

ORIGINAL



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MEMORANDUM

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TO: Docket Control

2013 OCT -4 P 1:57

FROM: Steven M. Olea
Director
Utilities Division

LJL for SMO

AZ CORP COMMISSION
DOCKET CONTROL

DATE: October 4, 2013

RE: LIBERTY UTILITIES (BELLA VISTA WATER) CORP. - APPLICATION
FOR AN EXTENSION OF AN EXISTING CERTIFICATE OF
CONVENIENCE AND NECESSITY TO PROVIDE WATER UTILITY
SERVICE IN COCHISE COUNTY, ARIZONA
(DOCKET NO. W-02465A-13-0207)

Attached is the Staff Report for the above-referenced application. Staff is recommending approval of the application with conditions.

SMO:VW:tdp\ML

Originator: Vicki Wallace

Arizona Corporation Commission

DOCKETED

OCT 04 2013

DOCKETED BY	
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Service List for: Liberty Utilities (Bella Vista Water) Corp.
Docket No. W-02465A-13-0207

Arizona Reporting Service, Inc.
2200 N. Central Ave. -502
Phoenix, Arizona 85004-1481

Patrick Black
Fennemore Craig, P.C
2394 E. Camelback Rd, Ste 600
Phoenix, Arizona 85015

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

BELLA VISTA WATER COMPANY, INC.

DOCKET NO. W-02465A-13-0207

APPLICATION FOR AN EXTENSION OF AN EXISTING
CERTIFICATE OF CONVENIENCE & NECESSITY
TO PROVIDE WATER UTILITY SERVICE IN
COCHISE COUNTY, ARIZONA

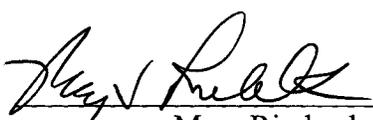
OCTOBER 4, 2013

STAFF ACKNOWLEDGEMENT

The Staff Report for Bella Vista Water Company, Inc. (Docket No. W-02465A-13-0207) was the responsibility of the Staff members listed below. Vicki Wallace was responsible for the review and analyses of the Company's application and preparation of the Division's Staff Report; Michael Thompson was responsible for the engineering and technical analysis; and Mary Rimback was responsible for the financial analysis.


Vicki Wallace
Executive Consultant


Michael Thompson
Utilities Engineer


Mary Rimback
Public Utility Analyst

**EXECUTIVE SUMMARY
BELLA VISTA WATER COMPANY, INC.
DOCKET NO. W-02465A-13-0207**

On June 26, 2013, Bella Vista Water Company, Inc., d/b/a Liberty Utilities ("BVWC") or "Company"), a certificated Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for an extension of an existing Certificate of Convenience and Necessity ("CC&N") to provide water service in Cochise County, Arizona.

Bella Vista Water Company, Inc. is an Arizona public service corporation, authorized by the ACC to provide water service in Cochise County, Arizona. By this application, BVWC is seeking to extend the BVWC South System's CC&N to provide potable water service to the eastern portion of Kings Ranch at Coronada Subdivision (the "Development") formerly named Kinjockity Ranch Estates. The Development consists of approximately 303 lots on a gross area of approximately 840 acres. There are approximately 213 lots located within the existing CC&N and approximately 87 lots located outside the CC&N. The 87 lots comprise the requested extension area.

Staff concludes that the existing BVWC system has adequate production and storage capacity to serve the existing base of customers in the existing CC&N, and the described plant will provide the Company with sufficient capacity to serve the requested extension area.

Staff concludes that the Development's water system infrastructure cost totaling \$2,975,030 appears to be reasonable. However, approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for future rate making or rate base purposes.

Staff concludes this request for extension of BVWC's CC&N is in the public interest, subject to the conditions below.

Staff recommends that the Commission approve BVWC's application for an extension of its existing CC&N in Cochise County to provide water service, subject to compliance with the following conditions:

1. To require BVWC to charge its existing rates and charges in the proposed extension area.
2. Since Staff is concerned about a continued over-reliance on Advances in Aid of Construction ("AIAC") and Contributions in Aid of Construction ("CIAC"), the Company is placed on notice that, to the extent possible, it should plan to fund future infrastructure needs with equity and long-term debt in order to bring more balance to its capital structure.

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INTRODUCTION

On June 26, 2013, Bella Vista Water Company, Inc., d/b/a Liberty Utilities (“BVWC”) or “Company filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) requesting approval for an extension of an existing Certificate of Convenience and Necessity (“CC&N”) to provide water service in Cochise County, Arizona.

On July 25, 2013, the ACC Utilities Division (“Staff”) filed an Insufficiency Letter indicating that the Company’s application did not meet the sufficiency requirements of the Arizona Administrative Code (“A.A.C.”) R14-2-402. On August 9, 2013, the Staff received the Company’s response to the Insufficiency Letter. On August 28, 2013, Staff filed its Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

On September 6, 2013, a Procedural Order was issued setting the matter for hearing November 6, 2013.

BACKGROUND

BVWC is a public service corporation formed for the purpose of providing water utility service in portions of Cochise County, Arizona, and is in good standing with the Commission’s Corporations Division. BVWC started as Newman Water Company, and received a CC&N in 1955 to serve an area around Sierra Vista, Arizona (Decision No. 28866 issued April 18, 1955). BVWC took its current name in 1981. It then acquired and consolidated the operations of Nicksville Water Company in 1999. Algonquin Water Resources of America, Inc., the predecessor to Liberty Water, acquired BVWC in 2002.

BVWC currently serves 8,680 residential and commercial/industrial customers located in Cochise County, and its current rates were established in Decision No. 72251 issued April 7, 2011.

By this application, BVWC is seeking to extend the BVWC South System’s CC&N to provide potable water service to the eastern portion of Kings Ranch at Coronada Subdivision (the “Development”) formerly named Kinjockity Ranch Estates. The Development consists of 303 lots on a gross area of approximately 840 acres. Three of the 303 lots were deeded back to the Cochise County Flood District to be utilized for flood control purposes. Of the remaining 300 lots, 298 lots will be utilized for single family residences, and 2 lots are planned for commercial use. There are 213 lots located within the existing CC&N and 87 lots located outside the CC&N. The 87 lots comprise the requested extension area. The 87 lot, 236-acre land parcel is located approximately 10 miles south of Sierra Vista on SR92 and is contiguous to BVWC’s existing CC&N territory. Exhibit 1 is the legal description and map of the proposed extension area. The request for service from the Developer of the entire 303-lot Subdivision, K Ranch, LLC, was attached to the application.

