

ORIGINAL



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MEMORANDUM

TO: Docket Control

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

DATE: April 19, 2004

RE: STAFF REPORT FOR THE LINKS AT COYOTE WASH UTILITIES, L.L.C.,
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY
TO PROVIDE WASTEWATER SERVICE TO A PORTION OF YUMA COUNTY
(DOCKET NO. SW-04210A-03-0712)

Attached is the Staff Report for The Links at Coyote Wash Utilities, L.L.C., application for a Certificate of Convenience and Necessity ("CC&N") in Yuma County. Staff recommends the Commission approve the application for a CC&N with conditions.

EGJ:JEF:hml

Originator: Jim Fisher

Arizona Corporation Commission

DOCKETED

APR 19 2004

DOCKETED BY	<i>Jae</i>
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AZ CORP COMMISSION
DOCUMENT CONTROL

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RECEIVED

Service List for The Links at Coyote Wash Utilities, L.L.C.
Docket No. SW-04210A-03-0712

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

THE LINKS AT COYOTE WASH UTILITIES L.L.C.

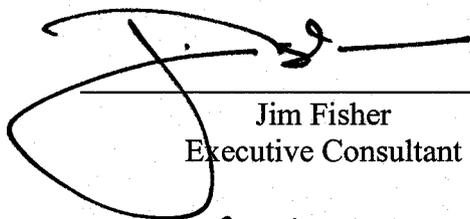
DOCKET NO. SW-04210A-03- 0712

**APPLICATION FOR
A CERTIFICATE OF CONVENIENCE
AND NECESSITY**

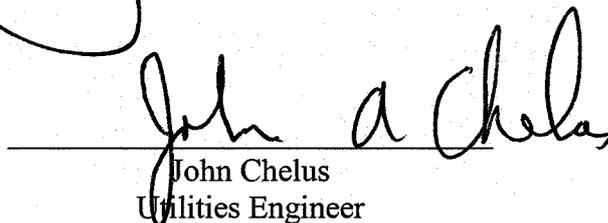
APRIL 2004

STAFF ACKNOWLEDGMENT

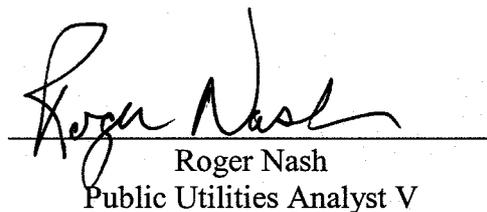
The Staff Report for The Links at Coyote Wash Utilities L.L.C. (Docket No.SW-04210A-03-0712) was the responsibility of the Staff members signed below. Jim Fisher was responsible for the review and analyses of the Company's application. John Chelus was responsible for the engineering and technical analysis. Roger Nash was responsible for the review and recommendation on rate base and usage rates. Janie Woller was responsible for review and recommendation on compliance issues.



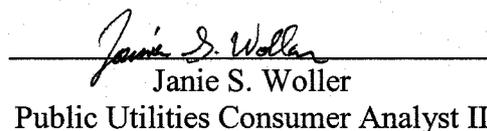
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Executive Consultant



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Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
THE LINKS AT COYOTE WASH UTILITIES, L.L.C.
APPLICATION FOR A CC&N
DOCKET NO. SW-04210A-03-0712

On September 26, 2003, The Links at Coyote Wash Utilities, L.L.C. ("Coyote Wash" or "Company") filed an Application for a Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "Commission") to provide wastewater service in Yuma County.

Coyote Wash is an Arizona Limited Liability Company in good standing with the Commission's Corporation Division. The only member of Coyote Wash is G-12, L.L.C., which is the owner and developer of The Links at Coyote Wash, a planned residential and golf course development located in the City of Wellton, in Yuma County.

The Water Quality Act of 1987 ("Clean Water Act") is a commitment by the federal government to the elimination of pollution in the nation's waters. Each state is required, under Section 208 of the Clean Water Act, to develop and implement area-wide water quality management plans for pollution control. On the federal level, the Environmental Protection Agency ("EPA") has the responsibility of overseeing the planning efforts necessary to meet the specific requirements of Section 208. The Arizona Department of Environmental Quality ("ADEQ") is responsible for reviewing and enforcing water quality standards for the State.

