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MEMORANDUM

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TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

Date: February 15, 2011

RE: STAFF REPORT FOR THE APPLICATION OF PINEVIEW WATER COMPANY FOR AN OPINION AND ORDER (I) AUTHORIZING SALE AND TRANSFER OF WATER SYSTEM ASSETS AND (II) CANCELLING CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO: W-01676A-10-0400)

Attached is the Staff Report for the sale and transfer of Pineview Water Company to the City of Show Low and cancellation of its Certificate of Convenience and Necessity. Staff recommends approval with conditions.

EGJ:VW:kdh

Originator: Vicki Wallace

Arizona Corporation Commission

DOCKETED

FEB 15 2011

DOCKETED BY	
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Service List For: Pineview Water Company, Inc.
Docket No. W-01676-10-0400

Mr. Lawrence V. Robertson Jr.
Post Office Box 1448
Tubac, Arizona 85646

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

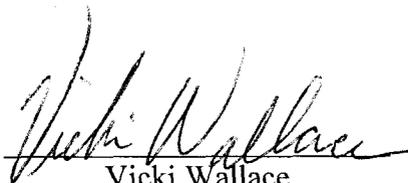
PINEVIEW WATER COMPANY, INC.
DOCKET NO. W-01676-10-0400

TRANSFER AND SALE OF ASSETS OF PINEVIEW WATER COMPANY TO
THE CITY OF SHOW LOW AND CANCELLATION OF PINEVIEW WATER COMPANY'S
CERTIFICATE OF CONVENIENCE AND NECESSITY

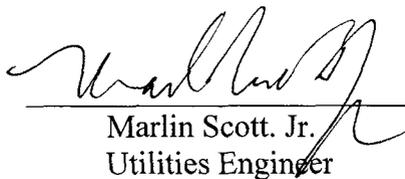
FEBRUARY 15, 2011

STAFF ACKNOWLEDGMENT

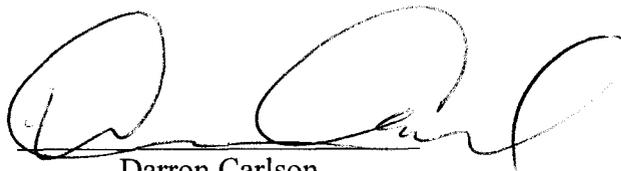
The Staff Report for Pineview Water Company, Docket No. W-01676A-10-0400 was prepared by the Staff members shown below.



Vicki Wallace
Executive Consultant



Marlin Scott, Jr.
Utilities Engineer



Darron Carlson
Public Utilities Analyst Manager

**EXECUTIVE SUMMARY
PINEVIEW WATER COMPANY
DOCKET NO. W-01676A-10-0400**

On October 4, 2010, the Pineview Water Company ("Pineview" or "Company") filed an application with the Arizona Corporation Commission ("Commission" or "ACC") for approval of the sale and transfer of water system assets to the City of Show Low ("City" "Show Low") and for the cancellation Pineview's Certificate of Convenience and Necessity to provide water service.

The Purchase and Sale Agreement ("Purchase Agreement" or "Agreement") between Pineview and the City of Show Low was initially executed on August 31, 2010, and finalized on September 7, 2011, following a resolution by the City Council of Show Low.

The City of Show Low has extensive experience owning and operating a municipal water utility and has executed a Purchase Agreement with Pineview for the acquisition. No adverse impacts to customers are anticipated, and in fact, the quality and quantity of water available to customers may improve.

The City has shown its intentions to honor all Pineview's obligations under mainline extension agreements and to assume all existing customer accounts, including customer deposit obligations.

Staff recommends approval of the transfer of the assets of Pineview to Show Low and that the Commission cancel the CC&N of Pineview Water Company with the following conditions:

1. That Pineview file documentation of finalization of the sale of Pineview to the City with the Commission in this docket within 30 days of such finalization.
2. That the City honor all liabilities of Pineview relating to customer deposits, service line and meter installations, and mainline extension agreements.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
BACKGROUND.....	1
THE ASSET PURCHASE AGREEMENT.....	2
THE PINEVIEW WATER SYSTEM.....	2
FINANCIAL ANALYSIS.....	3
CITY OF SHOW LOW'S ORGANIZATION AND OPERATION.....	3
RATES AND CUSTOMER SERVICE.....	4
CUSTOMER NOTICE.....	4
COMPLIANCE.....	4
<i>ADEQ.....</i>	<i>4</i>
<i>ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR").....</i>	<i>4</i>
<i>ACC.....</i>	<i>5</i>
CONCLUSIONS AND RECOMMENDATIONS.....	5

