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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

MAR 21 2013

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

DOCKETED BY [nr]

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY FOR APPROVAL TO EXTEND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY FOR ITS PINAL VALLEY WATER SYSTEM.

DOCKET NO. W-01445A-12-0424

DECISION NO. 73780

OPINION AND ORDER

DATE OF HEARING: January 14, 2013
PLACE OF HEARING: Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE: Sarah N. Harpring and Dwight D. Nodes¹
APPEARANCES: Mr. Robert W. Geake, Vice President and General Counsel, Arizona Water Company, on behalf of the Applicant; and
Mr. Wesley Van Cleve, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

This case concerns an application by Arizona Water Company to extend the Certificate of Convenience and Necessity for its Pinal Valley system to include an area within the municipal boundaries of the City of Casa Grande, in Pinal County, encompassing property owned by a single landowner and proposed to be used for a development to be known as Copper Mountain Ranch.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:
...

¹ Administrative Law Judge Sarah N. Harpring presided over this matter prior to the hearing and prepared the Recommended Opinion and Order. Assistant Chief Administrative Law Judge Dwight D. Nodes presided over the hearing in this matter.

FINDINGS OF FACT**Procedural History**

1
2
3 1. On September 28, 2012, Arizona Water Company (“AWC”) filed with the
4 Commission an application to extend its existing Certificate of Convenience and Necessity
5 (“CC&N”) for its Pinal Valley water system to include an area within the municipal boundaries of the
6 City of Casa Grande, in Pinal County.

7 2. On October 26, 2012, the Commission’s Utilities Division (“Staff”) issued a
8 Sufficiency Letter notifying AWC that its application had met the sufficiency requirements outlined
9 in the Arizona Administrative Code (“A.A.C.”).

10 3. On October 30, 2012, a Procedural Order was issued scheduling the hearing in this
11 matter to commence on January 2, 2013, and establishing other procedural deadlines and
12 requirements.

13 4. On November 14, 2012, Staff filed Staff’s Request for Modification of the Procedural
14 Schedule, requesting that the hearing be rescheduled to January 14, 2013, or as soon thereafter as
15 possible due to the unavailability of the Staff analyst on and around the scheduled hearing date. Staff
16 stated that AWC had no objection.

17 5. On November 23, 2012, a Procedural Order was issued vacating the original
18 procedural schedule; scheduling the hearing for January 14, 2013; establishing other procedural
19 deadlines and requirements; and extending the Commission’s time frame in this matter by 12 days.

20 6. On December 3, 2012, Staff issued a Staff Report recommending approval of AWC’s
21 application, with conditions.

22 7. On December 14, 2012, AWC filed a Certificate of Notice showing that the prescribed
23 public notice had, on December 5, 2012, been mailed to the single property owner for the proposed
24 extension area and published in the *Casa Grande Dispatch*, a daily newspaper published in the City
25 of Casa Grande.

26 8. On January 14, 2013, the hearing in this matter convened before a duly authorized
27 Administrative Law Judge of the Commission at the Commission’s offices in Phoenix, Arizona.
28 AWC and Staff appeared through counsel and presented evidence and witness testimony. AWC

1 presented the testimony of Fredrick K. Schneider, Vice President of Engineering for AWC. Staff
 2 presented the testimony of Katrin Stukov, Staff Utilities Engineer, and Blessing N. Chukwu, Staff
 3 Executive Consultant III. No members of the public provided comment at the hearing.

4 9. No comments have been received concerning AWC's application in this Docket.

