



NEW APPLICATION

ORIGINAL
RECEIVED

Picacho Water Company
9532 East Riggs Road • Sun Lakes, Arizona 85248

2001 FEB 26 P 1:03

AZ CORP COMMISSION
DOCUMENT CONTROL

February 26, 2001

W-03528A-01-0169

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: In the Matter of the Financing Application for Picacho Water Company in Docket No. W-03528A.

Dear Sir or Madam:

Picacho Water Company ("PWC" or the "Company") requests that the Commission issue as soon as possible an order authorizing PWC to enter into certain specified financial transactions described herein.

PWC is a corporation duly organized and existing under the laws of the state of Arizona with its principal office and place of business in Sun Lakes, Arizona. It will own and operate facilities to provide water utility service to the public in Pinal County near the town of Casa Grande pursuant to a water Certificate of Convenience and Necessity granted by the Arizona Corporation Commission in Decision No. 61266 dated November 25, 1998.

The Company presently does not serve any customers. However, PWC was formed to provide water service to the customers in the community of Sun Lakes-Casa Grande, which is a planned community that will have approximately 8,000 homes at build-out.

The Company has drilled its first two wells and has established its service area right, and is in the process of designing the water distribution system and obtaining its construction and operating permits. PWC is incurring substantial costs for permitting, designing and constructing its facilities and requires authorization from the Commission for the financing that is necessary to pay the costs as they are incurred.

The Company ultimately desires to maintain an overall balance in its capital structure. However, since the Company will not have sufficient cash flow in its incipient years to service debt, the Company seeks authority to finance the initial water infrastructure required to serve the development with equity, and will seek authority to introduce long-term debt in connection with financing the additional water infrastructure that will be required to serve the balance of community as the development progresses. This financing plan will ultimately provide the appropriate balance in the capital structure.

The Company therefore requests approval of the following financing matter:

1. To issue up to \$5,700,000 of stock and paid in capital pro-rata to the shareholders of the corporation. The shareholders and their ownership percentages have not yet been determined because no stock has previously been issued.

A recap of the capital requirements to be met by the proposed financing is provided below:

First Water Plant	\$1,500,000
First Three Wells	1,500,000
Initial Distribution Lines	1,000,000
Generator	30,000
Vehicle	10,000
Facility	30,000
Equipment	30,000
Meters	50,000
Arsenic Treatment	1,000,000
Engineering and Permitting for Items Above	515,000
Subtotal (FIRST FIVE YEARS OF PROJECTED INFRASTRUCTURE)	5,665,000
Total Financing Requested (ROUNDED)	5,700,000

PWC financial statements have not been provided because the Company is not in operation at this time. A Corporate Resolution authorizing the submission of this financing application is attached. The Company published notice of this financing application on February 22, 2001 in a newspaper that is generally circulated in the service area. A copy of that notice is attached.

Picacho Water Company requests that the Commission issue an order or orders containing the following approvals and authorizations:

1. Approving and authorizing PWC to issue up to \$5,700,000 of new common stock; and
2. Ordering that an order be declared effective upon issuance.

An original and ten copies submitted.

Sincerely,


Jim Poulos
General Manager

JP:ab

**CERTIFIED RESOLUTIONS
OF THE BOARD OF DIRECTORS OF
PICACHO WATER COMPANY**

The undersigned Assistant Secretary of PICACHO WATER COMPANY, an Arizona corporation (the "Corporation"), certifies the following resolutions were adopted by the board of directors of the Corporation by written consent dated as of January 31, 2001, and that such resolutions have not been modified or amended and remain in full force and effect:

WHEREAS, the Articles of Incorporation of the Corporation authorize the issuance of common stock;

WHEREAS, the Board of Directors of the Corporation previously authorized the issuance of common stock and wishes to file an application with the Arizona Corporation Commission for authority to issue the stock;

Financing Application to Arizona Corporation Commission

RESOLVED, that the Corporation seek authority from the Arizona Corporation Commission to issue up to one million shares of no par value common stock (the "Stock") for the purpose of financing the acquisition or construction, or both, of infrastructure and equipment relating to the Corporation's business activities;

