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MEMORANDUM

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Arizona Corporation Commission

DOCKETED CORP COMMISSION
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JUN 30 2003

TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

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DATE: June 30, 2003

RE: STAFF REPORT FOR SANTA CRUZ WATER COMPANY AND PALO VERDE UTILITIES COMPANY- APPLICATIONS FOR EXTENSIONS OF ITS EXISTING CERTIFICATES OF CONVENIENCE AND NECESSITY FOR WATER AND WASTEWATER SERVICES (DOCKET NOS. W-03576A-03-0167 AND WS-03575A-03-0167)

Attached is the Staff Report for Santa Cruz Water Company and Palo Verde Utilities Company applications for Extension of their existing Certificates of Convenience and Necessity for water and wastewater services. Staff recommends approval with conditions.

EGJ:JEF:hml

Originator: Jim Fisher

Attachment: Original and 13 Copies

Service List for: Santa Cruz Water Company and Palo Verde Utilities Company
Docket Nos. W-03576A-03-0167 and SW-03575A-03-0167

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**SANTA CRUZ WATER COMPANY
and
PALO VERDE UTILITIES COMPANY**

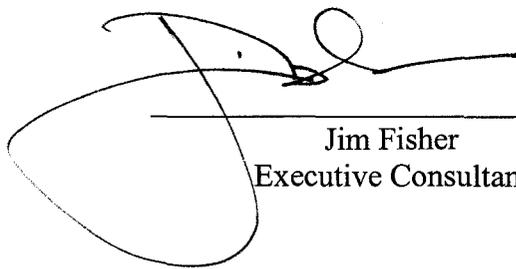
**DOCKET NOS. W-03576A-03-0167
and
SW-03575A-03-0167**

**APPLICATIONS FOR EXTENSIONS
OF EXISTING CERTIFICATES
OF CONVENIENCE AND NECESSITY**

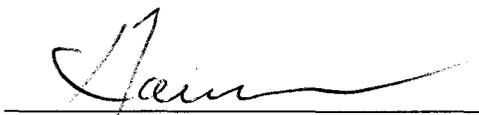
JUNE 2003

STAFF ACKNOWLEDGMENT

The Staff Report for Santa Cruz Water Company and Palo Verde Utilities Company (Docket Nos. W-03576A-03-0167 and SW-3575A-03-0167) was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Company's application. Lyndon Hammon was responsible for the engineering and technical analysis.



Jim Fisher
Executive Consultant



Lyndon Hammon
Engineering Consultant

EXECUTIVE SUMMARY
SANTA CRUZ WATER COMPANY & PALO VERDE UTILITIES INC
DOCKET NOS. W-03576A-03-0167 & SW-03575A-03-0167

On March 20, 2003, Santa Cruz Water Company, L.L.C. ("Santa Cruz" or "Water Company") and Palo Verde Utilities Company, L.L.C. ("Palo Verde" or "Wastewater Company") (collectively, "LLCs") filed with the Arizona Corporation Commission ("ACC" or "Commission") applications for extensions of their existing Certificates of Convenience and Necessity ("CC&N") to provide water and wastewater services in portions of Pinal County, Arizona. On May 14, 2003, Staff informed the Companies that the applications were sufficient for administrative purposes. By this application, Palo Verde and Santa Cruz are seeking to extend the current CC&Ns to include approximately five and one-half (5.5) square miles, approximately 3,500 acres which is to become Rancho Sierra a planned residential development of 12,000 residential units, light retail commercial uses and three 18-hole golf courses.

The Commission authorized Palo Verde Utilities Company, an Arizona Corporation, and Santa Cruz Water Company, an Arizona Corporation ("The Corporations") CC&Ns in Decision No. 61943 (September 17, 1999). By Procedural Order, dated September 23, 2002, the Commission reinstated the CC&Ns of the utilities. The Commission also should transfer the CC&N and assets of the Corporations to the LLCs before acting on the proposed extension request.

On April 2, 2003, the Commission received notice that the LLCs intend to extend service to approximately 3,500 "contiguous" acres outside the existing CC&N area and subject to this application. As of June 5, 2003, the LLCs reported that they completed construction of utility backbone facilities on the opposite side of an existing highway.

Based on the present and planned facilities, Santa Cruz has adequate storage and production to serve its present customer base and can readily develop adequate storage and production to serve its anticipated customer base. The well in service meets all the inorganic maximum contaminant levels, but has an arsenic concentration between 11 and 13 $\mu\text{g}/\text{l}$. Based on this arsenic level, Santa Cruz will be required to implement a plan to meet the new arsenic standard. Palo Verde has the wastewater treatment and disposal capacity or can develop the capacity to serve both the existing and proposed CC&N area. The Department of Environmental Quality has given notice of its intent to issue an aquifer protection permit for the total plant capacity of 3.0 MGD

Staff recommends the Commission approve the LLCs' applications for an extension of the CC&N in portions of Pinal county to provide water and wastewater service, subject to compliance with the following conditions:

- 1.) That the Commission require the LLCs to complete compliance with all ordered conditions prior to serving the LLCs' first customer within the extension area.

- 2.) That the Commission require the LLCs to charge the existing rates and charges in the extension area.
- 3.) That the LLCs obtain a municipal franchise for the area.
- 4.) That the Commission require Palo Verde Utilities to file, a copy of the CAAG §208 amendment to the Director of Utilities, Arizona Corporation Commission.
- 5.) That the Commission require Santa Cruz Water Company to file a Curtailment Tariff.
- 6.) That the Commission require Santa Cruz Water Company, to file a copy of the developers' Certificate of Assured Water Supply.
- 7.) Staff further recommends that the Commission's Decision granting this Extension to the CC&Ns of the LLCs be considered null and void without further order from the Commission should the LLC's Palo Verde Utilities and Santa Cruz Water Company, Arizona Limited Liability Companies fail to meet conditions 3,4,5 and 6 within 365 days of any Decision in this matter.