EXHIBITS

ENGINEERING MAPS.....	1
ENGINEERING SECTION REPORT.....	2
FINANCIAL AND REGULATORY ANALYSIS.....	3
PINEVIEW'S COMPLIANCE ON WATER LOSS ISSUES.....	4

INTRODUCTION

On October 4, 2010, the Pineview Water Company ("Pineview" or "Company") filed an application with the Arizona Corporation Commission ("Commission" or "ACC") for authorization of the sale and transfer of water system assets to the City of Show Low ("Show Low" or "City") and for the cancellation of Pineview's Certificate of Convenience and Necessity to provide water service.

On November 3, 2010, the ACC Utilities Division ("Staff") filed an Insufficiency Letter indicating that the Company's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C."). On November 17, November 19, and December 15, 2010, the Company filed responses to Staff's Insufficiency Letter and provided additional documentation to support its application. On December 20, 2010, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

On January 6, 2011, the Administrative Law Judge issued a procedural schedule setting a hearing for March 15, 2011.

BACKGROUND

Pineview is an Arizona corporation (Class "C" utility), in good standing with the Commission's Corporation Division, and is certificated to provide water utility services to approximately 1,000 residential and 150 commercial customers in an area just southeast of Show Low, in Navajo County, pursuant to the Commission's Decision No. 32007 issued December 28, 1959. The Company's current rates were set by Decision No. 71693 issued May 3, 2010. The Company currently has five (5) full-time employees overseeing the Company's water system operations. Staff's legal description and maps of the service area are attached as Exhibit 1.

Pineview's certificated service area is contiguous and/or near the City limits on its western, northern and eastern boundaries and encompasses approximately 3 and 3/4 square miles. According to Pineview, its system is in a geographical area in which Show Low desires to establish and expand its presence as a regional water provider.

Pineview and Show Low reached agreement on the substantive provisions of an Asset Purchase and Sale Agreement ("Agreement" or "Purchase Agreement") in August of 2010. The Agreement was executed by the President of Pineview on August 31, 2010, and by the Mayor of Show Low on September 7, 2010, following unanimous approval of the Agreement by the Show Low City Council on September 7, 2010. Show Low also provides wastewater service to the area and indicates that the requested cancellation will have the effect of combining water and wastewater service in one municipal provider. The application indicates that Show Low has access to means for financing of the water system and for infrastructure additions and improvements which are not available to Pineview, and Show Low would be in a better position to accommodate future growth in Pineview's certificated water service area. Also, the current

owners of Pineview are advanced in years and desirous of relieving themselves of the responsibilities of owning and operating a water utility.

Pineview indicates the sale/transfer to Show Low and the cancellation of the CC&N would be in the public interest. Pineview feels that such a transaction would not have an adverse impact on the level and quality of service that the Company currently provides to its customers.

THE ASSET PURCHASE AGREEMENT

As indicated above, a Purchase Agreement between Pineview and Show Low was executed on August 31, 2010. The main provisions of the purchase agreement are as follows:

1. The City is to provide a continuous, adequate and reliable municipal water supply to all individuals and entities served by Pineview.
2. The total price for the purchase and sale of Pineview's assets is \$3,200,000. The Agreement requires Show Low to deposit \$12,500 as Earnest Money with the Escrow Agent and to pay the final portion of \$3,187,500 on or before closing.
3. The closing of the sale will be conditioned upon, among other things, Pineview obtaining regulatory approval from the ACC. If required regulatory approvals have not been obtained by March 31, 2011, or the parties do not extend the date of closing, the provisions of the Agreement will terminate.
4. The closing of the sale will occur no later than 10 business days after obtaining all regulatory approvals, but in no event later than March 31, 2011.
5. Any Aid of Construction Agreements held by Pineview, refunds of which are not due as of closing, will be transferred to Show Low together with the associated future refund responsibility.
6. Pineview will be responsible for making all customer deposit refunds which become due prior to Closing. Show Low is responsible for making all customer deposit refunds which become due subsequent to Closing.
7. The City will obtain a loan from the Water Infrastructure Financing Authority of Arizona ("WIFA") of up to \$4,800,000 to finance the purchase of the assets and anticipated improvements.

