ORIGINAL

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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

Date: October ~~25~~ 26, 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-06-0199)

PALO VERDE UTILITIES COMPANY AND SANTA CRUZ WATER COMPANY FOR AN EXTENSION OF THEIR EXISTING CERTIFICATES OF CONVENIENCE AND NECESSITY (DOCKET NOS. SW-03575A-05-0926 AND W-03576A-05-0926)

Attached is the Staff Report for the consolidated applications of Arizona Water Company, Palo Verde Utilities and Santa Cruz Water Company for extensions of their existing Certificate of Convenience and Necessity. Staff provides three options to the Commission for resolution of these dockets.

EGJ:LAJ:red

Originator: Linda A. Jaress

Attachment: Original and 13 Copies

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Service List for: Arizona Water Company et al
Docket No. W-01445A-06-0199 et al

Mr. Robert W. Geake
Vice President and General Counsel
Arizona Water Company
Post Office Box 29006
Phoenix, Arizona 85038-9006

Mr. Steven Hirsch
Mr. Rodney W. Ott
Mr. Bryan Cave
Two North Central Avenue, Suite 2200
Phoenix, Arizona 85004

Mr. Michael W. Patten
Roska, DeWulf & Patten
400 East Van Buren, Suite 800
Phoenix, Arizona 85004

Mr. Brad Clough
Anderson & Barnes 580, LLP
Anderson & Miller 694, LLP
8501 N. Scottsdale Road, Suite 260
Scottsdale, Arizona 85253

Mr. Jeffrey W. Crockett
Ms. Marci Montgomery
Snell & Wilmer
400 East Van Buren Street
Phoenix, Arizona 85004

Mr. Kenneth H. Lowman
KEJE Group, LLC
7854 West Sahara
Las Vegas Nevada 89117

Mr. Craig Emmerson
Anderson & Val Vista 6, LLC
8501 North Scottsdale Road, Suite 260
Scottsdale, Arizona 85253

Mr. Philip J. Polich
Gallup Financial, LLC
8501 North Scottsdale Road, Suite 125
Scottsdale, Arizona 85253

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

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-06-0199

PALO VERDE UTILITIES
SW-03575A-05-0926

SANTA CRUZ WATER COMPANY
W-03576A-05-0926

APPLICATIONS FOR EXTENSION
OF CERTIFICATES OF
CONVENIENCE AND NECESSITY

OCTOBER 25, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Water Company (Docket No. W-01445A-06-0199) 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 on Arizona Water Company. Dorothy Hains prepared the Engineering Report on Santa Cruz Water Company and Palo Verde Utilities Company.

Linda A. Jaress
Executive Consultant III

Marlin Scott, Jr.
Utility Engineer

Dorothy Hains
Utility Engineer

EXECUTIVE SUMMARY
ARIZONA WATER COMPANY, SANTA CRUZ WATER COMPANY
PALO VERDE UTILITIES
DOCKET NOS. W-01445A-06-0199, W-03576A-05-0926
SW-0357A-05-0926

Santa Cruz Water Company ("Santa Cruz") and Palo Verde Utilities ("Palo Verde") received requests for service in certain areas of Pinal County and on December 28, 2005, filed an application to extend theirs Certificates of Convenience and Necessity ("CC&N") to provide water and wastewater service to those areas.

On March 29, 2006, Arizona Water Company ("Arizona Water") filed an application to extend its CC&N to areas for which it received requests for service, for the areas for which Santa Cruz Water Company received requests for service and for vast areas for which no requests for service have been filed. The request, in total, is to extend service to 70,000 acres.

Staff has reviewed the applications and responses to data requests from the three companies. Staff believes that both Arizona Water and Santa Cruz are fit and proper to provide water service in the areas in question. They are both capable and qualified. Thus, Staff is providing three options to the Commission for resolution of the question of which water company should provide service to which areas.

The first option is simply to grant each of the two water companies the areas for which they have requests for service. This, in effect, would approve the application of Santa Cruz. This option recognizes possible efficiencies from Santa Cruz's and Palo Verde's ability to provide both water and wastewater service and recognizes possession of requests for service as a very important factor in seeking approval of extensions of CC&Ns.

The second option is to grant Arizona Water approval to serve the areas for which there are requests for service which are contiguous to Arizona Water's current service territory regardless of which company received the request for service. It is likely that extensions of service to these areas may be shorter and less costly if constructed by Arizona Water compared to extensions to the same areas by Santa Cruz. The areas which are not contiguous to Arizona Water would be approved for service by Santa Cruz. However, this option would result in dissatisfied developers and land-owners who have requested water and wastewater service from Palo Verde and Santa Cruz.

The third option is to grant Santa Cruz approval to serve the areas for which there are requests for service north of Korston Road and grant Arizona Water approval to serve the areas south of Korston Road. Although the location of the line at which to divide the approved areas is somewhat arbitrary, Santa Cruz has indicated that its major water utility plant will be constructed north of Korston Road. This option would also affect landowners and developers who requested service from a provider other than the one which would serve them. This option would not foreclose Arizona Water's westward expansion.

Regardless of which company receives approval to extend its service territory in which area, Staff recommends that only areas for which requests for service were received should be included in the CC&N extensions awarded in this docket.

Staff recommends that Arizona Water's request for approval to extend its CC&N into the service territory of CP Water be denied.

Staff recommends that the issue of the extension to the Copper Mountain Ranch area be addressed in Docket No. W-01445A-04-0743.

Staff recommends approval of Palo Verde's application to extend its CC&N. It holds requests for service for all the areas requested and there are no competing applications. Palo Verde is fit and proper to provide service to the requested areas.

The Staff Report contains other, standard recommendations for compliance related to extensions of CC&Ns.

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Introduction

On December 28, 2005, Santa Cruz Water Company, L.L.C. ("Santa Cruz") and Palo Verde Utilities Company, L.L.C. ("Palo Verde") filed an application to extend their Certificates of Convenience and Necessity ("CC&N") in Pinal County. Santa Cruz and Palo Verde are Limited Liability Corporations of which Global Water Resources, LLC ("GWR") is the member and Trevor Hill is the manager. In this report Santa Cruz and Palo Verde will be sometimes referred to together as "Global" or "the Global companies". At December 31, 2005, Santa Cruz provided water service to 9,658 customers and Palo Verde provided wastewater service to 9,528 customers.

