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BEFORE THE ARIZONA CORPORATION COMMISSION

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SEP 18 2009



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-20⁰⁸450A-09-0183

Response to Staff Report

Water Utility of Greater Tonopah, Inc. ("Greater Tonopah") respectfully submits this Response to the Staff Report. In this case, Greater Tonopah seeks approval of a stimulus loan from WIFA in conjunction with the American Recovery and Reinvestment Act of 2009 ("ARRA"), P.L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009). Staff recommends denial of the loan, but Staff's recommendation will prevent a highly beneficial project from going forward, and place Arizona at risk of losing these stimulus funds. Staff's recommendation is based on financial concerns, but those concerns are misplaced, and Greater Tonopah will have sufficient funds to repay the loan.

I. The loan is in the public interest.

Congress, in passing the ARRA, intended to "preserve and create jobs and promote economic recovery", to "assist those most impacted by the recession" and to "invest in... environmental protection, and other infrastructure that will provide long-term economic benefits." ARRA § 3. The loan will further these objectives, which is why it has been approved by the Water Infrastructure and Finance Authority of Arizona ("WIFA").

Greater Tonopah will use the loan to fund a Supervisory Control and Data Acquisition ("SCADA") project. SCADA systems allow utility operators to directly control equipment from a remote operations control room, and to have instantaneous access to current and historic data for

1 trend monitoring and performance assessment. SCADA systems thus allow the utility to maximize
2 efficiency, increasing the operational availability of systems and reducing outages. This is
3 especially important for a utility such as Greater Tonopah, which has a large service territory
4 consisting of numerous small, scattered systems, separated by over 25 miles. By allowing
5 equipment to be operated more efficiently, SCADA systems can reduce power usage, consumable
6 usage, labor requirements and travel, thus benefiting the environment. Therefore, SCADA systems
7 can be considered a “demand side management” or “DSM” tool as well as a resource conservation
8 tool. In addition, allowing operators to obtain information and control equipment remotely reduces
9 the need for operators to constantly drive from facility to facility, thus reducing carbon emissions
10 and fuel usage. Further information about the benefits of SCADA projects can be found in at pages
11 19-21 of the Direct Testimony of Graham Symmonds in Docket No. SW-20445A-09-0077.

12 In addition, SCADA systems will help Greater Tonopah to meet the requirements of the
13 EPA’s new groundwater source rule, which goes into effect on December 1, 2009. The rule is
14 intended address biological contamination (e.g. total coliform, E. Coli) issues. Greater Tonopah
15 will likely chose the Compliance Monitoring (CM) option under the rule. That option will require
16 Greater Tonopah to, among other things, provide providing continuous chlorine residual
17 monitoring. The SCADA system will greatly assist in meeting the CM requirements of the new
18 rule.

19 WIFA’s board resolution approving the loan recognizes the benefits of SCADA systems,
20 noting that “Implementing a SCADA platform will optimize the utility operations by finding and
21 managing efficiencies, increasing the level of customer service and eliminating unnecessary
22 expenses. Instant access to information provides the ability to make timely decisions and drive
23 recurring costs (power, consumables) out of utility operations.” (WIFA Resolution, § 2.3).

24 Staff does not dispute the benefits of SCADA projects. Indeed, in the past Staff has noted
25 that SCADA systems can reduce power usage, travel requirements and other costs.¹ And the
26 Commission has approved ARRA loans from WIFA for SCADA projects for two of Greater
27

¹ Decision No. 71241 (August 6, 2009) at Finding of Fact No. 8 (summarizing Staff Report).

1 Tonopah's sister utilities (all ultimately owned by Global Water Resources, LLC ("Global
2 Parent")).²

3 There seems to be no question, then, as to the environmental and long-term economic
4 benefits of the SCADA project. And this SCADA project is anticipated to create 12 jobs for 12
5 months, just when they are needed the most. The SCADA project thus meets the objectives
6 specified by Congress and is in the public interest.

