

ORIGINAL



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MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

EA for EGJ

DATE: April 14, 2008

RE: STAFF REPORT FOR ASHCREEK WATER COMPANY – APPLICATION FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE (DOCKET NO. W-02494A-07-0681)

Attached is the Staff Report for Ashcreek Water Company's application for an extension of its Certificate of Convenience and Necessity for water service. Staff recommends approval of the application with conditions.

EGJ:RGG:kdh

Originator: Robert G. Gray

Arizona Corporation Commission
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Service List for: ASHCREEK WATER COMPANY
Docket No. W-02494A-07-0681

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ARIZONA CORPORATION COMMISSION

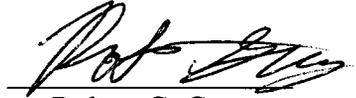
ASHCREEK WATER COMPANY
DOCKET NO. W-02494A-07-0681

APPLICATION FOR AN EXTENSION OF ITS
CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE

APRIL 14, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Ashcreek Water Company, (Docket No. W-02494A-07-0681) was the responsibility of the Staff members listed below. Robert Gray prepared the Staff Report. Katrin Stukov prepared the Engineering Report.



Robert G. Gray
Executive Consultant



Katrin Stukov
Utilities Engineer

**EXECUTIVE SUMMARY
ASHCREEK WATER COMPANY
DOCKET NO. W-02494A-07-0681**

On December 12, 2007, Ashcreek Water Company (“Ashcreek” or “Company”) filed an application for Commission approval of an extension of Ashcreek’s Certificate of Convenience and Necessity (“CC&N”) for water service. Ashcreek currently serves approximately 99 customers in Graham County several miles south of Pima and west of Thatcher, including customers served outside Ashcreek’s current service territory and customers served via a borderline agreement with Graham County Utilities. Ashcreek’s most recent rate proceeding was decided by the Commission in Decision No. 69581 (May 21, 2007). This Decision required Ashcreek to “file, within 120 days from the effective date of this Decision, an application to extend its Certificate of Convenience and Necessity for areas other than the White Fence Farms Subdivision (“WFFS”) where it is providing service to customers outside its certificated service area.”

Since May 3, 2004, Bevin Barney has served as the Company’s interim manager. Per Decision No. 69734 (July 30, 2007), Ashcreek has a moratorium on new hookups. The moratorium will last until the month after Ashcreek files an ADEQ Approval of Construction for a 20,000 gallon storage tank which would alleviate low pressure problems during peak demand periods. Commission Decision No. 69581 (May 21, 2007) requires the Company to submit the ADEQ Approval of Construction for the storage tank project by May 31, 2008. Staff recommends approval of the application, subject to Ashcreek complying with the requirement in Decision No. 69581 regarding the storage tank installation. Staff further recommends that the Company file a report in this docket documenting compliance with this requirement.

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Introduction

On December 12, 2007, Ashcreek Water Company ("Ashcreek" or "Company") filed an application for Commission approval of an extension of Ashcreek's Certificate of Convenience and Necessity ("CC&N") for water service. Ashcreek currently serves approximately 99 customers in Graham County several miles south of Pima and west of Thatcher. This includes Ashcreek's service to approximately 30 customers in the White Fence Farms Subdivision, which is within the certificated area of Graham County Utilities, but for which the Commission approved a borderline agreement which allows Ashcreek to serve customers in this area. Ashcreek's most recent rate proceeding was decided May 21, 2007, by the Commission in Decision No. 69581. This Decision required Ashcreek to "file, within 120 days from the effective date of this Decision, an application to extend its Certificate of Convenience and Necessity for areas other than the White Fence Farms Subdivision ("WFFS") where it is providing service to customers outside its certificated service area."

Previously on February 21, 2001, Staff had filed a complaint against the Company for untimely installing, maintaining, and reading meters and for failing to file a rate case. In Decision No. 66180, August 13, 2003, the Commission authorized Staff to appoint an interim manager to operate and manage the Company. Since May 3, 2004, Bevan Barney has served as the Company's interim manager. According to the application in this case, Alan Baker is the current certified operator of the system.