THE PINEVIEW WATER SYSTEM

As indicated in Staff's Engineering Report (Exhibit 2), Pineview's existing water system consists of 5 wells (totaling to 553 gallons per minute), 4 storage tanks (totaling to 2,570,000

gallons), 147 fire hydrants, booster systems, and 35.1 miles of water main. The plant-in-service (Company Assets) to be sold to the City can also be found in Exhibit 3. Pineview's water system has adequate well production and storage capacity to serve the existing connections.

According to responses to Staff's inquiry, the City has six Arizona Department of Environmental Quality ("ADEQ") certified operators for water. Three of those certified operators will have direct oversight over the water system obtained from Pineview.

Anticipated improvements (short and long-term) and upgrades to the water system include the following: (1) Scotts Pine Meadow system replacement; (2) interconnections to the City system and elimination of known bottlenecks; (3) upgrading of existing lines to 8-inch polyvinyl chloride ("PVC"); (4) and development of 3 wells.

FINANCIAL ANALYSIS

As indicated in attached Exhibit 3, the acquisition of, and immediate improvements to, the Pineview system by the City will be financed through a loan from WIFA. The City has already adopted a resolution authorizing the submittal of a loan application in an amount not to exceed \$4,800,000 million and subsequently applied to WIFA for that funding. This acquisition has been included as a fundable project in WIFA's 2011 Drinking Water Revolving Fund Project Priority List (DW 039-2011).

The financial information that Staff reviewed was as of October 31, 2010, and the amounts will vary depending on the actual closing date of the purchase agreement. The purchase price of the system is \$3,200,000. The historic net book value of the plant in service is approximately \$3,000,000.

As indicated in the Purchase Agreement referenced above, any future obligations of "aid in construction" agreements will be transferred to the City.

CITY OF SHOW LOW'S ORGANIZATION AND OPERATION

Show Low currently owns and operates a municipal water utility system, which provides water service to approximately 4,000 residential and 515 commercial customers. The City has operated as a water provider since shortly after incorporation in 1953 and employs 11.5 dedicated to the water utility. The City of Show Low Water Utility includes \$20,700,000 of assets as of June 30, 2010, and the City system's budget for the current fiscal year is \$2,200,000.

Show Low is a council-manager form of government. The City Manager is appointed directly by a 7 member City Council, which is elected to 14 year staggered terms. The Public Works Director is directly responsible for the operations of the water department, which is established as an enterprise fund and must run as a self-supporting business. The Finance Director is responsible for all billing and financial matters of the water department.

RATES AND CUSTOMER SERVICE

At the time of filing the application, the Staff was not advised of any anticipated rate changes to Pineview's customers resulting from the transfer to Show Low. According to Pineview, an appraisal and economic analysis was to be performed by the City to determine the need for any rate changes. The application indicates that a written description of Show Low's determination and reasoning in regard to any changes of Pineview's rates and charges would be filed in advance of an evidentiary hearing. As of the date of the preparation of this report, no such filing had been made.

It is Staff's understanding that the acquisition of Pineview by the City will have a positive impact on the current customers of Pineview as well as the current customers of Show Low. The City intends to interconnect these systems into one which is anticipated to increase the overall quality and quantity of water available to all residents. Due to the economies of scale, it is also envisioned that this purchase will lead to increased operational efficiencies.

The Utilities Division Consumer Services' Database indicates that over the last three years, there have been 8 complaints against Pineview regarding issues such as billing disputes, water quality, meter accuracy, and disconnections. All complaints have been resolved.

CUSTOMER NOTICE

As directed by the Procedural Schedule in this docket, Pineview docketed its Affidavit of Mailing customer notice of the sale of Pineview to Show Low on February 2, 2011.

It is Pineview's understanding that prior to the actual transfer of water system assets and operating responsibilities between Pineview and the City, Show Low will engage in an outreach program with Pineview's customers for the purpose of introducing itself to such customers.