The ADEQ permit framework for point source management consists of three primary elements consisting of the Arizona Pollutant Discharge Elimination System ("AZPDES") the Aquifer Protection Permit ("APP") and the reclaimed water reuse permit program. The APP is to protect the groundwater quality and public health from potential environmental risks posed by the facilities that discharge pollutants to the land surface, underlying soil, or groundwater that have a potential to reach an aquifer. The most crucial requirements for obtaining an APP are demonstrating that the Best Available Demonstrated Control Technology ("BADCT") will be used to minimize the discharge of pollutants and that the facility possesses the financial and technical capability to comply with the permit conditions. On January 20, 2004, ADEQ issued APP No. 105311 authorizing G-12, L.L.C. to operate the wastewater treatment plant at The Links at Coyote Wash.

Staff recommends that the Commission approve The Links at Coyote Wash Utilities, L.L.C.'s application for a Certificate of Convenience and Necessity to provide wastewater services, subject to the following conditions:

1. That the Commission find that The Links at Coyote Wash Utilities, L.L.C.'s fair value of the property devoted to water service is \$379,390.
2. That the Commission authorize The Links at Coyote Wash Utilities, L.L.C. the rates and charges shown on Schedule RDN-2.

3. That the Commission require The Links at Coyote Wash Utilities, L.L.C. to file, with the Director of the Utilities Division, a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.
4. That the Commission require The Links at Coyote Wash Utilities, L.L.C. to file, with the Commission, a rate application no later than three months following the fifth anniversary of any decision in this matter.
5. That the Commission require The Links at Coyote Wash Utilities, L.L.C. to file, with the Director of the Utilities Division, all related franchise agreements within 365 days of the effective date of the decision in this case.
6. That the Commission require The Links at Coyote Wash Utilities, L.L.C. to maintain its books and records in accordance with the National Association of Regulatory Utilities Commissions Uniform System of Accounts for Sewer Utilities.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to The Links at Coyote Wash Utilities, L.L.C. be considered null and void without further order from the Commission should The Links at Coyote Wash Utilities, L.L.C. fail to meet conditions 3 and 5 within the time specified.

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Introduction

On September 26, 2003, The Links at Coyote Wash Utilities, L.L.C. ("Coyote Wash" or "Company") filed an Application for a Certificate of Convenience and Necessity ("CC&N") to provide wastewater service with the Arizona Corporation Commission ("ACC" or "Commission"). On October 6, 2003, the Commission Utilities Division Staff ("Staff") informed Coyote Wash that the application was insufficient for administrative purposes.

On October 7, 16, and 17 of 2003, the Company provided additional information to support the application. On January 12, 2004, January 23, 2004, and March 15, 2004 the Company provided additional documentation to support the application. On April 2, 2004, Staff sent the Company a letter indicating the application was sufficient for administrative purposes.

Background

Coyote Wash is an Arizona Limited Liability Company in good standing with the Commission's Corporation Division. The only member of Coyote Wash is G-12, L.L.C. G-12, L.L.C. membership is currently comprised of Glen T. "Spike" Curtis and the Curtis Family Trust.

According to Mr. Curtis, G-12 L.L.C. is the owner and developer of The Links at Coyote Wash, a planned residential and golf course development located in the City of Wellton, south of the Wellton Mohawk Canal, in Yuma County. The development consists of 504 residential lots, 10 commercial lots and one golf course.

The development is located within the City of Wellton's water service area. According to Mr. Curtis, the development agreement required G-12, L.L.C. to provide wastewater treatment facilities. G-12, L.L.C., has formed Coyote Wash as a stand alone utility operation, separate from the development business.

Plan 208 Approval

The Federal Water Pollution Control Act as amended by the Water Quality Act of 1987 ("Clean Water Act") is a commitment by the federal government to eliminate pollution in the nation's waters. Each state is required, under Section 208 of the Clean Water Act, to develop and implement area-wide water quality management plans for pollution control.

In Arizona, six (6) Councils of Government, ("COGs") have been designated by the Governor as "Water Quality Management Planning Agencies" under Section 208 of the Clean Water Act. Yuma County was designated, by the Governor and the Environmental Protection Agency ("EPA") as the area wide water quality management planning agency for Yuma County.