Proposed Extension Areas

The proposed extension areas cover a total of 400 acres or 5/8 of a square mile, and are contiguous to Ashcreek's existing service territories. The Staff Report filed in Ashcreek's last rate proceeding included a map and diagram from January 2007 showing the locations of customers currently being served by Ashcreek outside its current certificated territory. This map and diagram are attached as Exhibit 2. Ashcreek has indicated that customers added since January 2007 are in the same general areas as are shown by the map and diagram in Exhibit 2. Staff believes that the proposed extension areas are reasonable and match the locations of the customers currently being served outside Ashcreek's existing certificated territory. Exhibit 3, map and legal description of the extension area are attached.

Water Facilities

The existing water system entails two wells producing a total of 75 gallons per minute, a distribution system, and no storage tanks. Exhibit 1, Staff's Engineering Report, discusses the water system and notes that the current system is inadequate to serve the existing customer base or new growth. Decision No. 69581 required the Company to address its lack of storage, an issue that is discussed below in the Arizona Department of Environmental Quality ("ADEQ") Compliance section.

Arizona Department of Environmental Quality Compliance

Based on information provided by the Company, the system is in compliance with ADEQ monitoring and reporting requirements and the water it delivers meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

ADEQ has indicated that Ashcreek has an outstanding Notice of Violation ("NOV") from July 7, 2003, related to not providing sufficient storage or having adequate pressure at all points on the system. However, ADEQ has indicated that the Company is making progress toward resolving the outstanding deficiencies. ADEQ expects that Ashcreek will complete construction on the storage tank in the spring of 2008, at which point all compliance matters related to the NOV will have been met. Further, the Staff Report in Ashcreek's 2006-2007 rate case found that the problem of low pressure during peak periods would be solved by the 20,000 gallon storage tank used to blend water from the company's two wells. In Decision No. 69734, July 30, 2007, the Commission approved a moratorium on new hookups for Ashcreek, until the month following the Company's filing with the Commission of an ADEQ Approval of Construction for system improvements, including construction of storage, test pumping the primary well, and installing larger well transmission lines.

The Company's Well #2 has an arsenic concentration of 19 parts per billion ("ppb") and Well #6 has an arsenic concentration of 3.2 ppb, but the Company is meeting the 10 ppb arsenic standard by blending water from the two wells.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is not located within an Active Management Area and therefore is not subject to AMA reporting and conservation requirements.

Arizona Corporation Commission Compliance

The Company is in compliance with previous Commission decisions.

Curtailment Tariff

The Company has a curtailment tariff that was approved by the Commission in 2004.

Backflow Prevention Tariff

On February 4, 2008, the Company filed for Commission approval of a backflow prevention tariff. This application is currently pending before the Commission.

Conclusions and Recommendations

Staff concludes that the current distribution system, without additional storage, is inadequate to serve the present customer base. With the addition of the 20,000 gallon storage tank, Ashcreek will have sufficient capacity to serve its present customer base. Staff recommends that any approval in this docket be conditioned on the Company complying with the requirement in Decision No. 69581, May 21, 2007, which ordered the Company to “submit the ADEQ Approval of Construction for the storage tank project by May 31, 2008.” Compliance should be documented by a filing in this docket by the Company.

MEMORANDUM

DATE: February 27, 2008

TO: Robert G. Gray
Executive Consultant III

FROM: Katrin Stukov *KS*
Utilities Engineer

RE: Ashcreek Water Company
Docket No. W-02494A-07-0681 (CC&N Extension)

Introduction

On December 12, 2007, Bevan Barney, Interim Manager for Ashcreek Water Company ("Company"), applied to extend the Company's Certificate of Convenience and Necessity ("CC&N") to comply with Finding of Fact No.40 in Arizona Corporation Commission ("ACC") Decision No. 69581, effective May 21, 2007¹. The requested extension area consists of separate parcels located in Section 1 of Township 7 South, Range 24 East and in Sections 7 and 18 of Township 7 South, Range 25 East in the vicinity of the Company's existing service area in Graham County. The requested area will add a little over one-half square-mile (400 acres to be more precise) to the Company's existing service area. The total expanded CC&N will include an area of about 1.25 square-miles (or 800 acres).

