ORIGINAL

0000138738

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

Date: August 24, 2012

RE: **STAFF REPORT** FOR THE APPLICATION OF W.M. & MARGARET WOOTTON FOR APPROVAL OF A TRANSFER OF ASSETS AND CONVENIENCE AND NECESSITY ("CC&N") TO DESERT VALENCIA WATER, INC. (DOCKET NOS. W-02059A-11-0172 AND W-20801A-11-0172)

Attached is the Staff Report for the transfer of assets and CC&N from W.M. & Margaret Wootton dba Desert Valencia Water System to Desert Valencia Water, Inc. Staff recommends approval of this application with conditions.

SMO:VW:red/RRM

Originator: Vicki Wallace

Arizona Corporation Commission
DOCKETED
AUG 24 2012
DOCKETED BY

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DOCKET CONTROL

Service List For: W.M. Wootton and Desert Valencia Water, Inc.
Docket Nos. W-02059A-11-0172 and W-20801A-11-0172

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

W.M. & MARGARET WOOTTON
DBA DESERT VALENCIA WATER SYSTEM
DOCKET NO. W-02059A-11-0172

DESERT VALENCIA WATER, INC.
DOCKET NO. W-20801A-11-0172

TRANSFER OF ASSETS AND CERTIFICATE OF CONVENIENCE
AND NECESSITY FROM W.M. & MARGARET WOOTTON
TO DESERT VALENCIA WATER, INC.

AUGUST 24, 2012

STAFF ACKNOWLEDGMENT

The Staff Report for the application of W.M. & Margaret Wootton dba Desert Valencia Water System and Desert Valencia Water, Inc., (Docket Nos. W-02059A-11-0172 and W-20801A-11-0172) was prepared by the Staff members shown below.

Vicki Wallace
Executive Consultant

Del Smith
Utilities Engineer

Crystal Brown
Public Utilities Analyst V

EXECUTIVE SUMMARY
W.M. & MARGARET WOOTTON
DBA DESERT VALENCIA WATER SYSTEM
AND DESERT VALENCIA WATER, INC.
DOCKET NOS. W-02059A-11-0172 AND W-20801A-11-0172

On April 22, 2012, W.M. & Margaret Wootton dba Desert Valencia Water System ("Applicant" or "Water System") filed an application with the Arizona Corporation Commission ("Commission" or "ACC") for approval of the transfer of water system assets and the Certificate of Convenience and Necessity ("CC&N") to Desert Valencia Water, Inc. ("Desert Valencia" or "Company").

The purpose of this Application is to obtain ACC approval to transfer the Water System assets and CC&N to Desert Valencia. Scott Wootton, the son of the Water System owner, is the President and manager of Desert Valencia Water, Inc. W.M. Wootton has transferred ownership/operation of the Water System to his son via Financial Durable Power of Attorney and all other applicable legal documents. Desert Valencia is in good standing with the ACC's Corporations Division. The official transfer of the Water System to a business entity (corporation) is sought at this time to avoid potential problems in continuity of service and will be beneficial to the customers. The Water System currently has 8 residential customers, and in the winter, this number will rise to approximately 12. There are 18 possible service connections; all residential.

Staff concludes that the Water System has adequate production and storage capacity to serve existing customers.

Staff concludes that Desert Valencia via its sole shareholder and/or affiliated family entities has sufficient financial resources to provide the requested service.

Staff concludes that the current officers and managers of Desert Valencia have the managerial and technical ability to operate a public utility water service and that the transfer would be consistent with the public interest.

Staff recommends approval of the transfer of the water system assets and the CC&N of W.M. and Margaret Wootton to Desert Valencia with the following conditions:

1. That Desert Valencia install meters on each currently active customer service connection and meters to measure the amount of water delivered to the Water System by Wellton-Mohawk Irrigation and Drainage District ("WMIDD"), by December 31, 2012.

2. That as each additional connection is made, Desert Valencia install additional meters.

3. That Desert Valencia begin charging its tariffed rates as soon as all active customers are metered, but no later than January 2013.

4. That Desert Valencia be required to coordinate the reading of its source meter and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 ("Annual Report"). That if the reported water loss in the Annual Report is greater than 10 percent, the Company prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support is opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.

5. That Desert Valencia maintain its books, records, and bank accounts separately from its sole shareholder and other affiliated companies.

6. That, in addition to its regular rates and charges, Desert Valencia be allowed to collect from its customers the appropriate privilege, sales or use tax.

