



0000039751

Transcript Exhibit(s)

Docket #(s): E-01824A-00-0504

Exhibit #: A17- A23, S-1

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

IN THE MATTER OF THE JOINT)
APPLICATION BETWEEN CONTINENTAL)
DIVIDE ELECTRIC COOPERATIVE, INC. AND)
THE NAVAJO TRIBAL UTILITY AUTHORITY)
FOR THE APPROVAL OF THE SALE OF)
ELECTRIC UTILITY PROPERTIES AND)
TRANSFER OF CERTIFICATE OF)
CONVENIENCE AND NECESSITY)

DOCKET NO. E-01824A-00-0504

SUPPLEMENTAL INDEX OF EXHIBITS

EXHIBIT 17	1964 Franchise Agreement
EXHIBIT 18	Extension of Franchise Approved by the Navajo Nation Council in July 1997
EXHIBIT 19	Letter Informing CDEC of Expiration of 1964 Franchise signed by Peter Deswood, dated December 15, 1989
EXHIBIT 20	Letter Exercising Option signed by Navajo Nation Interim President Leonard Haskie, dated December 8, 1989
EXHIBIT 21	Map of NTUA Facilities in Arizona, New Mexico and Utah
EXHIBIT 22	Duane Beyal's Affidavit of Publication of Public Notice
EXHIBIT 23	Map of New Lands

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A G R E E M E N T

THIS AGREEMENT made and entered into this 2nd day of April, 1964, by and between CONTINENTAL DIVIDE ELECTRIC COOPERATIVE, a New Mexico corporation, of Grants, New Mexico, herein called "Seller", and THE NAVAJO TRIBE OF INDIANS, Window Rock, Arizona, herein called "Buyer".

WITNESSETH: That Seller has agreed and does hereby agree to sell to Buyer, and Buyer has agreed and does hereby agree to purchase from Seller, the certain electric distribution lines and related facilities, hereinafter more particularly described, situate on Navajo Reservation, upon the following terms and conditions:

THE PROPERTY:

The property which is the subject of this Agreement, to be sold by Seller to Buyer, consists of all of the electric distribution lines and related facilities owned by Seller in the Fort Defiance, Window Rock, Twin Lakes, and Tohatchi areas, all being within the boundaries of the Navajo Reservation, as designated and shown on the following maps, to-wit:

Town Map	Company Map No.	Key and Detail Map No.
706	328	7-2
707	347	7-7
709	348	7-8
738	349	7-9
744	366	12-18
745	346	12-12
752	368	7-14
	386	12-24

A copy of said maps showing the location of the said facilities is attached to this agreement and made a part hereof.

EXCEPTION:

It is specifically understood and agreed that this Agreement does not cover the distribution lines and related facilities owned by the Cooperative on the Navajo Reservation described as follows:

LUPTON-HOUCK AREA

Beginning at a point on the Arizona-New Mexico State Line, the Southeast corner of Section 16, T 23 N, R 31 E, Apache County, Arizona; thence running West on section line common to Sections 16 & 21, 17 & 20 and 18 & 19 of said township and



range to the Southwest corner of Section 18; thence South along the range line common to R 30 and 31 E to the township line common to T 22 & 23 N; thence West along the township line common to T 22 & T 23 N, to the Southwest corner of Section 35, T 23 N, R 29 E; thence North along section line common to sections 34-35, 27-26, 22-23, 15-14, 10-11 and 3-2 of said township and range to the North township line; thence West along said township line to the Northwest corner of the township; thence South along the range line common to R 28 E and R 29 E to the township line common to T 22 N and T 23 N. Thence West along said township line to the Northwest corner of Section 1 T 22 N, R 28 E; thence South along the section line common to Sections 2-1, 11-12, and 14-13 to the corner common to sections 13-14-23 & 24 of said township; thence West along the section line common to Sections 14-23 and 15-22 to the corner common to Sections 15, 16, 21 & 22; thence South along the section line common to Sections 21-22, 28-27 and 33-34 to the South line of said township; thence West along the township line common to T 21 N & T 22 N, R 28 E to the Navajo Reservation Line; thence South and East along the existing reservation boundary to the Arizona-New Mexico State Line; thence North along the State Line to the point of beginning.

Area encompasses approximately 213 square miles.

STANDING ROCK AREA

Beginning at a point on the East Boundary of the Navajo Reservation approximately 15.5 miles North of the Southeast corner of said Navajo Reservation and being the protracted closing corner of the Southeast corner of Section 12, T 19 N, R 14 W, McKinlay County, New Mexico; thence running West along the protracted section lines common to Sections 12-13, 11-14, 10-15, 9-16, 8-17, and 7-18 to the range line common to range 14 West and R 15 W. Thence South along said range line to the South boundary of the Navajo Reservation; thence East along said boundary to the Southeast corner of the Reservation; thence North along the East boundary of said Reservation to the point of beginning.

Area contains approximately 63 square miles.

THE CONSIDERATION AND TERMS:

The agreed sale and purchase price of the facilities above described to be sold under this Agreement is the sum of \$429,000.00, to be paid in cash at the date of closing and upon delivery of a proper Bill of Sale therefor showing the property to be free and clear of liens and encumbrances. There shall be added to said sum the invoice cost of any construction or capital additions made in the area affected after May 1, 1963, less the value of plant retirement, from the system, from that date.

TITLE:

Seller warrants that it is the owner of the lines and related facilities above described, and that said property is free of all liens and encumbrances of whatsoever nature, excepting a mortgage to the Administrator of the Rural Electrification Administration, and that at time of closing Seller will deliver to Buyer a proper release of said mortgage as to the properties to be delivered hereunder.

EXISTING POWER CONTRACTS:

At the time of closing, Seller will assign and transfer to Buyer all power agreements and contracts which it may have at said time for the furnishing of electric service to consumers being served from said electric distribution lines, and Buyer agrees to accept said contracts and perform the obligations of Seller thereunder and to save and keep harmless the Seller from any further obligation or liability under said power agreements and contracts. Where electric service is being rendered to consumers on said lines under membership certificates, or without any specific agreement or contract for service, it is understood that Seller will, at the time of closing, furnish to Buyer a complete list of all consumers then being served from such distribution lines and will deliver to Buyer a copy of consumer meter records, together with the record of any current account payable for service rendered to consumers on said lines within thirty days prior to the date of transfer and closing, and Buyer agrees to remit to Seller any and all sums paid on such accounts for service furnished prior to date of transfer of the facilities.