The guidelines for 208 planning set forth in the Clean Water Act are fairly broad so that the various water quality issues in different areas of the nation can be addressed appropriately.

Each 208 Plan must identify the water quality management needs in its planning area and provide a program to develop solutions. The Yuma County 208 planning process is an ongoing effort in response to changing water resource issues, regulations, treatment technologies and changing demographics.

On the federal level, the EPA has the responsibility of overseeing the planning efforts necessary to meet the specific requirements of Section 208. The Arizona Department of Environmental Quality ("ADEQ") administers both the basin-wide planning and water quality monitoring programs. In addition, ADEQ is responsible for reviewing and enforcing water quality standards for the State. For the Yuma County 208 Program, the EPA and ADEQ provides guidance in the terms of policy, procedure and review of documents to assure adherence to the requirements of the Clean Water Act.

A major effort of the 208 Plan is the Point Source Plan. Point Source Planning is primarily directed at compiling the preferred wastewater collection and treatment system for the affected area through the year 2020. Toward that end, the Point Source Plan examines population and wastewater flow projections, wastewater treatment plant siting, treatment methods, effluent disposal, reclaimed water reuse and sludge management.

ADEQ Permits

The objective of a Point Source Plan is to identify the preferred wastewater collection and treatment and effluent reuse or disposal systems for the affected area. The regulatory framework for management of water quality is comprised of permit compliance and monitoring of protected uses. The ADEQ defines, monitors and enforces water quality standards for protected uses of surface waters, aquifers and public water supplies. The ADEQ permit framework for point source management consists of three primary elements consisting of the Arizona Pollutant Discharge Elimination System ("AZPDES"), the Aquifer Protection Permit ("APP") and the reclaimed water reuse permit program.

The purpose of the AZPDES permit programs is to regulate the quality of point source discharges into the waters of the nation. Based on specific criteria, discharges to rivers, tributaries of the rivers, dry washes and various lakes and canals within the affected area are subject to the AZPDES permit program provisions.

The ADEQ has established Surface Water Quality Standards ("SWQS") as required to meet the goals of the federal Clean Water Act and to protect the quality of surface waters in the state. The EPA incorporates the SWQS and federal regulation related to surface water quality and effluent discharge quality into the AZPDES permits. Pollutant levels established by the AZPDES permit programs vary among wastewater reclamation facilities depending upon the designated use of reclaimed water. Permits are typically issued for a term of five years.

Aquifer Protection Permit

The APP was established by the Environmental Quality Act of 1986 and implemented by rule in 1989. The purpose of the APP program is to protect the groundwater quality and public health from potential environmental risks posed by the facilities that discharge pollutants to the land surface, underlying soil, or groundwater that have a potential to reach an aquifer.

The APP permitting requirements are determined based on the type of facility or land use, capacity of the facility, and/or the type of discharges that the facility will produce. The most crucial requirements for obtaining an APP are demonstrating that the Best Available Demonstrated Control Technology ("BADCT") will be used to minimize the discharge of pollutants, Aquifer Water Quality Standards will not be violated and that the facility possesses the financial and technical capability to comply with the permit conditions.

The Environmental Quality Act requires that all domestic wastewater and disposal facilities requiring an APP use BADCT as part of their wastewater treatment process. The ADEQ adopted BADCT requirements for new sewage treatment facilities. The design review of sewage treatment facilities has been consolidated into the APP application review process. BADCT requirements are defined within the rules which require secondary treatment, removal for new facilities and expansion of existing facilities. The revision of the APP rule took effect January 2001.

The reclaimed water use permit program, established in 1985, allows the reuse of reclaimed water for a variety of applications such as agriculture, urban lakes, golf course irrigation, ponds and industrial uses. Water reclamation plants are required by rules to have a reuse permit for the release of reclaimed water for reuse purposes.

There are two main categories of reclaimed water reuse including direct non-potable reuse and indirect reuse. Direct reuse consists of irrigation and makeup water for urban lakes. Indirect reuse typically involves aquifer recharge and recovery. The indirect reuse of reclaimed water usually involves recharge to an aquifer for storage and future recovery. The reclaimed water is typically allowed to infiltrate through the dry soils above the aquifer allowing additional treatment. Recharge projects using reclaimed water are required to obtain an APP.