Issuance of Stock

RESOLVED, that upon Arizona Corporation Commission approval of the issuance of the Stock, the Corporation offer such stock for purchase by those persons or entities duly subscribing therefor, and that upon acceptance of such subscription offers and receipt of payment, the Corporation issue the Stock;

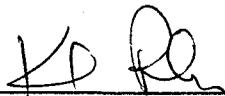
FURTHER RESOLVED, that if any subscriber fails to acquire his or her subscription of the Stock, then any one or more of the other subscribers of the Corporation may purchase such shares in such proportions as they may agree;

FURTHER RESOLVED, that the proper officers of the Corporation be, and they hereby are, authorized and directed to issue certificates representing the shares of Stock upon Arizona Corporation Commission approval and payment of the consideration therefor;

General

FURTHER RESOLVED, that the officers of the Corporation be, and they hereby are, authorized and directed to execute such documents and instruments as may be necessary or advisable to carry out the intent of these resolutions.

DATED: February 8, 2001

A handwritten signature in black ink, appearing to read 'K. Polen', written over a horizontal line.

Karl Polen, Assistant Secretary

PUBLIC NOTICE

APPLICATION FOR AN ORDER AUTHORIZING THE ISSUANCE OF COMMON STOCK BY PICACHO WATER COMPANY

Picacho Water Company (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue \$5,700,000 in Common Stock. The application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and Applicant's offices at 9532 East Riggs Road, Sun Lakes, Arizona 85248.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenors interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by a A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

DIRECT TESTIMONY OF JAMES L. POULOS

1Q. *Please state your name, position and business address.*

1A. My name is James L. Poulos. I am the General Manager of Picacho Water Company which I will refer to as "PWC" or the "Company". My business address is 9532 E. Riggs Road, Sun Lakes, Arizona 85248

2Q. *Please describe your education, background and experience.*

2A. I received a Bachelor of Arts degree in Economics with an emphasis in Accounting from Claremont McKenna College. I was a staff accountant for approximately two years with the international accounting firm of Arthur Andersen & Company. I then served as controller for a number of companies for over 10 years, including four public utilities. Since October 1994, I have served as general manager of five public utilities operating in the State of Arizona. My experience over seventeen years includes planning, constructing and operating four mechanical wastewater treatment plants, building eight water storage reservoirs as well as building and operating four water treatment facilities, drilling several wells, preparing and overseeing operating and capital budgets, obtaining and monitoring compliance with wastewater reuse, aquifer protection and NPDES permits, overseeing the staff of the water and wastewater operations, monitoring compliance with state Safe Drinking Water regulations and the requirements under the Federal Clean Water Act, obtaining and monitoring six air quality permits, constructing and operating an underground storage and recovery project, constructing and operating a groundwater savings facility, obtaining and administering nearly \$15,000,000 in IDA bonds, and serving as the Company witness and testifying in numerous water and sewer rate, financing and Certificate of Convenience and Necessity cases before the Arizona Corporation Commission. I am also a Certified Public Accountant in the State of Arizona.

3Q. *Would you briefly describe the Company's operations and service territory.*

3A. The Company was recently created to provide water service to the age restricted master planned community of Sun Lakes-Casa Grande, which will consist of 8,000 residential units and some light commercial facilities. PWC is not serving any customers at this time. The Company's water Certificate of Convenience and Necessity (CC&N) was issued by the Arizona Corporation Commission on November 25, 1998 in Decision No. 61266, and it covers approximately 3,000 acres of land in Pinal County, Arizona near the town of Casa Grande.

4Q. *Did you cause to be filed with the Arizona Corporation Commission ("Commission") an application of the Company for an order authorizing financing transactions?*

4A. Yes. This application seeks authority for the initial financing for the Company.

5Q. *What approvals are being requested by PWC in this application?*

5A. PWC is requesting approval to issue up to \$5,700,000 in new common stock which will be used to construct and operate the facilities required to serve the customers in the first five years of the Sun Lakes-Casa Grande Development.

