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MEMORANDUM

TO: Docket Control Center

FROM: Steven M. Olea
Director
Utilities Division

DATE: March 5, 2010

RE: ARIZONA WATER COMPANY AND FRANCISCO GRANDE UTILITY COMPANY - REQUEST FOR EXTENSION OF COMPLIANCE DEADLINES (DOCKET NOS. W-01445A-05-0700 AND W501775A-05-0700)

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Arizona Corporation Commission

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In Decision No. 68654, dated April 12, 2006, the Arizona Corporation Commission ("Commission") approved the application of Arizona Water Company ("Arizona Water" or "Company") and Francisco Grande Utility Company ("Francisco Grande") for transfer of a portion of Francisco Grande's Certificate of Convenience and Necessity ("CC&N") to Arizona Water. The Decision ordered Arizona Water to provide filings relating to an Approval to Construct ("ATC"), Main Extension Agreements ("MXA") and Certificate of Assured Water ("CAWS").

Specifically, Decision No. 68654 ordered Arizona Water to file on or about April 12, 2008, among other things, the following:

- a) "copies of the Arizona Department of Environmental Quality's Approval to Construct for facilities needed to serve the requested transfer areas within two years of the effective date of the Decision in this Order."
- b) "a Notice of filing indicating Arizona Water Company has submitted for Staff's review and approval, a copy of the fully executed main extension agreements for water facilities for the requested transfer areas within two years of the effective date of the Decision in this Order."
- c) "a copy of the developers' Certificate of Assured Water Supply for the requested transfer areas where applicable or when required by statute, within two years of the effective date of the Decision in this Order."

On March 10, 2008, the Company filed a motion with the Commission titled "Request for Additional Time for Compliance Filing", seeking to extend the original April 12, 2008 deadline by two years, until April 12, 2010, for the provision of the ATC, the MXA Notice and the CAWS. Staff filed its response on April 11, 2008 and did not object to the Company's requested extension. On August 6, 2008, the Commission issued Decision No. 70450 which approved the Company request for extension of time until April 12, 2010.

On November 23, 2009, Arizona Water filed an application requesting determination of compliance or, in the alternative, additional time to file compliance. On January 19, 2010, the Company docketed an amendment to the application to enhance the record and ultimately removed the request for compliance determination on the three compliance items. The amended application requested that the compliance deadlines from Decision No. 68654 be extended to April 12, 2012.

In explaining the reason for the extension, the application presented the case of a housing market characterized by a three year decline beginning in 2006 and a deep recession affecting the entire country and further depressing the overall development market. In turn, this further depressed the local, Pinal County development landscape and homebuilding sector. The Company quantified the effect of this recession by quoting that housing permits issued in Pinal County decreased from 11,371 in 2005 to 3,104 in 2008. They further quoted that only 1,507 housing permits were issued through the eight months ending August 2009, although they admit that permits picked up slightly in the few months thereafter.

On February 22, 2010, Staff contacted Mr. Robert Geake, Vice President and General Counsel of Arizona Water, to discuss the extension request. Mr. Geake stated that the items ordered by Decision No. 68654 are under the control of the developer rather than the Company and the length of the extension is due to the economy and its continuing effect on what is not an ideal market.

Based on the application and all of the above, Staff does not object to the Company's request for a subsequent extension of time until April 12, 2012 for the provision of the ATC, MXA and CAWS requirements outlined in Decision No. 68654. Staff further recommends that no further time extensions be granted in this matter.

SMO:BKB:lh

Originator: Brian K. Bozzo

SERVICE LIST FOR: ARIZONA WATER COMPANY
FRANCISCO GRANDE UTILITY COMPANY
DOCKET NOS. W-01445A-05-0700 AND W-01775A-05-0700

Mr. Robert W. Geake
Arizona Water Company
Post Office Box 29006
Phoenix, Arizona 85038-9006

Mr. Ronald H. Burks
Francisco Grande Utility Company
2151 East Main Street, Suite A
Sarasota, Florida 34237