FRANCHISE:

As a part of the consideration for this agreement, and by way of inducement to Seller to develop and extend service within the areas on the reservation hereinafter described, the Buyer hereby gives and grants unto Seller the exclusive franchise and right to furnish electric service for the term of twenty-five (25) years in the following described areas

on the Navajo Reservation, to-wit:

LUPTON-HOUCK AREA

Beginning at a point on the Arizona-New Mexico State Line, the Southeast corner of Section 16, T 23 N, R 31 E, Apache County, Arizona; thence running West on section line common to Sections 16 & 21, 17 & 20 and 18 & 19 of said township and range to the Southwest corner of Section 18; thence South along the range line common to R 30 and 31 E to the township line common to T 22 and 23 N; thence West along the township line common to T 22 & T 23 N, to the Southwest corner of Section 35, T 23 N, R 29 E; thence North along section line common to sections 34-35, 27-26, 22-23, 15-14, 10-11 and 3-2 of said township and range to the North township line; thence West along said township line to the Northwest corner of the township; thence South along the range line common to R 28 E and R 29 E to the township line common to T 22 N and T 23 N. Thence West along said township line to the Northwest corner of Section 1 T 22 N, R 28 E; thence South along the section line common to Sections 2-1, 11-12, and 14-13 to the corner common to sections 13-14-23 & 24 of said township; thence West along the section line common to Sections 14-23 and 15-22 to the corner common to Sections 15, 16, 21 & 22; thence South along the section line common to Sections 21-22, 28-27 and 33-34 to the South line of said township; thence West along the township line common to T 21 N & T 22 N, R 28 E to the Navajo Reservation Line; thence South and East along the existing reservation boundary to the Arizona-New Mexico State Line; thence North along the State Line to the point of beginning.

Area encompasses approximately 213 square miles.

STANDING ROCK AREA

Beginning at a point on the East Boundary of the Navajo Reservation approximately 15.5 miles North of the Southeast corner of said Navajo Reservation and being the protracted closing corner of the Southeast corner of Section 12, T 19 N, R 14 W, McKinley County, New Mexico; thence running West along the protracted section lines common to Sections 12-13, 11-14, 10-15, 9-16, 8-17, and 7-18 to the range line common to range 14 West and R 15 W. Thence South along said range line to the South boundary of the Navajo Reservation; thence East along said boundary to the Southeast corner of the Reservation; thence North along the East boundary of said Reservation to the point of beginning.

Area contains approximately 63 square miles..

Upon the expiration of the franchise given, the Navajo Tribe of Indians shall have the option to purchase all electric lines and facilities of Seller within said above described areas at such price and upon such terms to be negotiated by the parties at that time, PROVIDED, HOWEVER, that if the parties cannot agree within 180 days as to price and terms, the matter will be submitted to arbitration, each party to select one arbitrator

and they to select the third. The decision of the arbitrators shall be final and binding on both parties. It is understood and agreed, however, that in the event that the Navajo Tribe of Indians shall elect to purchase said distribution lines and facilities upon the termination of said franchise, or, if at any time during the franchise term the Cooperative makes written request therefor, the Tribe agrees to give and grant an easement to the Cooperative for a transmission or trunk feeder line across the reservation to serve that part of its system lying West and South of the Navajo Reservation in the States of New Mexico and Arizona.

CLOSING:

The closing of this transaction and the transfer of title and possession of the facilities shall be in not less than ninety (90) days from the effective date of this contract nor more than one hundred twenty (120) days from the effective date of this contract, the exact date to be mutually agreed upon and determined with a view to making an orderly transfer of the system, and to the end that there shall be no interruption in service to the consumers on said facilities.

APPROVAL OF ADMINISTRATOR:

It is understood that this Agreement shall be subject to the approval of the Administrator of the Rural Electrification Administration.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals this 2nd day of April, 1964.

ATTEST:

Millon Hardaway
Secretary

CONTINENTAL DIVIDE ELECTRIC COOPERATIVE, INC.

BY: D. L. Ramsey
President

THE NAVAJO TRIBE OF INDIANS

BY: Raymond Nakai
Chairman, Navajo Tribal Council

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FILE COPY

RESOLUTION OF THE
NAVAJO NATION COUNCIL

Approving An Extension Of Not More Than Three Years
To the Five-Year Franchise Granted To Continental
Divide Electric, Inc. Pursuant To Resolution CJY-32-92

WHEREAS:

1. The Navajo Nation Council is the governing body of the Navajo Nation, 2 N.N.C. §102(A); and
2. Continental Divide Electric Cooperative, Inc. (Continental Divide) owns and maintains an electric power distribution system serving the areas described in Exhibit "A" to the Franchise Agreement, attached hereto as Exhibit "AA"; and
3. The Navajo Tribal Utility Authority (the Authority), organized in 1960 to provide utilities to the Navajo Nation, is authorized by the Navajo Nation Council pursuant to Resolution CJY-32-92 to purchase Continental Divide's facilities and is negotiating with Continental Divide to purchase their facilities now serving the areas described in Exhibit "A" to the attached Franchise Agreement (Exhibit "AA"). The Authority and Continental Divide have entered into a Letter of Intent, a copy of which is attached hereto as Exhibit "BB"; and
4. The Authority is further negotiating with Continental Divide to purchase facilities now serving areas within the boundaries of the Navajo Indian Reservation at Sanders, Chambers and Navajo, Arizona, which is illustrated in attached Exhibit "CC"; and
5. The Five-Year Franchise will expire on September 23, 1997; and
6. The agreement for purchase of Continental Divide's facilities will require the approval of the Arizona Corporation Commission, the New Mexico Public Utility Commission, the Rural Utilities Service of the U.S. Department of Agriculture, and the Rural Utilities Cooperative Finance Corporation; and
7. The Economic Development Committee of the Navajo Nation Council and the Transportation and Community Development Committee of the Navajo Nation Council have both made recommendations to approve an extension of the Five-Year Franchise Granted to Continental Divide Electric Cooperative, Inc. to allow the parties to finalize the agreement for purchase of facilities and to obtain the necessary regulatory and lender approvals (Copies of the Economic Development Committee and the Transportation and Community Development resolutions are attached hereto as Exhibits "DD" and "EE"); and



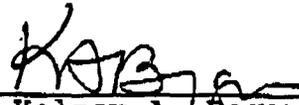
8. It is in the best interest of the Navajo Nation that the Five-Year Franchise granted Continental Divide by Resolution CJY-32-92 be extended for not more than three years with the purpose of facilitating the negotiations and required contract approvals.

NOW THEREFORE BE IT RESOLVED THAT:

The Navajo Nation Council hereby grants an extension of not more than three years to the Five-Year Franchise granted to Continental Divide Electric Cooperative, Inc., pursuant to Resolution CJY-32-92 on the same terms and conditions as set forth in the Franchise Agreement, attached hereto as Exhibit "AA". This Franchise Extension shall terminate upon conclusion of the purchase of Continental Divide Electric Cooperative, Inc., by NTUA.

CERTIFICATION

I hereby certify that the foregoing resolution was duly considered by the Navajo Nation Council at a duly called meeting at Window Rock, Navajo Nation (Arizona), at which a quorum was present and that same was passed by a vote of 60 in favor, 0 opposed and 0 abstained, this 23rd day of July 1997.

