

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

Date: August 14, 2007

RE: STAFF REPORT FOR MARK GRAPP DBA SERVICEBERRY WATER COMPANY – APPLICATION FOR APPROVAL OF THE SALE OF ITS ASSETS AND TRANSFER OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE TO VERNON VALLEY WATER, INC. (DOCKET NOS. W-02481A-07-0168 AND W-20540A-07-0168)

Attached is the Staff Report for Mark Grapp dba Serviceberry Water Company's application for approval of the sale of its Assets and transfer of its Certificate of Convenience and Necessity for water service to Vernon Valley Water, Inc. Staff is recommending approval with conditions.

EGJ:BNC:lhv

Originator: Blessing Chukwu

Arizona Corporation Commission

DOCKETED

AUG 14 2007

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AZ CORP COMMISSION  
DOCKET CONTROL

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RECEIVED

Service List for: Mark Grapp dba Serviceberry Water Company and Vernon Valley Water, Inc.  
Docket Nos. W-02481A-07-0168 and W-20540A-07-0168

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STAFF REPORT  
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ARIZONA CORPORATION COMMISSION

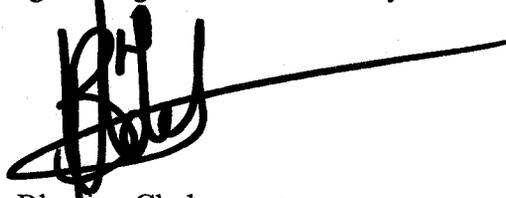
MARK GRAPP DBA SERVICEBERRY WATER COMPANY  
DOCKET NOS. W-02481A-07-0168 AND W-20540A-07-0168

APPLICATION FOR APPROVAL OF THE SALE  
OF ITS ASSETS AND TRANSFER OF ITS CERTIFICATE OF  
CONVENIENCE AND NECESSITY TO VERNON VALLEY WATER, INC.

AUGUST 14, 2007

## STAFF ACKNOWLEDGMENT

The Staff Report for Mark Grapp dba Serviceberry Water Company (Docket Nos. W-02481A-07-0168 and W-20540A-07-0168) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Katrin Stukov was responsible for the engineering and technical analysis.

A handwritten signature in black ink, appearing to read 'Blessing Chukwu', with a long horizontal line extending to the right.

Blessing Chukwu  
Executive Consultant

A handwritten signature in black ink, appearing to read 'Katrin Stukov', written in a cursive style.

Katrin Stukov  
Utilities Engineer

**EXECUTIVE SUMMARY**  
**MARK GRAPP DBA SERVICEBERRY WATER COMPANY AND VERNON VALLEY**  
**WATER, INC.**  
**DOCKET NOS. W-02481A-07-0168 AND W-20540A-07-0168**

On March 22, 2007, Mark Grapp dba Serviceberry Water Company ("SWC" or "Company" or "Transferor") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for approval of the sale of its assets and transfer of its Certificate of Convenience and Necessity ("CC&N") to provide water service to Vernon Valley Water, Inc. ("Vernon" or "Transferee") in Apache County, Arizona. On July 10, 2007, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the Arizona Administrative Code ("A.A.C.")

Mark Grapp dba Serviceberry Water Company is a sole proprietorship authorized to provide water utility services to certain portions of Apache County, Arizona, pursuant to the Commission's Decision No. 57852, issued on May 14, 1992, in Docket Nos. U-2481-91-087 and U-2481-91-111. The instant application is a compliance filing, pursuant to Decision No. 69391, issued on March 22, 2007, in Docket No. W-20475A-06-0549 et al. On January 17, 2007, Mr. Grapp testified during the hearing in Docket No. W-20475A-06-0549 et al that he has been operating SWC recently as "dba Vernon Valley Water Company, Inc." As a result, the Commission ordered Mr. Grapp to file within 90 days of the effective date of Decision No. 69391 an application for Commission approval of the sale of assets and the transfer of CC&N to Vernon. The purpose of this application is to formally transfer the assets and CC&N of SWC to Vernon

Based on Staff's review and analysis of the application, Staff believes the water system has adequate well production and storage capacity to serve the existing customer base of 21 connections.

