

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

for

Date: August 20, 2007

RE: STAFF REPORT FOR WALNUT CREEK WATER COMPANY, INC. -
APPLICATION FOR EXTENSION OF ITS EXISTING CERTIFICATE OF
CONVENIENCE AND NECESSITY (DOCKET NO. W-02466A-06-0504)

Attached is the Staff Report for Walnut Creek Water Company, Inc.'s application for extension of its existing Certificate of Convenience and Necessity to provide water service. Staff is recommending approval with conditions.

EGJ:BNC:red

Originator: Blessing Chukwu

Arizona Corporation Commission
DOCKETED
AUG 20 2007

DOCKETED BY	KJC	NR
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DOCKET CONTROL

Service List for: Walnut Creek Water Company, Inc.
Docket No. W-02466A-06-0504

Mr. Dennis Sims
Walnut Creek Water Company, Inc.
119 East Route 66
Kingman, Arizona 85038

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Company 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

WALNUT CREEK WATER COMPANY, INC.

W-02466A-06-0504

APPLICATION FOR EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE
AND NECESSITY

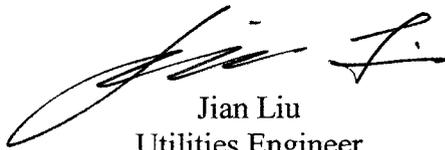
AUGUST 20, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Walnut Creek Water Company, Inc. (Docket No. W-02466A-06-0504) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Jian Liu was responsible for the engineering and technical analysis.

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

Blessing Chukwu
Executive Consultant III

A handwritten signature in black ink, appearing to be 'Jian Liu', with a long horizontal line extending to the left.

Jian Liu
Utilities Engineer

EXECUTIVE SUMMARY
WALNUT CREEK WATER COMPANY, INC.
DOCKET NO. W-02466A-06-0504

On August 7, 2007, Walnut Creek Water Company ("WCW" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in portions of Mohave County, Arizona. On July 16, 2007, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of Arizona Administrative Code ("A.A.C.").

WCW is an Arizona Corporation, in good standing with the Corporations Division, and engaged in providing water utility service to customers in portions of Mohave County, Arizona.

By this application, WCW is seeking Commission authority to add 32 lots (approximately 80 acres) to its CC&N. The Company's existing CC&N is approximately 520 acres and is located approximately four miles southwest of the City of Kingman, Arizona. The extension area is located adjacent to the Company's existing CC&N and is near the vicinity of the Golden Valley South master-planned community, one of the requested CC&N areas of Perkins Mountain Water Company, in Docket No. W-20380A-05-0490. Walnut Creek Development Company, a Limited Liability Partnership, has common owners with WCW. Walnut Creek Development Company owns one-third of the requested area (approximately 11 lots).

Based on Staff's review and analysis of the application, Staff believes 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.

Staff recommends the Commission approve WCW's application for extension of its existing CC&N to provide water service in Mohave County subject to compliance with the following conditions:

1. To require WCW to charge its authorized rates and charges in the extension area.
2. To require WCW to file with Docket Control, as a compliance item in this docket a copy of the Arizona Department of Environmental Quality Approval of Construction ("AOC") for facilities needed to serve the requested areas within two years of the effective date of an order in this proceeding.
3. To require WCW to file a rate case application by May 31, 2008, using a 2007 test year.

Staff further recommends that the Commission's Decision granting the requested CC&N extension be considered null and void after due process should the Company fail to meet the Condition Nos. 2 and 3 listed above within the time specified.

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Introduction

On August 7, 2007, Walnut Creek Water Company ("WCW" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in portions of Mohave County, Arizona.

On September 1, 2007, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that the Company's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.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 December 12, 2007, by Procedural Order, the time clock was suspended indefinitely.

On June 19, 2007, the Company provided additional documentation to support the relief requested.

On July 16, 2007, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of A.A.C. R14-2-402.

Background

WCW is an Arizona Corporation, in good standing with the Corporations Division, and engaged in providing water utility service to customers in portions of Mohave County, Arizona. WCW was incorporated on September 4, 1984. The Commission approved the original CC&N for WCW in Decision No. 55186, issued on September 4, 1986, for approximately 162 acres of land. The Company was granted an extension to its CC&N in Decision No. 57547 (September 9, 1999).