7. That, within 120 days from the effective date of the Decision resulting from this proceeding, Desert Valencia file proof of ownership of the water rights from the Wellton-Mohawk Irrigation and Drainage District.

8. Staff recommends that Desert Valencia sample monthly for Coliform and annually for nitrates and nitrites to ensure continued compliance with A.A.C. R14-2-407(A). Staff further recommends that Desert Valencia file with Docket Control, as a compliance item in this docket, an affidavit indicating that the testing recommended herein has been completed and that the Company is delivering water to its customers that complies with water quality standards. Staff further recommends that the Company file this affidavit each January with the first affidavit due no later than January 31, 2013. Such quarterly reports shall continue to be filed until ADEQ public water system monitoring and reporting requirements and operation and maintenance requirements apply.

9. That Desert Valencia file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission's Decision in this matter. The tariff shall be filed with Docket Control as a compliance item in this docket for Staff's review and certification. Staff further recommends that Desert Valencia file such a tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Consecutive%202009.doc.

10. That Desert Valencia file a backflow prevention tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission's

Decision in this matter. The tariff shall be filed with Docket Control as a compliance item in this docket for Staff's review and certification. Staff further recommends that Desert Valencia file such a tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/CrossConnectBackflow.pdf.

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INTRODUCTION

On April 22, 2012, W.M. & Margaret Wootton dba Desert Valencia Water System ("Applicant" or "Water System") under a survivors trust filed an application with the Arizona Corporation Commission ("Commission or "ACC") for approval of the transfer of water system assets and the Certificate of Convenience and Necessity ("CC&N") to Desert Valencia Water, Inc. ("Desert Valencia" or "Company").

The ACC Utilities Division ("Staff") sent an Insufficiency Letter dated June 10, 2011, indicating that the water system's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C."). On February 8, 2012, Staff sent additional data requests identifying deficiencies. The Applicant responded and provided additional documentation to support the applications. On June 13, 2012, Staff filed a Sufficiency Letter indicating that the applications had met the sufficiency requirements of the A.A.C.

A Procedural Order was docketed August 3, 2012, setting certain procedural timeframes and scheduling a hearing for September 25, 2012.

BACKGROUND

The Water System serves an area which is located approximately 30 miles east of Yuma on Interstate Highway 8. W.M. & Margaret Wootton were issued the original CC&N in Decision No. 39672 dated October 8, 1968. The Water System's CC&N covers an area of approximately 230 acres (approximately four-tenths of one square mile) in Sections 23, 11, and 27 in Township 8 South, Range 16 West in Yuma County, Arizona. Staff's legal description and maps of the service area are attached as Exhibit 1.

The Company reported 18 possible service connections. The current number of individuals served water is 8. During the winter, this number will rise to approximately 12 people; all residential. None of the 18 service connections are metered, and customers are billed a flat rate for their water service of $35. The Water System's tariff approved in 1968 (attached as Exhibit 2) does not allow for a flat fee and requires that customers be charged a metered fee.

The Applicant reports there are no refund obligations associated with customer deposits or main line extension agreements. Desert Valencia was also granted a franchise by Yuma County to provide water service, and such franchise was attached to the application. There are no judgments/liens against any of the entities involved in this transfer of assets and CC&N. Additionally, no other utility is affected by this transaction.

PURPOSE OF APPLICATION AND CHANGE IN OWNERSHIP

The purpose of this Application is to obtain ACC approval to transfer the Water System assets and CC&N to Desert Valencia. Scott Wootton, the son of the Water System owner, W.M. Wootton and Margaret Wootton, is the President and manager of Desert Valencia. W.M.

Wootton has transferred ownership/operation of the Water System to his son via Financial Durable Power of Attorney and all other applicable legal documents. Desert Valencia is in good standing with the ACC's Corporations Division. The official transfer of the water system to a business entity (corporation) is sought at this time to avoid potential problems in continuity of service and will be beneficial to the customers.

The individuals that will be responsible for operating the Desert Valencia water system is Scott Wootton, who is handling all of W.M. Wootton's affairs as explained above, and Louis Buchholz (the on-site manager). Louis Buchholz helped run a major municipal water system for many years, and at one point was licensed as a Water Operator 3. Mr. Buchholz allowed his license to lapse last year as the water system is no longer regulated by the Arizona Department of Environmental Quality ("ADEQ"), and the license was not required. Mr. Buchholz is assisted by Brandon Reed, who is experienced in running Desert Valencia Water, Inc.