COMPLIANCE

ADEQ

In an ADEQ compliance status report dated September 29, 2010, ADEQ reported that the Company's water system, Public Water System #09-022, has no major deficiencies and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4. ADEQ's compliance status report dated October 6, 2010, for the City's water system, Public Water System #09-026, also indicates no major deficiencies and water quality standards are being met.

Arizona Department of Water Resources ("ADWR")

The Company and the City are not located in an ADWR Active Management Areas. According to ADWR compliance status reports dated September 20, 2010 for the Company and

October 15, 2010, for the City, both entities are in compliance with departmental requirements governing water providers and/or community water systems.

ACC

The Engineering Report indicates that as of December 29, 2010, the Company had no delinquent compliance items. However, in Decision No. 71693, the ACC discussed “water loss” and directed Pineview to undertake certain actions to address and correct the “water loss” situation by January 31, 2011. Attached as Exhibit 5 is a copy of a summary of actions taken by Pineview as of the date of the application by Pineview in connection with the problem. Show Low has been advised as to the existence of the “water loss” issues and of Pineview’s efforts to indentify the cause and develop a plan for reducing the same.

CONCLUSIONS AND RECOMMENDATIONS

The City of Show Low has extensive experience owning and operating a municipal water utility and has executed a purchase agreement with Pineview for the acquisition. No adverse impacts to customers are anticipated, and in fact, the quality and quantity of water available to customers may increase as explained above.

The City has shown its intentions to honor all Pineview’s obligations under mainline extension agreements and to assume all existing customer account, including customer deposit obligations.

Staff recommends approval of the transfer of the assets of Pineview to Show Low and that the Commission cancels the CC&N of Pineview Water Company with the following conditions:

1. That Pineview file documentation of finalization of the sale of Pineview to the City with the Commission in this docket within 30 days of such finalization.
2. That the City honor all liabilities of Pineview relating to customer deposits, service line and meter installations, and mainline extension agreements

MEMORANDUM

TO: Vicki Wallace
Executive Consultant
Utilities Division

FROM: Lori H. Miller *LHM*
Programs & Projects Specialist II
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: October 18, 2010

RE: **PINEVIEW WATER COMPANY, INC. (DOCKET NO. W-01676A-10-0400)**

Pineview Water has filed an application to cancel its CC#N. Service will be provided by the City of Show Low.

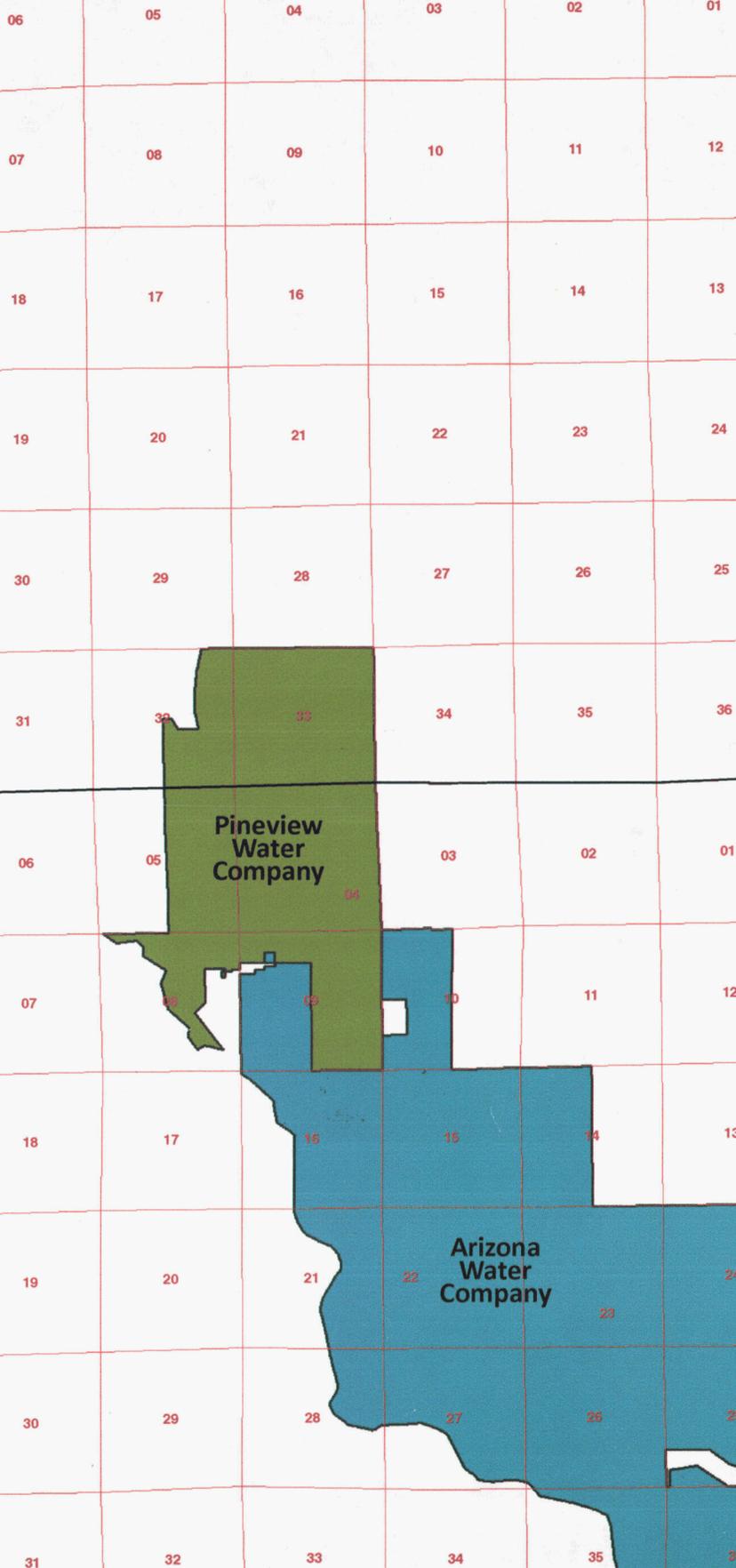
Attached is a copy of the map for your files.

