

OPEN MEETING ITEM



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COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS



ARIZONA CORPORATION COMMISSION

Executive Director
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AZ CORP COMMISSION
DOCKET CONTROL

DATE: OCTOBER 20, 2011

DOCKET NO.: W-014³¹SA-11-0007

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Order on:

THE ESTATE OF WILLIAM F. RANDALL D/B/A
VALLE VERDE WATER COMPANY
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

OCTOBER 31, 2011

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

NOVEMBER 8, 2011 and NOVEMBER 9, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

OCT 20 2011

DOCKETED BY 


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE - Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE APPLICATION OF
9 THE ESTATE OF WILLIAM F. RANDALL D/B/A
10 VALLE VERDE WATER COMPANY FOR
11 APPROVAL OF PRE-EXISTING LONG-TERM
12 DEBT.

DOCKET NO. W-01431A-11-0007

DECISION NO. _____

ORDER

13 Open Meeting
14 November 8 and 9, 2011
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 Having considered the entire record herein and being fully advised in the premises, the
18 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

19 * * * * *

20 **FINDINGS OF FACT**

21 **BACKGROUND**

22 1. The Estate of William F. Randall d/b/a Valle Verde Water Company ("Valle Verde"
23 or "Company") is an Arizona Class 'C' public water utility engaged in the business of providing
24 potable water service to approximately 800 customers near the City of Nogales, Arizona, in Santa
25 Cruz County. The Commission granted Valle Verde a Certificate of Convenience and Necessity in
26 Decision No. 28887 (April 27, 1955). Valle Verde's current permanent rates and charges were set in
27 Decision No. 71899 (September 28, 2010).

28 2. Valle Verde is currently owned by the Estate of William F. Randall. Mr. Randall
operated the system for many years and upon his death, the system fell into financial and operational
disarray and became non-compliant with several Arizona Department of Environmental Quality
Rules. Ultimately, the Commission appointed Southwestern Utility Management, Inc. ("SUM") as

1 the Company's interim manager in 2007.¹

2 3. During the Company's latest combined rate and finance case filed in 2009, the
3 Commission's Utilities Division Staff ("Staff") learned that Valle Verde had obtained a \$15,238
4 long-term loan to acquire a truck, without prior Commission approval. Decision No. 71899 observed
5 that:

6 When SUM took over management of the Company, [SUM] found that Valle
7 Verde did not own any transportation equipment. Employees of the Company
8 used their personal vehicles and then the Company reimbursed them for their
9 expenses. After the employees left or were terminated, Valle Verde had no
10 vehicles for employees to use and it became necessary for the Company to
11 purchase a truck as quickly as possible for employee use. [Company witness
12 Bonnie O'Connor] testified that she is fully aware that a public utility must obtain
13 Commission approval before acquiring long-term debt, but in this circumstance it
14 was necessary to the Company's operations to purchase a truck quickly.²

15 4. Decision No. 71899 directed the Company to file a finance application with the
16 Commission for approval of the truck loan no later than January 31, 2011.

17 PROCEDURAL HISTORY

18 5. On January 6, 2011, Valle Verde filed its finance application for Commission
19 approval of the \$15,238 loan ("Application").³ Attached to the Application was a copy of the loan
20 documentation for the purchase of the truck.

21 6. On January 14, 2011, the Company filed an Affidavit of Publication indicating that
22 Notice of the Application had been published in the *Nogales International* on January 7, 2011.

23 7. On May 3, 2011, Staff filed its Staff Report recommending approval of the
24 Application.

25 8. According to the Application, SUM purchased a used truck in February 2008 for
26 \$15,238. The lender is Citizens Automobile Finance and the interest rate is 7.14 percent amortized
27 over five years. SUM states that as of the date of the Application, the remaining balance on the loan
28 was approximately \$7,086.

¹ Decision No. 69882 (August 29, 2007).

² Decision No. 71899 (September 28, 2010), page 16.

