

ORIGINAL



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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
for Director
Utilities Division

Date: December 19, 2006

RE: STAFF REPORT FOR SILVERWELL SERVICE CORPORATION - APPLICATION FOR APPROVAL OF THE SALE OF ITS ASSETS AND TRANSFER OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE TO WATCO, INC. (DOCKET NOS. W-20475A-06-0549 AND W-01979A-06-0549)

Attached is the Staff Report for Silverwell Service Corporation's application for approval of the sale of its Assets and transfer of its Certificate of Convenience and Necessity for water service to Watco, Inc. Staff is recommending approval with conditions.

EGJ:BNC:red

Originator: Blessing Chukwu

Arizona Corporation Commission
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WJA

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Service List for: Silverwell Service Corporation and WATCO, Inc.
Docket Nos. W-20475A-06-0549 and W-01979A-06-0549

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

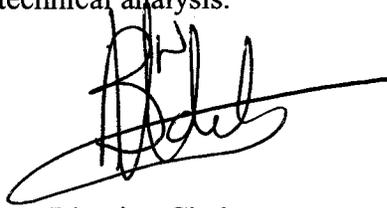
SILVERWELL SERVICE CORPORATION
DOCKET NOS. W-20475A-06-0549 AND W-01979A-06-0549

APPLICATION FOR APPROVAL OF THE SALE
OF ITS ASSETS AND TRANSFER OF ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY TO WATCO, INC.

DECEMBER 19, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Silverwell Service Corporation (Docket Nos. W-20475A-06-0549 and W-01979A-06-0549) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Katrin Stukov was responsible for the engineering and technical analysis.

A handwritten signature in black ink, appearing to read 'Blessing Chukwu', with a long horizontal flourish extending to the right.

Blessing Chukwu
Executive Consultant

A handwritten signature in black ink, appearing to read 'Katrin Stukov', written in a cursive style.

Katrin Stukov
Utilities Engineer

EXECUTIVE SUMMARY
SILVERWELL SERVICE CORPORATION AND WATCO, INC.
DOCKET NOS. W-20475A-06-0549 and W-01979A-06-0549

On August 31, 2006, Silverwell Service Corporation (“SSC” or “Company” or “Transferor”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) for approval of the sale of its assets and transfer of its Certificate of Convenience and Necessity (“CC&N”) to provide water service to Watco, Inc. (“Watco” or “Transferee”) in Navajo County, Arizona. On November 9, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the Arizona Administrative Code (“A.A.C.”)

Silverwell Service Corporation is certificated by the Commission to provide water utility services in portions of Navajo County, Arizona, by Decision No. 38013, issued on September 7, 1965, in Docket No. U-1979. The Company became incorporated on October 8, 1964, and on November 10, 1991, its Corporation status was revoked by the Commission due to failure to file Corporations Division Annual Report. On March 15, 1992, Mr. Grapp started managing SSC with an understanding that he would be “purchasing the water system on a personal note.” In 1996, Mr. Grapp purchased the assets of SSC, not the Corporation. Mr. Grapp started conducting business as Watco on or about 1997 and on March 21, 2003, Watco became incorporated. Watco, Inc. is an Arizona Corporation, in good standing with the Commission’s Corporation Division. The only shareholders of Watco are Mr. Mark E. Grapp, Sr. (the President) and Mrs. Barbara Grapp (the Secretary and Treasurer). Watco does not have a CC&N to provide water service in Arizona. However, under the name Silverwell Service Corporation dba Watco, Inc., Watco under the management of Mr. Grapp has been providing water service to approximately 287 SSC’s customers in an area just north of Show Low, Navajo County, Arizona. The purpose of this application is to formally transfer the assets and CC&N of SSC (a defunct corporation) to Watco, Inc.

Based on Staff’s review and analysis of the application, Staff believes the Silver Lake water system has adequate storage but lacks adequate well capacity to serve the present customer base, and the Bourdon Ranch water system has adequate well and storage capacities to serve the present customer base and reasonable growth. Staff further believes that if these two systems are interconnected, the combined systems’ production and storage capacity could adequately serve existing customer base and a reasonable level of growth.

