

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: September 8, 2009

RE: STAFF REPORT FOR THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH, INC., FOR FINANCING APPROVAL IN CONNECTION WITH THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (DOCKET NO. W-02450A-09-0183)

Attached is the Staff Report for Water Utility of Greater Tonopah, Inc.'s application for authority to borrow funds from the Water Infrastructure Finance Authority of Arizona. Staff recommends denial.

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 September 18, 2009.

SMO:JCM:tdp

Originator: Juan C. Manrique

Arizona Corporation Commission

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Service List for: Water Utility of Greater Tonopah Inc.
Docket No. W-02450A-09-0183

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**WATER UTILITY OF GREATER TONOPAH, INC.
DOCKET NO. W-02450A-09-0183**

**APPLICATION FOR FINANCING APPROVAL
IN CONNECTION WITH THE AMERICAN
RECOVERY AND REINVESTMENT ACT OF 2009**

SEPTEMBER 8, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Water Utility of Greater Tonopah, Inc., Docket No. W-02450A-09-0183 is the responsibility of the Staff members listed below. Juan C. Manrique is responsible for the financial analysis. Jian Liu is responsible for the engineering review.



JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I



JIAN LIU
UTILITIES ENGINEER – WATER/WASTEWATER

EXECUTIVE SUMMARY
WATER UTILITY OF GREATER TONOPAH, INC.
DOCKET NO. W-02450A-09-0183

On April 17, 2009, Water Utility of Greater Tonopah, Inc. ("WUGT" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to execute a loan agreement with the Water Infrastructure Finance Authority of Arizona ("WIFA").

The U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA") on February 17, 2009. WIFA's *Supplemental 2009 ARRA Intended Use Plan* asserts that projects that receive ARRA funds will need to be capable of moving forward rapidly.

The Company is a for-profit Class "C" Arizona public service corporation that operates a water utility in portions of Pinal County, Arizona. The Company seeks a \$1,500,000 WIFA loan. The Company will receive, through ARRA funding, a 20-year amortizing loan at 2.0 percent per annum interest rate. The purpose of the loan is to fund a full Supervisory Control and Data Acquisition ("SCADA") deployment and reinstrumentation. The Company also requests that the Commission permit various types of refinancing without further authorization so long as total long-term indebtedness at any one time outstanding does not exceed \$1,500,000 in 2009 or thereafter.

As of December 31, 2008, Tonopah's capital structure consisted of 0.1 percent short-term debt, 1.4 percent long-term debt, and 98.5 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$1,500,000, 20-year amortizing loan at 2.0 percent per annum, and it is composed of 0.2 percent short-term debt, 5.3 percent long-term debt and 94.5 percent equity. Staff also calculated a pro forma debt service coverage ("DSC") ratio of 0.50. The DSC results show that cash flow from operations in 2008 was not sufficient to cover all existing obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service. Thus, current base revenues are inadequate to provide debt service on the proposed \$1,500,000 WIFA loan.

Additional annual revenues of \$90,970 would be required to provide a 1.20 DSC on the proposed \$1,500,000 loan. Given that the Company has a customer base of 365, an average monthly surcharge of approximately \$20.77 per customer would be needed to provide the additional required revenue. Staff considers this surcharge to be an unreasonable burden on the Company's 365 customers.

Staff concludes that the Company's proposed capital projects are not appropriate because the related cost estimates are too high for 365 customers.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within Tonopah's corporate powers, however it is not compatible with the public interest, consistent with sound financial practices and would impair its ability to provide services.

Staff recommends denial of the request to incur an 18-to-22 year amortizing loan in an amount not to exceed \$1,500,000 pursuant to a loan agreement with WIFA that provides for an interest rate reduced to 2.0 percent upon compliance with the American Recovery and Reinvestment Act of 2009.

Staff further recommends that the Commission deny Tonopah the ability to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.

Staff further recommends that the Commission deny the Company's request for authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$1,500,000 in 2009 or thereafter.

