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BEFORE THE ARIZONA CORPORATION COMMISSION

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2010 FEB 16 P 3:39

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF SONOITA VALLEY WATER COMPANY FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-20435A-09-0296

IN THE MATTER OF THE APPLICATION OF SONOITA VALLEY WATER COMPANY FOR AUTHORITY TO INCUR DEBT TO FINANCE WATER SYSTEM IMPROVEMENTS.

DOCKET NO. W-20435A-09-0298

STAFF STATUS REPORT

At the conclusion of the evidentiary hearing on January 22, 2010, Administrative Law Judge (“ALJ”) Jane Rodda requested that the parties attempt to craft a solution on the matter of the financing from the Water Infrastructure Financing Authority (“WIFA”) in an attempt to mitigate the potential for rate shock.

Staff has discussed the possibility of crafting a solution with Sonoita Valley Water Company (“Sonoita” or “Company”), but Sonoita has elected to rely solely upon its application and testimony of record.

The Utilities Division (“Staff”) of the Arizona Corporation Commission (“Commission”) would like to offer the following additional recommendations for consideration by the ALJ.

I. NEW WATER SOURCE.

An area of dispute during the hearing was the need for a new water source. Staff witness Katrin Stukov’s conclusion was the same as that reached by an engineering firm that the Company had retained but subsequently discharged. Ms. Stukov testified that based on her review of the Company’s engineering report, a new well was not needed.¹ The Company, during the hearing

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¹ Tr 164:12-24.

1 expressed the need for flexibility when undertaking various system improvements and would like the
2 option to add a new water source should it be determined that one was needed.²

3 In order to recommend approval of the financing application, Staff notes that there is a need
4 for the Company to submit a comprehensive construction work plan delineating the projects or
5 system improvements that are needed by the Company.³ Further, Staff would recommend that the
6 determination of the need for a new water source be confirmed by the Company's engineer in
7 consultation with Staff.

8 While Staff has some concerns that too broad flexibility may implicate A.R.S. § 40-302, a
9 review of the Commission's order in Decision No. 69238 is instructive.⁴ The Commission granted
10 Arizona Electric Power Cooperative, Inc. ("AEPCO") financing authorization in the amount of
11 approximately \$29.2 million, for the completion of its authorized construction work plan. AEPCO
12 sought the ability to make minor modifications to its work plan without filing an amended
13 application. The Commission granted AEPCO's request, limiting the amount of the modifications to
14 \$500,000 and requiring AEPCO to submit the modifications to the work plan to Staff review. As the
15 Decision noted, "The statutes that give the Commission authority to approve finance requests require
16 as a prerequisite to approval that the Commission find the financing request to be reasonably
17 necessary or appropriate for the purposes specified in the order. A.R.S. §40-302. We cannot make a
18 finding of reasonableness or appropriateness without knowing the purposes of the financing request."
19 But the Commission went on to find that because AEPCO was willing to submit its modification to
20 Staff prior to making them and because of the minor amount of modifications allowed relative to the
21 entire amount approved, AEPCO should be allowed some flexibility and allowed AEPCO to make
22 changes that conform to purposes of the approved work plan.

23 II. RESTRUCTURING OF THE FINANCING.

24 While Staff has recommended approval of the Company's financing application, Staff also
25 recognizes the concern with the issue of rate shock. Staff's recommended surcharge was an attempt
26 to mitigate the impact to the Sonoita ratepayers. As Staff witness Gerald Becker testified, one way to

27 ² Tr 68:12-22.

28 ³ Ex S-1, see generally the Engineering Report.

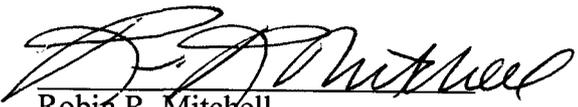
⁴ Docket No. E-01773A-06-0084, In the Matter of the Application of Arizona Electric Power Cooperative, Inc.

1 lessen the shock would be to lessen the amount of the loan amount.⁵ The Company had expressed a
2 willingness to perform the system improvements and repairs in phases. It is Staff's understanding
3 that notwithstanding the phasing of the projects, if the entire amount being sought under the WIFA
4 loan were granted, the Company would need to service the entire amount of the debt with the first
5 payment commencing approximately 6 months after the first draw and including accrued interest on
6 the entire amount granted and not just the amounts drawn in each phase. As an alternative, the
7 Company could be ordered to seek a lesser amount or stagger the loans so as to lessen the increase to
8 its ratepayers.

9 **III. CONCLUSION.**

10 Staff remains amenable to working with the Company to craft additional alternatives for
11 consideration by the ALJ.

12 RESPECTFULLY SUBMITTED this 16th day of February, 2010.



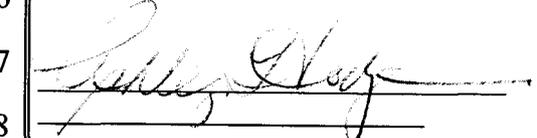
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17 Original and thirteen (13) copies
18 of the foregoing were filed this
16th day of February, 2010 with:

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⁵ Tr at 192:5-12.