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MEMORANDUM

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

Arizona Corporation Commission

DOCKETED

AUG 15 2007

Date: August 15, 2007

DOCKETED BY
KK *[Signature]*

RE: STAFF REPORT FOR MARK GRAPP DBA CEDAR GROVE WATER COMPANY – APPLICATION FOR APPROVAL OF THE SALE OF ITS ASSETS AND TRANSFER OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE TO CEDAR GROVE WATER, INC. (DOCKET NOS. W-02597A-07-0169 AND W-20541A-07-0169)

Attached is the Staff Report for Mark Grapp dba Cedar Grove 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 Cedar Grove Water, Inc. Staff is recommending approval with conditions.

EGJ:BNC:kdh

Originator: Blessing Chukwu

AZ CORP COMMISSION
DOCKET CONTROL

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RECEIVED

Service List for: Mark Grapp dba Cedar Grove Water Company and Cedar Grove Water, Inc.
Docket Nos. W-02597A-07-0169 AND W-20541A-07-0169

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MARK GRAPP DBA CEDAR GROVE WATER COMPANY
DOCKET NOS. W-02597A-07-0169 AND W-20541A-07-0169

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

AUGUST 15, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Mark Grapp dba Cedar Grove Water Company (Docket Nos. W-02597A-07-0169 AND W-20541A-07-0169) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Del Smith was responsible for the engineering and technical analysis.

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

Blessing Chukwu
Executive Consultant

A handwritten signature in black ink, appearing to read 'Del Smith', with a long horizontal stroke extending to the right.

Del Smith
Engineer Supervisor

EXECUTIVE SUMMARY
MARK GRAPP DBA CEDAR GROVE WATER COMPANY
AND CEDAR GROVE WATER, INC.
DOCKET NOS. W-02597A-07-0169 AND W-20541A-07-0169

On March 22, 2007, Mark Grapp dba Cedar Grove Water Company ("CGW" 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 Cedar Grove Water, Inc. ("CGWI" or "Transferee") in Apache County, Arizona. On July 12, 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 Cedar Grove 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. 57990, issued on August 26, 1992, in Docket Nos. U-2511-91-112, U-2597-91-112, U-2597-91-117, and U-2597-91-395. 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 (Docket Nos. W-20475A-06-0549 et al.) that he personally acquired the assets of CGW several years ago from its former owners and on March 2003, he incorporated the CGW as Cedar Grove Water, Inc. to continue the utility's operation. 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 CGWI. The purpose of this application is to formally transfer the assets and CC&N of CGW to CGWI.

Based on Staff's review and analysis of the application, Staff believes the existing system has adequate production and storage capacity to serve existing customers and can reasonably be expected to develop additional storage and production as required in the future.

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

1. To require CGWI to charge CGW's authorized rates and charges in the transfer area.
2. To require CGWI 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.

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

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Introduction

On March 22, 2007, Mark Grapp dba Cedar Grove Water Company ("CGW" 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 Cedar Grove Water, Inc. ("CGWI" or "Transferee") in Apache County, Arizona.

On April 20, 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 12, 2007, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

Background

Mark Grapp dba Cedar Grove 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. 57990, issued on August 26, 1992, in Docket Nos. U-2511-91-112, U-2597-91-112, U-2597-91-117, and U-2597-91-395. In that decision, the Commission, among other things, authorized the sale of Sunrise Vista Estate Water Company's assets and the transfer of its CC&N to Mr. Mark Grapp dba Cedar Grove Water Company.

Cedar Grove Water, Inc. is an Arizona Corporation, in good standing with the Commission's Corporation Division. The only shareholders of CGWI 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 personally acquired the assets of CGW several years ago from its former owners and on March 2003 he incorporated the CGW as Cedar Grove Water Inc. to continue the utility's operation. 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 CGWI. The purpose of this application is to formally transfer the assets and CC&N of CGW to CGWI.

According to CGW's Annual Report for the year ending December 31, 2006, CGW reported an annual revenue of \$120,636, expenses of \$151,803, and a loss of \$33,293. CGW also reported the Company is current on property and sales taxes.

The Water System

CGW has in existence five wells with a total production capacity of 106 gallons per minute¹, 387,500 gallons of storage capacity, booster pumps, pressure tanks, and a distribution system serving 336 customers.² The Company also has five buildings ranging in size from 600 square feet to 36 square feet at four sites. The buildings are used for storage and to house the wells, pressure tanks and booster pumps. The Company typically has added 20 – 25 customers per year, however during 2006 the Company added over 50 new customers.³ The existing production and storage can serve 410 connections.⁴ Therefore, Staff concludes that the existing system has adequate production and storage capacity to serve existing customers and can reasonably be expected to develop additional storage and production as required in the future.

