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AZ CORP COMMISSION  
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Transcript Exhibit(s)

Docket#(s): W-03880A-06-0298

W-20459A-06-0298

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Exhibit #: A1, A2, S1

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Arizona Corporation Commission

DOCKETED

FEB 22 2007

DOCKETED BY nr

Well Survey

COMPANY NAME: Gardner Water Co	
Name of System	ADEQ Public Water System Number (if applicable)

**WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2006**

MONTH/YEAR	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	87	48	56	0
FEBRUARY	88	54	61	0
MARCH	88	57	64	0
APRIL	89	98	110	0
MAY	89	136	149	0
JUNE	89	269	296	0
JULY	89	174	183	0
AUGUST	90	139	143	0
SEPTEMBER	90	105	106	0
OCTOBER	92	72	73	0
NOVEMBER	93	77	79	0
DECEMBER	93	Snow Read-----	-----	0
<b>TOTALS →</b>		<b>1233</b>	<b>1325</b>	<b>0</b>

What is the level of arsenic for each well on your system? \_\_\_\_\_ mg/l  
*(If more than one well, please list each separately.)*

If system has fire hydrants, what is the fire flow requirement? \_\_\_\_\_ GPM for \_\_\_\_\_ hrs

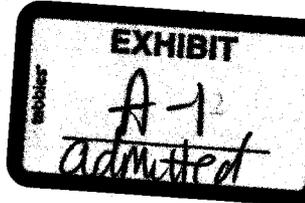
If system has chlorination treatment, does this treatment system chlorinate continuously?  
 Yes                       No

Is the Water Utility located in an ADWR Active Management Area (AMA)?  
 Yes                       No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?  
 Yes                       No

If yes, provide the GPCPD amount: \_\_\_\_\_

*Note: If you are filing for more than one system, please provide separate data sheets for each system.*



pd cl #999991

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
DRINKING WATER PRIMARY MICROBIOLOGICAL ANALYSIS REPORT  
\*\*\* Collect samples in distribution system only \*\*\*

COPY TO ADEQ: YES  NO

>>>> SYSTEM INFORMATION <<<<

System ID # 04-038

System Name Gardner Water Co.

Sample Date 7-19-6 Time (24hr) 9:20

Collected By Jeff Daniels

Sample Type  
 Compliance Monitoring

Owner/Contact Person  
Name JEFF Daniels  
Phone 928-478-0010  
Fax 928-478-0010

Sample Collection Point/ID  
 Zone \_\_\_\_\_

Sample Site ID  
41

System Mailing Name & Address  
JEFF Daniels  
HC2 Box 164-H  
Payson AZ 85541

Use only if initial sample was positive.

- | Original Violation Specimen Number |                                 |
|------------------------------------|---------------------------------|
| <input type="checkbox"/>           | Repeat, Original Location       |
| <input type="checkbox"/>           | Repeat, Other Location          |
| <input type="checkbox"/>           | Repeat, Downstream Location     |
| <input type="checkbox"/>           | Repeat, Upstream Location       |
| <input type="checkbox"/>           | 400 mL Repeat (Single tap only) |
| <input type="checkbox"/>           | 300 mL Repeat (Single tap only) |

>>>> MICROBIOLOGICAL ANALYSIS <<<<

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
<u>92293</u>	Present/1	Total Coliform	3000	<u>9:14</u> <u>JUL 19 2006</u>	<u>9:14</u> <u>JUL 20 2006</u>	<u>0</u>

Only report fecal result if the total coliform result is positive

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
	Present/1	Fecal Coliform	3013			

BN-08383

>>>> LABORATORY INFORMATION <<<<

Specimen Number N06-04392 Date/Time Received JUL 19 2006  
14:04  
ID Number AZ0003  
JUL 19 2006 (43)  
Consulting & Testing, Inc. (480) 921-8044

Comments: \_\_\_\_\_  
Authorized Signature: Elizabeth M. Stevenson  
Date Public Water System Notified: \_\_\_\_\_  
Temp: 5 °C

Your submittal of this document authorizes analysis regardless of sample condition and/or temperature at time of receipt. Sample should be on ice and have a temperature of 2 - 6°C (36 - 43°F).

Notes: Indicate 'T' for TNTC or 'C' for CONFLUENT, and 'U' for TURBID in the Invalid column. To prove followup was negative for turbidity the lab must report both the Total and Fecal/E.Coli results.

