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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson *EGJ*
Director
Utilities Division

DATE: January 9, 2004

RE: ARIZONA WATER COMPANY- APPLICATION FOR AN EXTENSION OF
ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE
WATER SERVICE IN PINAL COUNTY, ARIZONA (DOCKET NO. W-
01445A-03-0559)

Attached is the Staff Report for the above referenced application. Staff is recommending approval of the application.

EGJ:JEF:hml

Originator: Jim Fisher

Arizona Corporation Commission
DOCKETED

JAN - 9 2004

DOCKETED BY	<i>AM</i>
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Service List for: Arizona Water Company
Docket No. W-01445A-03-0559

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-03-0559

APPLICATION FOR AN EXTENSION OF ITS
CERTIFICATE OF CONVENIENCE AND NECESSITY
TO PROVIDE WATER SERVICE IN PINAL COUNTY, ARIZONA

DECEMBER 2003

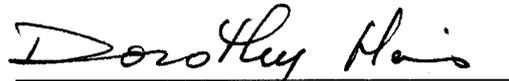
STAFF ACKNOWLEDGEMENT

The Staff Report for Arizona Water Company (Docket No. W-01445A-03-0559) was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis.

Contributing Staff:



Jim Fisher
Executive Consultant II



Dorothy Hains
Utilities Engineer

**EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
DOCKET NO. W-01445A-03-0559**

On August 12, 2003, Arizona Water Company ("Arizona Water" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to include additional properties in Pinal County, Arizona. On November 27, 2003, Staff informed the Company that the application was sufficient for administrative purposes.

By this application, Arizona Water is seeking to extend and interconnect its current 128 square mile Casa Grande CC&N to include an additional 11 square miles located adjacent to the existing eastern boundary of the CC&N, parallel to Florence Boulevard, east of Interstate 10.

The Company has been requested to serve two (2) separate subdivisions in the extension area, Florence Country Estates and a Harvard Simon development. The Company intends to supply one system from the Tierra Grande system and another from the Casa Grande system.

The Tierra Grande system does not have adequate capacity to serve the additional customers. Arizona Water informed Staff that the Company intends to interconnect the Tierra Grande system with the Casa Grande System. Once the systems are interconnected, the combined systems would have adequate production and storage capacity to serve the existing and proposed extension area customers.

Staff recommends that the Commission approve the Arizona Water Company application for an extension of its Certificate of Convenience and Necessity in a portion of Pinal County to provide water service, subject to compliance with the following conditions:

1. To require the Arizona Water Company to charge its existing rates and charges in the proposed extension area.
2. To require Arizona Water Company to file a copy of the developers' Certificate of Assured Water Supply related to the proposed extension area within 365 days of the effective date of any decision in this matter.
3. To require that no Arizona Water Company main extension agreement associated with the proposed extension area be approved by the Commission unless the agreement facilitates the proposed system interconnection, or the agreement is subsequent to the completion of the proposed system interconnection.

Staff further recommends that the Commission's Decision granting this Extension to a Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet above condition # 2.

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Introduction

On August 12, 2003, Arizona Water Company ("Arizona Water" or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") to include additional properties in Pinal County, Arizona. On August 21, 2003, Utilities Division Staff ("Staff") informed the Company that the application was insufficient for administrative purposes.

On October, 1, 2003, Arizona Water provided Staff with additional documentation to support the application. On November 27, 2003, Staff informed the Company that the application was sufficient for administrative purposes.

Background

Arizona Water is an Arizona corporation, authorized by the ACC to provide water service within portions of Gila, Navajo, Cochise, Maricopa, Pima, Yavapai, Coconino and Pinal counties, Arizona. The ACC initially authorized Arizona Water a CC&N in 1955. The Company currently serves approximately 65,000 customers.

By this application, Arizona Water is seeking to extend and interconnect its current 128 square mile Casa Grande CC&N to include an additional 11 square miles located adjacent to the existing eastern boundary of the CC&N, parallel to Florence Boulevard, to abut the Company's Tierra Grande CC&N.

The Extension Request

Arizona Water is requesting the Commission allow the Company to extend its service territory to include 11 sections adjacent to Florence Boulevard, a natural growth corridor in the Casa Grande area. The proposed extension area interconnects the Company's Casa Grande CC&N on the west, with the Company's Tierra Grande CC&N on the east.

The Company has been requested to serve two (2) separate subdivisions in the extension area, Florence Country Estates and a Harvard Simon development. The Florence Country Estates development is near Eleven Mile Corner Road and Florence Boulevard. The Company intends to supply the project with water from the Tierra Grande system. The Harvard Simon development is located approximately 1 ½ miles east of Hacienda Road and Florence Boulevard. Arizona Water intends to supply the development with water from the Casa Grande system. The proposed developments are expected to provide 560 additional connections within the next five (5) years.