5 **Background**

6 10. AWC is a privately owned² Arizona corporation that provides water utility service,
 7 pursuant to CC&Ns granted by the Commission, to approximately 84,000 customers through 19
 8 water systems located in Cochise, Coconino, Gila, Maricopa, Navajo, Pima, Pinal, and Yavapai
 9 Counties. (Decision No. 73144 (May 1, 2012)³ at 2; Ex. A-1.) AWC's water systems are organized
 10 into a Northern Group, an Eastern Group, and a Western Group. (Decision No. 73144 at 2.) The
 11 Pinal Valley system is located in the Western Group. (*Id.*)

12 11. AWC's current rates and charges for the Pinal Valley system were approved in
 13 Decision No. 73144, which established rates and charges for all of AWC's Western Group systems,
 14 and became effective on May 1, 2012. That Decision also fully consolidated the Stanfield system
 15 into the existing Pinal Valley system, which previously had consisted of the fully consolidated and
 16 interconnected Casa Grande and Coolidge systems.⁴

17 12. The Pinal Valley system includes 23 active wells, five arsenic treatment plants, one
 18 nitrate treatment plant, 13 storage tanks, pumping facilities, and a distribution system serving
 19 approximately 28,000 connections. (Ex. S-1; Decision No. 73144.)

20 **The Extension Area**

21 13. The area AWC proposes to add to its existing CC&N for the Pinal Valley system
 22 includes 15 contiguous parcels of property, totaling approximately 3,500 acres in size, located within
 23 portions of Township 5 South, Range 5 East and Township 5 South, Range 6 East between Highway
 24 238 and Highway 387, northwest of downtown Casa Grande, in Pinal County, Arizona ("extension
 25

26 ² AWC is a wholly owned subsidiary of Utility Investment Company, which is a wholly owned subsidiary of United
 Resources, Inc. (Ex. S-1.)

27 ³ Official notice is taken of Decision No. 73144.

28 ⁴ The Coolidge and Casa Grande systems were fully consolidated into the Pinal Valley System in Decision No. 71845
 (August 25, 2010). Official notice is taken of Decision No. 71845. The Coolidge Airport system is also considered to be
 part of the Pinal Valley system. (Decision No. 73144.)

1 area”). (Ex. A-1 at Ex. 5, Ex. 11; Tr. at 9.) The extension area is located entirely within Pinal
2 County and within the municipal boundaries of the City of Casa Grande (“City”). (Ex. A-1.)

3 14. The legal description for the extension area is attached hereto and incorporated herein
4 as Exhibit A. A map showing the extension area is attached hereto and incorporated herein as
5 Exhibit B.⁵

6 15. The parcels in the extension area are all owned by ANCCC, LLC (“ANCCC”), which
7 requested, in a September 2012 letter, for AWC to have the extension area added to its CC&N. (Ex.
8 A-1 at Ex. 12.)

9 16. The property in the extension area is intended to be used for a mixed residential and
10 commercial development to be known as Copper Mountain Ranch. (Ex. A-1 at Ex. 5.) At build-out,
11 Copper Mountain Ranch is expected to include approximately 5,846 primary housing units; 6,328
12 age-qualified (active adult) units; 534 apartment units; 292 custom home units; an 18-hole golf
13 course with a club house; a school site with approximately 73 acres for fields and building; multiple
14 recreational centers totaling approximately 21 acres; and commercial zones of approximately 72
15 acres. (*Id.*) Phase 1 of Copper Mountain Ranch is to be located on the eastern portion of the
16 extension area and to include 700 primary housing units; 2,300 age-qualified units; 25 acres of
17 commercial zone; and 21 acres of recreational facilities. (*Id.*)

18 17. There is currently one temporary water service connection within the extension area,
19 equipped with a temporary water service meter. (Ex. A-1.) The connection, served using a 5/8” x
20 3/4” meter, was established under a temporary agreement with a local rancher to provide water
21 service to a small feed trough for watering his cattle. (Tr. at 21.) The rancher is being charged the
22 current Pinal Valley system rates. (*Id.*) Mr. Schneider testified that this temporary water service was
23 established in conformance with the requirements of AWC’s general tariff. (Tr. at 22.)

24 18. Wastewater service in the extension area will be provided by the City, as evidenced by
25 a September 2012 letter from the City’s Mayor confirming such service. (Ex. A-1 at Ex. 14.)
26 Additionally, the City has committed, in a January 2007 “Amended and Restated Development
27

28 ⁵ The map was included in Exhibit A-1 at Exhibit 11.