EXHIBIT  
A-2  
admitted

pd ck # 1007

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
DRINKING WATER PRIMARY MICROBIOLOGICAL ANALYSIS REPORT

\*\*\* Collect samples in distribution system only \*\*\*

COPY TO ADEQ: YES  NO

>>>> SYSTEM INFORMATION <<<<

System ID # 04-038

System Name Gardner Water Co.

Sample Date 8-15-06 Time (24hr) 12:50

Collected By Jeff Daniels

Sample Type

Compliance Monitoring

Owner/Contact Person

Name Jeff Daniels

Phone 928-478-0010

Fax 928-478-0010

Sample Collection Point/ID

Zone \_\_\_\_\_

Sample Site ID

41

System Mailing Name & Address

Utility Systems  
Jeff Daniels  
Hc2 Box 164-H  
Payson, AZ 85541

Use only if initial sample was positive.

Original Violation Specimen Number

- Repeat, Original Location
- Repeat, Other Location
- Repeat, Downstream Location
- Repeat, Upstream Location
- 400 mL Repeat (Single tap only)
- 300 mL Repeat (Single tap only)

>>>> MICROBIOLOGICAL ANALYSIS <<<<

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
<u>9223B</u>	Present/1	Total Coliform	3000	<u>AUG 15 2006</u> <u>1600</u>	<u>AUG 16 2006</u> <u>1600</u>	<u>1</u>

Only report fecal result if the total coliform result is positive

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
<u>9223B</u>	Present/1	Fecal Coliform	3013	<u>AUG 15 2006</u> <u>1600</u>	<u>AUG 16 2006</u> <u>1600</u>	<u>0</u>

>>>> LABORATORY INFORMATION <<<<

**BN-09460**

Specimen Number

**N06-05008**

Date/Time Received AUG 15 2006

ID Number AZ0003

Name: Aquatic Consulting & Testing, Inc. (480) 921-8044

Comments: on blue ice - AZ

Authorized Signature: Elizabeth M. Atkinson

Date Public Water System Notified: Called 8:20 AM - N.A.

Temp: 12 °C

Your submittal of this document authorizes analysis regardless of sample condition and/or temperature at time of receipt. Sample should be on ice and have a temperature of 2 - 6°C (36 - 43°F).

Notes: Indicate 'T' for TNTC or 'C' for CONFLUENT, and 'U' for TURBID in the Invalid column. To prove followup test was negative for turbidity the lab must report both the Total and Fecal/E.Coli results.

1524



**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
DRINKING WATER PRIMARY MICROBIOLOGICAL ANALYSIS REPORT**  
\*\*\* Collect samples in distribution system only \*\*\*

COPY TO ADEQ: YES XXX NO

>>>> SYSTEM INFORMATION <<<<

System ID # 04-038

System Name Gardner Water Co.

Sample Date 10-16-06

Time (24hr) 8:00

Collected By Jeff Daniels

Sample Type

Compliance Monitoring

Owner/Contact Person

Name Jeff Daniels

Phone 928-478-0010

Fax 928-478-0010

Sample Collection Point/ID

41

Sample Site ID

Lot 41 Main Well

System Mailing Name & Address

Gardner Water Co.  
Utility Systems, LLC.  
HC2 Box 164-H  
Payson, AZ 85541

Use only if initial sample was positive.

Original Violation Specimen Number

- Repeat, Original Location
- Repeat, Other Location
- Repeat, Downstream Location
- Repeat, Upstream Location
- 400 mL Repeat (Single tap only)
- 300 mL Repeat (Single tap only)

>>>> MICROBIOLOGICAL ANALYSIS <<<<

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
<u>9223B</u>	<u>Present/1</u>	<u>Total Coliform</u>	<u>3000</u>	<u>OCT 16 2006</u> <i>0110</i>	<u>OCT 17 2006</u> <i>0110</i>	<u>0</u>

Only report fecal result if the total coliform result is positive

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
	<u>Present/1</u>	<u>Fecal Coliform</u>	<u>3013</u>			

>>>> LABORATORY INFORMATION <<<<

Specimen Number BN-12202

Date/Time Received 10/16/06 10:25

ID Number AZ0003

Name: Aquatic Consulting & Testing 480-921-8044

Comments: Temp: 4°C

Authorized Signature: Elizabeth M. Robinson

Date Public Water System Notified: \_\_\_\_\_

**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
DRINKING WATER PRIMARY MICROBIOLOGICAL ANALYSIS REPORT  
\*\*\* Collect samples in distribution system only \*\*\***

COPY TO ADEQ: YES XXX NO     

>>>> SYSTEM INFORMATION <<<<

System ID # 04-038 System Name Gardner Water Co.

