



ORIGINAL

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ADMITTED TO PRACTICE IN:  
ARIZONA, COLORADO, MONTANA,  
NEVADA, TEXAS, WYOMING,  
DISTRICT OF COLUMBIA

OF COUNSEL TO  
MUNGER CHADWICK, P.L.C.

September 4, 2008

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

Arizona Corporation Commission  
DOCKETED

SEP - 5 2008

Re: Ridgeline Water Company, L.L.C.  
Supplement to CC&N Application  
Docket No. W-20589A-08-0173

DOCKETED BY  
MN

To Whom It May Concern:

Enclosed for filing in the above-referenced docket are thirteen (13) copies of a Supplement to CC&N Application on behalf of Ridgeline Water Company, L.L.C.

Thank you for your assistance. Please advise me if you have any questions.

Sincerely,  
*Angela R. Trujillo*  
Angela R. Trujillo  
Secretary  
Lawrence V. Robertson, Jr.

cc: Hon. Belinda Martin  
Janice Alward, ACC Legal Division  
Robin Mitchell, ACC Legal Division  
Nancy Scott, ACC Legal Division  
Ernest Johnson, ACC Utilities Division  
Kiana Sears, ACC Utilities Division

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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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AZ CORP COMMISSION  
DOCKET CONTROL

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

IN THE MATTER OF THE APPLICATION OF )  
RIDGELINE WATER COMPANY, L.L.C. FOR ) DOCKET NO. W-20589A-08-0173  
A CERTIFICATE OF CONVENIENCE AND )  
NECESSITY TO PROVIDE WATER SERVICE ) SUPPLEMENT TO CC&N  
TO AND WITHIN AN UNINCORPORATED ) APPLICATION  
AREA IN PIMA COUNTY, ARIZONA. )

**I.**

**INTRODUCTION**

Ridgeline Water Company, L.L.C. ("Ridgeline") hereby supplements its March 21, 2008 Application ("Application") in the above-captioned and above-docketed proceedings. The purpose of this Supplement is to address certain concerns that were expressed by the Commission's Staff in the August 14, 2008 Staff Report ("Staff Report"), which was filed in the aforesaid proceeding. In that regard, it is Ridgeline's intent to satisfactorily address and resolve those concerns at this juncture, in order that the Commission's Staff may revise or supplement the Staff report so as to recommend approval of Ridgeline's currently pending Application, in the event that the Commission's Staff should choose to do so.

In connection with the above, the discussion set forth below will address the aforementioned concerns of the Commission's Staff in the same sequence in which they appear in the Staff Report; and, for convenience, each of the topics addressed will be identified using the descriptive text used in the Staff Report.

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II.

**“HIGHLY LEVERAGED NATURE” OF RIDGELINE’S PARENT**

Ridgeline is a wholly-owned subsidiary of Pollux Properties, L.L.C. (“Pollux”). The Staff Report notes that the unaudited Balance Sheet and Income Statement for Pollux for the year ended December 31, 2007 reflects reported

“...total assets of approximately \$3.97 million, total liabilities of approximately \$3.96 million, total equity of \$15,639 and net income of \$703.” [Executive Summary, page 1; and, Staff Report, page 3]

Against this financial background, the Staff Report concludes as follows:

“Because of the highly leveraged nature of the Parent Company, coupled by the Company’s lack of technical and managerial experience with operating a water utility, Staff recommends denial. Staff is concerned because the Company’s financials do not demonstrate that the Company has the ability to sustain itself thereby placing its customers at risk.” [Executive Summary, page 1; and, Staff Report, page 3]

Pollux (and Ridgeline) propose to address and resolve the aforesaid “highly leveraged nature” concern of the Commission’s Staff in the following manner. The liabilities of Pollux in question are in the form of Deed(s) of Trust which were executed by Pollux for the benefit of Pollux’s investors, incident to their providing funds to acquire the real property which constitutes the aforesaid assets of Pollux.<sup>1</sup> In view of the concern which has been expressed in the Staff Report as to the “highly leveraged nature” of Pollux, each of these investors has agreed to convert its current beneficial interest under a Deed of Trust into an equity ownership interest in Pollux. The conversion will be accomplished through a Private Offering Memorandum and Subscription Agreements. The executed originals of the Subscription Agreements will be sent to and retained by Pollux’s Managing Member, and copies will be filed with the Commission. At the conclusion of this conversion process, Pollux will have approximately \$3.97 million in assets in the form of the aforesaid real property, and approximately \$3.97 million in equity.

<sup>1</sup> This real property consists of the approximately 632 acres of land described in the Application, known as Ridgeline Estates, which Ridgeline is requesting authorization to serve.

