

ORIGINAL



MEMORANDUM

TO: Docket Control Center

FROM: Ernest G. Johnson
Director
Utilities Division

Date: June 9, 2008

RE: STAFF REPORT FOR VERNON VALLEY WATER, INC. – APPLICATION FOR EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. W-20540A-08-0178)

Attached is the Staff Report for Vernon Valley Water, 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:lmh

Originator: Blessing Chukwu

Arizona Corporation Commission
DOCKETED
JUN -9 2008

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AZ CORP COMMISSION
DOCKET CONTROL

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RECEIVED

Service List for: Vernon Valley Water, Inc.
Docket No. W-20540A-08-0178

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

VERNON VALLEY WATER, INC.

W-20540A-08-0178

APPLICATION FOR EXTENSION OF ITS EXISTING
CERTIFICATE OF CONVENIENCE AND NECESSITY

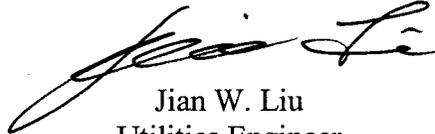
JUNE 9, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Vernon Valley Water, Inc. (Docket No. W-20540A-08-0178) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Jian W. Liu was responsible for the engineering and technical analysis.

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

Blessing Chukwu
Executive Consultant III

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

Jian W. Liu
Utilities Engineer

EXECUTIVE SUMMARY
VERNON VALLEY WATER, INC.
DOCKET NO. W-20540A-08-0178

On March 28, 2008, Vernon Valley Water, Inc. ("Vernon Valley" 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 Apache County, Arizona. On April 28, 2008, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the Arizona Administrative Code.

Vernon Valley is an Arizona corporation, in good standing with the Corporations Division, and engaged in providing water utility service to customers in portions of Apache County, Arizona. According to the Company's Annual Report for the year ending December 31, 2007, the Company is serving 18 customers.

By this application, Vernon Valley is seeking Commission authority to add 253 acres (approximately 185 residential lots and one commercial lot) to its certificated area of approximately 1,120 acres, located near Show Low, Apache County, Arizona.

Based on Staff's review and analysis of the application, Staff believes that the existing system has adequate well production and storage capacities to serve the existing customer base and that the proposed water system has adequate infrastructure to serve the proposed CC&N extension area. Staff also believes that the proposed plant facilities for the requested area and their cost estimates totaling \$720,807 are reasonable. However, no "used and useful" determination of the proposed plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.

Staff recommends the Commission issue an Order Preliminary to Vernon Valley for an extension of its CC&N for water service to portions of Apache County, Arizona, subject to compliance with the following conditions:

1. To require Vernon Valley to charge its authorized rates and charges in the extension area.
2. To require Vernon Valley to file with Docket Control, as a compliance item in this docket, no later than December 31, 2008, a copy the letter issued by the Arizona Department of Water Resources ("ADWR") indicating the Company's System Water Plan has met ADWR requirements.
3. To require Vernon Valley to file with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct for Sepulveda Creek Estates development within two years of the effective date of the order granting the Order Preliminary.

4. To require Vernon Valley to file with Docket Control, as a compliance item in this docket, a copy of the Analysis of Adequate Water Supply or Physical Availability Determination for the Sepulveda Creek Estates development demonstrating that there is adequate water, within two years of the effective date of the order granting the Order Preliminary.

5. That after Vernon Valley complies with Requirement Nos. 2, 3, and 4, Vernon Valley shall make a filing stating so. Within 30 days of this filing, Staff shall file a response. The Commission should schedule this item for a vote to grant the CC&N as soon as possible after Staff's filing that confirms Vernon Valley's compliance with Requirement Nos. 2, 3 and 4. If Vernon Valley does not comply with any one of Requirement Nos. 2, 3, or 4 within the time specified, the Order Preliminary shall be null and void, and this docket shall be closed.

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Introduction

On March 28, 2008, Vernon Valley Water, Inc. ("Vernon Valley" 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 Apache County, Arizona.

