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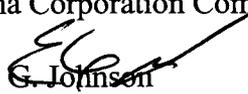


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MEMORANDUM

30

TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson 
Director
Utilities Division

Date: May 4, 2007

RE: STAFF REPORT FOR THE APPLICATION OF SIGNAL PEAK WATER COMPANY, INC. FOR APPROVAL OF THE SALE OF ITS ASSETS AND TRANSFER OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO AVM-2005.
DOCKET NOS. W-02109A-06-0751 AND W-20496A-06-0751

Attached is the Staff Report for the application of Signal Peak Water Company and AVM-2005 for approval of the sale of assets and transfer of a Certificate of Convenience and Necessity. Staff recommends approval of the transfer with compliance requirements.

EGJ:LAJ:tdp

Originator: Linda A. Jaress

Attachment: Original and 13 Copies

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DOCUMENT CONTROL

Arizona Corporation Commission
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Docket Nos. W-02109A-06-0751 and W-20496A-06-0751

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

SIGNAL PEAK WATER COMPANY, INC. AND
AVM-2005, LLC

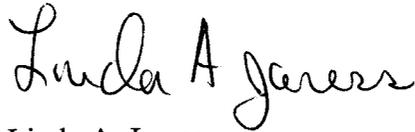
APPLICATION FOR APPROVAL TO TRANSFER ASSETS AND CERTIFICATE OF
CONVENIENCE AND NECESSITY

DOCKET NOS. W-02109A-06-0751
AND W-20496A-06-0751

MAY 4, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Signal Peak Water Company, Inc. and AVM-2005, LLC, Docket Nos. W-02109A-06-0751 and W-20496A-06-0751 was prepared by the Staff members shown below.



Linda A. Jaress
Executive Consultant III



Katrin Stukov
Utility Engineer

EXECUTIVE SUMMARY
SIGNAL PEAK WATER COMPANY, INC. AND AVM-2005, LLC
APPLICATION FOR APPROVAL TO TRANSFER ASSETS AND CERTIFICATE OF
CONVENIENCE AND NECESSITY
DOCKET NOS. W-02109A-06-0751
AND W-20496A-06-0751

On November 30, 2006, Signal Peak Water Company, Inc. ("Signal Peak") and AVM-2005, LLC ("AVM") filed an application for approval to transfer the assets and Certificate of Convenience and Necessity ("CC&N") of Signal Peak to AVM.

Signal Peak distributes water to approximately 35 customers in a 3/4th square mile area five miles northeast of Casa Grande in Pinal County. Attached as Exhibit 1 is a map and legal description of Signal Peak's certificated area. All of the water it provides to its customers is purchased from Arizona Water Company ("Arizona Water") under Arizona Water's Temporary Service tariff. According to Arizona Water, the amount it will deliver to Signal Peak is limited to 40 residential units and 60 gallons per minute maximum.

AVM desires to purchase Signal Peak because AVM's owners and affiliates are going to develop within Signal Peak's service territory and AVM's owners and affiliates would like to have control over the water company and its operations. AVM's owners have experience owning and operating water utility facilities in Arizona.

Signal Peak did not prepare its total coliform analysis for October, 2006 and did not accomplish required annual lead and copper monitoring for 2004, 2005 and 2006. Due to these monitoring deficiencies, Arizona Department of Environmental Quality ("ADEQ") cannot determine if the Signal Peak's water system is currently delivering water that meets ADEQ's water quality standards.

Staff recommends approval of the transfer. Staff recommends that within 12 months of the decision in this docket approving the transaction, that AVM file ADEQ documentation demonstrating that PWS #11-079 is serving safe drinking water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Staff also recommends that AVM file in Docket Control as a compliance matter, for each of the next twelve months following the decision in this docket, documentation showing that monthly testing for the total coliform analysis required by ADEQ has been accomplished and that Signal Peak's water quality is in compliance with ADEQ rules.

Staff recommends that AVM file a Curtailment Tariff in Docket Control, as a compliance item, within 45 days after the effective date of the decision in this docket case for the review and certification of Staff. Staff further recommends that the tariff should generally conform to the sample tariff found at <http://www2.azcc.gov/divisions/util/forms/Curtailment-Cons.pdf> on the Commission's website. Staff recognizes that AVM may need to make minor modifications to the sample tariff according to their specific management, operational, and design requirements as necessary and appropriate.

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| ENGINEERING REPORT | EXHIBIT 2 |

Introduction

On November 30, 2006, Signal Peak Water Company, Inc. ("Signal Peak") and AVM-2005, LLC ("AVM") filed an application for approval to transfer the assets and Certificate of Convenience and Necessity ("CC&N") of Signal Peak to AVM.

