

ORIGINAL



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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
for Director
Utilities Division

Date: June 22, 2006

RE: STAFF REPORT FOR ARIZONA WATER COMPANY TO EXTEND ITS
EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY FOR ITS
COOLIDGE SYSTEM, PINAL COUNTY, ARIZONA. (DOCKET NO. W-
01445A-06-0317)

Attached is the Staff Report for the application of Arizona Water Company for an extension of its existing Certificate of Convenience and Necessity. Staff recommends approval with compliance requirements.

EGJ:LAJ:tdp

Originator: Linda A. Jaress

AZ CORP COMMISSION
DOCUMENT CONTROL

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Service List for: Arizona Water Company
Docket No. W-01445A-06-0317

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY

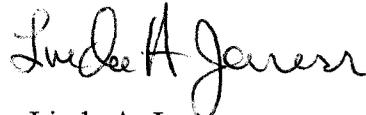
DOCKET NO. W-01445A-06-0317

APPLICATION FOR EXTENSION
OF ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY

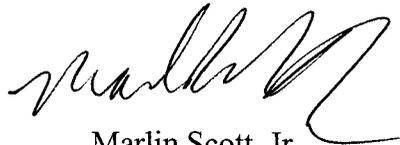
JUNE 22, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Water Company (Docket No. W-01445A-06-0317) was prepared by the Staff members listed below. Linda A. Jaress performed the review and analysis of the Company's application. Marlin Scott, Jr. prepared the Engineering Report.



Linda A. Jaress
Executive Consultant III



Marlin Scott, Jr.
Utilities Engineer

**EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
APPLICATION TO EXTEND ITS CERTIFICATE
OF CONVENIENCE AND NECESSITY
DOCKET NO. W-01445A-06-0317**

On May 4, 2006, Arizona Water Company ("Arizona Water" or "the Company") filed an application for approval of an extension to its Certificate of Convenience and Necessity ("CC&N") for its Coolidge system. By the end of five years, Arizona Water expects to serve 7,370 customers in the Coolidge system including 2,000 customers in the extension area.

Staff has concluded that Arizona Water is fit and proper to serve in the proposed extension area and that it is in the public interest for the Commission to approve the application for an extension of Arizona Water's CC&N.

Staff also recommends the following:

1. Arizona Water should Docket as a compliance item in this case, within one year of the effective date of an order in this proceeding a copy of the first Approval to Construct for facilities needed to serve within the requested areas issued by ADEQ.
2. Arizona Water should charge its authorized Casa Grande system rates and charges to the customers within the extension area until such time as they are changed by order of the Commission.
3. Staff recommends that the Company, docket as a compliance item in this case, within one year of the effective date of an order in this proceeding a copy of the first developer's Certificate of Assured Water Supply within the requested area.

Staff further recommends that the Commission's Decision granting the requested CC&N extension to Arizona Water be considered null and void, after due process, should the Company fail to meet the conditions 1 and 3 listed above within the time specified.

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Introduction

On May 4, 2006, Arizona Water Company ("Arizona Water" or "the Company") filed an application for approval of an extension to its Certificate of Convenience and Necessity ("CC&N") for its Coolidge system. The Company is a corporation providing water utility service to approximately 75,000 customers in eight counties in Arizona including approximately 4,000 in the Coolidge system. The Company estimates that including 2,000 expected customers in the extension area, its Coolidge system will be serving a total of 7,370 customers in five years.

The Extension Area Requested

The proposed extension area is comprised of portions of land in 32 sections contiguous to Arizona Water's current service territory in the Coolidge area. The maps and legal descriptions of the parcels at issue are included in Exhibit 1 attached to this Staff Report. The applicable requests for service are included in the Company's application.

The Coolidge System

Staff's Engineering Report, attached as Exhibit 2, describes the Coolidge system as being comprised of 1.8 million gallons of storage capacity and five wells which, in total, produce 4,677 gallons per minute. The Report concludes that the existing system will have adequate production and storage capacity to serve the existing and proposed extension area and that Arizona Water can reasonably be expected to develop additional production and storage as required. The plant necessary for the extensions will be financed by multiple main extension agreements with the developers.

Arizona Department of Environmental Quality Compliance

Arizona Water currently has no deficiencies in compliance with the Arizona Department of Environmental Quality ("ADEQ"). 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.

Arizona Water has not received a Certificate of Approval to Construct ("ATC") from ADEQ for facilities needed to serve the requested areas. Staff recommends that the Company docket as a compliance item in this docket, within one year of the effective date of an order in this proceeding, a copy of the first ATC for facilities needed to serve the requested areas issued by ADEQ.

According to the Company's annual reports, the arsenic levels for its five wells range from 3 ppb to 11 ppb. Based on these levels, the Company is in the process of developing a treatment plan to comply with the new arsenic standard. In Decision No. 67518 (dated January 20, 2005), the Commission approved an accounting order which will allow the Company to

record its arsenic treatment costs for the Company's Western Group. The Coolidge system is part of this Western Group.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is located within the Pinal Active Management Area ("AMA") and is in compliance with its reporting and conservation requirements.

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

Arizona Corporation Commission Compliance

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

Requests for Service

Attached as Exhibit 3, is a map supplied by Arizona Water which identifies, in color, the sections for which there are requests for service. It can be seen that of the thirty-one sections requested, six do not have associated requests for service. However, the sections for which there are no requests for service are either contiguous to Arizona Water's current service territory, or contiguous to a section for which there is a request for service.