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INTRODUCTION

On April 17, 2009, Water Utility of Greater Tonopah, Inc. ("WUGT" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to execute a loan agreement with the Water Infrastructure Finance Authority of Arizona ("WIFA").

PUBLIC NOTICE

On May 18, 2009, the Company filed an affidavit of publication verifying public notice of its financing application. The Company published notice of its financing application in the *West Valley View* on May 12, 2009. The *West Valley View* is a newspaper of general circulation in the cities of Avondale, Buckeye, Goodyear, Litchfield Park and Tolleson, Arizona published every Tuesday and Friday. The affidavit of publication is attached along with a copy of the Notice.

BACKGROUND

The U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA") on February 17, 2009. WIFA's *Supplemental 2009 ARRA Intended Use Plan* shows that ARRA authorizes it to provide an additional subsidy on loans. In addition, the *Supplemental 2009 ARRA Intended Use Plan* asserts that projects that receive ARRA funds will need to be capable of moving forward rapidly.

WUGT is a for-profit Class "C" Arizona public service corporation located in Phoenix, Arizona. The Company operates a water utility in portions of Maricopa County, Arizona.

COMPLIANCE

A check of the Compliance Database indicates that there are currently no delinquencies for WUGT.

PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

The purpose of the loan is to fund a full Supervisory Control and Data Acquisition ("SCADA") deployment and reinstrumentation.

The Company requests that the Commission authorize it to secure financing in an amount not to exceed \$1,500,000 from WIFA. The ARRA funding will be used by WIFA to provide the Company with a reduced interest rate. The Company expects a 20-year amortizing loan at 2.0 percent per annum interest rate.

WIFA rule R18-15-104 requires borrowers to pledge their assets when borrowing funds from WIFA. A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets.

The Company also requests that the Commission issue an Order "Authorizing WUGT to have at any one time outstanding in 2009 or thereafter, long-term indebtedness (including current maturities thereof) in an aggregate principal amount of \$1,500,000; Permitting through such authorization any redemptions, refinancing, refunding, renewals, reissuance's and rollovers of any such outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revision of any terms or provisions of or relating to any long-term indebtedness, so long as total long-term indebtedness at any one time outstanding does not exceed" \$1,500,000.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached. Staff reviewed the Company's proposed plant additions and concludes that they are not appropriate because the associated cost estimates are too high for 365 customers.

FINANCIAL ANALYSIS

Staff's analysis is illustrated on Schedule JCM-1. Column [A] reflects the Company's historical financial information for the year ended December 31, 2008. Column [B] presents pro forma financial information that modifies Column [A] to reflect a 20-year, \$1,500,000 amortizing loan at 2.0 percent per annum. Column [C] presents pro forma financial information that modifies Column [B] to reflect the additional annual revenues of \$90,970 required to provide a 1.20 Debt Service Coverage ("DSC") ratio on the proposed \$1,500,000 loan. Given that the Company has a customer base of 365, an average monthly surcharge of approximately \$20.77 per customer would be needed to provide the additional required revenue.

DSC

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

Schedule JCM-1, Column [A] shows that for the year ended December 31, 2008, the Company's DSC was 1.67. The pro forma DSC for the Company under the scenario described above for Column [B] is 0.50. The pro forma DSC for the Company under the scenario described above for Column [C] is 1.20.

Capital Structure

At December 31, 2008, the Company's capital structure consisted of 0.1 percent short-term debt, 1.4 percent long-term debt, and 98.5 percent equity (Schedule JCM-1, Column [A], lines 20-26). Staff calculated a pro forma capital structure reflecting issuance of a \$1,500,000, 20-year amortizing loan at 2.0 percent per annum interest rate, and it is composed of 0.2 percent short-term debt, 5.3 percent long-term debt and 94.5 percent equity (Schedule JCM-1, Column [C], lines 20-26).