Sample Date 11-16-06 Time (24hr) 7:05 Collected By Jeff Daniels

Sample Type  
 Compliance Monitoring

Owner/Contact Person  
Name Jeff Daniels  
Phone 928-478-0010  
Fax 928-478-0010

Sample Collection Point/ID

Sample Site ID  
Lot 42

**System Mailing Name & Address**  
Gardner Water Co.  
Utility Systems, LLC.  
HC2 Box 164-H  
Payson, AZ 85541

**Use only if initial sample was positive.**

Original Violation Specimen Number

<input type="checkbox"/>	Repeat, Original Location
<input type="checkbox"/>	Repeat, Other Location
<input type="checkbox"/>	Repeat, Downstream Location
<input type="checkbox"/>	Repeat, Upstream Location
<input type="checkbox"/>	400 mL Repeat (Single tap only)
<input type="checkbox"/>	300 mL Repeat (Single tap only)

>>>> MICROBIOLOGICAL ANALYSIS <<<<

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
<u>9223B</u>	<u>Present/1</u>	<u>Total Coliform</u>	<u>3000</u>	<u>NOV 16 2006</u> <u>1800</u>	<u>NOV 17 2006</u> <u>1800</u>	<u>0</u>

Only report fecal result if the total coliform result is positive

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
<u>    </u>	<u>Present/1</u>	<u>Fecal Coliform</u>	<u>3013</u>	<u>    </u>	<u>    </u>	<u>    </u>

**BN-13517**

>>>> LABORATORY INFORMATION <<<<

0936

Specimen Number      Date/Time Received NOV 16 2006  
 ID Number AZ0003 Name: Aquatic Consulting & Testing 480-921-8044  
 Comments: Temp: 3°C  
 Authorized Signature: Elizabeth M. Atkinson  
 Date Public Water System Notified:

**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY  
DRINKING WATER PRIMARY MICROBIOLOGICAL ANALYSIS REPORT  
\*\*\* Collect samples in distribution system only \*\*\***

COPY TO ADEQ: YES: XXX NO:     

>>>> SYSTEM INFORMATION <<<<

System ID # 04-038 System Name Gardner Water Co.

Sample Date 12-21-6 Time (24hr) 9:30 Collected By Jeff Daniels

Sample Type

Compliance Monitoring

Owner/Contact Person

Name Jeff Daniels  
Phone 928-478-0010  
Fax 928-478-0010

Sample Collection Point/ID

\_\_\_\_\_

Sample Site ID

Lot 91

System Mailing Name & Address

Gardner Water Co.  
Utility Systems, LLC.  
HC2 Box 164-H  
Payson, AZ 85541

Use only if initial sample was positive.

Original Violation Specimen Number

<input type="checkbox"/>	Repeat, Original Location
<input type="checkbox"/>	Repeat, Other Location
<input type="checkbox"/>	Repeat, Downstream Location
<input type="checkbox"/>	Repeat, Upstream Location
<input type="checkbox"/>	400 mL Repeat (Single tap only)
<input type="checkbox"/>	300 mL Repeat (Single tap only)

>>>> MICROBIOLOGICAL ANALYSIS <<<<

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
<u>9223B</u>	<u>Present/1</u>	<u>Total Coliform</u>	<u>3000</u>	<u>DEC 21 2006</u> <u>1200</u>	<u>DEC 22 2006</u> <u>1200</u>	<u>0</u>

Only report fecal result if the total coliform result is positive

Analysis Method	MCL Value	Contaminant Name	Contaminant Code	Test Start Date/Time	Test Stop Date/Time	Result
<u>    </u>	<u>Present/1</u>	<u>Fecal Coliform</u>	<u>3013</u>	<u>    </u>	<u>    </u>	<u>    </u>

