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MEMORANDUM

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TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

2007 MAR 15 P 1:54

AZ CORP COMMISSION
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Date: March 15, 2007

RE: STAFF REPORT FOR THE APPLICATION OF DUNCAN RURAL SERVICES CORPORATION TO TRANSFER ITS ASSETS AND CERTIFICATE OF CONVENIENCE AND NECESSITY TO DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. (DOCKET NOS. G-02528A-06-0729 AND E-01703A-06-0729)

Attached is the Staff Report for the application of Duncan Rural Services Corporation for Commission authorization to transfer its assets and Certificate of Convenience and Necessity to Duncan Valley Electric Cooperative, Inc. Staff recommends conditional approval.

EGJ:AII:cjh

Originator: Alexander Ibhade Igwe

Arizona Corporation Commission
DOCKETED

MAR 15 2007

DOCKETED BY *nr*

Service List for: Duncan Rural Services Corporation & Duncan Valley Electric Cooperatives,
Inc. (Docket Nos. G-02528A-06-0729 & E-01703A-06-0729)

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Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

DUNCAN RURAL SERVICES CORPORATION
(DOCKET NO. G-02528A-06-0729)

AND

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC
(DOCKET NO. E-01703A-06-0729)

APPLICATION FOR
TRANSFER OF ASSETS AND CERTIFICATE OF
CONVENIENCE AND NECESSITY

MARCH 15, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Duncan Rural Services Corporation and Duncan Valley Electric Cooperative, Inc., Docket Nos. G-02528A-06-0729 & E-01703A-06-0729, was prepared by the Staff members shown below. Alexander Ihhade Igwe was responsible for reviewing the application and performing pertinent financial analysis. Trish Meeter researched Consumer Services database on issues relating to customer service.



Alexander Ihhade Igwe
Executive Consultant III



Trish Meeter
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
DUNCAN RURAL SERVICES CORPORATION &
DUNCAN VALLEY ELECTRIC COOPERATIVE, INC
DOCKET NOS. G-02528A-06-0729 AND E-01703A-06-0729

On November 15, 2006, Duncan Rural Services Corporation ("Duncan Rural" or "Applicant") filed an application with the Arizona Corporation Commission ("Commission") for authorization to transfer its assets to Duncan Valley Electric Cooperative, Inc. ("Duncan Valley" or "Cooperative"). On January 5, 2007, Duncan Rural submitted a supplemental filing stating that the above proposal includes transfer of its Certificate of Convenience and Necessity ("CC&N") to Duncan Valley. The Applicant states that upon consummation of this transaction, Duncan Rural will become the Gas Division of the new Duncan Valley. As a result, Duncan Rural will cease to exist as a legal and tax entity. Further, the new Duncan Valley will maintain separate accounting records for the Gas Division as well as the Electric Division. However, the financial records of both operations will be consolidated into a single financial statement for reporting purposes. The Applicant proposes to carry forward Duncan Rural's existing indebtedness to Duncan Valley as an inter-company debt that is repayable only by the current members of Duncan Rural. This proposal further indicates that the current members of Duncan Rural will be precluded from participating in future capital credit distributions, until the above referenced inter-company debt was fully extinguished. The board of directors and management of Duncan Rural and Duncan Valley have approved the proposed re-organization.

The Applicant contends that its integration as a division of Duncan Valley will result in many benefits that could positively enhance its ability to function as a sound financial operation. Specifically, the Gas Division will be able to attract capital at favorable terms from lending institutions, such as the National Rural Utilities Cooperative Finance Corporation ("CFC"). The Applicant considers this factor as critical to its continued financial survival since Duncan Valley's board of directors have voted to stop lending to it, after April 1, 2006.