Encumbrance

Arizona Administrative Code ("A.A.C.") R18-15-104 requires WIFA borrowers to pledge their revenue sources to repay the financial assistance. A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

Refinancing

The Company requests authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$1,500,000 in 2009 or thereafter. If this request is granted, the Commission will relinquish some control over the Company's use of debt proceeds and capital structure maintenance. Oversight of debt issuance provides ratepayer protections from the detrimental consequences of excessive leverage and misuse of funds. Blanket refinancing authorizations circumvent these protections, and they should be granted sparingly subsequent to a thorough vetting to ensure that the benefits outweigh the potential detriments. The Company's application makes no demonstration to justify its request in this case.

CONCLUSION AND RECOMMENDATIONS

Staff concludes that the Company's proposed capital projects are not appropriate because the related cost estimates are too high for 365 customers.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within Tonopah's corporate powers, however it is not compatible with the public interest, consistent with sound financial practices and would impair its ability to provide services.

Staff recommends denial to incur an 18-to-22 year amortizing loan in an amount not to exceed \$1,500,000 pursuant to a loan agreement with WIFA that provides for an interest rate reduced to 2.0 percent upon compliance with the American Recovery and Reinvestment Act of 2009.

Staff further recommends that the Commission deny WUGT the ability to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.

Staff further recommends that the Commission deny the Company's request for authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$1,500,000 in 2009 or thereafter.

FINANCIAL ANALYSIS

	[A] ¹ <u>12/31/2008</u>		[B] ² <u>Pro forma</u>		[C] ³ <u>Pro forma</u>	
1 Operating Income	-\$105,214		-\$137,282 ⁴		-\$46,312	
2 Depreciation & Amort.	\$202,404		\$202,404		\$202,404	
3 Income Tax Expense	-\$32,088		\$0 ⁴		\$0	
4						
5 Interest Expense	\$17,508		\$46,943		\$46,943	
6 Repayment of Principal	\$21,392		\$83,014		\$83,014	
7						
8						
9						
10						
11						
12 DSC						
13 [1+2+3] + [5+6]	1.67		0.50		1.20	
14						
15						
16						
17						
18 Capital Structure						
19						
20 Short-term Debt	\$21,392	0.1%	\$3,014	0.2%	\$83,014	0.2%
21						
22 Long-term Debt	\$487,962	1.4%	\$1,926,340	5.3%	\$1,926,340	5.3%
23						
24 Common Equity	\$34,362,568	98.5%	\$34,362,568	94.5%	\$34,362,568	94.5%
25						
26 Total Capital	\$34,871,922	100.0%	\$36,371,922	100.0%	\$36,371,922	100.0%
27						
28						
29 Capital Structure (inclusive of AIAC and Net CIAC)						
30						
31 Short-term Debt	\$21,392	0.1%	\$83,014	0.2%	\$83,014	0.2%
32						
33 Long-term Debt	\$487,962	1.3%	\$1,926,340	5.1%	\$1,926,340	5.1%
34						
35 Common Equity	\$34,362,568	95.0%	\$34,362,568	91.2%	\$34,362,568	91.2%
36						
37 Advances in Aid of Construction ("AIAC")	\$1,244,686	3.4%	\$1,244,686	3.3%	\$1,244,686	3.3%
38						
39 Contributions in Aid of Construction ("CIAC") ⁵	\$73,118	0.2%	\$73,118	0.2%	\$73,118	0.2%
40						
41 Total Capital (Inclusive of AIAC and CIAC)	\$36,189,726	100.0%	\$37,689,726	100.0%	\$37,689,726	100.0%
42						
43 AIAC and CIAC Funding Ratio ⁶	3.6%		3.5%		3.5%	
44						
45						
46						

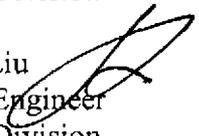
47 ¹ Column [A] is based on the Company's Financial Statements for the year ended December 31, 2008.
48 ² Column [B] is Column [A] modified to reflect issuance of the proposed \$1.5 million debt financing amortized for 20 years at 2.0 percent.
49 ³ Column [C] is Column [B] modified to reflect the additional revenue (\$90,970) required for DSC to increase to 1.20
50 ⁴ Operating Income and Income Tax Expense are adjusted to remove the negative Income Tax Expense reported by the Company and to reflect zero Income Tax Expense.
51 ⁵ Net CIAC balance (i.e., less: accumulated amortization of contributions).
52 ⁶ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC,
53 for private and investor owned utilities.