7 **II. Staff's financial concerns are misplaced.**

8 Staff recommends denial because the projected debt service coverage ratio ("DSC") will be
9 too low. Staff's DSC analysis fails to consider future events, and Staff's reliance on DSC
10 overlooks other relevant financial indicators.

11 Staff reports a pro forma DSC of 0.50% if the loan is approved, assuming a loan of \$1.5
12 million at 2.0%.³ Staff's pro forma analysis is based on Greater Tonopah's 2008 financial
13 statements, assuming that only the loan will change. But in reality, other numbers will also change.
14 Greater Tonopah is one of six utilities ultimately owned by Global Parent that are part of a
15 consolidated rate case.⁴ The rate case is set for hearing in December 2009.

16 It is therefore likely that Greater Tonopah will have greater revenue in the future to make its
17 loan payments. If Greater Tonopah's entire rate request is approved, it will have a DSC of 5.24⁵,
18 well over the minimum target DSC of 1.00 typically recommended by Staff. Of course, it is up to
19 the Commission to determine how much rate relief to grant. But it is likely that some rate relief
20 will be granted.

21 Staff also comments that the cost may just be "too high for 365 customers."⁶ But in the
22 pending rate cases, the Global Utilities have proposed consolidating the rates all the Global
23 systems in the West Valley. This would allow the costs to be spread over a larger number of

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25 ² *Valencia Water Company*, Decision No. 71241 (August 6, 2009); *Global Water – Santa Cruz*
Water Company, Decision No. 71237 (Aug. 6, 2009).

26 ³ Staff Schedule JCM-1, Column B and footnote 2.

27 ⁴ Docket Nos. SW-20445A-09-0077 et al.

⁵ Greater Tonopah Application, Exhibit 4.

⁶ Staff Report, Page 3.

1 customers, and provide a greater stream of revenues to repay the loan. Indeed, these are exactly the
2 types of benefits that are often mentioned for rate consolidation (also known as Single Tariff
3 Pricing). Again, it will be up to the Commission to decide, but this proposal should not be ignored.

4 Although the exact amount of additional revenues cannot be known at present, in the future,
5 Greater Tonopah will likely have access to additional revenues, either through a stand-alone rate
6 increase, or a part of a consolidated rate structure. Staff's pro forma DSC fails to consider these
7 possibilities. In addition, over the long-term, the SCADA project can result in lower costs; another
8 factor not considered in Staff's pro forma DSC. Because it fails to consider these factors impacting
9 the future finances of Greater Tonopah, Staff's pro forma DSC does not provide the best indication
10 of Greater Tonopah's future ability to make the loan payments.

11 Moreover, DSC is not the only financial metric to consider in evaluating the reasonableness
12 of a loan. Greater Tonopah has a very strong equity ratio, representing the significant investments
13 Global Parent has made in Greater Tonopah. The Staff Report states that Greater Tonopah
14 currently has equity of more than \$34 million, providing a current equity ratio of 98.5%, which
15 only drops to 94.5% if the loan is fully drawn.⁷ This represents an important source of financial
16 strength for Greater Tonopah, and the high level of equity investment makes it highly unlikely that
17 Global Parent would allow the loan to go into default, given the secured interest WIFA will have in
18 Greater Tonopah's assets.

19 Staff recommends against an interim rate increase to fund the loan. But Greater Tonopah
20 has not requested an interim rate increase.

21 **III. Conclusion.**

22 The SCADA project will provide significant and unquestioned environmental and
23 economic benefits. It will also create 12 jobs. Staff's DSC fails to consider likely changes to
24 Greater Tonopah's finances, and Greater Tonopah's strong equity ratio makes a default highly
25 unlikely. Accordingly, the Commission should approve this loan and allow Greater Tonopah to
26 benefit from these ARRA stimulus funds.

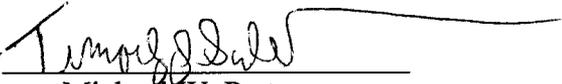
27 _____
⁷ Staff Schedule JCM-1, Line 24.

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RESPECTFULLY SUBMITTED this 18th day of September 2009

ROSHKA, DEWULF & PATTEN

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Original and 13 copies of the foregoing
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