Signal Peak distributes water to approximately 35 customers in a 3/4th square mile area five miles northeast of Casa Grande in Pinal County. Attached as Exhibit 1 is a map and legal description of Signal Peak's certificated area. All of the water it provides to its customers is purchased from Arizona Water Company ("Arizona Water") under Arizona Water's Temporary Service tariff. According to Arizona Water, the amount it will deliver to Signal Peak is limited to 40 residential units and 60 gallons per minute maximum.

AVM desires to purchase Signal Peak because AVM's owners and affiliates are going to develop within Signal Peak's service territory and AVM's owners and affiliates would like to have control over the water company and its operations.

AVM is a limited liability corporation whose primary member is AREAD Holdings, Inc. ("AREAD"). AREAD's business purpose is real estate acquisition and development. AREAD owns property around and within Signal Peak's service territory. Mr. Nariman Afkhami, President of AREAD, has experience with utility operations from his ownership interest in Willow Valley Water Company in Mohave County from 1990 to 1998. The Utility Division's Consumer Services Section's records do not indicate any unusual problems or number of complaints related to the Willow Valley operations during the last two years of Mr. Afkhami's ownership. Willow Valley was part of West Maricopa Combine, the parent of various Arizona water utilities including Water Utility of Greater Tonopah and Water Utility of Greater Buckeye. Global Water Resources, LLC recently purchased West Maricopa Combine. However, according to AVM, Mr. Afkhami has no business relationship with Global.

The Senior Vice President of AREAD is a licensed civil engineer who was employed as City Engineer for the cities of Tolleson, El Mirage, Parker, Gila Bend and Buckeye. He has experience in operating water utilities and complying with environmental and other government rules and regulations.

The certified operator will be Mr. Steven R. Pinkham. Staff determined from the web site of the Arizona Department of Environmental Quality that Mr. Pinkham's certification for water distribution and treatment is current.

The sales agreement between Signal Peak and AVM indicates that AVM will pay \$300,000 for all of the assets of Signal Peak.

Compliance

There are no outstanding Commission compliance matters for Signal Peak. There are zero complaints or comments on file at the Commission regarding this Company from January 1, 2003 to November 30, 2006.

Arizona Department of Water Resources

Signal Peak is within the Pinal Active Management Area. The Arizona Department of Water Resources indicates Signal Peak is in compliance with its monitoring and reporting requirements.

Arizona Department of Environmental Quality ("ADEQ")

ADEQ reported that the Arizona Water system which supplies water to the Signal Peak system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18. According to Arizona Water, the arsenic levels for its wells range from 7 ppb to 45 ppb. Thus, Arizona Water is in the process of developing a treatment plan to comply with the new arsenic standard.

Although the water purchased from Arizona Water meets ADEQ's standards, ADEQ indicated in its December 21, 2006 Drinking Water Compliance Status Report that Signal Peak has major deficiencies in monitoring and reporting but no major deficiencies in operations and maintenance. Signal Peak did not prepare its total coliform analysis for October, 2006 and did not accomplish required annual lead and copper monitoring for 2004, 2005 and 2006. Due to these monitoring deficiencies, ADEQ cannot determine if the Signal Peak's water system is currently delivering water that meets ADEQ's water quality standards. ADEQ requires one year of compliance with its water monitoring (testing) rules for a water company to reach compliance status.

Conclusions and Recommendations

The owner of Signal Peak desires to sell the assets and transfer the CC&N to AVM. The member of AVM, LLC is AREAD. Two of the officers of AREAD have experience in the ownership and operations of water utilities. Staff believes that AVM is fit and proper to own the assets and hold the CC&N of Signal Peak. However, Signal Peak is out of compliance with ADEQ.

Staff recommends approval of the transfer of assets and CC&N. Staff recommends that within 12 months of the decision in this docket approving the transaction, that AVM file ADEQ documentation demonstrating that PWS #11-079 is serving safe drinking water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4 before the hearing in this matter. Staff also recommends that AVM file in Docket Control as a compliance matter, for each of the next twelve months following the decision in this docket, documentation

showing that monthly testing for the total coliform analysis required by ADEQ has been accomplished and that Signal Peak's water quality is in compliance with ADEQ rules.

Staff recommends that AVM file a Curtailment Tariff in Docket Control, as a compliance item, within 45 days after the effective date of the decision in this docket case for the review and certification of Staff. Staff further recommends that the tariff should generally conform to the sample tariff found at <http://www2.azcc.gov/divisions/util/forms/Curtailment-Cons.pdf> on the Commission's website. Staff recognizes that AVM may need to make minor modifications to the sample tariff according to their specific management, operational, and design requirements as necessary and appropriate.

