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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson *MDJ/fox*
Director
Utilities Division

Date: May 1, 2002

RE: STRAWBERRY WATER COMPANY, INC. - APPLICATION FOR AN
EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY
TO PROVIDE WATER SERVICE IN GILA COUNTY, ARIZONA (DOCKET
NO. W-03513A-01-0727)

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

EGJ:JEF:jbc

Originator: Jim Fisher

Attachment: Original and Eleven Copies

Arizona Corporation Commission
DOCKETED
MAY 01 2002
DOCKETED BY *nae*

Service List for: Strawberry Water Company
Docket No. W-03513A-01-0727

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

STRAWBERRY WATER COMPANY
DOCKET NO. W-03513A-01-0727

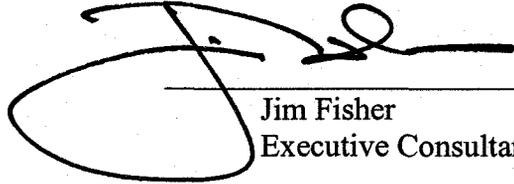
APPLICATION FOR AN EXTENSION OF CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER SERVICE IN GILA COUNTY, ARIZONA

April 2002

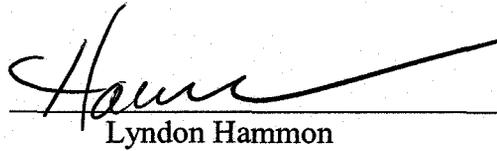
STAFF ACKNOWLEDGEMENT

The Staff Report for Strawberry Water Company, Docket No. W-03513A-01-0747 was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Company's application. Lyndon Hammon was responsible for the engineering and technical analysis.

Contributing Staff:



Jim Fisher
Executive Consultant II



Lyndon Hammon

**EXECUTIVE SUMMARY
STRAWBERRY WATER COMPANY
DOCKET NO. W-035113A-01-0727**

Strawberry Water Company ("Strawberry") is an Arizona corporation engaged in providing water utility service to approximately 983 customers within portions of Gila County, Arizona. Strawberry is owned by E&R Water Company, Inc. ("E&R"). E&R is a wholly-owned subsidiary of Brooke Utilities, Inc. ("Brooke") of Bakersfield, California.

Strawberry is requesting Arizona Corporation Commission ("ACC") authorization to extend its current Certificate of Convenience and Necessity ("CC&N") to include the Hardscrabble Mesa Subdivision ("HMS"). HMS is outside of, and non-contiguous to the Strawberry Water Company CC&N. Prior management of Strawberry began providing service to HMS, without ACC authorization. Strawberry has filed this application in compliance with Decision No. 62400.

Staff recommends approval of the CC&N extension request subject to Strawberry complying with the following conditions:

1. Enter into a main extension agreement to convey the existing water distribution facilities.
2. Charge its authorized rates and charges in the extension area.

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EXHIBITS

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Introduction

On September 13, 2001, Strawberry Water Company, Inc. ("Strawberry"), an Arizona corporation, filed an application with the Arizona Corporation Commission ("ACC") requesting approval for an extension of its existing Certificate of Convenience and Necessity ("CC&N") in Gila County, Arizona, to include the Hardscrabble Homeowners Association.

On October 2, 2001, Staff notified Strawberry its application was not sufficient according to the Arizona Administrative Code. On February 20, 2002, Strawberry provided Staff with additional information.

Background

Strawberry is an Arizona corporation engaged in providing water utility service to approximately 983 customers within portions of Gila County, Arizona. Strawberry is owned by E&R Water Company, Inc. ("E&R"), which obtained Strawberry's CC&N in Decision No. 30820, (March 20, 1958). E&R is a wholly-owned subsidiary of Brooke Utilities, Inc. ("Brooke") of Bakersfield, California.

By this application, Strawberry is seeking to extend its current CC&N to include the Hardscrabble Mesa Subdivision ("HMS"). HMS is outside of, and non-contiguous to the Strawberry CC&N. Strawberry projects that 9 additional customers will be served in the first year, and that a total of 18 customers will be served in the proposed extension.