>>>> LABORATORY INFORMATION <<<<

Specimen Number BN-14924 Date/Time Received DEC 21 2006  
11:30

ID Number AZ0003 NAME: Aquatic Consulting & Testing 480-921-8044

Comments: Temp: 4°C

Authorized Signature: Elizabeth M. Atkinson

Date Public Water System Notified: \_\_\_\_\_

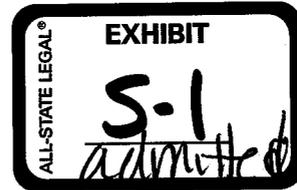




ORIGINAL

MEMORANDUM

30



TO: Docket Control  
Arizona Corporation Commission

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

Date: January 8, 2007

RE: STAFF REPORT FOR THE APPLICATION OF JNJ ENTERPRISES, DBA GARDNER WATER COMPANY, AND UTILITY SYSTEMS, LLC FOR APPROVAL OF THE TRANSFER OF ASSETS AND CERTIFICATE OF CONVENIENCE AND NECESSITY DOCKET NOS. W-03880A-06-0298 AND W-20459A-06-0298

Attached is the Staff Report for the application of JNJ Enterprises, dba Gardner Water Company ("Company"), for approval to transfer its assets and Certificate of Convenience and Necessity ("CC&N") to Utility Systems, LLC. Staff recommends denial of the transfer. The Company is out of compliance with Commission rules and regulations and previous Commission decisions regarding accounting and water loss. It is out of Compliance with the rules and regulations of Arizona Department of Environmental Quality ("ADEQ") regarding monitoring and reporting. Staff believes it is not in the public interest to transfer the assets and CC&N of the Company until it is in compliance with ADEQ and the Commission. Staff recommends denial.

However, Staff will reconsider its recommendation if, by the date of the hearing in this matter the Company files ADEQ documentation demonstrating that PWS ID #04-038 is delivering water that meets the water quality standards required by ADEQ, files documentation indicating that its 2005 property taxes are paid, files a plan to reduce water loss below 10 percent and files documentation that its accounting records are being kept in accordance with the National Association of Regulatory Commissioners Uniform system of accounts.

In addition, Staff recommends the Company file a rate case by March 31, 2008, using a 2007 test year.

EGJ:LAJ:red

Originator: Linda A. Jaress

Attachment: Original and 13 Copies

Arizona Corporation Commission

DOCKETED

JAN 08 2007

DOCKETED BY *EGJ*

AZ CORP COMMISSION  
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2007 JAN - 8 P 2: 21

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Service List for: JNJ Enterprises, LLC dba Gardner Water Company, and Utility Systems, LLC  
Docket Nos. W-03880A-06-0298 and W-20459A-06-0298

Mr. Gerald Lenzion  
2303 East Heatherbrae Drive  
Phoenix, Arizona 85016

Mr. Jeffery Daniels  
Utility Systems, LLC  
HC 2 Box 164-H  
Payson, Arizona 85541

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Christopher C. Kempley  
Chief, Legal 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

JNJ ENTERPRISES, LLC DBA GARDNER WATER COMPANY  
AND UTILITY SYSTEMS, LLC

APPLICATION FOR APPROVAL OF TRANSFER OF ASSETS AND  
CERTIFICATE OF  
CONVENIENCE AND NECESSITY

DOCKET NO. W-03880A-06-0298 AND  
DOCKET NO. W-20459A-06-0298

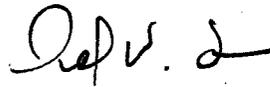
JANUARY 8, 2007

## STAFF ACKNOWLEDGMENT

The Staff Report for JNJ Enterprises, LLC dba Gardner Water Company, and Utility Systems, LLC, Docket Nos. W-03880A-06-0298 and W-20459A-06-0298 was prepared by the Staff members shown below.