Staff recommends the Commission approve SSC’s application for the sale of its assets and transfer of its CC&N for water service within portions of Navajo County, Arizona, to Watco, subject to compliance with the following condition:

1. To require Watco to charge SSC’s authorized rates and charges in the transfer area.
2. To require Watco to file with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct (“ATC”) issued by ADEQ for the interconnection of the Silver Lake and Bourdon Ranch Systems by June 1, 2007.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
THE WATER SYSTEM	2
THE TRANSACTION	3
ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE	3
ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE.....	4
ACC COMPLIANCE	4
ARSENIC	4
CURTAILMENT PLAN TARIFF	4
BACKFLOW PREVENTION TARIFF	4
PROPOSED RATES	4
COUNTY FRANCHISE.....	4
RECOMMENDATIONS.....	5

ATTACHMENT(S)

ENGINEERING REPORT	A
ENGINEERING MAP.....	B

Introduction

On August 31, 2006, Silverwell Service Corporation (“SSC” or “Company” or “Transferor”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) for approval of the sale of its assets and transfer of its Certificate of Convenience and Necessity (“CC&N”) to provide water service to Watco, Inc. (“Watco” or “Transferee”) in Navajo County, Arizona.

On September 28, 2006, the ACC Utilities Division (“Staff”) filed an Insufficiency Letter, indicating that SSC’s application did not meet the sufficiency requirements of Arizona Administrative Code (“A.A.C.”) R14-2-402(C). A copy of the Insufficiency Letter was sent to the Company via U.S. mail. In the Letter, Staff listed the deficiencies that needed to be cured for administrative purposes.

On October 13, 2006, the Company provided additional documentation to support its relief requested.

On November 9, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

Background

Silverwell Service Corporation is certificated by the Commission to provide water utility services in portions of Navajo County, Arizona, by Decision No. 38013, issued on September 7, 1965, in Docket No. U-1979. The Company became incorporated on October 8, 1964, and on November 10, 1991, its Corporation status was revoked by the Commission due to failure to file Corporations Division Annual Report. According to a response to Staff’s Insufficiency Letter, “[i]n later part of 1991, Mark Grapp began speaking with the water system’s appointed agent regarding a possible purchase.” On March 15, 1992, Mr. Grapp started managing SSC with an understanding that he would be “purchasing the water system on a personal note.” “The Note was secured by Lot 16 of Bourdon Ranch Estates Subdivision, not the water company.” In 1996, Mr. Grapp purchased the assets of SSC, not the Corporation. For a complete detail of the terms of the transaction, please see the purchase agreement and its addendum that are attached to the Company’s response to Staff’s Insufficient Letter filed on October 13, 2006. Mr. Grapp started conducting business as Watco on or about 1997 and on March 21, 2003, Watco became incorporated.

Watco, Inc. is an Arizona Corporation, in good standing with the Commission’s Corporation Division. The only shareholders of Watco are Mr. Mark E. Grapp, Sr. (the President) and Mrs. Barbara Grapp (the Secretary and Treasurer). Mr. Grapp, also owns three other water systems, namely: Cedar Grove Water Company, Serviceberry Water Company, and A. Petersen Water Company, Inc. On March 25, 2004, a letter was filed by Watco, in Docket No. W-01979A-04-0224 requesting to have the “dba Watco” added to Silverwell Service Corporation name, in order to reflect the name being used and recognized by their customers.

Staff in its response to the request to add a dba, stated that “[t]he legal entity remains the same, so no transfer of CC&N is needed” and recommended administrative closure of the docket. By Decision No. 67199, issued on August 18, 2004, the docket was administratively closed. Watco does not have a CC&N to provide water service in Arizona. However, under the name Silverwell Service Corporation dba Watco, Inc., Watco under the management of Mr. Grapp has been providing water service to approximately 287 SSC’s customers in an area just north of Show Low, Navajo County, Arizona.