On April 28, 2008, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the Arizona Administrative Code ("A.A.C.") R14-2-402.

Background

Vernon Valley is an Arizona Corporation, in good standing with the Corporations Division, and engaged in providing water utility service to customers in portions of Apache County, Arizona. The only shareholders of Vernon Valley 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, Inc., Watco, Inc., and A. Petersen Water Company, Inc

According to the Company's Annual Report for the year ending December 31, 2007, the Company is serving 18 customers.

By this application, Vernon Valley is seeking Commission authority to add Sepulveda Creek Estates to its certificated area. Sepulveda Creek Estates development consists of 253 acres (approximately 185 residential lots and one commercial lot). Auzco, Inc., the developers of Sepulveda Creek Estates have requested service from Vernon Valley. The requested area is about one mile north of the Company's existing CC&N. The Company's existing CC&N has an area totaling approximately 1,120 acres and is located approximately 18 miles east of Show Low, Apache County, Arizona.

The Water System

The Company has one well with a total production capacity of 37 gallon per minute, 10,000 gallons of storage capacity, and a distribution system serving 19 connections. Based on Water Use Data information, Staff concludes that this system has adequate well production and storage capacities to serve the existing customer base.

The Company is proposing to extend service to the requested area through advances in aid of construction in the form of main extension agreements. The installation of proposed plant facilities to serve Sepulveda Creek Estates development will consist of:

| | | |
|----|------------------------------|-----------|
| 1. | Well and Pressure System: | \$155,000 |
| 2. | 250,000 gallon storage tank: | \$431,250 |
| 3. | Distribution System: | \$134,557 |
| | | ===== |
| | Total Estimated Cost: | \$720,807 |

Staff concludes that the proposed water system has adequate infrastructure to serve the proposed CC&N extension area.

Staff also concludes that the proposed plant facilities for the requested area and their cost estimates totaling \$720,807 are reasonable. However, no "used and useful" determination of the proposed plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.

The Company has not received the Arizona Department of Environmental Quality ("ADEQ") Certificate of Approval to Construct ("ATC") for construction of facilities to serve the requested area. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ATC for Sepulveda Creek Estates development within two years of the effective date of the order granting the Order Preliminary.

Arizona Department of Environmental Quality Compliance

ADEQ regulates the Company's existing water System under ADEQ Public Water System I.D. No. 01-054. Based on data submitted by the Company, 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 Aug 11, 2006.)

Arizona Department of Water Resources ("ADWR") Compliance

The Company is not located in an Active Management Area and is not subject to ADWR reporting and conservation requirements.

As of May 29, 2008, Vernon Valley¹ (PWS #01-054) is in compliance with the reporting requirements of *Arizona Revised Statutes* § 45-341-343. Upon completion of its review of the Company's System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan, and Water Conservation Plan, ADWR will issue a letter stating whether or not the System Water Plan filed met ADWR requirements. Staff recommends that the Company docket as a compliance item in this docket no later than December 31, 2008, a copy of the letter issued by ADWR indicating that the Company's System Water Plan met ADWR requirements.

¹The subject Annual Water Use Report and System Water Plan were filed with ADWR under the name Serviceberry Water Company. The Commission approved in Decision No. 69963 (dated October 30, 2007) the Application of Mark Grapp d/b/a Serviceberry Water Company and Vernon Valley for approval of the sale of utility assets and transfer to CC&N to Vernon Valley.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Analysis of Adequate Water Supply or Physical Availability Determination for the Sepulveda Creek Estates development demonstrating that there is adequate water, within two years of the effective date of the order granting the Order Preliminary.

ACC Compliance

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

Curtailment Plan Tariff

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

Proposed Rates

Vernon Valley has proposed to provide water utility service to the extension area under its authorized rates and charges.

The Annual Report for the last five consecutive years has reflected a loss. The Commission Ordered Vernon Valley to file a rate case by June 30, 2009, using a 2008 Test Year, if its 2008 Annual Report shows an operating loss. (See Decision No. 69963, issued October 30, 2007). The Company has filed its Annual Report and reported a net loss of \$4,411.