6Q. *Why is PWC seeking authorization for financing at this time?*

6A. The Company has drilled its first two wells and has established its service area right, and is in the process of designing the water distribution system and obtaining its construction and operating permits. Since PWC is incurring substantial costs for permitting, designing and constructing its facilities to commence service to customers in 2003, it requires authorization from the Commission for the financing that is necessary to pay the costs as they are incurred.

7Q. *Please describe how the funds will be expended that will be provided by the financing proposed in this application.*

7A. The funds will be used to construct and operate the facilities required to serve the customers in the first five years of the Sun Lakes-Casa Grande development, which include:

- (1) \$1,500,000 to construct the initial water storage tank and booster pump station facility;
- (2) \$1,500,000 to drill and equip the first three wells;
- (3) \$1,000,000 to construct the water distribution lines in the first five years;
- (4) \$1,000,000 to construct the initial arsenic removal system;
- (5) \$30,000 to provide a facility to house the operators and equipment;
- (6) \$120,000 to acquire a generator, vehicle, meters and other equipment required for the first five years of operation; and
- (7) \$515,000 to permit and design the water tank and booster pump stations, the wells, the water distribution system and the arsenic removal system.

Please refer to Attachment 1 for a delineation of these items and amounts. These amounts were estimates prepared by the Company, which includes \$1,000,000 in water distribution lines which is based on \$1,000 per connection for the 200 units per year in each of the first five years projected for the development. The cost per connection is based on recent water distribution line costs incurred in SaddleBrooke which is a similar development. A schedule of these costs is provided on Attachment 2. Attachment 4 is a copy of the test results for arsenic levels at the two wells that have already been drilled. Both results are above the 10 ppb that the EPA is attempting to set as the maximum contaminant level for arsenic. A treatment facility would be required to reduce the arsenic to an appropriate level.

8Q. *Why is the Company proposing to use equity to finance the \$5,700,000 cost of the initial water facilities?*

8A. The Company's shareholders will provide the funds for the initial facilities that are required to provide water service to its customers. The Company believes that there should be a balance between debt and equity in the capital structure, however, since these facilities will provide service to a new development with a limited initial customer base, the Company will not have sufficient cash flow in its incipient years to service debt. In addition, it is unlikely that the Company will be able to obtain debt financing in the first five years of operation. As a result, the Company seeks authority to finance the water infrastructure required to serve the development in the first five years with equity.

9Q. *Were the initial rates granted in Decision No. 61266 based on financing all of the facilities in the first five years with equity?*

- 9A. Yes. The Company's proposal to issue the equity in this financing application is consistent with the financing method used to derive the initial rates.
- 10Q. *Does the Company plan to eventually introduce long-term debt into the capital structure?*
- 10A. Yes. The Company has prepared a projection of the water infrastructure costs that will be required to provide service to customers in years 6 through 15 of the Sun Lakes-Casa Grande development on Attachment 3. The total projected costs are \$9,500,000. Although the Company is not requesting authority to issue long-term debt to finance the construction of facilities required in years 6 through 15 in connection with this financing application, PWC plans to use long-term debt to finance the portion of the costs to construct those facilities that will ultimately bring the capital structure into a balance between debt and equity.
- 11Q. *In your opinion, is the execution, delivery and performance by the Company of the documents and other agreements contemplated in the application and your testimony for lawful purposes?*
- 11A. Yes.
- 12Q. *Are those purposes within the Company's corporate powers?*
- 12A. Yes.
- 13Q. *Are those purposes within sound financing practices?*
- 13A. Yes.
- 14Q. *Is the carrying out of such purposes a proper performance by the Company of its services as public service corporation?*
- 14A. Yes.
- 15Q. *Will the carrying out of such purposes impair the Company's ability to perform such services?*
- 15A. No.
- 16Q. *Are you of the opinion that the execution, delivery and performance of the agreements and documents contemplated in the application and your testimony are necessary or appropriate for the aforementioned purposes?*
- 16A. Yes.
- 17Q. *Will the expenditures for such purposes be wholly or in part reasonably chargeable by the Company to operating expenses or to income?*
- 17A. Except as described in the application and this testimony expenditures are not reasonably chargeable to operating expense or income.