The Global companies began business in Arizona in February, 2004 when GWR purchased 100 percent of the membership interests in Palo Verde and Santa Cruz which, at the time, served approximately 2,000 customers. According to GWR's website, "Global Water was founded to aggregate and consolidate small to medium-sized water and wastewater utilities in the southwestern United States." Among other utility operations in Arizona, Global provides service in the newly-developed Maricopa region southeast of Phoenix and in Cave Creek. Earlier this year, Global acquired West Maricopa Combine, a group of utilities located primarily in the west valley including the Water Utility of Greater Tonopah ("WUGT"). WUGT's service territory totals approximately 65 sections or 41,000 acres yet currently serves only 305 customers.

Arizona Water Company ("Arizona Water") provides service to approximately 100,000 customers in 18 systems throughout Arizona including 19,089 customers in the Casa Grande system and 3,944 in the Coolidge system. Arizona Water has provided water utility service in Arizona for over half a century. Exhibit 1, attached, lists financial and statistical data for the three utilities.

Exhibit 2 is a map which shows the portion of Pinal County at issue. It includes the current certificated areas of Arizona Water, Palo Verde and Santa Cruz, areas which are at issue in other dockets, and areas which are under consideration in this docket. Exhibit 3 shows the areas at issue in this docket and highlights the requests for service. Exhibit 4 is identical to Exhibit 3 except it includes a black line delineating Korsten Road.

Operations

Attached as Exhibits 5 and 6 are Staff's Engineering Reports which describe the three Companies' current systems, the proposed plant and costs to serve the requested areas. The reports include the findings that Arizona Water and the Global companies were in compliance with Commission decisions, with Arizona Department of Water Resources ("ADWR") and with Arizona Department of Environmental Quality ("ADEQ"). Both reports indicate that the respective companies will have adequate capacity to serve customers in the proposed area and can reasonably be expected to add plant when necessary.

Financial Health

Both Arizona Water and the Global companies are financially sound. They are profitable and have strong capital structures. None of the companies has indicated experiencing difficulty obtaining financing.

Arizona Water's 2005 Annual Report filed with the Commission shows net income of $6.1 million generated by revenues of $42.2 million. Net utility plant totaled $200.8 million. Arizona Water finances its plant through a combination of debt, equity, contributions and advances. At the end of 2005, its capital structure was comprised of $31.3 million of long and short-term debt, $84.8 million of contributions and advances and $69.1 million of equity. In 2005, Arizona paid $4.0 million to its parent in dividends.

Palo Verde's 2005 Annual Report to the Commission indicated that Palo Verde generated $3.0 million in revenue resulting in net income of $652,861. Palo Verde's net plant of $47.5 million is financed entirely by advances and equity.

Santa Cruz was far more profitable (on a percentage basis) than either Palo Verde or Arizona Water, generating net income of $3.3 million on revenues of only $5.1 million. Santa Cruz' net plant of $25.4 million was also financed entirely by advances and equity. Compared to Arizona Water, Santa Cruz has roughly 10 percent of the customers, 13 percent of the plant but 54 percent of Arizona Water's level of profit. According to the Global companies, they are reinvesting all "after-tax earnings" in its growing utility business.

Rates

Arizona Water's rates for the Casa Grande system were set in 2005. The rates were designed in inclining blocks whereby the more water the customer uses, the higher the charge on a per unit basis. The rates are listed on Exhibit 1. However, as Arizona Water completes its arsenic treatment facilities in the Casa Grande area, rates will include an additional amount through the Arsenic Cost Remediation Mechanism. Arizona Water expects that it will file to implement this arsenic-related charge in the Casa Grande system in the first or second quarter of 2007.

The rates for Santa Cruz and Palo Verde were set in 1999. The rates for water include 1,000 gallons in the monthly service charge and $2.60 per 1,000 gallons thereafter. Santa Cruz also charges $100.00 per acre foot for effluent. An acre foot is approximately 326,000 gallons.

Palo Verde and Santa Cruz have no employees. All services required by the two utilities are performed by an affiliate, Global Water Management, LLC. This organizational arrangement may result in operational efficiencies but makes the Global companies more difficult to regulate. Utilities with no employees cause rate cases to be more complicated because the controversial issue of allocation of costs and expenses among affiliates must be decided. Utilities run by

management companies or affiliates require extra vigilance on the part of Staff during rate cases to prevent the same costs from being recovered twice.

Arizona Water has 186 employees and does not receive services from affiliates.

Conservation and Sale of Reclaimed Water

Global's applications to the Commission generally include a description of its "triad of conservation" which includes the reuse of reclaimed water, the use of surface water and the recharge of excess reclaimed water. In response to Staff Data Request LJ 1.7, Global said that it presently sells a total of 1.4 million gallons per day of reclaimed water to five customers. However, as previously mentioned, the rate structure of Santa Cruz is flat meaning that a customer pays $2.60 per 1,000 gallons if the customer uses 2,000 gallons or 50,000 gallons. Such a rate structure does not encourage conservation.

In a response to a Staff data request, Arizona Water listed its sales of effluent as 172.5 million gallons of effluent per year (approximately 470,000 gallons per day), much less than Global. According to its web site, Arizona Water offers three water conservation programs; one for single-family residential customers; one for multi-family residents; and one for non-residential customers. These programs consist of free water-use audits performed by an Arizona Water representative at the customer's location and results in a written audit report given to the customer. Arizona Water also makes available to its customers 16 publications discussing water conservation. Finally, Arizona Water's rates are structured with inclining blocks whereby the more the customer uses, the higher the rate per 1,000 gallons. Inclining block rates are commonly used by the Commission and utilities to encourage conservation.

The Extension Areas Requested

Palo Verde is requesting an extension of its CC&N to 26,000 acres or approximately 40 sections of land. Santa Cruz is requesting an extension of 19,300 acres or approximately 30 sections of land. Santa Cruz is requesting a smaller area than Palo Verde because Palo Verde is requesting approval to provide wastewater service in some areas where Arizona Water currently holds the CC&N for water service. All of the requested areas are between two and fifteen miles from the Global companies' current CC&N area. None are contiguous to Global's current CC&Ns. The Global companies have received requests for service for all the areas for which they have requested an extension.