THE WATER SYSTEM

Staff's Engineering Report, attached as Exhibit 2, describes the existing water system, the proposed utility plant additions of the Development, and the cost breakdown in detail. The water system of the BVWC – South System CC&N includes 13 wells, 15 storage tanks, and 12 booster systems. Water loss for the system was reported to be 8.25 percent which is within acceptable limits.

Staff concludes that the existing system has adequate production and storage capacity to serve the existing base of customers in the existing CC&N.

As part of the CC&N extension application, BVWC submitted an updated Water Master Plan ("Plan") prepared by Westland Resources, Inc. for the Development, dated June 4, 2012. The Plan provided information pertaining to the Subdivision's water system facilities, water demand criteria and projections, storage and booster station criteria and capacities, well criteria and production, and pressure zones.

To serve the requested extension area, the Company has installed new plant items, including but not limited to: (1) one new 197 GPM ("gallons per minute") well; (2) two storage tanks at 100,000 and 500,000 gallons each; (3) two booster stations (two 300 GPM booster pumps each); (4) one 5,000 gallon hydro-pneumatic pressure tank; (5) 45,021 linear feet of 8-inch pipe; (6) 15,416 linear feet of 6-inch pipe; and (7) 817 linear feet of 8-inch ductile iron pipe.

Staff concludes that the plant items listed above will provide the Company with sufficient capacity to serve the Subdivision within the existing CC&N and the requested CC&N area at full build-out.

Staff further concludes that the Development's water system infrastructure cost totaling \$2,975,030 appears to be reasonable. However, no "used and useful" determinations of the proposed plant items were made, and no particular treatment should be inferred for rate making or rate base purposes.

FINANCE OF FACILITIES

The Company indicates that BVWC will finance the required infrastructure by use of a Main Line Extension Agreement (MXA) between the Company and the Developer(s) which is treated as Advances in Aid of Construction ("AIAC") to the Company. The original MXA for the Development, dated August 17, 2006, was between BVWC and Dunafon Development, LLC. The MXA provided for the financing, construction, and installation of water utility plant facilities that would furnish water service for the Development. On May 14, 2013, an amended MXA was executed between Liberty Utilities and the current Developer, K Ranch, LLC ("K-Ranch" or "Developer"). K-Ranch is the successor-in-interest to the original Developer, Dunafon Development, LLC.

Construction and installation of the water system infrastructure has been completed since most of the Development is within the CC&N, and an Approval of Construction ("AOC") has been issued by the Arizona Department of Environmental Quality ("ADEQ").

Financial information submitted by the company was reviewed by staff, and a capital structure analysis performed. This analysis is included in the Financial and Regulatory Analyst Staff Report, Exhibit 3.

Based on the capital structure analysis, Staff is concerned about a continuing over-reliance on AIAC and CIAC. Therefore, as a condition of approval of this extension request, Staff recommends that the Company be placed on notice that, to the extent reasonably possible, it should plan to fund future infrastructure needs with equity and long-term debt in order to bring more balance to its capital structure mix. The Company's long-term goal should be to have a combined net AIAC and CIAC funding ratio significantly lower than the current AIAC and CIAC ratio which exceeds 60% of total capital.

PROPOSED RATES

BVWC has proposed to extend service to the extension property at its currently approved tariffed rates and charges established in Decision No. 72251 issued April 7, 2011.

CONSUMER SERVICES AND PUBLIC INTEREST

A research of the Consumer Services database for complaints revealed that in the last three years, approximately 17 complaints have been received. All complaints have been resolved and closed. No opinions opposing this application have been received.

Staff concludes that it is in the public interest to approve this request for an extension of BVWC's CC&N.

WASTEWATER PROVIDER

According to the Company, wastewater service in the requested extension area will be provided by individual septic systems designed for each residence and permitted at the time of construction of the individual residence.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

Compliance Status

ADEQ regulates the BVWC South water system under ADEQ Public Water System I.D. #02-007. ADEQ has reported that the water system is currently delivering water that meets the water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

Compliance Status

The BVWC South water system is not located in an Active Management Area. ADWR has determined that BVWC South is currently in compliance with departmental requirements governing water providers and/or community water systems.

Adequate Water Supply

ADWR issued a Water Adequacy Report, for the 281 lot Subdivision formerly named Kinjockity Ranch, indicating that the water supply is adequate to meet the Subdivision’s projected needs. ADWR indicated to Engineering Staff that the Water Adequacy Report issued for Kinjockity Ranch remains applicable to all subsequent owners of the Subdivision. ADWR advised that should the number of lots increase by more than 10 percent, a new water report would be required. However, since the number of lots in the Subdivision has only increased by 7 percent (281 lots to 300 lots), the water report remains applicable.

ACC COMPLIANCE

According to the Utilities Division Compliance Section, the Company has no delinquent ACC compliance items.

CURTAILMENT, BACKFLOW PREVENTION, AND BEST MANAGEMENT PRACTICES (“BMP”) TARIFFS

BVWC has approved curtailment, backflow prevention, and BMP tariffs on file with the Commission.

RECOMMENDATIONS

Staff recommends that the Commission approve BVWC's application for an extension of its existing Certificate of Convenience and Necessity in Cochise County to provide water service, subject to compliance with the following conditions:

1. To require BVWC to charge its existing rates and charges in the proposed extension area; and
2. Since Staff is concerned about a continued over-reliance on Advances in Aid of Construction ("AIAC") and Contributions in Aid of Construction ("CIAC"), the Company is placed on notice that, to the extent possible, it should plan to fund future infrastructure needs with equity and long-term debt in order to bring more balance to its capital structure.