Staff believes that to enhance regulatory and operational efficiencies, some extensions into areas for which there are no requests for service are justified. This is such a case. Planning and locating mains and distribution lines for larger, contiguous areas is more efficient than planning lines to skip or avoid contiguous sections not granted to Arizona Water to reach other sections included in Arizona Water's CC&N. For example, section 18 in the T.6S/R.8.E. portion of the map is the area planned to hold Arizona Water's planned treatment plant. If the Company did not receive approval of sections 15 and 16 in the same township and range where there are no requests for service, it may need to plan a main to turn corners and be longer and more expensive than if it received approval of the inclusion of those sections. The expense of the main would ultimately be borne by ratepayers.

Also, service territory boundaries that are relatively straight increase the ease of identification. For example, knowing that a company's service territory ends or begins at an identifiable street such as Florence Boulevard helps potential developers and potential customers more easily identify the area the company serves than communicating using precise legal descriptions. Furthermore, approving territory along section lines helps avoid situations where next door neighbors are served by different water companies and charged different rates.

Finally, no requests for intervention were filed in this case. Other water companies have not indicated an interest in the extension area. For this reason and for the other reasons listed above, Staff recommends approval of the CC&N extension to all areas requested in the Company's application.

Conclusions and Recommendations

Based upon its experience as a water provider in Arizona in general and in the immediate vicinity of the extension area specifically, its compliance and complaint record with the Arizona Corporation Commission and its compliance records with ADEQ and ADWR, Staff concludes that Arizona Water is fit and proper to serve in the proposed extension area. Staff believes it is in the public interest for the Commission to approve the application. Staff recommends approval of the application.

Staff also recommends the following:

1. Arizona Water should Docket, as a compliance item in this case, within one year of the effective date of an order in this proceeding a copy of the first Approval to Construct for facilities needed to serve within the requested areas issued by ADEQ.
2. Arizona Water should charge its authorized Casa Grande system rates and charges to the customers within the extension area until such time as they are changed by order of the Commission.
3. Staff recommends that the Company, docket as a compliance item in this case, within one year of the effective date of an order in this proceeding a copy of the first developer's Certificate of Assured Water Supply within the requested area, where applicable or when required by statute.

Staff further recommends that the Commission's Decision granting the requested CC&N extension to Arizona Water be considered null and void, after due process, should the Company fail to meet the conditions 1 and 3 listed above within the time specified.

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: June 5, 2006

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-06-0317)**

The area requested by Arizona Water for an extension has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached are copies of the maps for your files.

