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MEMORANDUM

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AZ CORR COMMISSION
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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

Date: October 6, 2003

RE: WILHOIT WATER COMPANY, INC. - APPLICATION FOR APPROVAL OF THE SALE OF ASSETS AND CANCELLATION OF A PORTION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY. (DOCKET NO. W-02065A-03-0490)

Attached is the Staff Report for Wilhoit Water Company, Inc.'s application for the Sale of Assets and Cancellation of a portion of its Certificate of Convenience and Necessity. Staff recommends approval of the sale of assets and cancellation of a portion of the Certificate of Convenience and Necessity.

EGJ:JEF1hml
Originator: Jim Fisher

Arizona Corporation Commission
DOCKETED

OCT 07 2003

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Service List for: Wilhoit Water Company, Inc.
Docket No. W-02065A-03-0490

Mr. Robert D. Conlin
Wilhoit Water Company, Inc.
Post Office Box 870
Clarkdale, Arizona 86324

Mr. Douglas G. Martin
Martin & Bell, L.L.C.
365 East Coronado Road, Suite 200
Phoenix, Arizona 85004

Ms. Carolyn Kusian Oberholtzer
Jorden, Bischoff, McGuire & Rose, P.L.C.
7572 East Indian School Road, Suite 205
Scottsdale, Arizona 85251

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

WILHOIT WATER COMPANY, INC.

APPLICATION FOR APPROVAL OF THE SALE
OF ASSETS AND CANCELLATION
OF A PORTION OF ITS CC&N

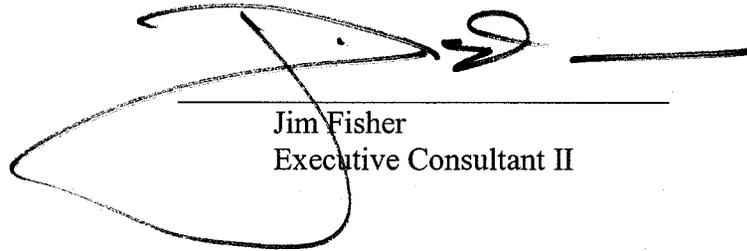
DOCKET NO. W-02065A-03-0490

September 2003

STAFF ACKNOWLEDGEMENT

The Staff Report for Wilhoit Water Company, Inc. (Docket No. W-02065A-03-0490) was the responsibility of the Staff member listed below. Jim Fisher was responsible for the review and analyses of the Company's application.

Contributing Staff:



Jim Fisher
Executive Consultant II

EXECUTIVE SUMMARY
WILHOIT WATER COMPANY, INC.
DOCKET NO. W-02065A-03-0490

On July 16, 2003, Wilhoit Water Company, Inc., ("Wilhoit" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval of the sale of assets to the City of Avondale, ("Avondale") and cancellation of a portion its Certificate of Convenience and Necessity ("CC&N").

Wilhoit is an Arizona C corporation authorized to provide water service to certain portions of Yavapai and Maricopa Counties near Chino Valley, Dewey, Wilhoit and Lake Pleasant. By this Application, Wilhoit is seeking Commission authorization to sell the Glenarm Farms system to the City of Avondale. On July 1, 2003, Wilhoit and Avondale signed a Purchase Agreement which provides that Avondale shall pay the Company \$350,000 for the Glenarm Farms' water system.

According to the application, customer deposits shall be returned to the appropriate customers prior to close of escrow. The Company states there are no refunds due on meter and service line installations. Wilhoit is to refund main extension agreements at the close of escrow.

According to Section 12.2 of the agreement, sale of the water system is affected by claims against the Company by the State of Arizona. The State of Arizona holds \$294,527.46 in certificates of purchase related to outstanding personal property taxes of the Company.

Staff recommends that the Commission approve Wilhoit's Application for the Sale and Transfer of Its Assets to the City of Avondale consistent with the following conditions:

1. That Wilhoit file with the Director of the Utilities Division evidence that the State of Arizona will be paid \$294,527.46 to satisfy the certificates of purchase related to outstanding personal property taxes of Wilhoit Water Company, Inc. and its owners before close of escrow, or within 30 days of any decision in this matter, whichever comes first.
2. That Wilhoit file a Backflow Prevention Tariff for each of its other operating systems within 60 days of any decision in this matter.
3. That Wilhoit file a Curtailment Tariff for each of its other operating systems within 60 days of any decision in this matter.