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Introduction

On March 20, 2003, Santa Cruz Water Company, L.L.C. ("Santa Cruz" or "Water Company") and Palo Verde Utilities Company, L.L.C. ("Palo Verde" or "Wastewater Company") filed with the Arizona Corporation Commission ("ACC" or "Commission") applications for extensions of existing Certificates of Convenience and Necessity ("CC&N") to provide water and wastewater services in portions of Pinal County, Arizona.

On April 2, 2003, the Commission received notice from Santa Cruz and Palo Verde that the Companies intend to "extend service" to properties intended to be developed into subdivisions subject the provisions of A.R.S. 40-281 (B.) and A.A.C. R14-2-403 B.

On April 25, 2003, and May 13, 2003, Santa Cruz and Palo Verde ("the Companies") provided additional documentation to support the applications. On May 14, 2003, Staff informed the Companies that the applications were sufficient for administrative purposes.

Background

Palo Verde and Santa Cruz are Arizona Limited Liability Corporations ("LLCs") engaged in providing wastewater and water utility services to approximately 885 water customers and 636 wastewater customers. The Commission authorized Palo Verde Utilities Company, an Arizona Corporation, and Santa Cruz Water Company, an Arizona Corporation ("The Corporations"), CC&Ns in Decision No. 61943 (September 17, 1999). The Corporations were initially incorporated by Mr. Michael Reinhold, a principle in Pecan Investments L.L.C. Mr. Reinhold is also a principle of RHS Properties, Inc., which, in conjunction with El Dorado Holdings, Inc., is involved in the development of Rancho El Dorado located in an area directly northeast of the Town of Maricopa in Pinal County.

On August 14, 2002, the Companies filed a "Supplemental Notice of Compliance with Decision No. 61943; Request for Reinstatement of CC&N." The Commission had ordered Santa Cruz and Palo Verde to file performance bonds as a condition of the initial CC&N authorization. Palo Verde and Santa Cruz were required to file a performance bond on February 28, 2002, and November 4, 2000, respectively. The Commission provided the Companies a retroactive time extension to file the performance bonds to August 14, 2002 and reinstated the CC&Ns at that time.

Notice of Asset Transfer

On August 23, 2001, the Corporations filed an Application for Approval of Change in Business Form from a Corporation to an L.L.C ("The Change Application") (See Docket Nos. W-03576A-01-0672 and SW-03575A-01-0672.) The Change Application provided documentation that as of June 15, 2001, the Corporations had been merged into the LLCs, and the surviving entities were the LLCs. Review of the Commission's Corporation Division records regarding the affected Corporations verify that on June 15, 2001, the Corporations granted the

CC&Ns were merged into the LLC's, thereby transferring the assets of the regulated public service corporations to other companies.

On September 27, 2001, the Corporations requested administrative closure on the Change Application by informing the Commission that the pleading was inadvertent, in that the caption should not have requested approval of the application, only that notice of the change in business form was provided.

In Decision No. 61943, the Commission authorized Santa Cruz Water Company and Palo Verde Utilities Company CC&Ns in Pinal County. The Commission described the utilities ownership in Finding of Fact No. 2. "PVU and SCW are Arizona Corporations that were incorporated by Mr. Michael Reinhold who is a principle in Pecan Valley Investments L.L.C. ("Pecan"), a limited liability company that will be the sole owner of the stock of the two Applicants." (Emphasis added)

Arizona law requires that any public service corporation is required to obtain Commission authorization before selling, assigning or merging any assets necessary in the performance of its duties to the public. (See A.R.S. 40-285.)

Utility Asset Ownership

The Change Application contained copies of the Merger documentation, which acknowledges that "the undersigned have executed this Plan of Merger as of the date written." The document then lists Palo Verde Utilities Company, LLC, "By: Pecan Valley Investment, LLC, Member"; which is followed with "By: El Dorado Pecan, LLC, Member"; which is followed with, By: RHS Properties, Inc. Member." The merger is signed by Michael Reinhold, President of the LLC and the Corporation.

The total ownership of Santa Cruz and Palo Verde is not easily understood. The Merger plan required the utility corporations to merge into the utility LLCs. That merger required three other legal entities to approve of the merger, not just the affected corporations and LLCs. Documentation from the Corporation Division shows that the applicant L.L.C. is owned by Pecan Valley Investment, L.L.C., which is owned by El Dorado Pecan, L.L.C.

El Dorado Pecan, L.L.C. lists its members as Reinhold Investments L.L.C., RHS Investments L.L.C. and El Dorado Partners, L.L.C. El Dorado Partners, L.L.C. lists officers as KM/SL Ingram Revocable Trust, Margaret E. Little Revocable Trust, James H. Little Trust, and the Ortman Family Trust ("The Trusts"). The trusts also control Phoenix Utility Management L.L.C. Phoenix Utility Management L.L.C. and Pecan Valley Investments L.L.C. are the members of Phoenix Capital Partners, L.L.C.

The Commission has not received, nor approved of any application for either CC&N holder, Palo Verde Utilities Company, an Arizona Corporation, or Santa Cruz Water Company, an Arizona Corporation, to merge with the Palo Verde Utilities Company, an Arizona L.L.C. or

Santa Cruz Water Company, an Arizona L.L.C. No request for Commission approval prior to the June 15, 2001 merger was made, or subsequently requested. The Companies notified the Commission of the merger after the fact, when arguably the authorized public service companies corporate status had been dissolved by the terms of the merger prior to providing the notice. The Companies did not seek prior, or after the fact approval of the merger. The Companies subsequently requested administrative closure of the docket without any Commission resolution.

The utilities can argue that the merge was not a material change and Staff is focused on form rather than substance. The utilities continue to be owned by Pecan Investments, L.L.C. and Mr. Reinhold continues to provide management services. Staff, however, is concerned that without ACC authorization of a transfer of the CC&N from the authorized Corporation, to the merging LLC, the status of the utility, its duties, rights and obligations, the assets, regulatory authorizations and franchise rights could be in question. Therefore, Staff recommends that the Commission should transfer the CC&N and assets of the Corporations to the LLCs in this docket.