On July 17, 2007, Mr. Mark Grapp filed in the docket, a quit claim deed transferring all right, title or interest of CGW in certain real property situated in Apache, County Arizona to CGWI.

The Transaction

CGW 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 Cedar Grove Water, Inc., an Arizona Corporation, in good standing with the Commission's Corporation Division. The Company's CC&N area is approximately eight square miles and is located about 12 miles east of Show Low in Apache County, Arizona.

According to the application, all customer security deposits will be transferred to the Transferee; all refunds due on Main Extension Agreements will be assumed by Transferee; and all refunds due on meter and service line installations will be assumed by the Transferee.

Mr. Grapp has been managing CGW's water system since he acquired Sunrise Vista Estate Water Company's assets. Staff understands that the proposed transfer of assets and

¹ This rating excludes the Eagle Ridge Well (Arizona Department of Water Resources ID Number 55-566375). This well was reported as a non-producer in the Company's 2006 Commission Annual Report and is currently being used only as an emergency water source.

² Information reported in Company's 2006 Commission Annual Report and in Company responses to Staff Insufficiency Letters.

³ Historical growth rate based on number of connections added during the years 2001 thru 2006 (*See Annual Reports for period*).

⁴ Capacity calculations were based on Water Use Data information reported in Company's 2006 Commission Annual Report.

CC&N from CGW to CGWI 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.

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 CGW’s water system PWS # 01-049 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 4.⁵

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.⁶

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 five wells comply with the new arsenic standard of 10 µg/l.

Curtailment Plan Tariff

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

Proposed Rates

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

⁵ ADEQ Drinking Water Compliance Status Report dated August 11, 2006.

⁶ Per ACC Compliance status check dated April 18, 2007

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 CGWI 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 CGW's application for the sale of its assets and transfer of its CC&N for water service within portions of Apache County, Arizona, to CGWI, subject to compliance with the following condition:

1. To require CGWI to charge CGW's authorized rates and charges in the transfer area.
2. To require CGWI 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.

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

MEMORANDUM

DATE: August 1, 2007

TO: Blessing Chukwu

FROM: Del Smith 

RE: Cedar Grove Water Company Application for Approval of the Sale and Transfer of Certificate of Convenience and Necessity (Docket No. W- 02597A-07-0169 and W-20541A-07-0169)

Introduction

On March 22, 2007, Cedar Grove Water Company ("Cedar Grove" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") to transfer its assets and Certificate of Convenience and Necessity ("CC&N") to Cedar Grove Water, Inc. The Company's certificated area which comprises roughly eight square miles is located approximately twelve 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

Cedar Grove has in existence five wells with a total production capacity of 106 gal/min¹, 387,500 gallons of storage capacity, booster pumps, pressure tanks, and a distribution system serving 336 customers.² The Company also has five buildings ranging in size from 600 square feet to 36 square feet at four sites. The buildings are used for storage and to house the wells, pressure tanks and booster pumps. The Company typically has added 20 – 25 customers per year however during 2006 the company added over 50 new customers.³ The existing production and storage can serve 410 connections.⁴ Therefore, Staff concludes that the existing system has adequate production and storage capacity to serve

¹ This rating excludes the Eagle Ridge Well (Arizona Department of Water Resources ID Number 55-566375). This well was reported as a non-producer in the Company's 2006 Commission Annual Report and is currently being used only as an emergency water source.

² Information reported in Company's 2006 Commission Annual Report and in Company responses to Staff Insufficiency Letters.

³ Historical growth rate based on number of connections added during the years 2001 thru 2006 (*See Annual Reports for period*).

⁴ Capacity calculations were based on Water Use Data information reported in Company's 2006 Commission Annual Report.

existing customers and can reasonably be expected to develop additional storage and production as required in the future.

Arizona Department of Environmental Quality (“ADEQ”) Compliance

ADEQ regulates the water system under Public Water System I.D. # 01-049. 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 4.⁵

Recent data on arsenic concentration shows compliance with the new arsenic standard of 10 micrograms per liter for the Company’s five wells.

Arizona Department of Water Resources (“ADWR”) Compliance

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

ACC Compliance

A check of the Utilities Division compliance data base indicated that there were no past due compliance items for Cedar Grove.⁶

Other Issues

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

Conclusions

1. Staff concludes that the Cedar Grove system has adequate production and storage capacity to serve existing customers and can reasonably be expected to develop additional storage and production as required in the future.
2. ADEQ has determined that the Cedar Grove system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Recent data on arsenic concentration shows compliance with the new arsenic standard of 10 micrograms per liter.

⁵ ADEQ Drinking Water Compliance Status Report dated August 11, 2006.

