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MEMORANDUM
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Arizona Corporation Commission

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FROM: Steve Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

SEP 9 2011

DATE: September 9, 2011

DOCKETED BY

RE: SUPPLEMENTAL STAFF REPORT FOR SONOITA VALLEY WATER
COMPANY'S APPLICATION FOR FINANCING APPROVAL (DOCKET NO.
W-20435A-09-0298) W-20435A-09-0296

Attached is the Supplemental Staff Report for Sonoita Valley Water Company's application for financing approval pursuant to Decision No. 71830 to evaluate the Company's revised spending plan for the Commission's determination as to whether the proposed financing of such projects complies with the requirements of A.R.S. §§ 40-301 and -302. Staff recommends approval of the Company's revised spending plan with conditions.

SMO:GWB:red

Originator: Gerald W. Becker

Attachment: Original and fifteen copies

Service List for: Sonoita Valley Water Company
Docket No. W-20435A-09-0298

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

SONOITA VALLEY WATER COMPANY

DOCKET NO. W-20435A-09-0298

**APPLICATION FOR
FINANCING APPROVAL**

SEPTEMBER 9, 2011

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Sonoita Valley Water Company Docket No. W-20435A-09-0298 is the responsibility of the Staff members listed below. Gerald W. Becker is responsible for the review and analysis of the Company's application. Katrin Stukov is responsible for the engineering and technical analysis.



Gerald W. Becker
Public Utility Analyst V



Katrin Stukov
Utilities Engineer

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ATTACHMENT

MEMORANDUM ENGINEERING REPORT	EXHIBIT A
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SUMMARY OF FILING/BACKGROUND

On June 4, 2009, the Sonoita Valley Water Company ("Sonoita" or "Company") filed applications for a permanent rate increase and approval to issue long-term debt in the amount of \$656,271 with the Arizona Corporation Commission ("Commission"). A Procedural Order, dated July 22, 2009, granted the Company's request to consolidate the permanent rate increase and financing applications. On November 5, 2009, Sonoita filed amendments to both its rate and finance applications. On August 10, 2010, the Commission issued Decision No. 71830 which approved new permanent rates in Docket No. W-20435A-09-0296 and established a WIFA loan surcharge mechanism to be implemented at a future date. Decision No. 71830 further ordered that Docket No. W-20435A-09-0298, the financing application, remain open for the Company to file a revised spending plan with sufficient information for Staff to file a revised Staff Report to allow the Commission to determine whether the proposed financing of such projects complies with the requirements of A.R.S. §§ 40-301 and -302, as more fully discussed in Decision No. 71830.

On September 1, 2011, the Company's owner, Mr. Buck Lewis, met with Staff to discuss revisions to the Company's "Description and Prioritization of Proposed Construction Projects" previously filed on May 3, 2011. Based on that discussion, the Company revised its estimated cost for the construction projects requested for financing in this case to \$228,000. Staff recommends approval of the Company's revised spending plan and that the Company file a WIFA loan surcharge application in accordance with the provisions of the established surcharge mechanism for Staff review and Commission approval.

Sonoita is a Class D utility engaged in the business of providing utility water service and serves 99 customers. Sonoita is located in Santa Cruz County, Arizona.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached. Staff's recommendations include three items from the Engineering Memorandum.

SURCHARGE CALCULATION AND IMPLEMENTATION

The Company's permanent rates provide insufficient operating cash flow to meet its proposed long-term debt obligation. Therefore, a surcharge is necessary to provide funds for the debt service (principal and interest) on the proposed WIFA loan. The final details of the WIFA loan will not be known until after the Company closes on the loan. The established WIFA loan surcharge mechanism provides for the Company to submit a WIFA loan surcharge tariff application to the Commission under this Docket once the Company has closed on the loan. The WIFA loan surcharge requires Commission approval of the WIFA loan surcharge tariff application prior to becoming effective.

STAFF RECOMMENDATIONS

Staff recommends:

- The approval of the proposed improvement projects and estimated costs totaling \$228,000.
- That upon completion of the first phase of capital improvements, the Company analyze its water systems to determine what, if any, other improvements the Company may feel are necessary that would require additional financing.
- That the Company be required to file with Docket Control, as a compliance item in this docket, within 18 months of the effective date of this Decision, copies of the Approvals of Construction (“AOC”) for each of the proposed improvement projects, as delineated in Table A of the attached Engineering Report.
- That the Commission authorize the Company to obtain an 18- to 22-year amortizing loan at the prevailing WIFA rate (currently estimated at 6.00 percent, less the Company’s 20 percent WIFA subsidy) and for an amount not to exceed \$228,000 to finance capital improvements discussed herein.
- Authorizing the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.
- That the Commission authorize the Company to pledge its assets in the State of Arizona pursuant to A.R.S. §40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.
- That a copy of the executed loan documents filed with Docket Control, as a compliance item in this docket, within 60 days of the execution of any transactions.
- That any authorization to incur debt granted in this proceeding terminate one year from when a Decision is issued in this matter if the loan has not been executed.
- That the actual amount of the WIFA loan surcharge be calculated based upon the actual amount of the WIFA loan and actual number of customers at the time of the loan closing.
- That the Company file with the Commission a WIFA loan surcharge tariff application consistent with the WIFA loan surcharge mechanism that was adopted in Decision No. 71830.

- That no surcharge be implemented until after the Commission has approved a surcharge subsequent to the Company filing a WIFA loan surcharge tariff application.

MEMORANDUM

DATE: September 6, 2011

TO: Gerald Becker
Public Utilities Analyst V

FROM: Katrin Stukov *DS*
Utilities Engineer *60m*

RE: Staff's Filing of Update
Sonoita Valley Water Company
Compliance with Decision No. 71830
Docket Nos. W-20435A-09-0296 & W-20435A-09-0298

Introduction

On June 4, 2009, Sonoita Valley Water Company ("SVWC" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a rate increase and an application for approval to incur debt of \$656,271.00 to finance water system improvements with a loan from the Water Infrastructure Finance Authority ("WIFA"). On August 10, 2010, the Commission issued Decision No. 71830, which set rates for SVWC. With respect to the financing application, the Commission ordered the Company to submit a detailed description and prioritization of construction projects to provide Staff with sufficient information so that Staff could prepare a revised Staff Report. The Commission would then determine whether the proposed financing of such projects complies with the requirements of A.R.S. 40-301 and -302, as discussed more fully in Decision No. 71830.

On May 3, 2011, the Company submitted Notice of Filing Description and Prioritization of Proposed Construction Projects, which included a cost estimate in the amount of \$292,540.68.

Update

On September 1, 2011, the Company's owner, Mr. Buck Lewis, met with Staff to discuss revisions to the Company's Description and Prioritization of Proposed Construction Projects filed on May 3, 2011. Based on that discussion, the Company revised its construction projects for the first phase of capital improvements, as summarized below in Table A:

TABLE A

Site	Item Description	Quantity	Unit Cost	Total Cost	Notes
Sonoita distribution system	Water line replacement with new 4-inch C-900 Class 200 PVC Pipe	3,500 lineal feet	\$25	\$87,500	Replace leaking water lines along Collie Drive.
Los Encinos Well site	Piping and appurtenances	-	-	\$5,500	Install new piping & appurtenances for the new booster pumps
Los Encinos Well site	4-inch concrete slab	-	-	\$3,000	Install a new slab for the new booster pumps
Los Encinos Well site	Chain link fencing	-	-	\$12,000	Install new fence
Los Encinos Well site	Booster Pumps (5hp)	2	\$4,500	\$9,000	Install new pumps to feed Los Encinos
Los Encinos Well site	Storage Tank (20,000 gallon)	1	\$35,000	\$35,000	Replace the existing 10,000 gallon tank to serve Los Encinos
Los Encinos Well site	Bladder Tanks	4	\$1,250	\$5,000	Replace existing bladder tanks to serve Los Encinos
Los Encinos Well site	Site Electrical	-	-	\$10,000	Install the conduit, wire cables, controls & switches to the new booster pumps and existing well
Sonoita site	Pressure Tank (2,000 gallon)	1	\$15,000	\$15,000	Replace existing Pressure tank
				Subtotal	\$182,000
All fees (Administration, Legal, Submittal, Project Management, Inspections, Engineering, Survey, Contingencies, etc)					\$46,000
				Total	\$228,000

Conclusions/ Recommendations

Staff concludes that the proposed improvement projects and estimated costs totaling \$228,000, as delineated in Table A, appear to be reasonable and appropriate. However, approval of this Financing Application does not imply any particular future treatment for rate making purposes. No "used and useful" determination of the proposed

plant was made, and no conclusions should be inferred for rate making or rate base purposes.

Staff recommends that upon completion of the first phase of capital improvements, the Company analyze its water systems to determine what, if any, other improvements the Company may feel are necessary that would require additional financing.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, within 18 months of the effective date of this Decision, copies of the Approvals of Construction ("AOC") for each of the proposed improvement projects, as delineated in Table A.