Staff recommends the Commission approve SWC's application for the sale of its assets and transfer of its CC&N for water service within portions of Apache County, Arizona, to Vernon, subject to compliance with the following condition:

1. To require Vernon to charge SWC's authorized rates and charges in the transfer area.
2. To require Mr. Mark Grapp to file with Docket Control, as a compliance item in this docket, copies of all documentation transferring ownership of SWC's assets to Vernon, within 90 days of the decision in this matter.
3. To require Vernon to file with Docket Control, as a compliance item in this docket, a copy of the franchise agreement from Apache County for the transfer area within 365 days of the decision in this matter.
4. To require Vernon to file a rate case application by June 30, 2009, using a 2008 test year, if in April 2008 the Annual Report shows a loss.

Staff further recommends that the Commission's Decision granting the Approval of Sale of Assets and the transfer of the CC&N to Vernon be considered null and void, after due process, should Vernon fail to meet Conditions No. 2, 3, and 4 listed above within the time specified.

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## **Introduction**

On March 22, 2007, Mark Grapp dba Serviceberry Water Company ("SWC" or "Company" or "Transferor") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for approval of the sale of its assets and transfer of its Certificate of Convenience and Necessity ("CC&N") to provide water service to Vernon Valley Water, Inc. ("Vernon" or "Transferee") in Apache County, Arizona.

On April 19, 2007, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that SSC's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-402(C). A copy of the Insufficiency Letter was sent to the Company via U.S. mail. In the Letter, Staff listed the deficiencies that needed to be cured for administrative purposes.

On May 3, 2007, and June 13, 2007, the Company provided additional documentation to support its relief requested.

On July 10, 2007, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

## **Background**

Mark Grapp dba Serviceberry Water Company is a sole proprietorship authorized to provide water utility services to certain portions of Apache County, Arizona, pursuant to the Commission's Decision No. 57852, issued on May 14, 1992, in Docket Nos. U-2481-91-087 and U-2481-91-111. In that decision, the Commission authorized the sale of Serviceberry Water Company's assets and the transfer of its CC&N from Mr. Warren Stevens to Mr. Mark Grapp.

Vernon Valley Water, Inc. is an Arizona Corporation, in good standing with the Commission's Corporation Division. The only shareholders of Vernon are Mr. Mark E. Grapp, Sr. (the President) and Mrs. Barbara Grapp (the Secretary and Treasurer). Mr. Grapp also owns three other water systems, namely: Cedar Grove Water Company, Watco, Inc., and A. Petersen Water Company, Inc.

The instant application is a compliance filing, pursuant to Decision No. 69391, issued on March 22, 2007, in Docket No. W-20475A-06-0549 et al. On January 17, 2007, Mr. Grapp testified during the hearing in Docket No. W-20475A-06-0549 et al. that he has been operating SWC recently as "dba Vernon Valley Water Company, Inc." As a result, the Commission ordered Mr. Grapp to file within 90 days of the effective date of Decision No. 69391 an application for Commission approval of the sale of assets and the transfer of CC&N to Vernon. The purpose of this application is to formally transfer the assets and CC&N of SWC to Vernon

According to SWC's Annual Report for the year ending December 31, 2006, SWC reported an annual revenue of \$10,566, expenses of \$14,905, and a loss of \$4,436. SWC also reported the Company is current on property and sales taxes.

### **The Water System**

SWC has one well with a total production capacity of 25 gallon per minute, 10,000 gallons of storage capacity, booster pumps, pressure tank, and a distribution system serving 21 connections.<sup>1</sup> Based on historical growth rates, it is anticipated that the existing service area would have 26 total customers at the end of five years.<sup>2</sup> Based on Water Use Data information reported in the Company's 2006 Annual Report, Staff concludes that this system has adequate well production and storage capacity to serve the existing customer base. The Company stated that it will continue to monitor storage capacity since the highest month usage in 2005 was slightly over available storage capacity.

Staff recommends that Mr. Mark Grapp be required to file with Docket Control, as a compliance item in this docket, copies of all documentation transferring ownership of SWC's assets to Vernon, within 90 days of the decision in this matter.

