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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

FEB 27 2008

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF  
GOLDEN SHORES WATER COMPANY, INC.  
FOR AUTHORITY TO ISSUE LONG-TERM  
DEBT.

DOCKET NO. W-01815A-06-0775

DECISION NO. 70171

ORDER

Open Meeting  
February 12 and 13, 2008  
Phoenix, Arizona

**BY THE COMMISSION:**

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

**FINDINGS OF FACT**

1. Golden Shores Water Company, Inc. ("GSWC" or "Company") is a for-profit Arizona Class "C" corporation that provides water utility service to approximately 1,600 customers in Mohave County, near Topock, Arizona.

2. On December 12, 2006, GSWC filed with the Commission an application for retroactive authority to issue long-term debt in the amount of \$286,200, and for related approvals ("Financing Application").

3. On February 23, 2007, the Company filed an application for an increase in rates in Docket No.W-01815A-07-0117 ("Rate Case Application"). Although the Rate Case and Financing Applications were consolidated by Procedural Order issued May 2, 2007, GSWC subsequently requested, by Motion filed October 10, 2007, that the Rate Case Application be withdrawn and that the Financing Application be processed by itself.

4. By Procedural Order issued October 12, 2007, the Rate Case and Financing

1 Applications were bifurcated and the Rate Case docket was ordered administratively closed.

2 5. On November 1, 2007, GSWC filed an affidavit of publication verifying that it had  
3 mailed notice of the Financing Application and withdrawal of the Rate Case Application to all  
4 customers.

5 6. On November 9, 2007, the Rate Case Application (Docket No. W-01815A-07-0117)  
6 was administratively closed by Decision No. 69977.

7 7. A public comment hearing was held on November 28, 2007<sup>1</sup>. No customers or  
8 members of the public offered comments.

9 8. On January 18, 2008, the Commission's Utilities Division Staff ("Staff") filed its Staff  
10 Report for the Financing Application, recommending approval of the application.

11 9. On October 15, 2004, GSWC issued a promissory note to Bank One NA (nka  
12 "Chase") for a loan obtained by the Company in the amount of \$286,200. The loan is a seven-year  
13 amortizing obligation at a fixed interest rate of 7.25 percent per annum. Principal and accrued  
14 interest payments by the Company commenced on February 15, 2005, and are scheduled to continue  
15 through January 15, 2012. Monthly debt service on the loan is \$4,254 (approximately \$51,000 per  
16 year).

17 10. Proceeds of the loan were used by GSWC to fund construction of a new water  
18 production well and a 250,000 gallon water storage tank, which the Company claims are necessary to  
19 ensure reliable service. According to the Application and Staff Report, the Company has spent  
20 \$312,561 of a projected total project cost of \$332,000. The well and storage tank project is expected  
21 to be completed and in service by April 2008.

22 11. In its Application, GSWC acknowledges that approval of the loan should have been  
23 obtained from the Commission prior to executing the transaction, in accordance with Arizona  
24 Revised Statutes ("A.R.S.") §§40-302 and 40-285. GSWC states that it "apologizes for this error,  
25 which was simply a mistake on its part and was not intended to avoid Commission oversight."  
26 (Application at 3).

27 <sup>1</sup> The November 28, 2007, hearing date was originally scheduled for the consolidated Rate Case and Financing  
28 Applications. After the Rate Case Application was withdrawn, the November 28, 2007, date was retained as an  
opportunity for public comment regarding the Financing Application.

1           12.    The Staff Report's financial analysis shows that, for the year ended December 31,  
2 2006, the Chase loan was the only debt in the Company's capital structure. According to Staff,  
3 GSWC's capital structure consists of 5.6 percent short-term debt, 25.2 percent long-term debt, and  
4 69.3 percent equity (Staff Report at 2)<sup>2</sup>.

5           13.    For the year ended December 31, 2006, Staff calculated that GSWC had a Times  
6 Interest Earned Ratio ("TIER")<sup>3</sup> of 0.14 and a Debt Service Coverage ("DSC")<sup>4</sup> ratio of 1.31. These  
7 calculations indicate that the Company's operating income was insufficient to cover interest expense  
8 in 2006, which is an unsustainable condition over the long-term. However, the DSC calculated by  
9 Staff indicates that GSWC would be able to meet all debt obligations with cash generated from its  
10 operations (*Id.*).

11           14.    The Staff Report's engineering analysis states that GSWC's existing water system  
12 consists of four wells producing approximately 1,190 gallons per minute ("gpm"), with two storage  
13 tanks totaling 200,000 gallons of storage capacity. Projected growth for the system is approximately  
14 40 new service connections per year for the next five years.

