

ORIGINAL



0000084587

MEMORANDUM
RECEIVED

TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

2008 APR 25 A 10: 57

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 25, 2008

RE: STAFF REPORT FOR WILHOIT WATER COMPANY, INC. – THUNDERBIRD MEADOWS' APPLICATION FOR FINANCING APPROVAL (DOCKET NO. W-02065A-08-0138).

A Procedural Order dated January 7, 2008, was issued in Docket No. W-02065A-07-0306 et al which ordered Wilhoit Water Company, Inc. – Thunderbird Meadows (“Company”) to file a separate financing application for Arizona Corporation Commission (“Commission”) approval of long-term debt to fund the construction of a new water source. It was further ordered that the Utilities Division file an amended Staff Report with respect to the associated rate application and file a separate Staff Report with respect to the financing application which was to be filed in the future.

On March 6, 2008, the Company, in compliance with the referenced Procedural Order, filed a financing application with the Commission. Please refer to the separately issued concurrent rate case Staff Report issued April 25, 2008, under Docket No. W-02065A-07-0306 for Staff's recommendation regarding the surcharge related to the construction of the new water source.

Attached is the Staff Report for the Company's financing application for Commission approval of long-term debt to finance the construction of a new water source in the amount of \$345,000. Staff recommends approval of the requested authorization.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before May 5, 2008.

EGJ:JMM:tdp

Originator: Jeffrey M. Michlik

Arizona Corporation Commission
DOCKETED

APR 25 2008

DOCKETED BY *NR*

Service List for: Wilhoit Water Company, Inc. - Thunderbird Meadows
Docket No. W-02065A-08-0138

Mr. Jim West
Authorized Representative
West & Company, LLC.
365 East Coronado Road, Suite 200
Phoenix, Arizona 85004

Mr. Samuel DuBois
Walden Meadows Community Co-Op
9325 Donegal Drive, Suite A
Wilhoit, Arizona 86332

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

WILHOIT WATER COMPANY, INC. - THUNDERBIRD MEADOWS

DOCKET NO. W-02065A-08-0138

APPLICATION FOR FINANCING APPROVAL

April 25, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Wilhoit Water Company, Inc. - Thunderbird Meadows, Docket No. W-02065A-08-0138 was the responsibility of the Staff members listed below. Jeffrey M. Michlik was responsible for the financial review and analysis of the Company's application. Del Smith was responsible for the engineering and technical analysis. Deb Reagan was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Jeffrey M. Michlik
Public Utility Analyst V



Del Smith
Utilities Chief Engineer



Deb Reagan
Consumer Analyst II

EXECUTIVE SUMMARY
WILHOIT WATER COMPANY, INC. – THUNDERBIRD MEADOWS
DOCKET NO. W-02065A-08-0138

Wilhoit Water Company, Inc. (“Wilhoit”) is engaged in the business of providing water services to customers in Yavapai County. The Company is composed of three independent water systems. The Thunderbird Meadows Water System (“Thunderbird” or “Company”) is located in Wilhoit, Arizona and serves an area southeast of U.S. Highway 89. The Blue Hills water system is located in Dewey, Arizona and the Yavapai Estates system is located in Chino Valley, Arizona. The three Wilhoit systems along with the Dells Water Company (“Dells”) are all managed by the same parent company which is Glenarm Land Company (“Glenarm”).

The Company is a for-profit Class “D” Arizona public service corporation that serves approximately 128 customers. The Company’s service area, comprises roughly 360 acres (.6 square miles), and is located approximately 16 miles southwest of Prescott on Highway 89 in Yavapai County.

A Procedural Order dated January 7, 2008, was issued in Docket No. W-02065A-07-0306 et al, which ordered the Company to file a separate financing application for Commission approval of long-term debt to fund the construction of a new water source. It was further ordered that the Utilities Division file an amended Staff Report with respect to the associated rate application and file a separate Staff Report with respect to the financing application which was to be filed in the future. On March 6, 2008, the Company, in compliance with the referenced Procedural Order, filed a financing application with the Commission.

Please refer to the separately issued concurrent rate case Staff Report, Docket No. W-02065A-07-0306 et al, issued April 25, 2008, for Staff’s recommendation regarding the surcharge related to the construction of the new water source.