The systems are current on property and sales taxes.

According to Watco’s Annual Report for the year ending December 31, 2005, Watco reported an annual revenue of \$91,837, expenses of \$114,294, and a loss of \$22,457.

The purpose of this application is to formally transfer the assets and CC&N of SSC (a defunct corporation) to Watco, Inc.

The Water System

Silverwell Service Corporation has two separate water systems: Silver Lake and Bourdon Ranch. Silver Lake system serves approximately 258 customers in Section 35, and Bourdon Ranch system serves approximately 29 customers in Section 25. The water systems are not currently interconnected.

The two systems follow typical configurations found in small water systems. Each system consists of a well, which pumps into a storage tank, followed by booster pumps and a pressure tank.

The Silver Lake water system consists of one well with a production capacity of 58 gallons per minute (“GPM”), 100,000 gallon storage tank, four booster pumps, 10,000 gallon pressure tank and distribution system. Staff concludes that this system has adequate storage but lacks adequate well production capacity to serve the existing customer base.

The Bourdon Ranch water system consists of one well with a production capacity of 31 GPM, 25,000 gallon storage tank, two booster pumps, 3,000 gallon pressure tank and distribution system. Staff concludes that this system has adequate production and storage capacity to serve the existing customer base and a reasonable level of growth.

The Company is in process of obtaining a WIFA loan to finance the construction of an interconnection between the Silver Lake and Bourdon Ranch systems, in compliance with Decision No. 68657, issued April 12, 2006. Staff concludes that the proposed interconnected systems’ production and storage capacity could adequately serve the existing customer base and a reasonable level of growth (approximately 363 connections). Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Approval

to Construct (“ATC”) issued by ADEQ for the interconnection of the Silver Lake and Bourdon Ranch Systems by June 1, 2007.

The Transaction

The Company is certificated to provide water service to approximately 287 customers in a portion of Navajo County, Arizona. By a Purchase Agreement dated February 19, 1996 and its addendum dated August 21, 1996, Mr. and Mrs. Grapp purchased the assets of SSC. The purchase price was \$59,002.10. Staff noted during its review of the application that some of the amount was still outstanding. According to the Purchase Agreement, “[t]he amounts owed on this agreement, \$10,000.00 and \$17,000.00, totally \$27,000.00 will be on a promissory note with an annual rate of 8 percent interest payable over a twenty (20) year period at the rate of \$22.84 or more per month with said monthly payments to be made to Lawyers Title located in Phoenix, Arizona until the \$17,000 note is satisfied. Thereafter, the monthly payment of \$225.84 will be made to Bourdon Ranch Estates, Ltd. ATTN: Les Ebeling, located in Phoenix, Arizona.” In Watco’s response to Staff’s Insufficiency Letter, Mr. Grapp stated that Mr. Les Ebeling, the managing partner of Bourdon Ranch Estates and the individual tracking the account related to the purchase of the water system, died in Spring of 2006. Since that time, the ambiguity of who to contact has prohibited Mr. Grapp from obtaining the exact amount that is outstanding. Watco believes that approximately \$19,500 is outstanding. Even though part of the purchase price is still outstanding, Silverwell Service Corporation has transferred the ownership of its assets to Mr. Grapp through quit-claim deed.

By this application, the Company is seeking Commission authority to sell its assets and transfer its CC&N to Watco, Inc., an Arizona Corporation, in good standing with the Commission’s Corporation Division. The Company’s CC&N area is approximately 3.1 square miles and is located about 6 miles northeast of Show Low in Navajo County, Arizona, in Sections 25 & 35 in Township 11 N, Range 22 East and Sections 30 & 31 in Township 12 N, Range 22 East.

According to the application, all customer security deposits will be transferred to the Transferee; all refunds due on Main Extension Agreements will be assumed by the Transferee; and all refunds due on meter and line installations will be assumed by the Transferee.