Staff finds that Duncan Rural's proposal to transfer its assets and CC&N to Duncan Valley is in the public interest. However, Staff finds that the proposal to retain Duncan Rural's inter-company debt is inconsistent with a true merger. First, the current Duncan Valley has at least 58 percent responsibility for Duncan Rural's debt through its membership of the Applicant. Second, the assets that will be transferred and consolidated into the operations of the new Duncan Valley were significantly funded by the referenced inter-company debt. Third, a merger requires consolidation of assets and liabilities as well as elimination of inter-company transactions, such as debt. Fourth, Duncan Valley's proposal will preclude the current members of Duncan Rural from participation in capital credit distributions until its inter-company debt was fully extinguished. Finally, the proposal to retain inter-company debt could further impair the Gas Division's cash flow.

Staff recommends Commission approval of Duncan Rural's request to transfer its assets and CC&N to Duncan Valley, subject to the conditions that (a) its inter-company debt is absorbed by the new Duncan Valley and eliminated from the books of the subsisting entity, and (b) the current members of Duncan Rural are held harmless for the current balance of inter-company debt.

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Background

On November 15, 2006, Duncan Rural Services Corporation ("Duncan Rural" or "Applicant") filed an application with the Arizona Corporation Commission ("Commission") for authorization to transfer its assets to Duncan Valley Electric Cooperative, Inc. ("Duncan Valley" or "Cooperative"). The Applicant states that upon consummation of this proposal, it will become the Gas Division of the new Duncan Valley. As a result, it will cease to exist as a separate legal and tax entity. On January 5, 2007, Duncan Rural submitted a supplemental filing clarifying that the above proposal will necessitate transfer of its Certificate of Convenience and Necessity ("CC&N") to Duncan Valley.

Duncan Rural is a non-profit corporation certificated by the Commission to provide natural gas distribution in Greenlee County, Arizona. The Applicant began its operations in 1989, through the acquisition of the natural gas distribution systems of General Utilities, Inc. At the time of acquisition, General Utilities, Inc. had been cited for several violations by the Pipeline Safety Section of the Commission for dilapidated infrastructures and poor maintenance of the systems. The Applicant states that although the problems associated with the systems were somewhat identified, and an escrow account was established from the sale proceeds for necessary repairs and replacements, the degree of disrepair was not fully understood at that time. For example, Duncan Rural claims that it only discovered that the system had approximately 36 percent loss after consummation of the purchase. The Applicant states that it has incurred significant cost to reduce the loss to about 8 percent. In aggregate, the Applicant has incurred over \$1.3 million for system repairs and replacements and has successfully brought the system to significant compliance with the Pipeline Safety Section. In order to continually maintain the system, the Applicant has established an annual budget of \$80,000 for future capital improvements over the next five years.

As to its finances, the Applicant states that since 1993, the Commission has authorized it four rate increases, ranging from 24 percent to 31 percent, in an attempt to mitigate its recurring losses. Yet, in the most recent case approved in Decision No. 68599, dated March 23, 2006, Staff determined that Duncan Rural had a test year operating loss of approximately \$71,000. The Applicant attributes its recurring losses to the impact of declining customer base on revenues as well as rising cost of service, especially the cost of natural gas. Duncan Rural states that because of its poor financial condition, it has been unable to independently attract capital, on favorable terms. As a result, it has borrowed more than \$1.3 million from Duncan Valley for necessary capital improvements and working capital requirements.

Duncan Valley is a non-profit rural electric distribution cooperative certificated by the Commission to provide services in Greenlee County, Arizona. The Cooperative holds 1,000 votes or memberships (approximately 58 percent) in Duncan Rural, resulting in a controlling interest in the Applicant. Duncan Rural and Duncan Valley have separate Boards of Directors, comprised of the same membership. Also, pursuant to an Operations and Management Agreement, Duncan Valley has managed the operations of Duncan Rural, including its operational and capital expenditures, since inception. Duncan Valley has an overlapping but

non-identical membership, customer base and service territory with Duncan Rural. For example, Duncan Rural provides services to approximately 722 Arizona customers while Duncan Valley serves about 2,500 customers, both in Arizona and New Mexico.