The Company is providing water service to 99 customers, of which 63 customers are located outside the Company's existing CC&N. This includes 33 customers in the requested area and 30 customers in the White Fence Farms Subdivision ("WFFS"). A "Borderline Agreement" approved in Decision No. 67951, dated June 21, 2005, permits the Company to serve WFFS, which is adjacent to the Company's certificated service area, but is located within the certificated service area of Graham County Utilities.

Existing Water System

The existing water system consists of two wells (well#2 & well#6) and a distribution system. The two wells produce a total of 75 gallons per minute ("GPM") and the system has no storage tanks.

¹ Docket Nos. 06-0561 & 06-0562

Based on the Water Use Data submitted with the Application, the water system's current two wells could adequately serve approximately 67 service connections. Staff concludes that without storage tank capacity, the Company's water system is inadequate to serve the present customer base. Based on historical growth rates, it is anticipated that the system could have over 115 connections at the end of five years. According to the Staff Report, filed in Docket No. 06-0561 & 06-0562, the Company has proposed to install a 20,000 gallon storage tank to address the storage deficiency. In Commission Decision No. 69581, the Company was ordered to correct its system storage capacity deficiencies (see further discussion under Compliance Status). With the addition of the proposed 20,000 gallons storage tank the water system should be adequate to serve the present customer base. The Company should continue to monitor customer water use and plan installation of additional production or storage facility as necessary.

Arizona Department of Environmental Quality ("ADEQ") Issues

Compliance Status

ADEQ has determined that the Company's system is in compliance with its monitoring and reporting requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4².

According to an ADEQ e-mail, dated January 30, 2008, the Company has an outstanding Notice of Violation ("NOV") of July 7, 2003. However, the Company is making progress toward resolution of the deficiencies cited in the NOV. ADEQ expects construction of the storage tank to be completed in spring 2008. At that point, all the compliance conditions for the NOV will be met.

Arsenic

According to the Staff Report filed in Docket No. 06-0561 & 06-0562, the Company reported arsenic concentrations for Well #2 at 19 parts per billion ("ppb") and Well #6 at 3.2 ppb. Subsequently, the Company proposed to modify its plant facilities by blending water from two wells to meet the new 10 ppb arsenic standard. According to an ADEQ e-mail, dated January 30, 2008, the Company is addressing its arsenic issue by blending.

Approval to Construct ("ATC")

The Company has obtained the ATC for its 20,000 gallon storage tank and blending plan project from the ADEQ.³

² Per ADEQ Compliance status report dated January 14, 2008.

³ Per ADEQ Fax received on February 1, 2008.

Arizona Department of Water Resources (“ADWR”) Compliance

The Company is not located in an Active Management Area (“AMA”) and not subject to AMA reporting and conservation requirements.

ACC Compliance

A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company.⁴

Curtailment Tariff

The Company has an approved Curtailment Tariff.

Summary

Conclusions

1. The system’s water production capacity, without storage tank, is inadequate to serve the present customer base. By Commission Decision No. 69581, the Company was ordered to correct its system’s storage capacity deficiencies. The Company has obtained the ATC for its storage tank and blending plan project from the ADEQ. ADEQ expects construction of the storage tank to be completed in spring 2008.
2. ADEQ has determined that the Company’s water system is in compliance with its monitoring and reporting requirements and currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
3. A check with Utilities Division Compliance Section indicates no delinquent compliance items.

Recommendations

1. Staff recommends that any approval in this docket be conditional on the Company complying with all requirements and conditions set forth in Decision No. 69581 dated May 21, 2007.

⁴ Per ACC Compliance check of February 8, 2008.