1 Agreement Copper Mountain Ranch,” to provide wastewater treatment facilities as necessary to serve
2 the reasonable needs of the Copper Mountain Ranch property and its subsequent owners. (Ex. A-1 at
3 Ex. 16.) The extension area will not have any septic systems. (Tr. at 20.)

4 19. Although AWC and the City share information regarding new customers, water usage
5 for billing purposes, and turn ons and turn offs, they do not have an agreement requiring or allowing
6 AWC to turn off water service if bills for wastewater service are not paid. (Tr. at 21.)

7 20. The City has a very small water system, located far west of the extension area, that
8 provides service to a couple hundred customers, but has no plans to expand its water service facilities
9 going forward. (Tr. at 19-20.)

10 21. AWC intends to implement in the extension area the rates and charges for water
11 service currently in effect in its Pinal Valley water system. (Ex. A-1.)

12 22. AWC provided a copy of the notice letter created for the Casa Grande City Manager,
13 which was to be accompanied by a copy of the application. (Ex. A-1.) Mr. Schneider testified that
14 the City of Casa Grande supports AWC’s application and that AWC meets regularly with City
15 personnel. (Tr. at 15, 20.)

16 23. AWC estimates that 600 residential and four commercial customers will be served in
17 the first year of operations and that the customer base will expand to 3,000 residential customers and
18 nine commercial customers in the fifth year of operations. (Ex. A-1.)

19 24. Staff determined that the existing water system has adequate production and storage
20 capacity to serve the existing CC&N area and that AWC can reasonably be expected to develop
21 additional production, storage, and infrastructure for the extension area as required within a
22 conventional five-year period. (Ex. S-1.)

23 25. AWC identified the following water conservation measures to be implemented in the
24 extension area: (1) AWC’s existing Best Management Practices (“BMPs”); (2) a March 2008 City
25 Reclaimed Water Use Conceptual Master Plan, developed by the City jointly with AWC, which
26 prescribes use of reclaimed water from the Kortsen Road Water Reclamation Plant (“Kortsen WRP”)
27 for recreational areas, golf courses, and other public turf areas in the extension area; (3) a planned
28 Central Arizona Project (“CAP”) Surface Water Treatment Plant, for which a preliminary design has

1 been completed and through which AWC will provide treated CAP water to the Pinal Valley
2 Division; (4) AWC's three-tiered conservation-oriented commodity rate design; (5) the City's
3 Landscaping Requirements, which require the use of plants selected from the City's low water use
4 plant list; and (6) the City's Plumbing Code, which adopts the 2003 International Plumbing Code and
5 includes water efficiency standards for plumbing fixtures used in new construction and remodeling
6 projects. (Ex. A-1.) AWC also provided a September 2012 Copper Mountain Ranch Reclaimed
7 Water Masterplan, created by AWC, stating that the Kortsen WRP provides a sufficient supply of
8 reclaimed water to meet the reclaimed water demands of Copper Mountain Ranch, but that there
9 currently is no infrastructure to deliver reclaimed water to Copper Mountain Ranch. (Ex. A-1 at Ex.
10 18.) AWC recommends that reclaimed water system infrastructure (two booster pump stations and
11 approximately seven miles of transmission and distribution mains) be built, at an estimated cost of
12 approximately \$7.8 million, so that the turf areas and golf course within Copper Mountain Ranch can
13 be irrigated with reclaimed water. (*Id.*)

14 26. The water system infrastructure for Phase 1 of Copper Mountain Ranch is expected to
15 be constructed over a period of five years at a total estimated cost of approximately \$28.1 million.
16 (Ex. A-1 at Ex. 5, Ex. 6.) The Phase 1 infrastructure is projected to include two new wells with a
17 production capacity of 2,500 gallons per minute ("GPM"), two arsenic treatment plants (with a
18 combined treatment capacity of 2,500 GPM), booster pumps, and related piping. (Ex. S-1.) Storage
19 is to be provided by the 5-million-gallon storage tank already located in the Pinal Valley system.⁶
20 (*Id.*) Staff determined that the estimated cost for the proposed Phase 1 water plant facilities is
21 reasonable.⁷ (*Id.*)