On March 31, 2000, in Decision No. 62400, the ACC authorized higher rates for E&R. During review of the E&R rate case, Utilities Division Staff learned that E&R was providing service and charging the unauthorized fee to the HMS. According to Company management, previous management of E&R Water entered into a service agreement with HMS, which required each HMS customer to pay an additional \$20 per month for a service interconnection with Strawberry to the HMS distribution system. Strawberry has provided representations to Staff that the Company stopped billing HMS customers the unauthorized rates concurrent with Decision No. 62400.

In Decision No. 62400, Strawberry was required to extend its CC&N to include the HMS area. On March 21, 2000, Richard Henry, President of the Hardscrabble Homeowners Association ("HHA") informed Brooke Utilities, Inc., of HHA's desire to convey all interest and ownership in its water distribution system to Brooke. On September 6, 2001, Richard Henry further informed Mr. Hardcastle, of Brooke Utilities, Inc., that the HHA agreed to limit future installations to a maximum of ten additional residential meters.

To date, the parties have not entered into a main extension agreement to convey the water distribution plant owned by the HHA to Strawberry. Staff recommends that Strawberry be required to enter into and obtain approval of a main extension agreement with HHA as a condition of approval for the required CC&N extension.

Water Production Capacity

Strawberry has 13 wells with a total production capacity of 289 gallons per minute, with 252,500 gallons of storage capacity, booster pumps, pressure tanks, and a distribution system serving 983 connections.

Based on historical growth rates (2 - 3 percent per year), it is anticipated that the existing service area would have about 1,100 total customers at the end of five years. The Company has predicted an additional 9 customers for the proposed CC&N extension, at the end of five years. The existing production and storage can serve 1,248 connections. Therefore, Engineering concludes that the existing system has adequate production and storage capacity to serve the existing and proposed CC&N area within a conventional five year planning period, without adding any new production.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the water system under ADEQ Public Water System I.D. #04-006. ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR") Compliance

Strawberry is not within any Active Management Area, and consequently is not subject to reporting and conservation rules.

ACC Compliance

A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

Proposed Rates

Strawberry has proposed to extend service to the property at its tariffed rates.

Recommendations

Staff recommends that the Commission grant Strawberry Water Company application for an Extension to its Certificate of Convenience and Necessity to provide water service, subject to compliance with the following conditions:

Staff recommends that the Commission require Strawberry Water Company to charge its existing rates and charges in the proposed extension area.

Staff recommends that the Commission require Strawberry Water Company to enter into a main extension agreement with the Hardscrabble Homeowners Association consistent with Commission rules, to convey the water distribution property to the utility, within 60 days of any decision in this matter.