Notice of Intent to Serve

State Highway 347 is consistent with the current west-southwest CC&N boundary of the utilities. On January 5, 2003, Santa Cruz and Palo Verde began constructing water and wastewater facilities on the west side of Highway 347, outside the current CC&N, to serve 739 residential homes. In March 2003, the LLCs contacted Staff and inquired as to Staff's opinion of a utilities right to extend facilities. Staff informed the LLCs that the rules allowed for limited service to adjoining parcels seeking service. On April 2, 2003, the Commission received notice from Santa Cruz and Palo Verde that the utilities intend to extend service ("Extension Notice") to approximately 3,500 acres outside the authorized CC&N subject to the provisions of A.A.C. R14-2-402 (C) and A.A.C. R14-2-602 (B) ("CC&N Extension Rules"). The utilities reported certain facilities completed as of June 5, 2003. The future subdivisions are outside the existing CC&N and subject to these pending application.

The CC&N Extension Rules cited by the Utilities expressly define contiguous as "Common, ordinary and approved meaning. In actual close contact; touching; bounded or traversed by." On April 24, 2003, the Legal Division informed the LLCs that it was the opinion of Staff that the Extension Notice was not in accord with Arizona law and requested the Utilities to desist from providing any service to non-contiguous parcels until a request to extend the CC&N has been granted by the Commission. On April 30, 2003, the LLCs informed the Legal Division "there is no basis for Staff, even assuming it had such powers in the first instance, or the Commission for that matter, to direct Palo Verde or Santa Cruz to "cease and desist from providing service to any non-contiguous parcels." Santa Cruz and Palo Verde also offered that "In light of A.R.S. 40-281 (B), the proceedings to extend the CC&N at Palo Verde and Santa Cruz are optional, albeit necessary for our clients to obtain an exclusive right."

On May 16, 2003, the Legal Division again informed the LLCs that extension of service under the statute requires the subject properties to be contiguous. The Legal Division further

informed Santa Cruz that it “may not serve non-contiguous parcels that are outside of the legal descriptions” of the CC&N.

On May 29, 2003, the LLCs informed the Commission that it intends “to continue constructing plant to serve areas covered by the current CC&N extension application” pursuant to ARS 40-281 (B). Palo Verde and Santa Cruz further informed the Commission in the event the CC&N extension application process concludes in early October, 2003, the LLCs will not be required to actually begin serving clients outside the certificated area, and if that changes Staff will be notified.

Staff believes that Santa Cruz and Palo Verde are acting contrary to the policy set forth in Decision No. 55298, the Arizona Administrative Code and is misapplying the available regulatory flexibility contained in A.R.S. 40-281. Staff has informed the LLCs of our concern that the utilities are acting improperly. Santa Cruz and Palo Verde informed the Commission that it intends “to continue constructing plant to serve areas covered by the current CC&N extension application” and that in “light of A.R.S. 40-281 (B), the proceedings to extend the CC&N at Palo Verde and Santa Cruz are optional, albeit necessary for our clients to obtain an exclusive right.”

Staff does not share the Utilities opinion that regulatory proceeding to authorize a public service company territory are “optional” for the utility and believe them to be required. In light of the LLCs questionable status as authorized utilities, Staff could argue that the LLCs have no current extension rights under the law.

The Extension Application

By this application, Palo Verde and Santa Cruz are seeking to extend the current CC&Ns to include approximately five and one-half (5.5) square miles to their existing two and seven tenths (2.7) square miles of certificated area. The proposed extension area includes approximately 3,500 acres.

The proposed extension area is to become Rancho Sierra a planned residential development of 12,000 residential units, light retail commercial uses and three 18-hole golf courses. The proposed development is located approximately 5 miles northwest of Stanfield, immediately south of the Ak-Chin Indian Reservation, near the current Rancho El Dorado development, within Pinal County.

Requests for Service

The following table lists the requesting developer and the number of lots to be served.

El Dorado Partners, L.L.C.	5,271
Shea Home, L.P.	739
Maricopa 194, L.L.C.	87

Rio Verde 832, L.L.C.	1,939
KB Homes Phoenix, Inc.,	705
Western Maricopa 280, L.L.C.	906
Rio Verde/Munich 640, L.L.C.	2,109
GPS Sunset Dev. L.L.L.P.	84
Chandler Boys Ventures, L.L.C.	14

Finance of Utility Facilities

The Companies will finance the required utility facilities through a combination of shareholder equity and advances in aid of construction. Advances in aid of construction are often in the form of main extension agreements. Main extension agreements are a standard industry practice. Arizona Administrative Code R14-2-406 and R14-2-606 established the minimal acceptable criteria for line extension agreements between water and wastewater utilities and private parties. Main extension agreements generally require the developer to design, construct and install (or cause to be), all facilities to provide adequate service to the development. Upon acceptance of the facilities by the utility the developer will convey the wastewater facilities by way of a warranty deed. The utility will refund a minimum of ten (10) percent of the annual revenue associated with development for a period of at least ten (10) years.

Santa Cruz has entered into main extension agreements with developers requesting service. The main extension agreements provide that the utility shall refund seven percent of the gross annual revenue received from the associated facilities four (4) years after the facilities are accepted by the utility. The utility will pay the seven (7) percent annual refund to the developer for twenty-two (22) years. This refund provision exceeds the minimum refund standard in the current applicable rule.

Palo Verde has entered into wastewater main extension agreements with developers requesting service. The wastewater main extension agreements provide that the Utility shall refund two and one-half (2.5) percent of the gross annual revenue received from the associated facilities four (4) years after the facilities are accepted by the utility. The Utility will pay the two and one-half (2.5) percent annual refund to the developer for twenty-two (22) years. The Commission's rules on wastewater main extension agreements does not currently require a refund of the advance. Therefore, Palo Verde's refund provision exceeds the minimum refund standard in the current applicable rule.

Water Infrastructure

Santa Cruz has five (5) existing well sources, which will provide water. One well is on line and serves the present customer base. Two of the five wells have been refitted and equipped, and are being held for future use. The Company also has 1.5 million gallons of existing water storage.

