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BEFORE THE ARIZONA CORPORATION CO.

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

OCT 30 2009

- KRISTIN K. MAYES - Chairman
- GARY PIERCE
- PAUL NEWMAN
- SANDRA D. KENNEDY
- BOB STUMP

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IN THE MATTER OF THE APPLICATION OF
 TONTO HILLS UTILITY COMPANY FOR
 APPROVAL TO CANCEL ITS CERTIFICATE OF
 CONVENIENCE AND NECESSITY AND TO
 SELL ITS ASSETS TO TONTO HILLS
 DOMESTIC WATER IMPROVEMENT DISTRICT.

DOCKET NO. W-02483A-09-0064

DECISION NO. 71319

OPINION AND ORDER

DATE OF HEARING: September 9, 2009

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Yvette B. Kinsey

APPEARANCES:

Mr. Steven C. Polger, LAW OFFICES OF STEVEN C. POLGAR, on behalf of Tonto Hills Utility Company;

Mr. Steve Wene, MOYES SELLERS & SIMS, LTD, and Mr. Charles Civer, on behalf of Tonto Hills Domestic Water Improvement District; and

Mr. Kevin Torrey, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On February 17, 2009, Tonto Hills Utility Company ("Tonto Hills") filed with the Arizona Corporation Commission ("Commission") an application to cancel its Certificate of Convenience and Necessity ("CC&N") and for approval of the sale of its assets to Tonto Hills Domestic Water Improvement District ("District"). The application states that the District is being formed so that it can acquire the assets of Tonto Hills, take over the day-to-day management of the utility, and provide water utility service to the property owners in the Tonto Hills Community.

On March 19, 2009, the Commission's Utilities Division ("Staff") filed an Insufficiency Letter in this docket, stating that Tonto Hills' application had not met the sufficiency requirements as outlined in the Arizona Administrative Code ("A.A.C").

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1 On April 6, 2009, Tonto Hills filed a copy of the notice sent to its customers regarding the
2 application.

3 On May 12, 2009, Staff filed its Second Insufficiency Letter and requested Tonto Hills
4 provide additional information.

5 On June 18, 2009, Staff filed a Sufficiency Letter stating that Tonto Hills' application had met
6 the sufficiency requirements as outlined in the A.A.C.

7 On July 16, 2009, by Procedural Order, the hearing was set to begin on September 9, 2009,
8 and other procedural deadlines were established.

9 On July 23, 2009, Staff filed a Request for Partial Administrative Closure. According to
10 Staff's request, the District had been assigned a separate docket number (W-20653A-09-0064);
11 however, the District is not an entity regulated by the Commission and no docket number should have
12 been assigned. Therefore, Staff requested that Docket No. W-20653A-09-0064 be administratively
13 closed.

14 On August 3, 2009, Tonto Hills filed certification that notice of the application and hearing
15 date had been published in the *Sonoran News*, a newspaper of general circulation in the Tonto Hills'
16 service area, and that all of Tonto Hills' customers had been notified via first class mail. Additionally,
17 the notice advised that Mr. Steven C. Polgar, Esq., would be representing Tonto Hills in this matter.

18 On August 6, 2009, Harry L. Howe, Esq. filed a Notice stating he did not represent Tonto
19 Hills in this proceeding.

20 On August 7, 2009, Staff filed a Staff Report recommending approval of Tonto Hills'
21 application with conditions.

22 On August 17, 2009, the District filed for Leave to Intervene as a party in this matter.

23 On August 21, 2009, Mr. Steven C. Polgar, Esq. filed a Notice of Appearance, on behalf of
24 Tonto Hills.

25 On August 25, 2009, by Procedural Order, the District was granted intervention in this matter
26 and Docket Control was directed to administratively close Docket No. W-20653A-09-0064.

27 On September 9, 2009, a full public hearing was convened before a duly authorized
28 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. Tonto Hills, Staff

1 and the intervenor appeared through counsel and presented testimony. Staff presented evidence in
2 the form of a Staff Report. No members of the public appeared to give public comment. At the
3 conclusion of the hearing, Staff was directed to file a late-filed exhibit.

4 On September 21, 2009, Staff filed its late-filed exhibit.

5 After receipt of the late-filed exhibit, the matter was taken under advisement pending
6 submission of a Recommended Opinion and Order to the Commission.

7 * * * * *

8 Having considered the entire record herein and being fully advised in the premises, the
9 Commission finds, concludes, and orders that:

10 **FINDINGS OF FACT**

11 1. Tonto Hills is a public service corporation providing water utility service to an area
12 approximately six miles east of the Town of Cave Creek, in Maricopa County, Arizona.