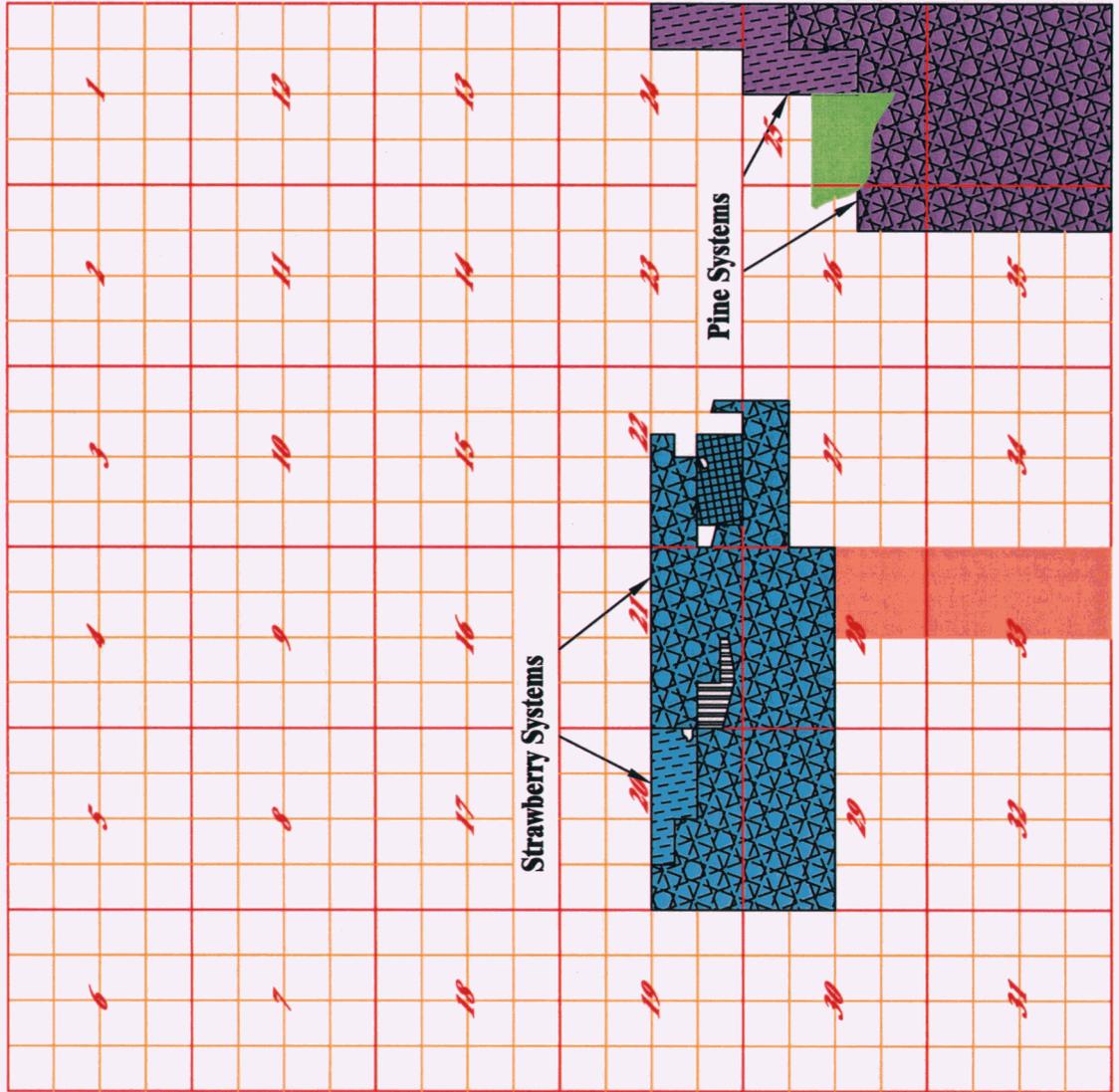
Staff further recommends that the Commission's Decision granting this Extension to a Certificate of Convenience and Necessity to Strawberry Water Company be considered null and void without further order from the Commission should Strawberry Water Company, fail to meet any of the above conditions within the time specified.