The Transaction

Duncan Rural seeks Commission authorization to transfer its assets and CC&N to Duncan Valley, and subsist as the Gas Division of the Cooperative. The Applicant claims that upon conclusion of its proposed re-organization, Duncan Rural will cease to exist as a separate legal and tax entity. However, its books and records will be separately maintained, as a division of Duncan Valley, and its current indebtedness to Duncan Valley will carry forward as an inter-company debt, at zero interest. In addition, the proposed inter-company debt will be repayable by the current members of Duncan Rural, only upon availability of cash flow from the operations of the Gas Division. The board of directors and management of Duncan Rural and Duncan Valley have approved the proposed re-organization.

The Applicant contends that its integration as a division of Duncan Valley will result in many benefits that could positively enhance its ability to function as a sound financial operation. Duncan Rural states that when its operation is consolidated with Duncan Valley, it will rely on the consolidated financial statement in obtaining favorable credit rating from lending institutions, such as the National Rural Utilities Cooperative Finance Corporation ("CFC"). The Applicant considers this factor as critical to its continued financial survival, because Duncan Valley's board of directors voted to stop future lending to it, after April 1, 2006. Also, the proposed re-organization eliminates Applicant's negative equity, simplifies both entities' management structure and could result in some cost savings.

Duncan Rural asserts that by merging into Duncan Valley, it will once again become exempt from federal income taxes. Duncan Rural states that the Internal Revenue Service ("IRS") revoked its tax exempt status because of Duncan Valley's ownership of 1,000 memberships in it, a violation of IRS § 501(c) (12), "one-member one-vote" policy.

Staff Analysis

Duncan Rural has had a long history of depending on Duncan Valley's financial resources for its subsistence and provision of service. As indicated by the Applicant, the Commission has over the years attempted to gradually return Duncan Rural to financial stability through a series of rate increases. Based on the information available from the last rate case, it appears that the Applicant has continued to incur recurring losses, mainly due to declining customer base within its certificated territory. Staff finds that the Applicant's proposal to merge with Duncan Valley would be beneficial to its financial stability, primarily because it provides access to external sources of capital at favorable terms. Also, Staff agrees with the Applicant's assertion that its merger with Duncan Valley will return it to being a tax-exempt entity, thus eliminating the tax component of its cost of service. The resultant savings could facilitate the Applicant's ability to become financially viable.

The Applicant states that this proposal will eliminate its negative equity position. In addition, its indebtedness to Duncan Valley will carry forward as an inter-divisional debt, at zero interest, with no predetermined maturity date or a fixed payment schedule. Staff's inquiry indicates that the balance of Applicant's indebtedness to Duncan Valley was \$945,358 as of December 31, 2006. This filing indicates that future payment on the inter-company debt will be contingent upon the proposed Gas Division generating sufficient cash flow to effectuate any payments. Also, the Applicant indicated to Staff that the current members of Duncan Rural would only become eligible to receive any capital credits from the subsisting Duncan Valley, upon full settlement of its inter-company debt. Duncan Valley argues that because it does not have a common membership with Duncan Rural, repayment of the above referenced inter-company debt from the proposed Gas Division's cash flow insures that its current members recoup funds that would have been available for their benefit prior to this proposal. Staff finds that Duncan Valley's proposal to retain the existing debt of Duncan Rural as an obligation of the Gas Division is not consistent with a merger proposal. In addition, it does not provide for equal membership of the current members of Duncan Rural in the subsisting Duncan Valley.

As previously discussed, Duncan Valley was responsible for the acquisition of the assets of General Utilities, Inc. and the creation of Duncan Rural. From inception, Duncan Valley has had management responsibility for the operations of Duncan Rural, through a management agreement and a board of director that is comprised of the same members as Duncan Valley's board. Duncan Valley owns 1,000 votes or 58.41 percent of Applicant's total membership of 1,712. As a result, Duncan Valley has the controlling interest in Duncan Rural. From the foregoing, it appears that Duncan Valley has some responsibility for the assets and liabilities of the Applicant.

