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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

SEP 20 2002

1  
2 WILLIAM A. MUNDELL  
CHAIRMAN  
3 JIM IRVIN  
COMMISSIONER  
4 MARC SPITZER  
COMMISSIONER  
5

DOCKETED BY 

6 IN THE MATTER OF THE APPLICATION OF  
COMMUNITY WATER COMPANY OF GREEN  
7 VALLEY, AN ARIZONA PUBLIC SERVICE  
CORPORATION, FOR AN ORDER  
8 AUTHORIZING THE ISSUANCE OF EVIDENCE  
OF INDEBTEDNESS PAYABLE OVER A  
9 PERIOD MORE THAN 12 MONTHS AFTER THE  
DATE OF ISSUANCE.

DOCKET NO. W-02304A-02-0399

DECISION NO. 65200

ORDER

10  
11 Open Meeting  
September 17 and 18, 2002  
12 Phoenix, Arizona

**BY THE COMMISSION:**

13  
14 Having considered the entire record herein and being fully advised in the premises, the  
15 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

- 16 1. On May 30, 2002, Community Water Company of Green Valley ("Community Water"  
17 or "Company") filed an application with the Commission requesting authorization to borrow  
18 \$500,000 for a period of five years.
- 19 2. Community Water published notice of its application on June 26, 2002, in the Green  
20 Valley News and Sun.
- 21 3. On August 5, 2002, the Commission's Utilities Division Staff ("Staff") filed its Staff  
22 Report, recommending approval of the Application without a hearing.
- 23 4. Community Water is an Arizona non-profit corporation owned by its members. The  
24 Company provides water service to approximately 15,500 members in and around the unincorporated  
25 community of Green Valley, in Pima County, Arizona.
- 26 5. The Commission approved the Company's current rates in Decision No. 55593 (June  
27 4, 1987).
- 28

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2           6.       The Company proposes to borrow \$500,000 from Bank One for a period of five years  
3 with a 15 year amortization and a balloon payment of approximately \$333,333 due at maturity. Bank  
4 One has approved the loan with an interest rate of prime plus 1 ½ percent. The loan will require  
5 monthly payments of principal of \$2,778.78 plus interest.

6           7.       The Company will give Bank One a first priority lien evidenced by a Deed of Trust on  
7 fifteen (15) parcels of real estate owned by the Company and a security interest in the Company's  
8 accounts receivable. The Company reports the real estate has an assessed value of \$4,593,521, and  
9 accounts receivable had a value of \$170,000 as of December 31, 2001.

10          8.       The Company anticipates refinancing, as necessary, at maturity of the current  
11 proposed loan.

12          9.       The Company proposes to use the funds to finance a portion of several capital  
13 improvement projects estimated to cost a total of \$1,403,999. The proposed improvements include:

14               (a) Reservoir # 4 (\$655,000), which project comprises purchasing 2.0 acres, and  
15 installing a 2.0 million gallon reservoir, yard piping, electrical, treatment equipment and SCADA  
16 systems;

17               (b) Well #9 (\$480,000), which entails a new well to be drilled to a depth of 1,000 feet  
18 and cased with 20-inch diameter pipe. The well will be equipped with a 350 horsepower (Hp) pump  
19 capable of producing 1,200 gallons per minute ("gpm"), and chlorination and SCADA systems. The  
20 new well will replace existing well # 5, which has developed severe entrained air problems.

21               (c) Well # 9 Tie Line (\$100,000) includes 151 feet of 12 inch main, 75 feet of 8 inch  
22 waste line, a wash crossing, 2,500 feet of conduit, and conductor to provide three-phase electrical  
23 power;

24               (d) Well # 7 Liner (\$85,000) which entails the lining of an existing well casing, and  
25 includes the installation of gravel pack, a new 1,100 gpm pump with column pipes, and a three-phase  
26 250 Hp motor;

27               (e) Portillo Ridge Connection (\$46,000) which entails the installation of 640 feet of 8  
28 inch diameter ductile iron pipe and appurtenances to provide redundancy to a small, but insufficiently

1 looped, portion of the service area; and

2 (f) Continental Road/Interstate 19 at Abrego Drive (\$37,000), which project is  
3 required as part of Pima County Department of Transportation's intersection modification and  
4 drainage improvements and entails the removal/relocation of 150 feet of 12-inch diameter iron pipe.

5 10. Staff based its financial analysis on the Company's financial statements ending  
6 December 31, 2001. The statements were audited by PricewaterhouseCoopers LLP and carry an  
7 unqualified opinion. Staff's analysis assumes the \$500,000 loan is drawn all at once and utilizes an  
8 interest rate of 5.25 percent based on a current prime rate of 4.75 percent.

9 11. At December 31, 2001, the Company had no long-term debt. The addition of the  
10 \$500,000 proposed loan would result in a capital structure composed of 0.4 percent short-term debt,  
11 6.3 percent long-term debt and 93.3 percent equity. The Company had \$1.6 million cash and short-  
12 term investments as of December 31, 2001.

13 12. In 2001, the Company reported Operating Income of \$249,858 on total revenues of  
14 \$2,036,745, which Staff states is virtually unchanged from the previous year. Non-cash expenses  
15 totaled \$334,881, giving the Company a cash flow of \$574,739 available for debt repayment.