22 27. After Phase 1 is completed, the remaining build-out of the water system infrastructure
23 for Copper Mountain Ranch is projected to take place in another five three-year phases, so that the
24 entire build-out should be completed approximately 20 years after initial construction starts. (Tr. at
25 18.)

26 ⁶ Storage tanks will be added with the infrastructure constructed after Phase 1, which will also include wells, treatment
27 plants, transmission lines, and pipelines. (Tr. at 11, 18-19; Ex. A-1 at Ex. 5.)

28 ⁷ This does not imply any particular future treatment of this plant for rate base purposes. No "used and useful"
determination of the proposed water plant facilities was made, and no conclusions should be inferred for ratemaking or
rate base purposes. (Ex. S-1.)

1 **Regulatory Compliance**

2 28. AWC has a Physical Availability Determination (“PAD”), issued by the Arizona
3 Department of Water Resources (“ADWR”) in December 2009, for an area including the extension
4 area. (Ex. A-1 at Ex. 19.) The PAD states that at least 98,841 acre-feet per year (“AFY”) of
5 groundwater is physically available for 100 years for assured water supply purposes in the area. (*Id.*)
6 This amount was lower than AWC’s requested volume of 103,485 AFY, but is more than sufficient
7 to provide service to the extension area. (Ex. A-1 at Ex. 5, Ex. 19; Tr. at 24.) Mr. Schneider testified
8 that the difference between what was requested and what was granted in the PAD has no impact on
9 AWC’s ability to provide service in Copper Mountain Ranch. (Tr. at 23-24.)

10 29. AWC is in the process of working with the developer and the developer’s engineer to
11 develop the documentation needed to file with ADWR for a Certificate of Assured Water Supply for
12 Phase 1 of the project. (Tr. at 17-18.)

13 30. AWC has a Franchise Agreement with the City that authorizes AWC to construct,
14 maintain, and operate facilities for the purpose of providing water service in the City. (Ex. A-1 at Ex.
15 4.) The Franchise Agreement has a 25-year term and was executed in September 2005. (*Id.*)

16 31. AWC’s Pinal Valley system is in compliance with the requirements of the Arizona
17 Department of Environmental Quality (“ADEQ”) and is delivering water that meets the water quality
18 standards required by 40 C.F.R. 141 and A.A.C. Title 18, Chapter 4. (Ex. A-1 at Ex. 20; Ex. S-1.)

19 32. The Pinal Valley system is located within the Pinal Active Management Area
20 (“AMA”). (Ex. S-1.) ADWR has determined that the Pinal Valley system is in compliance with
21 ADWR’s reporting requirements and that AWC’s System Water Plans met ADWR requirements.
22 (*Id.*)

23 33. AWC has a current Backflow Prevention Tariff on file with the Commission.

24 34. AWC has a current Curtailment Tariff on file with the Commission.

25 35. AWC has approved BMP Tariffs on file with the Commission.

26 36. AWC is in good standing with the Commission’s Corporations Division. (Ex. S-1.)

27 37. Staff’s Compliance Section reports that AWC has no outstanding Commission
28 compliance issues.

1 38. AWC is current on all of its property and sales tax payments. (Tr. at 14.)