MEMORANDUM

TO: Vicki Wallace
Executive Consultant III
Utilities Division

FROM: Lori H. Miller *LHM*
GIS Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: July 11, 2013

RE: **BELLA VISTA WATER COMPANY, INC. (DOCKET NO. W-02465A-13-0207)**

The area requested by Bella Vista for an extension has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached is a copy of the map for your files.

/lhm

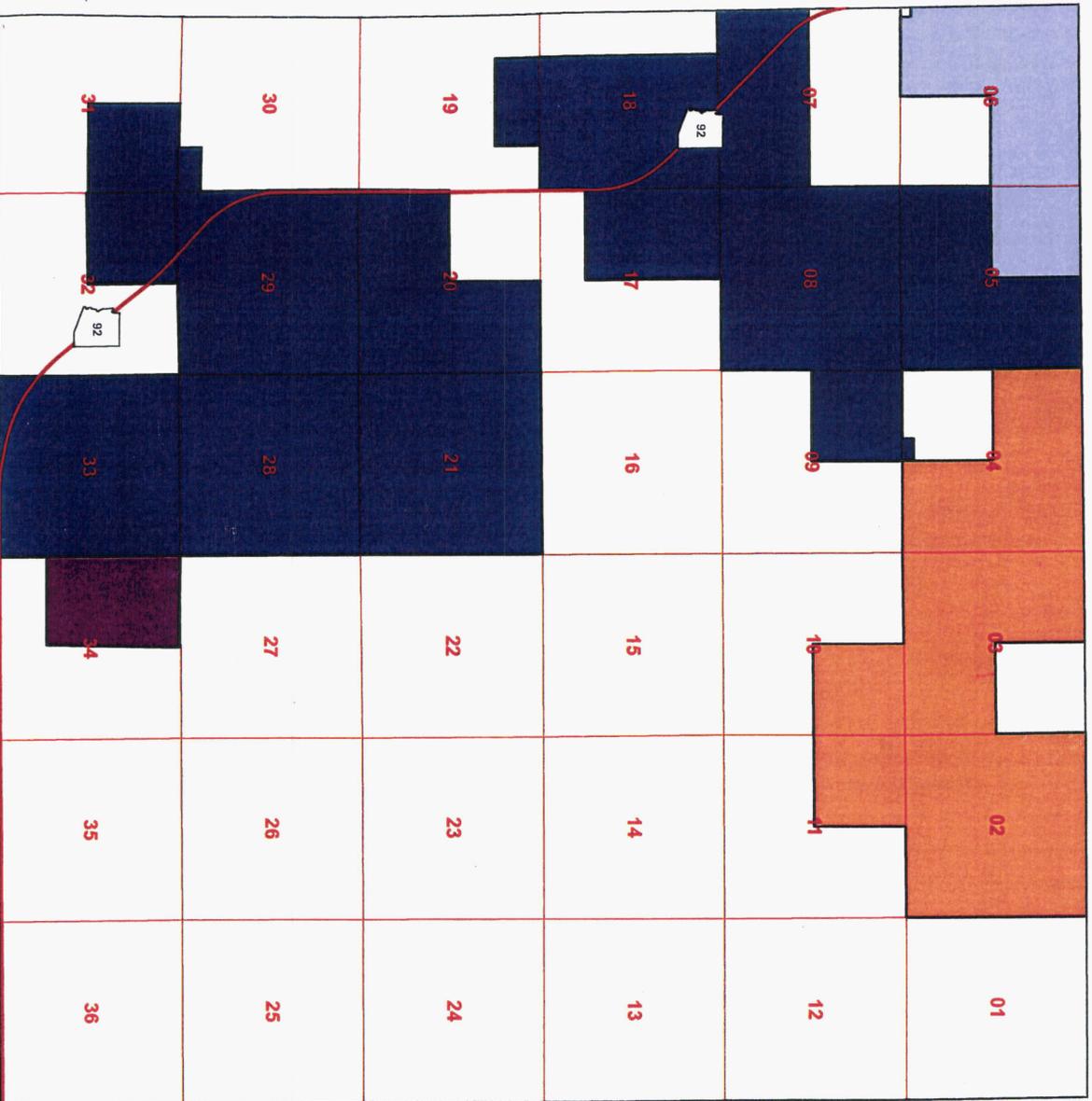
Attachment

cc: Mr. Greg Sorensen
Mr. Patrick Black
Mr. Michael Thompson
Ms. Deb Person (Hand Carried)
File

COCHISE COUNTY

Map No. 38

RANGE 21 East



TOWNSHIP 23 South

- W-02465A (10)
- Bella Vista Water Company, Inc.
W-01906A (4)
- East Slope Water Company
W-02062A (2)
- Southland Utilities Company, Inc.

(1)

Bella Vista Water Company, Inc.
Docket No. W-02465A-13-0207
Application for Extension

*to ARS § 39-121.03 this map is 'Not for Commercial Use'



Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section/GIS Mapping
602-542-4251

TR23S21E 07 APR 2011

GTS/Gilbert Technical Services, Inc.

1601 Paseo San Luis ~ Suite 203 ~ Sierra Vista, Arizona 85635
Phone (520) 458-5730 ~ Fax (520) 458-5739 ~ Email: gts@theriver.com

Land Description

That portion of the West ½ of Section 34, Township 23 South, Range 21 East of the Gila and Salt River Meridian, Cochise County, Arizona, more particularly described as follows;

Beginning at the Northwest corner of Section 34;

Thence South 89° 11' 31" East coincident with the North line of Section 34 a distance of 2648.29 feet to the North ¼ corner of Section 34;

Thence South 00° 48' 03" West coincident with the North-South mid-section line of Section 34 a distance of 2617.06 feet to the Center ¼ corner of Section 34;

Thence South 00° 48' 01" West coincident with the North-South mid-section line of Section 34 a distance of 1256.07 feet to the Northeast corner of the Valley View Elementary School as recorded in Fee # 980205232;

Thence North 89° 55' 13" West a distance of 2628.13 feet to the Northwest corner of said Valley View Elementary School;

Thence North 00° 30' 07" East coincident with the West line of Section 34 a distance of 3906.59 feet to the **Point of Beginning**.

Subject to any and all prior easements, rights-of-way, covenants, restrictions and encumbrances of record or not of record that may otherwise legally exist.