Staff calculated a 1.53 times interest earned ratio (“TIER”) and a 1.21 debt service coverage (“DSC”) ratio for the Company for fiscal year ended in 2006. The DSC results indicate that operating cash flow is sufficient to cover all obligations. Please refer to Staff’s separately issued concurrent rate case Staff Report, Schedule JMM-6 for more information.

Staff recommends that the Commission authorize the Company’s request for approval of long-term debt financing via a WIFA loan in the amount of \$345,000, to fund the construction of a new water source.

Staff recommends authorizing the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
PUBLIC NOTICE.....	1
BACKGROUND	1
CONSUMER SERVICES	1
USE OF FINANCE PROCEEDS	2
DESCRIPTION OF THE PROPOSED FINANCING	2
FINANCIAL ANALYSIS.....	2
TIER AND DSC	2
ENGINEERING ANALYSIS OF THE PROPOSED FINANCING	3
COMPLIANCE.....	3
CONCLUSION AND RECOMMENDATIONS	3

ATTACHMENTS

ENGINEERING REPORT	A
NOTICE	B

Introduction

A Procedural Order dated January 7, 2008, was issued in Docket No. W-02065A-07-0306 et al,¹ which ordered the Wilhoit Water Company, Inc., – Thunderbird Meadows (“Thunderbird” or “Company”) to file a separate financing application for Commission approval of long-term debt to fund the construction of a new water source. It was furthered ordered that the Commission’s Utilities Division file an amended Staff Report with respect to the associated rate application and file a separate Staff Report with respect to the financing application which was to be filed in the future. On March 6, 2008, the Company, in compliance with the referenced Procedural Order, filed a financing application with the Commission. Please refer to the separately issued Amended Staff Report, Docket No. W-02065A-07-0306 et al for Staff’s recommendation regarding the surcharge related to the construction of the new water source.

Public Notice

On April 9, 2008, the Company provided a dated bill insert attesting to the fact that all customers were notified of the Company’s financing application, and this notice was mailed to all customers of Thunderbird Meadows on April 9, 2008. A copy of the billing insert is attached.

Background

Wilhoit Water Company, Inc. (“Wilhoit”) is engaged in the business of providing water services to customers in Yavapai County. Wilhoit is composed of three independent water systems. Thunderbird is located in Wilhoit, Arizona and serves an area southeast of U.S. Highway 89. The Blue Hills water system is located in Dewey, Arizona and the Yavapai Estates system is located in Chino Valley, Arizona. The three Wilhoit systems along with the Dells Water Company are all managed by the same parent company which is Glenarm Land Company.

The Company is a for-profit Class “D” Arizona public service corporation that serves approximately 128 customers. The Company’s service area, comprises roughly 360 acres (.6 square miles), and is located approximately 16 miles southwest of Prescott on Highway 89 in Yavapai County.

Consumer Services

A review of the Consumer Services Section database for Thunderbird from January 1, 2005, through March 28, 2008, revealed that in 2008 there were no complaints, one inquiry, and no opinions. In 2007, there were eight complaints (three billings and five quality of service), ten inquiries and twenty opinions opposing the rate increase. In 2006, there were four complaints (three quality of service and one construction), three inquiries and no opinions. In 2005, there

¹ On May 21, 2007, Wilhoit filed the following applications: an application requesting approval of retroactive financing in the amount of \$15,000 in Docket No. W-02065A-07-0306; an application requesting approval of financing in the amount of \$131,059 in Docket No. W-02065A-07-0307; and an application requesting approval for a permanent rate increase in Docket No. W-02065A-07-0312.

were two complaints (one non pay disconnect and one repair), no inquiries and no opinions. All Complaints and Inquiries have been resolved and closed.

Use of Finance Proceeds

The proceeds of the financing will be used to construct a new water source which will consist of a new well, a storage tank adjacent to the new well and a transmission line which would connect the new well and tank to the existing system.²

Description of the Proposed Financing

The Company has requested authorization to finance the \$345,000 related to the construction of a new water source through the use of a Water Infrastructure Finance Authority ("WIFA") loan. The Company requested debt authorization to borrow \$345,000, at an 8 percent annual interest rate from WIFA, to be repaid over a period of 20 years.