DESERT VALENCIA WATER SYSTEM

The Desert Valencia water system does not include a well, and water is supplied by the Wellton-Mohawk Irrigation and Drainage System ("WMIDD"). Engineering details are contained in Exhibit 3 of this Report. Staff concludes that the system has adequate production and storage capacity to serve existing customers and expected growth.

NON-ACCOUNT WATER

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. The percentage of non-account water for the Desert Valencia water system cannot be determined, because customer service meters have not been installed nor is water source metered.

Without meters, water pumped and water sold data for Desert Valencia's system cannot be determined. Therefore, Staff recommends:

1. That Desert Valencia install meters on each currently active customer service connection and meters to measure the amount of water delivered to the water system by WMIDD, by December 31, 2012.

2. That Desert Valencia be required to coordinate the reading of its well meter and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 ("Annual Report").

3. That if the reported water loss in the Annual Report is greater than 10 percent, the Company prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to

> reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support is opinion. In no case, shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.

For more detail on water loss matters, please refer to Exhibit 3, Engineering Report.

FINANCIAL AND RATE ANALYSIS

In the Financial Analysis Section Report, Exhibit 4, Staff concluded that Desert Valencia, via its sole shareholder and/or affiliated family entities, has sufficient financial resources to provide the requested service.

Exhibit 4 also offers several recommendations regarding meters and other financial matters. Those recommendations include:

1. That Desert Valencia install meters for all its customers by December 31, 2012.

2. That Desert Valencia maintain its books, records, and bank accounts separately from its sole shareholder and other affiliated companies.

3. That, in addition to its regular rates and charges, Desert Valencia be allowed to collect from its customers the appropriate privilege, sales or use tax.

4. That, within 120 days from the effective date of the Decision resulting from this proceeding, Desert Valencia file proof of ownership of the water rights from the WMIDD.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") ANALYSIS AND COMPLIANCE

ADEQ no longer regulates the water system. Prior to deactivation, the system was regulated under Public Water System I.D. No. 14-020. According to an ADEQ compliance status report, dated December 19, 2011, the water system is categorized as a non-public water system because it served less than 15 connections. As such, ADEQ public water system monitoring and reporting requirements, and operations and maintenance requirements do not apply.

Desert Valencia had informed Staff initially that it was delivering non-potable water into the home and that all customers had been notified of this, and understood, that the water was non-potable and that they were required to buy their water for cooking and human consumption from another source.

However, Arizona Administrative Code ("A.A.C.") R14-2-407(A) states that each utility is responsible for providing potable water to the customer's point of delivery. Staff advised the Company to take action to ensure potable water was being delivered to its customers. As a result, Desert Valencia recently completed full New-Source Approval testing which requires sampling for every contaminant. The test results were sent to ADEQ, and ADEQ personnel confirmed that the Company was delivering potable water based on the results.

Staff recommends that Desert Valencia sample monthly for Coliform and annually for nitrates and nitrites to ensure continued compliance with A.A.C. R14-2-407(A). Staff further recommends that Desert Valencia file with Docket Control, as a compliance item in this docket, an affidavit indicating that the testing recommended herein has been completed and that the Company is delivering water to its customers that complies with water quality standards. Staff further recommends that the Company file this affidavit each January with the first affidavit due no later than January 31, 2013. Such quarterly reports shall continue to be filed until ADEQ public water system monitoring and reporting requirements and operation and maintenance requirements apply.

ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Desert Valencia water service area is not located within an ADWR Active Management Area ("AMA"). ADWR reported that it does not regulate Desert Valencia under its Community Water System Program; therefore, there is no compliance status to report.

ACC COMPLIANCE

A check of the Utilities Division Compliance Database indicated that there were no delinquent compliance items for Desert Valencia. However, through the processing of this application, it was learned that the Applicant was not charging tariffed rates due to a lack of meters to measure usage, which is being addressed in the Staff Recommendations Section of this Report.

CURTAILMENT TARIFF

Desert Valencia does not have an approved curtailment tariff. Staff recommends that Desert Valencia Water, Inc. file such a tariff as soon as possible. A detailed recommendation is included in the Staff Recommendations Section.

BACKFLOW PREVENTION TARIFF

Desert Valencia does not have an approved backflow prevention tariff. Staff recommends that Desert Valencia Water, Inc. file such a tariff as soon as possible. A detailed recommendation is included in the Staff Recommendations Section.