Production of the existing wells is as follows:

DWR # 55-612737	950 gal/min
DWR # 55-617336	2,000 gal/min
DWR # 55-621410	1,000 gal/min
DWR # 55-621407	1,960 gal/min
DWR # 55-621408	2,150 gal/min

As part of this application, the Water Company submitted a water master plan which outlined planned growth rates through 2009, mapped the location of existing and future major water transmission mains, and described phasing of additional water storage and water production. Based on the present and planned facilities, the Company has adequate storage and production to serve its present customer base and can readily develop adequate storage and production to serve its anticipated customer base.

However, as a matter of analysis, the potential water problem for the water company is not quantity, but quality. The service area is characterized by groundwater which is high in nitrates, fluorides, arsenic, and total dissolved solids (salinity). These parameters are all removable, but the treatment is complex and expensive, and could impact rates.

The well in service meets all the inorganic maximum contaminant levels, but has an arsenic concentration between 11 and 13 $\mu\text{g/l}$. (The well meets the present arsenic standard of 50 $\mu\text{g/l}$ but will not meet the January 2006 arsenic standard of 10 $\mu\text{g/l}$.)

Based on this arsenic level, the Company will be required to implement a plan to meet the new arsenic standard. This could mean installing treatment facilities, locating a better source of water or blending sources of water to achieve 10 $\mu\text{g/l}$ or less. Therefore, Staff recommends that the Company submit a report to the Commission's Utilities Division by December 31, 2004, describing what steps the Company is planning to take in order to reduce the level in its water to a concentration below 10 $\mu\text{g/l}$

Curtailment Plan Tariff

A curtailment tariff 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. Since Santa Cruz Water Company does not have a curtailment tariff, this application provides an opportune time to prepare and file such a tariff. Staff recommends that the Company file a curtailment tariff pursuant to this application. The tariff shall be submitted to the Director of Utilities Division for his review and certification. Staff also recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.cc.state.az.us/utility) or available upon request from Commission Staff.

Arizona Department of Environmental Quality ("ADEQ") regulates the Santa Cruz Water Company under ADEQ Public Water System I.D. # 11-131. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

ADEQ reported that the Palo Verde Utilities wastewater treatment facility is in TOTAL COMPLIANCE with their rules for operation, reporting, and discharge limits.

ADEQ Capacity Development rules, effective September 23, 1999, require new public drinking water systems to meet distinct financial, managerial and technical capacity requirements. ADEQ will accept a financial determination made by the Commission as meeting the financial capacity requirements for new water systems under the jurisdiction of the Commission. The technical and managerial capability is determined by ADEQ. All three components are combined in the final approval of the water company's "elementary business plan", pursuant to ADEQ R18-4-606. The three components are reviewed and approved sequentially, with the technical capacity approval and "Approval To Construct" being the last performed. The Approval to Construct acts as a control point in the process, and once an Approval to Construct has been issued, it can be assumed that the water company has complied with the capacity development rules.

Santa Cruz and Palo Verde have provided Staff with copies of current ADEQ "Approvals to Construct."

Arizona Department of Water Resources Compliance

Santa Cruz is within the Pinal Active Management Area ("AMA"), and consequently is subject to reporting and conservation rules (GPCD requirements). The Pinal AMA reported that Santa Cruz Water Company is in total compliance with the Arizona Department of Water Resources reporting and conservation rules.

Wastewater Infrastructure

The existing wastewater treatment plant is an aerated lagoon with a capacity of 300,000 gallons per day. Wastewater flows for the year ending 2002 were 111,000 gallons per peak day for 636 customers. Palo Verde has begun construction on a new mechanical wastewater treatment plant, which will be built in three equal phases with an initial Phase I capacity of 1 MGD (million gallons per day). ADEQ has given notice of its intent to issue an aquifer protection permit for the total plant capacity of 3.0 MGD. (Based on an experienced flow of 180 gallons per day-service, 3.0 MGD should serve about 16,000 homes.) Effluent disposal will be accomplished by agricultural reuse, golf course irrigation, recharge, and discharge to surface water via a federal NPDES permit.

Wastewater collection and treatment cannot be approached in a fragmented manner. Instead, it demands area wide planning and co-ordination between publicly owned treatment

works, cities, sanitary districts, and privately owned wastewater treatment plants. Pursuant to that goal, Section 208 of the Federal Water Pollution Control Act (Public Law 92-500) provided for the preparation of "Certified Areawide Water Quality Management Plans" and the designation of entities to manage sewage treatment facilities and sewage collection systems in the respective planning area.

The Central Arizona Association of Governments ("CAAG") is the designated water quality planning agency for the requested CC&N areas in this application. CAAG has the authority to develop and approve general wastewater plans which include land development policies, service areas, objectives, principles and standards for local growth and development.

The Commission has generally awarded CC&N areas, contingent upon conformance with general or specific §208 plans. In this case, Staff relied chiefly upon CAAG and the specific §208 plans for recommendations in this application. Critical weight was given to the planning documents, because the applicant has requested wastewater service territories, in advance of much actual construction and service.

Palo Verde holds an existing CAAG §208 plan for this wastewater utility and it was approved by the ADEQ in October 1997. That 1997 plan includes the existing and proposed CC&N with the exception of a small finger of land, approximately 3/8 square miles in area.

Palo Verde is preparing an amendment to the 1997 plan, which will include the previously discussed small area and will also expand the original §208 planning area. The Wastewater Company has submitted copies of this proposed §208 amendment and that draft plan amendment will resolve the minor inconsistencies with the 1997 CAAG §208 plan. Therefore, Staff considers the requested CC&N area to be generally consistent with the CAAG §208 plan, but will further recommend that the Company submit a copy of the final CAAG §208 plan amendment to the Director of Utilities, when the plan is approved by the ADEQ.

The new wastewater treatment plant will have treatment and disposal capacity to serve about 16,000 homes (at 3.0 MGD and 180 gallons / peak day-service) and presently holds the necessary environmental permits for a 3.0 MGD facility. The Wastewater Company's master plan and proposed CAAG §208 amendment will provide for expansion in additional phases to 9.0 MGD and finally 14.0 MGD. The additional phases will occur as the market and growth conditions dictate. Therefore, it appears that Palo Verde has the wastewater treatment and disposal capacity or can develop the capacity to serve both the existing and proposed CC&N area.