Financial Analysis

Please refer to Staff's concurrent rate case Staff Report, Docket No. W-02065A-07-0306, Schedule JMM-6 for more information.

Times Interest Earned Ratio ("TIER") and Debt Service Coverage ("DSC")

Staff also examined the effects of the proposed financing on the Company's TIER and DSC.

TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

DSC represents the number of times internally generated cash (i.e. earnings before interest, income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

Considering Staff's recommended revenue requirement along with fully drawing on two WIFA loans in the amount of \$476,059³ results in a pro forma TIER and DSC of 1.53 and 1.21,

² The area in which the new well will be drilled is adjacent to the Company's service area on the Westside of Highway 89, in the Walden Meadows service area.

³ In Staff's Revised Report, see Docket No. W-02065A-07-0312 ET. AL., Staff recommended approval of \$131,059 WIFA loan to provide the system with two additional storage tanks (i.e. a 14,000 gallon and 25,000 gallon tank), this amount plus the recommended approval of \$345,000 for the construction of a new well source in this application totals \$476,059.

respectively. The pro forma TIER and DSC show that Thunderbird would have adequate cash flow to meet all obligations including the proposed debt. Please refer to Staff's separately issued concurrent rate case Staff Report, Docket No. W-02065A-07-0306 et al, Schedule JMM-6 for more information.

Engineering Analysis of the Proposed Financing

Staff found the construction of a new well source and the associated costs to be reasonable and appropriate. A complete discussion of the construction of the new well source and costs are discussed in the attached Engineering Report.

Compliance

For Compliance issues related to the applicant, please refer to Staff's separately issued concurrent rate case Staff Report, Docket No. W-02065A-07-0306 et al.

Conclusion and Recommendations

Staff concludes that the proposed financing of a new well source and estimated costs appear to be reasonable.

Staff concludes that the proposed financing, for the purposes stated in the application, is within the Company's powers, is compatible with the public interest, consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends that the Commission authorize the Company's request for approval of long-term debt financing via a WIFA loan in the amount of \$345,000, to fund the construction of a new water source.

Staff recommends authorizing the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff recommends that the Commission order Wilhoit Water Company, Inc. and Walden Meadows Community Co-Op, pursuant to A.R.S. § 40-331 and § 40-332, to negotiate an agreement to interconnect the infrastructure of the two separate water systems in a manner allowing Thunderbird Meadows to "wheel" water from any new water source through the existing infrastructure of Walden Meadows.

MEMORANDUM

DATE: March 27, 2008

TO: Jeffery Michlik
Public Utilities Analyst V
Utilities Division

FROM: Del Smith 
Utilities Engineer Supervisor
Utilities Division

RE: Wilhoit Water Company, Inc. - Thunderbird Meadows 6
Docket No. W-02065A-08-0138 (Financing Application)

Introduction

A Procedural Order dated January 7, 2008, was issued in Docket No. W-02065A-07-0306 ET. AL. which ordered Wilhoit Water Company, Inc. – Thunderbird Meadows (“Wilhoit” or “the Company”) to file a separate financing application for Arizona Corporation Commission (“ACC” or “Commission”) approval of long-term debt to fund the construction of a new water source.¹ On March 6, 2008, the Company, in compliance with the referenced Procedural Order, filed a Financing Application (“Application”) with the Commission.

Wilhoit needs to fund the construction of a new well, a storage tank adjacent to the new well, and a transmission line which would connect the new well and tank to the existing Thunderbird Meadows (“T-Bird”) water system according to the Application. When complete, the new well, tank, and transmission line will provide additional water to the T-Bird service area (collectively these proposed plant additions will be referred to herein as “the Well Project”). Per the Application, Wilhoit is seeking Commission authorization to borrow \$345,000 to fund the Well Project through the use of Water Infrastructure Finance Authority (“WIFA”) indebtedness.

The Company’s T-Bird service area, which comprises roughly 360 acres (.6 square miles), is located approximately 16 miles southwest of Prescott on Highway 89 in Yavapai County. The T-Bird water system currently serves approximately 125 metered customers.