King's Ranch at Coronado
The Eastern portion in Section 34
Containing 235.58 acres more or less
05/11/2012

MEMORANDUM

TO: Vicki Wallace
Executive Consultant

FROM: Michael S. Thompson, P.E. *MSi*
Utilities Engineer Supervisor

DATE: September 9, 2013

RE: Bella Vista Water Company, Inc.
DOCKET NO. W-02465A-13-0207 (CC&N EXTENSION)

Introduction

Bella Vista Water Company, Inc. ("BVWC" or "Company") dba Liberty Utilities ("Liberty Utilities" or "Utility") filed an application with the Arizona Corporation Commission ("ACC" or "Commission"), on June 26, 2013, to extend the BVWC South System Certificate of Convenience and Necessity ("CC&N") to provide potable water service to the eastern portion of Kings Ranch at Coronado Subdivision (the "Development") formerly named Kinjockity Ranch Estates.

The Development, which has been platted as a Conservation Easement Subdivision, consists of 303 lots on a gross area of approximately 840 acres. The Development is located north of SR92 approximately 10 miles south of Sierra Vista, in portions of Sections 32 through 34, Township 23 South, Range 21 East of the Gila and Salt River Base and Meridian in Cochise County, Arizona. Approximately 427 acres of the 840 acres have been set aside as a water conservation easement and remain in their natural state. Approximately 604 acres of the 840-acre Development are located within the existing BVWC South System CC&N. The requested extension area, which is located in the West ½ of Section 34, Township 23 South, Range 21 East and adjacent to the existing CC&N, encompasses the remaining 236 acres of the Development. Three of the 303 lots were deeded back to the Cochise County Flood District to be utilized for flood control purposes. Of the remaining 300 lots, 298 lots will be utilized for single family residences ("SFR"), and 2 lots are planned for commercial use. There are 213 lots located within the existing CC&N and 87 lots located outside the existing CC&N. The 87 lots comprise the requested extension area. Figure 1 shows the location of BVWC water systems. Figure 2 identifies the Development area highlighted with a bold red border, and the existing CC&N and CC&N extension areas highlighted in blue, and green with diagonal lines, respectively.

Bella Vista Water Company – South System

The BVWC – South system CC&N consists of approximately 5,300 acres and currently includes 693 service connections. The water system includes 13 wells (ranging from 3 – 95 gallons per minute (“gpm”)), 15 storage tanks (ranging from 5,000 to 150,000 gallons of capacity), and 12 booster stations. Water loss for the system was reported to be 8.25% which is within acceptable limits. The historical growth rate has been less than 1/2 percent. Staff concludes that the existing water system has adequate production and storage capacity to serve the existing base of customers within the BVWC – South System CC&N.

Development Water System Infrastructure (Utility Plant Additions)

As part of the CC&N extension application, BVWC submitted an updated Water Master Plan (“Plan”) prepared by Westland Resources, Inc. for the Development, dated June 4, 2012. The Plan provided information pertaining to the subdivisions water system facilities, water demand criteria and projections, storage and booster station criteria and capacities, well criteria and production, and pressure zones.

The original Main Extension Agreement (“MXA”) for the Development, dated August 17, 2006, was signed by and between BVWC and Dunafo Development, LLC. The MXA provided for the financing, construction, and installation of water utility plant facilities that would furnish water service for the Development. On May 14, 2013, an amended MXA was signed by and between Liberty Utilities and the current developer K Ranch, LLC (“K-Ranch” or “Developer”). K-Ranch is the successor-in-interest to the original developer, Dunafo Development, LLC.

Construction and installation of the water system infrastructure has been completed, and an Approval of Construction (“AOC”) has been issued by the Arizona Department of Environmental Quality (“ADEQ”). Currently, the contractor is in the process of completing construction and installation deficiencies included on a punch list. BVWC will take ownership of the infrastructure within the existing CC&N from the Developer once the construction punch list has been completed and a final inspection has been conducted. They will also take ownership of the infrastructure within the CC&N extension area after the punch list has been completed, a final inspection conducted, and the ACC has provided approval of the CC&N extension.

The water system infrastructure includes one well, chlorine building and equipment, two storage tanks (100,000 and 500,000 gallons each), two booster pump stations, a 5,000 gallon hydro-pneumatic pressure tank, 45,021 linear feet (“lf”) of 8-inch poly vinyl chloride (PVC) pipe, 15,416 lf of 6-inch PVC pipe, and 817 lf of 8-inch ductile iron (“DI”) pipe. Each booster pump station has two pumps, each equipped with a 40 horsepower motor designed for a pumping capacity of 300 gpm.

The water system consists of two main water plant sites (Lower and Upper Zone plant sites) serving two primary pressure zones (4980 and 5080 Zones) and one sub-zone (4880 Zone). The Lower Zone water plant site, located in the 4880 Zone, includes the well that fills a 100,000 gallon on-site storage tank, and a booster pump station that moves water from the 100,000 gallon storage tank to a 500,000 gallon storage tank located at the Upper Zone water plant site in the 5080 Zone. The 100,000 gallon storage tank simply serves as a (forebay)¹ reservoir storing water from the well prior to pumping into the water system to serve the 4880/4980 Zone, and the 500,000 gallon storage tank. The Upper Zone water plant site, located in the 5080 Zone, includes the 500,000 gallon storage tank, 5,000 gallon hydro-pneumatic pressure tank, and a booster pump station. The 500,000 gallon storage tank is the primary tank serving the water system. The storage tank serves the 4980/4880 Zone via gravity feed, and serves the 5080 Zone via the booster pump station.

According to the Plan, the projected water demand for the water system was based on the historical water usage data from the BVWC – South System. The data indicates an average daily demand (“ADD”) of 313 gallons per day (“gpd”) per connection, with a peak day factor of 2.0 resulting in a peak daily demand (“PDD”) of 626 gpd per connection. Fire flow requirements are based on 500 gpm for a duration of two hours for all uses per the requirements of the local fire department, the Palominas Fire District.

