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OPEN MEETING AGENDA ITEM

MEMORANDUM

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2013 JAN 10 PM 3 33

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: January 10, 2013

RE: STAFF REPORT FOR GRANITE MOUNTAIN WATER COMPANY, INC.'S (DOCKET NOS. W-02467A-09-0333 AND W-02467A-09-0334) REQUEST TO MODIFY DECISION NOS. 72294 and 72377 PURSUANT TO ARIZONA REVISED STATUE ("ARS") § 40-252

Attached is the Staff Report for the Company's request to modify Decision Nos. 72294 and 72377 pursuant to ARS § 40-252. Staff recommends provisional approval.

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 January 22, 2013.

SMO:JMM:tdp/RMM

Originator: Jeffrey M. Michlik

Arizona Corporation Commission
DOCKETED

JAN 10 2013

DOCKETED BY

Service List for: Granite Mountain Water Company, Inc.
Docket Nos. W-02467A-09-0333 and W-02467A-09-0334)

Mr. Paul D. Levie, President
Granite Mountain Water Company, Inc.
2465 Shane Drive
Prescott, Arizona 86305

Mr. Matthew Lauterbach, Water Administrator
Granite Mountain Water Company, Inc.
2465 Shane Drive
Prescott, Arizona 86305

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

GRANITE MOUNTAIN WATER COMPANY, INC.
DOCKET NOS. W-02467A-09-0333 AND W-02467A-09-0334)

REQUEST TO MODIFY ARIZONA CORPORATION COMMISSION DECISION NOS. 72294 AND 72377 PURSUANT TO ARIZONA REVISED STATUE § 40-252

JANUARY 10, 2013

STAFF ACKNOWLEDGMENT

The Staff report for Granite Mountain Water Company, Inc.'s request to modify Decision Nos. 72294 and 72377 pursuant to Arizona Revised Statute § 40-252, Docket Nos. W-02467A-09-0333 and W-02467A-09-0334 is the responsibility of the Staff members listed below. Jeffrey M. Michlik is responsible for the financial analysis. Dorothy Hains is responsible for the engineering review.

Jeffrey M Michlik

JEFFREY M. MICHLIK
PUBLIC UTILITIES ANALYST V

Dorothy Hains

DOROTHY HAINS
UTILITIES ENGINEER

EXECUTIVE SUMMARY
GRANITE MOUNTAIN WATER COMPANY INC.
DOCKET NOS. W-02467A-09-0333 AND W-02467A-09-0334

On October 22, 2012, Granite Mountain Water Company, Inc. ("Company") filed an application with the Arizona Corporation Commission ("Commission") requesting Commission authorization to modify Decision Nos. 72294 (May 4, 2011) and 72377 (May 27, 2011) pursuant to Arizona Revised Statutes ("ARS") § 40-252.

On the November 8, 2012, the Commission voted to re-open both decisions, and directed Staff to produce a report, based on the Company's request to modify the prior decisions.

The Company is a for-profit, Class D, Arizona public service corporation engaged in providing water services in Yavapai County, Arizona. The Company presently provides utility service to approximately 116 water customers.[1]

In Decision No. 71869 (September 1, 2010), the Commission determined that Granite Mountain had inadequate storage capacity and ordered Granite Mountain to remedy the problem either by drilling a replacement well for its existing Well No. 5 or by constructing and installing a 110,000-gallon storage tank. The Company requested and received authorization in Decision No. 72377 to incur long-term debt, in the form of one or more 18- to 22-year amortizing loans, in a total amount not to exceed $181,320, pursuant to loan agreement(s) with the Water Infrastructure Finance Authority of Arizona ("WIFA") and/or National Bank of Arizona, at an interest rate not to exceed the prime rate plus 3 percent at the time of each transaction's closing for a new well and a 50,000 gallon storage tank.