Arizona Water is requesting an extension of its service territory to include all or portions of 112 sections of land contiguous to, or near, the north, west and south sides of its current service territory in and around Casa Grande. At 640 acres per section, the requested area totals approximately 70,000 acres. Of the area requested by Arizona Water, it has received and filed four requests for service totaling 175 acres. Over 50 sections of the area requested by Arizona Water have no corresponding requests for service from either Arizona Water or the Global companies.

Areas for Which There Are No Requests for Service

In data request LJ 3.1, Staff requested that Arizona Water justify the inclusion of each section in Arizona Water's application for which neither Arizona Water nor Santa Cruz received requests for service. Arizona Water responded that those areas are included in its Pinal Valley Master Water System Plan and are a "logical extension of growth of the area and its water system". It also responded that each section would contribute to operational efficiencies, exclusion of the areas would result in operational inefficiencies, the areas are contiguous, Arizona Water is financially sound and Arizona Water is in compliance with Commission, ADEQ and ADWR requirements. Finally, it supported inclusion of the areas because it believes its rates are lower than those of "the competitor".

Staff has some experience with "master plans" of cities in Arizona and realizes that although planning is a positive strategy for managing growth, the Commission is not bound by master plans or planning areas of either cities or utilities when determining the public interest. Furthermore, master plans can change and plans of different entities could easily overlap. Staff does not believe that inclusion in a planning area should be the determining factor in the decision to award service territory.

The same areas for which Arizona Water is requesting approval to serve could also be considered "logical extensions" of other utilities' service territories. Similarly, Arizona Water's arguments regarding its fitness would apply to Santa Cruz or other water utilities. The rates argument may be currently correct, but after implementation of the Arizona Water's ACRM, Arizona Water's rates may be higher than those of Santa Cruz. As for operational efficiencies, Arizona water has not provided calculations supporting this argument. It is Staff's opinion that the reason calculations may not be available is it is difficult, if not impossible for Arizona Water to calculate efficiencies when there are no plans for development from which to work.

Pinal County, especially the areas of Casa Grande and Coolidge, is experiencing a high level of growth and development. It is not surprising that several parties have expressed interest in this proceeding and other recent CC&N proceedings concerning this area because the costs and ease of installing infrastructure are uppermost in the minds of landowners and developers. It is common for larger, master-planned developments to be planned in this area. Extending a CC&N to an area where there is no corresponding request for service could interfere with the planning and execution of future development. Due to the magnitude and intensity of the concerns of landowners and developers expressed in this docket and other dockets concerning this area of the state, Staff recommends that only areas for which requests for service were received should be included in the CC&N extensions awarded in this docket.

CP Water Company

Arizona Water has provided services, including water, to CP Water Company ("CP Water") for several years. Providing services to a utility does not imply or signify ownership of that utility nor does it mean that the utility receiving the services is not fit and proper. If Arizona

Water ended the CP Water contract, CP Water would remain fit and proper if it found its own water source and/or another entity to provide the necessary services without a reduction in customer service.

Staff concludes that Arizona Water has not shown that it is in the public interest to cancel CP's CC&N and award it to Arizona Water. If the Commission were to do so, it would set a precedent whereby any utility operated by a management company which blocks expansion of another utility would be at risk for losing its CC&N even though the rates and service being provided are reasonable. For these reasons Staff recommends that Arizona Water's request for approval to extend its CC&N into the service territory of CP Water be denied.

Copper Mountain Ranch

In 2004, in Docket No. W-01445A-04-0743, Arizona Water filed an application requesting approval to extend its CC&N to an area known as Copper Mountain Ranch. The City of Casa Grande requested intervention in the case claiming it had a contractual right to serve the Copper Mountain Development. That claim is the subject of an on-going law suit in federal court. Arizona Water has included the Copper Mountain Ranch area in this application.

Staff believes that Arizona Water's request to extend service to the Copper Mountain Ranch area in this docket should be denied. First, the dockets have not been consolidated making approval in this docket administratively complex. Second, if the Commission were to approve Arizona Water's extension to the area and the court later found that the City of Casa Grande has a contractual right to serve the area, further legal proceedings would likely follow and the public interest would not be served. Staff recommends that the issue of the extension to the Copper Mountain Ranch area be addressed in Docket No. W-01445A-04-0743.

Efficiencies

Both Santa Cruz and Arizona Water have the burden of proof to show that it would be in the public interest for each of them to provide service to the areas requested. Neither has produced calculations which would allow Staff to determine which company would be the most efficient provider. The Global Companies have not demonstrated that the provision of water and wastewater by affiliated companies is more efficient than the water/wastewater combination of Arizona Water and Casa Grande or Arizona Water and Southwest Water. However, Staff believes that the provision of water and wastewater service by affiliates is likely to be more efficient than water service being provided by a utility and wastewater service to the same area being provided by an unrelated entity. It costs less to send a combined bill for both services than to send two separate bills. Centralized customer service and the processing of new customers simultaneously also would be more efficient. The costs of plant purchases, engineering services and insurance, for example, may be less for two affiliates combined than two non-affiliates purchasing separately.

Therefore, unless Arizona Water can successfully refute the above, Staff acknowledges that the provision of water and wastewater by affiliates such as Palo Verde and Santa Cruz is likely to result in efficiencies which would not be experienced by unaffiliated utilities or by a utility and a municipality.

Recommendations

Staff recognizes that both Arizona Water and Santa Cruz are fit and proper and both companies have the capabilities and qualifications to serve water in the areas for which they have applied. Thus, Staff offers three options to the Commission. The first option is simply to grant each of the two water companies the areas for which they have requests for service. This, in effect, would approve the application of the Global companies, but limit Arizona Water to the 175 acres for which it has requests for service. This option recognizes possible efficiencies from Santa Cruz Water Company's and Palo Verde Utilities' ability to provide both water and wastewater service and recognizes possession of requests for service as a very important factor in seeking approval of extensions of Certificates of Convenience and Necessity.

