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April 27, 2007
Arizona Corporation Commission

DOCKETED

APR 27 2007

CERTIFIED MAIL

Diamond Valley Water District
1848 Emerald Drive
Prescott, Arizona 86301

DOCKETED BY	MR
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RE: DIAMOND VALLEY WATER USERS CORPORATION (DOCKET NO. W-03263A-07-0244)

Dear Sirs:

Staff has reviewed your Letter of Intent to transfer the assets of Diamond Valley Water Users Corporation ("the Utility") to the Diamond Valley Water District ("the District"). Staff considers the Letter of Intent to be the written request from the governing body of the District to the Commission required by A.R.S. § 10-11421 for the transfer of the Utility's assets to the District. Therefore, a docket on this matter has been opened (W-03263A-07-0244) in which to process the transfer.

After receiving the District's response to this letter, Staff will prepare and docket a Staff Report setting forth its recommendations to the Arizona Corporation Commission ("Commission"). An Administrative Law Judge ("ALJ") will set a date for a hearing and preside over the hearing. The ALJ will then prepare a Recommended Opinion and Order based upon the record. The Commission will then vote on the matter at an Open Meeting.

Staff is encouraged by the level of due diligence being performed by the District as evidenced by the Letter of Intent. The Letter of Intent contains ten "principal terms", some of which involve guarantees, services or contract approvals on the part of the Commission and its Staff. This letter will address each of the terms listed in the order they appear in your Letter of Intent.

1. Regarding the assets of the Utility, Staff is unaware of any security interests, mortgages or other encumbrances, but neither the Commission nor Staff is able to guarantee the status of title.
2. Pursuant to Arizona Revised Statutes A.R.S. § 10-11421.B. the Commission has authority to transfer the assets of the Utility to the District.

3. The District will not be required to purchase the assets from the Utility. The District would be responsible for any costs or expenses that it incurs in acquiring the assets.
4. Regarding the water supply agreement between the Utility and the Prescott Valley Water District, Staff believes it is in the best interest of the District to determine the transferability of that agreement and if, or when it desires, to renegotiate the agreement.
5. Regarding the books and records of the Utility, Mr. Bohlier, the Utility's interim operator, has retained a Certified Public Accountant to perform an audit. The audit will result in financial statements which present fairly the financial position of the Utility and will take into consideration whatever financial documents exist. Upon our receipt of the audit from Mr. Bohlier, the audit will be provided to the District. Staff will also provide any workpapers and relevant documents from Staff's regulatory audit performed during the Utility's most recent rate case. Staff will also be performing an audit of the system improvement surcharge in May 2007 and will share those results with the District. These audit results should be sufficient for the District to determine the financial health and the ongoing level of revenues and expenses of the Utility.

All other receipts, invoices, customer names and addresses, etc. will become the property of the district upon the Commission's approval of the transfer.

Regarding an inventory of the assets of the Utility, the workpapers from the recent rate case referred to above will contain a list of the plant items upon which the Utility requested a return. Furthermore, on April 19, 2007, the Arizona Department of Environmental Quality performed a sanitary survey which will result in a description of the plant and its condition. Staff will see that the District receives a copy of the sanitary survey. Staff believes that with the provision of these documents, the District's need for documentation of the Utility's assets will be fulfilled.

6. There will not be a "Transfer Agreement", consistent with A.R.S. § 10-11421.B the transfer will be accomplished by order of the Commission. Also, in the unlikely event the Commission determines there are terms and conditions relevant to the transfer, they will appear in the Commission's decision.

As to a Commission guarantee that "there have been no adverse changes in the utility's financial condition" between the date of the Letter of Intent and the transfer, the Commission is unable to make "guarantees" and does not have the ability to enter any contract or agreement guaranteeing the actions or inactions of any person or business.

7. As indicated in paragraph 6 above, the transfer will be accomplished by the issuance of a Commission Order, rather than by a Transfer Agreement.
8. Although Staff has confidence in Mr. Bohlier's abilities as interim manager, the District will be free to hire an operator of its choosing simultaneous with the transfer.

9. It is unlikely that a Commission decision regarding the transfer will be issued by May 31, 2007. Staff will issue its Staff Report as soon as possible.
10. Staff agrees that neither the District nor the Commission has any obligation to pay each others' costs or expenses incurred related to the transfer.

If you have any questions, please feel free to contact Linda Jaress at (602) 542-0859 or me at (602) 542-0745. Staff looks forward to the District's response to this letter.

Yours truly,



Ernest G. Johnson
Director
Utilities Division

EGJ:LAJ:tdp

CC: Docket Control Center (Original and Thirteen Copies)
Don Bohler, Diamond Valley Water Users Corporation
Linda Jaress
Del Smith