Linda A. Jaress  
Executive Consultant III



Del Smith  
Engineering Supervisor

**EXECUTIVE SUMMARY**  
**JNJ ENTERPRISES, LLC DBA GARDNER WATER COMPANY**  
**AND UTILITY SYSTEMS, LLC**  
**DOCKET NOS. W-03880A-06-0298 AND W-20459A-06-0298**

On May 11, 2006, JNJ Enterprises, LLC, dba Gardner Water Company ("Gardner" or "the Company") filed an application to transfer its assets and Certificate of Convenience and Necessity ("CC&N") to Utility Systems, LLC ("Utility Systems"). JNJ Enterprises, LLC dba Christopher Creek Haven Water Company and Gardner are less than ten miles apart and are both owned and operated by Mr. Gerald Lenzion. The transfer of Christopher Creek Haven Water Company to Utility Systems is the subject of another pending docket. Mr. Lenzion expressed a desire to sell both companies "for personal reasons". Mr. Lenzion does not live full time in the Payson area. Mr. Jeffery Daniels, the manager of Utility Systems is a full-time resident in the area, is familiar with the system and will have the ability to respond more quickly to problems. Furthermore, Mr. Daniels is also an Arizona Department of Environmental Quality ("ADEQ") certified operator for water distribution and treatment.

The Company is out of compliance with the Arizona Corporation Commission ("Commission") rules and regulations and previous Commission decisions regarding accounting practices. It is out of compliance with the rules and regulations of ADEQ regarding monitoring and reporting. Staff believes it is not in the public interest to transfer the assets and CC&N of the Company until it is in compliance with ADEQ and the Commission. Staff recommends denial.

However, Staff will reconsider its recommendation if, by the date of the hearing in this matter the Company files ADEQ documentation demonstrating that PWS ID #04-038 is delivering water that meets the water quality standards required by ADEQ, files documentation indicating that its 2005 property taxes are paid and files documentation that its accounting records are being kept in accordance with the National Association of Regulatory Commissioners Uniform System ("NARUC") system of accounts.

Staff recommends that the Company file a plan to reduce its water loss to 10 percent or less before the hearing in this matter. In the alternative the Company shall demonstrate why it is not reasonable or economical to reduce its water loss to 10 percent or less before the hearing in this matter.

Due to the poor financial health of the Company, Staff recommends the Commission order the Company to file a rate case by March 31, 2008, using a 2007 test year.

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## Introduction

On May 11, 2006, JNJ Enterprises, LLC, dba Gardner Water Company ("Gardner" or "the Company") filed an application to transfer the assets and Certificate of Convenience and Necessity ("CC&N") of Gardner to Utility Systems, LLC ("Utility Systems"). Gardner's service area is located east of Payson and south of Highway 260 in Gila County. The Company provides service to approximately 91 customers in a service territory of approximately 145 acres. Attached as Exhibit 1 is the legal description and map of the area.

Gardner and JNJ Enterprises, LLC dba Christopher Creek Haven Water Company are less than ten miles apart and are both owned and operated by Mr. Gerald Lenzion. The transfer of Christopher Creek Haven Water Company to Utility Systems is the subject of another pending docket. Mr. Lenzion expressed a desire to sell both companies "for personal reasons". Mr. Lenzion does not live full time in the Payson area. Mr. Jeffery Daniels, the manager of Utility Systems is a full-time resident in the area, is familiar with the system and will have the ability to respond more quickly to problems. Furthermore, Mr. Daniels is also an Arizona Department of Environmental Quality ("ADEQ") certified operator for water distribution and treatment.

Attached to the application is a "Commercial Real Estate Purchase Contract" showing Gerald and Nadine Lenzion as the sellers and Jeffery and Dianne Daniels and Utility Systems L.L.C. as the buyers. The Purchase Contract is for both the Gardner and Christopher Creek Haven Water Companies. The sales price is shown as \$280,000 with \$220,000 of the sales price being carried by Gerald Lenzion. The sale is contingent upon Arizona Corporation Commission ("Commission") approval, upon the Gerald Lenzion carry back and upon the continued carry back of Carroll Powell, previous owner of Christopher Creek Haven. Finally, the Purchase Contract indicates that Mr. Lenzion will "consult for one year at no cost to buyer."

The 2005 annual report of JNJ Enterprises, LLC filed with the Commission is a consolidated financial statement of the two companies. The balance sheet included in the annual report does not balance. It reflects total assets of \$259,363 but liabilities and capital of only \$155,942. When a balance sheet does not balance, it puts the value of the assets into question.

The annual report showed a total of 250 customers at year end 2005, net plant of \$251,746, zero customer deposits and zero advances in aid of construction. Long term debt of \$108,384 was also reported. This debt consists of \$106,384 for the purchase of the water companies and \$2,000 owed to Gerald Lenzion for operating costs. Principal and interest on the two loans from the non-affiliates equals approximately \$17,400 per year. According to the annual report's income statement, the combined companies generated losses of \$56,388 in 2004 and \$29,824 in 2005.