The second option is to grant Arizona Water approval to serve the areas for which there are requests for service which are contiguous to Arizona Water's current service territory regardless of which company received the request for service. It is likely that extensions of service to these areas may be shorter and less costly if constructed by Arizona Water compared to extensions to the same areas by Santa Cruz. However, this option would result in dissatisfied developers and land-owners who have requested water and wastewater service from Global in an effort to save the time and effort of working with two entities for utility infrastructure rather than one. It also would thwart Global's ability to grow in the southeast direction.

The third option would be to grant Santa Cruz approval to serve the areas with requests for service north of Korston Road (marked on Exhibit 4 as a thick, black line) and grant Arizona Water approval to serve the areas south of Korston Road. Although the location of the line at which to divide the approved could appear somewhat arbitrary, Santa Cruz has indicated that its major water utility plant will be constructed north of Korston Road. This option would also affect landowners and developers who requested service from a provider other than the one which would serve them but would not foreclose Arizona Water's westward expansion. The advantage to this option is that neither water company will block the potential expansion area of the other.

Regardless of which company receives approval to extend its service territory in which area, Staff recommends that the prevailing water company file with the Commission's Docket Control as a compliance item in this case copies of the Arizona Department of Environmental Quality ("ADEQ") Approval of Construction ("AOC") for the proposed water system including the new sources, storage tanks, pressure tanks, booster pumps and distribution system for the first developer by December 31, 2008.

Staff recommends that the issue of the extension to the Copper Mountain Ranch area be addressed in Docket No. W-01445A-04-0743.

Staff recommends that the prevailing water company file with the Commission's Docket Control as a compliance item in this case copies of the Arizona Department of Environmental Quality ("ADEQ") Approval of Construction ("AOC") for the proposed water system including the new sources, storage tanks, pressure tanks, booster pumps and distribution system for the first developer by December 31, 2008.

Staff recommends that the prevailing water company docket as a compliance item in this docket, within two years of the effective date of an order in this proceeding, a copy the first developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute or a copy of the amendment to its existing Designation of Assured Water Supply issued by ADWR by December 31, 2008.

Staff also recommends that the prevailing water company be required to file a copy of the applicable franchise agreement for the extension area with Docket Control within 365 days of the decision in this matter.

Regarding Palo Verde's request for approval to extend its CC&N to provide wastewater service, Staff recommends approval. Regardless of which water company provides service, wastewater treatment will be a necessary component of development.

Staff further recommends that Palo Verde file with the Commission's Docket Control as a compliance item in this case a copy of the ADEQ Approval of Construction for the sewer line interconnection and lift station that will interconnect the sewer line in the requested area with the Camp 1 WRF system by December 31, 2007.

Staff also recommends that Palo Verde file a copy of the county franchise agreement for the extension area with Docket Control within 365 days of the decision in this matter.

Exhibit 1

Palo Verde Utilities, Santa Cruz Water Company and Arizona Water Company

Financial and Statistical Data 12/31/05

	Palo Verde	Santa Cruz	Arizona Water
Service to First Customer	2004	2004	1955
Customers	9,528	9,658	98,268
Employees 10/23/06	0	0	186
Complaints to ACC 2006	1	4	19
Revenues	$ 2,988,622	$ 5,107,069	$ 42,215,915
Gallons Sold		988,653,000	10,259,597,400
Avg. Mo. Use per Customer		8,531	8,700
Monthly Rev. per Customer	$ 26.14	$ 44.07	$ 35.80
Capital Structure			
Debt	$ -	$ -	$ 21,000,000
Equity	$ 39,094,655	$ 15,732,638	$ 69,050,659
Cont. & Adv.	$ 5,076,085	$ 7,889,438	$ 78,804,017
Net Income	$ 652,861	$ 3,309,808	$ 6,102,184
Util. Plant in Service	$ 41,584,987	$ 18,678,398	$248,939,021
Accum. Depreciation	$ 2,123,171	$ 1,072,511	$ 60,859,679
Net Utility Plant	$ 39,461,816	$ 17,605,887	$ 188,079,342
Return on Net Plant	1.7%	18.8%	3.2%
Return on Equity	1.7%	21.0%	8.8%
Net Plant per Customer	$ 4,142	$ 1,823	$ 1,914
Palo Verde Utilities			
Monthly Charge	$ 33.00		
Per acre foot Effluent	$ 100.00		
Santa Cruz Rates effective 9/17/99			
Monthly Service Charge (Incl. 1,000 gal.)		$ 25.00	
Per 1,000 gallons		$ 2.60	
Arizona Water Rates effective 12/1/05			
Monthly Service Charge (Incl. 0 gal.)			$ 10.48
0-3,000 gallons per 1,000			$ 1.00
3,001 to 10,000 per 1,000			$ 1.49
10,001 to 67,000 per 1,000			$ 1.65