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**III.**

**“LACK OF TECHNICAL AND MANAGERIAL EXPERIENCE”**

As noted in Section II above, in the Staff Report the Commission’s Staff has also expressed a concern with regard to Ridgeline’s “lack of technical and managerial experience with operating a water utility.” [Executive Summary, page 1; and, Staff Report, page 3] Ridgeline readily acknowledges that it has no previous experience of that nature. It is for that very reason that Ridgeline has contemplated that it would retain the services of Southwestern Utility Management, Inc. (“SWUM”) to assist it in operating the water company, in the event that Ridgeline’s Application in this proceeding should be granted.

In that regard, attached as Appendix “A” to this Supplement, and incorporated herein by this reference, is a copy of an August 25, 2008 letter from SWUM confirming its interest in and willingness to provide the requisite technical and managerial services to Ridgeline. In addition, attached to this Supplement as Appendix “B,” and incorporated herein by this reference, is a sample of the form of contract upon which the agreement between Ridgeline and SWUM would be structured. In that regard, SWUM has advised Ridgeline that SWUM intends to designate James D. Dorough as the Certified Operator for Ridgeline’s contemplated water system. A copy of Mr. Dorough’s certifications from the Arizona Department of Environmental Quality is attached at Appendix “C,” and is incorporated herein by this reference.

Accordingly, by means of the above-described contractual arrangement with SWUM, Ridgeline proposes to address and resolve the Commission Staff’s concern as to Ridgeline’s previous “lack of technical and managerial experience with operating a water utility.”

**IV.**

**RIDGELINE’S “ABILITY TO SUSTAIN  
ITSELF AS A PUBLIC SERVICE CORPORATION”**

Because of the two (2) concerns discussed in Sections II and III above, the Staff Report notes that

“...Staff is seriously concerned about Ridgeline’s ability to sustain itself as a public service corporation.” [Staff Report, page 3]

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1 In connection with this particular concern, as well as the ability of Ridgeline to raise the \$1.8  
2 million in common equity which the Application contemplates would be that portion of the  
3 proposed water system infrastructure to be funded by Ridgeline, the water company offers the  
4 following observations.

5 The aforementioned investors in Pollux have a direct and substantial financial in  
6 Ridgeline's ability to reliably and adequately provide water service in satisfaction of the  
7 requirements of future residents of Ridgeline Estates. In fact, the success of their investment in  
8 Pollux and the Ridgeline Estates project depends upon the existence of a well-qualified and  
9 financially sound water provider in the form of Ridgeline, inasmuch as there are no other  
10 existing water providers in the vicinity of Ridgeline Estates. Accordingly, the investors of  
11 Pollux are prepared to either (i) directly invest as common equity owners of Ridgeline, or (ii)  
12 assist in raising the projected \$1.8 million in common equity for the water company, once it has  
13 received a CC&N authorizing it to provide water service to Ridgeline Estates. In that regard, the  
14 Managing Member of Pollux is experienced in project financing, having raised approximately  
15 \$25 million in common equity during the past 10 years in connection with several development  
16 projects.

17 Accordingly, because of the course(s) of action described in Section II and III above,  
18 together with the anticipated ability of Pollux's investors to provide or assist in raising the  
19 aforementioned \$1.8 million in common equity for the water company, Ridgeline anticipates that  
20 it will clearly have the requisite ability to sustain itself as a public service corporation, in the  
21 event that the CC&N requested in its Application is granted.

## 22 V.

### 23 MISCELLANEOUS

24 Both the Executive Summary and the Staff Report contain various conditions which the  
25 Commission Staff recommends that the Commission adopt, in the event that the Commission  
26 should decide to grant Ridgeline the CC&N requested in the Application. In view of the  
27 discussion set forth in Sections II through IV above, Ridgeline respectfully requests that the  
28

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1 Commission's Staff reconsider whether either of the two (2) conditions discussed below are  
2 necessary or appropriate.

3 Condition No. 6 would require that Ridgeline file evidence that it has obtained either a  
4 performance bond or an irrevocable right draft letter of credit in the amount of \$250,000 before it  
5 serves its first water customer. Given the course(s) of action discussed in Sections II through IV  
6 above, Ridgeline believes there will be no impediment to its ability to reliability and  
7 continuously discharge its obligations as a public service corporation; and, thus Ridgeline hereby  
8 requests that proposed Condition No. 6 be withdrawn.