According to the Company's Annual Report for the year ending December 31, 2006, the Company reported an annual revenue of \$121,938, expenses of \$175,101 and a net loss of \$53,163. The Company provides water utility service to approximately 250 customers in Arizona.

By this application, WCW is seeking Commission authority to add 32 lots (approximately 80 acres) to its CC&N. The Company's existing CC&N is approximately 520 acres and is located approximately four miles southwest of the City of Kingman, Arizona. The extension area is located adjacent to the Company's existing CC&N and is near the vicinity of the Golden Valley South master-planned community, one of the requested CC&N areas of Perkins Mountain Water Company, in Docket No. W-20380A-05-0490. Walnut Creek Development Company, a Limited Liability Partnership, has common owners with WCW. Walnut Creek Development Company owns one-third of the requested area (approximately 11 lots).

The Water System

WCW water system consists of three wells producing approximately 360 gallons per minute ("GPM"), two storage tanks (65,000 gallons, and 250,000 gallons), and a distribution system serving 250 connections. The existing water system has adequate well production and storage capacity to serve the existing 250 connections.

Walnut Creek Development Company has drilled a new groundwater well producing approximately 300 GPM, and will install a distribution system to serve the new subdivision.¹ Staff concludes that the proposed water system will have adequate infrastructure to serve the proposed development with 32 residential units.

The Company submitted the following estimated plant-in-service amounts for the new development.

WATER DISTRIBUTION LINE:	\$68,982
WELL AND TRANSMISSION LINE:	\$90,398
TOTAL:	\$159,380

Staff has reviewed the proposed plant-in-service and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N extension application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

The Arizona Department of Environmental Quality's ("ADEQ") Certificate of Approval to Construct ("ATC") for facilities needed to serve the requested area has been submitted to Staff by Walnut Creek.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket a copy of the ADEQ's Approval of Construction ("AOC") for facilities needed to serve the requested areas within one year of the effective date of an order in this proceeding.

The lots which are 2.5 acres, each will have individual septic tank system for wastewater disposal.

Arizona Department of Environmental Quality Compliance

ADEQ regulates the water system under ADEQ Public Water System I.D. No. 08-078. Based on compliance information submitted by the Company, the system has no deficiencies and ADEQ has determined that this system is currently delivering water that meets water quality

¹ Based on information provided by the Company dated June 9, 2007.

standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated May 18, 2007).

Arizona Department of Water Resources ("ADWR") Compliance

WCW is not located in an Active Management Area ("AMA"), and consequently is not subject to ADWR reporting and conservation requirements.

Attached to the Company's application is an ADWR Decision and Order No. 21-401425.0000. According to the ADWR Decision and Order, WCW is designated by ADWR as having an Adequate Water Supply. The ADWR Decision and Order covers the requested area with 32 residential units.

ACC Compliance

According to the Utilities Division Compliance Section, WCW has no outstanding ACC compliance issues.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") or parts per billion ("ppb") to 10 $\mu\text{g/l}$. The Company indicated its arsenic levels for its wells range from 5.4 ppb to 9.0 ppb. Based on these levels, the Company is in compliance with the new arsenic standard.

Curtailment Plan Tariff

The Company has an approved curtailment tariff that became effective on August 27, 2004.

Proposed Rates

WCW will provide water service to the requested area under the Company's authorized rates and charges.

It seems that current rates may be inadequate. The Company's Annual Report for the last eight consecutive years (1999 -2006) has reflected a loss. Therefore Staff recommends that WCW be required to file a rate case application by May 31, 2008, using a 2007 test year.

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, pursuant to ARS 40-282.B. 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.

WCW filed, in the docket, a copy of the franchise agreement it had entered into with Mohave County, Arizona.

Recommendations

Staff recommends the Commission approve WCW's application for extension of its existing Certificate of Convenience and Necessity to provide water service in Mohave County subject to compliance with the following conditions:

1. To require WCW to charge its authorized rates and charges in the extension area.
2. To require WCW to file with Docket Control, as a compliance item in this docket a copy of the ADEQ's AOC for facilities needed to serve the requested areas within two years of the effective date of an order in this proceeding.
3. To require WCW to file a rate case application by May 31, 2008, using a 2007 test year.

Staff further recommends that the Commission's Decision granting the requested CC&N extension be considered null and void after due process should the Company fail to meet Condition Nos. 2 and 3 listed above within the time specified.