STAFF CONCLUSIONS

Staff concludes that the Water System has adequate production and storage capacity to serve existing customers.

Staff concludes that Desert Valencia via its sole shareholder and/or affiliated family entities has sufficient financial resources to provide the requested service.

Staff concludes that the current officers and managers of Desert Valencia have the managerial and technical ability to operate a public utility water service and that the transfer would be consistent with the public interest.

STAFF RECOMMENDATIONS

Staff recommends approval of the transfer of the water system assets and the Certificate of Convenience & Necessity of W.M. and Margaret Wootton to Desert Valencia with the following conditions:

1. That Desert Valencia install meters on each currently active customer service connection and meters to measure the amount of water delivered to the Water System by Wellton-Mohawk Irrigation and Drainage District ("WMIDD"), by December 31, 2012.

2. That as each additional connection is made, Desert Valencia install additional meters.

3. That Desert Valencia begin charging its tariffed rates as soon as all active customers are metered, but no later than January 2013.

4. That Desert Valencia be required to coordinate the reading of its source meter and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 ("Annual Report"). That if the reported water loss in the Annual Report is greater than 10 percent, the Company prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support is opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.

5. That Desert Valencia maintain its books, records, and bank accounts separately from its sole shareholder and other affiliated companies.

6. That, in addition to its regular rates and charges, Desert Valencia be allowed to collect from its customers the appropriate privilege, sales or use tax.

7. That, within 120 days from the effective date of the Decision resulting from this proceeding, Desert Valencia file proof of ownership of the water rights from the Wellton-Mohawk Irrigation and Drainage District.

8. Staff recommends that Desert Valencia sample monthly for Coliform and annually for nitrates and nitrites to ensure continued compliance with A.A.C. R14-2-407(A). Staff further recommends that Desert Valencia file with Docket Control, as a compliance item in this docket, an affidavit indicating that the testing recommended herein has been completed and that the Company is delivering water to its customers that complies with water quality standards. Staff further recommends that the Company file this affidavit each January with the first affidavit due no later than January 31, 2013. Such quarterly reports shall continue to be filed until ADEQ public water system monitoring and reporting requirements and operation and maintenance requirements apply.

9. That Desert Valencia file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission's Decision in this matter. The tariff shall be filed with Docket Control as a compliance item in this docket for Staff's review and certification. Staff further recommends that Desert Valencia file such a tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Consecutive%202009.doc.

10. That Desert Valencia file a backflow prevention tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission's Decision in this matter. The tariff shall be filed with Docket Control as a compliance item in this docket for Staff's review and certification. Staff further recommends that Desert Valencia file such a tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/CrossConnectBackflow.pdf.

EXHIBIT 1

MEMORANDUM

TO: Del Smith
Engineering Supervisor
Utilities Division

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

DATE: May 17, 2011

RE: **DESERT VALENCIA WATER SYSTEM AND DESERT VALENCIA WATER, INC. (DOCKET NOS. W-02059A-11-0172 AND W-20801A-11-0172)**

Desert Valencia Water System has filed an application to transfer its CC&N to Desert Valencia Water, Inc.

Attached is a copy of the map for your files.