/lhm

Attachment

cc: Mr. Lawrence V. Robertson, Jr.
Ms. Deb Person (Hand Carried)
Mr. Marlin Scott, Jr.

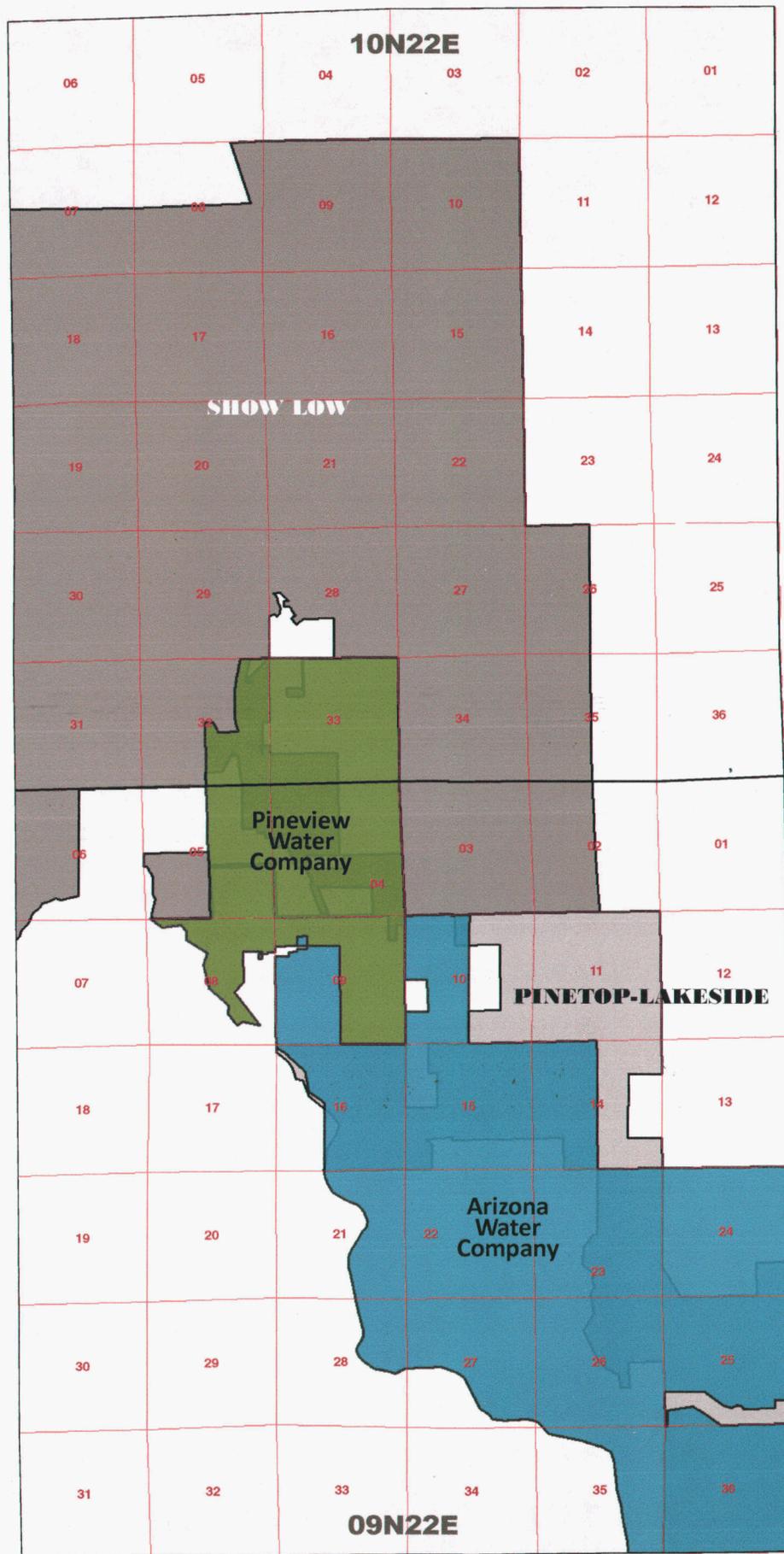
10N22E



Pineview
Water
Company

Arizona
Water
Company

09N22E



MEMORANDUM

TO: Vicki Wallace
Executive Consultant
Utilities Division

FROM: Marlin Scott, Jr. *MSJ*
Utilities Engineer
Utilities Division

DATE: January 5, 2011

RE: Engineering Report for Pineview Water Company, Inc.
Docket No. W-01676A-10-0400 (Sale of Assets and Cancellation of CC&N)

Introduction

Pineview Water Company, Inc. ("Company") has filed an application for approval of the sale of its assets and cancellation of its Certificate of Convenience and Necessity ("CC&N") to the City of Show Low ("City"). The Company is located south of Show Low, Navajo County, with a CC&N area covering approximately 3-3/4 square-miles. The Company's CC&N is contiguous and/or near to the City limits on its western, northern and eastern boundaries.

Water System*Operation*

According to the Company's 2009 Annual Report, the Company's water system consists of five wells (totaling to 663 gallons per minute), four storage tanks (totaling to 2,570,000 gallons), 147 fire hydrants, booster systems and 35.1 miles of water main serving approximately 1,190 service connections.

Capacity

The Company's water system has adequate well production and storage capacity to serve its existing service connections.

According to the Company, it is the City's intent to interconnect its water system with the Company's system which would increase the overall quality and quantity of water available to all residents. This interconnection would create economies of scale that would lead to increased operational efficiencies. In addition, the City anticipates various system upgrades and improvements to become an integrated system.