¹ On May 21, 2007, Wilhoit filed the following applications: an application requesting approval of retroactive financing in the amount of \$15,000 in Docket No. W-02065A-07-0306; an application requesting approval of financing in the amount of \$131,059 in Docket No. W-02065A-07-0307; and an application requesting approval for a permanent rate increase in Docket No. W-02065A-07-0312.

Existing Water System

The T-Bird water system consists of two well sites and one primary storage tank site. Generally, each well site includes a well and well meter. One of the well sites, referred to as the "second tank and well site" includes a storage tank and booster pump. The system has nine wells, but only three wells are in service with a total production of 15 gallons per minute ("GPM"). Included in the nine wells is a new well that was drilled in 2006. This well, which is not in service yet, is awaiting Arizona Department of Environmental Quality ("ADEQ") approval. It is expected to be a low producer at only two GPM. Total system storage capacity is 67,000 gallons. The current well production capacity is only capable of providing adequate service to approximately 73 customers based on water use data provided by the company for 2006. Because of the system's low water production, approximately half of the water sold to customers is being purchased from Walden Meadows Community Co-op ("Walden") through a 3-inch master meter and permanent interconnection facility that extends across Highway 89 to a 133,000 gallon storage tank owned by Walden.² Water is gravity fed from the Walden tank when the water level in the Wilhoit tanks drop below a specified level.

The existing purchased water agreement with Walden limits the available water from Walden to 400,000 gallons per month, although Walden has frequently delivered more than 400,000 gallons to meet Wilhoit customer needs. However, during a peak demand period in the summer of 2007 Walden did limit the delivery of water to Wilhoit which resulted in an extended period of curtailment and numerous customer complaints on the T-Bird system. Since all of the wells within its service area have been low water producers, Wilhoit is planning to drill its new well northwest of Highway 89 near Donegal Drive which is outside its service area.³ The specific location of the new well is still unknown.

Staff believes that the most cost effective solution can be realized if Wilhoit and Walden work cooperatively and that such a solution could benefit both companies.

The T-Bird water system currently has adequate storage capacity.

The Well Project

The Well Project is needed due to the Company's inability to deliver an adequate supply of water during periods of peak demand. Walden has not been willing to enter into a new agreement which would allow Wilhoit to purchase more than 400,000 gallons per month when it is needed. Wilhoit is requesting Commission approval to obtain the funds needed

² The area adjacent to the Thunderbird Meadows service area, immediately northwest of Highway 89, is served by Walden.

³ Walden recently drilled a well northwest of Highway 89 near Donegal Drive which is capable of producing 165 GPM (Refer to Exhibit B for location).

to complete the Well Project from WIFA. A general description and breakdown of the funding required is as follows:

Plant Category	Application Request	WIFA Loan Application Request (Note 2)
New Well, Pumping Equipment and Electrical	\$145,000	\$145,000
New Well Storage Tank	\$200,000	\$210,000 (Note 3)
Transmission Line	Included in Storage Estimate	Included in Storage Estimate
Total	\$345,000 (Note 1)	\$355,000

Notes:

- 1) Exhibit A provides a more detailed cost breakdown of the expenses that total to the \$345,000 requested in the Application (Exhibit A was prepared by the Company using vendor quotes and actual costs provided by Walden for a well it recently drilled in the same area).
- 2) Per loan application documents submitted to WIFA by the Company (WIFA application numbers: DW-006-2008 & DW-034-2008).
- 3) The Company has informed Staff that it will amend its WIFA loan request to reflect the \$200,000 amount requested in the Application.

Wilhoit's estimate of \$145,000 to construct its proposed well is based on the actual costs Walden incurred to construct and hook-up a new well in the same area. Several factors, many of which are unknown at this time, could have a significant impact on the actual cost Wilhoit incurs to construct its proposed well. Engineering design of the Well Project and other preliminary analysis has not been undertaken at this point.⁴ The specific location of the proposed well and storage tank is still unknown. Three parcels are being considered, each located near the new Walden well which is at the intersection of Donegal Drive and State Route 89. Two different routes could be used to interconnect the proposed well and storage tank to the existing T-Bird system.⁵ Exhibit B is a map of the area which shows the alternative routes. Both routes are similar in length (approximately 5,500 feet), right-of-way issues will most likely determine the final route selected. The specific location of the new well and the final system design will affect construction costs. The Company plans to construct a storage tank at the site of the proposed well. In addition to providing other system benefits, a storage tank at this location would provide a needed supply of water to the system when the proposed well was out of service for maintenance or for needed repair. Staff believes that it is important to size this tank so that an adequate supply of water is available for the period the well is likely to be out of service. Staff believes that additional analysis is needed and that a

⁴ Engineering design specifications for the new Wilhoit well have not been determined. Wilhoit is hoping to develop a well that has a similar GPM yield to that of the new Walden well.