COUINTY Gila

RANGE 8 East

TOWNSHIP 12 North

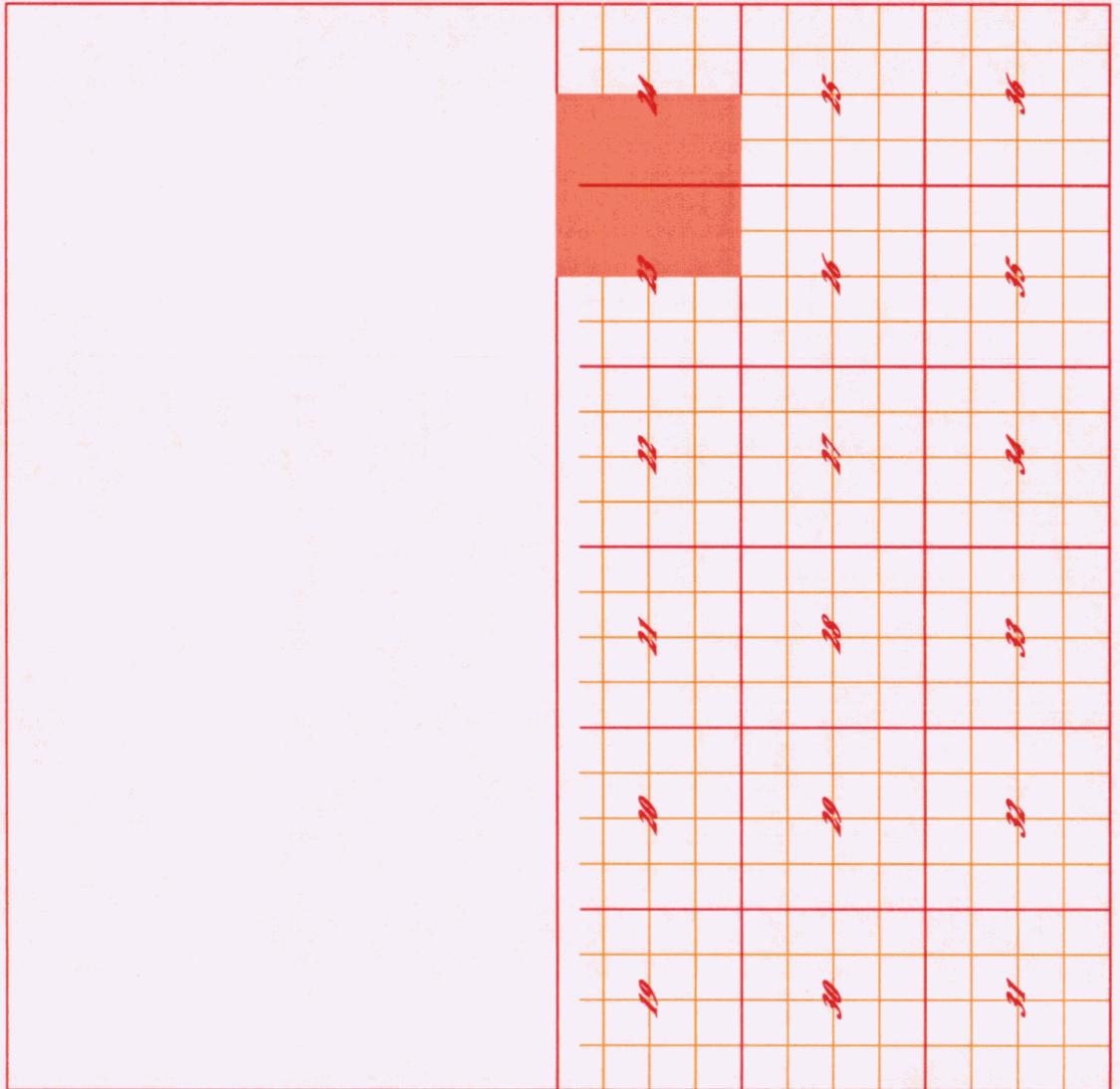
-  W-1576 (3)
E & R Water Company, Inc.
-  W-1407 (1)
Strawberry Water Company
-  W-1993 (12)(1)
United Utilities (Strawberry)
-  W-2137 (2)
Williamson Waterworks, Inc.
-  Pine Creek Canyon Domestic Water Improvement District (Nonjurisdictional)
-  E & R Water Company, Inc. United Utilities, Inc. Williamson Waterworks, Inc. Application to Transfer to Strawberry Water Company, Inc. Docket No. W-3513-98-080
-  E & R Water Company, Inc. Williamson Waterworks, Inc. Application to Transfer to Pine Water Company, Inc. Docket No. W-3512-98-079
-  Strawberry Water Company, Inc. W-3513-01-727 Application for Extension



COUNTY Gila

RANGE 8 East

TOWNSHIP 11 1/2 North



Strawberry Water Company, Inc.
W-3513-01-727
Application for Extension

**STRAWBERRY WATER COMPANY
DOCKET NO. W-3513-01-727
AMENDED LEGAL DESCRIPTION**

ATTACHMENT B

The SE 1/4 of Section 28 and the E 1/2 of Section 33, Township 12 North, Range 8 East of the Gila and Salt River Base and Meridian, Gila County, Arizona.

The E 1/2 of Section 23 and the W 1/2 of Section 24, Township 11-1/2 North, Range 8 East of the Gila and Salt River Base and Meridian, Gila County, Arizona.