MEMORANDUM

DATE: July 31, 2007

TO: Blessing Chukwu
Executive Consultant III

FROM: Jian W. Liu
Utilities Engineer 

RE: Walnut Creek Water Company
Docket No. W-02466A-06-0504 (CC&N Extension)

Introduction

Walnut Creek Water Company ("Walnut Creek" or the "Company") has filed an application for a Certificate of Convenience and Necessity ("CC&N") extension. The Company is located approximately four miles southwest of Kingman in Mohave County, Arizona. The Company's existing CC&N has an area totaling approximately 520 acres.

The Company is planning to develop an approximately 80-acre parcel ("the extension area"). This development will have approximately 32 residential units. Walnut Creek is requesting to extend its certificated area to include the planned development. The development is immediately adjacent to the Company's existing CC&N.

Existing Water System Description

The facility consists of three wells producing approximately 360 gallons per minute ("GPM"), two storage tanks (65,000 gallons, and 250,000 gallons), and a distribution system serving 250 connections.

Capacity of Existing System

The existing water system has adequate well production and storage capacity to serve the existing 250 connections.

Proposed Water System

The developer has drilled a new groundwater well producing approximately 300 GPM, and will install a distribution system to serve the new subdivision.¹

¹ Based on information provided by the Company dated June 9, 2007.

Staff concludes that the developer's proposed water system will have adequate infrastructure to serve the proposed development with 32 residential units.

Cost Analysis

The Company submitted the following estimated plant-in-service amounts for the new development.

WATER DISTRIBUTION LINE:	\$68,982
WELL AND TRANSMISSION LINE:	\$90,398
TOTAL:	\$159,380

Staff has reviewed the proposed plant-in-service and found the plant facilities and cost to be reasonable and appropriate. However, approval of this CC&N extension application does not imply any particular future treatment for determining the rate base. No "used and useful" determination of the proposed plant-in-service was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the Company's Water System under ADEQ Public Water System ("PWS") #08-078. Based on compliance information submitted by the Company, 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. (ADEQ report dated May 18, 2007).

Certificate of Approval to Construct

The ADEQ Certificate of Approval to Construct ("ATC") for facilities needed to serve the requested area has been submitted to Staff by Walnut Creek.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") to $10\mu\text{g/l}$. Walnut Creek reported an arsenic concentrations ranged from of 5.4 to $9.0\mu\text{g/l}$ in its existing wells. Based on these arsenic concentrations, the existing system is in compliance with the new arsenic MCL.

Arizona Department of Water Resources ("ADWR") Compliance

Compliance Status

The Walnut Creek is not located in any ADWR Active Management Area ("AMA") and not subject to AMA reporting and conservation requirements.

Designation of Adequate Water Supply

The Company submitted a letter from ADWR showing that Walnut Creek is designated as having an Adequate Water Supply. ADWR's decision includes the proposed development with 32 residential units.

Arizona Corporation Commission ("ACC") Compliance

According to the Utilities Division Compliance Section, the Company has no outstanding compliance issues.

Summary

Conclusions

- A. The existing water system has adequate production and storage capacity to serve the existing customer base.
- B. Based on the Company's arsenic concentration, the existing water system is in compliance with the new arsenic MCL.
- C. Walnut Creek is not located in any ADWR Active Management Area and not subject to AMA reporting and conservation requirements.
- D. ADEQ regulates the Company's Water System under ADEQ Public Water System ("PWS") #08-078. Based on compliance information submitted by the Company, 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. (ADEQ report dated May 18, 2007).

Recommendations

1. Staff recommends that Walnut Creek be required to file with Docket Control, as a compliance item in this docket, a copy of the ADEQ Certificate of Approval of

Walnut Creek Water Company

July 31, 2007

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Construct ("AOC") for the water facilities needed to service the area within two years of the effective date of the order in this proceeding.

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: September 29, 2006

RE: **WALNUT CREEK WATER COMPANY, INC. (DOCKET NO. W-02466A-06-0504)**

The area requested by Walnut Creek for an extension has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached is a copy of the map for your files.