:bsw

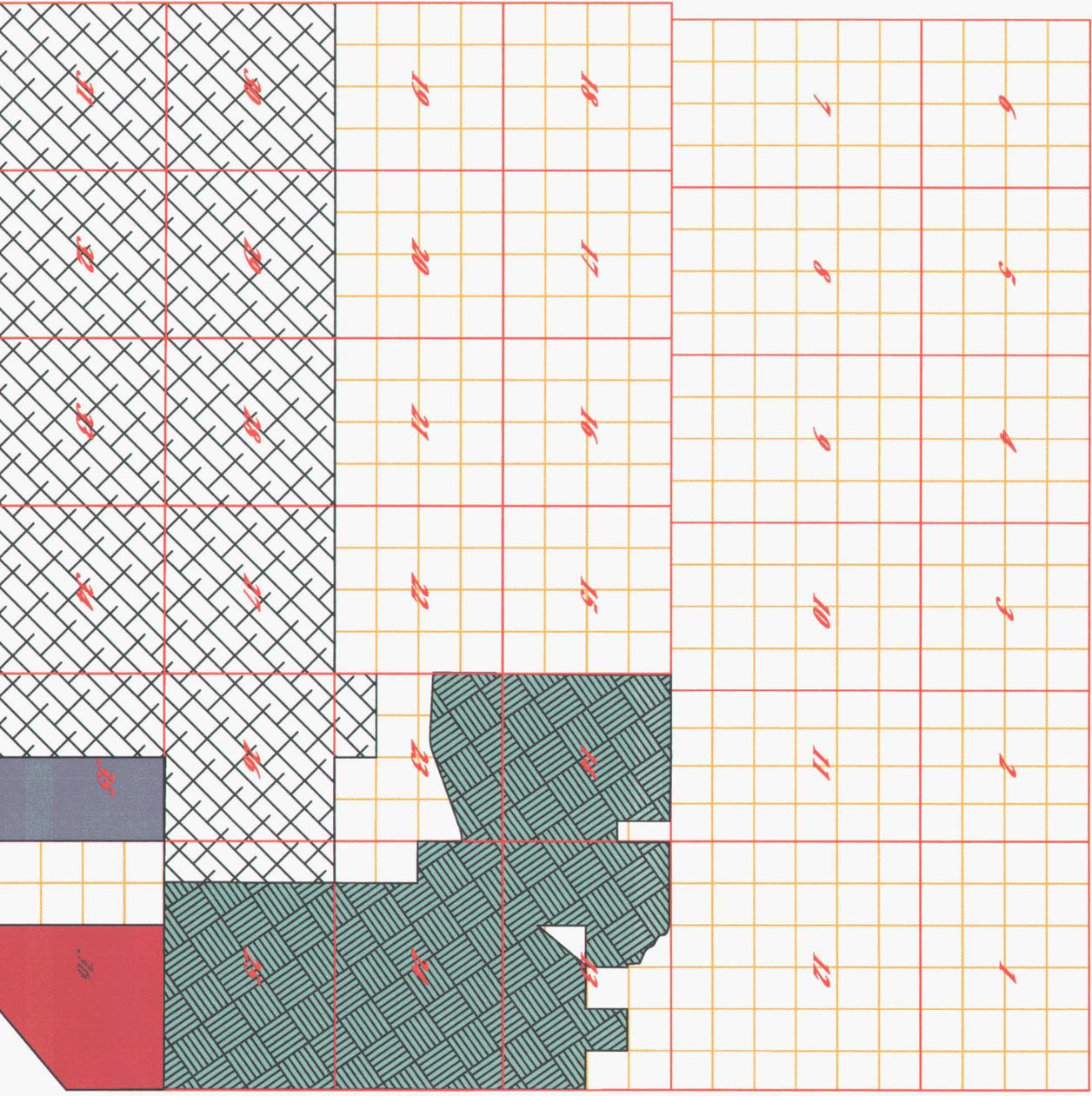
Attachments

cc: Mr. Robert Geake
Ms. Deb Person (Hand Carried)
File

COUNTY Pinal

Map No. 19

RANGE 7 East

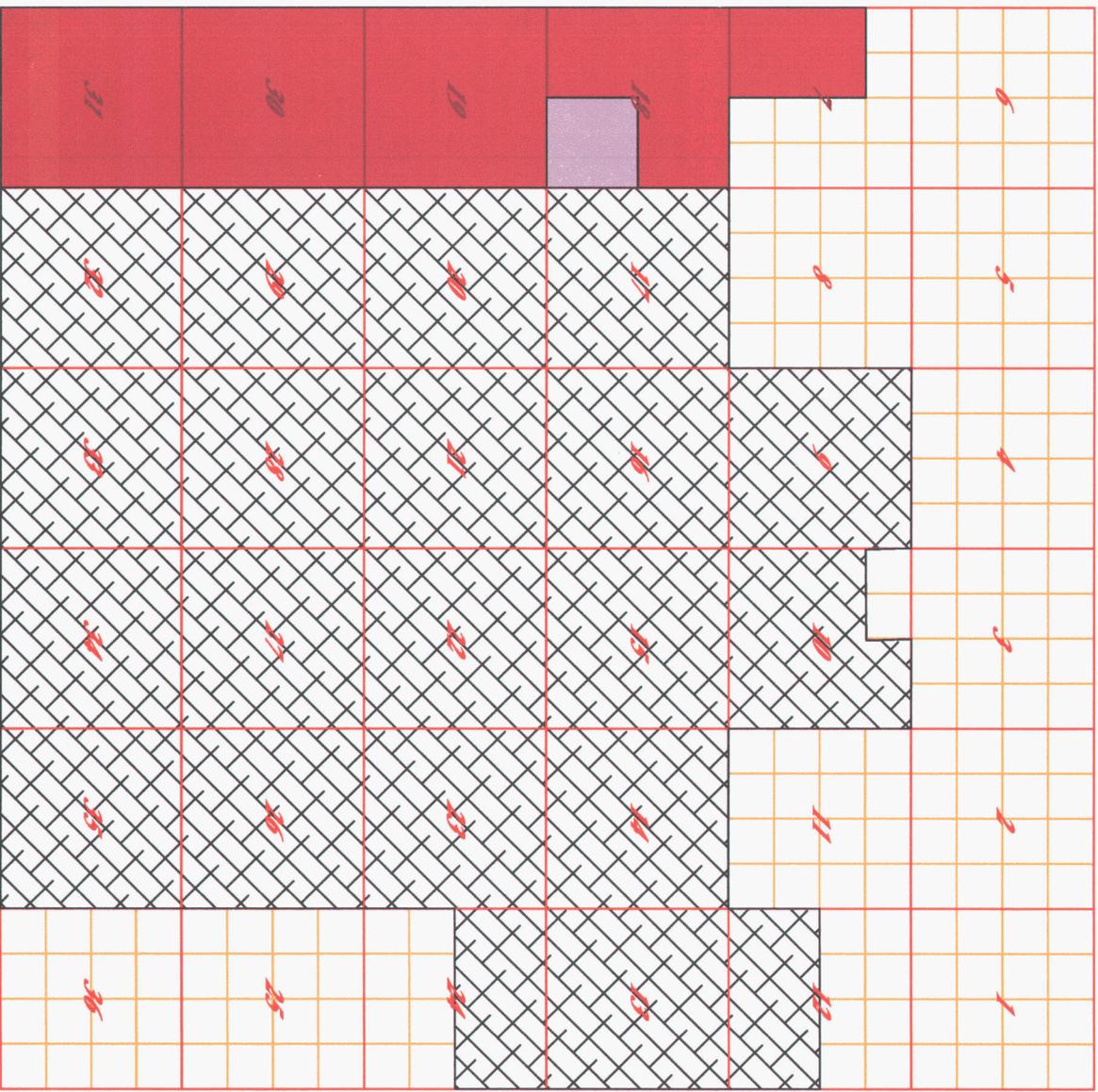


TOWNSHIP 5 South

-  W-1445 (39)(11)
Arizona Water Company (Casa Grande)
-  SW-4265 (1)
Woodruff Utility Company, Inc.
-  W-4264 (1)
Woodruff Water Company, Inc.
-  (4)
Arizona Water Company
Docket No. W-01445A-06-0059
Application for Extension
-  (5)
Arizona Water Company
Docket No. W-01445A-06-0317
Application for Extension