2 **Fitness and Properness**

3 39. As of December 31, 2011, AWC's Balance Sheet showed net utility plant of
4 approximately \$304.6 million; total current and accrued assets of approximately \$16.2 million; \$78.2
5 million in stockholders' equity; long-term debt of \$75 million; total current and accrued liabilities of
6 approximately \$9.2 million; total deferred credits and reserves of approximately \$110.4 million; and
7 contributions in aid of construction ("CIAC") of approximately \$55.1 million. (Ex. A-1 at Ex. 7.)
8 AWC's Income Statement for the same period showed approximately \$55.9 million in operating
9 revenue, operating income of approximately \$10 million, and net income of approximately \$5
10 million. (*Id.*)

11 40. The proposed off-site and on-site facilities for the extension area will be financed
12 through advances in aid of construction ("AIAC") and CIAC (Ex. A-1.) AWC will use its standard
13 main extension agreement for the facilities necessary to provide service to parcels as the property is
14 platted. (Tr. at 12.)

15 41. AWC projects that its operations in the extension area will produce first year revenues
16 of \$170,000, with total operations and maintenance ("O&M") expenses of \$73,000, and will grow by
17 the fifth year to \$1,332,000 in revenues with O&M expenses of \$504,209. (Ex. A-1 at Ex. 10.)

18 42. Mr. Schneider testified that AWC is ready, willing, and able to provide water service
19 to the extension area. (Tr. at 15.)

20 43. AWC has not previously been involved in projects with ANCCC, but has been
21 meeting with ANCCC personnel on a regular basis regarding the Copper Mountain Ranch
22 development project. (Tr. at 24-25.) Mr. Schneider testified that he personally has dealt with
23 members of ANCCC on other Arizona projects in the past and that they have been very experienced
24 in development. (*Id.*)

25 44. Staff determined that AWC has prior operating experience providing water utility
26 service, that there is no evidence of questionable business practices by AWC, and that AWC has
27 adequate financial capability to provide the requested service. (Tr. at 31-32.)

28 ...

Staff Recommendations

45. Staff recommends that the Commission approve AWC's application for extension of its existing CC&N to provide water service to portions of Pinal County, subject to compliance with the following conditions:

(a) AWC should be required to charge its authorized rates and charges in the extension area;

(b) AWC should be required to file with Docket Control, as a compliance item in this docket, within two years after the effective date of an Order in this proceeding, a copy of the ADEQ Approval to Construct for the facilities needed to serve the first parcel of the proposed Copper Mountain Ranch development within the extension area;⁸

(c) AWC should be required to file with Docket Control, as a compliance item in this docket, within two years after the effective date of an Order in this proceeding, a copy of the developer's Certificate of Assured Water Supply for Phase 1; and

(d) The Commission's approval of the requested CC&N extension should be considered null and void, after due process, should AWC fail to meet conditions (b) and (c) above within the time specified.⁹

46. AWC does not object to the Staff Report and the recommendations included therein. (Tr. at 16-18.) Mr. Schneider testified that the two-year deadlines appear to fit within the timelines for the development of Copper Mountain Ranch. (*Id.*)

Resolution

47. Staff's recommendations, set forth in Findings of Fact No. 45, are reasonable and appropriate and should be adopted.

CONCLUSIONS OF LAW

1. AWC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

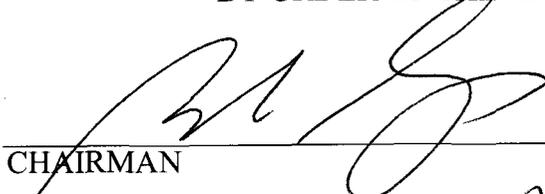
⁸ See Tr. at 29.

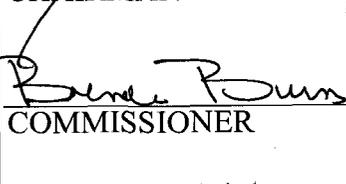
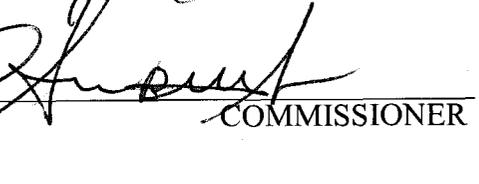
⁹ Ms. Chukwu clarified at hearing that any future request to extend a deadline created herein would be considered on its own merits at the time the request was made, that Staff is not foreclosing the possibility of extensions for good cause in the future. (*See* Tr. at 37.)