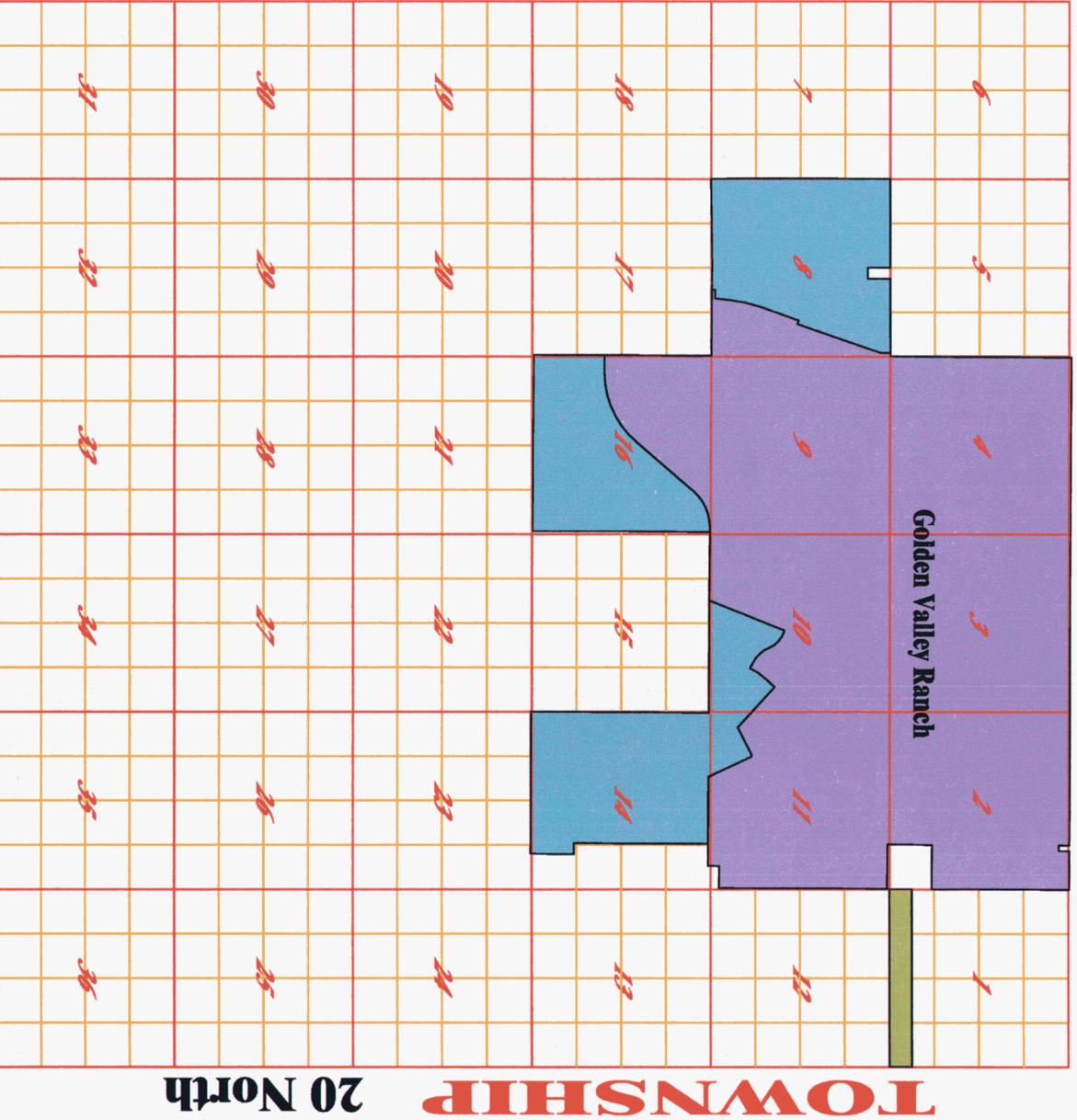
:bsw

Attachments

cc: Mr. Dennis Sim
Ms. Deb Person (Hand Carried)
File

COUNTY: Mohave

RANGE 18 West



W-20380 (4)

Perkins Mountain Water Company
 Docket No. W-20380-A-05-0490
 Application for CC&N for Water - Amended

W-20380 (4)

Perkins Mountain Water Company
 Docket No. W-20380-A-05-0490
 Application for CC&N for Water - Amended
 (Request for Order Preliminary)

(1)

Walnut Creek Water Company, Inc.
 Docket No. W-02466A-06-0504
 Application for Extension

Legal description of proposed new water service area requested by Walnut Creek Water Company, Inc., the south half of the south half of the south half of Section 1, Township 20 North, Range 18 West, G & S.R.M., Mohave County, Arizona.



W-2466

Walnut Creek Water Company, Inc.



