

ORIGINAL



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MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson 
Director
Utilities Division

DATE: SEPTEMBER 28, 2007

RE: STAFF REPORT FOR THE VALLEY UTILITIES WATER COMPANY, INC.
APPLICATION FOR AUTHORITY TO ISSUE ADDITIONAL COMMON
STOCK (DOCKET NO. W-01412A-07-0280)

Attached is the Staff Report for the Valley Utilities Water Company, Inc. application for authority to issue additional common stock. Staff recommends approval of the requested financing authorization.

Any party to this procedure who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before October 12, 2007.

EGJ:PMC:red

Originator: Pedro M. Chaves

Attachment: Original and fourteen copies

Arizona Corporation Commission
DOCKETED

SEP 28 2007

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AZ CORP COMMISSION
DOCKET CONTROL

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Service List for: VALLEY UTILITIES WATER COMPANY, INC.
Docket No. W-01412A-07-0280

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Arizona Corporation Commission
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Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

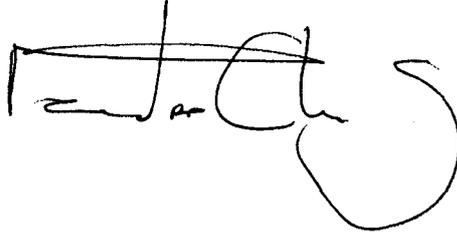
**VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-07-0280**

**APPLICATION FOR AUTHORITY TO
ISSUE ADDITIONAL COMMON STOCK**

SEPTEMBER 28, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Valley Utilities Water Company, Inc. Docket No. W-01412A-07-0280 is the responsibility of the Staff members listed below: Pedro M. Chaves is responsible for the review and financial analysis of the Company's application.

A handwritten signature in black ink, appearing to read 'Pedro M. Chaves', written over a horizontal line.

PEDRO M. CHAVES
PUBLIC UTILITIES ANALYST II

EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-07-0280

Valley Utilities Water Company, Inc. ("Valley Utilities" or "Company"), a Class "B" Arizona public service corporation organized under subchapter "C" of the United States Treasury regulations with its business office in Glendale, Arizona, filed on May 9, 2007, an application with the Arizona Corporation Commission ("Commission") for authority to issue additional common stock.

The Company is primarily engaged in the business of providing water utility service to approximately 1,400 customers in its certificated area in portions of Maricopa County, Arizona.

Valley Utilities seeks Commission approval for the issuance of \$300,000 in common stock as partial payment for real property.

At December 31, 2006, Valley Utilities' capital structure consisted of \$7,072 short-term debt, \$28,237 long-term debt, and negative \$402,545 equity. Issuance of the requested \$300,000 combined with an increase of \$129,000 in short-term debt and issuance of \$1,926,100 in previously authorized debt, results in a capital structure composed of \$188,826 short-term debt, \$1,901,583 long-term debt and negative \$102,545 equity.

Staff concludes that issuance of the proposed equity financing for the purposes stated by the Company is within Valley Utilities' corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends that the Commission authorize Valley Utilities' request to issue an amount not to exceed \$300,000 in new funds from common stock for the purposes described herein.

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Introduction

On May 9, 2007, Valley Utilities Water Company, Inc. ("Valley Utilities" or "Company"), a Class "B" Arizona public service corporation organized under subchapter "C" of the United States Treasury regulations with its business office in Glendale, Arizona, filed an application with the Arizona Corporation Commission ("Commission") requesting authority to issue common stock.

Public Notice

On June 28, 2007, the Company filed an affidavit of publication verifying public notice of its financing application. The Company published notice of its financing application in the *Record Reporter* on June 22, 2007. The *Record Reporter* is a newspaper of general circulation published three days a week, in the County of Maricopa, Arizona. The affidavit of publication is attached along with a copy of the notice.

Background

Valley Utilities provides water and wastewater services in portions of Mohave, Maricopa and Santa Cruz counties to approximately 1,400 customers.

The Company's existing rates were approved by Decision No. 68309, dated November 14, 2005. Decision No. 68309 also authorized Valley Utilities' request for approval of a \$1,926,100 Water Infrastructure Finance Authority of Arizona ("WIFA") loan. In addition, the Commission expressed concerns regarding the Company's negative equity position and ordered Valley Utilities to "... develop and institute a plan to produce a positive equity position by December 31, 2010"¹.

Purpose of the Requested Financing

Valley Utilities asks approval of the Commission to issue \$300,000 of common stock to Robert L. and Barbara Prince ("Prince Family") as partial payment for real and personal property (specifically, an industrial storage site, a tractor and a utility vehicle)² to be used in the Company's continued operations.

Description of the Requested Financing

The appraised costs of the industrial storage site, the tractor and the utility vehicle are \$404,000, \$20,000 and \$5,000, respectively, totaling \$429,000. In order to fund the remainder of

¹ Decision No. 68309, page 27, lines 17- 18.

² See further, attachment two of the Company's application.

the real and personal property, the Company will issue an interest-free short-term note payable for up to \$129,000.³

Financial Analysis

Staff's analysis is illustrated on Schedule PMC-1. Column [A] reflects Valley Utilities' historical financial information for the year ended December 31, 2006. Column [B] presents pro forma financial information that modifies Column [A] to reflect the issuance of the requested \$300,000 of common stock, an increase in short-term debt of \$129,000 and issuance of \$1,926,100 loan, as approved by Decision No. 68309.

