000
	<hr/> <hr/>
Subtotal of 1, 2 & 3:	\$380,300
4. Engineering and survey @ 12%	\$ 45,636
5. Inspection and testing @ 4%	\$ 15,212
6. Performance and payment bond @ 1.3%	\$ 4,944
7. Contingency @ 10%	\$ 38,030
	<hr/> <hr/>
Total Estimated Cost:	\$484,122

Staff concludes that the existing system and the proposed plant facilities will have adequate well and storage capacities, including fire flow protection, to serve the existing and proposed CC&N extension area within a conventional five year planning period.

Staff also concludes that the proposed plant facilities for the request area and its cost estimate totaling \$484,122 seem reasonable. However, no "used and useful" determination of the proposed plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.

The Company had not received the Arizona Department of Environmental Quality ("ADEQ") Certificate of Approval to Construct ("ATC") for construction of facilities to the requested area. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ATC for facilities needed to serve the requested area within one year of the effective date of an order in this proceeding.

#### **Arizona Department of Environmental Quality Compliance**

ADEQ regulates the Sahuarita, Green Valley and Continental Systems under ADEQ Public Water System I.D. Nos. 10-048, 10-213 and 10-049, respectively. Based on data submitted by the Company, ADEQ has determined that all three systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

#### **Arizona Department of Water Resources ("ADWR") Compliance**

The Company is located within the Tucson Active Management Area and is in compliance with its reporting and conservation requirements.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute within one year of the effective date of an order in this proceeding.

### **ACC Compliance**

According to the Utilities Division Compliance Section, Farmers has no outstanding ACC compliance issues.

### **Arsenic**

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") or parts per billion ("ppb") to 10  $\mu\text{g/l}$ . The date for compliance with the new MCL is January 23, 2006.

The Company indicated its arsenic levels from its well sources for the Sahuarita, Green Valley and Continental Systems range from 2.8 to 7.7 ppb. Based on these arsenic concentrations, the Company is in compliance with the new arsenic standard of 10 ppb.

### **Curtailment Plan Tariff**

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

The curtailment tariffs for each of the three systems were approved in a prior CC&N extension proceeding by Decision No. 67002, dated May 24, 2004.

### **Proposed Rates**

Farmers has proposed to provide water utility service to the extension area under its authorized rates and charges.

### **Franchise**

Every applicant for a CC&N and/or CC&N extension is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or permit from the proper authority, pursuant to ARS 40-282.B. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

The Company filed its Pima County Franchise Agreement with the application.

### **Recommendations**

Staff recommends the Commission approve Farmers' application for extension of its existing Certificate of Convenience and Necessity to provide water service in Pima County subject to compliance with the following conditions:

1. To require Farmers to charge its authorized rates and charges in the extension area.
2. To require Farmers to file with Docket Control as a compliance item in this docket a copy of the ADEQ ATC for facilities needed to serve the requested areas within one year of the effective date of an order in this proceeding.
3. To require Farmers to file with Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute within one year of the effective date of an order in this proceeding.
4. To require Farmers to file a rate case application by June 30, 2007, using a 2006 test year.

Staff further recommends that the Commission's Decision granting the requested CC&N extension be considered null and void, after due process, should the Company fail to meet the Condition Nos. 2, 3 and 4 listed above within the time specified.

**MEMORANDUM**

TO: Blessing Chukwu  
Executive Consultant III  
Utilities Division

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

THRU: Del Smith *DS*  
Engineering Supervisor  
Utilities Division

DATE: January 17, 2006

RE: **FARMERS WATER COMPANY (DOCKET NO. W-01654A-05-0845)**  
**REVISED LEGAL DESCRIPTION**

The area requested by Farmers for an extension has been plotted using a revised legal description, which has been docketed. This legal description is attached and should be used in place of the original description submitted with the application.

Also attached is a copy of the map for your files.