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 Arizona Revised Statute § 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.

The Company filed its Apache County Franchise Agreement with the application.

Recommendations

Staff recommends the Commission issue an Order Preliminary to Vernon Valley for extension of its CC&N for water service to portions of Apache County, Arizona, subject to compliance with the following conditions:

1. To require Vernon Valley to charge its authorized rates and charges in the extension area.

2. To require Vernon Valley to file with Docket Control, as a compliance item in this docket, no later than December 31, 2008, a copy the letter issued by ADWR indicating the Company's System Water Plan has met ADWR requirements.
3. To require Vernon Valley to file with Docket Control, as a compliance item in this docket, a copy of the ATC for Sepulveda Creek Estates development within two years of the effective date of the order granting the Order Preliminary.
4. To require Vernon Valley to file with Docket Control, as a compliance item in this docket, a copy of the Analysis of Adequate Water Supply or Physical Availability Determination for the Sepulveda Creek Estates development demonstrating that there is adequate water, within two years of the effective date of the order granting the Order Preliminary.
5. That after Vernon Valley complies with Requirement Nos. 2, 3, and 4, Vernon Valley shall make a filing stating so. Within 30 days of this filing, Staff shall file a response. The Commission should schedule this item for a vote to grant the CC&N as soon as possible after Staff's filing that confirms Vernon Valley's compliance with Requirement Nos. 2, 3 and 4. If Vernon Valley does not comply with any one of Requirement Nos. 2, 3, or 4 within the time specified, the Order Preliminary shall be null and void, and this docket shall be closed

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant III

FROM: Jian W. Liu 
Utilities Engineer

DATE: May 30, 2008

RE: Vernon Valley Water, Inc.
Docket No. W-20540A-08-0178 (CC&N Extension)

Introduction

Vernon Valley Water, Inc. ("Vernon Valley" or the "Company") has filed an application for a Certificate of Convenience and Necessity ("CC&N") extension. The Company is located approximately 18 miles east of Show Low, Apache County, Arizona. The Company's existing CC&N has an area totaling approximately 1,120 acres.

Sepulveda Creek Estates is planning to develop an approximately 253-acre parcel. This development will have a total of approximately 185 residential lots and one commercial lot. The new development is about one mile north of the Company's existing CC&N.

Existing Water System Description

The facility consists of one well, producing approximately 37 gallons per minute ("GPM"). The system also has one 10,000 gallons storage tank, and a distribution system serving 19 connections.

Capacity of Existing System

The existing water system has adequate well production and storage capacity to serve the existing 19 connections based on the Company's water use data.

Proposed Water System

The developer will install a well and pressure system, 250,000 gallon storage tank, and a distribution system to serve the proposed development.

Staff concludes that the proposed water system will have adequate infrastructure to serve the proposed development with approximately 185 residential lots and one commercial lot.

Cost Analysis

The Company submitted the following estimated plant-in-service amounts for the new development, and it will be funded through Advances in Aid of Construction.

| | Costs |
|------------------------------|------------------|
| Well and Pressure system: | \$155,000 |
| 250,000 gallon storage tank: | \$431,250 |
| Distribution System: | \$134,557 |
| TOTAL: | \$720,807 |

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 existing Water System under ADEQ Public Water System ("PWS") #01-054. Based on compliance information submitted by the Company, the system has no major 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 Aug 11, 2006).

Certificate of Approval to Construct

The Company has not received its ADEQ Certificate of Approval to Construct ("ATC") for construction of the proposed water facilities. Staff recommends that if the Commission grants the CC&N, the Company file with Docket Control, as a compliance item in this docket, a copy of the ATC for the proposed development within 2 years of the effective date of the order granting this application.

Arizona Department of Water Resources ("ADWR") Compliance

Compliance Status – AMA Reporting and Conservation Requirements

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

Compliance Status – Filing of Annual Water Use Report and System Water Plan per *Arizona Revised Statutes* § 45-341-343

As of May 29, 2008, Vernon Valley¹ (PWS #01-054) is in compliance with the reporting requirements of *Arizona Revised Statutes* § 45-341-343. Upon completion of its review of the Company's System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan, ADWR will issue a letter stating whether or not the System Water Plan filed met ADWR requirements. Staff recommends that the Company docket as a compliance item in this docket no later than December 31, 2008, a copy of the letter issued by ADWR indicating that the Company's System Water Plan met ADWR requirements.