Capital Structure

At December 31, 2006, Valley Utilities' capital structure consisted of \$7,072 short-term debt, \$28,237 long-term debt, and negative \$402,545 equity (Schedule PMC-1, Column [A]). Issuance of the requested \$300,000 combined with an increase of \$129,000 in short-term debt and issuance of \$1,926,100 in previously authorized debt, results in a capital structure composed of \$188,826 short-term debt, \$1,901,583 long-term debt and negative \$102,545 equity (Schedule PMC-1, Column [B]).

As evident in Columns [A] and [B], Valley Utilities has negative equity in its capital structure. However, the proposed \$300,000 equity issuance would significantly move the Company's toward a positive equity position as prescribed by the Commission in Decision No. 68309. Regarding the Company intention to issue short-term debt up to \$129,000, Staff reminds the Company that short-term debt should not exceed 7 percent of total capitalization.⁴

Compliance

There are no compliance issues with Valley Utilities Water Company.

Conclusion and Recommendations

Staff concludes that issuance of the proposed equity financing for the purposes stated by the Company is within Valley Utilities' corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends that the Commission authorize Valley Utilities' request to issue an amount not to exceed \$300,000 in new funds from common stock for the purposes described herein.

³ As stated in paragraph 9 of Valley Utilities' application, "The Company may not have sufficient funds to pay the cash portion of the sale price at the time of the closing, but is expected to have said cash within several months thereafter."

⁴ See further, A.R.S. §40-302(D)

Staff recommends authorizing Valley Utilities to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Company file documents evidencing execution of the transaction(s) be filed with Docket Control, as a compliance item in this docket, within 60 days of execution.

FINANCIAL ANALYSIS

Line No.		[A] ¹ <u>12/31/2006</u>		[B] ² <u>Pro Forma</u>	
1	Short-term Debt	\$ 7,072	-1.9%	\$ 188,826	9.5% ³
2					
3	Long-term Debt	\$ 28,237	-7.7%	\$1,901,583	95.7%
4					
5	Common Equity	(\$402,545)	109.6%	(\$102,545)	-5.2%
6					
7	Total Capital	(\$367,236)	100.0%	\$1,987,864	100.0%
8					
9					
10					

11 ¹ Column [A] is based on 2006 financial information for the year ended December 31, 2006.

12 ² Column [B] is Column [A] modified to reflect a \$1,926,100 loan as approved in Decision No. 68309. Column [B] also modifies Column [A]
13 to reflect the issuance of \$300,000 of common stock and \$129,000 in short-term debt.

14 ³ Staff reminds Valley Utilities that short-term debt should not exceed 7 percent of total capitalization. See further, A.R.S. §40-302(D)

Chaves

SALLQUIST, DRUMMOND & O'CONNOR P.C.

ATTORNEYS AT LAW
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JUN 28 2007

AZ CORP COMM
Director Utilities

RICHARD L. SALLQUIST

PHONE (480) 839-5202
FACSIMILE (480) 345-0412
E-MAIL dick@sd-law.com

June 27, 2007

Shaunna Lee-Rice
Arizona Corporation Commission
Docket Control
1200 W. Washington
Phoenix, AZ 85007

Re: Valley Utilities Water Company; Docket No W-01412A-07-0280: Compliance Filing

Dear Ms. Rice:

In Valley Utilities Water Company's (the "Company") Data Response dated June 15, 2007, we represented that we would provide the Affidavit of Publication upon receipt. Attached hereto are 15 copies of that Affidavit.

In the event you have any questions regarding these matters please do not hesitate to contact the undersigned.

Sincerely,



Richard L. Sallquist

Enclosures

cc: Robin Mitchell
Pedro Chaves
Bob Prince
Tom Bourassa

THE RECORD REPORTER

~ SINCE 1914 ~

1505 N CENTRAL AVE #200, PHOENIX, AZ 85004-1725
Telephone (602) 417-9900 / Fax (602) 417-9910

JENNIFER PUHALLA
SALLQUIST, DRUMMOND & O'CONNOR,
1430 E MISSOURI AVE #B125
PHOENIX, AZ - 85014-2467

RR# 1155813

**PUBLIC NOTICE OF AN
APPLICATION FOR AN ORDER
AUTHORIZING THE ISSUANCE OF
COMMON STOCK BY
VALLEY UTILITIES WATER
COMPANY**

Valley Utilities Water Company, Inc. (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue 4,000 shares of its Common Stock to its existing Shareholders. The Application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and Applicant's offices at 6880 N. Dysart Road, Suite 112 Glendale, Arizona 85307. 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 intervenor's 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.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice. If you have any questions or concerns about this application or have any objections to its approval, or wish to make a statement in support of it, you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007 or call 1-800-222-7000.

6/22/07

RR-1155813#

AFFIDAVIT OF PUBLICATION

Reference #: 93055-00000

Notice Type: MN - MISCELLANEOUS NOTICE

Ad Description: VALLEY UTILITIES WATER COMPANY INC.
APPLICATION FOR ISSUANCE OF COMMON STOCK

I, MARCIA NOHAVA, am authorized by the publisher as agent to make this affidavit. Under oath, I state that the following is true and correct.

THE RECORD REPORTER is a newspaper of general circulation published Monday, Wednesday and Friday except legal holidays, in the County of Maricopa, State of Arizona. The copy hereto attached is a true copy of the advertisement as will be/have been published on the following dates:

06/22/2007



Subscribed and sworn to before me on the 22ND day of JUNE, 2007





ANNETTE R. ACOSTA
Notary Public - Arizona
Maricopa County
Expires 10/15/2010

