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BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

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

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION OF  
PRESIDIO TRAILS DEVELOPMENT, LLC  
FOR DELETION OF ITS PROJECT FROM  
THE CERTIFICATE OF CONVENIENCE AND  
NECESSITY HELD BY HALCYON ACRES  
ANNEX NO. 2 WATER COMPANY, INC.

DOCKET NO. W-02312A-13-0326

STAFF'S NOTICE OF FILING

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") files Staff's Reply to Response to Staff Report jointly filed by Halcyon Acres Annex No. 2 Water Company, Inc. and Presidio Trails Development, LLC on June 3, 2014.

RESPECTFULLY SUBMITTED this 6<sup>th</sup> day of June 2014.

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Arizona Corporation Commission

DOCKETED

JUN 06 2014

Original and thirteen (13) copies  
of the foregoing filed this  
6<sup>th</sup> day of June 2014 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
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DOCKETED BY

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STAFF REPLY TO THE JUNE 3, 2014 RESPONSE TO STAFF REPORT FILED BY THE APPLICANT IN THE MATTER OF THE APPLICATION OF PRESIDIO TRAILS DEVELOPMENT, LLC AND HALCYON ACRES ANNEX NO.2 WATER CO., INC. FOR DELETION OF PRESIDIO TRAILS DEVELOPMENT, LLC'S PROJECT FROM HALYCON ACRES ANNEX NO. 2 WATER CO., INC.'S CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. W-02312A-13-0326)

On June 3, 2014, Halcyon Acres Annex No. 2 Water Company ("Halcyon" or "Applicant" or "Company"), in conjunction with Presidio Trails Development, LLC ("Presidio"), filed a Response to Staff Report ("Response") in Docket No. W-02312A-13-0326 wherein Halcyon seeks to delete a portion of its Certificate of Convenience and Necessity ("CC&N") where Presidio plans to build an apartment complex. This memorandum provides Staff's reply to the Applicant's Response.

Staff's initial position in this proceeding was to oppose approval of the application given that there was a possibility Halcyon could retain the property in question within its service territory if it was able to acquire additional water supplies from Tucson Water. Halcyon's Response indicates that the City of Tucson's ("City" or "Tucson") "Water Policies" document, attached as Exhibit A to the Response, does not allow for the sale of City water to Halcyon on a wholesale basis as Halcyon has no Central Arizona Project water or other water source it could wheel through Tucson Water's system. The Applicant thus believes that taking wholesale water service from Tucson Water to meet the additional water demand Presidio represents is not a viable option. Staff has reviewed Applicant's Response and now agrees that taking wholesale water service from Tucson Water is not a viable option for Halcyon.

The Response indicates the City will provide a witness confirming the above. If the City witness confirms the above, Staff recommends approval of the deletion of a portion of Halcyon's CC&N as requested by the Applicant. Staff maintains its other recommendation contained in its May 23, 2014, Staff Report regarding Halcyon providing documentation of Arizona Department of Water Resources compliance.

With the change in Staff's position to recommending approval of the deletion, there is a question regarding how Presidio's \$100,000 payment to Halcyon under their settlement agreement should be treated. Staff believes these funds should be retained by Halcyon for the future benefit of the Company and its ratepayers as infrastructure and other needs arise. Staff recommends that Halcyon place these funds in an interest bearing account until such time as the Commission approves of their expenditure in a future rate case or other proceeding. This action will further the goal of maintaining the viability of Halcyon in the future.