Per BVWC’s Development Guide for Southern Arizona, storage requirements are based on a factor of 1.75 times the ADD, plus fire flow. The Arizona Administrative Code (“AAC”) relating to storage requirements is less conservative.² The water system has a projected ADD of 117,304 gallons and a fire flow requirement of 60,000 gallons, resulting in a total storage requirement of 265,300 gallons when utilizing BVWC’s storage requirement factor. The water system consists of two storage tanks with a combined storage capacity of 600,000 gallons. That storage capacity exceeds BVWC’s storage requirement, as well as that of the AAC.

The domestic and fire flow needs of the 5080 Zone system will be served by the pressure controlled booster station located at the Upper Zone water plant site. The booster station capacity requirements, for the 5080 Zone, are based on meeting the demands by the booster pressure control for 19 SFR’s and two commercial lots. The PDD plus fire flow requirements govern and thus the booster station must be capable of providing 541 gpm (41 gpm PDD + 500 gpm Fire Flow). The Upper Zone booster

¹ The forebay reservoir does not directly connect to or “float” any areas of the water system. The primary purpose of the reservoir is to store water from the well. When required, water is pumped from the reservoir to the Upper Zone storage tank via the 4980 Zone.

² AAC R18-5-503 provides as follows: “Storage Requirements. A. The minimum storage capacity for a CWS or a noncommunity water system that serves a residential population or a school shall be equal to the average daily demand during the peak month of the year. Storage capacity may be based on existing consumption and phased as the water system expands.”

station consists of two identical booster pumps each having a pumping capacity of 300 gpm. The total pumping capacity equals 600 gpm, exceeding the 541 gpm requirement.

The domestic and fire flow needs of the 4980/4880 Zone system will be served by the Upper Zone 500,000 gallon storage tank. Therefore, the Lower Zone booster station will not be required to provide fire flow. However, the booster station is required to provide PDD, since the storage tank provides capacity to supply the system during peak hourly demand (“PHD”), PDD, and fire flow conditions. The entire water system has a total PDD of 162 gpm. The Lower Zone booster station consists of two identical booster pumps each having a pumping capacity of 300 gpm. The total pumping capacity equals 600 gpm, exceeding the 162 gpm requirement.

The well located at the Lower Zone water plant site consists of a 40 horsepower motor and pump with an average pumping capacity of 197 gpm. The well serves only the Development. However, an interconnect that has been installed at the northern boundary of the Development, and adjacent to the Wildhorse subdivision, allows water to be moved in either direction should a need for additional water arise. Staff concludes that the newly constructed water system has sufficient well production, booster pump capacity, and storage capacity to serve the Development.

Water System Infrastructure (Utility Plant Additions) Cost Estimates

Actual costs for the water system infrastructure, submitted by BVWC, were prepared and provided by KE&G Construction Company. A breakdown of the construction costs, as detailed in the tables below, delineate the costs for the Utility Plant Additions within the existing CC&N, and costs for Utility Plant Additions outside the CC&N (CC&N extension), as well as segregating the associated costs of the Well, Storage Tank, and Booster Station Site. The total cost for the water system infrastructure is \$2,975,030.00.

Table 1. Well, Storage Tank, and Booster Station Site Costs

	Description	Amount	Unit Cost	Cost
Well, Storage Tank, and Booster Station Site Costs				
1	Well & pump – lower zone	1 ea	\$ 120,273.00	\$ 120,273.00
2	Chlorine building & equipment	2 ea	\$ 6,000.00	\$ 6,000.00
3	Booster package plant and fittings	1 ea	\$ 40,000.00	\$ 40,000.00
4	100,000 gallon storage tank	1 ea	\$ 93,000.00	\$ 93,000.00
5	Shade covers / concrete slab	1 ea	\$ 22,000.00	\$ 22,000.00
6	Well site rock	1 ls	\$ 850.00	\$ 850.00
7	Miscellaneous and electrical work	1 ls	\$ 10,000.00	\$ 10,000.00
8	Fencing of well, storage tank, and booster site	1 ls	\$ 7,011.00	\$ 7,011.00
Sub-total				\$ 299,134.00
Taxes				\$ 10,888.00
Total				\$ 310,022.00

Table 2. Utility Plant Addition Costs within the Existing CC&N

	Description	Amount	Unit Cost	Cost
	Utility Plant Costs within the Existing CC&N			
1	8 inch PVC pipe	34,668 lf	\$ 28.27	\$ 980,064.00
2	6 inch PVC pipe	10,674 lf	\$ 20.28	\$ 216,469.00
3	8 inch DI pipe – wild horse interconnect	817 ea	\$ 47.37	\$ 38,700.00
4	8 inch valves, bends, tees, misc.	87 ea	\$ 1,350.00	\$ 117,450.00
5	6 inch valves, bends, tees, misc.	29 ea	\$ 800.00	\$ 23,200.00
6	8 inch valves, bends, tees, misc. – wild horse int.	3 ea	\$ 1,617.00	\$ 4,851.00
7	8 inch PRV's and vaults	4 ea	\$ 25,000.00	\$ 100,000.00
8	Hydrants, valves, misc.	38 ea	\$ 3,132.00	\$ 119,016.00
9	ARV	1 ea	\$ 1,000.00	\$ 1,000.00
10	Water services and boxes	213 ea	\$ 330.00	\$ 70,290.00
11	Sample Station	1 ea	\$ 1,500.00	\$ 1,500.00
12	500,000 gallon storage tank – upper zone	1 ea	\$ 250,000.00	\$ 250,000.00
13	Hydro-pneumatic tank – upper zone	1 ea	\$ 25,000.00	\$ 25,000.00
14	Booster pumps and fittings – upper zone	2 ea	\$ 30,000.00	\$ 60,000.00
15	Shade cover / concrete slab	1 ls	\$ 22,000.00	\$ 22,000.00
16	Fencing of tank site	1 ls	\$ 12,945.00	\$ 12,945.00
17	Miscellaneous and electrical work	1 ls	\$ 10,000.00	\$ 10,000.00
			Sub-total	\$ 2,052,485.00
			Taxes	\$ 74,711.00
			Total	\$ 2,127,196.00