13 2. Tonto Hills received its CC&N in Commission Decision No. 55491 (March 19, 1997);
14 has a service area encompassing approximately 465 acres or three quarters of a square mile; and
15 serves 129 residential customers.

16 3. On October 30, 2008, the customers of Tonto Hills petitioned Maricopa County to
17 form the District and the Maricopa County Board of Supervisors approved the formation of the
18 District on January 28, 2009.

19 4. On February 17, 2009, Tonto Hills filed an application with the Commission
20 requesting approval to sell its assets to the District and to cancel its CC&N.

21 5. On August 3, 2009, Tonto Hills filed certification that it provided notice of the
22 application and hearing date to its customers via first class mail and by publishing notice in the
23 *Sonoran News*, a newspaper of general circulation in the Tonto Hills' service area.

24 6. On August 7, 2009 and September 4, 2009, Staff filed a Staff Report and Amended
25 Staff Report, respectively, recommending that the Commission approve Tonto Hills' application with
26 conditions.

27 7. Mr. Charles Dunning, President of Tonto Hills, testified he believes Tonto Hills
28 customers will benefit from forming a district because they will be shareholders in the company, have

1 lower rates, and the assurance of reliable service. (Tr. at 10) Mr. Dunning further testified the owners
 2 of Tonto Hills, who are also the seven members of the board of directors for the Company, would
 3 like to retire from the day-to-day management responsibilities of the water company, and that is why
 4 the decision was made to sell the company. (Tr. at 12)

5 8. Mr. Charles Civer, a member of the Board of Directors for the District, testified that
 6 he is responsible for overseeing the sale of Tonto Hills' assets to the District as well as getting the
 7 District's operations up and running. (Tr. at 22) He testified that the District has retained Tonto
 8 Hills' engineer and its certified operator to continue performing the day-to-day operations for the
 9 District. (Tr. at 29) Mr. Civer stated that the District will initially continue to use the accounting firm
 10 that currently handles billing for Tonto Hills. (Id.)

11 9. Mr. Civer testified that the District's board members will manage the day-to-day
 12 operations of the water company and that the Board is comprised of three members who have
 13 financial backgrounds, as well as experience with water companies. (Tr. at 30)

14 10. Staff concluded that, based on the management the District will have in place, the
 15 proposed transfer of assets to the District will not have an adverse effect on service quality or
 16 operation of the company. (SER at 2)

17 11. The owners of Tonto Hills and the District have memorialized the proposed sale of
 18 Tonto Hills' assets to the District in a Letter of Intent ("LOI"). Under the LOI, the District will
 19 acquire all tangible and intangible assets, contractual, ownership, and leasehold rights and interest
 20 held by Tonto Hills, in addition to assuming all liabilities of Tonto Hills.¹ The agreement states the
 21 purchase price will be \$442,000, plus the amount of the existing WIFA loan amount of approximately
 22 \$202,000.²

23 12. Under the terms of the LOI, both Tonto Hills and the District are required to meet
 24 certain conditions by December 31, 2009. Mr. Dunning testified that Tonto Hills completed,
 25 approximately a year ago, sandblasting and applying a new epoxy coating to the water company's
 26 tank, and that the work was done consistent with industry standards and has been inspected by the
 27

28 ¹ Staff Report Exhibit 2.

² Staff Exhibit 2.

1 District. (Tr. at 17) He further testified that during the same timeframe, Tonto Hills completed work
2 to replace sections of the potable water pipe at Blue Wash Road and Tonto Road and at two
3 intersections on La Planta and Tonto roads. (Tr. at 18)

4 13. The LOI further states that Tonto Hills will pay off an existing WIFA loan
5 immediately following the close of the sale to the District. Mr. Dunning testified that Tonto Hills has
6 an existing WIFA loan in the amount of approximately \$202,000 and that loan will be paid off with
7 the proceeds from the sale to the District. (Tr. at 19)

8 14. The District's witness testified that progress is being made towards meeting its
9 conditions outlined in the LOI. (Tr. at 22) The witness explained that the District has been
10 successfully formed; that a financing application has been submitted to WIFA to cover the purchase
11 cost of Tonto Hills and to make future system improvements³; that the first draft of the assignment of
12 Central Arizona Project ("CAP") allocation from Tonto Hills to the District has been completed; that
13 discussions are on-going with the City Council of Scottsdale regarding the reassignment of the treat
14 and transport contract for CAP water from Tonto Hills to the District; and that a system inspection
15 has been conducted and the District found the Tonto Hills system satisfactory. (Tr. at 23-29) The
16 witness further testified that the District is on the WIFA priority list, that the WIFA financing
17 application is scheduled for the December Board meeting, and that the District anticipates the WIFA
18 loan will be finalized within three to four months from approval by the Board. (Tr. at 26)

19 15. Staff recommends that the finalized contract and bill of sale be filed as a compliance
20 item in this docket.