Mr. Grapp and/or Watco has been managing SSC’s water system since he acquired SSC’s assets. Staff understands that the proposed transfer of assets and CC&N from SSC to Watco, Inc. will not result in any change in the management or operation of the water system. Certified operator personnel will not change as result of the transfer.

Arizona Department of Environmental Quality (“ADEQ”) Compliance

The ADEQ assigns each water system it regulates a Public Water System (“PWS”) Identification Number which is used for tracking purposes. The ADEQ has determined that both water systems PWS # 09-027 & PWS # 09-049 are in full compliance with ADEQ requirements

and are currently delivering water that meets water quality standards as required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources (“ADWR”) Compliance

The Company is not within an Active Management Area (“AMA”), and consequently is not subject to ADWR reporting and conservation requirements.

ACC Compliance

According to the Utilities Division Compliance Section, the Company has no outstanding ACC compliance issues.

Arsenic

The U.S. Environmental Protection Agency (“EPA”) has reduced the arsenic maximum contaminant level (“MCL”) in drinking water from 50 micrograms per liter (“µg/l”) or parts per billion (“ppb”) to 10 µg/l. The Company reported arsenic concentrations of less than 1 ppb for the Silver Lake well and 2 ppb for the Bourdon Ranch well. Based on this data, both water systems are in compliance with the new arsenic MCL.

Curtailment Plan Tariff

A Curtailment Plan Tariff (“CPT”) is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

The Company has an approved curtailment tariff that became effective on November 20, 2002, per Decision No.65416.

Backflow Prevention Tariff

The Company has an approved backflow prevention tariff that became effective on January 27, 2003, per Decision No.65549.

Proposed Rates

Watco will provide water service to the transfer area under the Company’s authorized rates and charges.

County Franchise

Every applicant for a CC&N and/or CC&N extension is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or

permit from the proper authority. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

Watco has filed, in this docket, a copy of the franchise agreement it entered into with Navajo County.

Recommendations

Staff recommends the Commission approve SSC's application for the sale of its assets and transfer of its CC&N for water service within portions of Navajo County, Arizona, to Watco, subject to compliance with the following condition:

1. To require Watco to charge SSC's authorized rates and charges in the transfer area.
2. To require Watco to file with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct ("ATC") issued by ADEQ for the interconnection of the Silver Lake and Bourdon Ranch Systems by June 1, 2007.

Staff further recommends that the Commission's Decision granting the Approval of Sale of Assets and the transfer of the CC&N to Watco be considered null and void, after due process, should Watco fail to meet the Conditions No. 2 listed above within the time specified.

MEMORANDUM

DATE: December 1, 2006

TO: Blessing Chukwu
Executive Consultant III

FROM: Katrin Stukov *KS*
Utilities Engineer

RE: Application of Silverwell Service Corporation for approval of the transfer of assets and transfer of the Certificate of Convenience and Necessity from Silverwell Service Corporation to WATCO, Inc.
Docket Nos. W-01979A-06-0549 and W-20475A-06-0549.

Introduction

Silverwell Service Corporation ("Company") has applied to transfer its assets and Certificate of Convenience and Necessity ("CC&N") to WATCO, Inc. The Company's CC&N covers an area roughly 3.1 square miles in size and is located about 6 miles northeast of Show Low in Navajo County in Sections 25 & 35 in Township 11 N, Range 22 East and Sections 30 & 31 in Township 12 N, Range 22 East. Staff understands that the proposed transfer will not result in any change in the management or operation of the Company. Certified operator personnel will not change as result of the transfer either.

Water Systems

The Company consists of two separate water systems: Silver Lake and Bourdon Ranch. Silver Lake system serves approximately 258 customers in section 35, and Bourdon Ranch system serves approximately 29 customers in section 25. The water systems are not currently interconnected. The two systems follow typical configurations found in small water systems. Each system consists of a well, which pumps into a storage tank, followed by booster pumps and a pressure tank.

The Silver Lake water system consists of one well with a production capacity of 58 gallons per minute ("GPM"), 100,000 gallon storage tank, four booster pumps, 10,000 gallon pressure tank and distribution system. Staff concludes that this system has adequate storage but lacks adequate well production capacity to serve the existing customer base.