Authorized Rates

Palo Verde will provide service in the proposed extension area under its currently authorized rates and tariffs.

ACC Compliance

A check with the Utilities Division Compliance Unit showed that Santa Cruz and Palo Verde were in compliance.

Recommendations

Water Service CC&N Transfer

Staff recommends that the Commission approve the transfer of assets and Certificate of Convenience and Necessity from Santa Cruz Water Company, an Arizona Corporation, to Santa Cruz Water Company, an Arizona Limited Liability Company, subject to compliance with the following conditions:

1. To require Santa Cruz Water Company, an Arizona Corporation, and Santa Cruz Water Company, an Arizona Limited Liability Company, provide a list of all fixed assets, regulatory approvals, financial liabilities and management arrangements transferred to Santa Cruz Water Company, an Arizona Limited Liability Company, to the Director of the Utilities Division.
2. To require Santa Cruz Water Company, an Arizona Corporation provide notice of the transfer to all affected customers, regulatory bodies and interested parties.
3. To require Santa Cruz Water Company, an Arizona Limited Liability Company, to complete compliance with all Staff recommendations listed within the "Recommendations" section of this Staff Report prior to serving its first customer within the proposal extension area.

Wastewater CC&N Transfer

Staff recommends that the Commission approve the transfer of assets and Certificate of Convenience and Necessity from Palo Verde Utilities Company, an Arizona Corporation, to Palo Verde Utilities Company, an Arizona Limited Liability Company, subject to compliance with the following conditions:

1. To require Palo Verde Utilities Company, an Arizona Corporation, and Palo Verde Utilities Company, an Arizona Limited Liability Company, provide a list of all fixed assets, regulatory approvals, financial liabilities and management arrangements transferred to Palo Verde Utilities Company, an Arizona Limited Liability Company, to the Director of the Utilities Division.
2. To require Palo Verde Utilities Company, an Arizona Corporation, and Palo Verde Utilities Company, an Arizona Limited Liability Company, provide notice of the transfer to all affected customers, regulatory bodies and interested parties.

3. To require Palo Verde Utilities Company, an Arizona Limited Liability Company to complete compliance with all Staff recommendations listed in this Staff Report prior to serving its first customer within the proposed extension area.

Water Service CC&N Extension

Staff recommends the Commission approve the Santa Cruz Water Company, an Arizona Limited Liability Company, application for an extension of the Certificate of Convenience and Necessity in portions of Pinal County to provide water service, subject to compliance with the following conditions:

1. To require the Santa Cruz Water Company, an Arizona Limited Liability Company, to charge its existing rates and charges in the proposed extension area.
2. To require Santa Cruz Water Company, an Arizona Limited Liability Company, to file a Curtailment Tariff.
3. To require Santa Cruz Water Company, an Arizona Limited Liability Company, to file a copy of the developers' Certificate of Assured Water Supply related to the proposed extension area.
4. To require Santa Cruz Water Company, an Arizona Limited Liability Company file a copy of the municipal franchise for the extension area.
5. To require Santa Cruz Water Company, an Arizona Limited Liability Company to complete compliance with all Staff recommendations listed within the "Recommendations" section of this Staff Report prior to serving its first customer within the proposed extension area.

Staff further recommends that the Commission's Decision granting this Extension to a Certificate of Convenience and Necessity to the Santa Cruz Water Company, an Arizona Limited Liability Company, be considered null and void without further order from the Commission should Santa Cruz Water Company, an Arizona Limited Liability Company, fail to meet above conditions 2, 3 and 4 within 365 days of any decision in this matter.

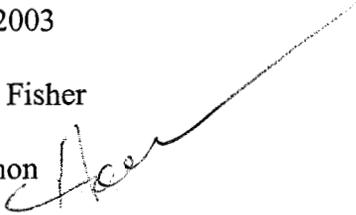
Waste Water CC&N Extension

Staff recommends the Commission approve the Palo Verde Utilities Company, an Arizona Limited Liability Company, application for an extension of its Certificate of Convenience and Necessity in portions of Pinal counties to provide wastewater service, subject to compliance with the following conditions:

1. To require the Palo Verde Utilities Company, an Arizona Limited Liability Company, to charge its existing rates and charges in the proposed extension area.
2. To require Palo Verde Utilities Company, an Arizona Limited Liability Company, to file a copy of the ADEQ approved CAAG 208 plan amendment, to the existing 1997 CAAG plan, to the Director of Utilities.
3. To require Palo Verde Utilities Company, an Arizona Limited Liability Company, file copy of the municipal franchise for the extension area.
4. To require Palo Verde Utilities Company, an Arizona Limited Liability Company, to complete compliance with all Staff recommendations within the "Recommendations" sections of this Staff Report prior to serving its first customer within the proposed extension area.

Staff further recommends that the Commission's Decision granting this Extension to a Certificate of Convenience and Necessity to the Palo Verde Utilities Company, an Arizona Limited Liability Company, be considered null and void without further order from the Commission should Palo Verde Utilities, an Arizona Limited Liability Company, fail to meet above conditions 2 and 3 within 365 days of any decision in this matter.

MEMORANDUM

DATE: 16 June 2003
TO: James E. Fisher
FROM: L. Hammon 
RE: Palo Verde Utilities (Wastewater CC&N Extension)
Santa Cruz Water Company (Water CC&N Extension)
Docket Nos. SW-03575A-03-0167 & W-03576A-03-0167

I. Introduction

Palo Verde Utilities and Santa Cruz Water Company have applied to extend their Certificates of Convenience and Necessity (CC&N). The requested service area will add approximately 5.5 square miles to their existing 2.7 square miles of certificated area. These two utilities are located in an area directly northeast of the Town of Maricopa in Pinal County.

According to the 2002 annual reports, the Company reported 885 water customers and 636 wastewater customers, in December 2002.