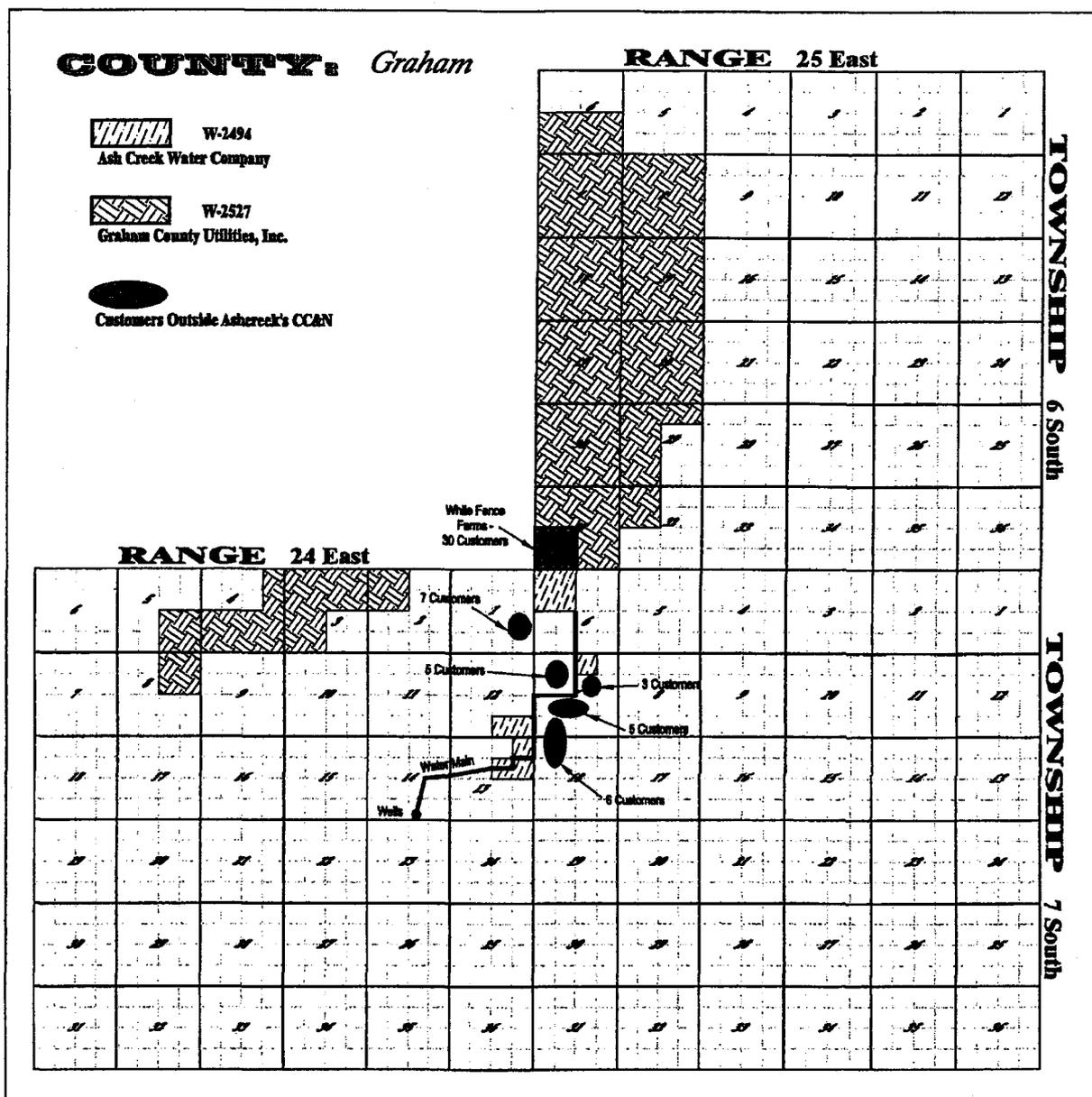


Figure 2. Certificated Areas

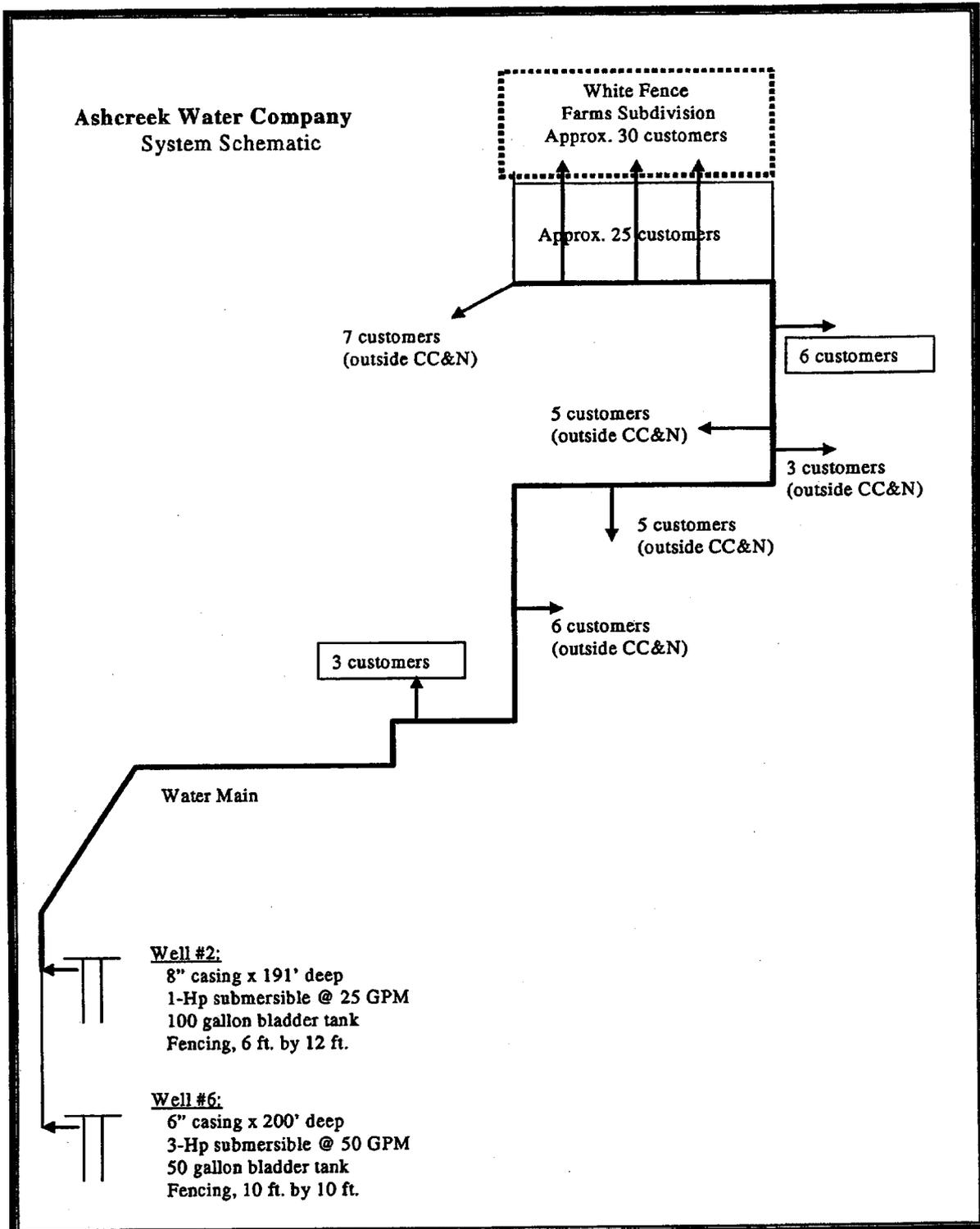
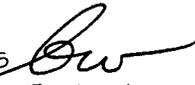


Figure 3. System Schematic

MEMORANDUM

TO: Bob Gray
Executive Consultant III
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: April 14, 2008

RE: **ASHCREEK WATER COMPANY (DOCKET NO. W-02494A-07-0681)**

The area requested by Ashcreek for an extension has been plotted with no complications using an amended legal description, which has been docketed. This legal description is attached and should be used in place of the original description submitted with the application.

Also attached are copies of the maps for your files.