The Company is now requesting two modifications to the authorization it received to issue long-term debt in Decision No. 72377 and an extension in time to complete the projects. First, the Company requests an increase in its authorized long-term debt by $59,488 from $181,320 to $240,808. This request is due to the incremental cost to comply with the Davis-Bacon Act, a requirement for all WIFA loans. Second, the Company requests an option to acquire an existing domestic well and well site and to purchase a prefabricated water storage tank with up to $196,032 in long-term debt as a less costly alternative to drilling a new well and constructing an on-site storage tank with up to $240,808 in long-term debt. The Company requests an extension of its Approval to Construct ("ATC") date to June 1, 2013, and an extension of its Approval of Construction ("AOC") date to June 1, 2014.[2]

Staff calculated a pro forma 1.50 debt service coverage ratio ("DSC") for a scenario that recognizes issuance of a $158,000, 20-year amortizing loan at 5.00 percent per annum. Since WIFA now requires a 1.50 DSC, this is effectively the maximum debt the Company can incur. Therefore, Staff concludes that the Company does not have sufficient debt service capacity with

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[1] Based on the Company's 2011 annual report.

[2] Decision No. 72294 granted an extension for the ATC from March 1, 2011, to September 1, 2011, and for the AOC from March 1, 2012, to September 1, 2012. Decision No. 72372 granted additional extensions for the ATC and AOC, respectively, to March 1, 2012, and March 1, 2013.

its existing rates to finance its alternative loan amount of $196,032, nor does the Company have sufficient debt service capacity with existing rates to finance the proposed 240,808 cost to drill a new well and construct a new storage tank.

Staff recommends:

- Granting the Company authorization to incur an 18- to 22-year amortizing loan with WIFA in an amount not to exceed $158,000 at an interest rate not to exceed 5.00 percent per annum for the purposes of:

  (1) Purchasing an existing well or drilling a new well with a minimum 100 GPM capacity; or
  (2) Installing a new storage tank with a minimum of 100,000 gallon storage capacity or;
  (3) Providing any combination of production and storage capacity that provides the minimum capacity needed.

- Directing the Company to file with Docket Control as a compliance item by December 31, 2013, a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval of Construction ("AOC") issued for the option implemented by the Company that meets the requirements discussed above.

- Noting that authorizations granted in this proceeding do not constitute any used and useful determination and that no particular treatment should be inferred for ratemaking or rate base purposes in the future.

- Authorizing the Company to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with any indebtedness authorized in this proceeding.

- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2013.

- Authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

- Directing the Company to file with Commission Docket Control Center, as a compliance item in this matter, a letter summarizing the transaction and to provide to the Utility Division Compliance Section a copy of the loan documents, within 60 days of the execution of any financing transaction authorized herein.

- Directing the Company, if it has not already done so, to provide notice to its customers of the modifications it is seeking, prior to this matter being scheduled for Commission consideration, and to file an affidavit with Commission Docket Control Center verifying public notice of its modified financing application.

- In the month the loan closes and every month following the Company shall set aside $9.00 of each customers bill in a separate interest bearing account, the proceeds of which may only be used to pay WIFA.

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SCHEDULES

ATTACHMENT

INTRODUCTION

On October 22, 2012, Granite Mountain Water Company, Inc. ("Company") filed an application with the Arizona Corporation Commission ("Commission") requesting Commission authorization to modify Decision Nos. 72294 (May 4, 2011) and 72377 (May 27, 2011) pursuant to Arizona Revised Statutes ("ARS") § 40-252.

On the November 8, 2012, the Commission voted to re-open both decisions, and directed Staff to produce a report, based on the Company's request to modify the prior decisions.

Staff's report and recommendations are discussed herein.

PUBLIC NOTICE

Staff recommends that the Company, if it has not already done so, provide notice to its customers of the modifications it is seeking, prior to this matter being scheduled for Commission consideration, and file an affidavit verifying public notice of its modified financing application.

BACKGROUND

The Company is a for-profit, Class D, Arizona public service corporation engaged in providing water services in Yavapai County, Arizona. The Company presently provides utility service to approximately 116 water customers.[3]

The Company's current rates were established in Decision No. 71869, dated September 1, 2010.

Decision No. 71869[4] also directed the Company to either 1) drill a replacement for its existing well No. 5 or 2) construct a 110,000-gallon storage tank.

Decision No. 72294 (May 4, 2011)[5] granted the Company an extension of time for the two options.

Decision No. 72377 (May 27, 2011)[6] authorized the Company to incur long-term debt in the amount not to exceed $181,320.

COMPLIANCE

The Commission's Compliance database indicates that there are currently no delinquencies for the Company.