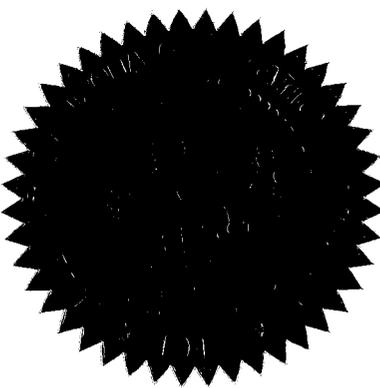
1 and void, after due process, if Arizona Water Company fails to meet the above conditions within the
2 time specified.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

5
6  CHAIRMAN  COMMISSIONER

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8  COMMISSIONER  COMMISSIONER  COMMISSIONER



11 IN WITNESS WHEREOF, I, JODI JERICH, Executive
12 Director of the Arizona Corporation Commission, have
13 hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this 21st day of March 2013.

16 
17 JODI JERICH
18 EXECUTIVE DIRECTOR

19 DISSENT _____

20 DISSENT _____

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1 SERVICE LIST FOR: ARIZONA WATER COMPANY

2 DOCKET NO.: W-01445A-12-0424

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LEGAL DESCRIPTION

T.5S.,R.5E.

Section 13;

The Northeast quarter and the South half of Section 14;

The North half and the Southwest quarter of Section 22;

The North half and the Southeast quarter of Section 23;

The North half and the Southwest quarter of Section 24, EXCEPT that portion of the Southwest quarter described as follows:

BEGINNING at the South quarter corner of said Section 24;

Thence North 00 degrees 09 minutes 46 seconds East, along the east line of the Southwest quarter of said Section 24, a distance of 2539.10 feet to the center of said Section 24;

Thence North 89 degrees 51 minutes 23 seconds West, along the north line of the Southwest quarter of said Section 24, a distance of 330.12 feet to a point;

Thence South 00 degrees 09 minutes 46 seconds West, along a line parallel with the east line of the Southwest quarter of said Section 24, a distance of 2638.88 feet, to a point on the south line of said Section 24;

Thence South 89 degrees 49 minutes 06 seconds East, along the south line of said Section 24, a distance of 330.12 feet to the POINT OF BEGINNING.

T.5S.,R.6E.

The West half and the North half of the Southeast quarter of Section 17;

The West half and the Southeast quarter of Section 18, EXCEPT that portion of the Southeast quarter described as follows:

BEGINNING at the East quarter corner of said Section 18;

