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MEMORANDUM

TO: Docket Control

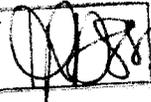
FROM: Steven M. Olea  
Director  
Utilities Division

Date: February 22, 2011

RE: **SUPPLEMENTAL STAFF REPORT FOR THE APPLICATION OF RINCON RANCH ESTATE WATER COMPANY, INC. FOR CANCELLATION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY AND TRANSFER OF ITS UTILITY ASSETS TO THE CITY OF TUCSON.**  
(DOCKET NO. W-01337A-10-0375)

Arizona Corporation Commission  
**DOCKETED**

FEB 22 2011

DOCKETED BY 

Attached is the Supplemental Staff Report for the application of Rincon Ranch Estate Water Company, Inc. for the Arizona Corporation Commission cancelation of its Certificate of Convenience and Necessity, and for authority to transfer its utility assets to the City of Tucson. Staff recommends approval.

Any party to this procedure who wishes may file comments to the Supplemental Staff Report with Commission's Docket Control by 4:00 p.m. on or before March 1, 2011.

SMO:All:tdp

Originator: Alexander Ibhade Igwe, CPA

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Service List for: Rincon Ranch Estate Water Company, Inc.  
Docket No.: W-01337A-10-0375

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SUPPLEMENTAL STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

RINCON RANCH ESTATE WATER COMPANY, INC.  
(DOCKET NO. W-01337A-10-0375)

APPLICATION FOR CANCELLATION OF CERTIFICATE OF CONVENIENCE AND  
NECESSITY AND TRANSFER OF ITS UTILITY ASSETS TO THE CITY OF TUCSON

FEBRUARY 22, 2011

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Rincon Ranch Estate Water Company, Inc. (Docket No. W-01337A-10-0375) was prepared by Alexander Ihade Igwe, in response to the Affidavit of Dale Calvert.

A handwritten signature in black ink, appearing to read "Ihade Igwe", with a long horizontal flourish extending to the right.

Alexander Ihade Igwe, CPA  
Executive Consultant III

**EXECUTIVE SUMMARY**  
**RINCON RANCH ESTATE WATERCOMPANY**  
**DOCKET NO. W-01337A-10-0375**

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On September 10, 2010, Rincon Ranch Estate Water Company ("Rincon Ranch" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for cancellation of its Certificate of Convenience and Necessity ("CC&N") and for authorization to transfer its utility assets to the City of Tucson ("City").

On December 21, 2010 Commission Staff ("Staff") filed its Staff Report recommending approval of the Company's proposal. Staff noted that the Company's transfer of its assets to the City on November 2, 2010, without Commission approval, was in violation of Arizona Revised Statute ("ARS") § 40-285. However, Staff concluded that the Company acted in the public interest due to the circumstances surrounding the transfer.

On January 26, 2011, the Administrative Law Judge ("ALJ") convened a Procedural Conference. The Company presented additional information on why it was compelled to transfer its assets prior to Commission authorization. As a result, the ALJ ordered the Company to file an affidavit demonstrating the extenuating circumstances regarding its sale and transfer of assets. Also, the ALJ requested Staff to file a supplemental Staff Report in response to the Company's affidavit. On February 10, 2011, the Company docketed the Affidavit of Dale Calvert, attached herewith as Attachment A. The Company avowed that its water system was at the verge of a catastrophic failure absent of an immediate take-over by the City. Rincon Ranch continues to contend that its transfer was in the public interest.

Staff has reviewed the Affidavit of Dale Calvert, and determined that the Company acted in the public interest. As previously discussed in the Staff Report in this proceeding, the Company had no willing operator and manager upon the death of Frank Calvert. Further, the Company lacked adequate financial resources and technical expertise to enhance its productive capacity. Finally, the City has the necessary financial and managerial resources to enhance the water system, for the benefit of the Company's existing ratepayers and prospective customers. Although Staff concludes that Rincon Ranch's transfer of its assets without Commission authorization is a violation of the Arizona Revised Statute ("ARS") § 40-285, Staff agrees with the Company that it acted in the public interest. Accordingly, Staff continues to recommend Commission approval of the Company's proposed sale and transfer of Rincon Ranch's assets to the City.

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**STAFF'S REPOSE TO THE AFFIDAVIT OF DALE CALVERT**

On September 10, 2010, Rincon Ranch Estate Water Company ("Rincon Ranch" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for cancellation of its Certificate of Convenience and Necessity ("CC&N") and for authorization to transfer its utility assets to the City of Tucson ("City").

On December 21, 2010, Commission Staff ("Staff") filed a Staff Report recommending approval of the Company's application to sell and transfer its assets to the City of Tucson ("City"). Staff noted that on November 2, 2010, the Company consummated and transferred its assets to the City, without Commission authority. Staff found the Company's action to be in violation of the Arizona Revised Statute ("ARS") § 40-285. However, Staff determined that the Company acted in the public interest and recommends approval of its application.

On January 5, 2011, the Administrative Law Judge ("ALJ") issued a Procedural Order requesting a Procedural Conference on January 26, 2011. During the Procedural Conference, the Company's Counsel stated that Rincon Ranch was compelled to sell and transfer its assets without Commission authorization due to what it perceived to be imminent catastrophic system failure, without the City's immediate intervention. Based on this new information, the ALJ requested the Company to file an Affidavit stating its perceived emergency. Also, the ALJ requested Staff to file a supplemental Staff Report in response to the Company's affidavit.