II. Wastewater

The existing wastewater treatment plant is an aerated lagoon with a capacity of 300,000 gallons per day. Wastewater flows for the year ending 2002 were 111,000 gallons per peak day for 636 customers. Palo Verde Utilities has begun construction on a new mechanical wastewater treatment plant, which will be built in three equal phases with an initial Phase I capacity of 1 MGD (million gallons per day). The Department of Environmental Quality has given notice of its intent to issue an aquifer protection permit for the total plant capacity of 3.0 MGD. (Based on an experienced flow of 180 gallons per day-service, 3.0 MGD should serve about 16,000 homes.) Effluent disposal will be accomplished by agricultural reuse, golf course irrigation, recharge, and discharge to surface water via a federal NPDES permit.

Wastewater collection and treatment cannot be approached in a fragmented manner. Instead, it demands area wide planning and co-ordination between publicly owned treatment works, cities, sanitary districts, and privately owned wastewater treatment plants. Pursuant to that goal, Section 208 of the Federal Water Pollution Control Act (Public Law 92-500) provided for the preparation of "Certified Areawide Water Quality Management Plans" and the designation of entities to manage sewage treatment facilities and sewage collection systems in the respective planning area.

The Central Arizona Association of Governments (CAAG) is the designated water quality planning agency for the requested Certificate of Convenience and Necessity (CC&N) areas in this application. CAAG has the authority to develop and approve general wastewater plans which include land development policies, service areas, objectives, principles and standards for local growth and development.

The Arizona Corporation Commission (ACC) has generally awarded CC&N areas, contingent upon conformance with general or specific §208 plans. In this case Staff relied chiefly upon CAAG and the specific §208 plans for recommendations in this application. Critical weight was given to the planning documents, because the applicant has requested wastewater service territories, in advance of much actual construction and service.

III. Staff Recommendations And Conclusions For Wastewater

In making this analysis, Staff focused on the following questions:

1. Is the requested area consistent with the §208 plan?

Answer: There is an existing CAAG §208 plan for this wastewater utility and it was approved by the Arizona Department of Environmental Quality in October 1997. That 1997 plan includes the existing and proposed CC&N with the exception of a small finger of land, approximately 3/8 square miles in area. The Company is preparing an amendment to the 1997 plan, which will include that small area and will also expand the original §208 planning area. The Company has submitted copies of this proposed §208 amendment and that draft plan amendment will resolve the minor inconsistencies with the 1997 CAAG §208 plan. Therefore, Staff considers the requested CC&N area to be generally consistent with the CAAG §208 plan, but will further recommend that the Company submit a copy of the final CAAG §208 plan amendment to the Director of Utilities, when the plan is approved by the Arizona Department of Environmental Quality.

2. Does the planned regional wastewater treatment facility have the capacity or can it expand to a capacity to accommodate existing CC&N areas, plus the proposed CC&N extension?

Answer: The new wastewater treatment plant will have treatment and disposal capacity to serve about 16,000 homes (at 3.0 MGD and 180 gallons / peak day-service) and presently holds the necessary environmental permits for a 3.0 MGD facility. The Company's master plan and proposed CAAG §208 amendment will provide for expansion in additional phases to 9.0 MGD and finally 14.0 MGD. The additional phases will occur as the market and growth conditions dictate. Therefore, it appears that the Company has the wastewater treatment and disposal capacity or can develop the capacity to serve both the existing and proposed CC&N area.

3. Is there a request for service within the proposed CC&N extension?

The Company has submitted copies of appropriate requests for service from developers and this is discussed by Jim Fisher.

IV. Water

Santa Cruz Water Company has five (5) existing well sources, which will provide water. One well is on line and serves the present customer base. Two of the five wells have been refitted and equipped, and are being held for future use. The Company also has 1.5 million gallons of existing water storage.

Production of the existing wells is as follows:

DWR # 55-612737	950 gal/min
DWR # 55-617336	2,000 gal/min
DWR # 55-621410	1,000 gal/min
DWR # 55-621407	1,960 gal/min
DWR # 55-621408	2,150 gal/min

As part of this application the company submitted a water master plan which outlined planned growth rates through 2009, mapped the location of existing and future major water transmission mains, and described phasing of additional water storage and water production. Based on the present and planned facilities, the Company has adequate storage and production to serve its present customer base and can readily develop adequate storage and production to serve its anticipated customer base.

However; as a matter of analysis, the potential water problem for the water company is not quantity, but quality. The service area is characterized by groundwater which is high in nitrates, fluorides, arsenic, and total dissolved solids (salinity). These parameters are all removable, but the treatment is complex and expensive, and could impact rates in the future.

The well in service meets all the inorganic maximum contaminant levels, but has an arsenic concentration between 11 and 13 $\mu\text{g/l}$. (The well meets the present arsenic standard of 50 $\mu\text{g/l}$ but will not meet the January 2006 arsenic standard of 10 $\mu\text{g/l}$.)

Based on this arsenic level, the Company will be required to implement a plan to meet the new arsenic standard. This could mean installing treatment facilities, locating a better source of water or blending sources of water to achieve 10 $\mu\text{g/l}$ or less. Therefore, Engineering recommends that the Company submit a report to the Commission's Utilities Division by December 31, 2004, describing what steps the Company is planning to take in order to reduce the level in their water to a concentration below 10 $\mu\text{g/l}$

V. Arizona Department of Environmental Quality (DEQ) Compliance

DEQ regulates the Santa Cruz Water Company under DEQ Public Water System I.D. # 11-131. Based on data submitted by the Company, DEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

DEQ reported that the Palo Verde Utilities wastewater treatment facility is in TOTAL COMPLIANCE with their rules for operation, monitoring, reporting, and permit discharge limits.

VI. Arizona Department of Water Resources (ADWR) Compliance

Santa Cruz Water Company is within the Pinal Active Management Area, and consequently is subject to reporting and conservation rules (GPCD requirements). The Pinal AMA reported that Santa Cruz Water Company is in total compliance with the ADWR reporting and conservation rules.

VII. ACC Compliance

A check with the Utilities Division compliance Unit showed no outstanding compliance issues with either the water or wastewater facilities.