Also, the annual report did not contain the canceled checks representing amounts paid for property taxes for the year 2005 as required in the annual report form.

### **Gardner's Water System**

Attached as Exhibit 2 is Staff's Engineering Report. The Report indicates that the Company's system consists of two wells, two pressure tanks and a distribution system. Well production from the system's two wells total 55 gallons per minute which is adequate to serve the existing base of customers and growth.

Staff believes that water loss or "non-account water" should be 10 percent or less and never more than 15 percent. Non-account water for the Company was calculated to be 12.4 percent during 2005, which exceeds acceptable limits.

### **Compliance**

In Decision No. 64197, dated November 8, 2001, Gardner was ordered to keep its books and records in accordance with the National Association of Regulatory Commissioners Uniform ("NARUC") System of Accounts as required by A.C.C. R14-2-411.D.2. Clearly, when a utility's balance sheet does not balance, the utility is not following the NARUC system of accounts. Thus, Gardner is not in compliance with the Commission's decision.

Furthermore, Decision No. 63199, dated November 30, 2000, which transferred Gardner to JNJ Enterprises, LLC, required Gardner to submit a plan to reduce water loss to a maximum of 10 percent within 30 days of the decision. A plan was not submitted but a letter from Gardner was filed indicating the previous owners had recently made repairs which would reduce water loss. At the Company's last rate case, culminating in Decision No. 64197, dated November 8, 2001, Gardner's water loss was at an acceptable level.

As of October 23, 2006 ADEQ could not determine if Gardner was delivering water that met water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. ADEQ reported that this system had major monitoring and reporting deficiencies because all testing in 2006 for total coliform had not been completed. Arsenic levels reported by the Company are below the new maximum arsenic standard of 10 micrograms per liter.

Gardner is not in an Arizona Department of Water Resources ("ADWR") Active Management Area. Therefore, the Company is not required to comply with ADWR monitoring and reporting requirements.

### **Conclusions and Recommendations**

The Company is out of compliance with Commission rules and regulations and previous Commission decisions regarding accounting practices. It is out of Compliance with the rules and regulations of ADEQ regarding monitoring and reporting. Staff believes it is not in the public interest to transfer the assets and CC&N of the Company until it is in compliance with ADEQ and the Commission. Staff recommends denial.

However, Staff will reconsider its recommendation if, by the date of the hearing in this matter the Company files ADEQ documentation demonstrating that PWS ID #04-038 is delivering water that meets the water quality standards required by ADEQ, files documentation indicating that its 2005 property taxes are paid and files documentation that its accounting records are being kept in accordance with the NARUC system of accounts.

Staff recommends that the Company file a plan to reduce its water loss to 10 percent or less before the hearing in this matter. In the alternative the Company shall demonstrate why it is not reasonable or economical to reduce its water loss to 10 percent or less before the hearing in this matter.

Due to the poor financial health of the Company, Staff recommends the Commission order the Company to file a rate case by March 31, 2008, using a 2007 test year.

**MEMORANDUM**

TO: Linda Jaress  
Executive Consultant III  
Utilities Division

FROM: Barb Wells   
Information Technology Specialist  
Utilities Division

THRU: Del Smith   
Engineering Supervisor  
Utilities Division

DATE: May 24, 2006

RE: **GARDNER WATER COMPANY (JNJ ENTERPRISES) (DOCKET NO. W-03880A-06-0298)**  
**UTILITY SYSTEMS, LLC (DOCKET NO. W-20459A-06-0298)**

Gardner Water Company (JNJ Enterprises, LLC) has filed an application to transfer their CC#N to Utility Systems, LLC.

Attached is a copy of the map for your files.