Analysis of Adequate Water Supply

Staff recommends that a CC&N not be issued until the Company submits an Analysis of Adequate Water Supply or Physical Availability Determination from ADWR for the extension area, demonstrating that there is adequate water.

Arizona Corporation Commission (“ACC”) Compliance

According to the Utilities Division Compliance Section, the Company has no delinquent compliance issues (Compliance Section Email dated May 21, 2008).

Curtailment Plan Tariff

The Company has an approved curtailment tariff on file.

Summary

Conclusions

- A. The existing water system has adequate production and storage capacity to serve existing 19 connections.
- B. Based on compliance information submitted by the Company, the system has no major 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 Aug 11, 2006).

¹The subject Annual Water Use Report and System Water Plan were filed with ADWR under the name Serviceberry Water Company. The Commission approved in Decision No. 69963 (dated October 30, 2007) the Application of Mark Grapp d/b/a Serviceberry Water Company and Vernon Valley for approval of the sale of utility assets and transfer to CC&N to Vernon Valley.

- C. Vernon Valley is not located in any ADWR Active Management Area and not subject to AMA reporting and conservation requirements.

Recommendations

1. Staff recommends that the Company docket as a compliance item in this docket no later than December 31, 2008, a copy of the letter issued by ADWR indicating that the Company's System Water Plan has met ADWR requirements.
2. Staff recommends that the Commission not grant the CC&N until the Company docket as a compliance item in this docket a copy of the Analysis of Adequate Water Supply or Physical Availability Determination from ADWR for the requested area demonstrating that there is adequate water.
3. Staff recommends that if the Commission grants the CC&N, the Company file with Docket Control, as a compliance item in this docket, a copy of the ATC for the proposed development within 2 years of the effective date of the order granting this application.

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: May 27, 2008

RE: **VERNON VALLEY WATER, INC. (DOCKET NO. W-20540A-08-0178)**

The area requested by Vernon Valley 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