Duncan Valley has indicated to Staff that its proposal is a re-organization similar to a merger by absorption. Staff finds that it has the characteristics of a merger by absorption, and not a re-organization, as suggested in this filing. Upon consummation of this transaction, the assets of Duncan Rural will be transferred to Duncan Valley and Duncan Rural will cease to exist as a legal entity. In other words, Duncan Valley and Duncan Rural will combine their operations as a single legal entity. Staff finds that the above description is consistent with the definition of a merger by the Webster's II New College Dictionary as "The Union of two or more commercial interest or corporations."

Ordinarily, Staff does not review cooperative's bylaws for issues pertaining to membership or voting rights. In this instant case, Staff finds it imperative to examine the voting rights of the current members of Duncan Rural in determining the nature of this transaction. The Applicant states that upon consummation of this transaction, the current members of Duncan Rural shall become members of the subsisting Duncan Valley. As a result, Duncan Rural's current members will have one equal vote on all cooperative matters, as the current members of Duncan Valley. This assertion further supports Staff's conclusion that Duncan Rural's proposal to transfer its assets and CC&N to Duncan Valley will result in the merger of both entities into the subsisting Duncan Valley.

Staff's analysis has confirmed that Duncan Rural's debt was mostly utilized to fund its assets. In a response to Staff's data request, the Applicant states that since its inception, the proceeds of its aggregate debt were expended in funding approximately 81 percent of its gross utility plant in service. This implies that the most of the assets that will be consolidated with those of Duncan Valley were funded by the balance of the above referenced inter-company-debt. Staff finds that upon consummation of this transaction, it is only appropriate for Duncan Rural to transfer its assets as well as the debt funding such assets to the subsisting Duncan Valley.

Staff analysis indicates that the Applicant's proposal has the characteristics of a merger. Typically, a merger results in the consolidation of the merging entities' assets and liabilities as well as the elimination of inter-company transactions, such as inter-company debt. This filing states that the financial statements of Gas Division and Electric Division will be consolidated as described above, for accounting purposes only. However, it further states that the current balance of inter-company debt will be retained for repayment by the current members of Duncan Rural as well as for rate making purposes. The later request will necessitate the Commission to continue to provide for the repayment of inter-company debt, which in turn, could impair the Gas Division's cash flow.

Staff recognizes Duncan Valley's argument that Duncan Rural's current debt was incurred for the benefit of its members and that the assets it funded will continue to provide service to the Gas Division. The Commission has over the years provided adequate cash flow for repayment of Duncan Rural's debt obligations. In the last rate proceeding, the Commission authorized Duncan Rural's proposed rate increase, in order to provide adequate cash flow for its operations. Staff supports the intent of this proposal, which is to absorb the operations of Duncan Rural into Duncan Valley, such that the Gas Division will become a viable entity based on the combined entities' consolidated financial statements. Staff finds that to segregate inter-company debt for separate rate-making treatment within a prospective single entity is not in the public interest.

In general, Staff finds Duncan Rural's proposal to transfer its assets and CC&N to Duncan Valley is in the public interest. However, Staff finds that the proposal to retain Duncan Rural's existing inter-company debt is inconsistent with a true merger. First, the current Duncan Valley has at least 58 percent responsibility for Duncan Rural's debt through its membership of the Applicant. Second, the assets that will be transferred and consolidated into the operations of the new Duncan Valley were significantly funded by the referenced inter-company debt. Third, a merger requires consolidation of assets and liabilities as well as elimination of inter-company transactions, such as debt. Fourth, Duncan Valley's proposal will preclude the current members of Duncan Rural from participation in capital credit distributions until its existing inter-company debt was fully extinguished. Finally, the proposal to retain inter-company debt will continue to impair the Gas Division's cash flow.

Consumer Service Issues

The Corporations Division of the Commission reports that Duncan Rural and Duncan Valley were of good standing as of February 28, 2008.

Further, Consumer Services search of its database indicates that from January 1, 2004 through February 28, 2007, Duncan Rural had one complaint regarding billing and one inquiry. For the same period, Duncan Valley had 12 complaints, 4 inquiries and 513 opinions. All the opinions were expressed in opposition to the Company's last rate increase. The complaints and inquiries have been satisfactory resolved and closed as of February 28, 2007.