9 Condition No. 7 conditions the effectiveness of such CC&N as might be granted upon  
10 Ridgeline attaining the 30% (AIAC/CAIC)/70% (equity) capital structure recommended by the  
11 Commission's Staff by the end of Ridgeline's fifth year of operation. The 54%  
12 (AIAC/CAIC)/46% (equity) capital structure at the end of the fifth year of operation, which is  
13 reflected in the financial data filed by Ridgeline in support of the Application, represents the  
14 actual allocation between on-site facilities and off-site facilities for the water system  
15 infrastructure Ridgeline intends to install to serve Ridgeline Estates. The former would be  
16 funded through advances-in-aid of construction and contributions-in-aid of construction.  
17 Whereas, the latter would be funded through common equity provided by the water company's  
18 investors. In order to achieve the capital structure recommended by the Commission's Staff, the  
19 water company would be required to fund water system infrastructure normally funded by  
20 developers. Accordingly, against this background, Ridgeline hereby requests that Condition No.  
21 7 either be withdrawn or revised to reflect a 54% (AIAC/CAIC)/46% (equity) capital structure.

22 **VI.**

23 **CONCLUSION**

24 Ridgeline hopes that the foregoing Supplement to the Application, together with  
25 Appendices "A," "B" and "C" hereto, will enable the Commission's Staff to revise or  
26 supplement the Staff Report in such a manner, so as to (i) recommend that Ridgeline's  
27 Application for a CC&N be granted, and (ii) withdraw or revise Condition Nos. 6 and 7 in the  
28 manner discussed above.

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1 Dated this 4<sup>th</sup> day of September 2008.

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Respectfully submitted,



Lawrence V. Robertson, Jr.  
Attorney for Ridgeline Water Company, L.L.C.

The original and thirteen (13) copies of the foregoing Supplement will be hand-delivered on the 5<sup>th</sup> of September 2008 to:

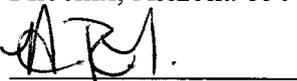
Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

A copy of the foregoing Supplement will be emailed or mailed on the 5<sup>th</sup> day of September 2008 to:

Janice Alward, Chief Counsel  
Robin Mitchell  
Nancy Scott  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

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

Kiana Sears  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007



# **APPENDIX “A”**

Ridgeline Water Company, L.L.C.  
Docket No. W-20589A-08-0173  
Supplement To CC&N Application  
September 4, 2008



**SOUTHWESTERN UTILITY  
MANAGEMENT, INC.**

**WATER UTILITY MANAGEMENT  
TELEPHONE: (520) 623-5172  
FAX: (520) 792-0377  
E-MAIL: SWUMGMT@aol.com**

**MAILING ADDRESS:  
P.O. BOX 85160  
TUCSON, AZ 85754**

**LOCATION:  
2102 N. Forbes Blvd, Suite 107  
TUCSON, AZ 85745**

August 25, 2008

Ridgeline Estates Water Company  
Attn: Mr. Jeff Utsch  
6141 N. Pomona Road  
Tucson, Arizona 85704

Re: Water company management – Ridgeline Estates Water Company

Dear Mr. Utsch,

It was a pleasure speaking with you once again. We at Southwestern Utility Management, Inc. are very much interested in managing your water utility.

As you know, we have extensive experience in managing water utilities across Arizona and believe our reputation will attest to that fact. We have extensive experience in every aspect of operations from being your certified operator, water testing, customer billing, accounts receivable and accounts payable just to name a few. We are a full service management company and we would be happy to supply you with references upon your request.

We have attached a sample contract for your review. As you can see we offer what we call a cafeteria style plan, wherein, clients can pick and choose the extent of their management needs. Please feel free to contact me at any time with any questions or comments and I will answer any concerns you may have.

Thank you for giving Southwestern Utility Management, Inc. the opportunity to possibly serve you and your community.

Regards,

Bonnie O'Connor, President

Enclosure(s)

# **APPENDIX “B”**

Ridgeline Water Company, L.L.C.  
Docket No. W-20589A-08-0173  
Supplement To CC&N Application  
September 4, 2008