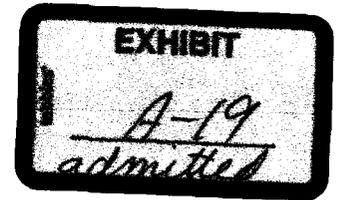


Kelsey A. Begaye, Speaker
Navajo Nation Council

7-25-97
Date Signed

Motion: Ernest Hubbell
Second: Leo Pino

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NAVAJO TRIBAL UTILITY AUTHORITY

AN ENTERPRISE OF THE NAVAJO TRIBE

December 15, 1989

Mr. Fred A. Lackey, Manager
Continental Divide Electric Cooperative, Inc.
P. O. Box 1087
Grants, New Mexico 87020

Dear Mr. Lackey:

Interim Chairman Leonard Haskie of the Navajo Tribal Council, in a letter dated December 8, 1989, advised Continental Divide Electric Cooperative, Inc. (CDEC) that the Navajo Nation was expressly exercising its Option to Purchase all of CDEC's electrical lines and facilities within the Navajo Indian Reservation, i.e., the Standing Rock area and the Lupton-Houck area, at such price and terms as shall be negotiated at the time of such sale. Your franchise granted by Resolution No. ACMY-82-64 by the Advisory Committee of the Navajo Tribal Council had expired on May 6, 1989, after a 26-year period.

The Navajo Nation and the Navajo Tribal Utility Authority recognized that a minimum of three years would be required to effectuate the transition and the buyout. Time will be required for information gathering, inventory of facilities, evaluation and negotiations. It is for such reasons that a renewal period of three years was advanced during which period CDEC would continue to operate and maintain its existing facilities.

Your October 17, 1989, letter stated certain terms and conditions with respect to the three year interim renewal period. In response to the matters set forth therein, it is the Nation's position that we have exercised the option provided in the Franchise Agreement. The Option is not being carried forward, and we do not expect an additional Option after the three year period. We do expect, however, to proceed with due good faith and diligence to complete the negotiation and the purchase of the electric lines and facilities within the three year period.

If, for reasons beyond the party's control, this is not achieved, we believe that there are legal and legislative remedies available to Continental to make your Corporation whole. Because of the damage which would be suffered by the citizens and consumers were such lines to be removed, we do not believe that that would be prudent.

If it becomes impossible for the Utility Authority to acquire all of Continental's Arizona facilities, and Continental is required to continue service to that part of the system line, west and south of the Reservation in Arizona, then the Tribe will undertake to grant an easement for the existing transmission line, subject to negotiation as to the price and terms.

Home Office:
P.O. Box 170
Fort Defiance, Arizona 86504
(602) 729-5721

District Office:
P.O. Box 37
Kayenta, Arizona 86033
(602) 697-3574

District Office:
P.O. Box 408
Tuba City, Arizona 86045
(602) 283-5421

District Office:
P.O. Box 1206
Shiprock, New Mexico 87420
(505) 368-4639

District Office:
P.O. Box 549
Chinle, Arizona 86503
(602) 674-5470

District Office:
P.O. Box 587
Fort Defiance, Arizona 86504
(602) 729-5721

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Mr. Fred A. Lackey

Page 2

December 15, 1989

In exception (b), Continental has indicated two possibilities for providing new services or construction in the area to be acquired. The Utility Authority is agreeable to working with Continental on either Option, however, inasmuch as the Option to Purchase has been exercised and ultimately the facilities will become NTUA's property, we believe it would be prudent to focus on the latter Option and have NTUA perform the construction subject to inspection by CDEC. Such facilities would, of course, be available during the "renewal period" free of any cost or liability for CDEC to provide electric service.

Lastly, the matter of the taxation issues will have to be resolved in consultation with the Tax Commission.

The Navajo Nation and the Navajo Tribal Utility Authority are pleased that Continental is willing to negotiate the potential sale or transmission of power and energy for NTUA at the border of the areas involved in the Option. Furthermore, both are confident that Continental's willingness to discuss potential sale of all facilities in Arizona, subject to adequate settlement of jurisdictional issues, maybe beneficial to all parties involved, consumers, regulators, Indians and Non-Indians. These matters will be the subject of separate concurrent discussions between the Utility Authority and your organization.

Since it is clear that The Nation has exercised the Option to purchase all the electrical lines and facilities within the franchised areas, it is The Nation and the Authority's understanding that the negotiations, with the exception of the taxation issue mentioned in your letter, will be discussed directly and negotiated with the Management of the Navajo Tribal Utility Authority. Any final approval will come from the appropriate committee of The Navajo Tribal Council.

We trust that this letter will enable you and the Authority to initiate necessary discussion to facilitate the negotiations.

Very truly yours,



Peter Deswood, Jr., Executive Director
Division of Natural Resources



Malcolm P. Dalton, General Manager
Navajo Tribal Utility Authority

PDJr/MPD/ms

cc: Mr. Walter F. Wolf, Jr.



THE NAVAJO NATION

LEONARD HASKIE
INTERIM CHAIRMAN
THE NAVAJO TRIBAL COUNCIL

IRVING BILLY
INTERIM VICE CHAIRMAN
THE NAVAJO TRIBAL COUNCIL

DEC - 8 1989

Fred Lackey, Manager
Continental Divide Electric Cooperative, Inc.
P.O. Box 1087
Grants, NM 87020

**RE: Navajo Nation's Intent to Exercise Its Option
to Purchase All Electric Facilities from
Continental Divide Electric Cooperative**

Dear Mr. Lackey:

Pursuant to our discussion on September 26, 1989, in Window Rock, Arizona, the Navajo Nation through its utility enterprise, the Navajo Tribal Utility Authority, hereby advises Continental Divide Electric Cooperative that it is expressly exercising its option to purchase all of CDEC's electrical lines and facilities within the Navajo Indian Reservation at such price and terms as shall be negotiated at the time of such sale. As you are aware, CDEC's franchise in the Standing Rock area in New Mexico and in the Lupton/Houck area in Arizona had expired on May 6, 1989 after the expiration of a twenty-five year franchise granted by Resolution (ACMY-82-64) of the Advisory Committee of the Navajo Tribal Council.

The Navajo Tribal Utility Authority is also interested in pursuing acquisition of your facilities on non-Indian owned land in a corridor running from Sanders to Navajo. Because of such private, fee patent lands within the exterior boundaries of the Navajo Reservation, there is uncertainty regarding regulatory jurisdiction of the Arizona Corporation Commission should NTUA acquire your facilities on private lands.



Mr. Fred Lackey
Page 2

DEC -8 1988

The Navajo Nation and the Navajo Tribal Utility Authority recognize that a minimum of three years will be required to effectuate the transition and the buyout. Time will be required for information gathering, inventory, evaluation, and negotiations. Additional time will be required to determine whether or not NTUA can assume the Certificate of Convenience and Necessity, if necessary, from the Arizona Corporation Commission without submitting to state jurisdiction.

In the meantime, while those issues are being discussed, it is desirable that CDEC continues to provide service to its existing and new customers. Your cooperation in a smooth and orderly transition is appreciated.