⁵ The proposed Interconnection with the existing T-Bird system will be at the Company's well site near the intersection of Magby Drive and State Route 89. An existing 4 inch transmission main will be used to transport the water to the upper storage tank site where the water will be gravity fed to customers.

larger tank may be appropriate so that an adequate supply of water is available to cover a longer outage. Staff believes that 50,000 gallons may be a more appropriate size for this tank.⁶

Arizona Department of Environmental Quality (“ADEQ”) Compliance

Compliance

ADEQ has determined that the Wilhoit Thunderbird Meadows water system (ADEQ Public Water System Identification No. 13-056) has no major deficiencies and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.⁷

Approval of Construction

In the Staff Report for the Company’s pending applications for a permanent rate increase and approvals for financings that were docketed on May 21, 2007, Staff recommend that the Company submit the ADEQ Approval of Construction (“AOC”) for the plant related to the Company’s development of a new water source by December 31, 2008. Due to the passage of time and Wilhoit’s need to continue to try to reach an agreement with Walden, Staff recommends that the AOC be submitted by March 31, 2009 (still prior to the 2009 peak demand summer season).

Conclusions/Recommendations

Staff recommends that Wilhoit continue to pursue an agreement with Walden whereby the new well Wilhoit proposes to construct per the Application would be interconnected with the Walden system. The Walden system would then be used to wheel the water produced by the proposed well up the hill for delivery to Wilhoit customers through the existing interconnection facilities (described above). Staff believes that an interconnection with the proposed Wilhoit well could provide significant system benefits to Walden and its customers. The proposed Wilhoit well would provide an additional source of water that would be available to the Walden system and its customers if needed. This added source redundancy would be beneficial to customers of both systems during periods of peak demand and/or when a major well or pump fails and is out of service for an extended period of time for repairs or replacement. An agreement between the two companies for Walden to wheel the water should provide a significant financial benefit (i.e., no need to construct the 5,500 feet of transmission line) to Wilhoit customers thereby avoiding a significant incremental increase in Wilhoit rates. Staff’s financial analysis and report will discuss the incremental increase in rates that will result.

⁶ According to Staff’s calculations 50,000 gallons should be adequate to cover an outage of 2 to 3 days, minimum.

⁷ ADEQ Drinking Water Compliance Status Report dated 4-30-07 (submitted with the rate application).