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[3] According to the 2011 annual report filed by the Company.
[4] Docket Nos. W-02467A-09-0333 and W-02467A-09-0334.
[5] Ibid.
[6] Docket No. W-0267A-09-0483.

PURPOSE AND DESCRIPTION OF THE COMPANY'S REQUEST TO MODIFY THE PRIOR DECISIONS UNDER ARS § 40-252

In Decision No. 71869, the Commission determined that Granite Mountain had inadequate storage capacity and ordered Granite Mountain to remedy the problem either by drilling a replacement well for its existing Well No. 5 or by constructing and installing a 110,000-gallon storage tank. The Company requested and received authorization in Decision No. 72377 to incur long-term debt, in the form of one or more 18- to 22-year amortizing loans, in a total amount not to exceed $181,320, pursuant to loan agreement(s) with the Water Infrastructure Finance Authority of Arizona ("WIFA") and/or National Bank of Arizona, at an interest rate not to exceed the prime rate plus 3 percent at the time of each transaction's closing, for a new well and a 50,000 gallon storage tank.

The Company is now requesting two modifications to the authorization it received to issue long-term debt in Decision No. 72377 and an extension in time to complete the projects. First, the Company requests to increase its authorization to incur long-term debt by $59,488, from $181,320 to $240,808. This request is due to the incremental cost to comply with the Davis-Bacon Act, a requirement for all WIFA loans. Second, the Company requests an option to acquire an existing domestic well and well site and to purchase a prefabricated water storage tank with up to $196,032 in long-term debt as a less costly alternative to drilling a new well and constructing an on-site storage tank with up to $240,808 in long-term debt. The Company requests an extension of its Approval to Construct ("ATC") date to June 1, 2013, and an extension of its Approval of Construction ("AOC") date from to June 1, 2014.[7]

The Company's application proposes the following specific language changes in Decision No. 72294 through the process provided for under ARS § 40-252:

Delete:

Requirement in Decision No. 71869	Current Deadline	Extended Deadline
Complete one of the following to address its inadequate storage capacity issue: (a) Drill a replacement Well # 5 (ADWR #55-622083), or (b) Construct and install a 110,000-gallon storage tank.	March 1, 2012	September 1, 2012

[7] Decision No. 72294 granted an extension for the ATC from March 1, 2011, to September 1, 2011, and for the AOC from March 1, 2012, to September 1, 2012. Decision No. 72372 granted additional extensions for the ATC and AOC, respectively, to March 1, 2012, and March 1, 2013.

If addressing the inadequate storage capacity issue by drilling a replacement well, file with the Commission's Docket Control, as a compliance item in this docket, copies of the Approval to Construct for the replacement well.	March 1, 2011	September 1, 2011
If addressing the inadequate storage capacity issue by drilling a replacement well, file with the Commission's Docket Control, as a compliance item in this docket, copies of the Approval of Construction for the replacement well.	March 1, 2012	September 1, 2012

Insert:

Requirement in Decision No. 71869	*Current Deadline*	*Extended Deadline*
Complete one of the following to address its inadequate storage capacity issue: (a) Drill a replacement Well # 5 (ADWR #55-622083), or (b) Construct and install a 110,000-gallon storage tank, ***or (c) Add a new production well.***	*September 1, 2012*	*June 1, 2014*
If addressing the inadequate storage capacity issue by drilling a replacement well ***or adding a new production well****, file with the Commission's Docket Control, as a compliance item in this docket, copies of the Approval to Construct for the replacement well* ***or the new production well.***	*September 1, 2011*	*June 1, 2013*
If addressing the inadequate storage capacity issue by drilling a replacement well ***or adding a new production well****, file with the Commission's Docket Control, as a compliance item in this docket, copies of the Approval of Construction for the replacement* ***well or the new production well.***	*September 1, 2012*	*June 1, 2014*

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached. Staff reviewed the Company's filing and recommends that the Company may choose from the following options to provide an adequate supply of water:

(a) Purchase an existing well or drill a new with a minimum 100 GPM capacity;
(b) Install a new storage tank with a minimum of 100,000 gallon storage capacity or;
(c) Provide any combination of production and storage capacity that provides the minimum capacity needed.