On February 10, 2011, the Company filed the Affidavit of Dale Calvert ("Affidavit") in response to the ALJ's directive. The Company states that it commenced negotiating to sell its water system to the City in 2004. In 2007, its Well No. 1 failed, thus curtailing its productive capacity to a single well. Rincon Ranch avows that prior to the demise of its proprietor, Frank Calvert, on August 7, 2007; the Company had explored the possibility of drilling a new well. Although Frank Calvert identified a location for its proposed well site, the Company concluded that incurring significant capital costs for drilling a new well may not result in an enhanced water production capacity. As a result, the Company was compelled to rely on its interconnection with the City. In 2008 and 2009, the Company procured approximately 45 percent of its water supply from the City. However, the Company recognized that the City might be unable to meet 100 percent of its water supply should its remaining well fail. Furthermore, the Company was solicited for provision of water service to a proposed large church and a Wal-Mart in 2009 and 2010. The Company contends that these two prospective customers would have exacerbated its water supply problem. In addition to its inadequate production capacity, the Company reports having marginal water pressure levels at some locations with its water system.

Dale Calvert avows that after the death of Frank Calvert, he continued negotiating with the City because of his belief that the City provides the best option to effectively serve the Company's certificated areas. On November 2, 2010, Rincon Ranch and the City entered into an agreement to consummate the sale and transfer of its assets. Once the sale agreement was consummated, the City requested Rincon Ranch's authority to commence installation of a 6-inch interconnection from the South and rezoning its water system at a higher pressure. However, the

Company declined the City's request due to potential liability issues. The Company concluded that it was imperative for the City to assume ownership and responsibility for the water system, before developing necessary infrastructure within its certificated area. In order to mitigate the risk of a catastrophic system failure, the Company was compelled to transfer its assets to the City, prior to Commission authorization.

Staff has reviewed the Affidavit of Dale Calvert, and determined that the Company acted in the public interest. As previously discussed in the Staff Report in this proceeding, the Company had no willing operator and manager upon the death of Frank Calvert. Further, the Company lacked adequate financial resources and technical expertise to enhance its productive capacity. Finally, the City has the necessary financial and managerial resources to enhance the water system, for the benefit of the Company's existing ratepayers and prospective customers. Although Staff concludes that Rincon Ranch's transfer of its assets without Commission authorization is a violation of the Arizona Revised Statute ("ARS") § 40-285, Staff agrees with the Company that it acted in the public interest. Accordingly, Staff continues to recommend Commission approval of the Company's proposed sale and transfer of Rincon Ranch's assets to the City.

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W-01337A-10-0305

AFFIDAVIT  
OF DALE CALVERT

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AZ CORP COMM

Director: UN/111111

Having been first duly sworn before the undersigned Notary Public, Dale Calvert, State of Arizona, as follows:

1. I am Dale Calvert and I am President of Rincon Ranch Estates Water Company, hereinafter the Water Company which is the Applicant in a matter before the Arizona Corporation Commission to extinguish the Certificate of Convenience and Necessity issued by the Corporation Commission to the Water Company.
2. Water Company began negotiations to sell to the City of Tucson in 2004. The City indicated interest because they had pressure zones that were interrupted by our system. They have one reservoir adjacent to the Northwest corner of our system and another one a mile west of our system. They have 8 inch lines adjacent to both the north and south boundaries to which they wished to connect. The existing interconnection came out of the line on the north side of our system.
3. Water Company Well No.1 failed in early 2007
4. Operator and owner Frank Calvert past away on August 7, 2007. We kept the operations going with the aid of a certified operator, my retired brother and myself even though I had another full time occupation as a certified public accountant.
5. Before Frank Calvert's death he had looked into drilling a new well but no specific plans were made.
6. Frank Calvert had identified a possible well site where there might be sufficient water but there was no certainty that there would be sufficient water even if drilled and he never began negotiations for the site but like our current wells it would probably not have been in the primary pool of water under Tucson.
7. I continued the negotiations with the City after his death because that appeared to be the best option to turn the system over to a qualified operator
8. When the City suspended the purchase process in December of 2007 I looked at alternatives to sell to other parties but did not find much interest
9. During 2009 and 2010 I was approached about the development of a large church on one parcel and a WalMart on another parcel on the western edge of the system which re-enforced my conviction that I needed to get the system to someone with an adequate water supply
10. During 2008 and 2009 the Water Company got approximately 45% of its' water from the City but the City connection was inadequate to support the whole system if we had a failure in our remaining well.
11. In early 2010 the City resolved the area wide issues that had them suspend all acquisitions and they moved to complete the contract.

12. The Tucson Mayor and Council approved the purchase in June 2010.

13. Our pressure levels were marginal in some locations in the system.

14. Once the contract was signed the City wanted to move ahead with the installation of a six inch interconnection from the south and rezoning our system to operate at their higher pressures. They requested permission to move ahead with those improvements as well as some other improvements. I indicated that we did not want them constructing on the system until they had title due to liability issues.

15. I proceeded with the closing so that they could take over operations as soon as possible.

16. I firmly believed that the water system faced a serious failure to be able to continue to provide adequate and reliable water service to its customers, and that transferring control of the water system to the City of Tucson so they could proceed with their interconnection upgrade was in the best interests of the customers of the Water Company.

FURTHER AFFIANT SAYETH NOT.

Date 2/7/2011 By Dale R. Calvert  
Dale Calvert, President  
Rincon Ranch Estates Water Company

State of Arizona )  
)ss  
County of Pima )

SUBSCRIBED AND SWORN to before me, the undersigned Notary Public by Dale Calvert, President of Rincon Ranch Estates Water Company, on the 7 day of February, 2011.

Madeline N. Arriaga  
Notary Public

My Commission Expires:  
May 26, 2012