COUNTY: Pinal

RANGE 8 East



TOWNSHIP 5 South

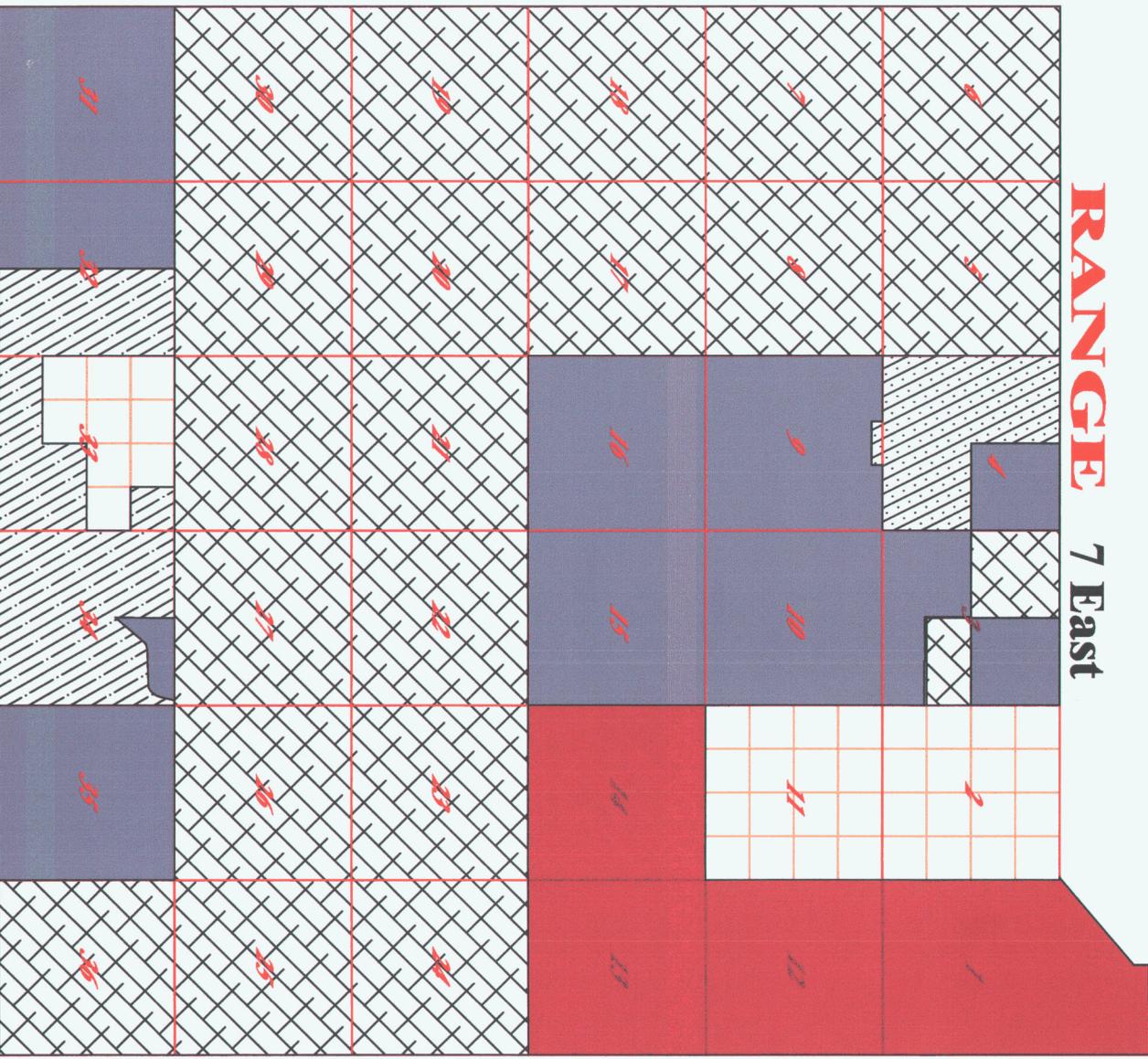
 W-1445 (39)(3)
Arizona Water Company (Coolidge)

 (3)
Arizona Water Company
Docket No. W-1445-05-389
Application for Extension

 (5)
Arizona Water Company
Docket No. W-01445A-06-0317
Application for Extension

COUNTY: Pinal

RANGE 7 East



TOWNSHIP 6 South



W-1445 (39)(11)
Arizona Water Company (Casa Grande)



W-3528 (2)
Picacho Water Company



W-2109 (1)
Signal Peak Water Company, Inc.