Pipeline Safety Issues

The Pipeline Safety Section has confirmed that Duncan Rural is in compliance with its regulations.

Public Notice

On March 5, 2007, Duncan Rural filed an Affidavit of Publication, indicating that notice of its filing was mailed to customers of record, on February 27, 2007. The same notice was published in the Copper Era, on February 21, 2007 and February 28, 2007.

Recommendations

Staff recommends Commission approval of Duncan Rural's request to transfers its assets and CC&N to Duncan Valley, subject to the conditions that (a) its inter-company debt is absorbed by the proposed new Duncan Valley and eliminated from the books of the subsisting entity, and (b) the current members of Duncan Rural should be held harmless for the current balance of inter-company debt.

Staff further recommends that the Commission authorize Duncan Valley to retain Duncan Rural's current tariff, rates and charges for its proposed Gas Division.

Staff further recommends authorizing the Applicant to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

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MAR 07 2007

AZ CORP COMM
Director Utilities

IN THE MATTER OF THE APPLICATION OF
DUNCAN RURAL SERVICES CORPORATION TO
TRANSFER ITS ASSETS AND CERTIFICATE OF
CONVENIENCE AND NECESSITY TO DUNCAN
VALLEY ELECTRIC COOPERATIVE, INC.

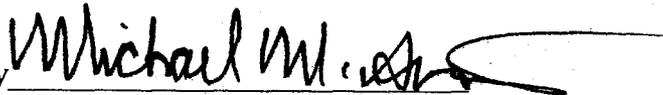
DOCKET NOS. G-02528A-06-0729
E-01703A-06-0729

NOTICE OF FILING
MAILING CERTIFICATE AND
PUBLICATION AFFIDAVIT

Pursuant to the Procedural Order dated January 29, 2007, attached are the original
certifications of mailing and publication in relation to this matter.

RESPECTFULLY SUBMITTED this 5th day of March, 2007.

GALLAGHER & KENNEDY, P.A.

By 

Michael M. Grant
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for Duncan Rural Services
Corporation

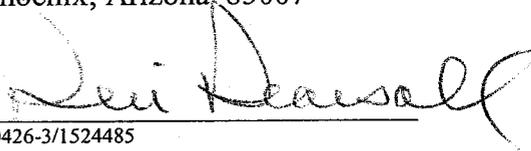
Original and 15 copies of the foregoing
filed this 5th day of March, 2007, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

1 **Copy** of the foregoing delivered
this 5th day of March, 2007, to:

2
3 Alexander Igwe
4 Utilities Division
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

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10426-3/1524485

AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA)
)
) :ss.
)
COUNTY OF GREENLEE)

Sherry L. English

being first

duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the
COPPER ERA newspaper printed and published weekly in the County of Greenlee,
State of Arizona, and of general circulation in the city of Clifton, County of Greenlee,
State of Arizona and elsewhere, and the hereto attached

*Notice of Public Hearing
For Approval to Transfer Assets*

was printed and published correctly in the regular and entire issue of said
THE COPPER ERA for *2* issues, that the first was

made on the *21* day of *Feb* *2007*
and the last publication thereof was made on the *28* day of

Feb *2007* that said

publication was made on each of the following dates, to wit:

*2/21/07
2/28/07*

Request of *Duncan Valley Electric Cooperative*

THE COPPER ERA

By *Sherry L. English*

Subscribed sworn to before me this *28* day of *Feb*
20 *07*

Monica Watson
OFFICIAL SEAL
MONICA L. WATSON
NOTARY PUBLIC - State of Arizona
Notary Public in and for the County of Greenlee, State of Arizona
My Comm. Expires Dec. 11, 2010
My Commission Expires: *Dec. 11, 2010*

**PUBLIC NOTICE OF HEARING
ON APPLICATION BY
DUNCAN RURAL SERVICES
CORPORATION FOR
APPROVAL TO TRANSFER
ITS ASSETS AND CERTIFICATE
OF CONVENIENCE AND
NECESSITY TO
DUNCAN VALLEY ELECTRIC
COOPERATIVE, INC.**