16 13. Staff calculated that the proposed \$500,000 loan, at an interest rate of 5.25 percent,  
17 would produce a Times Interest Earned Ratio ("TIER") of 9.71, a Debt Service Coverage ("DSC") of  
18 9.73 and a Cash Coverage Ratio ("CCR") of 22.34.

19 14. Staff believes the pro forma ratios indicate the Company has adequate earnings and  
20 cash flow to service the proposed debt.

21 15. Staff Engineering reviewed the proposed capital improvements and believes that the  
22 improvements are appropriate and the aggregate \$1,403,000 estimated cost is reasonable.

23 16. The Arizona Department of Environmental Quality ("ADEQ") has determined that  
24 this system is currently delivering water that meets water quality standards required by the Arizona  
25 Administrative Code, Title 18, Chapter 4.

26 17. The Arizona Department of Water Resources ("ADWR") indicated that the Company  
27 is in compliance with its Active Management Area requirements.

28 18. The Utilities Division compliance unit reports the Company has no outstanding

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1 compliance issues.

2 19. Staff believes that issuance of the debt as proposed is for lawful purposes, within the  
3 corporate powers of the Company, compatible with the public interest, compatible with sound  
4 financial practices, and will not impair the Company's ability to perform service.

5 20. Staff further recommends approval of the granting of liens in favor of the lender as  
6 described in the application; authorizing the company to engage in any transaction and to execute any  
7 documents necessary to effectuate the authorizations granted, and that the Company be required to  
8 file copies of all executed financing documents as soon as practicable after they become available.

9 21. Staff's recommendations are reasonable.

#### 10 CONCLUSIONS OF LAW

11 1. Community Water is a public service corporation within the meaning of Article XV of the  
12 Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

13 2. The Commission has jurisdiction over Community Water and the subject matter of the  
14 application.

15 3. Notice of the application was given in accordance with the law.

16 4. The financing approved herein is for lawful purposes within Community Water's  
17 corporate powers, is compatible with the public interest, with sound financial practices, and with the  
18 proper performance by Community Water of service as a public service corporation, and will not  
19 impair Community Water's ability to perform that service.

20 5. The financing approved herein is for the purposes stated in the application and is  
21 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably  
22 chargeable to operating expenses or to income.

#### 23 ORDER

24 IT IS THEREFORE ORDERED that Community Water Company of Green Valley is hereby  
25 authorized to borrow \$500,000 from Bank One at an interest rate not to exceed prime plus 1 ½  
26 percent for a term of 5 years, at a fifteen-year amortization rate.

27 IT IS FURTHER ORDERED that Community Water Company of Green Valley is hereby  
28 authorized to grant collateral to Bank One as described in the application.

1 IT IS FURTHER ORDERED that Community Water Company of Green Valley is authorized  
2 to engage in any transaction and to execute or cause to be executed any documents or modifications  
3 to existing documents to effectuate the authorization granted herein, including evidencing or securing  
4 the indebtedness authorized herein.

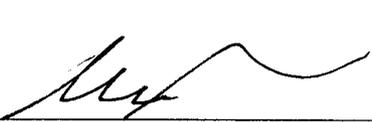
5 IT IS FURTHER ORDERED that Community Water Company of Green Valley shall use the  
6 loan proceeds for the purposes set forth in the application.

7 IT IS FURTHER ORDERED that Community Water Company of Green Valley shall file  
8 with the Commission copies of such executed loan agreement or agreements or related documents,  
9 setting forth the terms of its agreement as soon as such documents are available.

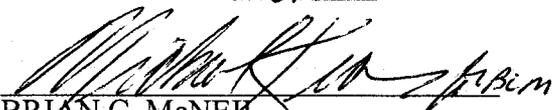
10 IT IS FURTHER ORDERED that approval of the financing set forth herein does not  
11 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
12 proceeds derived thereby for purposes of establishing just and reasonable rates.

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

14 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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17 CHAIRMAN COMMISSIONER COMMISSIONER  
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19 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
20 Secretary of the Arizona Corporation Commission, have  
21 hereunto set my hand and caused the official seal of the  
22 Commission to be affixed at the Capitol, in the City of Phoenix,  
23 this 20th day of SEPT., 2002.

24   
25 BRIAN C. McNEIL  
26 EXECUTIVE SECRETARY

27 DISSENT \_\_\_\_\_  
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1 SERVICE LIST FOR:

COMMUNITY WATER COMPANY OF GREEN VALLEY

2  
3 DOCKET NO.

W-02304A-02-0399

4 Michael Weber  
5 President and General Manager  
6 Community Water Company of Green Valley  
7 1501 South La Canada Drive  
8 Green Valley, Arizona 85622

9 William D. Baker  
10 Ellis & Baker, P.C.  
11 7310 North 16<sup>th</sup> Street, Suite 320  
12 Phoenix, Arizona 85020  
13 Attorneys of Applicant

14 Christopher Kempley  
15 Chief Counsel, Legal Division  
16 Arizona Corporation Commission  
17 1200 W. Washington Street  
18 Phoenix, Arizona 85007

19 Ernest Johnson  
20 Director, Utilities Division  
21 Arizona Corporation Commission  
22 1200 W. Washington Street  
23 Phoenix, Arizona 85007

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