

JIM IRVIN
COMMISSIONER-CHAIRMAN
TONY WEST
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER



R. BRACKNEY
CLERK SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: April 29, 1999
DOCKET NO.: W-02370A-98-0392 AND W-02370A-98-0750

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Marc E. Stern. The recommendation has been filed in the form of an Order on:

CHINO MEADOWS II WATER COMPANY, INC.
(FINANCING APPLICATIONS)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

MAY 10, 1999

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

MAY 11, 1999 AND MAY 12, 1999

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250.


STUART R. BRACKNEY
ACTING EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN
COMMISSIONER-CHAIRMAN
3 TONY WEST
COMMISSIONER
4 CARL J. KUNASEK
COMMISSIONER

5
6 IN THE MATTER OF THE APPLICATION OF
CHINO MEADOWS II WATER COMPANY, INC.
7 FOR APPROVAL OF LONG-TERM DEBT IN AN
AMOUNT NOT TO EXCEED \$41,287.

DOCKET NO. W-02370A-98-0392

8 IN THE MATTER OF THE APPLICATION OF
9 CHINO MEADOWS II WATER COMPANY, INC.
FOR APPROVAL OF LONG-TERM DEBT IN AN
10 AMOUNT NOT TO EXCEED \$9,000.

DOCKET NO. W-02370A-98-0750

DECISION NO. _____

ORDER

11 Open Meeting
12 May 11 and 12, 1999
Phoenix, Arizona

13 **BY THE COMMISSION:**

14 On July 16, 1998, Chino Meadows II Water Company, Inc. ("Company" or "Applicant") filed
15 with the Arizona Corporation Commission ("Commission") an application requesting that retroactive
16 approval for a long-term bank loan in the amount of \$11,287. Subsequently, the application was
17 amended to request retroactive approval for an additional \$30,000 in long-term debt evidenced by
18 promissory notes and other evidences of indebtedness.¹

19 On December 23, 1998, Applicant filed another request for the Commission's authorization
20 for long-term debt in the amount of \$9,000 to be utilized to purchase a parcel of land adjacent to its
21 wellsite.

22 On March 29, 1999, Staff filed its Staff Report with respect to the above-captioned
23 applications. Although neither the Company nor Staff have requested consolidation, of the
24 applications, we find the issues are substantially the same and as a result the above-captioned
25 applications will be consolidated for purposes of this Order.

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27 _____
28 ¹ The amendment of the application in Docket No. W-02370A-98-0392 came about in response to a data
request from the Commission's Utilities Division ("Staff") which revealed prior loans which had not been approved by
the Commission.

1 6. On April 1, 1999, Applicant notified its customers of its applications for the long-term
2 financing described herein, and in response thereto, the Commission has received no protests.

3 7. Upon Staff's review of Applicant's initial application herein for approval of the loan
4 agreement for the 1998 Ford Ranger truck, Staff noted that the Company's 1997 Utilities Annual
5 Report included unauthorized long-term debt in the amount of \$30,000 for the construction
6 equipment described hereinabove.

7 8. Staff had intended for Applicant to incorporate the previously unapproved loans
8 totaling \$30,000 into the financing request for the 1998 truck.

9 9. However, Staff became concerned with the propriety of the loans because Applicant is
10 operated by an individual and his family that is also involved in land development in the Company's
11 certificated service area and adjacent areas.

12 10. Applicant's data response reflected general usage of the construction equipment
13 noting that most of the equipment had been sold in January 1998 to a related developer, Levie-
14 Antelope Lakes, Inc. and moved to Utah. Applicant's Vice President, Mr. Levie, advised Staff that
15 most of the construction equipment had been transferred in order to consolidate ownership for
16 insurance purposes.

17 11. The Company indicated that Applicant still owns and operates the 1975 Ford water
18 truck, but with respect to the 1978 Case backhoe, it was sold to Granite Mountain Water Company,
19 Inc. another water utility owned by Mr. Levie.