Exhibit 2

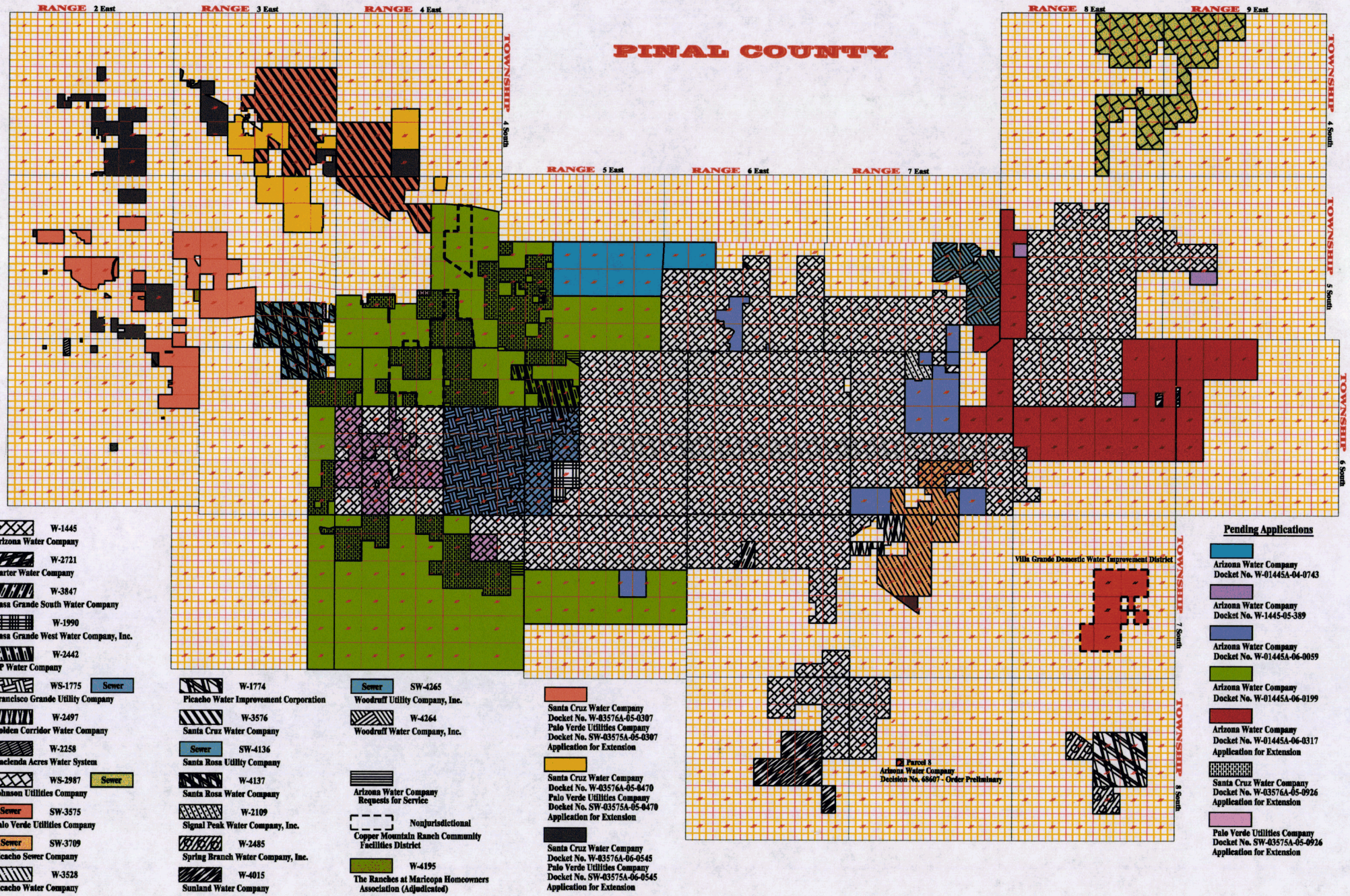

PINAL COUNTY
RANGE 2 East
RANGE 3 East
RANGE 4 East
RANGE 5 East
RANGE 6 East
RANGE 7 East
RANGE 8 East
RANGE 9 East
TOWNSHIP 4 South
TOWNSHIP 5 South
TOWNSHIP 6 South
TOWNSHIP 7 South
TOWNSHIP 8 South
Villa Grande Domestic Water Improvement District
Parcel 8
Arizona Water Company
Decision No. 68607 - Order Preliminary
W-1445
Arizona Water Company
W-2721
Carter Water Company
W-3847
Casa Grande South Water Company
W-1990
Casa Grande West Water Company, Inc.
W-2442
CP Water Company
WS-1775
Sewer
Francisco Grande Utility Company
W-2497
Golden Corridor Water Company
W-2258
Hacienda Acres Water System
WS-2987
Sewer
Johnson Utilities Company
Sewer
SW-3575
Palo Verde Utilities Company
Sewer
SW-3709
Picacho Sewer Company
W-3528
Picacho Water Company
W-1774
Picacho Water Improvement Corporation
W-3576
Santa Cruz Water Company
Sewer
SW-4136
Santa Rosa Utility Company
W-4137
Santa Rosa Water Company
W-2109
Signal Peak Water Company, Inc.
W-2485
Spring Branch Water Company, Inc.
W-4015
Sunland Water Company
Sewer
SW-4265
Woodruff Utility Company, Inc.
W-4264
Woodruff Water Company, Inc.
Arizona Water Company
Requests for Service
Nonjurisdictional
Copper Mountain Ranch Community
Facilities District
W-4195
The Ranches at Maricopa Homeowners
Association (Adjudicated)
Santa Cruz Water Company
Docket No. W-03576A-05-0307
Palo Verde Utilities Company
Docket No. SW-03575A-05-0307
Application for Extension
Santa Cruz Water Company
Docket No. W-03576A-05-0470
Palo Verde Utilities Company
Docket No. SW-03575A-05-0470
Application for Extension
Santa Cruz Water Company
Docket No. W-03576A-06-0545
Palo Verde Utilities Company
Docket No. SW-03575A-06-0545
Application for Extension
Pending Applications
Arizona Water Company
Docket No. W-01445A-04-0743
Arizona Water Company
Docket No. W-1445-05-389
Arizona Water Company
Docket No. W-01445A-06-0059
Arizona Water Company
Docket No. W-01445A-06-0199
Arizona Water Company
Docket No. W-01445A-06-0317
Application for Extension
Santa Cruz Water Company
Docket No. W-03576A-05-0926
Application for Extension
Palo Verde Utilities Company
Docket No. SW-03575A-05-0926
Application for Extension

Exhibit 3

PINAL COUNTY

W-1445
Arizona Water Company

W-1990
Casa Grande West Water Company, Inc.

W-2442
CP Water Company

WS-1775 Sewer
Francisco Grande Utility Company

Arizona Water Company
Requests for Service

Nonjurisdictional
Copper Mountain Ranch Community Facilities District

Sewer SW-3575 (3)
Palo Verde Utilities Company

W-3576 (3)
Santa Cruz Water Company

Sewer SW-4136 (2)
Santa Rosa Utility Company

W-4137 (2)
Santa Rosa Water Company

W-4195 (1)
The Ranches at Maricopa Homeowners Association
Adjudicated 'Not a Public Service Corporation'

Pending Applications

Arizona Water Company
Docket No. W-01445A-04-0743

Arizona Water Company
Docket No. W-01445A-06-0199

Santa Cruz Water Company
Docket No. W-03576A-05-0926
Application for Extension

Palo Verde Utilities Company
Docket No. SW-03575A-05-0926
Application for Extension

Arizona Water Company
Docket No. W-01445A-06-0059

Santa Cruz Water Company
Docket No. W-3576-05-307
Palo Verde Utilities Company
Docket No. SW-3575-05-307
Application for Extension

Santa Cruz Water Company
Docket No. W-03576A-05-0470
Palo Verde Utilities Company
Docket No. SW-03575A-05-0470
Application for Extension

Exhibit 4

PINAL COUNTY

W-1445
Arizona Water Company

W-1990
Casa Grande West Water Company, Inc.