Table 3. Utility Plant Addition Costs within the CC&N Extension Area

	Description	Amount	Unit Cost	Cost
	Utility Plant Costs within the CC&N Extension			
1	8 inch PVC pipe	10,353 lf	\$ 28.27	\$ 292,679.00
2	6 inch PVC pipe	4,742 lf	\$ 20.28	\$ 96,168.00
3	8 inch valves, bends, tees, misc.	39 ea	\$ 1,350.00	\$ 52,650.00
4	6 inch valves, bends, tees, misc.	10 ea	\$ 800.00	\$ 8,000.00
5	Hydrants, valves, misc.	13 ea	\$ 3,132.00	
6	Water services and boxes	87 ea	\$ 330.00	\$ 28,710.00
			Sub-total	\$ 518,923.00
			Taxes	\$ 18,889.00
			Total	\$ 537,812.00

Table 4. Utility Plant and Well, Storage Tank, & Booster Station Site Total Costs

	Description	Total Costs
	Utility Plant and Well, Storage Tank, & Booster Station Site Costs	
1	Well, Storage Tank, and Booster Station Site	\$ 310,022.00
2	Utility Plant Costs within the Existing CC&N	\$ 2,127,196.00
3	Utility Plant Costs within the CC&N Extension Area	\$ 537,812.00
	Total	\$ 2,975,030.00

As expressed in the amended MXA, costs associated with the construction of the water system infrastructure are funded by the Developer through advances in aid of construction.

Staff concludes that the Development's water system infrastructure cost totaling \$2,975,030 appears to be reasonable. However, no "used and useful" determinations of the proposed plant items were made, and no particular treatment should be inferred for rate making or rate base purposes.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Compliance Status

ADEQ regulates the BVWC South water system under ADEQ Public Water System I.D. # 02-007. ADEQ has reported that the water system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.³

Approval of Construction ("AOC")

BVWC has received an AOC from ADEQ for the water system infrastructure constructed to serve the requested area.⁴

Arizona Department of Water Resources ("ADWR") Compliance

Compliance Status

The BVWC South water system is not located in an Active Management Area. ADWR has determined that BVWC South is currently in compliance with departmental requirements governing water providers and/or community water systems.⁵

Adequate Water Supply

ADWR issued a Water Adequacy Report for the 281 lot subdivision formerly named Kinjockity Ranch, indicating that the water supply is adequate to meet the subdivision's projected needs.⁶ An email from ADWR, dated June 9, 2011, stated that the Water Adequacy Report issued for Kinjockity Ranch remains applicable to all subsequent owners of the subdivision. Therefore, the transfer of ownership of the subdivision from Dunafon Development, LLC to K Ranch, LLC ("K-Ranch" or "Developer") does not change the applicability of the report. The email further states that

³ ADEQ Drinking Water Compliance Status Report dated July 12, 2013.

⁴ ADEQ Approval of Construction dated September 13, 2012.

⁵ Per ADWR Water Provider Compliance Status Report dated July 8, 2013.

⁶ Per ADWR Water Adequacy Report dated October 6, 2005

should the number of lots increase by more than 10%, a new water report would be required. However, since the number of lots in the subdivision has only increased by 7% (281 lots to 300 lots), the water report remains applicable.

ACC Compliance

A check with the Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.⁷

Curtailment Tariff

BVWC has an approved curtailment tariff on file with the Commission.

Backflow Prevention Tariff

BVWC has an approved backflow prevention tariff on file with the Commission.

Best Management Practice (“BMP”) Tariff

BVWC has approved BMP Tariffs on file with the Commission.

Summary

Conclusions

1. Staff concludes that the existing water system has adequate production and storage capacity to serve the existing base of customers within the BVWC – South System CC&N.
2. Staff concludes that the newly constructed water system, as outlined in the MXA and Updated Water Master Plan, has sufficient well production, booster pump capacities, and storage capacities to serve the Development subdivision located within BVWC South’s existing CC&N and the requested CC&N extension area.
3. Staff concludes that the actual cost, totaling \$2,975,030, for the water system infrastructure to serve the Development subdivision appears to be reasonable. No “used and useful” determinations of the proposed plant items were made, and no particular treatment should be inferred for rate making or rate base purposes.
4. Staff concludes that the Development consists of 303 lots, with 3 being utilized for flood control, 298 for SFR’s, and 2 for commercial purposes.

⁷ Per ACC Compliance status check dated June 10, 2013.

5. Staff concludes that of the 300 residential and commercial lots, 213 lots are located within the existing CC&N, and 87 lots are located within the CC&N extension area.
6. ADEQ reported that BVWC's South water system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
7. BVWC has received an AOC, from ADEQ, for the water system infrastructure constructed to serve the Development subdivision.
8. ADWR has determined that BVWC is currently in compliance with departmental requirements governing water providers and/or community water systems.
9. ADWR has issued a Water Adequacy Report for the Development subdivision indicating the water supply is adequate to meet the subdivision's projected needs.
10. The Utilities Division Compliance Section has reported that BVWC has no delinquent compliance items.
11. BVWC has approved curtailment, backflow prevention, and BMP tariffs.