Sale of Assets

In its application, the Company provided the following plant-in-service to be sold to the City:

Table A. Company Assets

Acct. No.	Plant-in-Service	Amounts
303	Land & Land Rights	\$ 33,498
304	Structures & Improvements	109,849
307	Wells & Springs	370,717
311	Electric Pumping Equipment	247,116
320	Water Treatment Equipment	4,055
330	Distribution Reservoir & Standpipe	814,624
331	Transmission & Distribution Mains	2,681,328
333	Services	18,612
334	Meters & Meter Installations	236,006
335	Hydrants	181,115
339	Other Plant & Misc. Equipment	77,737
340	Office Furn. & Equipment	50,528
341	Transportation Equipment	63,848
343	Tools, Shop & Garage Equipment	42,557
345	Power Operated Equipment	2,083
347	Miscellaneous Equipment	422
	Total:	\$ 4,934,095

Arizona Department of Environmental Quality (“ADEQ”) Compliance

Company’s System

In an ADEQ compliance status report, dated September 29, 2010, ADEQ reported the that Company’s water system, Public Water System #09-022, has no major deficiencies and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

City’s System

In an ADEQ compliance status report, dated October 6, 2010, ADEQ reported the that City’s water system, Public Water System #09-026, has no major deficiencies and is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Arizona Corporation Commission (“ACC”) Compliance

On December 29, 2010, the Utilities Division Compliance Section indicated that the Company had no delinquent ACC compliance items.