21 16. Tonto Hills' witness testified that customer deposits and advances total approximately
22 \$7,900. The District's witness testified that all customer deposits and advances will be honored as a
23 part of the sale agreement.

24 17. Staff recommends that the District be required to honor all obligations of Tonto Hills
25 associated with refundable customer deposits without any arbitrary timeframe for submission of
26 claims.

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28 ³ The amount of the requested WIFA loan is \$800,000.

WATER SYSTEM

18. Tonto Hills' sole source of water comes from the CAP. According to Staff's Engineering Report, the City of Scottsdale treats and transports CAP water, for use by Tonto Hills. Staff reports that the Tonto Hills system consists of a 64,000 gallon storage tank, a gravity fed distribution system, meters, and service lines. (SER at 2)

19. According to Tonto Hills' Annual Reports for the years 2004 through 2008, the company has experienced an average growth rate of two new connections annually. (SER at 2)

20. Staff reviewed Tonto Hills' water pumped and water sold data and determined that the system has a non-account water loss exceeding 12 percent. Staff attributed the non-account water loss to leaks in the water company's aging infrastructure that will need to be repaired or replaced. According to Staff, a portion of the WIFA loan applied for by the District will cover costs associated with the needed storage tank repairs and will correct the system's water loss issue. (SER at 2)

21. Based on Staff's review, Staff concluded that the system has adequate production and storage capacity.

22. The Maricopa County Environmental Services Department has determined that the Tonto Hills water system is delivering water that meets water quality standards required by the A.A.C.

23. The Tonto Hills service area is located within the Arizona Department of Water Resources' ("ADWR") Phoenix Active Management Area ("AMA"), and Tonto Hills is in compliance with AMA reporting and conservation rules.

24. Tonto Hills has no outstanding compliance issues with the A.C.C.

25. The Utilities Division Consumer Services database shows that zero complaints have been filed against Tonto Hills in the last three years.

26. No public comments have been filed in opposition to the application.

27. Staff's recommendation for approval of the application is reasonable and should be adopted.

CONCLUSIONS OF LAW

1. Tonto Hills Utility Company is a public service corporation within the meaning of

1 Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282 and 40-285.

2 2. The Commission has jurisdiction over Tonto Hills Utility Company and the subject
3 matter of the application.

4 3. Notice of the application was provided in accordance with the law.

5 4. The proposed sale of Tonto Hills Utility Company's assets to the Tonto Hills
6 Domestic Water Improvement District will not have an adverse effect on service quality or operations
7 of the utility.

8 5. Tonto Hills' CC&N should be cancelled, subject to compliance with Staff's stated
9 conditions.

10 6. Staff's recommendations, as set forth herein, are reasonable and should be adopted.

11 **ORDER**

12 IT IS THEREFORE ORDERED that the application of Tonto Hills Utility Company to sell its
13 assets to the Tonto Hills Domestic Water Improvement District, is hereby approved.

14 IT IS FURTHER ORDERED that the Certificate of Convenience and Necessity granted to
15 Tonto Hills in Commission Decision No. 55491 (March 19, 1997), shall immediately cancel upon
16 Tonto Hills Utility Company filing with Docket Control, as a compliance item in this docket, the
17 final contract and bill of sale executed by Tonto Hills Utility Company and the Tonto Hills Domestic
18 Water Improvement District.

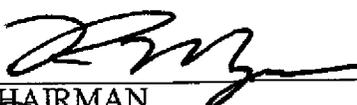
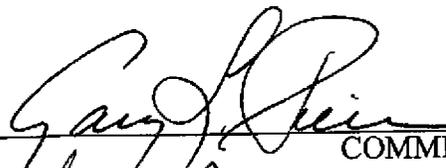
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1 IT IS FURTHER ORDERED that the approval of this application is conditioned on the Tonto
2 Hills Domestic Water Improvement District commitment to honor all liabilities of Tonto Hills Utility
3 Company relating to customer accounts, including, but not limited to, customer deposits, and
4 customer meter advance credits.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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8  
 CHAIRMAN COMMISSIONER

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 COMMISSIONER COMMISSIONER COMMISSIONER

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13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto set my hand and caused the official seal of the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 30th day of OCT, 2009.

18 
19 ERNEST G. JOHNSON
20 EXECUTIVE DIRECTOR

21 DISSENT _____

22 DISSENT _____

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1 SERVICE LIST FOR:

TONTO HILLS UTILITY COMPANY and TONTO
HILLS DOMESTIC WATER IMPROVEMENT
DISTRICT

3 DOCKET NO.:

W-02483A-09-0064

4
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