COCHISE COUNTY

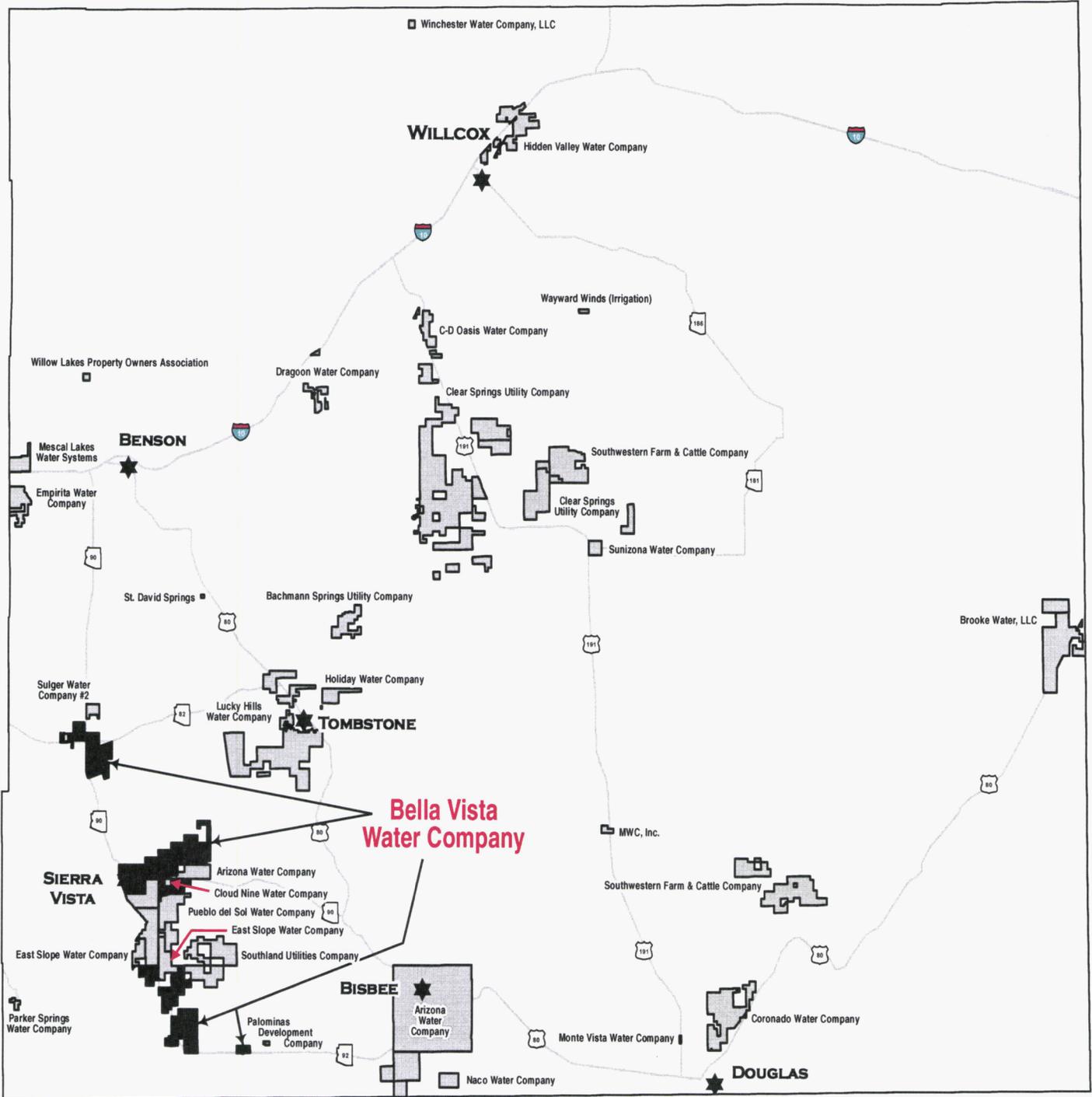
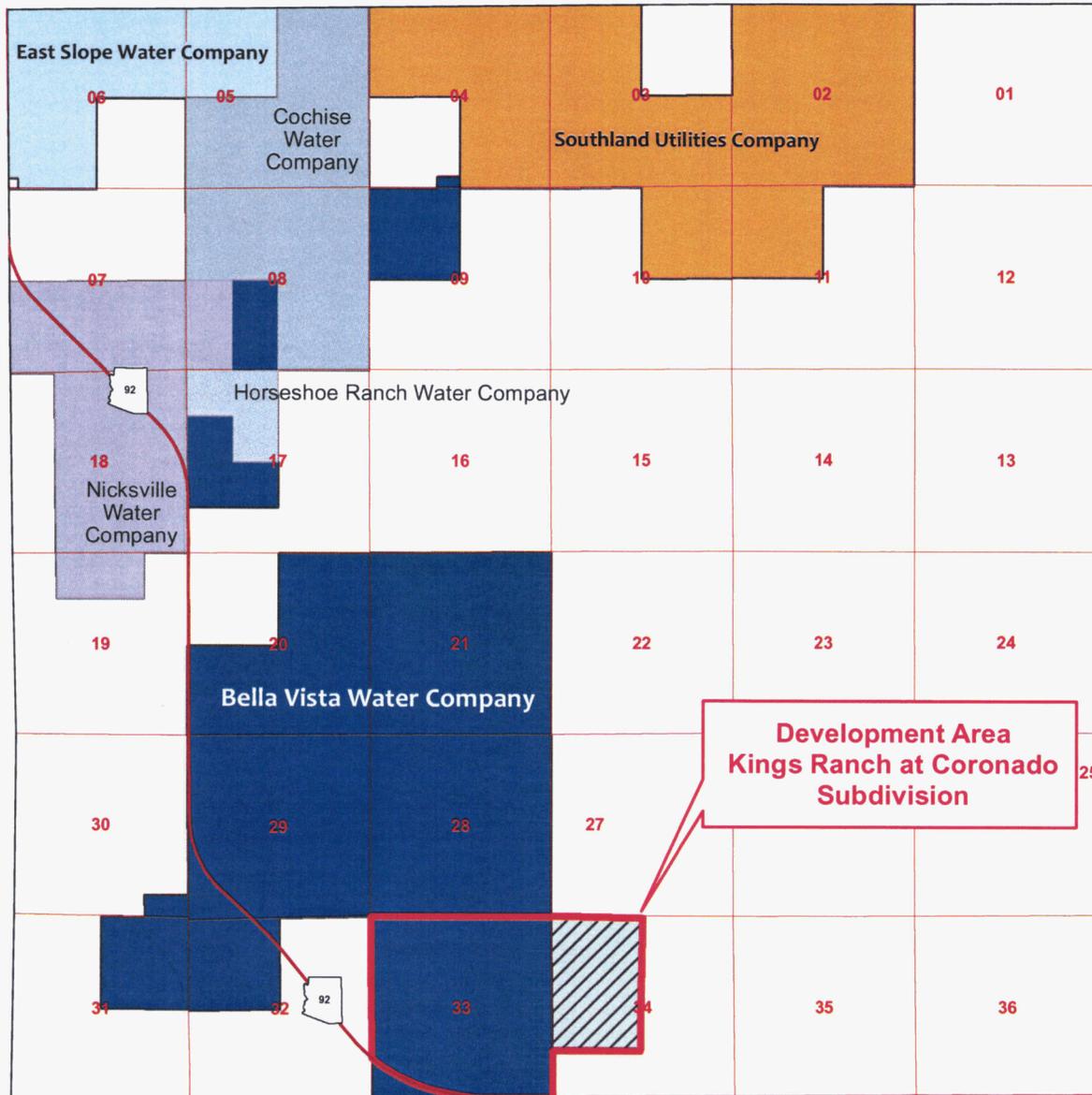