Wastewater Treatment Plant Permit

The construction and operation of the wastewater treatment plant to serve the development requires a issuance of an ADEQ APP in conjunction with the above described Yuma County 208 planning process. On January 20, 2004, ADEQ issued APP No. 105311 authorizing G-12, L.L.C. to operate the wastewater treatment plant at the Links at Coyote Wash.

Links at Coyote Wash Wastewater System

Wastewater treatment will be provided by a 126,000 gallon per day ("gpd") SANTEC activated sludge process with de-nitrification. The wastewater plant will be constructed in two phases. Phase one treatment will include a flow equalization chamber, aeration basins, anoxic basins, and re-aeration in the secondary clarifier for a flow of 69,300 gpd. Phase one will also include influent pump stations, headworks, and chlorination/dechlorination basins large enough for both phases. Phase two shall have additional flow equalization chambers, aeration basins, anoxic basins, and re-aeration in the additional secondary clarifier for a second treatment train capacity of an additional 56,700 gpd for a total design flow of 126,000 gpd.

The sludge will be hauled off-site for disposal in accordance with State and Federal regulations to the Tacna landfill. Effluent will meet Class B+ reclaimed water. The wastewater facilities appear to be appropriate and adequate for the needs of the Links at Coyote Wash development.

Cost Analysis

Wastewater treatment plants at this high level of environmental sophistication usually cost between 6 and 8 dollars per gallon, excluding effluent disposal costs. The Company has projected the wastewater plant cost at \$378,000 which implies an economical and cost effective project.

Approval of this CC&N application does not imply any particular future treatment for 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.

Proposed Rates

Coyote Wash is requesting initial wastewater rates of a monthly minimum of \$30. The Company is also seeking authorization to charge \$2.00 per 1,000 gallons of effluent. Staff is recommending initial wastewater and effluent sale rates consistent with the Company's request. (See Schedule RDN-2 Attached).

The application contains pro forma revenues and expenses, Staff believes the projected expenses appear reasonable. The Company estimates wastewater revenue of \$61,920 with associated expenses \$88,663 resulting in an operating loss of \$26,743 for the first year of operations. The Company estimates \$135,360 in third year revenue, associated expenses of \$150,745 resulting in an operating loss of \$15,385 for the year. The Company estimates profitability in the fourth year with estimated revenue of \$172,440, related expenses of \$168,124 for operating income of \$4,316 for the year. (See Schedule RDN-1, Attached)

Wastewater Depreciation Rates

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Exhibit 3. It is recommended that the company use depreciation rates by individual National Association of Regulatory Utilities Commissions (NARUC) category, as delineated in Exhibit 3.

TYPICAL DEPRECIATION RATES FOR WASTEWATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	30	3.33
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	20	5.00
366	Reuse Services	50	2.00
367	Reuse Meters and Meter Installations	30	3.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	10	10.0
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission and Distribution System	50	2.0
380	Treatment and Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	25	4.0
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTES:

- These depreciation rates represent average expected rates. Wastewater companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

Staff Recommendations

Staff recommends that the Commission approve The Links at Coyote Wash Utilities, L.L.C.'s application for a Certificate of Convenience and Necessity to provide wastewater services, subject to the following conditions:

1. That the Commission find that The Links at Coyote Wash Utilities, L.L.C.'s fair value of the property devoted to water service is \$379,390.
2. That the Commission authorize The Links at Coyote Wash Utilities, L.L.C. to charge the rates and charges shown on Schedule RDN-2.
3. That the Commission require The Links at Coyote Wash Utilities, L.L.C. to file, with the Director of the Utilities Division, a tariff consistent with the rates and charges authorized by the Commission within 30 days of the decision in this matter.
4. That the Commission require The Links at Coyote Wash Utilities, L.L.C. to file, with the Commission, a rate application no later than three months following the fifth anniversary of any decision in this matter.
5. That the Commission require The Links at Coyote Wash Utilities, L.L.C. to file, with the Director of the Utilities Division, all related franchise agreements within 365 days of the effective date of the decision in this case.
6. That the Commission require The Links at Coyote Wash Utilities, L.L.C. to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Sewer Utilities.