Staff further recommends that the Commission's Decision in this matter be considered null and void without further order from the Commission should Wilhoit fail to comply with the above conditions.

Staff further recommends that the Commission cancel Wilhoit's Glenarm Farms' CC&N subsequent to the closing of the sale and transfer of its assets to the City of Avondale.

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Introduction

On July 16, 2003, Wilhoit Water Company, Inc. ("Wilhoit" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval of the sale of assets to the City of Avondale, ("Avondale") and Cancellation of a portion its Certificate of Convenience and Necessity ("CC&N").

Background

Wilhoit is an Arizona C corporation authorized to provide water service to certain portions of Yavapai and Maricopa Counties pursuant to authority granted by the ACC. Wilhoit operates four separate systems which are located near Chino Valley, Dewey, Wilhoit and Lake Pleasant. The Company is currently serving approximately 410 customers. According to Wilhoit's last Annual Report to the ACC, the Company obtained \$155,105 in revenue, resulting in net loss of \$31,756. Wilhoit also reported that it paid no income or property taxes.

Wilhoit's current rates were authorized in Decision No. 58102 (December 9, 1992). The Company has not filed a Backflow Prevention Tariff or Curtailment Tariff in accordance with Commission policies.

By this Application Wilhoit is seeking Commission authorization to sell the Glenarm Farms system to the City of Avondale. Glenarm Farms is located near Lake Pleasant, in Maricopa County and serves 143 connections. In Decision No. 63153 (November 16, 2000), the Commission deleted 162 acres of Wilhoit's Glenarm Farms CC&N to facilitate a new development receiving service from the City of Peoria.

The Transaction

On July 1, 2003, Wilhoit and Avondale signed a Purchase Agreement which provides that Avondale shall pay the Company \$350,000 for the Glenarm Farms' water system. According to the agreement, \$24,900 was deposited as earnest money, and \$325,100 in cash or certified funds are to be paid at the time of closing. The parties agree that the escrow agent shall report the purchase for income tax purposes. At close of the transaction, the title to the assets will pass to Avondale.

Section 23 acknowledges that the Buyer is a municipal corporation and that the purchase and sale is entered into under threat of condemnation by Avondale. Wilhoit waives any and all relocation payments and appeal rights associated with this transaction.

According to Section K of the application, Wilhoit represents that \$463.11 in customer deposits shall be returned to the appropriate customers prior to close of escrow.

According to Section L of the application, Wilhoit represents that the Company currently has main extension agreement refunds due customers. Wilhoit further provides that the Company will make a full refund at close of escrow.

According to Section M of the application, Wilhoit represents that there are no refunds due on meter and service line installations.

According to Section 12.2 of the agreement, sale of the water system is affected by claims against the Company by the State of Arizona. The State of Arizona holds \$294,527.46 in certificates of purchase related to outstanding personal property taxes.

ACC Compliance

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

Maricopa County Environmental Services Department Compliance

Maricopa County Environmental Services Department Compliance ("MCESD") regulates the water system under Public Water System I.D. # 07-601. On August 26, 2003, MCESD reported that the system is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. MCESD also reported the system has monitoring deficiencies, but that no compliance or enforcement action is pending.

Recommendations

Staff recommends that the Commission approve Wilhoit Water Company, Inc.'s Application for the Sale and Transfer of Its Assets to the City of Avondale consistent with the following conditions:

1. That Wilhoit Water Company, Inc. file with the Director of the Utilities Division evidence that the State of Arizona will be paid \$294,527.46 to satisfy the certificates of purchase related to outstanding personal property taxes of Wilhoit Water Company, Inc. and its owners before close of escrow, or within 30 days of any decision in this matter, whichever comes first.
2. That Wilhoit Water Company, Inc. file a Backflow Prevention Tariff for each of its other operating systems within 60 days of any decision in this matter.
3. That Wilhoit Water Company, Inc. file a Curtailment Tariff for each of its other operating systems within 60 days of any decision in this matter.

Staff further recommends that the Commission's Decision in this matter be considered null and void without further order from the Commission should Wilhoit Water Company, Inc. fail to comply with the above conditions.

Wilhoit Lake Water Company, Inc.
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Staff further recommends that the Commission's Decision in this matter be considered null and void without further order from the Commission should Wilhoit Water Company, Inc. fail to comply with the above conditions.

Staff further recommends that the Commission cancel Wilhoit's Glenarm Farms' CC&N subsequent to the closing of the sale and transfer of its assets to the City of Avondale.