Figure 1. County Map

COCHISE COUNTY



Bella Vista Water Company, Inc.
Docket No. W-02465A-13-0207
Application for Extension

Figure 2. Certified and Extension Areas

FINANCIAL AND REGULATORY ANALYSIS MEMORANDUM

TO: Vicky Wallace, Executive Consultant

FROM: Mary J. Rimback, Public Utilities Analyst *MJR*

DATE: September 20, 2013

RE: APPLICATION OF BELLA VISTA WATER COMPANY, INC FOR AN EXTENSION OF AN EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER AND UTILITY SERVICE IN COCHISE COUNTY DOCKET NO. W-02465A-13-0207

On June 26, 2013, Bella Vista Water Company, Inc. DBA Liberty Utilities ("Bella Vista" or "Company") filed an Application with the Arizona Corporation Commission ("Commission") requesting approval pursuant to Arizona Revised Statutes § 40-282 and Arizona Administrative Code R14-2-402 for Extension of its existing Certificate of Convenience and Necessity ("CC&N") to provide water utility service in certain defined portions of Cochise County, Arizona.

The area covered by this application includes an approximate 236-acre land parcel located approximately ten (10) miles south of Sierra Vista on SR92. The parcel is entirely owned by the developer, K Ranch, L.L.C., an Arizona limited liability company, and is part of a larger development, which includes a total of 303 residential lots and common areas. The remainder of the development is within the Applicant's existing CC&N.

The Company provided projections of its annual revenues and expenses for the first five years following the approval of the application and estimates of the value of its utility plant in service at the end of each of the first five years following the approval of the Application. The Company projects an operating loss for each of the projected years as follows: Year 1, (\$7,442); Year 2, (\$12,975); Year 3, (\$11,860); Year 4, (\$10,623) and Year 5 (\$7,568).

The Company's application provided as Exhibit 9: "Statement of Financial Condition". Exhibit 9 included a copy of the balance sheet from the Company's filing of the Utilities Division Annual Report to the Commission for the year ending 12/31/2012. No income statement was filed with the application, but an income statement was filed with the Company's Utilities Division Annual Report to the Commission for the year ending 12/31/2012.

The Company's application provided as Exhibit 11: "Water Line Extension Agreement dated August 17, 2006" ("Agreement") for this project. In the Agreement, the Developer agrees to fund the development with Advances in Aid of Construction ("AIAC") and all are refundable to the Developer. The original Agreement included an amount of AIAC of \$2,645,956. The First Amendment to this agreement was executed May 14, 2013; the original AIAC was replaced with

a new AIAC amount of \$3,048,986. The amended amount of \$3,048,986 is included in the Capital Structure Analysis attached to this memorandum.

As noted on the Capital Structure Analysis, Staff normally recommends that the combined AIAC and net CIAC Funding ratio not exceed 30 percent of total capital for private and investor owned utilities.

At 12/31/2012, combined AIAC (\$9,433,945) and net CIAC (\$607,241) is \$10,041,186. Total capital inclusive of AIAC and CIAC is \$17,656,196. The combined total AIAC and net CIAC is 57 percent of total capital.

Pro-forma at 12/31/2012, (including the proposed CC&N extension) the combined AIAC (\$12,482,931) and net CIAC (\$607,241) is \$13,090,172. Total capital inclusive of AIAC and net CIAC is \$20,705,182. The combined total AIAC and net CIAC is 63 percent of total capital.

Staff is concerned about a continuing over-reliance on AIAC and CIAC. Staff recommends that the Company be placed on notice that, to the extent reasonably possible, it should plan to fund future infrastructure needs with equity and long-term debt in order to bring more balance to its capital structure mix. The Company's long-term goal should be to have a combined net AIAC and CIAC funding ratio significantly lower than current and pro forma AIAC and CIAC ratios which exceed 60% of total capital.

Bella Vista Water Company
Docket No. W-02465A-13-0207
Application for Extension of CC&N

CAPITAL STRUCTURE ANALYSIS

	<u>Annual Report</u> <u>At 12/31/2012</u>		<u>W/CC&N</u> <u>Extension</u> <u>Pro-Forma</u> <u>At 12/31/2012</u>	
1 Capital Structure				
2 Short Term Debt (Current Portion of Notes Payable)	\$ 131,366	0.74%	\$ 131,366	0.63%
3 Long-Term Debt	10,957,238	62.06%	14,006,224	67.65%
4 Common Equity	<u>6,567,592</u>	<u>37.20%</u>	<u>6,567,592</u>	<u>31.72%</u>
5 Total Long Term Debt and Equity	\$ 17,656,196	100.00%	\$ 20,705,182	100.00%
6				
7 Capital Structure (Inclusive of AIAC and Net CIAC)				
8 Short-term Debt	\$ 131,366	0.74%	\$ 131,366	0.63%
9 Long-term Debt	916,052	5.19%	916,052	4.42%
10 Common Equity	6,567,592	37.20%	6,567,592	31.72%
11 Advances in Aid of Construction ("AIAC")	9,433,945	53.43%	12,482,931 ²	60.29%
12 Contributions in Aid of Construction ("CIAC") ¹	<u>607,241</u>	<u>3.44%</u>	<u>607,241</u>	<u>2.93%</u>
13 Total Capital (Inclusive of AIAC and CIAC)	\$ 17,656,196	100.00%	\$ 20,705,182	100.00%
AIAC and CIAC Funding Ratio³ (L11+L12)/L13	57%		63%	

¹ Net CIAC Balance (i.e. less: accumulated amortization of contributions.)

² Includes \$3,048,986 AIAC from the Water Line Extension Agreement between Bella Vista Water Company, Inc. (dba Liberty Utilities) and K Ranch LLC.

³ 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.