**DOCKET NO. G-02528A-06-0729
DOCKET NO. E-01703A-06-0729**

On November 15, 2006, Duncan Rural Services Corporation ("DRSC") filed an application with the Arizona Corporation Commission ("Commission") to transfer its assets and Certificate and Convenience and Necessity ("Certificate" or "CC&N") to Duncan Valley Electric Cooperative, Inc. ("DVEC") as part of a reorganization of DRSC as a natural gas division of DVEC. If the Application is granted DVEC will be the exclusive provider of gas utility service to the area currently served by DRSC, and will be required by the Commission to provide service under rates and charges and terms and conditions established by the Commission. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, at 1200 West Washington Street, Phoenix, Arizona, in Tucson, at 400 West Congress St. Suite 218, Tucson, Arizona or on the Commission's website, azcc.gov, by using the eDocket link, as well as at the offices of DRSC, 222 North Highway 75, Duncan, Arizona.

The Commission will hold a hearing on this matter beginning April 10, 2007, at 10:00 a.m., at the Commission's offices, Room 222, 400 West Congress Street, Tucson, Arizona. Public comment will be taken at the beginning of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested persons may intervene in the proceedings and participate as a party. You may have the right to intervene in the proceeding. Intervention will be in accordance with A.A.C. R14-3-105, except that all motions to intervene must be filed on or before March 30, 2007. Persons desiring to intervene must file a written motion to intervene with the Commission and send such motion to Applicants or their counsel and to all parties of record. The motion must, at the minimum, 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 from that of the intervenor.

2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer or potential customer of the Applicant, a shareholder of the Applicant, etc.)

3. A statement certifying that a copy of the motion to intervene has been mailed to the Applicant or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the applications. You will not receive any further notice of this proceeding unless you request it. Comments may also be made by writing to the Commission in care of Docket Control, 1200 W. Washington, Phoenix, Arizona 85007. All correspondence should contain the Docket Nos. G-02528A-06-0729 and E-01703A-06-0729.

If you have any questions about this application, you may contact the Applicant at (928) 359-2503. If you want further information on intervention or have questions on how to file comments, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007 or call 1-800-222-7000.

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 contact Linda Hogan, ADA Coordinator, voice phone number 602/542-3931, E-mail LHogan@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the accommodation.

Req.: Duncan Valley Electric Cooperative, Inc.

Published: February 21, 28, 2007,
in the Copper Era, Clifton, Arizona
85533.



DUNCAN RURAL SERVICES CORPORATION

PO Box 440
Duncan AZ 85534

222 North Highway 75
Duncan AZ 85534

SAFE, EFFICIENT NATURAL GAS

Phone: (928) 359-2503

Fax: (928) 359-2370

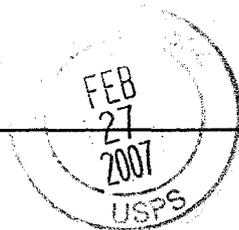
I, Sherma Jeane Garner, state that on Feb 27, 2007, caused to be deposited in the U. S. Mail the attached customer notification to each Duncan Rural Services Corporation member.

Sherma Jeane Garner
Sherma Jeane Garner

DUNCAN RURAL SERVICES CORPORATION
Senior Consumer Services Representative

Received by U. S. Post Office, Duncan, Arizona 85534

D. Ornell





DUNCAN RURAL SERVICES CORPORATION

PO Box 440
Duncan AZ 85534

222 North Highway 75
Duncan AZ 85534

SAFE, EFFICIENT NATURAL GAS

Phone: (928) 359-2503

Fax: (928) 359-2300

«NANAME»
«NAADD1»
«NAADD2»
«NAADD3» «ZIP»