18Q. *Do you believe that the transactions contemplated by the application and described in your testimony are compatible with the public interest?*

18A. Yes.

19Q. *Is the Company incorporated in the State of Arizona?*

19A. Yes it is.

20Q. *Is the Company a public service corporation in the State of Arizona?*

20A. Yes. The Company will provide water utility service to the public in the area of Sun Lakes-Casa Grande, Pinal County, Arizona pursuant to its CC&N.

21Q. *Have you read the application in its entirety?*

21A. Yes.

22Q. *Are the statements made in the application true to the best of your knowledge?*

22A. Yes and I would incorporate them by reference as a part of my testimony.

23Q. *Does this conclude your direct testimony?*

23A. Yes.

PICACHO WATER COMPANY
 WATER PLANT CONSTRUCTION SCHEDULE
 YEARS 1 THROUGH 5

	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>YEAR 3</u>	<u>YEAR 4</u>	<u>YEAR 5</u>
WATER PLANT	1,500,000	0	0	0	0
WELLS	1,000,000	0	500,000	0	0
DISTRIBUTION LINES	200,000	200,000	200,000	200,000	200,000
GENERATOR	30,000	0	0	0	0
VEHICLE	10,000	0	0	0	0
FACILITY	30,000	0	0	0	0
EQUIPMENT	10,000	5,000	5,000	5,000	5,000
METERS	10,000	10,000	10,000	10,000	10,000
ARSENIC TREATMENT	0	0	1,000,000	0	0

TOTAL YEARS 1 THROUGH 5 5,150,000

ADD: 10% ENGINEERING AND PERMITTING 515,000

TOTAL CONSTRUCTION COSTS YEARS 1 THROUGH 5 5,665,000

ROUNDED 5,700,000

PICACHO WATER COMPANY
 WATER DISTRIBUTION SYSTEM
 RECENT QUANTITIES AND PRICES
 AT SADDLEBROOKE

UNIT	6" PIPE	8" PIPE	10" PIPE	12" PIPE	HYDRANT	6" VALVE	8" VALVE	10" VALVE	12" VALVE	SERVICE	# OF LOTS	COST	PER LOT
14	5,573	2,055	0	0	12	7	2	0	0	1,932	176	114,491	650.52
20	44	0	1,313	0	3	0	0	3	0	948	40	38,626	965.65
22	1,308	0	0	0	1	2	0	0	0	510	29	22,729	783.76
23	873	1,257	0	0	13	1	1	0	0	2,310	140	188,844	1,348.89
24	8,000	0	3,711	0	14	9	0	7	0	1,500	132	151,410	1,147.05
25	1,246	3,784	0	0	10	3	8	0	0	1,860	96	95,795	997.86
28	160	4,905	183	0	13	0	11	2	0	1,260	112	119,750	1,069.20
29	1,726	2,953	0	0	11	6	6	0	0	900	76	99,489	1,309.07
30	1,727	716	0	0	6	4	2	0	0	2,010	57	50,552	886.88
32	2,821	3,473	2,692	0	14	8	4	4	0	870	125	149,979	1,199.83
33	0	2,289	187	470	6	0	5	0	1	2,700	57	47,251	828.96
35	2,185	3,339	0	0	9	13	10	0	0	570	213	122,778	576.42
TOTAL											1,253	1,201,694	959.05

