

ORIGINAL



**MEMORANDUM
RECEIVED**

2013 MAR 11 P 3:58

Arizona Corporation Commission
DOCKETED
MAR 11 2013
DOCKETED BY

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

DATE: March 11, 2013

RE: **SUPPLEMENTAL** STAFF REPORT FOR GRANITE MOUNTAIN WATER COMPANY, INC.'S (DOCKET NOS. W-02467A-09-0333, W-02467A-09-0334 and W-02467A-10-0483) REQUEST TO MODIFY DECISION NOS. 72294 and 72377 PURSUANT TO ARIZONA REVISED STATUTE ("ARS") § 40-252

On January 10, 2013, Granite Mountain Water Company, Inc. ("GMWC" or "Company") filed a response to the Staff Report expressing its three main objectives and concerns, as well as providing several specific comments. Pursuant to the Procedural Order dated February 5, 2013, the hearing division ordered Staff to file a supplemental report to address the following: (1) address GMWC's response to the original Staff Report; (2) if appropriate, amend the recommendations made by Staff in the original Staff Report; (3) make a recommendation concerning whether customer notice should be required; (4) if customer notice is recommended, provide recommendations as to the minimum contents of such notice and the manner in which the notice should be provided; and (5) make a recommendation regarding whether an evidentiary hearing should be required.

(1) Address GMWC's response to the original Staff Report.

The Company in its response to Staff's report stated that it has three main objectives and concerns. The Company's three main objectives and concerns as they appear in the Company's filing appear to be a mixture of future plans and facts to which Staff is not commenting on.

Staff, however, will respond to the seven issues which were bulleted in the Company's response to the Staff Report.

Company Issue No. 1 – Company never requested approval of financing in amount of \$240,808.

Company Comment:

"The Company has never requested Approval for Financing in the amount of \$240,808. This was an estimation of the costs for the projects after the implementation of the Davis-Bacon requirement."

Staff Response:

The comment in the Company's filing pertaining to a \$240,808 loan appears to be a statement. Staff concludes that the Company is correct in stating that it did not request this loan, but rather requested an alternative loan in the amount of \$196,032. Nevertheless, Staff undertook an analysis of the Company's ability to finance that amount.

Issue No. 2 – The Company currently has a standing legal agreement with Water Infrastructure Finance Authority (“WIFA”) until August 15, 2013, and therefore, the new debt service coverage (“DSC”) ratio of 1.50 is not applicable.

Company Comment:

“Decision No. 72377 granted by the Commission approved financing in the amount of \$181,320. Subsequently WIFA approved funding under Loan Resolution 2012-002 on August 17th, 2011. Under Amendment [sic] WIFA extended the Loan Resolution until August 15th, 2013. Therefore, the Debt Service Coverage (“DSC”) Ratio of 1.50 currently used by WIFA should not be relevant. The Company would respectfully concede its request for the relatively minor increase of \$17,712 (which is the difference between the approved \$181,320 and the requested \$196,032) and ask the Commission to extend the expiration dates of the original Decision as requested in the Company's original petition.”

Staff Response:

As long as there is a legal agreement between WIFA and the Company, in which WIFA is willing to finance the original Commission authorized loan amount of \$181,320, Staff will not interfere with this agreement. Staff's analysis indicates the Company's financial health has deteriorated since the loan was originally authorized in Decision No. 71869 dated September 1, 2010. Nevertheless, Staff's analysis shows that issuance of a \$181,320 20-year amortizing loan at 5.00 percent would result in a 1.30 DSC (see Schedule JMM-1) indicating that the Company has the debt service capacity for the loan and that it would meet the minimum 1.20 DSC required by WIFA at the time the Company initially sought financing approval from WIFA.

Issue No. 3 – Company proposes its dates over Staff's recommended dates for AOC Compliance Filing.

Company Comment:

“The Company requested the Commission to approve its original proposed dates as shown in the petition as opposed to those submitted by Staff, which are equivalent to six months earlier than the Company requested. It should be noted that the Company has not had any water shortages based on demand. The Company had a valid Fire Flow Variance from Central Yavapai Fire District which made it exempt from having to meet the fire department's

requirement, until Decision 71869 required the Company to now meet the fire flow requirements”

Staff Response:

Staff recommended the Company file with Docket Control as a compliance item by December 31, 2013, a copy of the ADEQ AOC issued for the option implemented by the Company that provides an adequate supply of water. The Company requested a deadline of June 1, 2014. Staff agrees to giving an extension to April 30, 2014.

Issue No. 4 – Engineering Information needed by Staff.

Company Comment:

“The Staff Report Engineering Analysis stated, ‘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 Response:

While Staff and the Company continue to disagree on the need for additional storage, Staff has sufficient data to proceed.

Issue No. 5 – Engineering data on proposed well.