Staff further recommends that the Commission's Decision granting this Certificate of Convenience and Necessity to The Links at Coyote Wash Utilities, L.L.C. be considered null and void without further order from the Commission should The Links at Coyote Wash Utilities, L.L.C. fail to meet conditions 3 and 5 within the time specified.

MEMORANDUM

TO: Jim Fisher
Executive Consultant II
Utilities Division

FROM: Barb Wells *bw*
Information Technology Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: November 6, 2003

RE: **THE LINKS AT COYOTE WASH UTILITIES, LLC (DOCKET NO. SW-04210A-03-0712)**

The area requested by The Links at Coyote Wash for a CC#N to provide sewer service has been plotted with no complications, using the legal description provided with the application (a copy of which is attached).

Also attached are copies of the maps for your files.

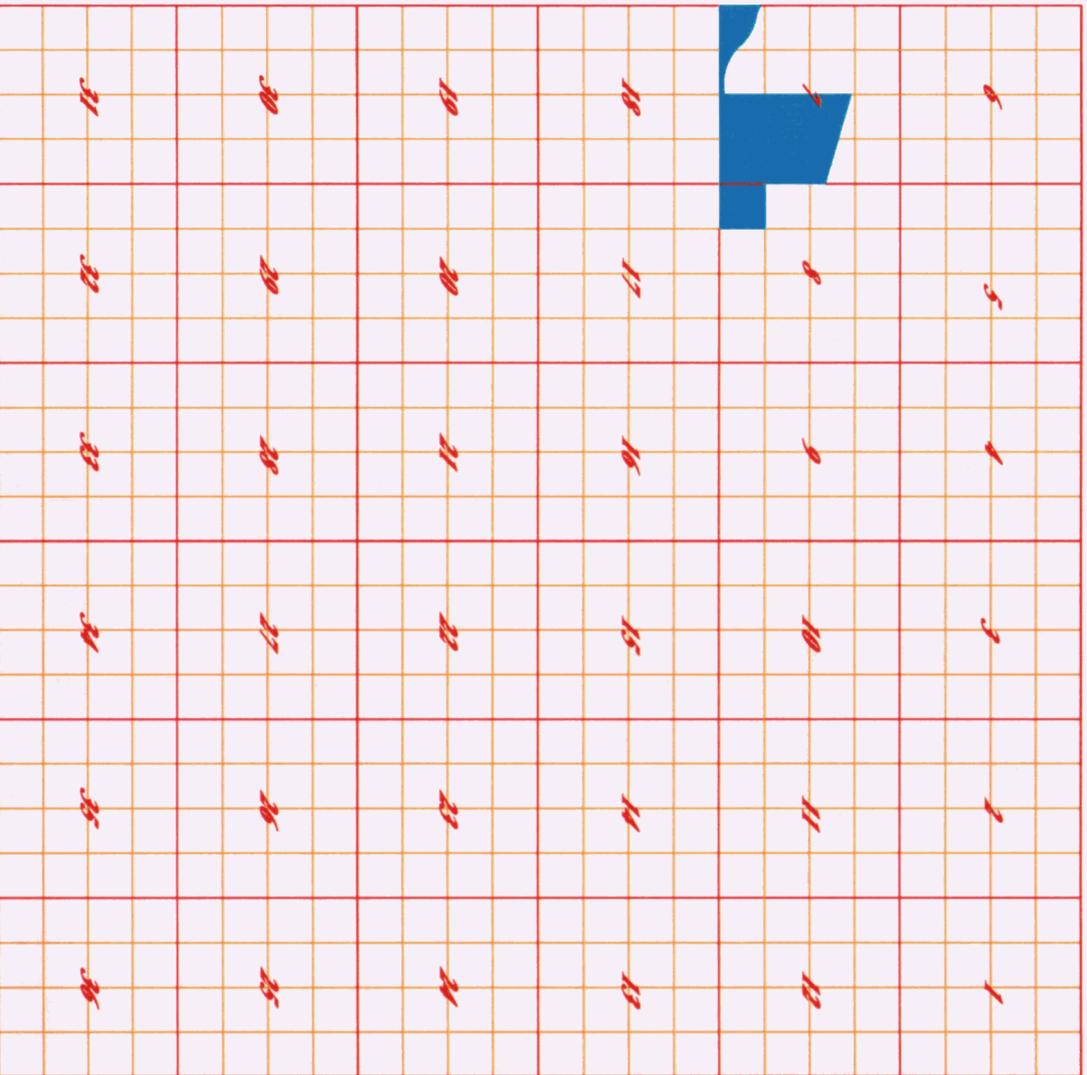
:bsw

Attachments

cc: Docket Control
Mr. Joshua Meyer
Deb Person (Hand Carried)
File

COUNTY: Yuma

RANGE 18 West



TOWNSHIP 9 South

SW-4210 (2)