Staff further recommends the Company file with Docket Control as a compliance item by December 31, 2013, a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval of Construction ("AOC") issued for the option implemented by the Company that meets the requirements discussed above. No used and useful determination of this request was made, and no particular treatment should be inferred for ratemaking or rate base purposes in the future.

FINANCIAL ANALYSIS

Staff conducted two financial analyses. The first financial analysis based on the Company's alternative loan amount of $196,032 is presented in Schedule JMM-1. The second analysis is based on Staff recommend loan amount of $158,000 as presented in Schedule JMM-2.

Company's financing alternative loan amount of $196,032

Staff's analysis for this scenario is illustrated in Schedule JMM-1. Column [A] reflects financial information established in the Company's 2011 annual report. Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a 20-year, $196,032 amortizing loan at 5.0 percent per annum.

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 JMM-1, Column [A] shows that for the year ended December 31, 2011, a DSC calculation was not meaningful since the Company had no authorized long-term debt. The pro forma DSC for the Company under the scenario described above for Column [B] is 1.21. WIFA now requires a DSC of at least 1.50. Therefore, the Company does not have sufficient debt service capacity with its existing rates for the proposed $196,032 loan.

Similarly, the Company's does not have sufficient debt service capacity with its existing rates for the proposed $240,808 loan with the inclusion of Davis Bacon requirement.

Staff recommended loan amount of $158,000

Staff's analysis for this scenario is illustrated in Schedule JMM-2. Column [A] reflects financial information established in the Company's 2011 annual report. Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a 20-year, $158,000 amortizing loan at 5.00 percent per annum.

DSC

Schedule JMM-2, Column [A] shows that for the year ended December 31, 2011, a DSC calculation was not meaningful since the Company had no authorized long-term debt. The pro forma DSC for the Company under the scenario described above for Column [B] is 1.50. WIFA now requires a DSC of at least 1.50. Therefore, the Company does have sufficient debt service capacity with its existing rates for the Staff-recommended $158,000 loan.

Capital Structure

At December 31, 2011, the Company's capital structure consisted of 100 percent equity (Schedule JMM-2, Column [A], lines 15-21). Staff calculated a pro forma capital structure reflecting issuance of a $158,000, 20-year amortizing loan at 5.0 percent per annum, and it is composed of 0.9 percent short-term debt, 27.7 percent long-term debt and 71.4 percent equity (Schedule JMM-2, Column [B], lines 15-21).

Capital Structure inclusive of AIAC and CIAC

As of December 31, 2011, the Company's capital structure, inclusive of Advances-In-Aid-of-Construction ("AIAC") and Net Contributions-In-Aid-of-Construction ("CIAC")[8] consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, 97.2 percent equity, 2.8 percent AIAC and 0.0 percent CIAC (Schedule JMM-1, Column [A], lines 26-36). Staff calculated a pro forma capital structure, inclusive of Advances-In-Aid-of-Construction ("AIAC") and Net Contributions-In-Aid-of-Construction ("CIAC"), and it consists of 0.8 percent short-term debt, 27.2 percent long-term debt, 70.0 percent equity, 2.0 percent AIAC and 0.0 percent CIAC (Schedule JMM-1, Column [B], lines 26-36).

Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities. Line 38, Column [A] indicates an AIAC and CIAC funding ratio of 2.8 percent, while Column [B] indicates an AIAC and CIAC funding ratio of 2.0 percent, both well below the 30 percent that Staff typically recommends as the maximum.

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[8] Contributions in Aid of Construction less Accumulated Amortization of Contributions in Aid of Construction.

Encumbrance

Arizona Administrative Code Rule R18-15-104 requires WIFA borrowers to pledge their revenue sources to repay the financial assistance. Arizona Revised Statutes ("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.

CONCLUSION AND RECOMMENDATIONS

Staff calculated a pro forma 1.50 debt service coverage ratio ("DSC") for a scenario that recognizes issuance of a $158,000, 20-year amortizing loan at 5.00 percent per annum. Since WIFA now requires a 1.50 DSC, this is effectively the maximum debt the Company can incur. Therefore, Staff concludes that the Company does not have sufficient debt service capacity with its existing rates to finance its alternative loan amount of $196,032, nor does the Company have sufficient debt service capacity with existing rates to finance the proposed 240,808 cost to drill a new well and construct a new storage tank.