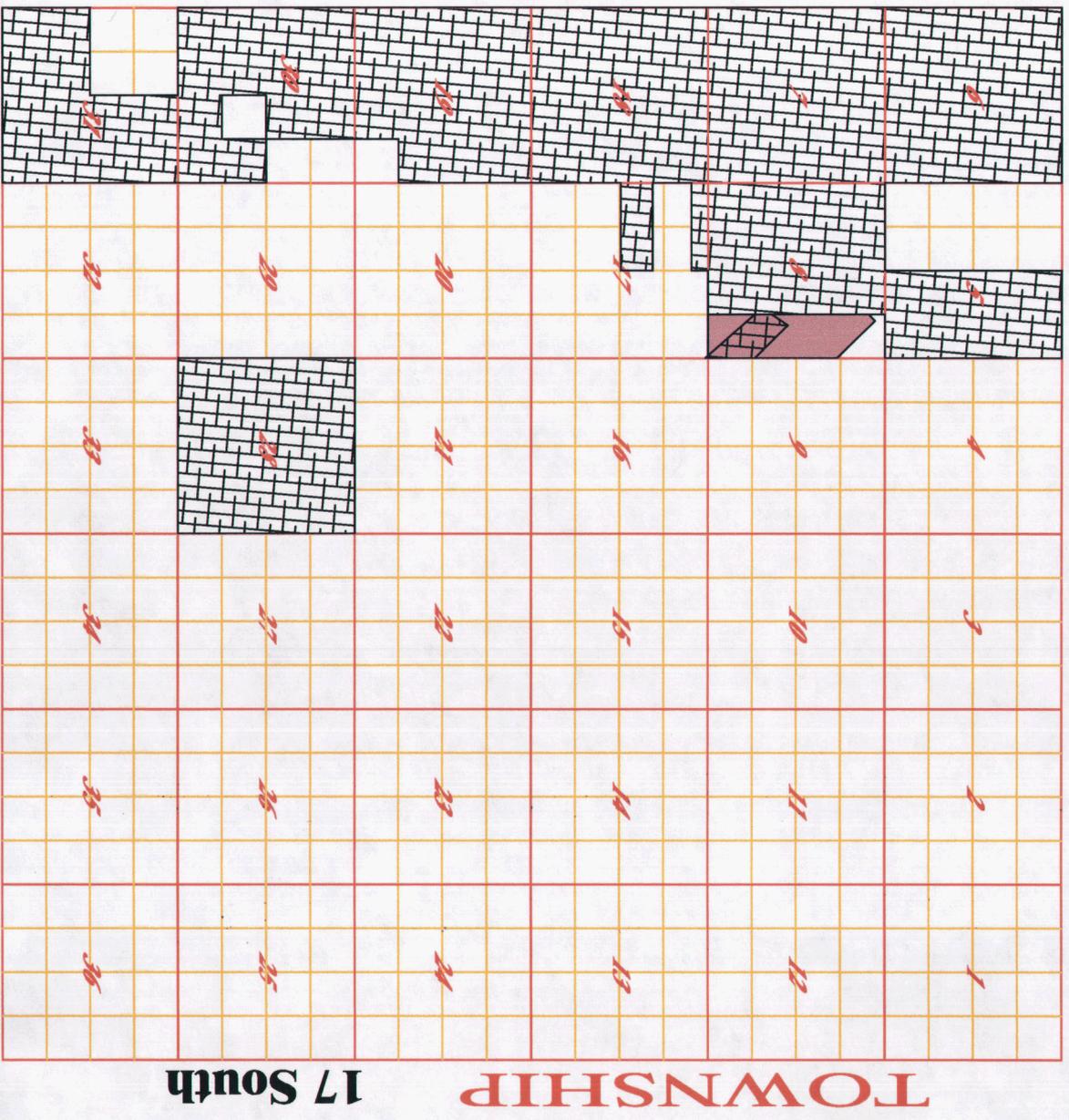
:bsw

Attachments

cc: Docket Control  
Mr. Warren Culbertson  
Ms. Deb Person (Hand Carried)  
File

# COUNTY: Pima

## RANGE 14 East



W-1654 (6)

Farmers Water Company



Farmers Water Company  
Docket No. W-01654A-05-0845  
Application for Extension

TOWNSHIP

17 South

FARMERS WATER CO.  
DOCKET NO. W01654A-05-0845

RECEIVED

AMMENDMENT TO APPLICATION FOR AN EXTENSION OF TIME P 12: 42  
Dated November 17, 2005

AZ CORP COMMISSION  
DOCUMENT CONTROL

ATTACHMENT B 1

Legal Description

The E ½ of the E ½ of Section 8, T17S, R14E, Gila and Salt River Meridian, Pima County, Arizona;  
**EXCEPT THEREFROM** the property, described in the Deed to Arizona Electric Cooperative, Inc.  
recorded in Docket 11015, p 1783, described as follows:

Beginning at the Section corner common to Sections 4, 5, 8 and 9, T17S, R14E, Gila and Salt River and  
Meridian;

Thence S 00° 06' 39" W, 1420.26 ft along the Section line common to Sections 8 and 9;

Thence N 44° 44' 27" W, 1585.88 ft along the Northeasterly boundry of Sahuarita District Park;

Thence S 45° 22' 31" W, 295.83 ft along the Northwesterly boundary of Sahuarita District Park to the  
intersection with the E 1/16 line in Section 8;

Thence N 00° 06' 21" E, 499.28 ft along said 1/16 line to the E 1/16 corner common to Section 5 and 8,  
T17S, R14E;

Thence N 89° 53' 56" E, 1328.69 ft, along the Section line to the **POINT OF BEGINNING.**

RECEIVED

JAN 19 2006

AZ Corporation Commissio.  
Director of Utilities

## MEMORANDUM

DATE: May 11, 2006

TO: Blessing Chukwu  
Executive Consultant III

FROM: Marlin Scott, Jr.   
Utilities Engineer

RE: Farmers Water Company  
Docket No. W-01654A-05-0845 (CC&N Extension)

---

### **Introduction**

Farmers Water Company ("Company") has applied to extend its Certificate of Convenience and Necessity ("CC&N") near its Sahuarita System. The requested area is contiguous to the Sahuarita System service area and will add approximately 1/8 square-mile to its existing 19 square-miles of certificated area that also covers two other water systems; Continental and Green Valley Systems. The Company's Sahuarita System is located approximately 18 miles south of Tucson in Pima County.