W-20380 (4)

Perkins Mountain Water Company
Docket No. W-20380A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 3rd Amended



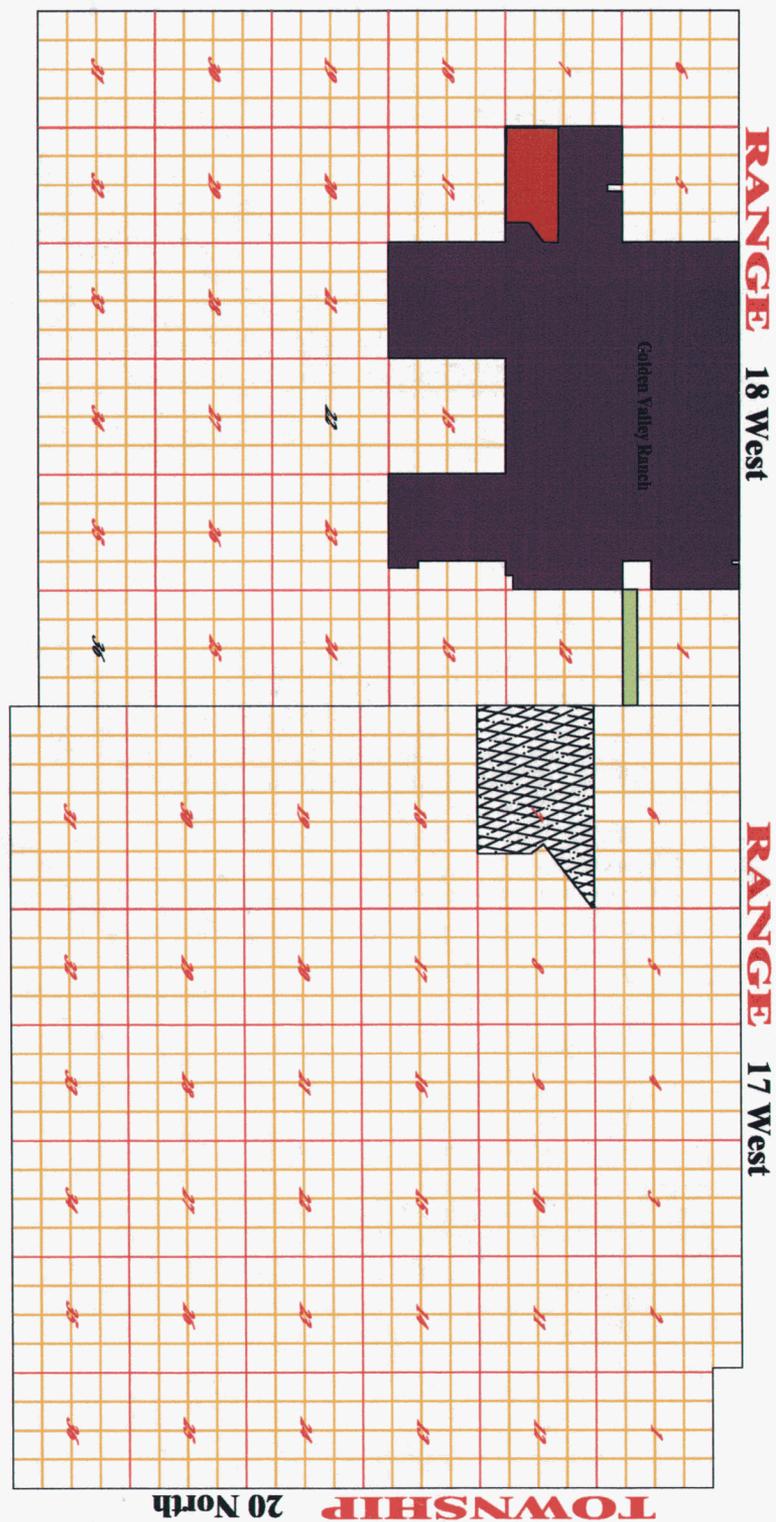
W-20380 (4)

Perkins Mountain Water Company
Docket No. W-20380A-05-0490
Perkins Mountain Utility Company
Docket No. SW-20379A-05-0489
Application for CC&N - 3rd Amended
(Order Preliminary)



(1)

Walnut Creek Water Company, Inc.
Docket No. W-02466A-06-0504
Application for Extension



RANGE 18 West

RANGE 17 West

TOWNSHIP 20 North

MOHAVE COUNTY