20 12. The dispositions of the construction equipment by Applicant took place without
21 Commission approval as required pursuant to A.R.S. § 40-285.³

22 13. As a result of the aforementioned actions, according to Staff, Applicant agreed to the
23 revision of its financing request with respect to Docket No. W-02370A-98-0392 to include only the
24 retroactive authorization for the execution of the loan documents for the purchase of the 1998 Ford
25 Ranger truck and the 1975 water truck which the Company still owns.

26 14. Following Staff's review of Applicant's data, Staff is recommending denial of the
27

28 ³ Additionally, because Applicant was unable to locate the rubber tire compactor, the Company withdrew that portion of its financing request for the \$1,000 purchase price.

1 amended financing request regarding the purchase of the construction equipment.

2 15. Staff recommends denial of this portion of the amended application because Applicant
3 has already paid approximately \$13,000 of the unauthorized debt which exceeds the \$1,500 purchase
4 price for the water truck.

5 16. Staff recommends that only the long-term debt for the 1998 Ford Ranger truck in the
6 amount of \$11,287 be approved by the Commission because it is necessary for the operation of the
7 Company and its purchase price has been verified.

8 17. With respect to the application for financing approval for the lot adjacent to the
9 Company's main well and storage facility, Staff is concerned with respect to the necessity of the lot
10 purchase and its valuation for sale purposes.

11 18. The Company presently owns two lots which it uses for storage and for its well site.
12 The additional lot which is the subject of the financing in Docket No. W-02370A-98-0750 is not
13 readily saleable because it is too close to the Company's main well which prevents a prospective lot
14 owner from securing health department approval to construct a septic tank for the property.

15 19. The lot in question is owned by a trust of which Mr. Levie is a beneficiary.

16 20. If the lot were able to be built upon, it would be worth \$12,000, but because of the
17 construction problem an arbitrary value of \$9,000 was assigned to the lot.

18 21. Staff reviewed the transaction surrounding the lot in question and determined that it
19 was purchased in 1980 as part of a group of 189 lots and had a purchase price of approximately \$405.

20 22. Because the lot is not readily saleable for building purposes, Staff calculated an annual
21 return of ten percent per annum compounded annually on the purchase price of the lot and
22 determined that its 1999 value is only \$2,476 when utilizing the original cost and a ten percent return.

23 23. Staff opined that the Company should pay no more than \$3,000 for the lot because of
24 the aforementioned factors, but believes it would be a "worthwhile investment for future growth and
25 for the protection of its main well's integrity...." If Applicant purchases the lot, a future lot owner
26 would be precluded from building on the lot and illegally placing a septic tank too close to the
27 Company's main well.

28 24. Staff recommends that the Commission approve the purchase of the lot at a cost not to

1 exceed \$3,000 at ten percent interest and payable over five years instead of ten years as requested by
2 the Company.

3 25. According to Staff, the Company experienced a \$3,441 operating loss for the year
4 ended December 31, 1996.

5 26. However, by the end of 1997, Applicant had \$34,481 in operating income due in large
6 part to a \$20,000 increase in operating revenues and a decrease in operation and maintenance
7 expenses. Applicant has been experiencing customer growth averaging 14 percent per year.

8 27. Although Staff found Applicant had been carrying excessive short-term debt without
9 the Commission's approval, as of March 1999, the Company indicates that it no longer has any short-
10 term debt.

11 28. With the adoption of Staff's recommendations, Applicant's capital structure including
12 the recommended financing for the 1998 Ford Ranger truck and \$3,000 for the adjacent lot, would be
13 only minimally effected. As a result of the removal of the unauthorized long-term debt, Applicant's
14 long-term debt would decrease to 44.7 percent from 46.4 percent and equity would increase from
15 53.6 percent to 55.3 percent.