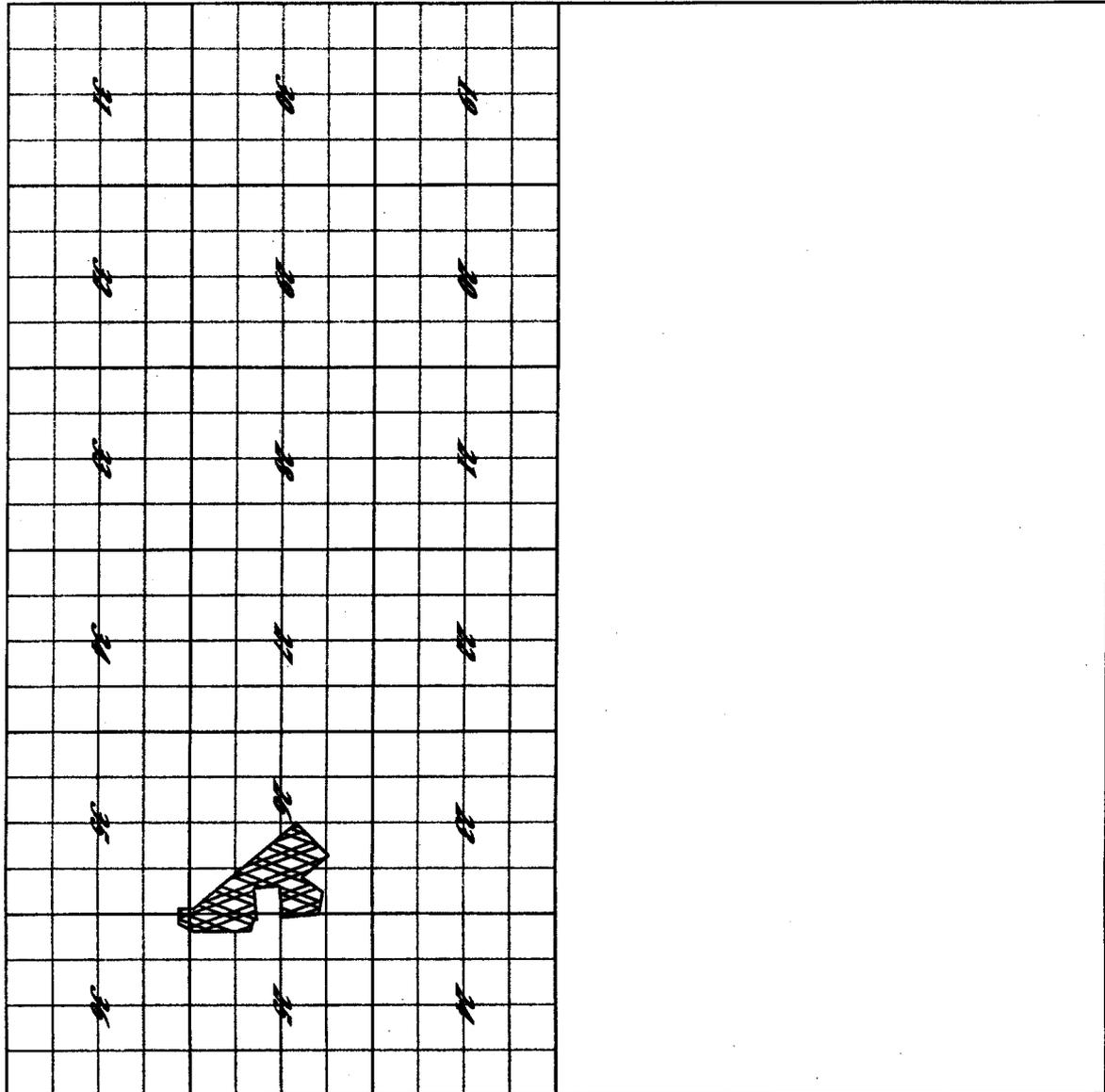
:bsw

Attachment

cc: Gardner Water Company  
Utility Systems, LLC  
Ms. Deb Person (Hand Carried)  
File

# COUNTY OF Gila

## RANGE 14 East



**TOWNSHIP 10-1/2 North**



W-3880 (2)

JNJ Enterprises, LLC (Gardner)

JNJ Enterprises, LLC

(Gardner Water Company)

Docket No. W-03880A-06-0298

Application to Transfer to

Utility Systems, LLC

Docket No. W-20459A-06-0298

MEMORANDUM

DATE: December 28, 2006

TO: Linda Jaress

FROM: Del Smith *DS*

RE: APPLICATION OF GARDNER WATER COMPANY FOR APPROVAL OF THE SALE AND TRANSFER OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO UTILITY SYSTEMS, LLC. (DOCKET NOS. W-03880A-06-0298 AND W-20459A-06-0298)