/lhm

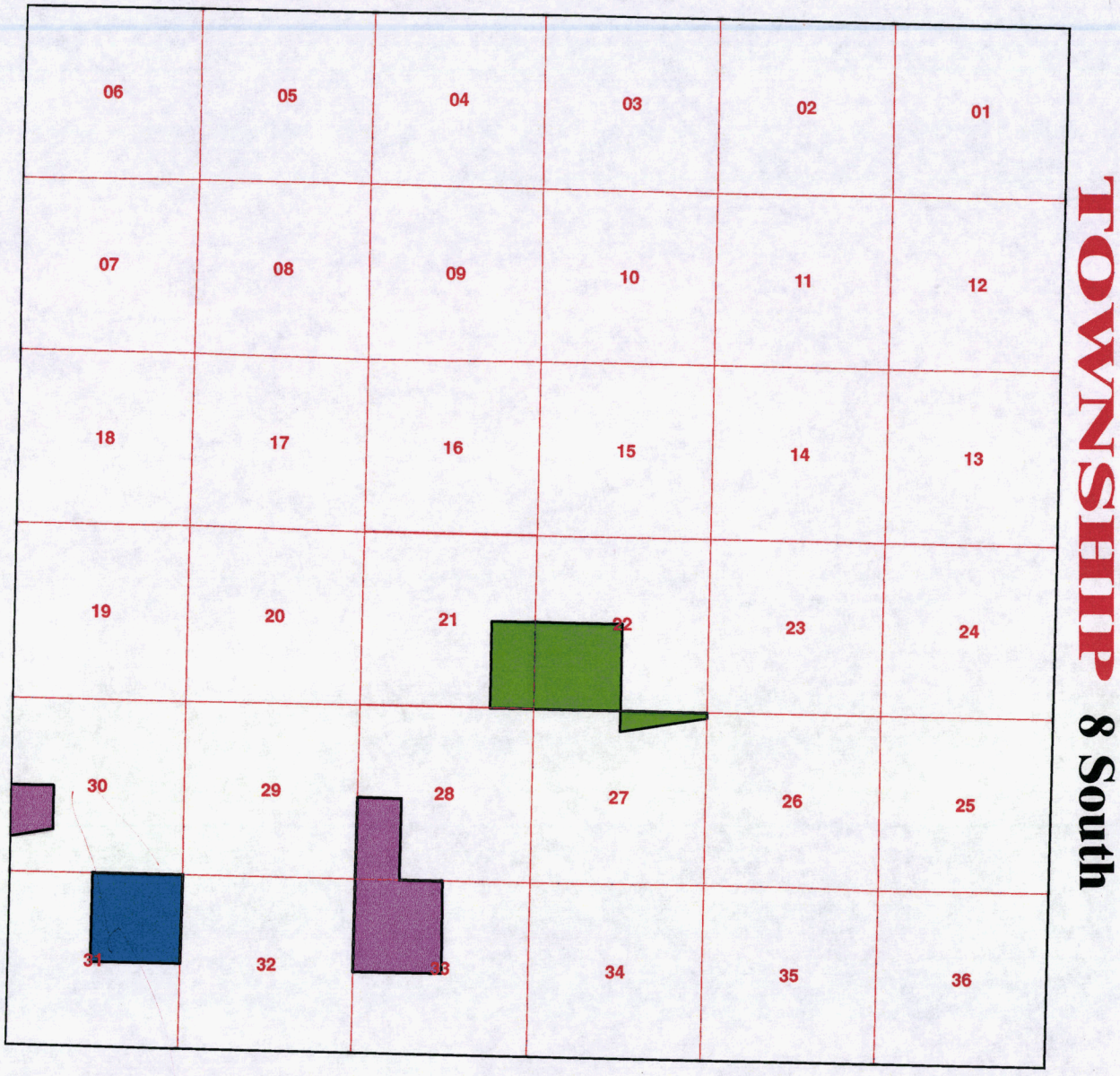
Attachment

cc: Ms. Pamela Walsma
Ms. Deb Person (Hand Carried)
File

YUMA COUNTY

Map No. 6

RANGE 16 West



W-03868A (1)
Citrus Park Water Company

W-02059A (1)
Desert Valencia Water System

W-01344A (3)
Tacna Water Management Company

Desert Valencia Water System
Docket No. W-02059A-11-0172
Transfer to Desert Valencia Water, Inc. (W-20801A)

Pursuant to ARS § 39-121.03 this map is 'Not for Commercial Use'

TR8S16W 21 DEC 2006

EXHIBIT 2

[redacted] System TARIFF SCHEDULE

[redacted]

UTILITY: WOOTEN, WILLIAM & MARGARET
DOCKET NO.: U-2059
TELEPHONE:

REPLACES SHEET NO.
DECISION NO. 39672
EFFECTIVE 10/8/68

RATES & CHARGES

MONTHLY SERVICE RATE:

MINIMUM		GALLONS	MINIMUM		GALLONS
5/8 x 3/4"	$ 6.25	FOR 2,000	3"	$	FOR
3/4" . . .	$	FOR	4"	$	FOR
1"	$	FOR	5"	$	FOR
1-1½" . .	$	FOR	6"	$	FOR
2"	$	FOR			

$ 1.00 PER 1,000 GALLONS IN EXCESS OF MINIMUM FOR THE NEXT 3,000 GALLONS
$ .75 PER 1,000 GALLONS FOR THE NEXT 5,000 GALLONS 3001-5000
$ .60 PER 1,000 GALLONS FOR THE NEXT 10,000 GALLONS 5001-20,000
$ .50 PER 1,000 GALLONS FOR ALL OVER 20,000 GALLONS.