VIII. Curtailment Plan Tariff

A curtailment tariff 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. Since Santa Cruz Water Company does not have a curtailment tariff, this application provides an opportune time to prepare and file such a tariff. Staff recommends that the Company file a curtailment tariff within 90 days after the effective date of any decision and order pursuant to this application. The tariff shall be submitted to the Director of Utilities Division for his review and certification. Staff also recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.cc.state.az.us/utility) or available upon request from Commission Staff.

IX. Conclusions and Recommendations

1. Engineering Staff concludes that the Santa Cruz Water Company has adequate production and storage capacity to serve the existing and proposed CC&N area and can reasonably be expected to develop additional storage and production as required in the future.

Engineering Staff further concludes that Palo Verde Utilities has the wastewater treatment and disposal capacity or can develop the capacity to serve both the existing and proposed CC&N area.

Engineering Staff further concludes that the requested CC&N area is generally consistent with the existing 1997 CAAG §208 plan, but will further recommend that the Company submit a copy of a proposed CAAG §208 plan amendment to the Director of Utilities, when the plan is approved by the Arizona Department of Environmental Quality.

2. DEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

DEQ reported that the Palo Verde Utilities wastewater treatment facility is in TOTAL COMPLIANCE with their rules for operation, monitoring, reporting, and permit discharge limits.

3. Engineering Staff recommends that the Company file a curtailment tariff within 90 days after the effective date of any decision and order pursuant to this application. The tariff shall be submitted to the Director of Utilities Division for his review and certification. Staff also recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's web site (www.cc.state.az.us/utility) or available upon request from Commission Staff.

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: June 30, 2003

RE: **SANTA CRUZ WATER COMPANY IDOCKET NO. W-03576A-03-0167I**
PALO VERDE UTILITIES COMPANY IDOCKET NO. SW-03575A-03-0167I

The area requested by Santa Cruz and Palo Verde for an extension of their CC#N has been plotted using the amended legal description, which has not yet been docketed. The company will be filing the amended legal description along with any other necessary amendments to their application. The correct 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

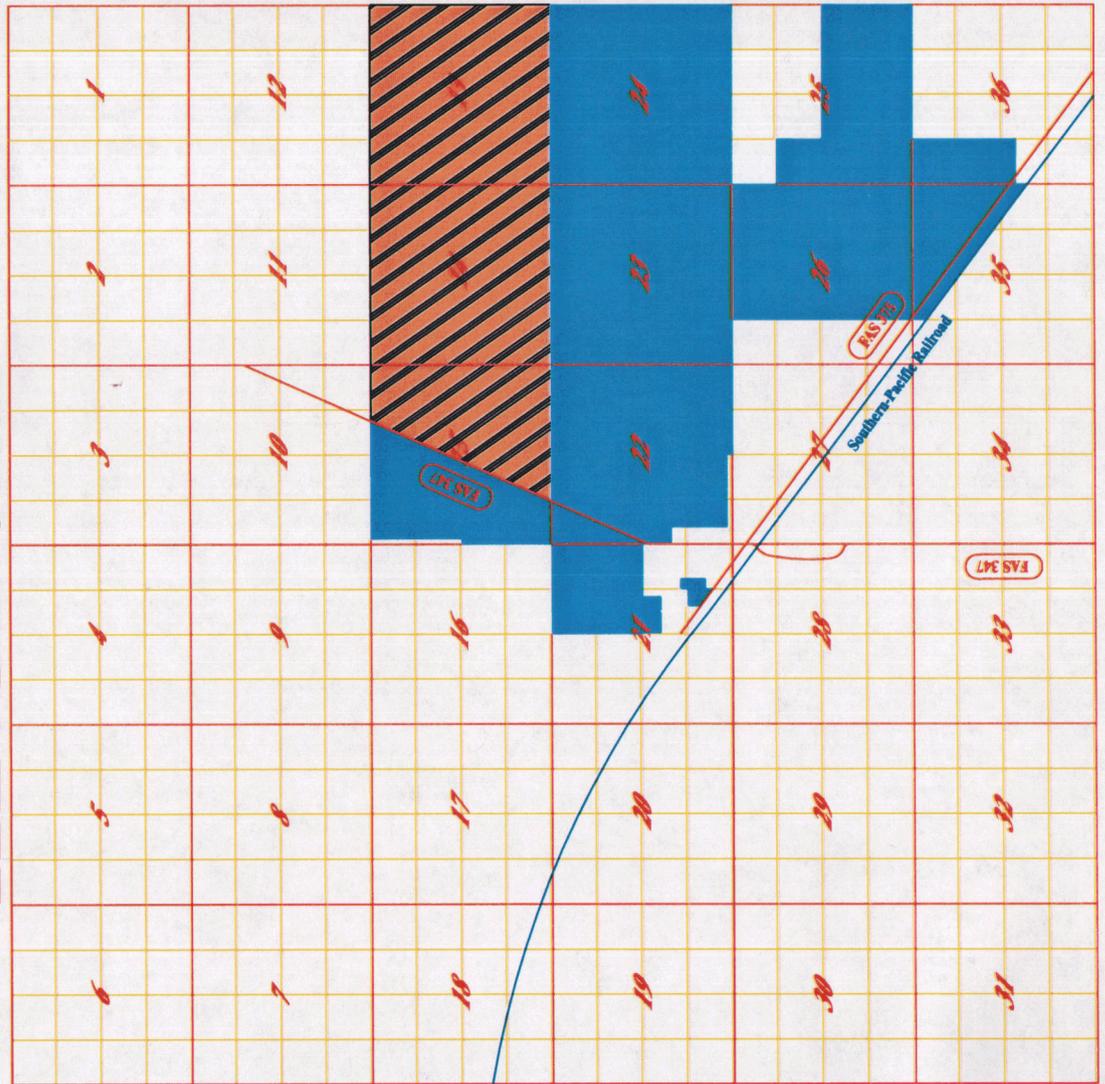
Attachments

cc: Docket Control
Mr. Jay Shapiro
Ms. Cindy Liles
Deb Person (Hand Carried)
File

PINAL COUNTY

RANGE 3 East

TOWNSHIP 4 South



 W-3576 (1)
Santa Cruz Water Company

 Sewer
Palo Verde Utilities Company

 Santa Cruz Water Company
Docket No. W-3576-03-167
Palo Verde Utilities Company
Docket No. SW-3575-03-167
Application for Extension

LEGAL DESCRIPTION FOR CC&N EXPANSION FOR
PALO VERDE UTILITIES COMPANY, L.L.C. AND
SANTA CRUZ WATER COMPANY, L.L.C.