Sincerely yours,



Leonard Haskie
Interim Chairman
Navajo Tribal Council

LH/DCB/ah
E-L.660

xc: Malcolm P. Dalton, General Manager
Navajo Tribal Utility Authority

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

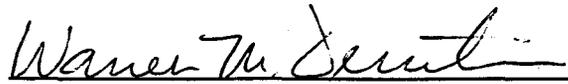
IN THE MATTER OF THE JOINT) DOCKET NO. E-01824A-00-0504
APPLICATION BETWEEN CONTINENTAL)
DIVIDE ELECTRIC COOPERATIVE, INC. AND)
THE NAVAJO TRIBAL UTILITY AUTHORITY)
FOR THE APPROVAL OF THE SALE OF)
ELECTRIC UTILITY PROPERTIES AND)
TRANSFER OF CERTIFICATE OF)
CONVENIENCE AND NECESSITY)

CERTIFICATE OF PUBLIC NOTICE OF HEARING

Applicant Continental Divide Electric Cooperative, Inc., through its undersigned counsel, files Certificate of Public Notice of Hearing in this matter.

The Affidavit of Duane Beyal, Managing Editor of the Navajo Times, is attached as proof of publication.

Respectfully submitted,



Warren M. Denetsosie, Esq.



AFFIDAVIT OF PUBLICATION

I, Duane A. Beyal, Managing Editor of the Navajo Times, a legal newspaper published weekly at Window Rock, Navajo Nation, Arizona, do hereby swear that a legal notice:
Public Notice of the Hearing of Continental Divide Electric

was published in said Navajo Times on the following date(s):
May 3, 2001

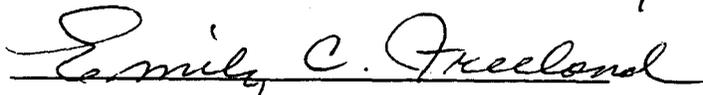
and that said notice is attached to this Affidavit and is a true and exact copy of said notice as published.


Duane A. Beyal
Managing Editor

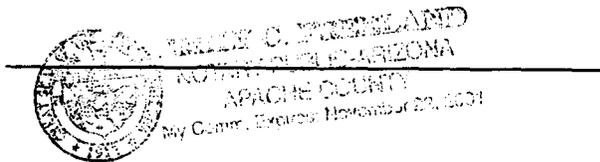
STATE OF ARIZONA :)
 :)
COUNTY OF APACHE :)

SUBSCRIBED AND SWORN TO before me this

14th day of May, 2001.


Notary Public

My Commission Expires:



Partners, 8881 East Via de
Negocio, Scottsdale, Arizona
85258-3330, from 8:00 a.m. until
5:00 p.m., Monday through Friday,
in accordance with Instructions to
Bidders, upon depositing the sum
of Fifty Dollars (\$50.00) per set to
guarantee return of each set of
Documents. The entire deposit will
be refunded upon return of the
Documents in good condition.

Contractors may purchase
drawings and specifications
by contacting the Architect.

Each Bid shall be accompanied
by a Certified Check, Cashiers
Check or Bid Bond in the amount
of ten (10%) percent of the bid,
made payable to the Kayenta
Community School, Inc. Such
Check or Bid Bond will be given
as a guarantee that Bidders will
enter into Contract, if awarded to
him, and provide a satisfactory
Performance and Payment Bond,
and shall be declared forfeited as
Liquidated Damages if the suc-
cessful Bidder refuses to enter into
the said Contract after being re-
quested to do so by the Kayenta
Community School, Inc. Such
Check or Bid Bond will be returned
to the respective unsuccessful Bid-
ders upon award of the Contract
and to the successful Bidder on
execution and delivery of satisfac-
tory one hundred (100%) percent
Surety Company Performance and
Payment Bonds.

The work to be performed pur-
suant to this Invitation for Bid will
be funded in part by grants from
federal agencies; therefore, any
and all contracts awarded relative
to this invitation for bid shall con-
tain provisions required by Fed-
eral, and Navajo Law and Ordi-
nances to include, but not be lim-
ited to those required by the Davis
Bacon Act (U.S.C. 76(A) / Prevail-
ing Wage), the Navajo Preference
and Employment Act, The Navajo
Business Preference Act and 43
C.F.R., 12.76, amendments
and statutes referenced
herein.

Kayenta Community School,
Inc., encourages local Navajo, In-
dian, minority and women's firms
and business enterprises to sub-
mit bids under this invitation for bid
and further affirms its commitments
to use said local Navajo, Indian, mi-
nority and women's firms and business
enterprises when possible and as may
be required by applicable law. Except
for the above noted conditions, all bid-
ders will receive consideration without
regard to race, color, sex, religion, sex,
or national origin.

Contracts will be awarded to the
lowest responsible and responsive
Bidder whose Bid conforms in all ma-
terial respects to the requirements and
criteria set forth in this Invitation to Bid.
The selection criteria are specified in
the Instructions to Bidders. Navajo
area business preference.

The Owner reserves the right to
reject any or all bids, to waive infor-
malities or irregularities in the bidding,
and to withhold the award for any
sound, documented reason the Owner
determines.

Mr. Kernald Smallcanyon, Project
Manager, Kayenta Community
School, Inc., Post Office Box 188, 1000
Main Street, Kayenta, Arizona 86033.
To be Published in The NAVAJO
TIMES April 26 and May 3, 2001.

IN THE PEACEMAKING
DIVISION OF THE
NAVAJO NATION
JUDICIAL DISTRICT OF
CHINLE, ARIZONA
Matter of Transfer of
HOMESITE LEASE NO.

District 10;
Issued to: Joan Dick, C#114229
and George B. Dick, C#68130,
DOD: 05/05/96;
(Deceased)
No. CH-PM-061-01

LEGAL NOTICE
To all Heirs, Claimants and other
Interested Parties:

Year correspond to the proposed dis-
tribution by the beginning of the ses-
2001. #215, Navajo Inn Office Com-
plex in Window Rock, Arizona until

PUBLIC NOTICE OF THE HEARING OF CONTINENTAL DIVIDE ELECTRIC COOPERATIVE, INC. FOR PERMISSION TO TRANSFER ITS ELECTRIC TRANSMISSION AND DISTRIBUTION ASSETS IN THE STATE OF ARIZONA TO THE NAVAJO TRIBAL UTILITY AUTHORITY

On July 14, 2000, Continental Divide Electric Cooperative (CDEC), in Docket No. E-01824A-00-0504, filed a joint application for the sale of its electric transmission and distribution systems in the State of Arizona to the Navajo Tribal Utility Authority (NTUA).

The Arizona Corporation Commission will hold a hearing on this matter commencing on June 4, 2001, at 9:00 a.m. at the Commission's offices, 1200 West Washington Street, Phoenix, Arizona. Public comments will be taken on the first day of the hearing.

The law provides for an open public hearing in this proceeding. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission, which motion should be sent to the Applicants or their counsel and to all parties of record, and which, at the minimum, shall contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made, if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of Applicants, a shareholder of Applicants, a competitor, etc.).
3. A statement certifying that a copy of the motion to intervene has been mailed to the Applicants or their counsel and to all parties of record in the case.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before May 25, 2001. The granting of intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any customer from appearing at the hearing and making a statement on such customer's own behalf.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Shelly Hood, ADA Coordinator, voice phone number 602/542-3931. E-mail shood@cc.state.az.us. Request should be made as early as possible to allow time to arrange the accommodation.