SERVICE LINE & METER INSTALLATION CHARGES:

5/8 x 3/4"	$100	1-1½" . . .	$300
3/4" . . .	$120	2"	$400
1"	$160		

SERVICE CHARGES:

ESTABLISHMENT		RE-ESTABLISHMENT (Within 12 months)	$25
AFTER HOUR		NSF CHECK	
RECONNECTION (Delinquent)	$5.00	DEFERRED PAYMENT	
METER TEST		RE-READ	$2.50
* DEPOSIT			

* (If other than provided for in Rules & Regulations)

OTHER CHARGES AS SPECIFIED BY ORDER:

EXHIBIT 3

MEMORANDUM

DATE: August 21, 2012

TO: Vicki Wallace
Executive Consultant

FROM: Del Smith
Engineering Supervisor

RE: W.M. & Margaret Wooten dba Desert Valencia Water System for approval of a transfer of assets and Transfer of Certificate of Convenience and Necessity to Desert Valencia Water, Inc.
(Docket Nos. W-02059A-11-0172 and W-20801A-11-0172)

Introduction

On April 22, 2011, W.M. & Margaret Wooten dba Desert Valencia Water System ("Desert Valencia" or "Company") filed an Application with the Arizona Corporation Commission ("ACC" or "Commission") to sell the Desert Valencia water system assets and transfer the Desert Valencia Certificate of Convenience and Necessity ("CC&N") to Desert Valencia Water, Inc. The purpose of this Application is to obtain Commission approval of the sale and transfer of the water system assets and CC&N to Desert Valencia Water, Inc. Desert Valencia serves an area which is located approximately 40 miles east of Yuma on Interstate Highway 8. Desert Valencia reported 18 possible service connections[1]. According to the Company, the number of customers served by the Desert Valencia water system fluctuates continually. Some residents are winter visitors and are gone during the summer. Other residents come and go, not on a seasonal basis, but rather randomly.

The Commission issued the original Desert Valencia CC&N to Valencia Development Company in Decision No. 39672 dated October 8, 1968. The Company's CC&N covers an area of approximately 230 acres (approximately four-tenths of one square mile) in Sections 21, 22 and 27 in Township 8 South, Range 16 West in Yuma County, Arizona.

Reasons Given in Support of the Proposed Transfer and New Owner Background

The change in ownership has been requested as a result of the death of Margaret Wootton and incapacity of W.M. Wootton (the current owner). A transfer to a business entity at this time could avoid problems of continuity of service in the event of WM. Wootton's

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[1] None of these connections are currently metered, customers are billed a flat rate for their water service. The Company reported approximately 12 customers during the winter months which could increase to a maximum of 18 if six existing rentals properties were occupied.

untimely passing.[2] According to the Company the customers depend on the service it provides and continuity of water service would be a benefit to them.

The individuals that will be responsible for operating the Desert Valencia water system, if the transfer is approved are the son of W.M. Wootton who is handling his affairs as a Successor Trustee and agent under a Power of Attorney and Louis Buchholz (the on-site manager of Desert Valencia water system). Louis Buchholz helped run a major municipal water system for many years and at one point was licensed as a Water Operator 3. Mr. Buchholz allowed his license to lapse last year as the water system is no longer regulated by the Arizona Department of Environmental Quality ("ADEQ") and the license was not required. Mr. Buchholz is assisted by Brandon Reed who is experienced in running the Desert Valencia water system.

Desert Valencia Water System

The Desert Valencia water system consists of a 20,000 gallon storage tank, booster pumps, pressure tanks (one 1,000 gallon and one 3,000 gallon) and a distribution system[3] serving a possible 18 service connections. Source water for the system is supplied by the Wellton-Mohawk Irrigation and Drainage District ("WMIDD") canal at two intake sites.[4] The Company estimated that it used less than 20 acre-feet ("acre-ft") of water during 2010. The maximum amount of water available to the Company from WMIDD is 250 acre-ft. Staff concludes that the system has adequate production and storage capacity to serve existing customers and reasonable growth.

Non-Account Water

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. The percentage of non-account water for the Desert Valencia water system cannot be determined because customer service meters have not been installed nor is the water source metered.