(4)
Arizona Water Company
Docket No. W-01445A-06-0059
Application for Extension

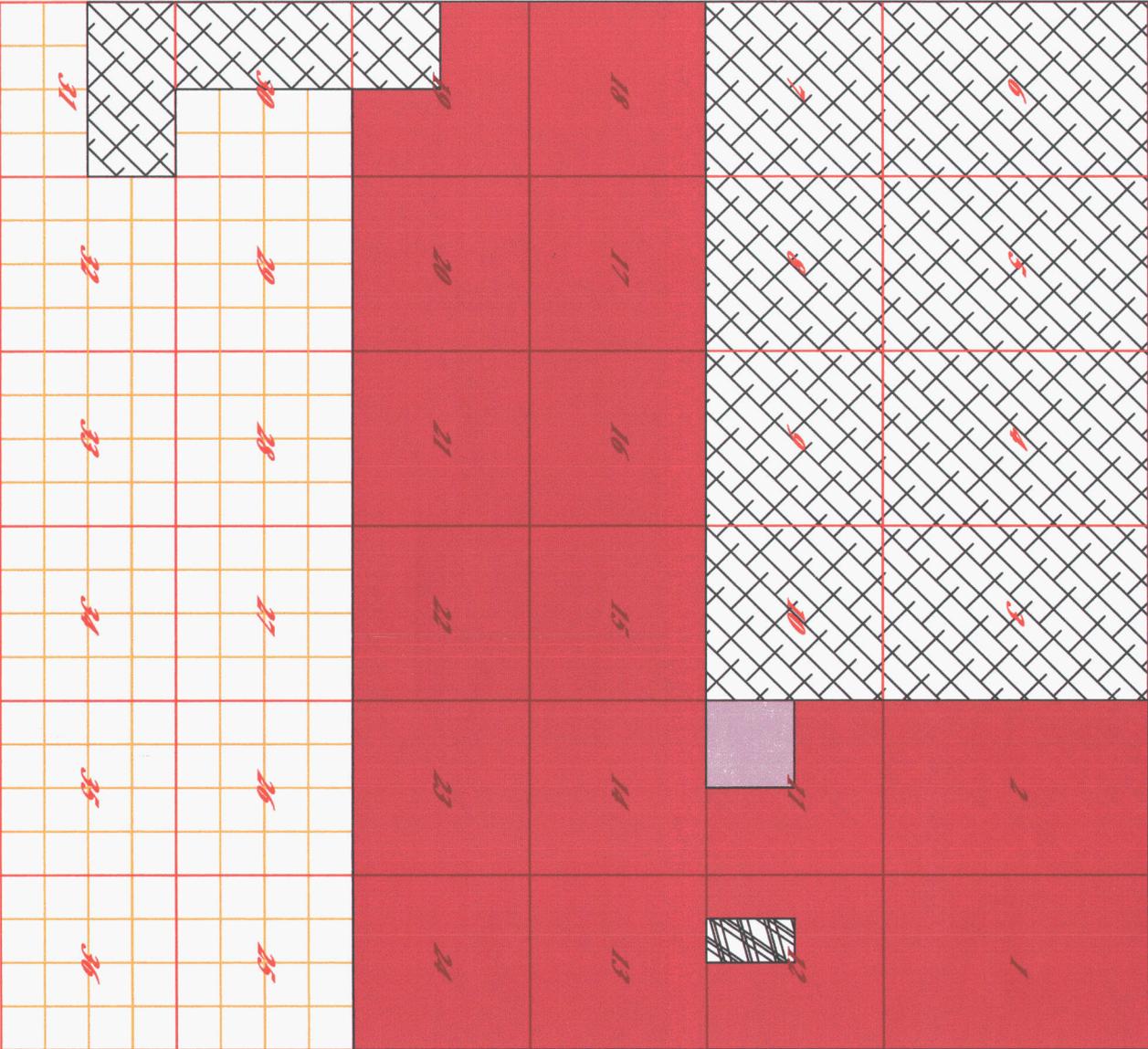


(5)
Arizona Water Company
Docket No. W-01445A-06-0317
Application for Extension

COUNTY: Pinal

Map No. 28

RANGE 8 East



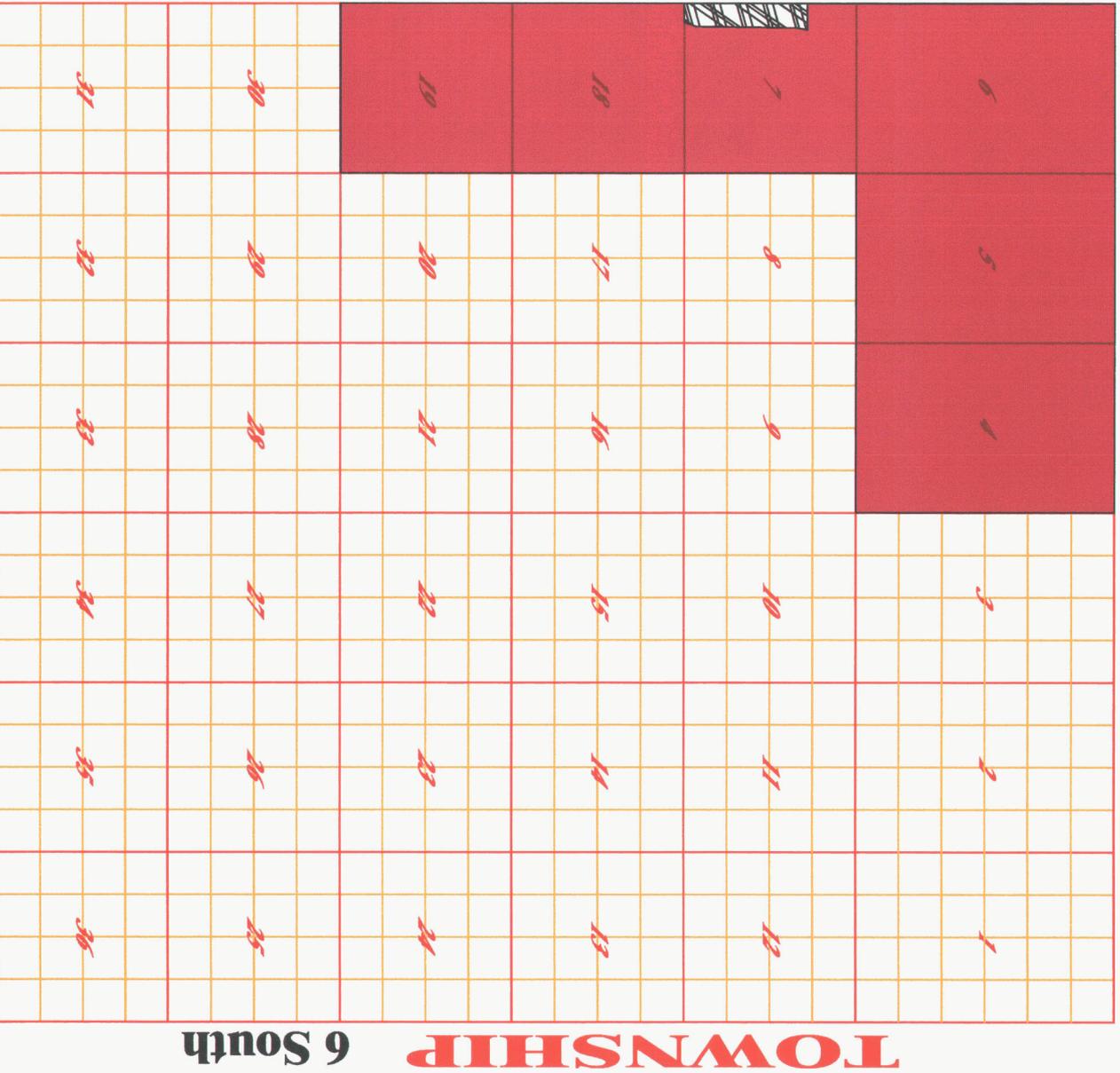
TOWNSHIP 6 South

-  W-1445 (39)(3)
Arizona Water Company (Coolidge)
-  W-2721 (2)
Carter Water Company
-  (3)
Arizona Water Company
Docket No. W-1445-05-389
Application for Extension
-  (5)
Arizona Water Company
Docket No. W-01445A-06-0317
Application for Extension