PICACHO WATER COMPANY
 WATER PLANT CONSTRUCTION SCHEDULE
 YEARS 6 THROUGH 15

	<u>YEAR 6</u>	<u>YEAR 7</u>	<u>YEAR 8</u>	<u>YEAR 9</u>	<u>YEAR 10</u>	<u>YEAR 11</u>	<u>YEAR 12</u>	<u>YEAR 13</u>	<u>YEAR 14</u>	<u>YEAR 15</u>
WATER PLANT	0	0	1,500,000	0	0	0	0	0	0	1,500,000
POTABLE WELLS	500,000	0	0	500,000	0	0	500,000	0	0	0
DISTRIBUTION LINES	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
GENERATOR	0	0	0	0	0	0	0	0	0	0
VEHICLE	10,000	0	0	0	0	0	0	0	0	0
FACILITY	0	0	0	0	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0	0	0	0	0
METERS	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
ARSENIC TREATMENT	0	0	1,000,000	0	0	0	0	0	0	1,000,000

TOTAL YEARS 6-15 8,610,000

ADD: 10% FOR ENGINEERING AND PERMITTING 861,000

TOTAL CONSTRUCTION COSTS YEARS 6 THROUGH 15 9,471,000

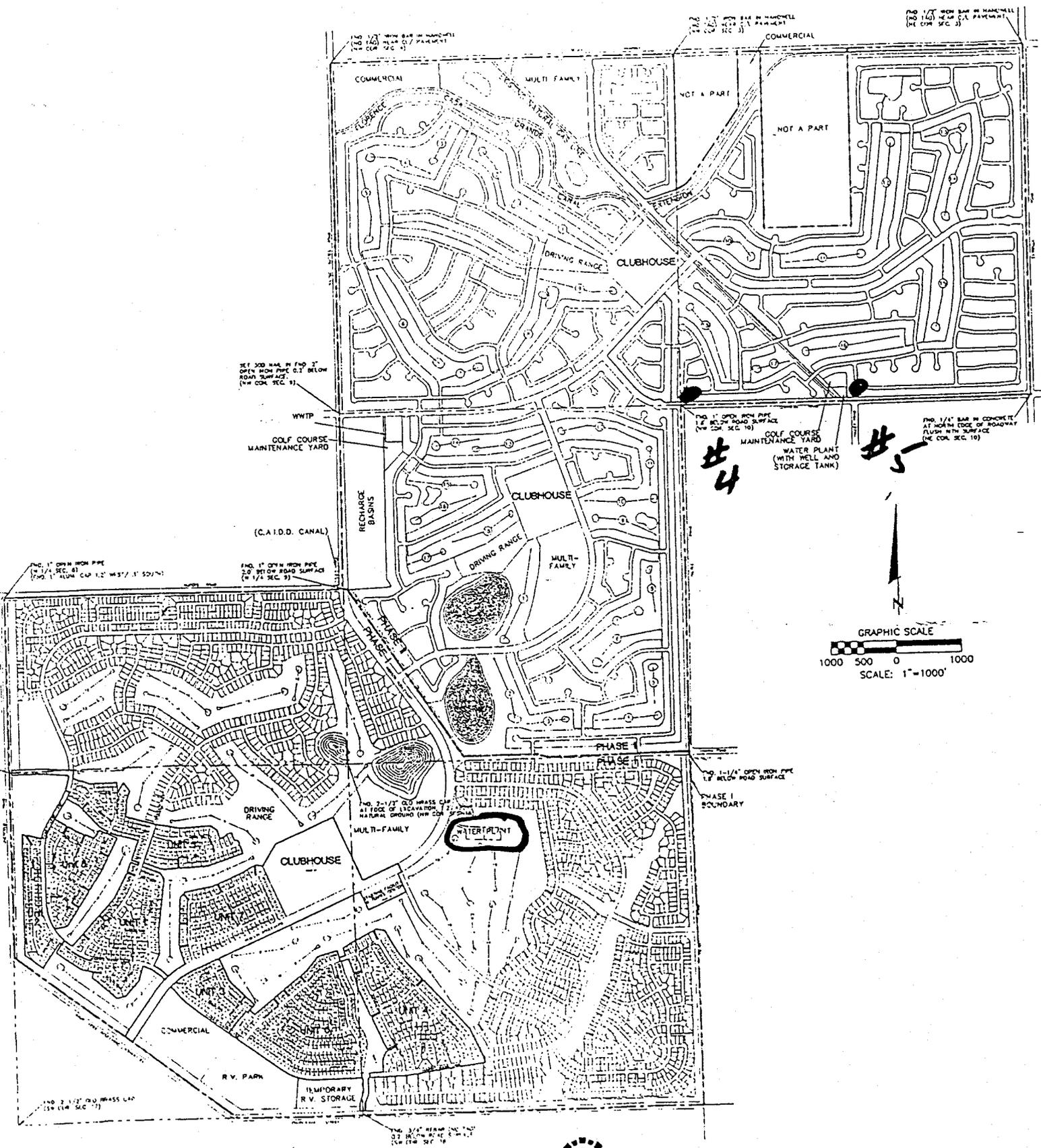
ROUNDED 9,500,000

ENGINEERING INC.
 3805 E. RICKS RD. SUITE 502
 SUN LAKES, ARIZONA 85240
 PHONE: (602) 895-0799
 P.A. CHAMBERS & S. PERKINS IN ALIGNMENT

UNIT 33 - PRELIMINARY PLAT
 UNIT 33 - RECORDED FINAL PLAT

ARE BASED UPON CURRENT SURVEY DATA WHICH ARE SUBJECT TO CHANGE OR ADJUSTED WITHOUT NOTICE AT THE DEVELOPER'S SOLE DISCRETION
 8-00

Attachment 4



*** INORGANIC CHEMICAL ANALYSIS ***
 >>> To be filled out by Laboratory Personnel <<<<

Analysis Method	MCL Value	Trigger Value	Contaminant Name	Con. Code	Test Start Date/Time	Analysis Run Date	Results	Exceeds MCL	Exceeds Trigger