In its 2010 Commission Annual Report Desert Valencia noted that it could not report water pumped and water sold data for its system due to the lack of installed meters. In addition, Desert Valencia's ACC approved tariff does not allow for a flat fee which requires that a meter be installed on each active service connection. Staff recommends that the Company install a meter on each active customer service connection and meters to measure the amount of water delivered to the water system by WMIDD. Staff further recommends that the Company be required to coordinate the reading of its source meters

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[2] See Company's response to insufficiency questions issued June 10, 2011.
[3] The water system consists of separate potable and non-potable distribution plant.
[4] The two intake sites which are approximately one-quarter mile apart and are located parallel to the Company's southern service area boundary.

and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 ("Annual Report").[5] Staff further recommends if the reported water loss in the Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.

ADEQ Compliance

As discussed above ADEQ no longer regulates the Desert Valencia water system. Prior to deactivation, the system was regulated under Public Water System I.D. No. 14-020. According to an ADEQ compliance status report, dated December 19, 2011, the system is categorized as a non-public water system because the system serves less than 15 connections as such ADEQ public water system monitoring and reporting requirements and operation and maintenance requirements do not apply.

Desert Valencia had informed Staff that it was delivering non-potable water into the home and that all customers had been notified of this, and understood, that the water was non-potable and that they were required to buy their water for cooking and human consumption from another source.

However Arizona Administrative Code Rule R14-2-407(A) states that each utility is responsible for providing potable water to the customer's point of delivery. Staff advised the Company to take action to ensure potable water was being delivered to its customers. As a result, Desert Valencia recently completed full New-Source Approval testing which requires sampling for every contaminant. The test results were sent to ADEQ and ADEQ personnel confirmed that the Company was delivering potable water based on those results.

Staff recommends that Desert Valencia sample monthly for Coliform and annually for nitrates and nitrites to ensure continued compliance with A.A.C. R14-2-407(A). Staff further recommends that Desert Valencia file with Docket Control, as a compliance item in this docket, an affidavit indicating that the testing recommended herein has been completed and that the Company is delivering water to its customers that complies with water quality standards. Staff further recommends that the Company file this affidavit each January with the first affidavit due no later than January 31, 2013. Such quarterly

[5] Desert Valencia shall collect the data needed to accurately complete the water use data sheets contained in the Annual Report form.

reports shall continue to be filed until ADEQ public water system monitoring and reporting requirements and operation and maintenance requirements apply.

Arizona Department of Water Resources ("ADWR") Compliance

The Desert Valencia water service area is not located within an ADWR Active Management Area ("AMA"). ADWR reported that it does not regulate Desert Valencia under its Community Water System Program therefore there is no compliance status to report.

ACC Compliance

A check of the Commission's Utilities Division compliance database indicated that there are currently no delinquent compliance items for Desert Valencia.[6]

Curtailment Tariff

Desert Valencia does not have an approved curtailment tariff. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission's Decision in this matter. The tariff shall be filed with Docket Control as a compliance item in this same docket for Staff's review and certification. Staff further recommends that the Company file such a tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Consecutive%202009.doc.

Backflow Prevention Tariff

Desert Valencia does not have an approved backflow prevention tariff. Staff recommends that the Company file a backflow prevention tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item in this same docket for Staff's review and certification. Staff further recommends that the Company file such a tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/CrossConnectBackflow.pdf.

Summary

Conclusions

1. Staff concludes that the system has adequate production and storage capacity to serve existing customers and reasonable growth.

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[6] Per Compliance Section email dated May 4, 2011.

2. ADWR reported that it does not regulate Desert Valencia under its Community Water System Program therefore there is no compliance status to report.

3. A check of the Utilities Division compliance database indicated that there are currently no delinquent Commission compliance items for Desert Valencia.

Recommendations

1. Staff recommends that the Company install a meter on each active customer service connection and meters to measure the amount of water delivered to the water system by WMIDD. Staff further recommends that the Company be required to coordinate the reading of its source meters and individual customer meters on a monthly basis and report this data in its Commission Annual Report for year ending December 31, 2013 ("Annual Report"). Staff further recommends if the reported water loss in the Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.

2. Staff recommends that Desert Valencia sample monthly for Coliform and annually for nitrates and nitrites to ensure continued compliance with A.A.C R14-2-407.A. Staff further recommends that Desert Valencia file with Docket Control, as a compliance item in this docket, an affidavit indicating that the testing recommended herein has been completed and that the Company is delivering water to its customers that complies with water quality standards. Staff further recommends that the Company file this affidavit each January with the first affidavit due no later than January 31, 2013. Such quarterly reports shall continue to be filed until ADEQ public water system monitoring and reporting requirements and operation and maintenance requirements apply.

3. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission's Decision in this matter. Staff further recommends that the Company file such a tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Consecutive%202009.doc.