Company Comment:

“The proposed Well #6 (ADWR 55-210719) which will be converted from a domestic well to a production well, upon approval from ADEQ, was pump tested on January 23rd. The well was tested with a 10hp pump for 3 hours and sustained 70 gallons per minute (“GPM”) with 58 feet of draw down. It was again tested on January 24th for 2.5 hours and sustained 35GPM with 13 feet of draw down. The well depth according to the Well Driller’s Report is 360 feet.”

Staff Response:

ADWR will need to evaluate the well pumping test results referenced above and then ADEQ will need to issue a New Source Approval for Well #6 before this well can be placed in service and used as a new source by the Company.

Issue No. 6 – Company’s engineering proposal.

Company Comment:

“The Company currently has two production wells that produce a combined 76.41 GPM and currently has two water storage tanks that have a combined capacity of 61,700 gallons. The Company has land and a pre-constructed pad to accommodate Tank #3, which will allow an additional 50,000 gallons of storage capacity. There is not enough room within the Company’s tank facilities to accommodate a larger tank. Therefore the Company feels that, with the combined storage capacity of the three tanks at 111,700 gallons and the production of the two wells at 76.41GPM, the addition of Well #6 at 35GPM or re-drilling of Well #5 should be sufficient to meet adequate water supply needs.”

Staff Response:

If Well #6 produces a sustained 35 GPM, the Company will still need an additional 40 GPM of production or 65,000 gallons of additional storage capacity.

Issue No. 7 – Company’s engineering proposal.

Company Comment:

“The Company would like to show the relative location of Wells #3 & #4, Well #5 (not currently in use; grand-fathered well), the originally engineered location of the replacement well for Well #5, the location of Well #6 (acquired domestic well), and the Granite Mountain Stables. Attached as Exhibit D is a satellite image of the relative locations.”

Staff Response:

Staff has no response regarding the location of the wells.

(2) If appropriate, amend the recommendations made by Staff in the original Staff Report.

Based on Issue No. 2 discussed above, Staff recommends increasing the authorized loan amount from \$158,000 to \$181,320, subject to the condition that the terms of the WIFA loan do not require a DSC greater than 1.20. Staff also recommends that the customer’s set-aside amount be increased from \$9.00 to \$10.00.

(3) Make a recommendation concerning whether customer notice should be required.

Staff does not believe that a new customer notice is required, since the Company has withdrawn its request for a \$17,712 increase over the original Commission authorized loan amount of \$181,320 in Decision No. 72377.

(4) If customer notice is recommended, provide recommendations as to the minimum contents of such notice and the manner in which the notice should be provided.

Staff is not recommending a new customer notice.

(5) Make a recommendation regarding whether an evidentiary hearing should be required.

Staff is not recommending a hearing, but has no objection to a hearing.

SMO:JMM:sms/RMM

Originator: Jeffrey M. Michlik

Granite Mountain Water Company, Inc.
Docket No. W-02467A-09-0333 ET AL.
Page 6

Service List for: Granite Mountain Water Company, Inc.
Docket No. W-02467A-10-0483, et al

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

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

	[A] ¹ <u>12/31/2011</u>		[B] ² <u>Pro forma</u>	
1	Operating Income	-\$14,531	-\$14,531	
2	Depreciation & Amort.	33,258	33,258	
3	Income Tax Expense	0	0	
4				
5	Interest Expense	0	8,943	
6	Repayment of Principal	0	5,417	
7				
8				
9	DSC			
10	[1+2+3] + [5+6]	NM ³	1.30	
11				
12				
13	Capital Structure			
14				
15	Short-term Debt	\$0	\$5,417 ⁴	0.9%
16				
17	Long-term Debt	\$0	\$175,903	30.6%
18				
19	Common Equity	\$394,365	\$394,365	68.5%
20				
21	Total Capital	\$394,365	\$575,685	100.0%
22				
23				
24	Capital Structure (inclusive of AIAC and Net CIAC)			
25				
26	Short-term Debt	\$0	\$5,417	0.9%
27				
28	Long-term Debt	\$0	\$175,903	30.0%
29				
30	Common Equity	\$394,365	\$394,365	67.2%
31				
32	Advances in Aid of Construction ("AIAC")	\$11,378	\$11,378	1.9%
33				
34	Contributions in Aid of Construction ("CIAC") ⁵	\$0	\$0	0.0%
35				
36	Total Capital (Inclusive of AIAC and CIAC)	\$405,743	\$587,063	100.0%
37				
38	AIAC and CIAC Funding Ratio ⁶	2.8%	1.9%	

39 Lines (32+34)/(36)

40

41

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

43 ² Column [B] is Column [A] modified to reflect issuance of the proposed \$181,320 debt financing amortized for 20 years at 5.00 percent.

44 ³ Not Meaningful.

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

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

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

49