### **Capacity**

#### Existing Sahuarita System

According to water use data submitted by the Company, the Sahuarita System has two wells producing 750 gallons per minute ("GPM"), two storage tanks (total capacity of 35,000 gallons), no fire hydrants and a distribution system serving 89 service connections. Based on historical growth rates, it is anticipated that the existing Sahuarita service area could grow to approximately 123 connections at the end of five years. The Company has predicted an additional 74 connections for the proposed CC&N extension at the end of five years, resulting in a projected total customer base of approximately 197 at the end of five years. Based on the existing well production and storage capacities, the Sahuarita System (having no fire hydrants) can serve approximately 250 service connections.

#### Proposed Plant Facilities

The Company is proposing to extend its distribution system into the requested area through advances in aid of construction in the form of a main extension agreement. The

installation of proposed plant facilities to serve the properties of Estes Corporation, Pima County Parks & Recreation and the Sahuarita Baptist Church will consist of:

1. Supply line to storage facility:	
a. 6-inch PVC pipe, 3,100 lineal feet	\$ 71,300
b. Traffic control	\$ 8,000
2. 150,000 gallon storage tank	\$105,000
3. Booster station with chlorination facility:	
a. Site Work	\$ 15,000
b. Plant piping	\$ 45,000
c. Building	\$ 20,000
d. Pumps	\$ 25,000
e. Chlorination facility	\$ 20,000
f. Electrical	\$ 60,000
g. Disinfection and testing	\$ 5,000
h. Perimeter fencing	\$ 6,000
	<hr/> <hr/>
Subtotal of 1, 2 & 3:	\$380,300
4. Engineering and survey @ 12%	\$ 45,636
5. Inspection and testing @ 4%	\$ 15,212
6. Performance and payment bond @ 1.3%	\$ 4,944
7. Contingency @ 10%	\$ 38,030
	<hr/> <hr/>
Total Estimated Cost:	\$484,122

### Capacity Conclusions

Staff concludes that the existing system and the proposed plant facilities will have adequate well and storage capacities, to serve the existing and proposed CC&N extension area.

Staff also concludes that the proposed plant facilities for the requested area and its cost estimate totaling \$484,122 seem reasonable. However, no "used and useful" determination of the proposed plant facilities 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 Sahuarita, Green Valley and Continental Systems under ADEQ Public Water System I.D. Nos. 10-048, 10-213 and 10-049, respectively. Based on data

submitted by the Company, ADEQ has determined that all three systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

#### Certificate of Approval to Construct

The Company had not received the ADEQ Certificate of Approval to Construct ("ATC") for construction of facilities to the requested area. Staff recommends that the Company 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 requested area within one year of the effective date of an order in this proceeding.

#### Arsenic

The Company indicated its arsenic levels from its well sources for the Sahuarita, Green Valley and Continental Systems range from 2.8 parts per billion ("ppb") to 7.7 ppb. Based on these arsenic concentrations, the Company is in compliance with the new arsenic standard of 10 ppb.

#### **Arizona Department of Water Resources ("ADWR") Compliance**

##### Compliance Status

The Company is located within the Tucson Active Management Area and is in compliance with its reporting and conservation requirements.

#### Certificate of Assured Water Supply

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute within one year of the effective date of an order in this proceeding.

#### **Arizona Corporation Commission ("ACC") Compliance**

A check with the Utilities Division Compliance Section indicated that the Company had no outstanding Commission compliance issues.

#### **Curtailment Tariff**

The curtailment tariffs for each of the three systems were approved in a prior CC&N extension proceeding by Decision No. 67002, dated May 24, 2004.

## **Summary**

### Conclusions

- A. Staff concludes that the existing system and the proposed plant facilities will have adequate well and storage capacities to serve the existing and proposed CC&N extension area.
- B. Staff concludes that the proposed plant facilities for the requested area and its cost estimate totaling \$484,122 seem reasonable. However, no "used and useful" determination of the proposed plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.
- C. ADEQ has determined that all three of the Company's systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- D. The Company indicated its arsenic levels from its well sources for the Sahuarita, Green Valley and Continental Systems range from 2.8 to 7.7 ppb. Based on these arsenic concentrations, the Company is in compliance with the new arsenic standard of 10 ppb.
- E. The Company is within the Tucson AMA and is in compliance with its reporting and conservation requirements.
- F. A check with the Utilities Division Compliance Section indicated that the Company had no outstanding Commission compliance issues.
- G. The curtailment tariffs for each of the three systems were approved in a prior CC&N extension proceeding by Decision No. 67002, dated May 24, 2004.

### Recommendations

- 1. Staff recommends that the Company 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 requested area within one year of the effective date of an order in this proceeding.
- 2. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute within one year of the effective date of an order in this proceeding.