W-2442
CP Water Company

WS-1775 Sewer
Francisco Grande Utility Company

Sewer SW-3575 (3)
Palo Verde Utilities Company

W-3576 (3)
Santa Cruz Water Company

Sewer SW-4136 (2)
Santa Rosa Utility Company

W-4137 (2)
Santa Rosa Water Company

W-4195 (1)
The Ranches at Maricopa Homeowners Association
Adjudicated 'Not a Public Service Corporation'

Arizona Water Company Requests for Service

Nonjurisdictional
Copper Mountain Ranch Community Facilities District

Pending Applications

Arizona Water Company
Docket No. W-01445A-04-0743

Arizona Water Company
Docket No. W-01445A-06-0199

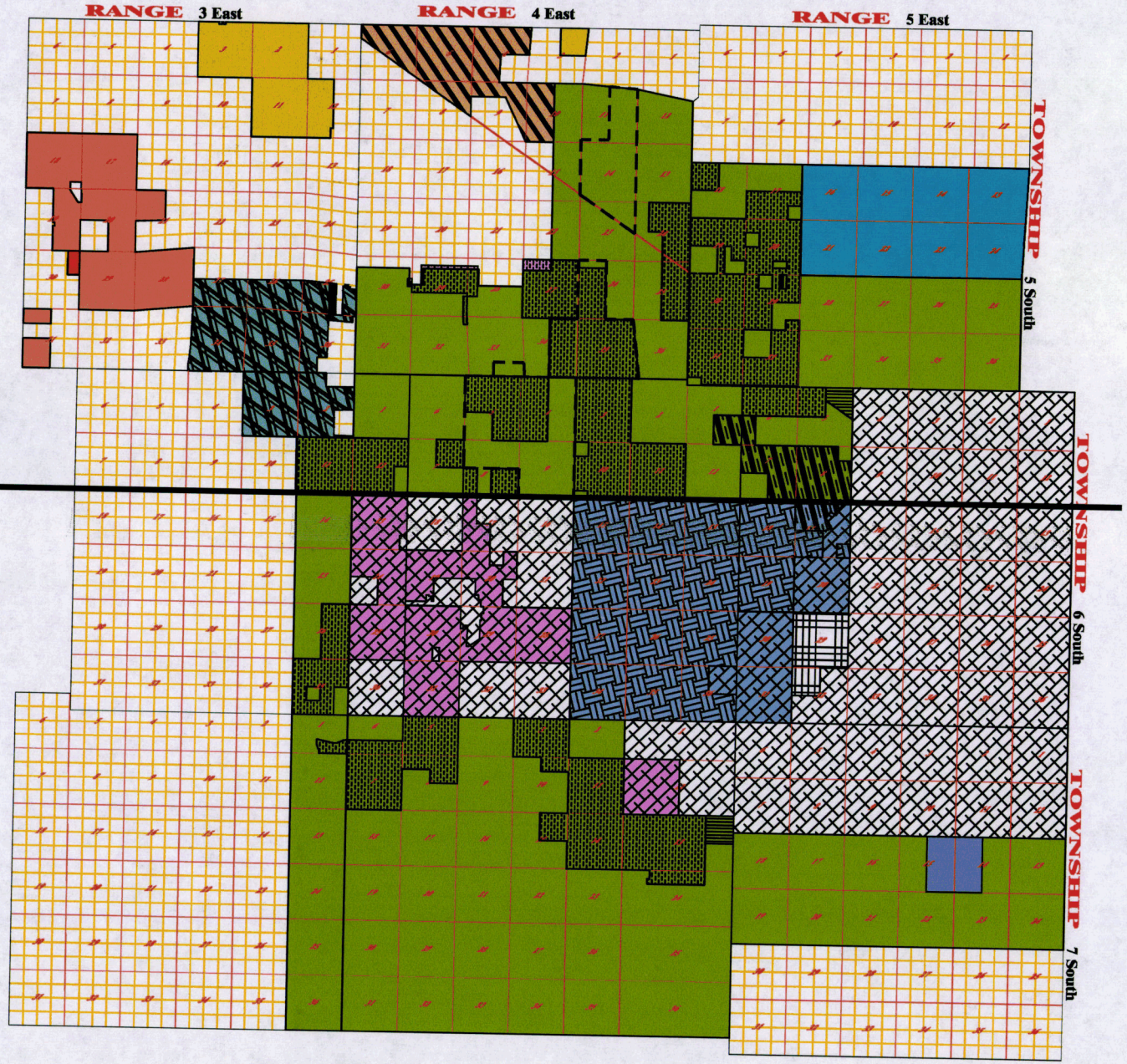
Santa Cruz Water Company
Docket No. W-03576A-05-0926
Application for Extension

Palo Verde Utilities Company
Docket No. SW-03575A-05-0926
Application for Extension

Arizona Water Company
Docket No. W-01445A-06-0059

Santa Cruz Water Company
Docket No. W-3576-05-307
Palo Verde Utilities Company
Docket No. SW-3575-05-307
Application for Extension

Santa Cruz Water Company
Docket No. W-03576A-05-0470
Palo Verde Utilities Company
Docket No. SW-03575A-05-0470
Application for Extension



MEMORANDUM

DATE: October 20, 2006

TO: Linda Jaress
Executive Consultant III

FROM: Marlin Scott, Jr.
Utilities Engineer

RE: Arizona Water Company – Casa Grande System
Docket No. W-01445A-06-0199 (CC&N Extension)

Introduction

Arizona Water Company ("Company") has applied to extend its Certificate of Convenience and Necessity ("CC&N") for its Casa Grande system. The requested areas will add approximately 111 square-miles to the Company's existing 138 square-miles of local certificated area. The Company serves the City of Casa Grande in Pinal County.