Staff recommends:

- Granting the Company authorization to incur an 18- to 22-year amortizing loan with WIFA in an amount not to exceed $158,000 at an interest rate not to exceed 5.00 percent per annum for the purposes of:

  (1) Purchasing an existing well or drilling a new well with a minimum 100 GPM capacity; or
  (2) Installing a new storage tank with a minimum of 100,000 gallon storage capacity or;
  (3) Providing any combination of production and storage capacity that provides the minimum capacity needed.

- Directing the Company to file with Docket Control as a compliance item by December 31, 2013, a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval of Construction ("AOC") issued for the option implemented by the Company that meets the requirements discussed above.

- Noting that authorizations granted in this proceeding do not constitute any used and useful determination and that no particular treatment should be inferred for ratemaking or rate base purposes in the future.

- Authorizing the Company to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with any indebtedness authorized in this proceeding.

- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2013.

- Authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

- Directing the Company to file with Commission Docket Control Center, as a compliance item in this matter, a letter summarizing the transaction and to provide to the Utility Division Compliance Section a copy of the loan documents, within 60 days of the execution of any financing transaction authorized herein.

- Directing the Company, if it has not already done so, to provide notice to its customers of the modifications it is seeking, prior to this matter being scheduled for Commission consideration, and to file an affidavit with Commission Docket Control Center verifying public notice of its modified financing application.

- In the month the loan closes and every month following the Company shall set aside $9.00 of each customers bill in a separate interest bearing account, the proceeds of which may only be used to pay WIFA.

Granite Mountain Water Company, Inc. Schedule JMM-1
Docket Nos. W-02467A-09-0333, W-02467A-09-0334 and W-02467A-10-0483
Company's proposed alternative financing amount of $196,032

FINANCIAL ANALYSIS

Line		[A][1] *12/31/2011*		[B][2] *Pro forma*	
1	Operating Income	-$14,531		-$14,531	
2	Depreciation & Amort.	33,258		33,258	
3	Income Tax Expense	0		0	
5	Interest Expense	0		9,669	
6	Repayment of Principal	0		5,856	
9	**DSC**				
10	[1+2+3] ÷ [5+6]	NM [3]		1.21	
13	**Capital Structure**				
15	Short-term Debt	$0	0.0%	$5,856 [4]	1.0%
17	Long-term Debt	$0	0.0%	$190,176	32.2%
19	Common Equity	$394,365	100.0%	$394,365	66.8%
21	Total Capital	$394,365	100.0%	$590,397	100.0%
24	**Capital Structure (inclusive of AIAC and Net CIAC)**				
26	Short-term Debt	$0	0.0%	$5,856	1.0%
28	Long-term Debt	$0	0.0%	$190,176	31.6%
30	Common Equity	$394,365	97.2%	$394,365	65.5%
32	Advances in Aid of Construction ("AIAC")	$11,378	2.8%	$11,378	1.9%
34	Contributions in Aid of Construction ("CIAC") [5]	$0	0.0%	$0	0.0%
36	Total Capital (Inclusive of AIAC and CIAC)	$405,743	100.0%	$601,775	100.0%
38	**AIAC and CIAC Funding Ratio [6]**	2.8%		1.9%	
39	Lines (32+34)/(36)				

[1] Column [A] reflects financial information based on the Company's 2011 annual report submitted to the Commission.
[2] Column [B] is Column [A] modified to reflect issuance of the proposed $196,032 debt financing amortized for 20 years at 5.00 percent.
[3] Not Meaningful.
[4] Pro Forma Short-term Debt represents the year one principal portion of the proposed loan.
[5] Net CIAC balance (i.e. less: accumulated amortization of contributions).
[6] Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