**PUBLIC NOTICE OF HEARING ON APPLICATION BY
DUNCAN RURAL SERVICES CORPORATION FOR
APPROVAL TO TRANSFER ITS ASSETS AND CERTIFICATE OF
CONVENIENCE AND NECESSITY
TO DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
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The Commission will hold a hearing on this matter beginning **April 10, 2007, at 10:00 a.m.**, at the Commission's offices, Room 222, 400 West Congress Street, Tucson, Arizona. Public comment will be taken at the beginning of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested persons may intervene in the proceedings and participate as a party. You may have the right to intervene in the proceeding. Intervention will be in accordance with A.A.C. R14-3-105, except that all motions to intervene must be filed on or before **March 30, 2007**. Persons desiring to intervene must file a written motion to intervene with the Commission and send such motion to Applicants or their counsel and to all parties of record. The motion must, at the minimum, contain the following:

1. The name, address, and telephone number of the proposed intervener and of any party upon whom service of documents is to be made if different from that of the intervener.
2. A short statement of the proposed intervener's interest in the proceeding (e.g., a customer or potential customer of the Applicant, a shareholder of the Applicant, etc.).
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DUNCAN RURAL SERVICES CORPORATION

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Duncan AZ 85534

SAFE, EFFICIENT NATURAL GAS

Phone: (928) 359-2503

Fax: (928) 359-2371

«NANAME»
«NAADD1»
«NAADD2»
«NAADD3» «ZIP»

**PUBLIC NOTICE OF HEARING ON APPLICATION BY
DUNCAN RURAL SERVICES CORPORATION FOR
APPROVAL TO TRANSFER ITS ASSETS AND CERTIFICATE OF
CONVENIENCE AND NECESSITY
TO DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. G-02528A-06-0729
DOCKET NO. E-01703A-06-0729**

On November 15, 2006, Duncan Rural Services Corporation ("DRSC") filed an application with the Arizona Corporation Commission ("Commission") to transfer its assets and Certificate and Convenience and Necessity ("Certificate" or "CC&N") to Duncan Valley Electric Cooperative, Inc. ("DVEC") as part of a reorganization of DRSC as a natural gas division of DVEC. If the Application is granted DVEC will be the exclusive provider of gas utility service to the area currently served by DRSC, and will be required by the Commission to provide service under rates and charges and terms and conditions established by the Commission. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, at 1200 West Washington Street, Phoenix, Arizona, in Tucson, at 400 West Congress St. Suite 218, Tucson, Arizona or on the Commission's website, azcc.gov, by using the eDocket link, as well as at the offices of DRSC, 222 North Highway 75, Duncan, Arizona.

The Commission will hold a hearing on this matter beginning **April 10, 2007, at 10:00 a.m.**, at the Commission's offices, Room 222, 400 West Congress Street, Tucson, Arizona. Public comment will be taken at the beginning of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested persons may intervene in the proceedings and participate as a party. You may have the right to intervene in the proceeding. Intervention will be in accordance with A.A.C. R14-3-105, except that all motions to intervene must be filed on or before **March 30, 2007**. Persons desiring to intervene must file a written motion to intervene with the Commission and send such motion to Applicants or their counsel and to all parties of record. The motion must, at the minimum, contain the following:

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

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the applications. You will not receive any further notice of this proceeding unless you request it. Comments may also be made by writing to the Commission in care of Docket Control, 1200 W. Washington, Phoenix, Arizona 85007. All correspondence should contain the Docket Nos. G-02528A-06-0729 and E-01703A-06-0729.

If you have any questions about this application, you may contact the Applicant at (928) 359-2503. If you want further information on intervention or have questions on how to file comments, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007 or call 1-800-222-7000.

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 Linda Hogan, ADA Coordinator, voice phone number 602/542-3931, E-mail LHogan@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the accommodation.



DUNCAN RURAL SERVICES CORPORATION

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«NANAME»
«NAADD1»
«NAADD2»
«NAADD3» «ZIP»

**PUBLIC NOTICE OF HEARING ON APPLICATION BY
DUNCAN RURAL SERVICES CORPORATION FOR
APPROVAL TO TRANSFER ITS ASSETS AND CERTIFICATE OF
CONVENIENCE AND NECESSITY
TO DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. G-02528A-06-0729
DOCKET NO. E-01703A-06-0729**

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