4. Staff recommends that the Company file a backflow prevention tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. Staff further recommends that the Company

file such a tariff in the form found on the Commission's website at www.azcc.gov/Divisions/Utilities/forms/CrossConnectBackflow.pdf.

EXHIBIT 4

MEMORANDUM

TO: Vicki Wallace

FROM: Crystal Brown CB
Public Utilities Analyst V
Utilities Division

DATE: July 1, 2012

RE: REPORT FOR W.M. & MARGARET WOOTTON DBA DESERT VALENCIA WATER SYSTEM'S APPLICATION FOR A TRANSFER OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO DESERT VALENCIA WATER COMPANY, INC. (DOCKET NOS. W-02059A-11-0172 & W 20801A-11-0172)

Attached is the memorandum report for W.M. & Margaret Wootton dba Desert Valencia Water System's application to transfer its Certificate of Convenience and Necessity to Desert Valencia Water Company, Inc.

EXHIBIT 4

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INTRODUCTION

On April 22, 2011, W.M. & Margaret Wootton dba Desert Valencia Water System ("Company") filed with the Arizona Corporation Commission ("Commission") an application to transfer its Certificate of Convenience and Necessity ("CC&N") from W.M. Wootton individually to Desert Valencia Water Company, Inc.[1] ("Desert Valencia"), a corporation in which W.M. Wootton is the sole stockholder.

BACKGROUND

Valencia Development Company ("Valencia Development") received the original CC&N in Decision No. 39672, dated October 8, 1968. Valencia Development transferred its CC&N to W.M. Wootton and Margaret B. Wootton, his wife, in Decision No. 47483 dated November 22, 1976.

PURPOSE OF TRANSACTION

According to the instant application the transfer of the CC&N is required before existing water supply agreements can be modified. Further, Margaret B. Wootton is now deceased and W.M. Wootton is incapacitated and the CC&N transfer would complement the estate planning desires and needs of W.M. Wootton.

CUSTOMERS

The Company's response to the First Set of Data Requests from the Commission Utilities Division ("Staff") indicates that the Company's customer count can fluctuate between eight and twelve customers during any given year, as some of the customers are seasonal.

FINANCIAL REVIEW AND CONCLUSION

The Company provided personal financial information of its owner, which included unaudited balance sheets for W.M. Wootton Family Limited Partnership and W.M. Wootton Survivor's Trust. The combined balance sheets show assets of approximately $6 million and equity of approximately $6 million.

The Company has had no rate increase since receiving the CC&N over forty years ago. The Company has been operating at a loss, with W.M. Wootton subsidizing the Company's operations. The Company's responses to Staff's data requests indicates that, once the CC&N has been transferred, W.M. Wootton and/or the affiliated family entities will continue to subsidize

[1] Although the application lists the transferee as Desert Valencia Water Company, Inc. and, therefore, it is so listed with Docket Control, the articles of incorporation on file with the Commission's Corporations Division indicate that the legal name of the entity is actually Desert Valencia Water, Inc. Staff suggests that the Company have this error corrected with Docket Control.

Desert Valencia's operations as necessary. Based upon review of this information, Staff concludes that Desert Valencia via its sole shareholder and affiliated family entities has sufficient financial resources to provide the requested service.

OTHER MATTERS

In Decision No. 47483, dated November 22, 1976, Valencia Development transferred its CC&N to W.M. Wootton and Margaret B. Wootton, his wife. That Decision states that "any rates currently on file for Valencia Development Company shall continue in effect until order of this Commission." The Company has never filed a rate application; consequently, those rates remain in effect.

During the course of its review, Staff found that the Company is not charging the rates authorized in Decision Nos. 39672 and 47483 but, rather, is charging a $35 flat rate because it has not installed meters.

Further, the Company is collecting sales taxes when it has no provision in its tariff to do so. Staff also found that the Company does not keep separate books and records for its utility operations.

In order to correct these problems and comply with the Decisions, Staff recommends the following:

1. That Desert Valencia install meters for all of its customers by December 31, 2012.

2. That Desert Valencia maintain its books, records, and bank accounts separately from its sole shareholder and other affiliated companies;

3. That in addition to its regular rates and charges, Desert Valencia be allowed to collect from its customers the appropriate privilege, sales or use tax.

4. That, within 120 days from the effective date of the Decision resulting from this proceeding, Desert Valencia file proof of ownership of the water rights from the Wellton-Mohawk Irrigation and Drainage District.