

ORIGINAL



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MEMORANDUM

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

EA for EGJ

DATE: May 7, 2008

RE: STAFF REPORT FOR WILHOIT WATER COMPANY, INC. - BLUE HILLS #3's APPLICATION FOR FINANCING APPROVAL (DOCKET NO. W-02065A-08-0139)

Attached is the Staff Report for Wilhoit Water Company, Inc. - Blue Hills #3's application for financing approval. Staff recommends approval of the financing application using Staff's financing recommendations and related surcharges.

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 19, 2008.

EGJ:DRE:tdp

Originator: Darak R. Eaddy

Arizona Corporation Commission
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Docket No. W-02065A-08-0139

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**WILHOIT WATER COMPANY, INC. -
BLUE HILLS #3**

DOCKET NO. W-02065A-08-0139

APPLICATION FOR FINANCING APPROVAL

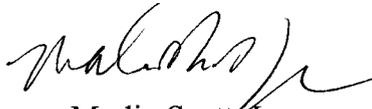
MAY 7, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Wilhoit Water Company, Inc. - Blue Hills #3, Docket No. W-02065A-08-0139, was the responsibility of the Staff members listed below. Darak R. Eaddy was responsible for the financial review and analysis of the Company's application and financing approval. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Guadalupe Ortiz was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Darak R. Eaddy
Public Utility Analyst II



Marlin Scott, Jr.
Utilities Engineer



Guadalupe Ortiz
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
WILHOIT WATER COMPANY, INC. - BLUE HILLS #3
APPLICATION FOR FINANCING APPROVAL
DOCKET NO. W-02065A-08-0139

Wilhoit Water Company, Inc. ("Wilhoit") is engaged in the business of providing potable water service to customers in Yavapai County. Wilhoit is composed of three independent water systems. The Blue Hills water system is located in the town of Dewey in Yavapai County, Arizona, providing service to a certificated area of 1/32 square miles or 20 acres. The Thunderbird Meadows water system is located in Wilhoit, Arizona, and the Yavapai Estates system is located in Chino Valley, Arizona. The three Wilhoit water systems, along with the Dells Water Company, are all managed by the same parent company which is Glenarm Land Company.

Wilhoit Water Company, Inc. – Blue Hills #3 ("Blue Hills" or "Company") provides services to approximately 64 customers and its current rates were effective January 1, 1993, per Arizona Corporation Commission ("Commission") Decision No. 58102.

The Company requests authorization to borrow a total of \$40,000 in debt financing from the Water Infrastructure Financing Authority ("WIFA") for the purchase and installation of an arsenic treatment system. Staff recommends approval of a WIFA loan amount not to exceed \$40,000 for this project.

In the Company's related rate application filing (Docket No. W-02065A-07-0313), Staff has recommended an arsenic remediation surcharge mechanism ("ARSM"). The purpose of the ARSM is to provide funds to cover the debt service obligation on the WIFA loan that the Company seeks in this filing. The Company's financial position will be unchanged by receipt of the WIFA loan as the surcharge provided by the ARSM will provide all funds necessary for debt service.

Staff Recommendations:

Staff recommends that the Company be authorized to secure a WIFA loan not to exceed \$40,000 for the purchase and installation of an arsenic treatment system.

Staff recommends authorizing the Company to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Company submit the ADEQ Approval of Construction for the arsenic treatment system by December 31, 2008.

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Introduction

On May 21, 2007, Wilhoit Water Company, Inc. - Blue Hills #3 ("Blue Hills" or "Company") filed a rate application with the Arizona Corporation Commission ("Commission"). During the processing of that rate application, it was discovered by Staff that the Company was not delivering water that met the U.S. Environmental Protection Agency ("EPA") arsenic standards. The EPA has reduced the arsenic maximum contaminant level in drinking water from 50 ppb to 10 ppb. According to the ADEQ Monitoring Assistance Program analysis report for 2007, the Company's composite arsenic level from its two wells was reported at 18 ppb.

On March 6, 2008, the Company filed a separate financing approval application seeking authorization to borrow up to \$40,000 from the Water Infrastructure Financing Authority ("WIFA") for the purchase and installation of an arsenic treatment system plant. The arsenic treatment plant would provide water treatment and bring the water delivered by the Company into compliance with EPA arsenic standards.

Staff recommends approval for the Company to borrow up to \$40,000 from WIFA for the purchase and installation of an arsenic treatment system. In the Company's related rate application, Staff also has recommended an arsenic remediation surcharge mechanism ("ARSM"). The ARSM will be utilized by the Company to provide the funds necessary for the debt obligations on the WIFA loan.

Public Notice

The public notice was mailed to customers on April 9, 2008.

Background

Blue Hills is a public utility corporation subject to the jurisdiction of the Commission. Blue Hills was granted a Certificate of Convenience and Necessity ("CC&N") in Decision No. 39691, effective October 24, 1968.

The Wilhoit Water Company, Inc. is composed of three independent systems. Wilhoit is comprised of the Blue Hills system, the Thunderbird Meadows water system located in Wilhoit, Arizona, and the Yavapai Mobile Home Estates system located in Chino Valley, Arizona. The three Wilhoit water systems along with the Dells Water Company, are all managed by the same parent company which is Glenarm Land Company.

The current rates have been in effect since January 1, 1993 per Decision No. 58102.

The Company has no advances in aid of construction or contributions in aid of construction.

The Company is located in the Prescott Active Management Area. Since the Company uses less than 250 acre-feet of water per year, it is considered a small provider by the Arizona Department of Water Resources and is not subject to the gallons per capita per day limit and conservation rules. The Company is only required to monitor and report water use.

On March 6, 2008, Blue Hills filed this application for a financing approval.