**SOUTHWESTERN UTILITY MANAGEMENT, INC.**  
**WATER UTILITY MANAGEMENT**  
**(520) 623-5172**

**MAILING ADDRESS:**  
**P. O. BOX 85160**  
**TUCSON, AZ 85754**

**LOCATION:**  
**2102 N. FORBES BLVD.**  
**SUITES 107**  
**TUCSON, AZ 85745**

**Service Agreement**

- 1.0 Agreement.** This Agreement between Southwestern Utility Management, Inc., an Arizona corporation "Southwestern", and \_\_\_\_\_ "Utility" requires Southwestern to provide to the services described in Attachment "A." In exchange, the Utility will compensate Southwestern as described in Attachment "A."
- 2.0 Term.** This Agreement is for a term of one year. Unless a party notifies the other party in writing that the contract will not be renewed at least 30 days before the expiration date, this Agreement will be renewed for an additional term of one year under the same terms.
- 3.0 Insurance.** Both parties will have, at a minimum, 2,000,000 Aggregate Limit, \$1,000,000 Products and Complete Operations Aggregate, \$1,000,000 Personal & Advertising Injury, \$1,000,000 Each Occurrence – Bodily Injury & Property Damage, \$1,000,000 Non-Owned & Hired Auto Liability, \$100,000 Fire Damage (any one fire), \$5,000 Medical Expense (any one person).
- 4.0 Employees.** Each Party to this Agreement is solely responsible for all acts or omissions of its employees, and for paying all salaries, withholding tax deductions, benefits, unemployment compensation, worker's compensation, and all other charges and liabilities arising out of the employer-employee relationship.
- 5.0 Costs.** Unless otherwise indicated in Attachment A, the Utility is responsible for all costs associated with the services provided by Southwestern, including, but not limited to postage, publication, printing, filings, testing, and utility system components. The Utility is responsible for Southwestern's reasonable travel expenses, including mileage at a rate of \$.58 per mile. This mileage cost may be adjusted without specific notice to the Utility, or an addendum to this Agreement, to adjust with and be the same as the federal mileage allowance. Please Initial: \_\_\_\_\_
- 6.0 Indemnification.** The Utility agrees to indemnify and hold harmless Southwestern (including its members, agents, officers, employees, and volunteers) from and against all claims, injuries, damages, losses, and expenses (including attorney fees and court costs) arising from acts or omissions of Southwestern (including those of its agents, employees, or volunteers, or any tier of its contractors) in the performance of this Agreement unless such liability arose due to negligent and or intentional misconduct by Southwestern. The insurance coverage requirements of this Agreement do not limit the scope of indemnification.
- 7.0 Termination.** This Agreement may be terminated by mutual consent of the Parties, provided the termination is in writing. Unless the Parties agree to a specific termination date, termination by mutual consent will be effective 30 days after both Parties have given their consent. In the event of default by either Party, the non-breaching Party may terminate this Agreement 10 business days after providing written notice to the breaching Party unless that Party cures the default during that time.
- 8.0 Legal Remedies for Breach of Contract.** Arizona law applies to this Agreement. The Parties agree that any action to enforce the provisions of this Agreement must be brought in the Superior Court in and for Pima County, Arizona. The prevailing Party will be entitled to recover its reasonable attorneys' fees and costs in any future dispute or action arising under this Agreement. Utility agrees that Southwestern will not be liable for any exemplary, special, indirect, consequential, or incidental damages.
- 9.0 Interpretation.** The Parties acknowledge and agree that each has been given the opportunity to independently review this Agreement with legal counsel, and that this Agreement is the result of negotiations between the Parties. The Parties agree that any ambiguous or disputed terms of this Agreement are not to subject to any rule of interpretation providing for the interpretation against the drafting Party.

Southwestern Utility Management, Inc.  
Operators Service Agreement (continued)

**Utility Company-**  
Address -  
City, State Zip -

**10.0 Not Partners.** This Agreement and its related activities do not establish the Parties as partners for any purpose.

**11.0 Severability.** If the Court holds that any term or provision of this Agreement is illegal, the validity or enforceability of the remainder of this Agreement will not be affected.

**12.0 Notice.** Unless expressly stated otherwise, notices under this Agreement must be in writing and hand-delivered or sent by certified United States mail, postage prepaid, to the following addresses: **(Please fill in below)**

Address - \_\_\_\_\_.  
City, State Zip - \_\_\_\_\_.

The Parties may change their address for receipt of notices at any time with notice to the other Party.

**13.0 Entire Agreement.** This Agreement and the exhibits attached and incorporated hereto constitute the entire understanding of the Parties and supersedes any previous agreement or understandings on the subjects discussed herein.

IN WITNESS HEREOF, this Agreement is executed by the Parties and made effective on: \_\_\_\_\_, 2008 .

Southwestern Utility Management, Inc.

**Utility Company:**

By: \_\_\_\_\_  
Bonnie L. O'Connor

By: \_\_\_\_\_

Its: Vice President

Its: \_\_\_\_\_.

Date: \_\_\_\_\_

Date: \_\_\_\_\_

# **APPENDIX “C”**

Ridgeline Water Company, L.L.C.  
Docket No. W-20589A-08-0173  
Supplement To CC&N Application  
September 4, 2008

JAMES D DOROUGH, OP022771

has complied with the requirements for operator certification in the State of Arizona pursuant to Arizona Revised Statutes, Title 49, Chapter 2, Articles 9 and 10, and Arizona Administrative Code, Title 18, Chapter 5, Article 1. Therefore, the Arizona Department of Environmental issues

has Certified of Registration as a:

**Certificate**

16237  
22802  
22803

**Grade and Classification**

Grade 1 Wastewater Treatment Plant Operator  
Grade 1 Water Treatment Plant Operator  
Grade 1 Water Distribution System Operator

**Exp.**

5/31/2010  
5/31/2010  
5/31/2010