16 29. Staff concludes that after reviewing Applicant's ability to service its debt that the
17 Company's Times Interest Earned Ratio ("TIER") and its Debt Service Coverage ("DSC") are both
18 strong after the removal of the short-term debt and are reflected by a TIER of 3.03 and its DSC of
19 2.71.⁴

20 30. After our review of these applications, we believe that \$11,287 for the 1998 Ford
21 Ranger truck and \$3,000 for the adjacent lot are appropriate forms of long-term debt for Applicant
22 and that said sums are reasonable and prudent amounts at the terms and conditions recommended by
23 Staff. Additionally, the Company should file copies of all executed loan documents as soon as they
24 are available and should not enter into any long-term financing agreements without prior Commission
25 approval.

26 ...

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28 ⁴ TIER and DSC of 1.50 and 1.25, respectively, are generally preferred as the minimum ratios necessary
to service utility debt.

CONCLUSIONS OF LAW

1
2 1. Applicant is a public service corporation within the meaning of Article XV of the
3 Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

4 2. The Commission has jurisdiction over Applicant and of the subject matter of the
5 applications.

6 3. Notice of the applications was provided in the manner prescribed by law.

7 4. The Company's application with respect for long-term debt for the 1998 Ford Ranger
8 truck should be approved in an amount not to exceed \$11,287 repayable at 8.25 percent for a period
9 of five years.

10 5. The Company's application for long-term debt for the lot adjacent to its main well and
11 storage facility should be approved in an amount not to exceed \$3,000 repayable at 10 percent
12 interest per year for a period of five years.

13 6. The proposed long-term financings for \$11,287 and \$3,000 and subject to the
14 recommended terms and conditions by Staff are for lawful purposes within Applicant's corporate
15 powers, are compatible with the public interest, with sound financial practices, and with the proper
16 performance by Applicant of service as a public service corporation, and will not impair Applicant's
17 ability to perform that service.

18 7. The financings approved herein are for the purposes stated in the applications and are
19 reasonably necessary for those purposes, and such purposes are not wholly or impart reasonably
20 chargeable to operating expenses or to income.

21 8. The Company's applications for long-term debt not to exceed \$11,287 and \$3,000,
22 respectively, and subject to Staff's recommendations as to the terms and conditions should be
23 summarily granted.

24 ORDER

25 IT IS THEREFORE ORDERED that Chino Meadows II Water Company, Inc. be, and the
26 same hereby is, authorized to incur long-term debt as follows: in an amount not to exceed \$11,287 at
27 no greater rate of interest than 8.25 percent per annum for a period of five years; and in an amount
28 not to exceed \$3,000 at no greater rate of interest than ten percent per annum for a period of five

1 years.

2 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. is hereby
3 authorized to engage in any transactions and to execute any documents necessary to effectuate the
4 authorizations granted hereinabove.

5 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Chino
6 Meadows II Water Company, Inc.'s use of the proceeds for the purposes set forth in the applications.

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

10 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. shall, in the
11 future, not issue any long-term debt or other evidences of indebtedness without prior Commission
12 approval.

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1 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. shall file, within
2 30 days of finalization, with the Director of the Commission's Utilities Division a copy of all loan
3 documents which set forth the terms of the long-term debt as approved herein if not previously filed.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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8 _____
9 COMMISSIONER-CHAIRMAN COMMISSIONER COMMISSIONER

10
11 IN WITNESS WHEREOF, I, STUART R. BRACKNEY,
12 Acting Executive Secretary of the Arizona Corporation
13 Commission, have hereunto set my hand and caused the official
14 seal of the Commission to be affixed at the Capitol, in the City
15 of Phoenix, this ____ day of _____, 1999.

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17 _____
18 STUART R. BRACKNEY
19 ACTING EXECUTIVE SECRETARY

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1 SERVICE LIST FOR:

CHINO MEADOWS II WATER COMPANY, INC.

2 DOCKET NO.

W-02370A-98-0392 AND W-02370A-98-0750

3

4 Paul D. Levie, Vice President
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