### **The Transaction**

SWC is certificated to provide water service in a portion of Apache County, Arizona. By this application, the Company is seeking Commission authority to sell its assets and transfer its CC&N to Vernon Valley Water, Inc., an Arizona Corporation, in good standing with the Commission's Corporation Division. The Company's CC&N area is approximately two square miles and is located about 16 miles east of Show Low in Apache County, Arizona.

According to the application, all customer security deposits will be transferred to the Transferee; and there are no refunds due on Main Extension Agreements or on meter and line installations.

Mr. Grapp has been managing SWC's water system since he acquired SWC's assets. Staff understands that the proposed transfer of assets and CC&N from SWC to Vernon Valley Water, Inc. will not result in any change in the management or operation of the water system. Certified operator personnel will not change as result of the transfer.

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<sup>1</sup> Information reported in Company's 2006 Commission Annual Report.

<sup>2</sup> Historical growth rate based on number of connections added during the years 2002 thru 2006 (*See Annual Reports for period*).

### **Arizona Department of Environmental Quality (“ADEQ”) Compliance**

The ADEQ assigns each water system it regulates a Public Water System (“PWS”) Identification Number which is used for tracking purposes. The ADEQ has determined that SWC’s water system PWS # 01-054 is in full compliance with ADEQ requirements and is currently delivering water that meets water quality standards as required by Arizona Administrative Code, Title 18, Chapter 4.<sup>3</sup>

### **Arizona Department of Water Resources (“ADWR”) Compliance**

The Company is not within an Active Management Area (“AMA”), and consequently is not subject to ADWR reporting and conservation requirements.

### **ACC Compliance**

According to the Utilities Division Compliance Section, the Company has no outstanding ACC compliance issues.<sup>4</sup>

### **Arsenic**

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. Recent data on arsenic concentration shows the Company’s well complies with the new arsenic standard of 10 µg/l.<sup>5</sup>

### **Curtailment Plan Tariff**

The Company has an approved curtailment tariff that became effective on August 25, 2004.

### **Proposed Rates**

Vernon will provide water service to the transfer area under the Company’s authorized rates and charges.

It seems that current rates may be inadequate. The Annual Report for the last four consecutive years has reflected a loss. If in April 2008 the Annual Report shows a loss, Staff recommends that Vernon file a rate case application by June 30, 2009 using a 2008 test year.

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<sup>3</sup> ADEQ Drinking Water Compliance Status Report dated August 11, 2006.

<sup>4</sup> Per ACC Compliance status check dated June 4, 2007

<sup>5</sup> Based on information contained in the Company’s 2006 Annual Report

### **County Franchise**

Every applicant for a CC&N and/or CC&N extension is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or permit from the proper authority. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

Staff recommends that Vernon be required to file with Docket Control, as a compliance item in this docket, a copy of the franchise agreement from Apache County for the transfer area within 365 days of the decision in this matter.

### **Recommendations**

Staff recommends the Commission approve SWC's application for the sale of its assets and transfer of its CC&N for water service within portions of Apache County, Arizona, to Vernon, subject to compliance with the following condition:

1. To require Vernon to charge SWC's authorized rates and charges in the transfer area.
2. To require Mr. Mark Grapp to file with Docket Control, as a compliance item in this docket, copies of all documentation transferring ownership of SWC's assets to Vernon, within 90 days of the decision in this matter.
3. To require Vernon to file with Docket Control, as a compliance item in this docket, a copy of the franchise agreement from Apache County for the transfer area within 365 days of the decision in this matter.
4. To require Vernon to file a rate case application by June 30, 2009, using a 2008 test year, if in April 2008 the Annual Report shows a loss.

Staff further recommends that the Commission's Decision granting the Approval of Sale of Assets and the transfer of the CC&N to Vernon be considered null and void, after due process, should Vernon fail to meet the Conditions No. 2, 3, and 4 listed above within the time specified.