A 200.9	0.05		Arsenic	1005		08/18/1998	0.016	<input checked="" type="checkbox"/>	<input type="checkbox"/> 0.016
EPA 200.7	2.0		Barium	1010		08/11/1998	0.14	<input type="checkbox"/>	
EPA 200.9	0.005		Cadmium	1005		08/10/1998	<0.001	<input type="checkbox"/>	
EPA 200.7	0.1		Chromium	1020		08/11/1998	<0.005	<input type="checkbox"/>	
EPA 200.7	1.3		Copper (Action Level)	1002		08/14/1998	0.030	<input type="checkbox"/>	
EPA 300.0	4.0		Fluoride	1025		07/31/1998	<0.4	<input type="checkbox"/>	
EPA 200.9	0.015		Lead (Action Level)	1030		08/20/1998	0.005	<input type="checkbox"/>	
EPA 245.1	0.002		Mercury	1035		08/08/1998	<0.0002	<input type="checkbox"/>	
EPA 300.0	10	2	Nitrate (as N)	1040	07/31/1998 16:20	07/31/1998	8.5	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EPA 300.0	1	0.2	Nitrite (as N)	1041	07/31/1998 16:20	07/31/1998	<0.1	<input type="checkbox"/>	<input type="checkbox"/>
EPA 200.9	0.05		Selenium	1045		08/17/1998	<0.005	<input type="checkbox"/>	
EPA 200.9	0.006		Antimony	1074		08/14/1998	<0.004	<input type="checkbox"/>	
EPA 200.7	0.004		Beryllium	1075		08/11/1998	<0.002	<input type="checkbox"/>	
SM 4500 CN E0.2			Cyanide (as free cyanide)	1024		08/06/1998	<0.01	<input type="checkbox"/>	
EPA 200.7	0.1		Nickel	1056		08/11/1998	<0.02	<input type="checkbox"/>	
EPA 200.9	0.002		Thallium	1085		08/05/1998	0.002	<input type="checkbox"/>	