15           15.    Based on data provided by the Company, Staff concluded that GSWC's current system  
16 (prior to addition of the new well and storage tank) is capable, under normal operating conditions, of  
17 supporting approximately 1,000 additional service connections. After the new well (projected  
18 additional capacity of 1,000 gpm) and storage tank are added to the system, Staff estimates that the  
19 Company's system could support an additional 4,000 connections (Staff Report Engineering Analysis  
20 at 1-2).

21           16.    According to Staff, the additional production and storage capacity do not appear to be  
22 needed for the foreseeable future. Staff stated that the Company's justification for the new well and  
23 storage project was to protect against outages in situations where its largest well (600 gpm) is

24 <sup>2</sup> The sum of the capital structure percentages listed in the staff Report is 100.1 percent, which we assume is the result of  
25 rounding.

26 <sup>3</sup> The TIER represents the number of times earnings will cover interest expense on short-term and long-term debt. A  
27 TIER greater than 1.0 means that operating income is greater than interest expense. A TIER of less than 1.0 is not  
28 sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

<sup>4</sup> DSC ratio represents the number of times internally generated cash will cover required principal and interest payments  
on long-term debt. A DSC ratio greater than 1.0 means that operating cash flow is sufficient to cover debt obligations. A  
DSC less than 1.0 means that debt service obligations cannot be met from operations and that another source of funds is  
needed to avoid default.

1 unavailable due to repairs or unplanned outages. However, Staff indicated that GSWC did not offer  
2 any supporting documentation regarding recent outages to support its contention (*Id.* at 2).

3 17. Staff reviewed the Company's estimates for the new well and storage project that was  
4 financed in large part by the Chase loan, and Staff found the Company's estimates to be reasonable.  
5 However, Staff pointed out that because it believes GSWC's current system is adequate to serve  
6 current customers and projected growth, if the Company were to file a rate application in the  
7 foreseeable future to place the construction project's capital costs into rate base, Staff may conclude  
8 that the new well and storage capacity are not "used and useful" for purposes of rate recovery (*Id.* at  
9 3).

10 18. According to Staff, the Arizona Department of Environmental Quality ("ADEQ")  
11 reports that GSWC's system has no major deficiencies and is currently delivering water that meets  
12 the water quality standards required under Arizona Administrative Code, Title 18, Chapter 4,  
13 pursuant to an ADEQ Report dated January 23, 2007.

14 19. Staff also indicated that, as of December 3, 2007, GSWC had no delinquent  
15 compliance issues with the Commission.

16 20. Based on its analysis of the Application, Staff made the following conclusions and  
17 recommendations:

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- 19 a) The proposed improvements and estimated costs appear to be reasonable and appropriate.
  - 20 b) The proposed financing, for the purposes stated in the application, is within GSWC's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.
  - 21 c) The Commission should authorize GSWC's retroactive request to issue the \$286,200 note and encumber its assets in connection with the Chase loan.
  - 22 d) The Commission should authorize GSWC to engage in any transactions and to execute any documents necessary to effectuate the authorization granted.
  - 23 e) The Commission should put GSWC on notice that, if the Company files a rate application in the foreseeable future, Staff may recommend that the new well and storage tank that are the subject of the Financing Application may not be considered "used and useful" and therefore may not be includable in the Company's rate base.
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1 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

4 IT IS FURTHER ORDERED that Golden Shores Water Company, Inc. shall annually file as  
5 part of its annual report, an affidavit with the Utilities Division attesting that the Company is current  
6 in paying its property taxes in Arizona.

7 IT IS FURTHER ORDERED that this Decision shall become effective upon submission of  
8 payment to the Arizona Corporation Commission's Business Office of the \$2,600 penalty described  
9 hereinabove, payable to the "State of Arizona" for deposit into the State's General Fund.

10 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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13 CHAIRMAN  COMMISSIONER

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15 COMMISSIONER  COMMISSIONER  COMMISSIONER

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18 IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim  
19 Executive Director of the Arizona Corporation Commission,  
20 have hereunto set my hand and caused the official seal of the  
21 Commission to be affixed at the Capitol, in the City of Phoenix,  
22 this 27<sup>th</sup> day of Feb., 2008.

23   
24 DEAN S. MILLER  
25 INTERIM EXECUTIVE DIRECTOR

26 DISSENT \_\_\_\_\_

27 DISSENT \_\_\_\_\_

28 DDN

1 SERVICE LIST FOR: GOLDEN SHORES WATER COMPANY, INC.

2 DOCKET NO.: W-01815A-06-0775

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