## MEMORANDUM

DATE: July 16, 2007

TO: Blessing Chukwu  
Executive Consultant III

FROM: Katrin Stukov *KS*  
Utilities Engineer

RE: Serviceberry Water Company Application for approval of the transfer of assets and CC&N from Serviceberry Water Company to Vernon Valley Water, Inc. (Docket No. W- 02481A-07-0168 & W-20540A-07-0168)

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### **Introduction**

Serviceberry Water Company ("Serviceberry" or "the Company") has applied to transfer its assets and Certificate of Convenience and Necessity ("CC&N") to Vernon Valley Water, Inc. The Company's CC&N covers an area roughly two square miles and is located approximately sixteen miles east of Show Low in Apache County. Staff understands that the proposed transfer will not result in any change in the management or operation of the Company. Certified operator personnel will not change as result of the transfer either.

### **Capacity**

Serviceberry has one well with a total production capacity of 25 gal/min, 10,000 gallons of storage capacity, booster pumps, pressure tank, and a distribution system serving 21 connections.<sup>1</sup> Based on historical growth rates, it is anticipated that the existing service area would have 26 total customers at the end of five years.<sup>2</sup> Based on Water Use Data information reported in 2006 Annual Report, Staff concludes that this system has adequate well production and storage capacity to serve the existing customer base. The Company stated that it will continue to monitor storage capacity since the highest month usage in 2005 was slightly over available storage capacity.

---

<sup>1</sup> Information reported in Company's 2006 Commission Annual Report.

<sup>2</sup> Historical growth rate based on number of connections added during the years 2002 thru 2006 (*See Annual Reports for period*).

### **Arizona Department of Environmental Quality (“ADEQ”) Compliance**

ADEQ regulates the water system under ADEQ Public Water System I.D. # 01-054. The ADEQ has determined that this system is in full compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.<sup>3</sup>

Recent data on arsenic concentration shows compliance with the new arsenic standard of 10 micrograms per liter.<sup>4</sup>

### **Arizona Department of Water Resources (“ADWR”) Compliance**

Serviceberry is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.

### **ACC Compliance**

A check with Utilities Division Compliance Section showed no outstanding compliance issues for the Company<sup>5</sup>.

### **Other Issues**

Serviceberry has an approved Curtailment Tariff that has been in effect since August 25, 2004.

### **Conclusions**

1. Staff concludes that the existing water system has adequate production and storage capacity to serve the existing customer base.
2. The ADEQ has determined that this system is in full compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
3. Recent data on arsenic concentration shows compliance with the new arsenic standard of 10 micrograms per liter.

---

<sup>3</sup> ADEQ Drinking Water Compliance Status Report dated August 11, 2006.

<sup>4</sup> Based on information contained in the Company’s 2006 Annual Report

<sup>5</sup> Per ACC Compliance status check dated June 4, 2007

4. Serviceberry is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.
5. A check with Utilities Division Compliance Section showed no outstanding compliance issues for the Company.

**MEMORANDUM**

TO: Blessing Chukwu  
Executive Consultant III  
Utilities Division

FROM: Barb Wells *bw*  
Information Technology Specialist  
Utilities Division

THRU: Del Smith *DS*  
Engineering Supervisor  
Utilities Division

DATE: August 7, 2007

RE: **SERVICEBERRY WATER COMPANY (DOCKET NO. W-02481A-07-0168)**  
**VERNON VALLEY WATER, INC. (DOCKET NO. W-20540A-07-0168)**  
**AMENDED**

The original application filed by Serviceberry to transfer its CC&N to Vernon Valley Water, Inc., was assigned only one docket number. The purpose of this memo is to reflect the addition of a docket number for Vernon Valley.

Attached is a copy of the map for your files.