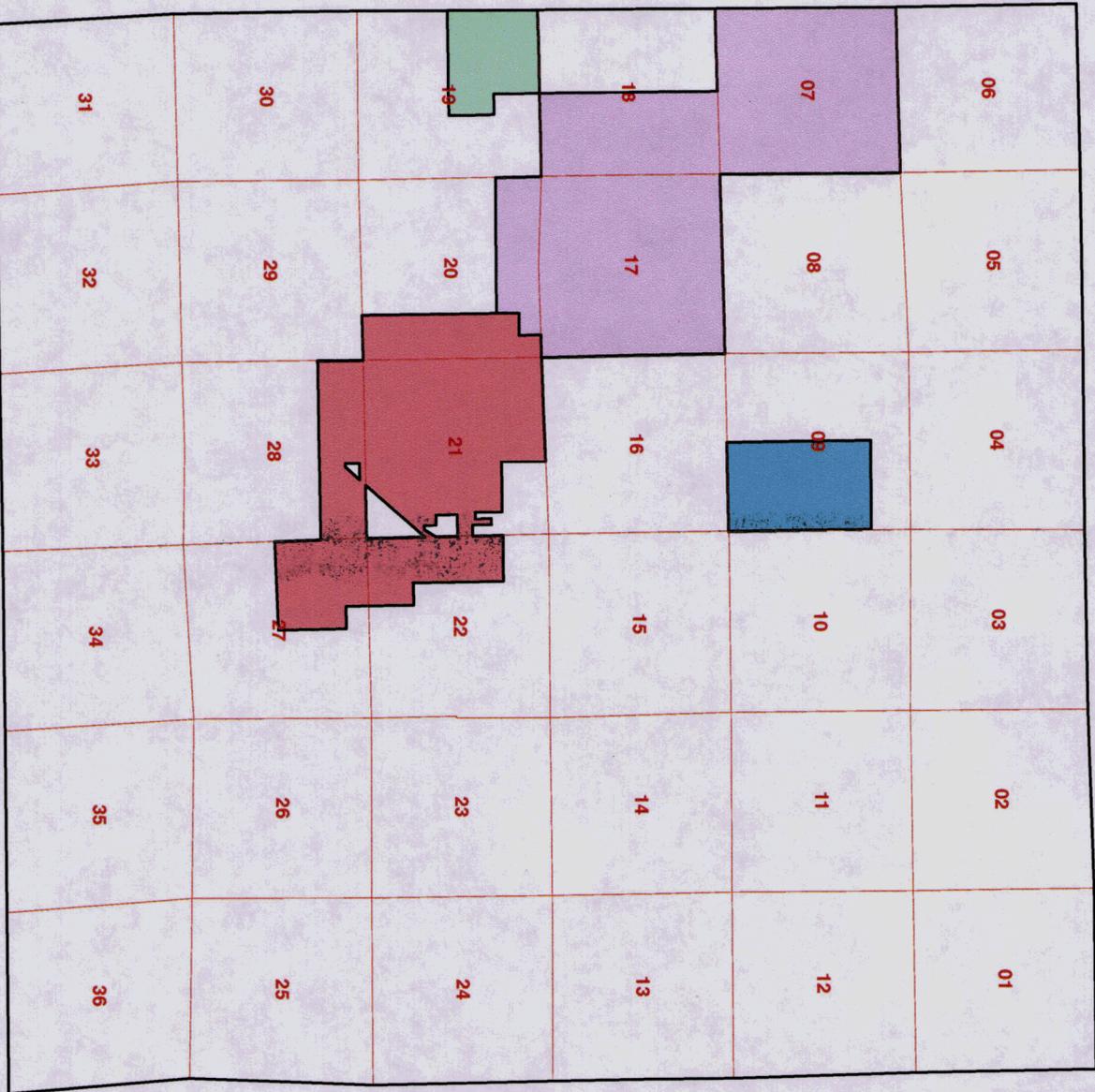
Attachments

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

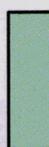
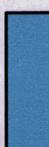
APACHE COUNTY

Map No. 6

RANGE 25 East



TOWNSHIP 10 North

-  W-2479 (2)
Lord Arizona Water Systems, Inc.
-  W-1902 (1)
T. K. Water Service
-  W-20540 (1)
Vernon Valley Water, Inc.
-  (1)
Vernon Valley Water, Inc.
Docket No. W-20540A-08-0178
Application for Extension

LEGAL DESCRIPTION - SEPULVEDA PARCELS 1 THRU 4

A Parcel of land located in the East Half of Section 9, T.10 N., R.25 E., G. & S.R.M., Apache County, Arizona, more particularly described as follows:

BEGINNING at an aluminum cap marking the South Quarter Corner of Section 9, T.10 N., R.25 E., G. & S.R.M., Apache County, Arizona; thence North $0^{\circ} 17' 40''$ West along the mid-section line, a distance of 1,325.78 feet to an aluminum cap accepted as the C-S 1/16 corner; thence North $0^{\circ} 10' 52''$ East along the mid-section line, a distance of 2,888.85 feet; thence South $89^{\circ} 24' 47''$ East a distance of 2,626.20 feet to a point on the east boundary of Section 9; thence South $0^{\circ} 10' 52''$ West along said boundary, a distance of 1,568.49 feet to an aluminum cap marking the East Quarter Corner of Section 9; thence South $0^{\circ} 02' 40''$ West and continuing along the east boundary of Section 9, a distance of 2,619.68 feet to an aluminum cap marking the Southeast corner of Section 9; thence North $89^{\circ} 59' 23''$ West along the south boundary of Section 9, a distance of 2,621.40 feet to the **TRUE POINT OF BEGINNING**.

Containing 253.32 Acres, more or less.

Subject to any existing easements and or rights-of-way.