THAT PORTION OF SECTION 15, TOWNSHIP 4 SOUTH, RANGE 3 EAST, GILA & SALT RIVER BASE & MERIDIAN, PINAL COUNTY, ARIZONA, LYING WESTERLY OF THE WESTERLY RIGHT-OF-WAY OF ARIZONA STATE ROUTE 347, EXCEPT THE WEST 160 FEET OF THE NORTHWEST QUARTER THEREOF;

TOGETHER WITH THE NORTHEAST QUARTER OF SECTION 21, TOWNSHIP 4 SOUTH, RANGE 3 EAST;

TOGETHER WITH ALL OF SECTION 22, TOWNSHIP 4 SOUTH, RANGE 3 EAST, EXCEPT THE WESTERLY 500 FEET OF THE SOUTHERLY 1803 FEET OF THE SOUTHWEST QUARTER THEREOF, AND EXCEPT THE SOUTHERLY 173 FEET OF THE SOUTHWEST QUARTER THEREOF;

TOGETHER WITH ALL OF SECTIONS 23 AND 24, TOWNSHIP 4 SOUTH, RANGE 3 EAST;

TOGETHER WITH ALL OF SECTION 25, TOWNSHIP 4 SOUTH, RANGE 3 EAST, EXCEPT THE NORTHEAST QUARTER THEREOF, AND EXCEPT THE NORTH HALF OF THE NORTHWEST QUARTER THEREOF; AND EXCEPT THE SOUTHEAST QUARTER OF THE NORTHWEST QUARTER THEREOF;

TOGETHER WITH THE NORTH 3000 FEET, MORE OR LESS, OF THE WEST HALF OF THE WEST HALF OF SECTION 36, TOWNSHIP 4 SOUTH, RANGE 3 EAST LYING NORTHERLY OF THE SOUTHERN-PACIFIC RAILWAY RIGHT-OF-WAY;

TOGETHER WITH THAT PORTION OF SECTION 35, TOWNSHIP 4 SOUTH, RANGE 3 EAST, LYING NORTHEASTERLY OF THE SOUTHERN-PACIFIC RAILWAY RIGHT-OF-WAY, EXCEPT THAT PORTION OF THE NORTHWEST QUARTER OF THE NORTHWEST QUARTER OF SECTION 35, TOWNSHIP 4 SOUTH, RANGE 3 EAST LYING NORTHEASTERLY OF THE SOUTHERN-PACIFIC RAILWAY RIGHT-OF-WAY;

TOGETHER WITH ALL OF SECTION 26, TOWNSHIP 4 SOUTH, RANGE 3 EAST, EXCEPT THE WEST HALF OF THE WEST HALF THEREOF;

COMMENCING AT THE NORTHWEST CORNER OF THE SOUTHEAST QUARTER OF SECTION 21, TOWNSHIP 4 SOUTH, RANGE 3 EAST OF THE GILA AND SALT RIVER MERIDIAN, PINAL COUNTY, ARIZONA; THENCE EASTERLY 30.0 FEET TO THE TRUE POINT OF BEGINNING, THENCE SOUTHERLY 525.0 FEET, THENCE EASTERLY 600.0 FEET, THENCE NORTHERLY 525.5 FEET, THENCE WESTERLY 600.0 FEET TO THE TRUE POINT OF BEGINNING.

TOGETHER WITH THE FOLLOWING: COMMENCING AT THE NORTHWEST CORNER OF THE SOUTHEAST QUARTER OF SECTION 21, TOWNSHIP 4 SOUTH, RANGE 3 EAST OF THE GILA AND SALT RIVER MERIDIAN, PINAL COUNTY, ARIZONA; THENCE EASTERLY 690.0 FEET TO THE TRUE POINT OF BEGINNING, THENCE SOUTHERLY 525.6 FEET, THENCE EASTERLY 400.0 FEET, THENCE NORTHERLY 525.9 FEET, THENCE WESTERLY 400.0 FEET TO THE TRUE POINT OF BEGINNING.

TOGETHER WITH THE FOLLOWING: COMMENCING AT A POINT ON THE WEST SIDE OF THE EAST HALF OF THE SOUTHEAST QUARTER OF SECTION 21, TOWNSHIP 4 SOUTH, RANGE 3 EAST OF THE GILA AND SALT RIVER MERIDIAN, PINAL COUNTY, ARIZONA, 810 FEET NORTH OF THE SECTION LINE COMMON TO THE SOUTH OF SAID SECTION 21 AND EXTENDING NORTH ALONG SAID QUARTER SECTION LINE FOR A DISTANCE OF 726 FEET; THENCE 300 FEET EAST; THENCE SOUTH 726 FEET PARALLELING SAID QUARTER SECTION LINE; THENCE WEST TO THE POINT OF BEGINNING;

TOGETHER WITH ALL THAT PART OF THE EAST 495.5 FEET OF THE SOUTHWEST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 21, TOWNSHIP 4 SOUTH, RANGE 3 EAST OF THE GILA AND SALT RIVER MERIDIAN, PINAL COUNTY, ARIZONA, LYING NORTH OF THE NORTH BOUNDARY LINE OF THE COUNTY ROAD WHICH IS NORTH OF THE SOUTHERN-PACIFIC RAILROAD RIGHT-OF-WAY.

TOGETHER WITH THOSE PARTICULAR PUBLIC STREETS AND/OR COUNTY ROADWAYS UTILIZED BY THE PUBLIC FOR LEGAL ACCESS TO ANY AND/OR ALL OF THE LANDS DESCRIBED ABOVE.

CONTAINS 3427 ACRES, MORE OR LESS.