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BEFORE THE ARIZONA CORPORATION C(

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COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
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KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE JOINT APPLICATION OF PALO VERDE UTILITIES COMPANY AND SANTA CRUZ WATER COMPANY, FOR AN EXTENSION OF THEIR CERTIFICATES OF CONVENIENCE AND NECESSITY.

DOCKET NO. SW-03575A-06-0545
DOCKET NO. W-03576A-06-0545

STAFF'S RESPONSE

Pursuant to the Procedural Order dated December 20, 2007, Arizona Corporation Commission ("Commission"), Utilities Division ("Staff"') files its response.

I. Review of Company's filing of request for service

The Staff Report indicated some concern that there may exist some confusion among many of the landowners and developers as to which entity will be providing service and whether some of the request may be premature. (Ex S-1 at 1) On February 1, 2008, Global-Water-Santa Cruz and Global Water-Palo Verde (collectively "Company") filed a landowner status report and an updated map of the requested service area. The Company indicated that it has 100% requests for service for the extension area. Approximately 71% of the landowners who originally requested service responded to the Company's request for an update.

A review of a sampling of the updated notice, shows the requests being directed to the correct Global entity. The Company has obviously educated the requesting landowners of the correct entity to which a request should be submitted as well as the correct entities that will be providing service. Further review shows that the updated requests are from the actual property owners.

The updated requests have all expressed a need for service. The various properties are in various stages of development. For example, Maracay Homes in its request indicated that it has an approved preliminary plat for approximately 932 single family residential lots. The letter further states: "As we near completion of our improvement plans and prepare for the issuance of

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development permits, the approval of this expansion area is critical". (See Company filing, dated February 1, 2008, Attachment B, letter from Maracay Homes)

Other landowners indicted that they are still continuing to pursue development of their property. The Empire Sanctuary at Maricopa, LLC indicated in its letter dated January 29, 2008, that its property is zoned and PAD approved with a preliminary plat in 3rd review with the City of Maricopa.

Redfield Financial Partners VII, LLC and Redfield Financial Inc., indicated that their property is awaiting annexation from the City of Maricopa to continue pursuing residential development. (see letter dated January 21, 2008 from Redfield Financial Inc.)

With respect to the original requests for whom there was not an update, Staff still has a concern with the age of some of the requests by property owners (for example the request from Vanderbilt Farms is dated 2005. However, as stated in the Staff report, the requests expressed need for service and intent to develop. (See Ex. S-1 at 1)

II. Should this matter be stayed?

In response to the question, should this matter be stayed pending Commission resolution of the issues in Docket No. W-00000C-06-0149, Staff's position is that this proceeding should not be stayed.

Staff witness Linda Jaress, provided Staff's reasoning when asked a similar question by Administrative Law Judge Sarah Harpring, in another proceeding:

> Q. "Why does Staff think it's important to approve the CC&N even though the ICFA [Infrastructure Construction Financing Agreement] issue has yet to be resolved?"
>
> A. Because we have requests for service…Global is a big presence in Pinal County, and the impact of that would have been just to stop everything, any extensions in Global's territory or the territory that Global wants to serve or areas where developers have requested service to stop everything based on a determination of an accounting determination."[1]

[1] Docket No. SW-20494A-06-0769, et. al.; TR 120:11-23.

The Generic Docket into the regulatory treatment of and the appropriateness of Infrastructure Construction Financing Agreements has been inactive for some time. Further, the approval by the Commission of a request for a certificate of convenience and necessity, should not hinge on the regulatory treatment of funds used to either to fund acquisitions or build infrastructure. As Ms. Jaress testified, the risk to Global would be that in a rate filing, should the Commission elect to treat the ICFAs as contributions, Global would not earn a rate of return on plant that was financed by contributions.[2] Further the resolution of the Generic Docket could be months or years in the making.

The staying of this application would not only affect the utilities involved but also the communities that they propose to serve.

III. Consumer Service Issues

A research of Consumer Services database from January 1, 2005, to current revealed:

Palo Verde Utilities Company

2005 – Zero complaints, inquiries and opinions

2006 – One complaint (quality of service)

One inquiry

2007 – Four complaints (one billing, two quality of service, one disc/term)

One inquiry

2008 – Ten complaints (six billing, four disc/term)

Zero inquiries and opinions

All complaints/inquiries have been resolved and closed.

Santa Cruz Water Company

2005 – Three complaints (two billing, one deposit)

Three inquiries

2006 – Six complaints (four billing, two quality of service)

One inquiry

2007 – 15 complaints (11 billing, one service, three disc/term)

Zero inquiries and opinions

[2] Id. 122:2-5

2008 – Six complaints (four billing, two disc/term)

Four inquiries

Two complaints for Santa Cruz remain open pending investigation; all other complaints/inquiries have been resolved and closed.

Staff received a billing complaint in November 2007 regarding the Company's billing practices. When additional complaints were filed, an investigation was initiated to address these billing issues. It appeared that the Company was continuing to bill consumers who no longer resided at the place of service. Staff met with the Company in an effort to clarify the Commission rules regarding billing. The Company has corrected its billing process and resolved all complaints for water and sewer charges. Staff requested the Company to to review all accounts that were being billed in the same manner and provide a report to Staff Consumer Services. This report was received on February 8, 2008, and indicated that for those customers who have been over-billed and paid the overage, the amounts have been refunded. For others who had been over-billed and had not paid the overage, the billing has been corrected.

IV. Proposed Extension Area

Staff has confirmed that the proposed extension area is 8,473.88 acres which equals 13.24 square miles.

RESPECTFULLY submitted this 15th day of February, 2008.

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