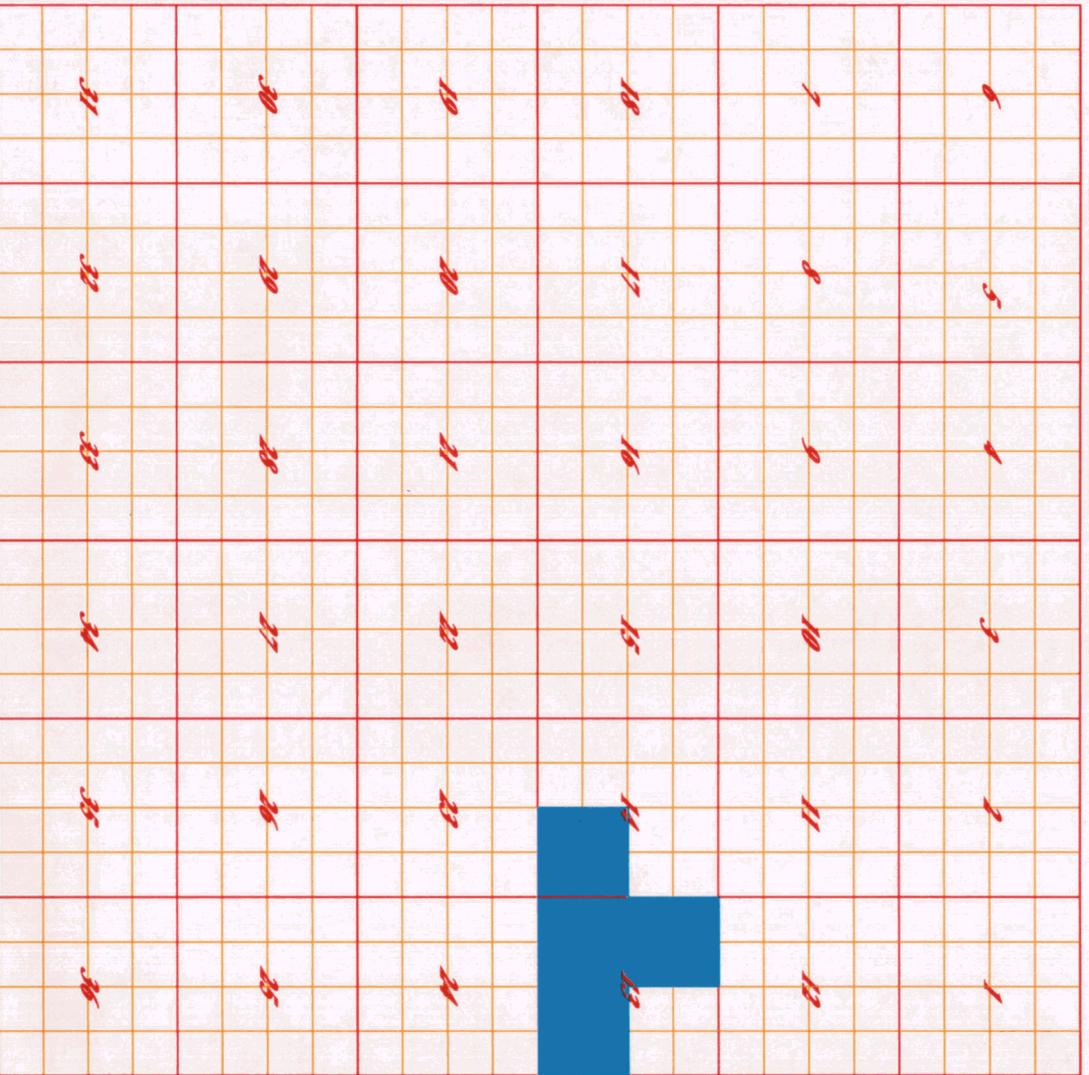
The Links at Coyote Wash Utilities, LLC

Docket No. SW-4210-03-712

Application for Sewer CC&N

COOUNTY: Yuma

RANGE 19 West



TOWNSHIP 9 South

SW-4210 (2)
The Links at Coyote Wash Utilities, LLC
Docket No. SW-4210-03-712
Application for Sewer C&N

LEGAL DESCRIPTION

PARCEL 1

The Southeast quarter (SE $\frac{1}{4}$); that part of the Southwest quarter (SW $\frac{1}{4}$) lying south of the Wellton Canal right-of-way; and that part of the Northeast quarter (NE $\frac{1}{4}$) lying south of the Interstate 8 right-of-way; of Section 7; and the Southwest quarter (SW $\frac{1}{4}$) of the Southwest quarter (SW $\frac{1}{4}$) of Section 8; all in Township 9 South (T9S), Range 18 West (R18W), Gila and Salt River Base and Meridian, Yuma County, Arizona; and

PARCEL 2

The Northwest quarter (NW $\frac{1}{4}$) and the South half (S $\frac{1}{2}$) of Section 13; and the Southeast quarter (SE $\frac{1}{4}$) of Section 14; all in Township 9 South (T9S), Range 19 West (R19W), Gila and Salt River Base and Meridian, Yuma County, Arizona.

RATE BASE & RATE OF RETURN COMPUTATION

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Plant in Service	\$932,777	\$932,777	\$1,474,213	\$1,474,213	\$1,474,213
Less: Accumulated Depreciation	(19,282)	(38,564)	(72,346)	(106,128)	(139,910)
Net Plant	\$913,495	\$894,213	\$1,401,867	\$1,368,085	\$1,334,303
Less: Advances in Aid of Construction	0	0	0	0	0
Less: Contributions in Aid of Constr. Amortization	(547,141)	(547,141)	(837,141)	(837,141)	(837,141)
Original Cost Rate Base	\$379,390	\$373,144	\$617,733	\$610,986	\$604,239