Jeffery Michlik
March 27, 2008
Page 5

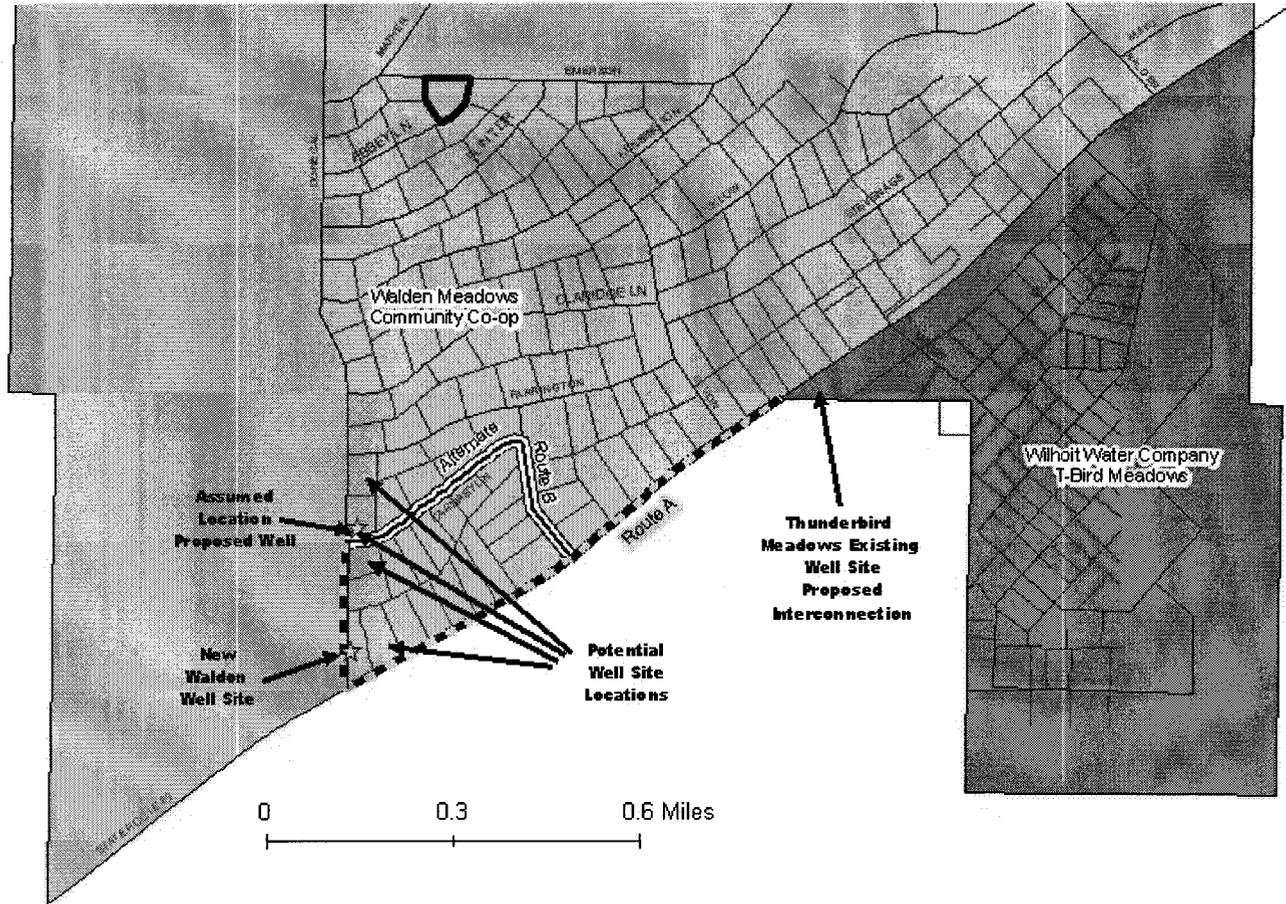
Unfortunately, Wilhoit will be required to construct its proposed transmission line in the event an agreement for Walden to wheel the water through its system can not be reached. Staff concludes that Wilhoit's plan for developing a new water source is appropriate and the Company's related cost estimates are reasonable. No "used and useful" determination of the proposed project items was made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff recommends that the Company submit to Docket Control the ADEQ Approval of Construction for the plant related to the Company's development of a new water source by March 31, 2009.

**Thunderbird Meadows
New Well, Storage and Excavation Estimates**

Here is a breakdown of the estimates and how they have been obtained for the new well, storage and excavation to hookup to the existing system.

Well drilling	\$ 64,000	(1,005 ft. with 8" casing - actual costs
Pump	45,000	provided by Walden Meadows for similar
Electrical upgrade	24,000	well in similar location)
Storage tank	30,000	(20,000 gallon tank - estimate provided by
		Brown Tank and Steel)
Excavation	155,344	(approximately 5,500' - see attached
		estimate from Mile High Excavation - the
		initial estimate was based on a run of 4,500'
		- it has since been revised to 5,500')
Engineering & Design	15,000	(estimate provided by Robbins Engineering)
Supervision	3,000	(provided by Prescott Pump)
Contingency	<u>3,656</u>	
TOTAL	\$345,000	



PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER
AUTHORIZING THE ISSUANCE OF DEBT
BY WILHOIT WATER COMPANY, INC.
(Thunderbird Meadows)

RECEIVED

2008 APR -9 A 10: 15

AZ CORP COMMISSION
DOCKET CONTROL

Wilhoit Water Company, Inc. (Company) filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue \$345,000.00 of debt. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona and the Company's offices in Clarkdale, Arizona.

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 number 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.