Motions to intervene must be filed with the Arizona Corporation Commission at 1200 West Washington Street, Phoenix, AZ 85007. A copy of the motion must also be mailed to the following individuals: Louis Denetsosie, Esq., P.O. Box 2544, Window Rock, AZ 86515; Dennis Francish, Esq., 5400 Lomas, N.E., Albuquerque, N.M. 87110.

To be Published in The NAVAJO TIMES May 3, 2001.

CONTACT: Human Resources De-
fined School District No. 27, P.O.
86033-0337, 520-697-2009
stsosie@kayenta.k12.az.us.
Equal Opportunity/Navajo/Veteran

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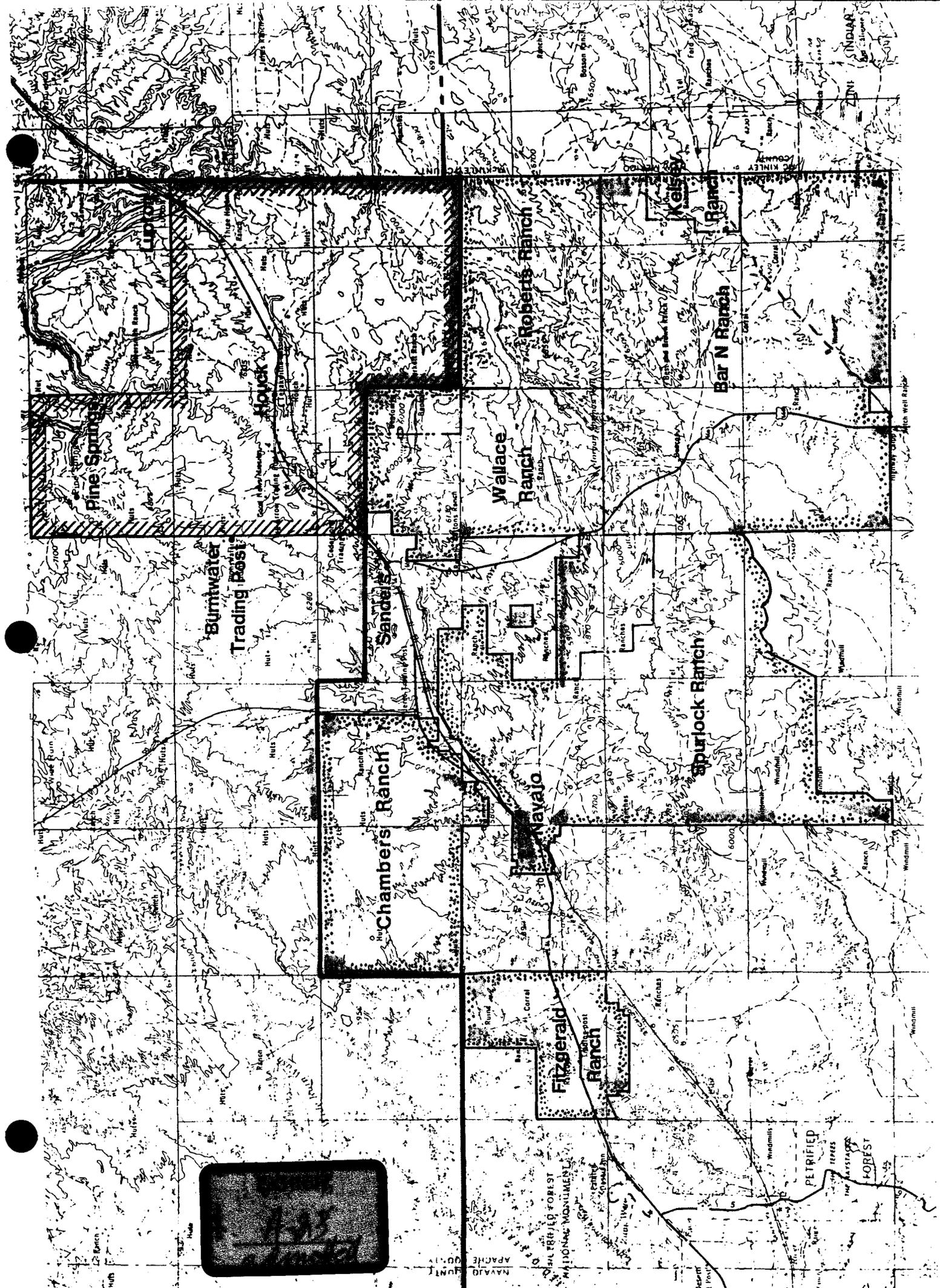
**NOTICE OF INTENT TO
UNAUTHORIZED**
On March 29, 2001, Bureau
of Land Management officials
impounded the following live
451, Hopi Partitioned Lands.
PALAMINO STUDD 2
DUNN GELDING -N
BAY STUDD -N
This impoundment was in ac-
cordance with procedures in 25
CFR Part 168.16. These animals
are redeemable upon payment of
ownership and payment of im-
poundment fees as prescribed
and 25 CFR 168.16.
If not redeemed, these anima-
ls will be sold at public auc-
tion, at Valley Livestock
Market, Phoenix, Arizona. The
sales will be on Wednesday
after publication of this notice.
Costs for newspaper will be ad-
vised and sent to the publisher.
To be Published in The NAVAJO
TIMES

**REQUEST FOR PROPOSALS
ARCHITECTURAL AND ENGINEERING**
The Navajo Housing Authority (NHA)
is seeking proposals for Architectural and Engineering (A/E) firms registered in the State of Arizona for the renovation and replacement of 41 housing units listed in the table below.

Project No.	No. Of Units
NM15-34	25 HO
NM15-33	15 HO
NM05-01	20 HO
NM15-38	38 HO
AZ12-104	20 HO
AZ12-89-1	19 HO
AZ12-89-2	29 HO
AZ12-90-2	23 HO
NM15-62-1	18 HO
TOTAL:	207 HO

Attention is called to the fact that the qualified Indian organizations, Indian-owned and contract will be awarded in accordance with 25 CFR 168.16 and 1000.52(d)(1)(ii). Each interested firm should submit a completed "Indian Enterprise Certification" form to establish their qualifications as an Indian-owned or Indian organization.
General services will consist of site review, design and specifications, preparation of bid documents, administration and inspection of construction, and warranty requirements. Copies of proposal form can be obtained from: Mr. Mike Denetsosie, Project Manager, NHA - Construction, Box 1579, Ft. Defiance, Arizona 86504.
Proposals will be received until 3:00 p.m. at the above address. Telefaxed proposals will not be accepted.
NHA reserves the right to reject any proposal for any reason, including but not limited to, informality whenever such rejection or rejection is in the best interest of the Navajo Housing Authority.
To be Published in The NAVAJO TIMES