Operating Revenue	61,920	98,280	135,360	172,440	185,040
Operating Expense	88,663	118,429	150,745	168,124	182,682
Operating Income (Loss)	(\$26,743)	(\$20,149)	(\$15,385)	\$4,316	\$2,358
Rate of Return	-7.05%	-5.40%	-2.49%	0.71%	0.39%
Number of Customers - Residential	171	271	371	471	504
Commercial	1	2	5	8	10

RATE DESIGN - WASTEWATER

Monthly Flat Rate	Proposed Rates	
	Company	Staff
Residential	\$30.00	\$30.00
Commercial	*	*

* Each commercial customer will be required to have its own flow meter.
The commercial rate will be calculated for each commercial customer by dividing one single family equivalent (SFE) into the average daily flow rate of the commercial customer. One SFE is equal to 262 gallons per day (the approved design flow rate per single family unit by ADEQ). The resulting factor will be multiplied by the approved residential flat rate to create the custom commercial rate.

Effluent Sales

Per 1,000 Gallons	\$2.00	\$2.00
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Service Charges

Flow Meter Installation Charge	\$0.00	\$100.00
Establishment (R14-2-603D)	25.00	25.00
Reconnection (Delinquent)	30.00	30.00
NSF Check	25.00	25.00
Late Payment Penalty (per month)	1.50%	1.50%
Deposit	**	**
Deposit Interest	**	**
Re-Establishment (Within 12 Months)	***	***

** As per Commission Rules (R14-2-603B)
** Months off system times the minimum (R14-2-603.D)

Other Rates and Charges Approved By Order

In addition to the collection of its regular rates and charges the Company will collect from customers their proportionate share of any privilege, sales or use tax in accordance with R14-2-608.D5.