Finance of Facilities

Arizona Water will finance the required transmission and distribution facilities primarily with Advances in Aid of Construction. Advances in Aid of Construction are often in the form of Line Extension Agreements. Line Extension Agreements generally require the developer to design, construct and install (or cause to be) all facilities to provide adequate service to the development. The developer is required to pay all costs of constructing the distribution facilities and common facilities necessary to serve the development. Upon acceptance of the facilities by the utility, the developer will convey the water facilities by way of a warranty deed. The utility will often refund ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

Water Production Capacity

Arizona Water at Casa Grande has 14 wells with a total production capacity of 12,770 gallons-per-minute ("GPM") and 14.2 million gallons of storage capacity. The Tierra Grande system has two wells with a total production capacity of 551 GPM and 250,000 gallons of storage capacity. Using a simple analysis of overall well production and storage for the Casa Grande system, the existing water system can accommodate approximately 1,615 additional connections. The Tierra Grande system, however, does not have adequate capacity to serve the existing customers.

Arizona Water informed Staff that the Company intends to interconnect the Tierra Grande system with the Casa Grande System. Once the systems are interconnected, the combined systems would have adequate production and storage capacity to serve the existing and proposed extension area customers. Staff recommends no main extension agreement associated with the proposed extension area be approved by the Commission unless the agreement facilitates the proposed system interconnection, or the agreement is subsequent to the proposed interconnection.

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 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23rd, 2006. The most recent lab analysis by the Company indicated that 11 out of 16 wells in the Casa Grande and Tierra Grande systems exceed the new arsenic MCL.

In this application, Arizona Water is requesting a large addition (11 square miles) to the CC&N. Staff believes that its recommendation on the application should reflect concerns for possible regional solutions to arsenic reduction. Arsenic is prevalent in this area. Arizona Water has the size, technical expertise, and financial resources to solve the arsenic problem. By extending the CC&N to include all of the requested territory, the Company will have greater

flexibility to develop a master plan that will take advantage of economies of scale and flexible resources to provide the most cost effective solution to this area of the state.

Arizona Water is in the process of developing a treatment plan to comply with the new arsenic standard. In Decision No. 66400, dated October 14, 2003, the Commission approved a cost recovery method which will allow the Company to recoup its arsenic treatment costs in the Company's northern systems. In Docket No. W-01445A-02-0619, Arizona Water proposed to use the same cost recovery method for the Casa Grande system; however, a final decision in this matter is still pending before the Commission.

Arizona Department of Environmental Quality Compliance

Arizona Department of Environmental Quality ("ADEQ") regulates the Tierra Grande system under ADEQ Public Water System ("PWS") I.D. # 11-076 and the Casa Grande system under ADEQ PWS I.D. # 11-009. Based on data received from ADEQ, ADEQ has determined that both systems are currently delivering water that does not exceed any maximum contaminant level ("MCL") and both systems meet water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources Compliance

Arizona Water is within the Arizona Department of Water Resources ("ADWR") Pinal Active Management Area, and is in compliance with ADWR's reporting and conservation rules (GPCD requirements). Staff recommends that Arizona Water shall file with the Commission a copy of the developers' Certificate of Assured Water Supply, where applicable or when required by statute within a year after the effective date of any decision and order pursuant to this application.

Curtailment Plan Tariff

At the time this report was prepared, Arizona Water did not have a curtailment tariff filed with the Commission; however, in Docket No. W-01445A-02-0619, Arizona Water Company has agreed to file a curtailment tariff that will apply to all its systems.

ACC Compliance

A check with the Utilities Division's Compliance Section showed no outstanding compliance issues for the Company.

Proposed Rates

Arizona Water has proposed to extend service to the property at its Casa Grande service area tariffed rates.

County Franchise

Arizona Water holds the necessary Pinal County franchise which includes the proposed extension area.

Recommendations

Staff recommends that the Commission approve the Arizona Water Company application for an extension of its Certificate of Convenience and Necessity in a portion of Pinal County to provide water service, subject to compliance with the following conditions:

1. To require the Arizona Water Company to charge its existing rates and charges in the proposed extension area.
2. To require Arizona Water Company to file a copy of the developers' Certificate of Assured Water Supply related to the proposed extension area within 365 days of the effective date of any decision in this matter.
3. To require that no Arizona Water Company main extension agreement associated with the proposed extension area be approved by the Commission unless the agreement facilitates the proposed system interconnection, or the agreement is subsequent to the proposed system interconnection.

Staff further recommends that the Commission's Decision granting this Extension of its Certificate of Convenience and Necessity to the Arizona Water Company be considered null and void without further order from the Commission should Arizona Water Company fail to meet above condition # 2.

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: August 25, 2003

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-03-0559)**

The area requested by Arizona Water 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: Docket Control
Mr. Robert Geake
Deb Person (Hand Carried)
File

COUNTY: Pinal



- 
 W-1445 (35)(10)
 Arizona Water Company (Casa Grande)
- 
 W-2109 (1)
 Signal Peak Water Company, Inc.
- 
 Sewer
 Tierra Grande Utility Cooperative, Inc.
- 
 Signal Peak Water Company, Inc.
 Docket No. W-2109-01-1002
 Application for Extension
- 
 Arizona Water Company
 Docket No. W-1445-03-559
 Application for Extension

EXHIBIT '#1'

Sections 19, 20, 21, 22, 23, W½ 24, W½ 25, 26, 27, 28, 29, & 30, all in Township 6 South,
Range 7 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.