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**Introduction**

JNJ Enterprises L.L.C. dba Gardner Water Company ("Gardner" or "the Company") has filed an application ("Application") for Approval of the Sale and Transfer of its Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "the Commission"). The purpose of this Application is to transfer the CC&N to Utility Systems, L.L.C. ("Utility Systems"). Gardner's service area is located approximately 30 miles east of Payson and south of Highway 260 in Gila County. The Company serves approximately 145 acres (less than one-quarter of a square mile) in parts of Sections 25, 26, 35 and 36 in Township 10 1/2 North Range 14 East. In June 2006, the Company was providing water utility service to 91 customers.<sup>1</sup>

**Gardner's Water System**

The Company's system consists of two wells, two pressure tanks and a distribution system serving 91 metered connections. Fire protection is not provided. Well production from the system's two wells total 55 gallons per minute which is adequate to serve the existing base of customers and growth. Apparently, the Company has experienced some growth in the last year adding six connections in 2006.<sup>2</sup>

**Non-account Water**

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. Non-account water for the Company was calculated to be 12.4 percent during 2005, which exceeds acceptable limits.<sup>3</sup> Furthermore, Decision No. 63199, dated November 30, 2000, which transferred Gardner to JNJ Enterprises, LLC, required Gardner to

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<sup>1</sup> Information reported in response to Staff's insufficiency letter.

<sup>2</sup> Information reported in response to Staff's insufficiency letter.

<sup>3</sup> Information reported in response to Staff's insufficiency letter.

submit a plan to reduce water loss to a maximum of 10 percent within 30 days of the decision. A plan was not submitted but a letter from Gardner was filed indicating the previous owners had recently made repairs which would reduce water loss. At the Company's last rate case, culminating in Decision No. 64197, dated November 8, 2001, Gardner's water loss was at an acceptable level. Staff recommends that the Company file a plan to reduce its water loss to 10 percent or less before the hearing in this matter. In the alternative, the Company shall demonstrate why it is not reasonable or economical to reduce its water loss to 10 percent or less before the hearing in this matter.

#### **Arizona Department of Environmental Quality ("ADEQ") Compliance**

ADEQ regulates the Gardner water system under ADEQ Public Water System Identification No. ("PWS ID #") 04-038. ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. ADEQ reported that this system has major monitoring and reporting deficiencies because its data base does not show that all testing in 2006 for total coliform have been completed.<sup>4</sup> Staff recommends that the proposed transfer be denied. Staff will reassess its recommendation if by the date of the hearing in this matter the Company has filed ADEQ documentation demonstrating that PWS ID #04-038 is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arsenic levels reported by the Company for the Gardner system comply with the new arsenic standard of 10 micrograms per liter that became effective on January 23, 2006.<sup>5</sup>

If the proposed transfer is approved, an ADEQ certified operator will be employed by Utility Systems to operate the Gardner system.

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

Gardner is not in an ADWR Active Management Area. Therefore, the Company is not required to comply with ADWR monitoring and reporting requirements.

#### **ACC Compliance**

A check of the Commission's Utilities Division compliance database indicated that there were no compliance delinquencies for Gardner.<sup>6</sup>

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<sup>4</sup> ADEQ Drinking Water Compliance Status Report dated 10-23-06.

<sup>5</sup> Information reported in the Company's 2005 Commission Annual Report.

<sup>6</sup> Per Compliance Section email dated 12-26-06.

## **Summary**

### **Conclusions**

1. The Gardner system has adequate capacity to serve the existing base of customers and growth.
2. Gardner is not in an ADWR Active Management Area. Therefore, the Company is not required to comply with ADWR monitoring and reporting requirements.
3. A check of the Commission's Utilities Division compliance database indicated that there were no compliance delinquencies for Gardner.

### **Recommendations**

1. Staff recommends that the Company file a plan to reduce its water loss to 10 percent or less or, in the alternative the Company shall demonstrate why it is not reasonable or economical to reduce its water loss to 10 percent or less before the hearing in this matter.
2. Staff recommends that the proposed transfer be denied. Staff will reassess its recommendation if by the date of the hearing in this matter the Company has filed ADEQ documentation demonstrating that PWS ID #04-038 is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.