:bsw

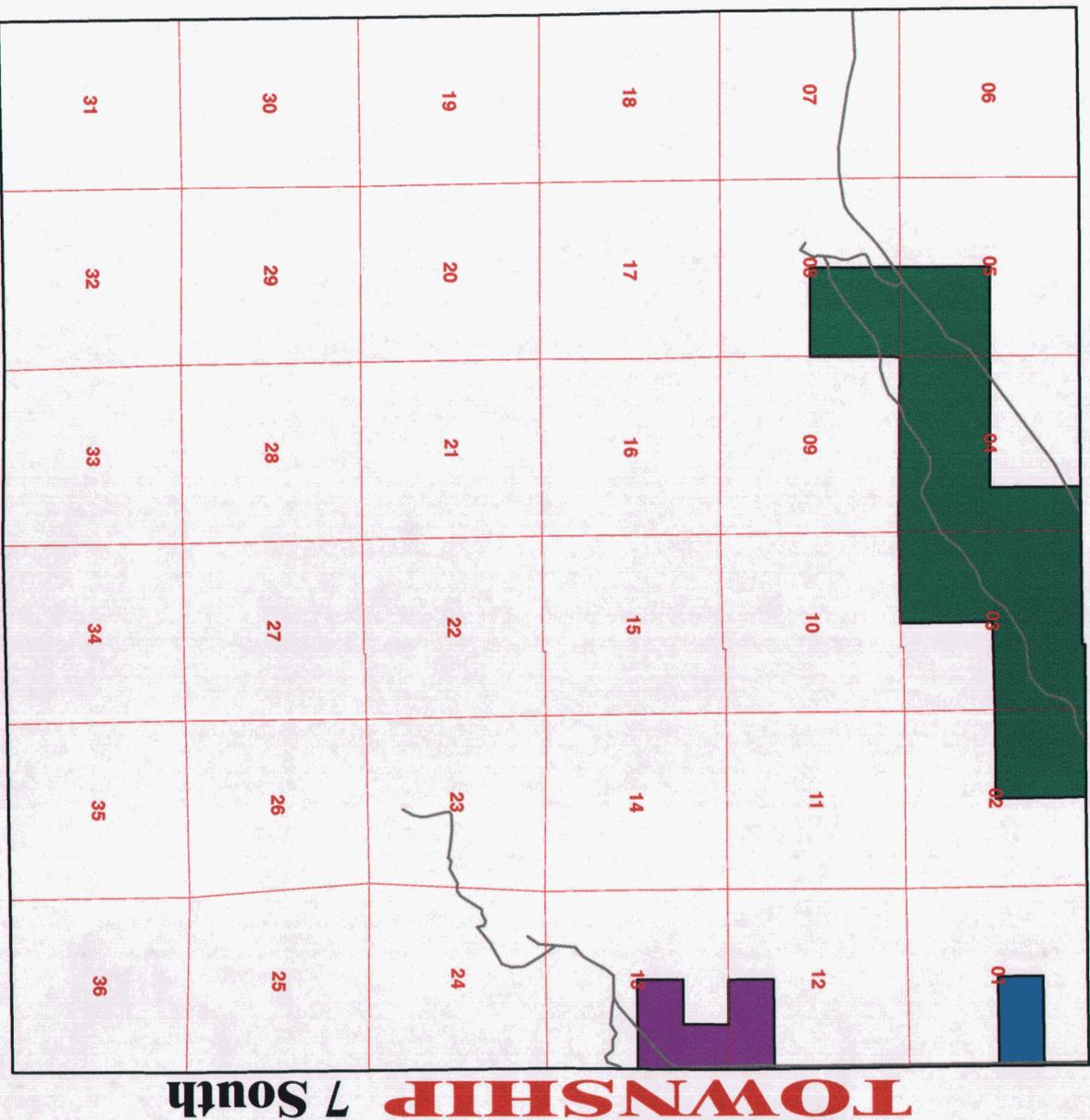
Attachments

cc: Mr. Bevan Barney
Ms. Deb Person (Hand Carried)
Ms. Katrin Stukov

GRAHAM COUNTY

Map No. 6

RANGE 24 East



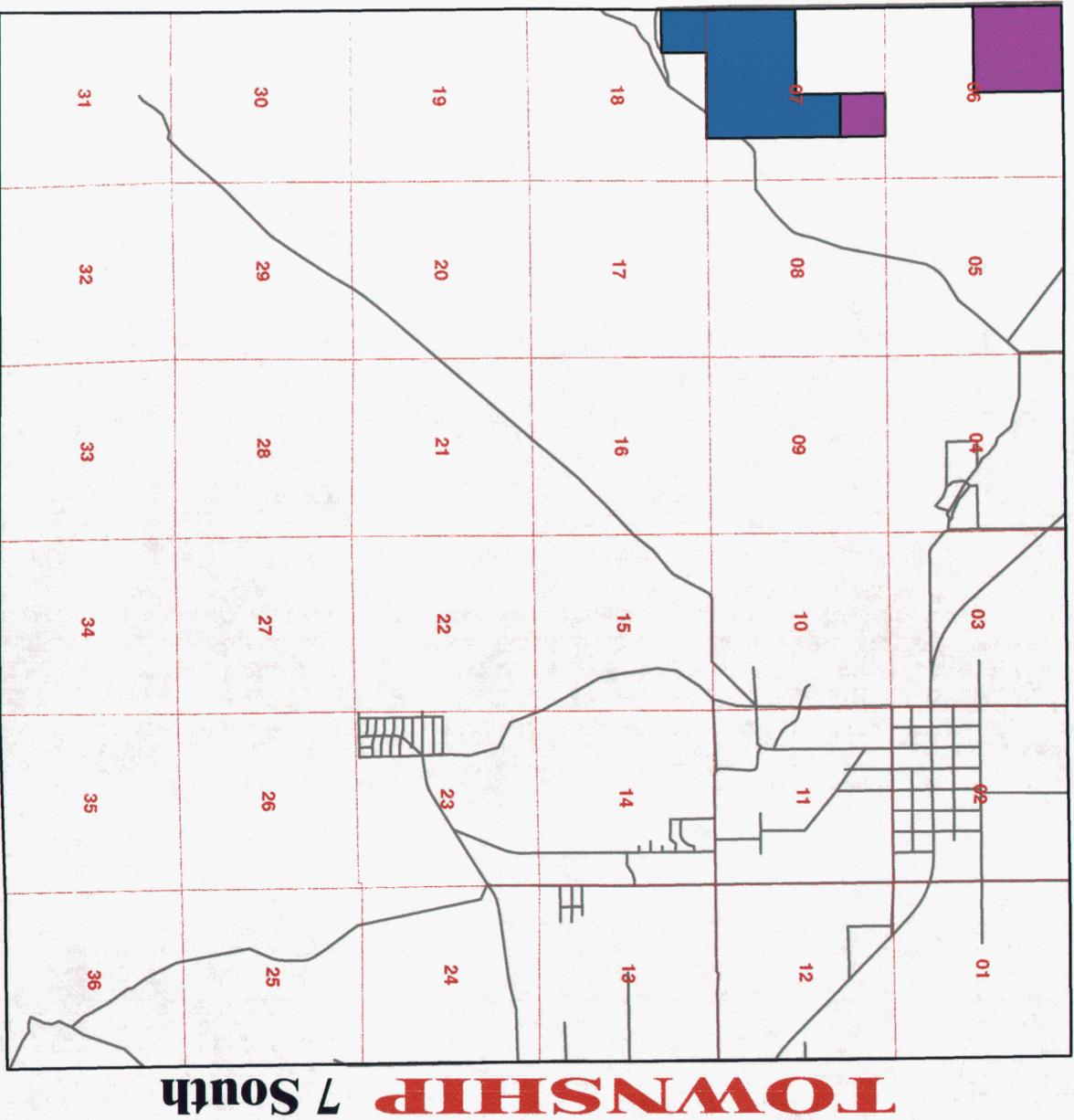
TOWNSHIP 7 South

- W-2494 (2)
- Ash Creek Water Company
Docket No. W-02494A-07-0681
- W-2527 (5)
- Graham County Utilities, Inc.
- Ash Creek Water Company
Docket No. W-02494A-07-0681
Application for Extension

GRAHAM COUNTY

Map No. 7

RANGE 25 East



TOWNSHIP 7 South



W-2494 (2)

Ash Creek Water Company



Ash Creek Water Company

Docket No. W-02494A-07-0681

Application for Extension

LEGAL DESCRIPTION

The South half of the Northeast quarter of Section 1, Township 7 South, Range 24 East of the Gila and Salt River Meridian,

and the Southwest quarter of the Northeast quarter, the West half of the Southeast quarter, and the Southwest quarter, all in Section 7, Township 7 South, Range 25 East of said Gila and Salt River Meridian,

and G.L.O. Lot No. 1 (occasionally and erroneously referred to as the Northwest quarter of the Northwest quarter), in Section 18, Township 7 South, Range 25 East of said Gila and Salt River Meridian,

all within the County of Graham, State of Arizona.



Ted D. Amox