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Arizona Corporation Commission
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OCT 25 2013

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF BELLA VISTA WATER COMPANY, INC.
FOR AN EXTENSION OF AN EXISTING
CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER UTILITY
SERVICE IN COCHISE COUNTY, ARIZONA

DOCKET NO. WS-02465A-13-0207

RESPONSE TO STAFF REPORT

Liberty Utilities (Bella Vista Water) Corp., f/k/a Bella Vista Water Company, Inc. ("Bella Vista" or "Company") hereby submits this Response to the Commission Staff Report filed in the above-captioned docket on October 4, 2013 ("Response"). By filing this Response, Bella Vista seeks clarification of Commission Staff's second recommendation, which states:

"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."

FINANCIAL AND REGULATORY ANALYSIS

In its Report at Exhibit 3, Commission Staff provides a financial and regulatory analysis that looks at the combined impact of AIAC and CIAC as a percentage of capital funding of the Company water infrastructure. Staff concluded that, with the addition of

1 the Kings Ranch subdivision and the funding provisions of the Water Line Extension
2 Agreement, Bella Vista would have a combined total AIAC and net CIAC (\$13,090,172)
3 representing 63% of total capital. Unfortunately, Staff does not provide any explanation
4 why a combined AIAC and net CIAC funding ratio over 30% is harmful to private,
5 investor-owned utilities and their ratepayers.

6 Bella Vista understands that an over-reliance on CIAC can be harmful to a utility
7 because a lack of rate base is likely to impact the financial viability of the company.
8 However, of the combined AIAC and CIAC that constitutes 63% of the Company's
9 capital, only \$607,241 is net CIAC – or roughly 4.6%. As such, the majority of capital
10 has been funded through AIAC, which is consistent with the Commission's policy of
11 growth paying for growth. In addition, as one of several Liberty Utilities' operating
12 companies within the state of Arizona, Bella Vista has access to capital and debt markets
13 (though its parent corporation) that other small private was companies do not have. As
14 such, the risk of financial insolvency due to a less than ideal AIAC and CIAC ratio of
15 capital should be of less concern.

16 The Company also requests clarification on what Staff is referring to by “fund [ing]
17 future infrastructure needs with equity and long-term debt.” Does this infrastructure only
18 include off-site facilities and backbone plant? For instance, is Bella Vista expected
19 commit funds or incur debt to find and develop new sources of water in the absence of
20 growth, or an extension of its service area? In Decision No. 72241 (April 7, 2011), the
21 Commission approved a Hook-Up Fee tariff for the Company that will be used to build
22 plant that is “part of an overall capitalization that is designed to equitably apportion the
23 overall costs of service in a manner that allows rates to remain within a reasonable range
24 over time.” Is Staff's second recommendation consistent with this charge? Likewise,
25 what mixture of equity and long-term debt is reasonable given the current impact of AIAC
26 and CIAC in total capital? Further explanation by Staff will assist Bella Vista in

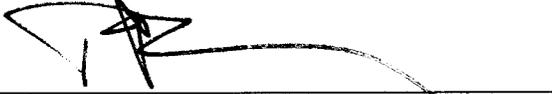
1 evaluating the substance of the notice recommended by Staff, and determining the means
2 necessary (to the extent possible) for compliance, provided the recommendation is
3 reasonable in light of Decision No. 72241.

4 **CONCLUSION**

5 Bella Vista agrees with the analyses and conclusions contained in the Commission
6 Staff Report, and respectfully seeks clarification concerning Staff's second
7 recommendation so that the Company can fully address the issue, and any concerns that
8 might arise, during the hearing in this matter.

9
10 RESPECTFULLY SUBMITTED this 25th day of October, 2013.

11 FENNEMORE CRAIG, P.C.

12
13 By: 

14 Patrick J. Black
15 Attorney for Bella Vista Water Company,
16 Inc.

17 **ORIGINAL** and 13 copies filed
18 this 25th day of October, 2013 with:

19 Docket Control
20 Arizona Corporation Commission
21 1200 West Washington Street
22 Phoenix, Arizona 85007

23 **COPY** of the foregoing emailed/mailed/hand-delivered
24 this 25th day of October, 2013 to:

25 Jane Rodda, ALJ
26 Hearing Division
Arizona Corporation Commission
400 West Congress
Tucson, Arizona 85701-1347

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