Purpose and Description of Proposed Financing

Blue Hills is seeking authorization for a WIFA loan to provide for the engineering, construction, and installation of an arsenic treatment system. The term of the proposed \$40,000 WIFA loan is 20 years. The maximum interest rate that Staff recommends to be chargeable is the prime rate plus 200 basis points.

Engineering Analysis

Staff examined the construction plans and estimated costs for Blue Hills' arsenic treatment system and found them to be fair, appropriate and reasonable.

The costs for the purchase, engineering, and installation of the arsenic treatment system is as follows:

1. Arsenic treatment system	\$ 23,328
- Aledge treatment – adsorption media	
2. Treatment system-turnkey & engineering	\$ 9,500
3. Water testing	\$ 300
4. Plumbing modifications	\$ 500
5. Control/storage building-tuff shed	\$ 1,500
6. Concrete pad for building	\$ 500
7. Supervision/inspection	\$ 1,000
8. Training for system operations	\$ 1,000
9. Contingency at 5.93%	\$ 2,372
	=====
Total:	\$ 40,000

Staff concludes that the arsenic treatment system project is appropriate and the cost estimate totaling \$40,000 is reasonable. A complete discussion of the proposed projects and costs are discussed in the attached Engineering Report.

Financial Analysis

Because of the Company's limited financial resources, it is unable to generate the funds needed to purchase an arsenic treatment system with funds from operations. In the Company's related rate application (Docket No. W-02065A-07-0313), Staff computed that the Company had

a net loss of \$324 for the year ended December 31, 2006. The WIFA loan requested by the Company is appropriate in this matter as the Company must meet the EPA's arsenic standards for drinking water and internal funds are not sufficient to provide for the purchase and installation of an arsenic treatment system. In addition, the ARSM that Staff has recommended in the Company's related rate application will establish the methodology for determining the surcharge the Company will receive to provide funds for the debt service on the WIFA loan.

Consumer Services

A review of the Consumer Services Section database from January 1, 2005, through December 31, 2005, revealed that there were four complaints (three quality of service, one billing) and no opinions or inquiries. From 2006 to present, there have been no complaints, inquiries, or opinions. All complaints and inquires have been resolved and closed.

The Company is in good standing with the Corporations Division of the Commission as of March 17, 2008.

Financing Conclusion

Staff concludes that the construction of an arsenic treatment system is necessary for Blue Hills to comply with the EPA's revised drinking water standard that requires reducing the arsenic level in drinking water to 10 ppb or less.

Staff further concludes that the Company should be granted authorization for a WIFA loan up to the total of \$40,000 to purchase an arsenic treatment system to comply with the EPA revised drinking water standard.

Staff further concludes that issuance of the proposed debt financing for the purposes stated by the Company is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide public service.

Staff Recommendations

Staff recommends that the Company be authorized to secure a WIFA loan not to exceed \$40,000 for the purchase and installation of an arsenic treatment system.

Staff recommends authorizing the Company to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Company submit the ADEQ Approval of Construction for the arsenic treatment system by December 31, 2008.

MEMORANDUM

DATE: March 18, 2008

TO: Darak Eaddy
Public Utilities Analyst II
Utilities Division

FROM: Marlin Scott, Jr. 
Utilities Engineer
Utilities Division

RE: Wilhoit Water Company, Inc. – Blue Hills #3
Docket No. W-02065A-08-0139 (Financing)

Introduction

Wilhoit Water Company, Inc. – Blue Hills #3 (“Company”) has submitted a financing application to assist in funding the installation of an arsenic treatment system. This project is estimated at \$40,000 in which the Company is requesting approval of funding through the use of Water Infrastructure Financing Authority (“WIFA”) indebtedness. The Company operates a water system at Dewey in Yavapai County.

Existing Water System

The existing system consists of two wells (totaling 40 GPM), a 12,500 gallon storage tank, booster system and a distribution system serving approximately 55 customers. The two wells are located on the same pumping site and approximately 25 feet from one another. The composite arsenic level reported for the two wells is at 18 parts per billion (“ppb”) which exceeds the new arsenic standard of 10 ppb.

Financing Application

Because the Company’s well sources exceed the arsenic standard, the Company has filed a financing application to assist in funding the arsenic treatment system project. The Company is requesting WIFA financing approval in the amount of \$40,000 for the arsenic project as follows:

- | | |
|---|-----------|
| 1. Arsenic treatment system | \$ 23,328 |
| - Adedge treatment – adsorption media | |
| 2. Treatment system-turnkey & engineering | \$ 9,500 |
| 3. Water testing | \$ 300 |

4. Plumbing modifications	\$ 500
5. Control/storage building-tuff shed	\$ 1,500
6. Concrete pad for building	\$ 500
7. Supervision/inspection	\$ 1,000
8. Training for system operations	\$ 1,000
9. Contingency at 5.93%	\$ 2,372

=====
Total: \$ 40,000

Staff concludes that the arsenic treatment system project is appropriate and the cost estimate totaling \$40,000 is reasonable.

Arizona Department of Environmental Quality (“ADEQ”) Compliance

Compliance

According to an ADEQ Compliance Status Report, dated April 30, 2007, ADEQ reported no deficiencies and has determined that the Company’s system, PWS #13-055 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Approval of Construction

As stated in the Staff Report for the Company’s rate case, Docket No. W-02065-07-313, filed on November 9, 2007, Staff recommends that the Company submit the ADEQ Approval of Construction for the arsenic treatment system by December 31, 2008.

Conclusion/Recommendation

Staff concludes that the arsenic treatment system project is appropriate and the cost estimate totaling \$40,000 is reasonable. No “used and useful” determination of the proposed project items were made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff recommends that the Company submit the ADEQ Approval of Construction for the arsenic treatment system by December 31, 2008.