⁶ Per Utilities Division compliance data base status check dated April 18, 2007.

3. Cedar Grove is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.
4. A check of the Utilities Division compliance data base indicated that there were no past due compliance items for Cedar Grove.

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant III
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: August 7, 2007

RE: **CEDAR GROVE WATER COMPANY (DOCKET NO. W-02597A-07-0169)**
CEDAR GROVE WATER, INC. (DOCKET NO. W-20541A-07-0169)
AMENDED

The original application filed by Cedar Grove Water Company to transfer its CC#N to Cedar Grove Water, Inc., was assigned only one docket number. The purpose of this memo is to reflect the addition of a docket number for Cedar Grove Water, Inc.

Attached are copies of the maps for your files.

:bsw

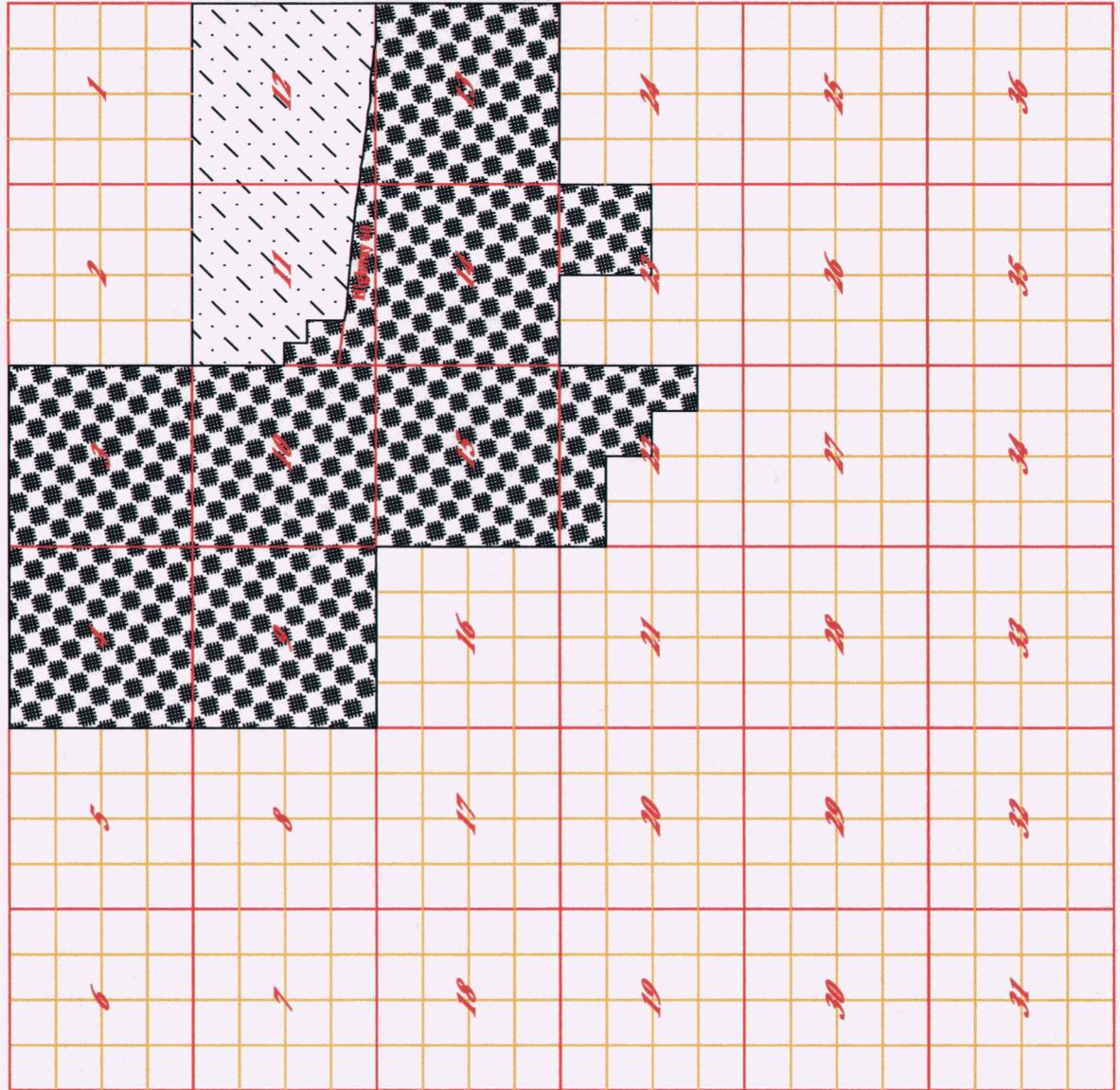
Attachment

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

COUNTY: Apache

RANGE 24 East

TOWNSHIP 10 North



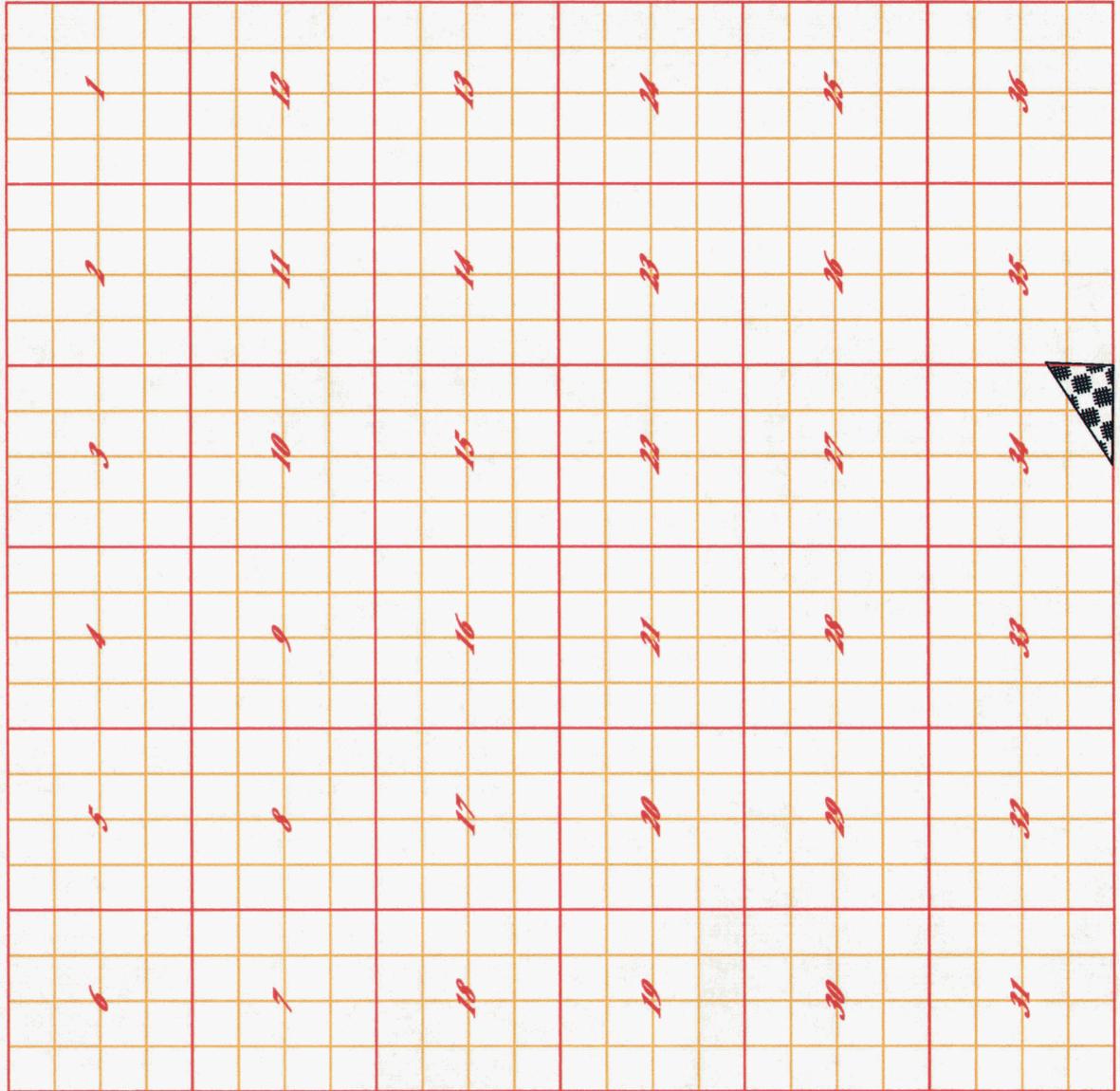
-  W-2597 (2)
Cedar Grove Water
-  W-2479 (2)
Lord Arizona Water Systems, Inc.

Cedar Grove Water
 Docket No. W-02597A-07-0169
 Application to Transfer to
 Cedar Grove Water, Inc.
 Docket No. W-20541A-07-0169

COUINTRY: Apache

RANGE 24 East

TOWNSHIP 11 North



W-2597 (2)

Cedar Grove Water

Cedar Grove Water
 Docket No. W-02597A-07-0169
 Application to Transfer to
 Cedar Grove Water, Inc.
 Docket No. W-20541A-07-0169