23





**ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION**



**DIRECT
TESTIMONY
OF
JOEL M. REIKER
DOCKET NO. E-01824A-00-0504**

April 5, 2001

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

IN THE MATTER OF THE JOINT)
APPLICATION BETWEEN CONTINENTAL)
DIVIDE ELECTRIC COOPERATIVE, INC. AND)
THE NAVAJO TRIBAL UTILITY AUTHORITY)
FOR THE APPROVAL OF THE SALE OF)
ELECTRIC UTILITY PROPERTIES AND)
TRANSFER OF CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO. E-01824A-00-0504

DIRECT

TESTIMONY

OF

JOEL REIKER

SENIOR RATE ANALYST

UTILITIES DIVISION

April 5, 2001

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EXECUTIVE SUMMARY
CONTINENTAL DIVIDE ELECTRIC COOPERATIVE, INC.
NAVAJO TRIBAL UTILITY AUTHORITY
DOCKET NO. E-01824A-00-0504
SALE OF ASSETS AND
TRANSFER OF CC&N

JOEL M. REIKER

On July 14, 2000, Continental Divide Electric Cooperative ("Continental") and the Navajo Tribal Utility Authority ("Utility Authority") filed an application with the Commission requesting approval of the sale of certain electric utility properties in Arizona and the transfer of the Certificate of Convenience and Necessity ("CC&N") from Continental to the Utility Authority.

Continental is a New Mexico-based electric distribution cooperative, which provides electric service to New Mexico and Arizona members. The Utility Authority is a Navajo Tribal entity located in Fort Defiance, Arizona. The Utility Authority provides electric, gas, water, and wastewater utility services to the Navajo Nation. The Utility Authority is not subject to Commission regulation.

On April 13, 2000, Continental and the Utility Authority entered into an agreement under which the Utility Authority will acquire Continental's electric transmission and distribution systems in the state of Arizona and attendant CC&N. The purchase price of the assets is \$2,300,000, compared to a book value of approximately \$2,113,163.

Staff believes that the Utility Authority is a fit and proper entity to assume the CC&N currently held by Continental and the transfer is in the public interest.

Staff recommends that the proposed sale of assets and transfer of the CC&N be approved, subject to a hearing.

1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My name is Joel M. Reiker. I am a Senior Rate Analyst employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division. My
5 business address is 1200 West Washington, Phoenix, Arizona 85007.

6
7 Q. Briefly describe your responsibilities as a Senior Rate Analyst.

8 A. In my capacity as a Senior Rate Analyst, I provide recommendations to the Commission
9 on mergers, acquisitions, financing and sales of assets. I also perform studies to estimate
10 the cost of capital for utilities that are seeking rate relief.

11
12 Q. Please describe your educational background and professional experience.

13 A. In 1998, I graduated Cum Laude from Arizona State University, receiving a Bachelor of
14 Science degree in Global Business with a specialization in Finance. My course of studies
15 included classes in corporate and international finance, investments, accounting, and
16 economics. In 1999, after working as an internal auditor for one year, I was employed by
17 the Commission as an Auditor III in the Accounting & Rates Section's Financial
18 Analysis Unit. Since that time, I have attended various seminars and classes on general
19 regulatory and business issues, including cost of capital and energy derivatives. In
20 December of 2000, I was promoted to a Senior Rate Analyst.

21
22 Q. What is the purpose of your testimony?

23 A. The purpose of my testimony is to present Staff's analysis and recommendations
24 regarding the proposed sale of certain electric utility properties in Arizona and the
25 transfer of the Certificate of Convenience and Necessity ("CC&N") from Continental
26 Divide Electric Cooperative ("Continental") to the Navajo Tribal Utility Authority
27 ("Utility Authority"), and to provide a recommendation to the Commission.

28

1 Q. Was this testimony prepared by you or at your direction?

2 A. Yes.

3

4 Q. Upon what standards are you basing your recommendations?

5 A. Utility Authority must be found to be a fit and proper entity to receive the CC&N of
6 Continental and the transfer of Continental's electric assets in Arizona must be in the
7 public interest.

8

9 **SUMMARY OF THE TRANSACTION**

10 Q. Please describe the joint application of Continental and Utility Authority.

11 A. On April 13, 2000, Continental and Utility Authority entered into a definitive agreement
12 of purchase and sale ("AGREEMENT") under which Utility Authority will acquire
13 Continental's electric transmission and distribution systems in the state of Arizona and
14 attendant CC&N. Continental currently serves approximately 1,487 customers in Apache
15 County, Arizona, and approximately 25,000 system wide.

16

17 The purchase price of the assets is \$2,300,000, compared to a book value of
18 approximately \$2,113,163.

19

20 Q. Why is Utility Authority purchasing the Continental properties?

21 A. According to responses to Staff's data requests, Utility Authority is purchasing the
22 Continental properties in order to carry out the purposes in its plan of operation, which is
23 to provide electric, gas, and water/wastewater utility services to the Navajo Nation.

24 ...

25 ...

26 ...

27 ...

28 ...

1 Q. Specifically, what assets will be transferred to Utility Authority?

2 A. The application seeks authority to transfer all of Continental's electric assets located in
3 Arizona to Utility Authority. Specifically, these include:

- 4 -38 miles of 69kV line
- 5 -172 miles of single-phase distribution line
- 6 -98 miles of three-phase distribution line
- 7 -.517 acre substation fenced site, 1.15 acre total site
- 8 -Power transformer, 7.5mVA
- 9 -45 various breakers (including substation)

10 Q. How does Utility Authority intend to finance the proposed acquisition?

11 A. According to Utility Authority, it will pay for the acquisition out of its general funds. I
12 will provide a detailed financial analysis of Utility Authority later in my testimony.

13 **PARTIES TO THE TRANSACTION**

14 Q. Please provide a brief description of Continental.

15 A. Continental is a New Mexico-based electric distribution cooperative, which provides
16 electric service to New Mexico and Arizona customers. Continental currently serves
17 approximately 25,000 customers, 1,487, or approximately 6.0 percent of, which are
18 located in Arizona. The divisional office serving Arizona customers is located in Gallup,
19 New Mexico.

20 Q. Why is Continental selling its electric transmission and distribution systems in Arizona?

21 A. Continental provides electric transmission and distribution service on portions of the
22 Navajo Reservation. In accordance with its twenty-five year Franchise Agreement with
23 the Navajo Nation signed in 1964, the terms of the 1964 Franchise Agreement granted
24 Continental rights-of-way for a term of 25 years. Upon expiration of the Franchise, the
25 Navajo Nation had the option to purchase Continental's lines and facilities located on the
26 Reservation. The Navajo Nation exercised its option to purchase the assets pursuant to
27 the 1964 Franchise, but negotiations for the purchase and sale were not completed prior
28 to the expiration of the Franchise. Continental and the Navajo Nation entered into

1 another Franchise Agreement in 1992, which allowed Continental to continue to provide
2 electric service on an interim basis. On December 28, 1994, the Navajo Nation notified
3 Continental that it was exercising its option to purchase the Continental properties, and
4 that Utility Authority would act as its agent to negotiate and purchase these electrical
5 facilities. On April 13, 2000, an agreement for the transfer was finally reached.