Capacity

Existing Utility Plant

According to water use data submitted by the Company, the Company has 18 wells producing 20,320 gallons per minute ("GPM"), 14.27 million gallons of storage capacity, and a distribution system serving 20,294 service connections as of May 2006. Based on historical growth rates, it is anticipated that the existing service area could grow to approximately 29,500 connections at the end of five years. The Company has predicted an additional 4,050 connections for the proposed CC&N extensions at the end of five years, resulting in a projected total customer base of approximately 33,550 at the end of five years. Based on the existing well production and storage capacities, the system can serve approximately 29,500 service connections.

Design Report for Proposed Infrastructure

The Company submitted a Design Report for the proposed CC&N extension areas that provided an estimate of the projected water demands and identified the major infrastructure (i.e., wells, tanks, water treatment plants and transmission lines) required to satisfy the estimated demands. This Design Report also provided:

- The infrastructure needed to serve the expansion area that was divided into ten-year intervals and estimated for a period of fifty years.
- The installation of transmission mains would be determined by actual development needs.
- A pipe line grid distribution system that included the CC&N expansion area was shown on the submitted Company's Pinal Valley Water Distribution System Map.
- A flow model of the Casa Grande System including the CC&N expansion area was provided showing the entire grid system for the expansion area, peak demands, and production for up to the year 2055.

Based on the flow model, it is the opinion of the Company that the proposed grid system is adequately sized to serve the entire Casa Grande system, including the CC&N expansion area. Staff has reviewed the Design Report, its projection to serve the CC&N expansion area and concludes that the Company's proposed approach to serve the CC&N expansion area is reasonable.

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

Staff further 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.

Cost Estimates for Requested Parcels

For the Company's four actual requested parcels, the estimated costs are as follows using the Design Report's cost estimates:

Parcels 1, 2, and 3:	
Off-Site: 12-inch main for 16,000 ft. at $50/ft. =	$800,000
On-Site: Parcel 1 – 35 units at $2,000 =	$70,000
Parcel 2 – 32 units at $2,000 =	$64,000
Parcel 3 – 40 units at $2,000 =	$80,000

	$1,014,000
Parcel 4:	
Off-Site: 16-inch main for 10,500 ft. at $60/ft. =	$630,000
On-Site: Parcel 1 – 68 units at $2,000 =	$136,000

	$766,000
TOTAL:	$1,780,000

No "used and useful" determinations of the proposed plant items were 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 water system under ADEQ Public Water System I.D. #11-009. Based on a Compliance Status Report, dated May 22, 2006, 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 Certificates of Approval to Construct ("ATC") for facilities needed to serve the requested areas have not been submitted by the Company.

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.

The Company indicated its arsenic levels for its wells range from 7 ppb to 45 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 Case Grande 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 ("CAWS")

The CAWS for the requested areas have not been submitted by the Company.

Arizona Corporation Commission Compliance

A check with the Utilities Division Compliance Section showed no delinquent 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 has reviewed the Design Report, its projection to serve the CC&N expansion area and concludes that the Company's proposed approach to serve the CC&N expansion area is reasonable.

B. Staff further 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.

C. Based on a Compliance Status Report, dated May 22, 2006, the Casa Grande 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.

D. The Company indicated its arsenic levels for its wells range from 7 ppb to 45 ppb. Based on these levels, the Company is in the process of developing a treatment plan to comply with the new arsenic standard.

E. The Company is within the Pinal AMA and is in compliance with its reporting and conservation requirements.

F. A check with the Utilities Division Compliance Section showed no delinquent compliance issues.

G. The Company has an approved curtailment tariff for all its systems.

MEMORANDUM

DATE October 11, 2006

TO: Linda Jaress
Executive Consultant III

FROM: Dorothy Hains, P. E. DH
Utilities Engineer

RE: **Water & Wastewater CC&N Extensions for Palo Verde Utilities, L.L.C. and Santa Cruz Water Company, L.L.C.**
Docket Nos. W-03575A-05-0926 & SW-03576A-05-0926

I. Introduction

Santa Cruz Water Co. ("Santa Cruz") and Palo Verde Utilities Co. ("Palo Verde") collectively referred to herein as "the Company", have submitted to the Arizona Corporation Commission ("the Commission") Certificate of Convenience and Necessity (CC&N) extension applications to provide water and wastewater services to an area southeast of the Town of Maricopa and west of the City of Casa Grande in northwest Pinal County. Santa Cruz and Palo Verde currently serve nearby area that totals approximately seventeen square miles. In this Application the Company seeks to add approximately twenty-six square miles to its water service area and thirty five square miles to its sewer service area. The requested area is located southeast of the existing CC&N area between the Maricopa/Casa Grande Highway and State Route 84. The Company estimates that 9,500 additional water customers and 10,500 additional sewer customers will be served in the requested area within five years.

Arizona Water Company has filed a competing application to serve some of the same area requested by Santa Cruz and Palo Verde.[1] However, this report will only address the Santa Cruz and Palo Verde applications.

[1] See Docket No. W-1445A-06-0199.

II. Water System

A. Water System

(a) Existing Santa Cruz Water System

Santa Cruz operates a water system that consists of two drinking water treatment systems, Rancho El Dorado Water Treatment system and South West Water Treatment system (also referred to as the SW water system). The two systems consist of five drinking water wells (having a combined production rate of 9,016 gallons per minute("GPM")), four storage tanks (having a combined capacity of 4,000,000 gallons), a booster pump station, four pressure tanks (having a combined capacity of 20,000 gallons) and three irrigation wells. Santa Cruz has an existing customer base of approximately 10,609 customers and experiences an average monthly growth rate of over 500 connections. Based on the water usage data for March 2005 through March 2006, the daily average consumption was approximately 440 gallons per day ("GPD") per connection.

(b) Proposed South East Water System

The Company proposes to construct a new water system, the South East water system ("SEWS"), to serve the requested area. SEWS would consist of multiple wells with a minimum production capacity of 3,200 GPM and 2.5 million gallons of storage capacity. The water system will be designed to provide fire flow 2,100 GPM for 4 hours.[2] Staff believes that the Company will develop additional production and storage capacity as needed to meet demand within the requested extension area. The proposed SEWS plant site would be located in Section 10, Township 6 South, Range 4 East, near the intersection of Anderson Road and Barnes Road.