COUNTY: Pinal

Map No. 48

RANGE 9 East



TOWNSHIP 6 South



W-2721 (2)

Carter Water Company

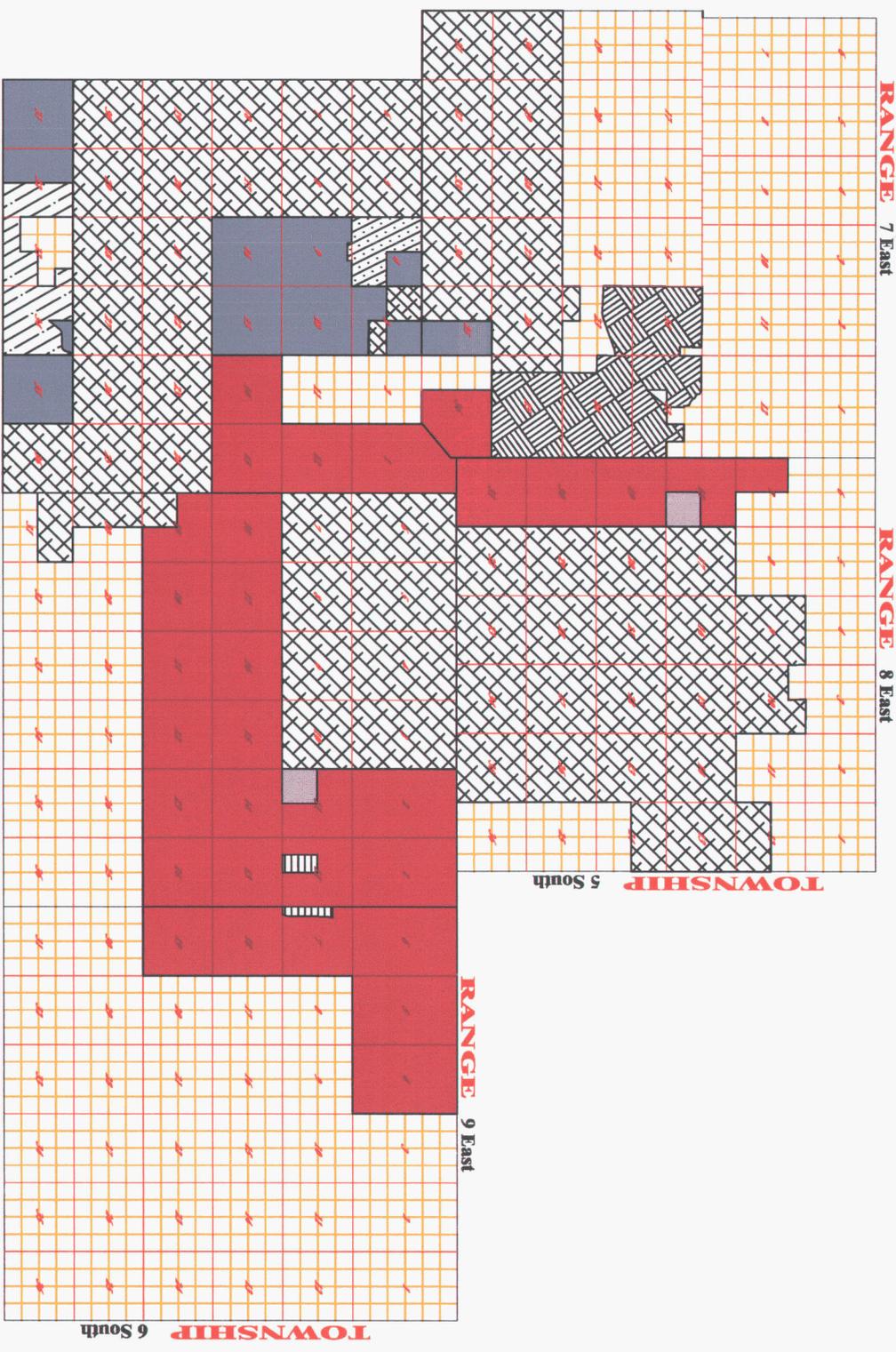


(5)

Arizona Water Company
 Docket No. W-01445A-06-0317
 Application for Extension

ARIZONA WATER COMPANY - GOOLIDGE SYSTEM

PINAL COUNTY



- W-1445
Arizona Water Company
- W-2721
Carter Water Company
- W-3528
Pleacho Water Company
- W-2109
Signal Peak Water Company, Inc.
- W-4264
Woodruff Water Company, Inc.
- Arizona Water Company
Docket No. W-01445A-05-0389
- Arizona Water Company
Docket No. W-01445A-06-0059
- Arizona Water Company
Docket No. W-01445A-06-0317

EXHIBIT 1

CC&N This Application

The East half of Section 36, Township 5 South, Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona, said East half described as follows:

BEGINNING at the Northeast corner of said Section 36;
Thence S00°17'E, coincident with the East line of said Section 36, a distance of 3085.50 feet;
Thence S50°05'W, coincident with the southeasterly line of said Section 36, a distance of 3415.50 feet;
Thence N89°39'W, coincident with the South line of said Section 36, a distance of 2636.70 feet to the South quarter corner of said Section 36;
Thence N00°20'11"E, coincident with the North-South mid-section line of said Section 36, a distance of 5286.84 feet to the North quarter corner of said Section 36;
Thence S89°43'E, coincident with the North line of said Section 36, a distance of 5210.04 feet to the POINT OF BEGINNING; And

Sections 19, 30 & 31, Township 5 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona; And

Sections 1, 12, 13, & 14 of Township 6 South, Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona; And

Sections 1, 2, The North half and the Southeast quarter of Section 11, 12, 13, 14, 15, 16, 17, 18, The North half and the Southeast quarter of Section 19, 20, 21, 22, 23, & 24 of Township 6 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona; And

Sections 4, 5, 6, 7, 18, & 19 of Township 6 South, Range 9 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona; And

The West half of Section 7 of Township 5 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona, EXCEPT any portion lying within the Gila River Indian Reservation, said West half described as follows:

BEGINNING at the Southwest corner of said Section 7,
Thence N00°25'W, coincident with the West section line of said Section 7, a distance of 3958.68 feet to a point;
Thence N89°30'E, a distance of 2655.84 feet to a point on the North-South mid-section line of said Section 7;
Thence S00°23'17"E, coincident with said North-South mid-section line, a distance of 3965.63 feet to the South quarter corner of said Section 7;
Thence S89°39'W, coincident with the South line of said Section 7, a distance of 2,653.86 feet to the POINT OF BEGINNING; And

The North half and the Southwest quarter of Section 18 of Township 5 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

EXCEPT any portion located in Carter Water Company's Certificate of Convenience and Necessity described as follows:

The East half of the Southwest quarter of Section 12, Township 6 South, Range 8 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona; AND

Beginning at the Southwest corner of Section 7, Township 6 South, Range 9 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona;

Thence South 89 degrees 50 minutes East, a distance of 581.90 feet;

Thence North 20 degrees 16 minutes East, a distance of 400.42 feet;

Thence North 00 degrees 41 minutes East, a distance of 2264.00 feet;

Thence North 01 degrees 48 minutes East, a distance of 410.46 feet;

Thence North 00 degrees 00 minutes East, a distance of 386.50 feet;

Thence North 09 degrees 32 minutes East, a distance of 353.73 feet;

Thence North 90 degrees 00 minutes West, a distance of 815.91 feet;

Thence South 00 degrees 03 minutes West, a distance of 3783.40 feet to the Point Of Beginning.

MEMORANDUM

DATE: June 15, 2006

TO: Linda Jaress
Executive Consultant III

FROM: Marlin Scott, Jr. 
Utilities Engineer

RE: Arizona Water Company – Coolidge System
Docket No. W-01445A-06-0317 (CC&N Extension)

Introduction

Arizona Water Company (“Company”) has applied to extend its Certificate of Convenience and Necessity (“CC&N”) for its Coolidge system. The requested areas will add approximately 28 square-miles to the Company’s existing 30 square-miles of local certificated area. The Company serves the City of Coolidge in Pinal County.

Capacity

Existing Utility Plant

According to water use data submitted by the Company, the Company has five wells producing 4,677 gallons per minute (“GPM”), 1,766,500 gallons of storage capacity, and a distribution system serving 3,982 service connections as of February 2006. Based on historical growth rates, it is anticipated that the existing service area could grow to approximately 5,200 connections at the end of five years. The Company has predicted an additional 2,000 connections for the proposed CC&N extensions at the end of five years, resulting in a projected total customer base of approximately 7,200 at the end of five years. Based on the existing well production and storage capacities, the system can serve approximately 7,370 service connections.

Proposed Plant Facilities

The Company is proposing to extend its water system into the requested areas by extension of its distribution system through advances in aid of construction and the use of main extension agreements.

Staff concludes that the existing system will have adequate production and storage capacity to serve the existing and proposed CC&N extension areas within a conventional

five year planning period and can reasonably be expected to develop additional production and storage as required in the future.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Compliance Status

ADEQ regulates the water system under ADEQ Public Water System I.D. #11-014. 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.

Certificate of Approval to Construct

The ADEQ Certificate of Approval to Construct ("ATC") for facilities needed to serve the requested areas have not been submitted by the Company. Staff recommends that the Company, docket as a compliance item in this case, within one year of the effective date of an order in this proceeding, a copy of the first ATC for facilities needed to serve within the requested areas issued by ADEQ.

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. According to the Company annual reports, the arsenic levels for its five wells range from 3 ppb to 11 ppb. Based on these levels, the Company is in the process of developing a treatment plan to comply with the new arsenic standard. In Decision No. 67518 (dated January 20, 2005), the Commission approved an accounting order which will allow the Company to record its arsenic treatment costs for the Company's Western Group. The Coolidge system is part of this Western Group.

Arizona Department of Water Resources Compliance

Compliance Status

The Company is located within the Pinal Active Management Area ("AMA") and is in compliance with its reporting and conservation requirements.

Certificate of Assured Water Supply

Staff recommends that the Company, docket as a compliance item in this case, within one year of the effective date of an order in this proceeding a copy of the first developer's Certificate of Assured Water Supply within the requested area.

Arizona Corporation Commission Compliance

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

Curtailment Tariff

The Company has an approved curtailment tariff for "All Service Areas" that became effective on July 23, 2004 per Decision No. 66235.