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: December 15, 2006

RE: **SIGNAL PEAK WATER COMPANY, INC. (DOCKET NO. W-02109A-06-0751)**
AVM-2005, LLC (DOCKET NO. W-20496A-06-0751)

Signal Peak Water Company has filed an application to transfer its CC#N to AVM-2005, LLC.

Attached is a copy of the map for your files.

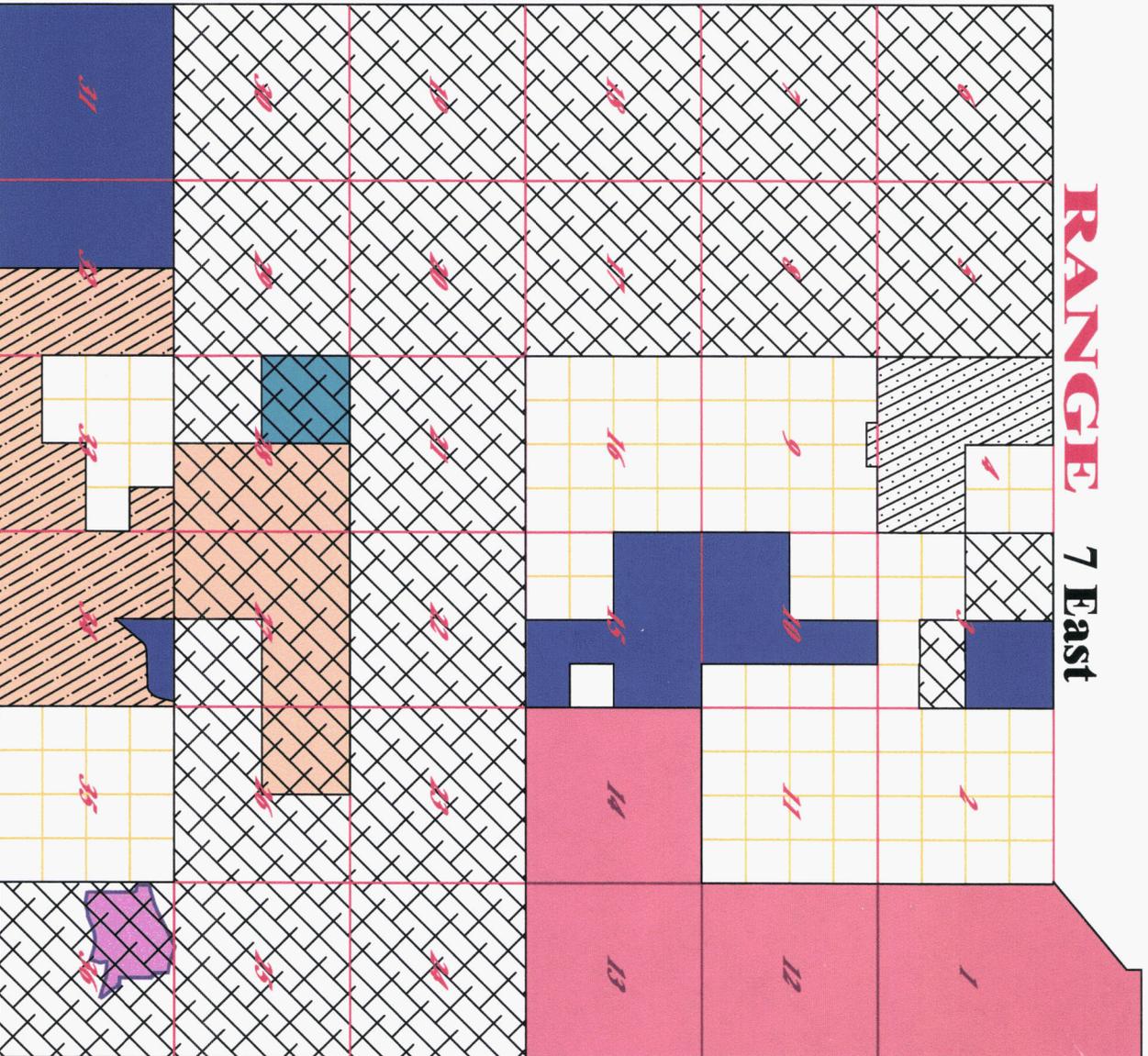
:bsw

Attachment

cc: Mr. John Paul Jones
Ms. Susan E. Klemmer
Ms. Deb Person (Hand Carried)
File

COUNTY: Pinal

RANGE 7 East



TOWNSHIP 6 South



W-1445 (39)(11)

Arizona Water Company (Casa Grande)



Sewer SW-3709 (2)

Picacho Sewer Company



W-3528 (2)

Picacho Water Company



W-2109 (1)

Signal Peak Water Company, Inc.