Granite Mountain Water Company, Inc. Schedule JMM-2

Docket Nos. W-02467A-09-0333, W-02467A-09-0334 and W-02467A-10-0483

Staff-recommend WIFA loan amount of $158,000

FINANCIAL ANALYSIS

Line		[A][1] *12/31/2011*		[B][2] *Pro forma*	
1	Operating Income	-$14,531		-$14,531	
2	Depreciation & Amort.	33,258		33,258	
3	Income Tax Expense	0		0	
5	Interest Expense	0		7,793	
6	Repayment of Principal	0		4,720	
9	**DSC**				
10	[1+2+3] ÷ [5+6]	NM [3]		1.50	
13	**Capital Structure**				
15	Short-term Debt	$0	0.0%	$4,720 [4]	0.9%
17	Long-term Debt	$0	0.0%	$153,280	27.7%
19	Common Equity	$394,365	100.0%	$394,365	71.4%
21	Total Capital	$394,365	100.0%	$552,365	100.0%
24	**Capital Structure (inclusive of AIAC and Net CIAC)**				
26	Short-term Debt	$0	0.0%	$4,720	0.8%
28	Long-term Debt	$0	0.0%	$153,280	27.2%
30	Common Equity	$394,365	97.2%	$394,365	70.0%
32	Advances in Aid of Construction ("AIAC")	$11,378	2.8%	$11,378	2.0%
34	Contributions in Aid of Construction ("CIAC") [5]	$0	0.0%	$0	0.0%
36	Total Capital (Inclusive of AIAC and CIAC)	$405,743	100.0%	$563,743	100.0%
38	**AIAC and CIAC Funding Ratio** [6]	2.8%		2.0%	
39	Lines (32+34)/(36)				

[1] Column [A] reflects financial information based on the Company's 2011 annual report submitted to the Commission.

[2] Column [B] is Column [A] modified to reflect issuance of the proposed $158,000 debt financing amortized for 20 years at 5.00 percent.

[3] Not Meaningful.

[4] Pro Forma Short-term Debt represents the year one principal portion of the proposed loan.

[5] Net CIAC balance (i.e. less: accumulated amortization of contributions).

[6] Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

MEMORANDUM

DATE: December 3, 2012

TO: Jeff Michlik
Public Utilities Analyst V

FROM: Dorothy Hains, P. E.
Utilities Engineer

RE: Granite Mountain Water Company (Docket No. W-02467A-09-0333 & W-02467A-09-0334) Application to Amend ACC Decision 72294 and 72377 Pursuant to ARS § 40-252

Background

On May 27, 2011, the Commission issued Decision No. 72377 ("Decision"). In its Decision the Commission approved a loan of $181,320 for Granite Mountain Water Company ("Granite Mountain" or "Company") to install a new well and storage tank. The Commission further ordered that the new well be completed and in service by September 1, 2012 and that the storage tank be completed and in service by March 1, 2013.

On October 22, 2012, the Company filed a request to modify the Decision.

On November 8, 2012, the Commissioners decided Staff should review the request and submit a written opinion to the Commission for discussion.

The Company's Request to Modify Decision

As an alternative to "drilling a replacement well" Granite Mountain would like to have the Decision amended so that it has the option to purchase an existing domestic well and well site that is located within the Company's service area. The Company has not provided Staff with any information about the well's production capacity, the quality of the water the well produces or the well's purchase price.

Staff's Engineering Analysis

The purpose of the loan as originally proposed and approved in Decision No. 72377 was to fund a new water source for the Company with a minimum production capacity of 65 gallons per minute ("GPM") and to install a storage tank with a minimum capacity of

50,000 gallons. Because the Company needs to meet current Central Yavapai Fire District fire flow requirements[1], a minimum production capacity of 65 GPM for a new well and additional 50,000 gallon storage tank are needed to provide an adequate supply of water to the Company's service area.

The Company can meet the above well production and storage capacities by drilling a new well that can produce a minimum of 100 GPM flow (with no additional storage), or installing a minimum of 100,000 gallon storage tank (with no additional well capacity).

Conclusions and Recommendations

The Company may choose from the following options to provide an adequate supply of water:

(a) purchase an existing well or drill a new well with a minimum 100 GPM capacity; or

(b) install a new storage tank with a minimum of 100,000 gallon storage capacity, or,

(c) provide any combination of production and storage capacity that provides the minimum capacity needed.

Staff further recommends the Company file with Docket Control as a compliance item by December 31, 2013, a copy of the Arizona Department of Environmental Quality ("ADEQ") Approval of Construction ("AOC") issued for the option implemented by the Company that meets the requirements discussed above. No used and useful determination of this request was made and no particular treatment should be inferred for rate making or rate base purposes in the future.

[1] The current fire flow reservation requirement is 1,000 GPM for 2 hours.