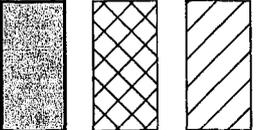
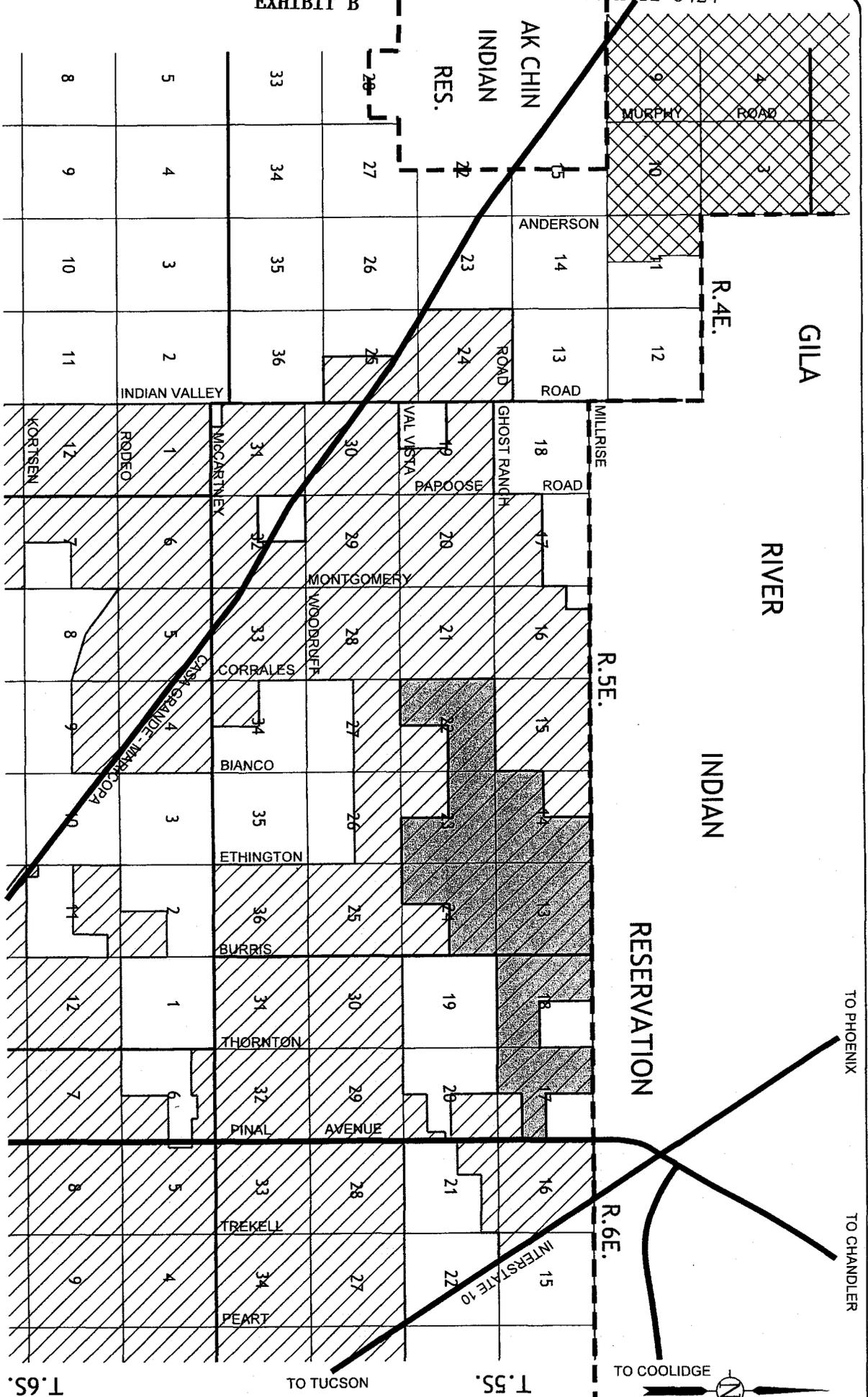
Thence South 89 degrees 14 minutes 34 seconds West, along the north line of the Southeast quarter of said Section 18, a distance of 2649.20 feet, to the center of said Section 18;

Thence South 00 degrees 00 minutes 10 seconds West, along the west line of the Southeast quarter of said Section 18, a distance of 328.85 feet to a point;

Thence North 89 degrees 14 minutes 34 seconds East, along a line parallel with the north line of the Southeast quarter of said Section 18, a distance of 2649.67 feet to a point on the east line of said Section 18;

Thence North 00 degrees 04 minutes 41 seconds West, along the East line of said Section 18, a distance of 328.85 feet to the POINT OF BEGINNING.

EXHIBIT B



A Portion of the City Limits of Casa Grande

A Portion of the City Limits of Maricopa

CCN Area Requested This Application

ARIZONA WATER COMPANY

DESCRIPTION:

Proposed CCN Extension Area Identifying the Municipal Boundaries within 5 Miles

LOCATION: Portions of Township 5 South, Range 5 East and Township 5 South, Range 6 East, G.B.S. R.B. & B.M.

DATE: 09.11.2012

SCALE: 1" = 1 1/2 Miles

DRAWN BY: CB