6
7 Q. Please provide a brief description of Utility Authority.

8 A. Utility Authority was formed in 1965 by the Navajo Nation, a federally recognized Indian
9 Tribe. Its principal office is located in Fort Defiance, Arizona, with five district offices
10 located in Fort Defiance, Chinle, and Kayenta, Arizona, and Shiprock and Crownpoint,
11 New Mexico. Utility Authority provides electric, gas, water, and wastewater utility
12 services to the Navajo Nation. Utility Authority's service area covers approximately
13 25,000 square miles within the Navajo Indian Reservation in Arizona, New Mexico, and
14 Utah. At the end of 1999, Utility Authority had approximately 500 employees with
15 approximately 31,000 electric customers, 7,000 gas customers, and 26,000
16 water/wastewater customers.

17
18 Utility Authority is not subject to regulation by the Commission. Instead, its operations
19 on tribal land are subject to regulation by tribal law, and are limited by the Navajo Nation
20 Council to providing public utility services.

21
22 **Rates**

23 Q. What rates is Continental currently charging for residential service?

24 A. Continental currently charges a monthly system/service charge of \$5.00 plus \$0.07680
25 per kilowatt-hour ("kWh"). Continental's average residential customer uses
26 approximately 372 kWh per month, resulting in an average monthly residential bill of
27 \$33.57.

1 Q. How do Continental's current rates compare to the rates of Utility Authority?

2 A. According to tariff schedules provided by Utility Authority, it charges a system/service
3 charge of \$3.00 plus \$0.0660 per kWh. The monthly bill for 372 kWh under Utility
4 Authority's rates is \$29.55.

5
6 Q. Are these the same rates Utility Authority plans to charge after it acquires the Continental
7 electric system?

8 A. Yes. Utility Authority plans to charge these rates to the former Continental customers.
9 The new rates reflect a decrease of \$4.02 per month or 12 percent for the average
10 residential usage.

11
12 Q. Does Utility Authority plan to adjust electric rates in the Continental service area in the
13 next three years?

14 A. No. According to Staff data response JMR-2;

15 Use reference from data response

16 "Utility Authority does not plan to increase its electric rates during the
17 next three years. Utility Authority has a purchase power agreement
18 through at least 2003, with Tucson Electric Power Company which will
19 have the effect of maintaining Utility Authority's cost of power,
20 therefore, Utility Authority will not be increasing its rates."

21 **Service Changes**

22 Q. What will the new electric division be called?

23 A. Utility Authority anticipates that it will use the name "Navajo Tribal Utility Authority" in
24 operating the Continental properties.

25 Q. How will Utility Authority staff and operate the Continental properties?

26 A. Utility Authority will not be hiring or using Continental's employees to operate the newly
27 acquired system but will use personnel already located at its Ft. Defiance, Arizona district
28

1 office. These employees currently provide water and wastewater service to parts of the
2 areas being acquired.

3
4 The Ft. Defiance office will house a line crew, which will respond to outages and
5 perform normal operation and maintenance on the acquired system. The Ft. Defiance
6 crew is 15 miles closer to the service area than the current Continental service crew
7 located in Gallup, New Mexico, 40 miles to the east, and should result in a reduction in
8 response time to outages.

9
10 Q. Will Utility Authority eliminate any maintenance or customer services offices after the
11 proposed transaction is complete?

12 A. Utility Authority does not plan to eliminate any maintenance or customer services offices
13 and is considering opening a sub-office in Sanders.

14
15 Q. Will customers experience any loss of existing services?

16 A. Utility Authority asserts that the customers of Continental will suffer no loss of existing
17 services and expects that response time and the quality of service should be equal or
18 better than the service currently provided by Continental. Further, Utility Authority will
19 combine electric, water and wastewater bills on one billing statement.

20
21 **Security Deposits**

22 Q. How will customer obligations such as security deposits be affected by the transaction?

23 A. According to Continental, security deposits on the account of any Arizona Continental
24 members will be applied to the final bill from Continental and any credit balances will be
25 refunded by Continental to the customer.

26
27 Utility Authority has stated that customers of Continental existing at the time of the close
28 of the transaction will not be required to pay any fees to Utility Authority. Any new

1 customers of Utility Authority added after the close of the transaction will be subject to
2 the normal deposits and connection fees charged to all new customers.

3
4 **Capital Credit Balances**

5 Q. What affect will the proposed transaction have on the Capital Credit balances of
6 Continental's Arizona members?

7 A. According to Continental, "the Capital Credits will continue to be retired on a 20-year
8 cycle as approved annually by the Board of Trustees".

9
10 Q. Please discuss capital credits and how a cooperative's member-owned structure is
11 different from a corporate, investor-owned structure?

12 A. Under the cooperative structure, net margins from operations are used either to improve
13 and maintain the utility's assets or to pay out to members as Capital Credit refunds.
14 Members of the cooperative receive Capital Credits based on the amount of electricity
15 they purchased.

16
17 The current Arizona members of Continental will continue to receive Capital Credits
18 after the close of the proposed transaction. Continental retires its capital credits on a
19 twenty year rotation cycle. For example, if the sale of Continental's Arizona assets is
20 finalized in 2001 and the Arizona members' accounts are terminated in 2001, the current
21 Arizona members will receive Capital Credit disbursements in the year 2021, for their
22 usage in 2001.

23
24 Q. Is Utility Authority projecting any reduction in overhead expense or savings as a result of
25 the acquisition?

26 A. According to Utility Authority, no immediate synergies or decreases in overhead
27 expenses will be realized by Utility Authority as a result of the transaction. The
28 customers will be the main beneficiaries of the acquisition because rates will be lower,

1 there will be potentially faster response times when outages occur and the electric, water
2 and wastewater bills will be on one statement. Further, because Utility Authority will
3 provide various utility services, the affected customers may eventually benefit from the
4 effects of economies of scale.

5
6 **Customer Service and Reliability**

7
8 Q. Has either Continental or Utility Authority provided public notice of their application?

9 A. Yes. Public notice of the application was published in the October 26, 2000, edition of
10 *The Navajo Times*, and the October 25 & 28, 2000 editions of *The Independent*.

11
12 Q. Please discuss the quality of service provided by Continental in Arizona.

13 A. Continental does not track the System Average Interruption Frequency Index ("SAIFI"),
14 which is the average number of times a customer's service is interrupted. However,
15 Continental has provided the system average outage time for Arizona, which was 0.211
16 hours in 1999, and ranged from 0.001 hours to 0.993 hours in the previous five years.

17
18 Q. Has the Consumer Services Section of the Commission received any complaints
19 regarding Continental in the past two years?

20 A. No. The Consumer Services Section of the Commission has received no complaints
21 regarding Continental in the past two years.

22
23 Q. Please discuss quality of service and complaints filed against Utility Authority.