*** CORROSIVITY CHEMICAL ANALYSIS ***
 >>> To be filled out by Laboratory Personnel <<<<

Analysis Method	MCL Value	Trigger Value	Contaminant Name	Con. Code	Test Start Date/Time	Analysis Run Date	Results	Exceeds MCL	Exceeds Trigger
EPA 300.0			Sulfate	1055		07/31/1998	159		
EPA 200.7			Sodium	1052		08/11/1998	104		
EPA 150.1			pH	1025		07/31/1998	7.3		
SM 2320B			Alkalinity	1027		08/03/1998	100		
			Hardness/Calcium	1018		08/11/1998	356		
CALCULATION			Langelier Index	1097		08/11/1998	-0.21		
			Temperature (Celsius)	1096					
SM 2540C			Total Dissolved Solids-TDS	1030		08/03/1998	828		

>>>> LABORATORY INFORMATION <<<<<<
 To be filled out by laboratory personnel

SPECIMEN NUMBER 9807-05282-001 I
 07/31/1998 12:00 (24 hr clock)
 Sample Date Sample Time

ID Number AZ0004 Name: Bolin Laboratories, Inc.

Comments: Nitrate result exceeds trigger.

Authorized Signature: *M. Hughes*

Date Public Water System Notified:

C.G. Well 4

10 27 98 11:08 AM FAX 602 942 8229 BOLIN LABS

*** INORGANIC CHEMICAL ANALYSIS ***
 To be filled out by Laboratory Personnel

Analysis Method	MCL Value	Trigger Value	Contaminant Name	Corr Code	Test Start Date/Time	Analysis Run Date	Results	Exceeds MCL	Exceeds Trigger
EPA 200.9	0.05		<u>Arsenic</u>	1005		10/07/1998	0.023	★	
EPA 200.7	2.0		Barium	1010		09/30/1998	0.02		
EPA 200.9	0.005		Cadmium	1015		10/05/1998	<0.001		
EPA 200.7	0.1		Chromium	1016		09/30/1998	0.007		
EPA 200.7	1.3		Copper (Action Level)	1022		09/30/1998	0.031		
EPA 300.0	4.0		Fluoride	1025		10/01/1998	1.8		
EPA 200.9	0.015		Lead (Action Level)	1030		09/30/1998	<0.005		
EPA 245.1	0.002		Mercury	1035		10/01/1998	<0.0002		
EPA 300.0	10	25	Nitrate (as N)	1040	09/30/1998 11:46	09/30/1998	2.2		
EPA 300.0		0.2	Nitrite (as N)	1041	10/01/1998 11:46	10/01/1998	<0.1		
EPA 200.9	0.05		Selenium	1045		10/05/1998	<0.005		
EPA 200.9	0.006		Antimony	1050		10/07/1998	<0.004		
EPA 200.7	0.004		Beryllium	1075		09/30/1998	<0.002		
SM 4500 CN E0.2			Cyanide (as free cyanide)	1024		10/02/1998	<0.01		
EPA 200.7	0.1		Nickel	1036		09/30/1998	<0.02		
EPA 200.9	0.012		Thallium	1085		09/30/1998	<0.001		

*** CORROSIVITY CHEMICAL ANALYSIS ***
 To be filled out by Laboratory Personnel

Analysis Method	MCL Value	Trigger Value	Contaminant Name	Corr Code	Test Start Date/Time	Analysis Run Date	Results	Exceeds MCL	Exceeds Trigger
EPA 300.0			Sulfate	1055		10/01/1998	85		
EPA 200.7			Sodium	1052		09/30/1998	109		
EPA 150.1			pH	1925		09/30/1998	7.9		
SM 2320B			Alkalinity	1927		10/01/1998	100		
			Hardness/Calcium	1918		09/30/1998	45		
CALCULATION			Langelier Index	1997		10/05/1998	-0.49		
			Temperature (Celsius)	1986	09/29/1998 07:00	09/29/1998	43.3		
SM 2540C			Total Dissolved Solids-TDS	1930		10/01/1998	356		

LABORATORY INFORMATION
 To be filled out by laboratory personnel

SPECIMEN NUMBER 9809067630011
 Sample Date 09/29/1998 Sample Time 07:00 (24 hr clock)

ID Number AZ0004 Name: Bolin Laboratories, Inc.

Comments:

Authorized Signature: *M. Hughes*

Date Public Water System Notified:

CG well 5