The Bourdon Ranch water system consists of one well with a production capacity of 31 GPM, 25,000 gallon storage tank, two booster pumps, 3,000 gallon pressure tank and distribution system. Staff concludes that this system has adequate production and storage capacity to serve the existing customer base and a reasonable level of growth.

The Company is in process of obtaining a loan to finance the construction of an interconnection between the Silver Lake and Bourdon Ranch systems, in compliance with Decision No. 68657 dated April 12, 2006. Staff concludes that the proposed interconnected system's production and storage capacity could adequately serve the existing customer base and a reasonable level of growth (approximately 363 connections).

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The Company reported arsenic concentrations of less than 1 ppb for the Silver Lake well and 2 ppb for the Bourdon Ranch well. Based on this data, both water systems are in compliance with the new arsenic MCL.

Arizona Department of Environmental Quality ("ADEQ") Compliance

The ADEQ assigns each water system it regulates a Public Water System ("PWS") Identification Number which is used for tracking purposes. The ADEQ has determined that both water systems PWS # 09-027 & PWS # 09-049 are in full compliance with ADEQ requirements and are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is not within an Active Management Area, and consequently is not subject to ADWR reporting and conservation requirements

Arizona Corporation Commission ("ACC") Compliance

A check with the Utilities Division Compliance Section showed no outstanding compliance issues for the Company.

Curtailment Plan Tariff

A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. The Company has an approved curtailment tariff that became effective on November 20, 2002, per Decision No.65416.

Backflow Prevention Tariff

The Company has an approved backflow prevention tariff that became effective on January 27, 2003, per Decision No.65549.

Conclusions

1. The Silver Lake water system has adequate storage but lacks adequate well capacity to serve the present customer base, and the Bourdon Ranch water system has adequate well and storage capacities to serve the present customer base and reasonable growth. If these two systems are interconnected, the combined system's production and storage capacity could adequately serve the existing customer base and a reasonable level of growth.
2. Both the Company's water systems have arsenic concentration of less than 10 parts per billion and are currently meeting the new arsenic standard.
3. The Arizona Department of Environmental Quality ("ADEQ") has determined that both water systems are currently in full compliance with ADEQ requirements and are delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
4. The Company is not located in an Active Management Area and therefore is not subject to Arizona Department of Water Resources ("ADWR") reporting and conservation requirements.
5. The Company has no outstanding Arizona Corporation Commission ("ACC") compliance issues.
6. The Company has a curtailment plan tariff that became effective on November 20, 2002, per Decision No.65416.
7. The Company has an approved backflow prevention tariff that became effective on January 27, 2003, per Decision No.65549.

Recommendation

1. Staff recommends that the Company file with Docket Control, as a compliance item in the same docket, a copy of the Approval to Construct ("ATC") issued by ADEQ for the interconnection of the Silver Lake and Bourdon Ranch Systems by June 1, 2007.

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant III
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: October 13, 2006

RE: **SILVER WELL SERVICE CORPORATION (DOCKET NO. W-01979A-06-0549)**
WATCO, INC. (DOCKET NO. W-20475A-06-0549)

Silver Well has filed an application to transfer their CC#N to WATCO.

Attached are copies of the maps for your files.