Attachment A

MEMORANDUM

DATE: July 24, 2009

TO: Juan Manrique
Public Utilities Analyst I
Utilities Division

FROM: Jian W. Liu 
Utilities Engineer
Utilities Division

RE: Water Utility of Greater Tonopah, Inc.
Docket No. W-02450A-09-0183 (Financing)

Introduction

Water Utility of Greater Tonopah, Inc. ("WUGT" or the "Company") is an Arizona public service corporation authorized to provide water service within portions of Maricopa County, Arizona. WUGT provided water service to 365 customers as of March 31, 2009.

Financing Application

On April 17, 2009, the Company filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting authority to borrow \$1,500,000 from the Water Infrastructure Authority of Arizona ("WIFA") in conjunction with the American Recovery and Reinvestment Act of 2009 ("ARRA").¹

If the financing is approved, WUGT will use the funds for a SCADA project.

Engineering Analysis

According to the Company, implementing a SCADA (SCADA is an acronym for Supervisory Control And Data Acquisition, which is the software that sits on top of the hardware and manages and controls the processes) platform will optimize the Company's utility operations by finding and managing efficiencies, increasing its level of customer service and eliminating unnecessary expenses. Instant access to information provides the ability to make timely decisions and drive recurring costs (power, consumables) out of utility operations. Automated compliance and reporting will streamline procedures, ensure compliance and reduce costs. The cost reductions should include reducing operator site visits from 5 days a week to once a week (including fuel and vehicle costs),

¹ WIFA has advised the Company that the proposed SCADA project will qualify for funding under ARRA.

however the pressing need for SCADA in WUGT is to increase the operational availability and enhance the Company's ability to deliver service.

Cost Analysis

The Company's estimated cost for the proposed Full SCADA Deployment and Re-Instrumentation is as follows:

Water Utility of Greater Tonopah DW 200-2009 Full SCADA Deployment & Re-instrumentation Cost Estimate with Breakdowns	
Uses by Budget Item	WIFA Funding
Planning	
Evaluation of Needed Components	\$30,000.00
Due Diligence of Equipment	\$30,000.00
Radio & Communications Planning	\$30,000.00
Design & Engineering	
Electrical Design	\$50,000.00
Development of SCADA Standards	\$50,000.00
Legal/Debt Authorization	
Debt Application to ACC	\$10,000.00
Financial Advisor	N/A
Land/System Acquisition	N/A
Equipment/Materials	
B&D and Buckeye Ranch, PWS #07-618	\$78,351.00
Garden City, PWS #07-037	\$73,092.00
Sunshine, PWS #07-071	\$78,353.00
WPE # 4&5&6, PWS # 07-733	\$75,000.00
Dixie, PWS #07-030	\$73,463.00
Rose View, PWS #07-082	\$74,221.00
WPE #1&2, no PWS #	\$73,752.00
WPE #7, PWS #07-617	\$73,768.00
Construction/Installation/Improvement	
B&D and Buckeye Ranch, PWS #07-618	\$78,351.00
Garden City, PWS #07-037	\$73,092.00
Sunshine, PWS #07-071	\$78,353.00
WPE # 4&5&6, PWS # 07-733	\$75,000.00
Dixie, PWS #07-030	\$73,463.00
Rose View, PWS #07-082	\$74,221.00
WPE #1&2, no PWS #	\$73,752.00
WPE #7, PWS #07-617	\$73,768.00
Inspection & Construction Management	
Construction Inspection	\$40,000.00
Project Officer	
Site Project Manager	\$40,000.00
Administration	
Administration	\$20,000.00
Staff Training	N/A
Capitalized Interest	N/A
Other	N/A
Total for Project	\$1,500,000.00

Staff has reviewed the Company's proposed plant additions and concludes that they are not appropriate because the associated costs are too high for 365 customers.