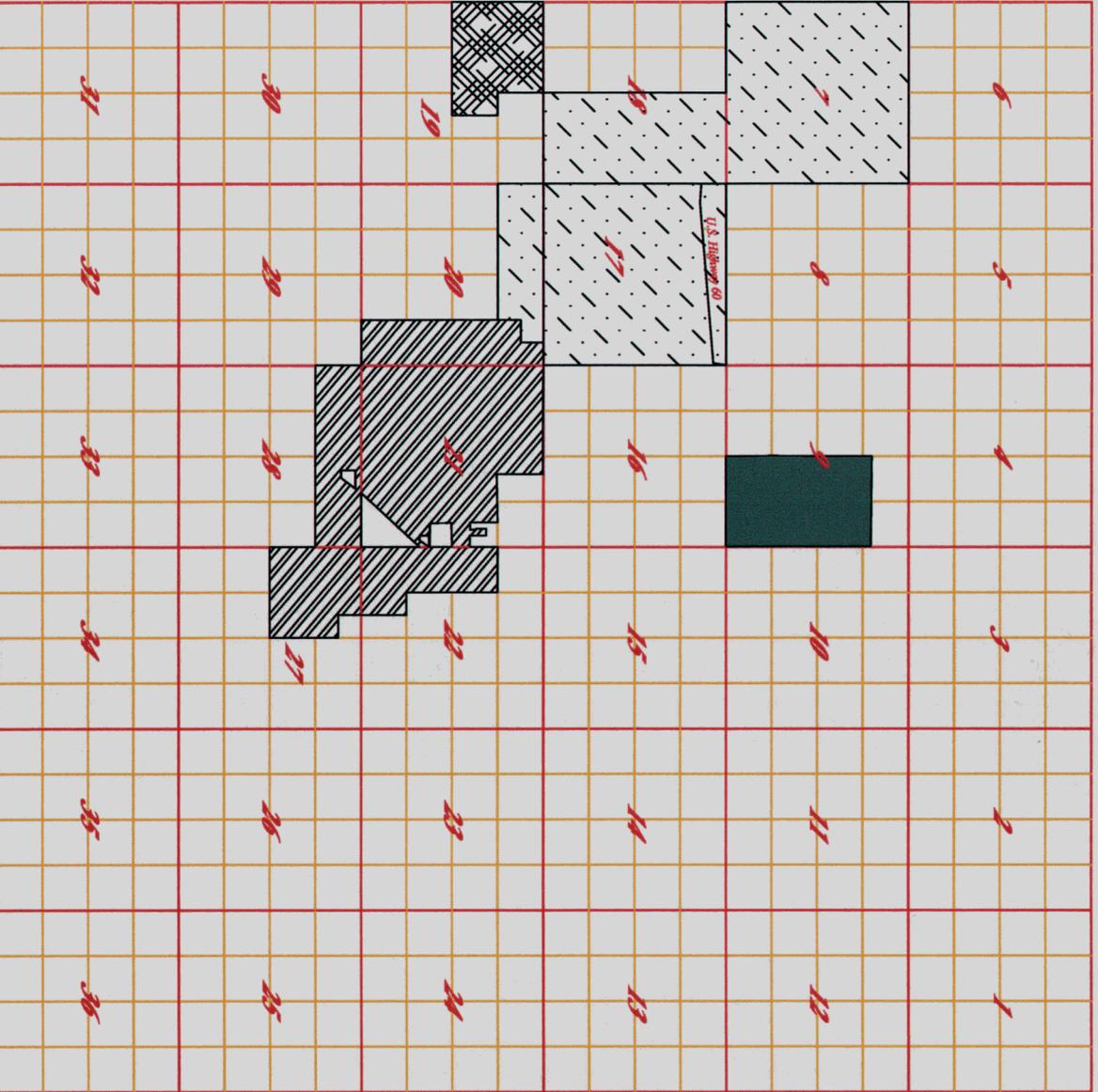
:bsw

Attachment

cc: Mr. Thomas Grapp  
Ms. Deb Person (Hand Carried)  
File

# COUNTY: Apache

## RANGE 25 East



## TOWNSHIP 10 North



W-2479 (2)

Lord Arizona Water Systems, Inc.



W-2481 (1)

Serviceberry Water Company



W-1902 (1)

T. K. Water Service



Serviceberry Water Company  
 Docket No. W-02481A-06-0547  
 Application for Extension

Serviceberry Water Company  
 Docket No. W-02481A-07-0168  
 Application to Transfer to  
 Vernon Valley Water, Inc.  
 Docket No. W-20540A-07-0168