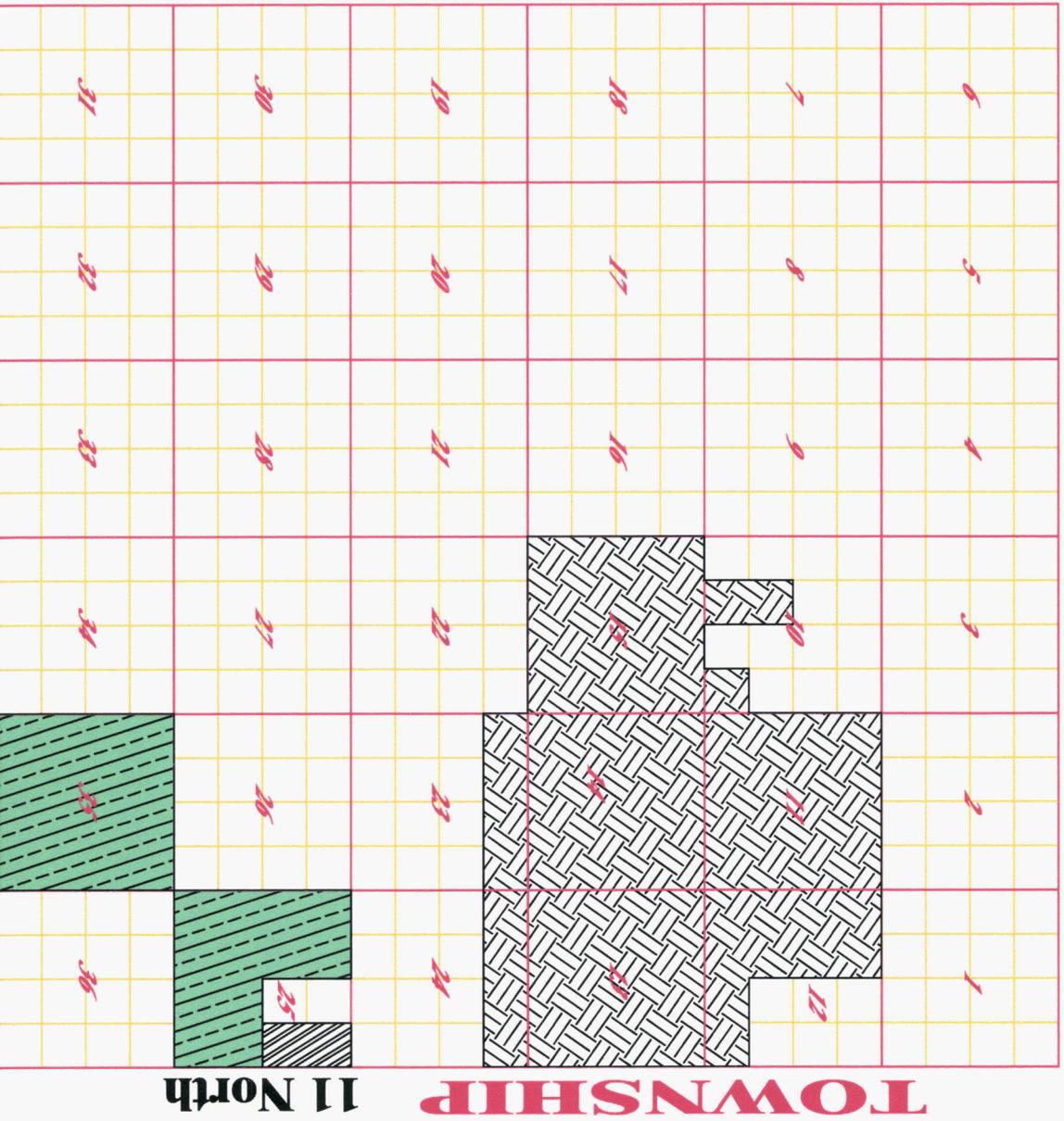
:bsw

Attachment

cc: Mr. Thomas Grapp
Ms. Deb Person (Hand Carried)
File

COUNTY: Navajo

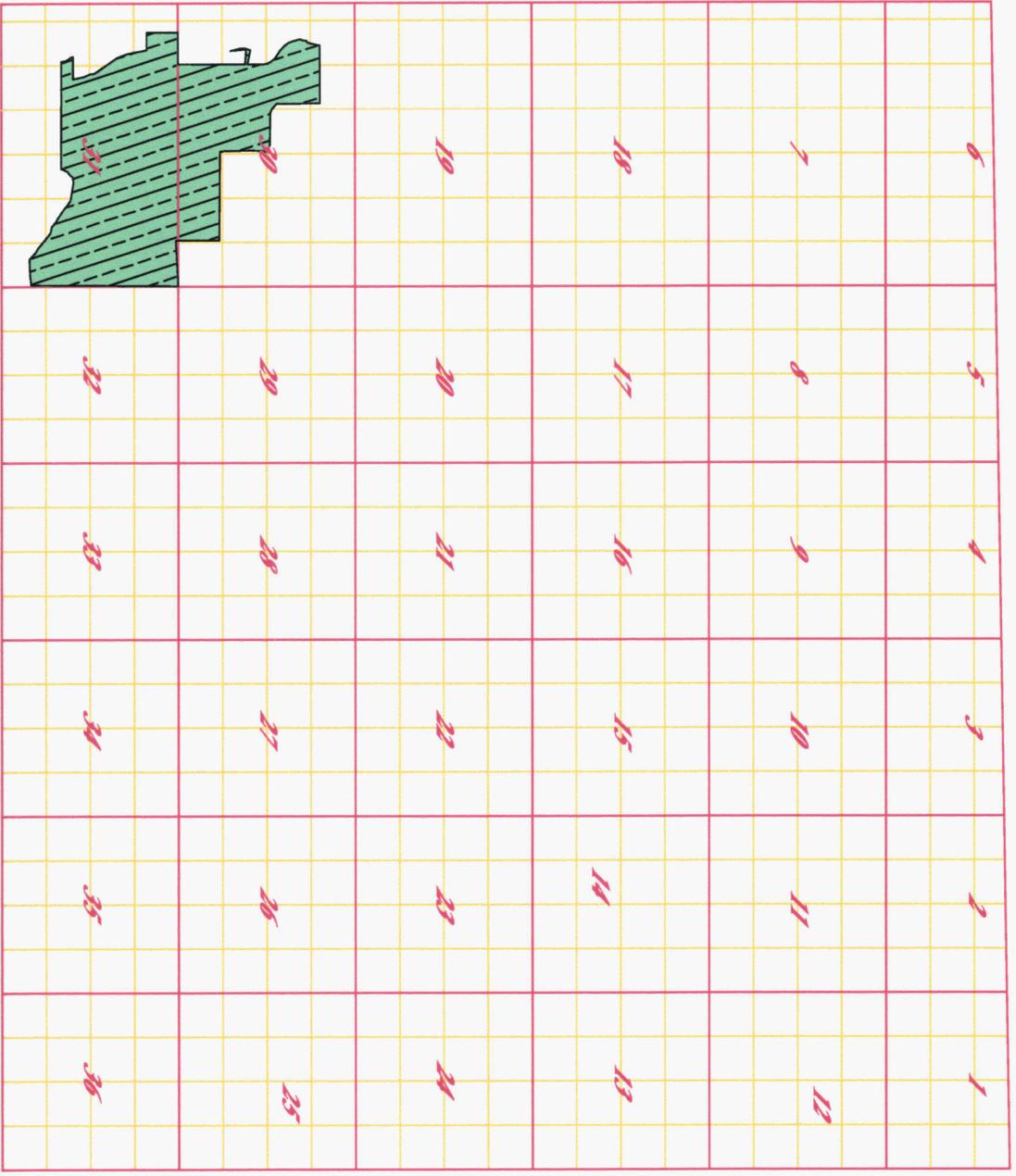
RANGE 22 East



-  W-3511 (3)
Navajo Water Company, Inc.
-  W-1979 (2)
Silver Well Service Corporation
-  W-1983 (1)
Voyager at White Mountain Lakes Water Company, Inc.
-  Silver Well Service Corporation
Docket No. W-01979A-06-0549
Application to Transfer to
WAICO, Inc.
Docket No. W-20475A-06-0549

COUNTY Navajo

RANGE 22 East



TOWNSHIP 12 North



W-1979 (2)

Silver Well Service Corporation



Silver Well Service Corporation
Docket No. W-01979A-06-0549
Application to Transfer to
WATCO, Inc.
Docket No. W-20475A-06-0549