Arizona Department of Water Resources (“ADWR”) Compliance

Company’s System

The Company is not located in any ADWR Active Management Area. According to an ADWR compliance status report, dated September 20, 2010, ADWR reported that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

City’s System

The City is not located in any ADWR Active Management Area. According to an ADWR compliance status report, dated October 15, 2010, ADWR reported that the City is currently in compliance with departmental requirements governing water providers and/or community water systems.

Conclusions

Staff concludes that the proposed sale of assets and CC&N cancellation will not have an adverse effect on the Company’s customers and their water service.

The Company is in compliance with ADEQ, ACC and ADWR regulations.

The City is in compliance with ADEQ and ADWR regulations.

MEMORANDUM

TO: Vicki Wallace
Executive Consultant
Utilities Division

FROM: Darron W. Carlson
Public Utilities Analyst Manager
Financial and Regulatory Analysis Section
Utilities Division



DATE: February 03, 2011

RE: IN THE MATTER OF THE APPLICATION OF PINEVIEW WATER COMPANY, INC. FOR AN OPINION AND ORDER (i) AUTHORIZING SALE AND TRANSFER OF WATER SYSTEM ASSETS, AND (ii) CANCELLING CERTIFICATE OF CONVENIENCE AND NECESSITY. (DOCKET NO. W-01676A-10-0400)

On October 4, 2010, Pineview Water Company, Inc. ("Pineview") filed an application with the Arizona Corporation Commission seeking authorization to sell and transfer its assets and cancel the associated Certificate of Convenience and Necessity. The purchaser of the system is the City of Show Low ("City"), an Arizona municipality. The City has already applied to the Water Infrastructure Finance Authority of Arizona ("WIFA") for funding of up to \$4.8 million for the purchase of and immediate improvements to Pineview. This acquisition has been included as a fundable project in WIFA's 2011 Drinking Water Revolving Fund Project Priority List (DW 039-2011).

The financial information Staff reviewed was as of October 31, 2010, and amounts will vary depending on the actual closing date of the purchase agreement. The purchase price of the system is \$3.2 million. The historic net book value of the plant in service is approximately \$3.0 million.

Additionally, the purchase agreement (at Section 10.5.4, page 15) transfers any future obligations of "aid in construction" agreements to the City.

Steps Pineview Water Company has take to reduce Water Loss

An ADEQ Representative performed an Operation and Maintenance evaluation on August 15, 2007. The ADEQ O. & M. report was received on September 5, 2007. At that time the company had not yet determined the probable source of the excessive water loss. The evaluation included developing a facility schematic and description of the system. It evaluated our site sampling plan, as well as our Emergency Operation, Vulnerability Assessment and Backflow/Cross-Connection Control Plans.

It was not until after the evaluation that the company learned of leaks in the Scotts Pines subdivision's water system.

Through a process of elimination the company is prudently certain that the source of the excess water loss is in the Scotts Pines subdivision's water system. The company has come to this conclusion based on the following:

- The company performed a meter flow test on every meter. Meters found to not be registering accurately were replaced.
- All main lines were walked. Many are in backyard easements or through undeveloped forested areas. All leaks discovered were repaired.
- The company maintains records of estimated water lost prior to the leak being found and repaired.
- The company maintains records of water lost through monthly flushing.
- The company maintains records on adjusted bills due to miss reads.
- The company's construction specifications included mega lug fittings and joint restraints (no glued fittings on main lines). Service lines are brass fittings on poly pipe.
- "Clay Dams" are installed where leaks have been found in areas where cinders were used as backfill by other utilities.

As a result of the above noted process, the company has discovered that leaks located in the Scotts Pines subdivision's water system are the most likely source of the excess water loss.

Therefore, on August 9, 2010, the company obtained a Planning and Design grant from WIFA. The company has contracted with Tetra-Tec Engineering to Plan, Design and provide an Engineer's estimate to replace the water system in the Scott Pine Meadow Subdivision.