Sewer SW-2701 (1)

Tierra Grande Utility Cooperative, Inc.



Picacho Water Company
Docket No. W-3528-05-281
Application for Extension

Signal Peak Water Company, Inc.
Docket No. W-02109A-06-0751
Application to Transfer to
AVM-2005, LLC (Docket No. W-20496A-06-0751)



(3)

Arizona Water Company
Docket No. W-01445A-06-0059
Amended Application for Extension



(5)

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

MEMORANDUM

DATE: March 23, 2007

TO: Linda Jaress
Executive Consultant III

FROM: Katrin Stukov
Utilities Engineer *KS*

RE: Signal Peak Water Company, Inc.
Docket No. W-02109A-06-0751 & W-20496A-06-0751 (Sale / Transfer
of CC&N)

Introduction

Signal Peak Water Company, Inc. ("Signal Peak or "the Company") currently serves a 3/4 square mile certificated area which is located approximately five miles northeast of Casa Grande in Pinal County.

Signal Peak has submitted an application for approval of the sale of assets and transfer of Certificate of Convenience and Necessity ("CC&N") to AVM-2005, LLC.

Water System

Signal Peak is a consecutive water system to the Arizona Water Company ("AWC") - Casa Grande system and has no pumping facilities. Signal Peak is served by a 2-inch master-meter and is purchasing water, as needed, to serve its customers. According to its 2005 Annual Report, Signal Peak has a capped well, drilled in 2004, and a distribution system consisting of 5,280 feet of 6-inch main serving 35 connections.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Signal Peak ADEQ Public Water System ("PWS") # 11-079

ADEQ has reported major deficiencies in monitoring and reporting requirements for total coliform, lead & copper and consumer confidence reports. Because of the compliance monitoring deficiencies, ADEQ cannot determine if the Signal Peak's water system PWS#11-079 is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.¹

¹ Per status report dated December 21, 2006.

AWC ADEQ PWS # 11-009

ADEQ has determined that the AWC system (PWS#11-009) which supplies water to the Signal Peak system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.²

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.

Signal Peak receives its entire source from AWC. According to AWC, its arsenic levels for its wells range from 7 ppb to 45 ppb. Based on these levels, AWC 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 AWC to record its arsenic treatment costs for the AWC - Case Grande System.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is within the Pinal Active Management Area. ADWR indicated that the Company is in compliance with its monitoring and reporting requirements.

Arizona Corporation Commission ("ACC") Compliance

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

Curtailment Tariff

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company currently does not yet have a CPT, this Application provides an opportune time to prepare and file a CPT.

Conclusions

1. Staff concludes that the Signal Peak's water system is a consecutive system to the Arizona Water Company – Casa Grande System. Signal Peak is purchasing water, as needed, to serve its customers.
2. AWC's wells arsenic level range from 7 ppb to 45 ppb. AWC 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

² Per status report dated November 2, 2006.

which will allow AWC to record its arsenic treatment costs for the AWC - Casa Grande System.

3. ADEQ has determined that the AWC water system PWS#11-009 is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
4. ADEQ has reported that the Signal Peak's water system PWS#11-079 has major deficiencies in monitoring and reporting requirements for total coliform, lead & copper and consumer confidence reports. Because of the compliance monitoring deficiencies, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
5. ADWR indicated that Signal Peak is in compliance with its monitoring and reporting requirements.
6. A check with the ACC Utilities Division compliance unit showed no outstanding compliance issues.
7. Signal Peak does not have an approved CPT for its system.

Recommendations

1. Staff recommends that AVM file ADEQ documentation (Compliance Status Report) demonstrating that PWS #11-079 is serving safe drinking water that meets the water quality standards required by Arizona administrative Code, Title 18, Chapter 4 within 12 months of a decision approving this transaction.

Staff also recommends that AVM file in Docket Control as a compliance matter, for each of the next twelve months following the decision in this docket, documentation showing that the required monthly testing for the total coliform analysis required by ADEQ has been accomplished and that Signal Peak's water quality is in compliance with ADEQ rules.

2. Staff recommends that AVM file a CPT with Docket Control, as a compliance item in the same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's website at <http://www2.azcc.gov/divisions/util/forms/Curtailment-Cons.pdf>.

Staff recognizes that AVM may need to make minor modifications to the sample tariff according to their specific management, operational, and design requirements as necessary and appropriate.