24 A. Because Utility Authority is not regulated by the Commission, there is no record of
25 formal complaints filed against the utility. However, Utility Authority has indicated that
26 it has no formal complaints pending. According to Utility Authority, most complaints are
27 handled directly by the billing clerks. If the customer seeks further resolution, appeal
28

1 may be made to the District Manager, then to the General Manager and finally to Utility
2 Authority Management Board.

3
4 Utility Authority also does not track SAIFI, but has provided its system average outage
5 time for the previous five years. In 1999, Utility Authority's system average outage time
6 was 3.08 hours, and ranged from 2.93 hours to 4.46 hours in the previous five years, all
7 below the RUS guideline of 5.0 hours.

8
9 Q. What action is Utility Authority taking in order to facilitate a smooth and orderly
10 transition for the customers that are presently being served by Continental?

11 A. Utility Authority held a series of community meetings throughout October and November
12 in the affected areas to explain various issues and answer all questions from current
13 Continental customers. Utility Authority provided staff with an outline of its
14 presentation, as well as copies of materials distributed. Some of the materials provided at
15 the meetings include information on the following:

- 16 1) Utility Authority's Budget Payment Plan
- 17 2) Current rates
- 18 3) Utility Discount Program for Senior Citizens
- 19 4) Life-Support Care
- 20 5) Safety
- 21 6) Energy conservation
- 22 7) Utility service requests

23
24 **Regulatory Experience**

25 Q. Is Utility Authority currently subject to rate regulation by the Commission?

26 A. No. Because Utility Authority is a Navajo Tribal entity, it is not subject to rate regulation
27 by the Commission. Thus, after the close of the proposed transaction, the properties
28

1 being purchased by Utility Authority will no longer be subject to regulation by the
2 Commission.

3

4 Q. Are there any governmental/regulatory agencies that oversee the operations of Utility
5 Authority?

6 A. Yes, According to responses to Staff's data requests, the following agencies oversee the
7 various operations of Utility Authority:

8

9 1) The Government Services Committee of the Navajo Nation Council exercises
10 oversight over Utility Authority. Oversight includes appointment of Management
11 Board members, recommending amendments to the Plan of Operation, receipt of
12 reports on operations and finances, and approval of procedures for appeal of rate
13 decisions.

14

15 2) The Budget and Finance Committee of the Navajo Nation Council receives financial
16 and annual reports from and has authority to order an audit of Utility Authority.

17

18 3) The Office of Navajo Labor Relations has responsibility for enforcement of Navajo
19 preference in employment laws. The Commerce Department of the Division of
20 Economic Development-Navajo Nation has responsibility for enforcement of Navajo
21 preference in contracting laws applicable to Tribal agencies and departments,
22 including Utility Authority.

23

24 4) The Rural Utilities Service ("RUS") of the U. S. Department of Agriculture extends
25 loans for rural electrification to Utility Authority and, as a consequence, Utility
26 Authority is subject to the rules and regulations of the RUS. Projects that are built
27 with federal financial assistance are subject to federal procurement laws.

28

1 5) The Navajo Nation Environmental Protection Agency ("NNEPA") enforces
2 environmental, health and safety laws and Utility Authority is subject to its
3 jurisdiction.

4
5 6) The Navajo Nation Council recently established a Navajo Nation Occupation Safety
6 and Health Act and Utility Authority is subject to this Act, enforced by NNEPA.

7
8 Q. How will electric restructuring affect Utility Authority's electric operations in Arizona?

9 A. According to Utility Authority, the utility has no immediate plans to participate in
10 restructuring or competition.

11
12 **Capital Expenditures**

13 Q. Was Continental anticipating any significant capital expenditures in Arizona in the near
14 future?

15 A. No. According to Continental, its present Work Plan does not include any projects in
16 Arizona between 2000 and 2002.

17
18 Q. Has Utility Authority generated any capital budgets for the Continental properties it will
19 be acquiring?

20 A. Not yet. Utility Authority has stated that it will consider its own capital budgets for the
21 area after the acquisition has been completed.

22
23 **Utility Authority's Financial Capability**

24 Q. Please discuss Utility Authority's overall financial capability.

25 A. Utility Authority has provided copies of the Independent Auditors Report prepared by
26 KPMG for 1999, as well as Utility Authority's RUS Form 7 reports for its electric
27 operations for the previous five years. Exhibit JMR-1 shows Utility Authority's income
28 statement and balance sheets for the years 1998 and 1999. It can be seen from the exhibit

1 that Utility Authority had a times interest earned ratio ("TIER") of 2.50 and 1.59 in 1998
2 and 1999, respectively. The TIER measures the number of times earnings will cover
3 interest payments. Generally, a TIER of at least 1.50 is preferred.

4
5 Utility Authority's current ratio, calculated by dividing current assets by current
6 liabilities, was 1.39 in 1999. This ratio indicates the extent to which current liabilities are
7 covered by those assets expected to be converted to cash in the near future. A current
8 ratio above 1.0 indicates the ability to meet current liabilities in times of distress.

9
10 Total equity for 1999 was \$119,840,357, up \$5,460,753 from the previous year, and
11 comprised approximately 79 percent of total capital. Long-term debt excluding the
12 current portion totaled \$32,001,684, comprising approximately 21 percent of total capital.
13 This capital structure represents little financial risk, and is consistent with sound financial
14 health. The majority of Utility Authority's long-term debt is with the Rural Utilities
15 Service ("RUS") and National Rural Utilities Cooperative Finance Corporation ("CFC")
16 at favorable interest rates. Thus, the Authority has a proven ability to attract reasonably-
17 priced capital.

18
19 Q. In your opinion is Utility Authority financially capable of acquiring Continental's electric
20 assets in Arizona?

21 A. Based on Utility Authority's audited financial statements, I believe that it is financially
22 sound and capable of acquiring and operating Continental's electric assets in Arizona.

23
24 **Conclusion and Recommendation**

25 Q. Does Staff recommend approval of the proposed sale of assets and transfer of the CC&N
26 from Continental to Utility Authority?

27 A. Utility Authority has 35 years of experience providing utility service to portions Arizona,
28 New Mexico, and Utah. Staff believes that in addition to lower rates, the current

1 customers of Continental may experience other benefits as a result of the transaction,
2 such as faster response times when outages occur and the convenience of receiving
3 electric, water, and wastewater bills on the same statement.

4
5 Staff believes that, from a technical and operational standpoint, the customers in the
6 affected service areas will not be adversely affected by the proposed sale and transfer of
7 the assets and CC&N. Staff believes that Utility Authority is financially sound and has
8 the financial capability of providing service to the current Arizona customers of
9 Continental. Further, Staff believes that the customers may ultimately benefit from
10 reduced administrative and overhead costs resulting from economies of scale.

11
12 Staff believes that Utility Authority is a fit and proper entity to assume the CC&N
13 currently held by Continental and the transfers are in the public interest.

14
15 Staff recommends that the proposed sale of assets should be approved, subject to a
16 hearing.

17
18 Q. Does this conclude your direct testimony?

19 A. Yes, it does.
20
21
22
23
24
25
26
27
28