Staff concludes that the proposed system will have adequate capacity to serve customers in the requested area. Staff further concludes that it is reasonable to assume that Santa Cruz will develop additional capacity as needed to meet future growth in the requested area.

B. ADEQ Compliance Status

Staff received compliance status reports[3] for Santa Cruz from ADEQ in which ADEQ stated that it has determined that Santa Cruz is in compliance with ADEQ requirements and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

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[2] The fire flow of 2,100 GPM for 4 hours is a requirement specified by Global Water Resources the parent of Santa Cruz and Palo Verde.

[3] Staff received the compliance status reports from ADEQ on April 18, 2006.

C. Arizona Department of Water Resources ("ADWR") Compliance Status

Santa Cruz is located in the Pinal Active Management Area ("AMA"), as designated by ADWR. ADWR has indicated that Santa Cruz is in compliance with the Pinal AMA requirements.

D. ACC Compliance Status

According to the Utilities Division Compliance Section, Santa Cruz has no delinquent ACC compliance issues.

E. Arsenic and Other Water Quality Issues

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("μg/l") or parts per billion ("ppb") to 10 μg/l. Arsenic levels in the Company's existing wells exceed the new MCL. The Company plans to implement a blending plan to meet the new MCL for its existing system. According to information submitted by the Company no data is available on what the arsenic levels might be in any new wells in the requested area. Staff believes that nitrate concentrations above the MCL will likely exist in the requested area due to past and current agricultural land use. Furthermore the above mentioned information suggests that arsenic and nitrate concentrations in many wells within the requested area are likely to occur. The Company will be required to address any potential water quality issues before ADEQ will issue its Approval to Construct ("ATC").

F. Curtailment Tariff

Santa Cruz has an approved curtailment tariff that was filed in October 2003 and approved in Decision No. 66394. This tariff was subsequently amended by Decision No. 67830.

G. Cost

The Company estimates $1,520 per service connection and estimated 9,464 additional customers in the requested area; total construction costs are estimated to be $14,385,280. Staff concludes that the estimated costs are reasonable and appropriate for this project. The approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes.

III. Wastewater System

(a) Existing Palo Verde Wastewater System

Palo Verde owns and operates what is referred to as the Camp 1 Water Reclamation Facility ("WRF") system that includes an enclosed three million gallon per day ("MGD") sequential batch reactor treatment plant, sand filters, ultra-violet disinfection units and an effluent reuse and surface water disposal system to serve its existing CC&N area. The Camp 1 WRF currently treats 1.5 MGD of wastewater flow. The treated effluent is disposed of on golf course, parks, other green areas and dry wash.

(b) Proposed Camp 3 Wastewater System

Initially the Company plans to pump the wastewater generated from the requested area to its existing Camp 1 WRF. The Company does not plan to begin construction of the Camp 3 WRF until fall 2009 and construction would not be completed until 2010. Staff estimates that the Camp 1 WRF will need to handle an additional 643,500 gallons per day ("GPD") of wastewater flow from the requested area. Staff further estimates the Camp 1 WRF will also need to treat 0.98 MGD of additional wastewater flow generated by the existing CC&N area. The Company has informed Staff that it plans to expand the Camp 1 WRF to 6 MGD by 2008. Staff concludes that the Company will develop the additional capacity needed to serve the existing and requested service areas. Staff recommends that the Company notify the Commission once the Camp 1 WRF expansion to 6 MGD has been completed. Staff further recommends that the subject notice be filed as a compliance item in this case by December 31, 2008. Staff further recommends that Palo Verde file with the Commission's Docket Control as a compliance item in this case a copy of the ADEQ Approval of Construction ("AOC") for the sewer line interconnection and lift station that will interconnect the sewer line in the requested area with the Camp 1 WRF system by December 31, 2008.

The proposed Camp 3 WRF would include an enclosed three MGD sequential batch reactor treatment plant, sand filters, ultra-violet disinfection units and an effluent reuse and surface water disposal system to serve the requested area. The proposed Camp 3 WRF would be located at the intersection of Val Vista Road and Anderson Road in Section 27of Township 5 South, Range 4 East.

B. Clean Water Act Section 208 Plan

The Company has informed Staff that the 208 Plan amendment that includes the requested area has been submitted to ADEQ for review and approval.

C. ADEQ Compliance

Staff received a compliance status report from ADEQ dated January 27, 2006, in which ADEQ stated that Palo Verde is in total compliance with its requirements.

D. ACC Compliance

According to the Utilities Division Compliance Section, Palo Verde has no delinquent ACC compliance issues.

E. Cost

The Company estimates $3,170 per service connection and an estimated 10,514 additional customers in the requested area, total construction cost is estimated to $33,329,380 (approximately $11/gallon). Staff concludes that the estimated costs are reasonable for this project. The approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes.

IV. Summary

I. Conclusions

1. Staff concludes that Santa Cruz and Palo Verde will have adequate capacity to serve customers in the requested area. Staff further concludes that it is reasonable to assume that Santa Cruz and Palo Verde will develop additional capacity as needed to meet future growth in the requested area.

2. Santa Cruz is in compliance with ADEQ requirements and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Palo Verde is in total compliance with ADEQ requirements.

3. ADWR has indicated that Santa Cruz is in compliance with the Pinal AMA requirements.

4. According to the Utilities Division Compliance Section, Santa Cruz and Palo Verde have no delinquent ACC compliance issues.

5. Staff concludes that the estimated costs provided by Santa Cruz and Palo Verde are reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes.

II. Recommendations

Staff recommends that the Company notify the Commission once the Camp 1 WRF expansion to 6 MGD has been completed. Staff further recommends that the subject notice be filed as a compliance item in this case by December 31, 2008. Staff further recommends that Palo Verde file with the Commission's Docket Control as a compliance item in this case a copy of the ADEQ Approval of Construction ("AOC") for the sewer line interconnection and lift station that will interconnect the sewer line in the requested area with the Camp 1 WRF system by December 31, 2008.