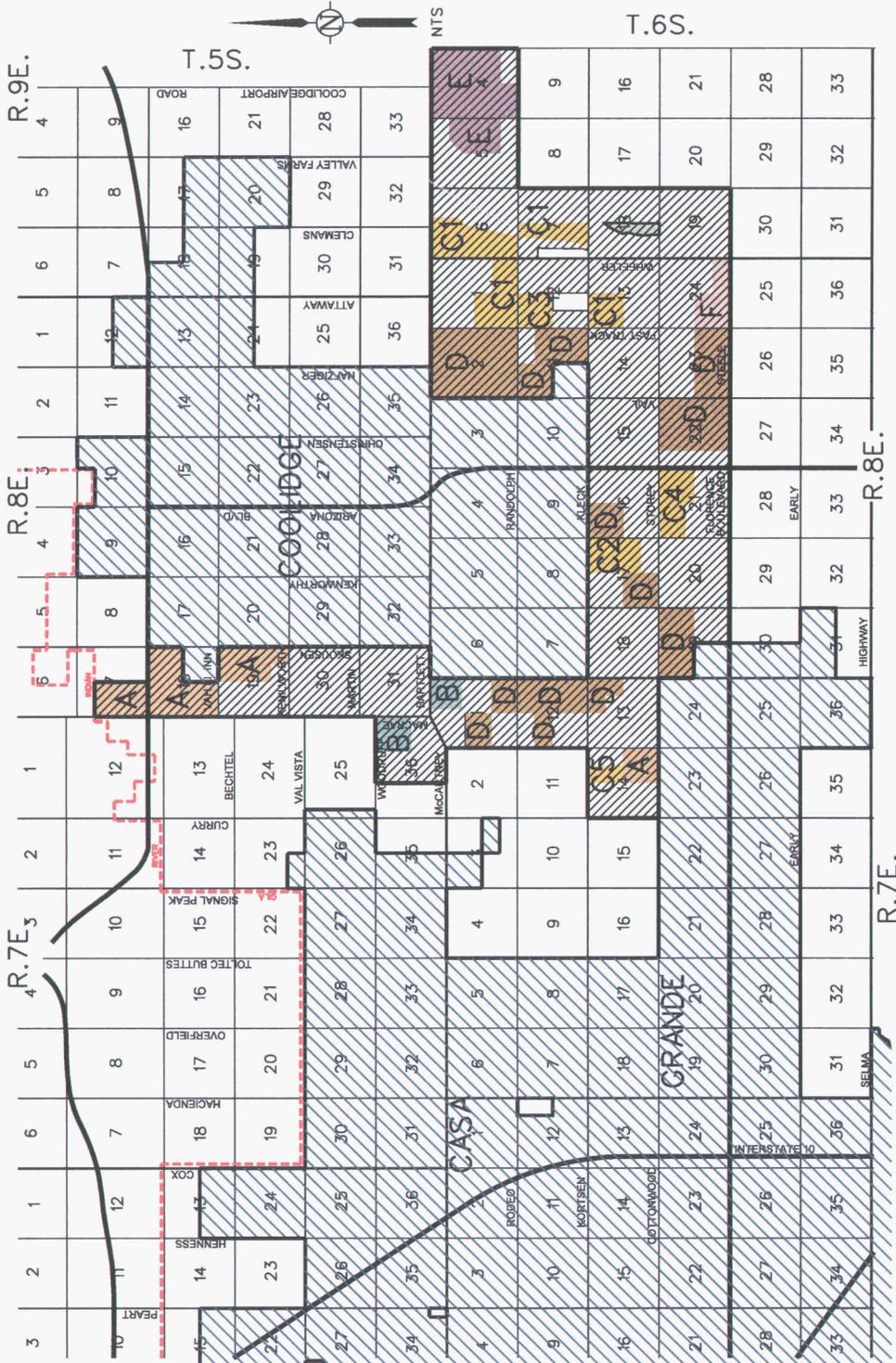
Summary

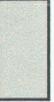
Conclusions

- A. Staff concludes that the existing system will have adequate production and storage capacity to serve the existing and proposed CC&N extension area within a conventional five year planning period and can reasonably be expected to develop additional production and storage as required in the future.
- B. Based on compliance information submitted by the Company, the Coolidge 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, Chapter 4.
- C. The Company indicated its arsenic levels for its wells range from 3 ppb to 11 ppb. Based on these levels, the Company is in the process of developing a treatment plan to comply with the new arsenic standard.
- D. The Company is within the Pinal AMA and is in compliance with its reporting and conservation requirements.
- E. A check with the Utilities Division Compliance Section showed no outstanding compliance issues.
- F. The Company has an approved curtailment tariff for all its systems.

Recommendations

1. Staff recommends that the Company, docket as a compliance item in this case, within one year of the effective date of an order in this proceeding, a copy of the first ATC for facilities needed to serve within the requested areas issued by ADEQ.
2. Staff recommends that the Company, docket as a compliance item in this case, within one year of the effective date of an order in this proceeding, a copy of the first developer's Certificate of Assured Water Supply within the requested area.



-  A Portion Of Present Arizona Water Company CC&N
-  B COOLIDGE 298 (296 Acres)
-  E CITY OF COOLIDGE (1,093 Acres)
-  ARIZONA WATER COMPANY FUTURE CAP TREATMENT PLANT (68 Acres)
-  CC&N This Application (20,223 Acres)
-  C* UNITED ENGINEERING GROUP (1,665 Acres)
C1 - Holland II 945 (931 Acres)
C2 - Inland 240 (240 Acres)
C3 - M&G Farms (160 Acres)
C4 - Lodd Farms (253 Acres)
C5 - Pinal II (81 Acres)
-  A ROSE LAW GROUP (1,160 Acres)
-  D CITY OF MESA (3,376 Acres)
-  F ROSEMEAD PROPERTIES (231 Acres)