Maricopa County Environmental Services Department ("MCESD") Compliance Status

The MCESD Compliance Status Reports for the eight water systems serving the WUGT service area have been requested. Staff will update this memorandum upon receipt of these compliance reports.

Arizona Corporation Commission Compliance Status

A check with the Utilities Division Compliance database showed there were no delinquent compliance items for the Company.

Arizona Department of Water Resources Compliance ("ADWR") Status

WUGT is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report on May 4, 2009. ADWR reported that WUGT is currently in compliance with departmental requirements governing water providers and/or community water systems.

Attachment B

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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W-02450A-09-0183
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IN THE MATTER OF THE APPLICATION OF
WATER UTILITY OF GREATER TONOPAH,
INC., FOR FINANCING APPROVAL IN
CONNECTION WITH THE AMERICAN
RECOVERY AND REINVESTMENT ACT OF
2009.

DOCKET NO.: W-20450A-09-0183

NOTICE OF FILING

Water Utility of Greater Tonopah, Inc. files the Affidavit of Publication showing that the public notice of application in this docket has been given.

RESPECTFULLY SUBMITTED this 18th day of May 2009

ROSHKA, DEWULF & PATTEN

By Timothy J. Sabo

Michael W. Patten
Timothy J. Sabo
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, AZ 85004

Original and 13 copies of the foregoing
filed this 18th day of May 2009 with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

ROSHKA DEWULF & PATTEN, P.L.C.
400 VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1 Copy of the foregoing hand-delivered/mailed
this 18th day of May 2009 to:

2 Lyn Farmer, Esq.
3 Chief Administrative Law Judge
Hearing Division
4 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
5 Phoenix, AZ 85007

6 Janice Alward, Esq.
7 Chief Counsel, Legal Division
ARIZONA CORPORATION COMMISSION
8 1200 West Washington Street
Phoenix, AZ 85007

9 Ernest G. Johnson, Esq.
10 Director, Utilities Division
11 ARIZONA CORPORATION COMMISSION
12 1200 West Washington Street
Phoenix, AZ 85007

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14 By Robbie Arnaul
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WEST VALLEY BUSINESS

1050 E. Riley Dr., Avondale, AZ 85323 ♦ (623) 535-8439 ♦ Fax: (623) 935-2103

AFFIDAVIT OF PUBLICATION

State of Arizona

County of Maricopa

I, Elliott Freireich, publisher of West Valley View and West Valley Business, newspapers of general circulation in Avondale, Buckeye, Goodyear, Litchfield Park and Tolleson, Arizona, attest that the legal advertisement, for

Water Utility of Greater Toropal, Inc.
Public Notice - An Application for an order
No. W-02450A-09-0185
Authorizing the issuance of \$ 1,500,000, long-
term debt.

will be has been published on May 12, 2009.

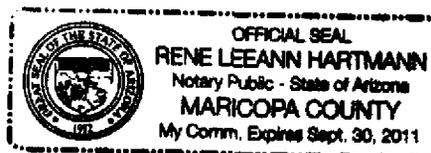
Elliott Freireich

Elliott Freireich
President, West Valley View Inc.

May 12, 2009.
Date

SUBSCRIBED AND SWORN TO BEFORE ME ON THE
12 DAY OF May (Month), 2009 (YEAR)

NOTARY SIGNATURE: René Leeann Hartmann



PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER

AUTHORIZING THE ISSUANCE OF \$1,500,000 long-term debt by Water Utility of Greater Tonopah, Inc.

Water Utility of Greater Tonopah, Inc. ("Company") filed an Application on April 17, 2009, with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to issue \$1,500,000 of long-term debt in order to finance the construction of water system facilities. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, Tucson, Arizona and the Company's offices at 21410 North 19th Avenue, Suite 201, Phoenix, AZ 85004. The Application has been assigned Docket No. W-02450A-09-0183.

Intervention in the Commission's proceedings on the Application shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon the Company 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.