³ In its Application, Valle Verde requested debt authorization in the amount of \$18,216; however, Staff noted that the documentation provided by the Company indicates that the actual amount financed was \$15,238.19. The \$18,216 requested by Valle Verde represents the loan amount including principal and interest.

1 9. Staff used Valle Verde's historical financial statements for the year ended December
2 31, 2008, to conduct its financial analysis and determine the effects of the *pro forma* financial
3 information reflecting the \$15,238 loan amortized for five years at a 7.14 percent per annum. Staff
4 also included in its *pro forma* financial analysis the \$1,278,238 debt authorization approved by the
5 Commission in Decision No. 71899.

6 10. Staff's analysis indicates that for the year ended December 31, 2008, Valle Verde did
7 not have a meaningful debt service coverage ratio ("DSC")⁴ because, at that time, the Company did
8 not have any outstanding debt. Staff calculated Valle Verde's *pro forma* DSC at 1.68, which includes
9 the debt service on both the \$1,278,238 million loan and the \$15,238 loan. Staff's *pro forma* DSC
10 indicates that Valle Verde will be able to meet all obligations with cash generated from operations.

11 11. Staff reviewed Valle Verde's purchase of the truck and concluded that it was
12 appropriate and that the purchase price was reasonable. However, Staff stated that no used and useful
13 determination of the proposed plant was made, and no particular future treatment should be inferred
14 for rate-making or rate base purposes.

15 12. Based on its review of the Application, Staff concluded that issuance of the debt
16 financing for the purposes stated in the Application is within Valle Verde's corporate powers, is
17 compatible with the public interest, is consistent with sound financial practices and will not impair its
18 ability to provide services.

19 13. Accordingly, Staff recommends that the Commission authorize Valle Verde's truck
20 purchase loan of \$15,238 amortized over five years at 7.14 percent per annum from Citizens
21 Automobile Finance.

22 14. Staff's recommendation is reasonable and should be adopted.

CONCLUSIONS OF LAW

24 1. Valle Verde is a public service corporation within the meaning of Article XV of the
25 Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

26 2. The Commission has jurisdiction over Valle Verde and the subject matter of the
27 _____

28 ⁴ DSC represents the number of times internally generated cash will cover required principal and interest payments on long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

1 Application.

2 3. Notice of the financing was provided in accordance with Arizona law.

3 4. The financing approved herein is for lawful purposes within Valle Verde's corporate
4 powers, is compatible with the public interest, with sound financial practices, and with the proper
5 performance by Valle Verde of service as a public service corporation, and will not impair Valle
6 Verde's ability to perform that service.

7 5. The financing approved herein is for the purposes set forth in the Application is
8 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
9 chargeable to operating expenses or to income.

10 6. Staff's recommendation is reasonable and should be adopted.

11 **ORDER**

12 IT IS THEREFORE ORDERED that the Estate of William F. Randall d/b/a/ Valle Verde
13 Water Company is hereby authorized to incur \$15,238 of debt financing for the purposes stated in the
14 Application, and pursuant to the terms and conditions set forth in the Application and as described
15 herein.

16 IT IS FURTHER ORDERED that such authority is expressly contingent upon the Estate of
17 William F. Randall d/b/a/ Valle Verde Water Company's use of the proceeds for the purposes set
18 forth in its Application.

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IT IS FURTHER ORDERED that approval of the financing set forth herein does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN _____ COMMISSIONER _____

COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2011.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: THE ESTATE OF WILLIAM F. RANDALL D/B/A
2 VALLE VERDE WATER COMPANY

3 DOCKET NO.: W-01431A-11-0007

4 Bonnie O'Connor, Interim Manager
5 VALLE VERDE WATER COMPANY
6 C/O SOUTHWESTERN UTILITY MANAGEMENT
P. O. Box 85160
Tucson, AZ 85754

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

10 Steven M. Olea, Director
11 Utilities Division
12 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

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