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ARIZONA CORPORATION COMMISSION
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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

Date: June 19, 2002

RE: ST. DAVID WATER ASSOCIATION, APPLICATION FOR THE SALE OF
ASSETS AND CANCELATION ITS CERTIFICATE OF CONVENIENCE
AND NECESSITY TO ST. DAVID WATER IMPROVEMENT DISTRICT
(W-02084A-02-0314)

Attached is the Staff Report for St. David Water Association application for the Sale of its Assets and Cancellation of the Certificate of Convenience and Necessity to St. David Water Improvement District. Staff recommends approval.

Originator: Jim Fisher

Attachment: Original and Eleven Copies

EGJ:JEF:nms

Arizona Corporation Commission

DOCKETED

JUN 19 2002

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Service List for: St. David Water Association
Docket Nos. W-04107A-02-0314 and W-02084A-02-0314

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ST. DAVID WATER ASSOCIATION

APPLICATION FOR THE
TRANSFER OF ITS ASSETS
AND CANCELLATION
OF THE CERTIFICATE OF
CONVENIENCE AND NECESSITY

DOCKET NOS. W-04107A-02-0314 AND W-02084A-02-0314

JUNE 2002

**EXECUTIVE SUMMARY
ST. DAVID WATER ASSOCIATION
DOCKET NOS. W- W-04107A-02-0314
AND W-02084A-02-0314**

St. David Water Association, (“Association”) and St. David Water Improvement District (“District”) collectively, (“Applicants”) filed an application with the Arizona Corporation Commission (“ACC”) requesting approval for the sale of Association’s assets and cancellation of the Certificate of Convenience and Necessity (“CC&N”).

The Association is an Arizona cooperative currently serving 392 customers in and around the community of St. David, approximately seven miles southeast of Benson. The District is a newly established political subdivision of Cochise County, Arizona. Currently the Association has two other pending applications with the ACC; one for rate relief, the other for financing authority.

The Association is a non-profit corporation, whereas the District will be a municipal corporation. The District will not be required to pay property tax, which is currently equal to approximately 16 percent of the Association’s revenue. The proposed sale of the Association’s assets to the District will result in the organization obtaining additional financial flexibility as well as greater access to lower cost capital to finance facilities to meet the needs of the community.

The Association will transfer all security deposits to the District for refund pursuant to the existing terms and conditions. The District will also assume the refunding obligations of all outstanding main extension agreements.

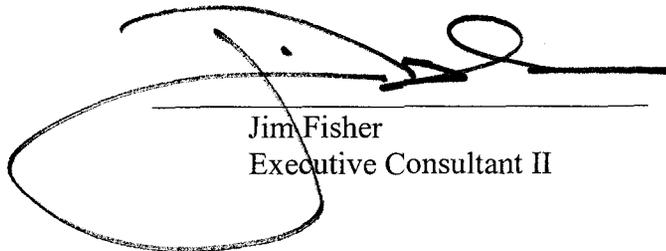
The Association is currently out of compliance with the Arizona Department of Environmental Quality (“ADEQ”) for failure to test for nitrate contamination. The Association has recently submitted the required nitrate samples to ADEQ, which indicate nitrate levels well within the applicable standard.

Staff recommends the Commission approve the St. David Water Association and St. David Water Improvement District application for the sale of Association’s assets and cancellation of the Certificate of Convenience and Necessity.

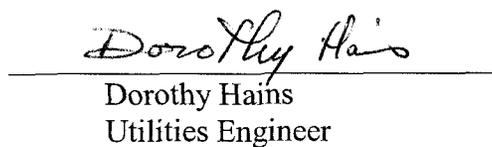
STAFF ACKNOWLEDGEMENT

The Staff Report for St. David Water Association (Docket Nos. W-04107A-02-0314 and W-02084A-02-0314) was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis.

Contributing Staff:



Jim Fisher
Executive Consultant II



Dorothy Hains
Utilities Engineer

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ATTACHMENT(S)

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Introduction

On April 25, 2002, St. David Water Association, ("Association") and St. David Water Improvement District ("District") (collectively, "Applicants") filed an application with the Arizona Corporation Commission ("ACC") requesting approval for the sale of Association's assets and cancellation of the Certificate of Convenience and Necessity ("CC&N"). On May 3, June 5 and June 17, 2002, the Association provided additional information on the formation of the District.

Background

The Association is an Arizona cooperative engaged in providing water utility service within portions of Cochise County, Arizona. The Company was granted its initial CC&N on November 17, 1969, in Decision No. 40325. The Association currently has 392 customers in and around the community of St. David, approximately seven miles southeast of Benson.

By this application, the Association seeks authorization to transfer the water utility assets to the District, a newly established political subdivision of Cochise County. On March 19, 2002, the Cochise County Board of Supervisors adopted Resolution Number 21, creating the St. David Domestic Water Improvement District. Arizona Revised Statutes, 48-902 authorizes the Board of Supervisors to establish a county improvement district.

The County Board of Supervisors found that the District had submitted the proper number of petition signatures from affected property owners and that such properties will benefit from the formation of the District. The County Board of Supervisors appointed five members to serve as the initial Board of Directors and that the District will be a corporate body with the powers of a municipal corporation.

The Association will transfer all security deposits to the District for refund pursuant to the same terms and conditions as the Association. The District will also assume the refunding obligations of all outstanding main extension agreements.

The proposed sale of the Association's assets to the District will result in the organization becoming enabled to bring additional system improvements at a lower cost. The Association is a non-profit corporation, whereas the District will be a municipal corporation. The Association is currently required to pay property taxes associated with the value of the system. According to the Association, property tax payments last year were equal to \$21,000, approximately 16 percent of the Associations gross revenue. The District will not be required to pay property taxes, and will therefore be able to use the avoided tax expense for other purposes. To the effect the District can provide service that is equal to the current provider, Staff believes approval of the application is in the public interest.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the water system under ADEQ Public Water System I.D. No. 02-039. Based on data provided by ADEQ on May 20, 2002, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. ADEQ has determined that the water company's violations are major deficiencies due to failure to provide annual nitrate analysis.

On June 5, 2002, the Association informed Staff that it had performed the nitrate testing and submitted the sample for ADEQ's analysis. The Association admits maximum contaminant levels ("MCL") test samples for nitrates for the year 2001 were not submitted and resulted in the non-compliance status. Nitrate MCL for the two prior years were found to be 0.58 and 0.44 milligram per liter, both results well within the ten milligrams per liter allowed by ADEQ.

On June 17, 2002, the Association provided Staff with nitrate test results showing 0.40 and 0.50 milligram per liter for the system. Both test results are well within the allowable levels.

Arizona Department of Water Resources ("ADWR")

The Association is not located within any Active Management Area as designated by ADWR.

Arizona Corporation Commission Compliance

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

The Association does have a rate application (Docket No. W-02084A-01-0389) and a financing application (Docket No. W-02084A-02-0636) pending before the Commission. If the sales, transfer and the CC&N cancellation are approved, these two applications would become moot.

Recommendations

Staff recommends that the Commission approve St. David Water Association's application for the sale and transfer of the Association's assets to St. David Domestic Water Improvement District.

Staff further recommends that the Commission approve St. David Water Association's application for the cancellation of its Certificate of Convenience and Necessity.