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BEFORE THE ARIZONA CORPORATION C

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

OCT 24 2014

- BOB STUMP - Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

DOCKETED BY	nr
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IN THE MATTER OF THE APPLICATION OF APPALOOSA WATER COMPANY FOR FINANCING AUTHORIZATION.

DOCKET NO. W-03443A-13-0379

DECISION NO. 74787

ORDER

Open Meeting
October 16, 2014
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Background and Procedural History

1. Appaloosa Water Company ("Appaloosa" or "Company") is a Class C water utility, with one shareholder,¹ that provides water utility service to approximately 231 customers located in a service area of the Appaloosa Meadows subdivision within the Town of Chino Valley, Arizona in Yavapai County.

2. The Commission granted Appaloosa a Certificate of Convenience and Necessity in Decision No. 60733 (March 23, 1998). The Company's current rates were set in Decision No. 73270 (July 30, 2012). In Decision No. 73270, Appaloosa was authorized to obtain a Water Infrastructure Finance Authority of Arizona ("WIFA") loan not to exceed \$160,000 to purchase a 50,000 gallon storage tank (\$100,000) and two emergency generators (\$60,000). Ultimately, WIFA determined the

¹ According to Appaloosa's 2014 Annual Report filed with the Commission, Artesian Holdings, LLC is the current shareholder.

1 storage tank was ineligible and denied the application as to that amount, but authorized \$60,000,
2 which was never used.

3 3. On November 6, 2013, Appaloosa filed an application with the Commission
4 requesting authorization to incur long term debt from WIFA in the amount of \$295,000. The
5 Company requested authorization to issue debt and pledge its assets and revenue as security to obtain
6 the loan, which would fund the construction of a large storage tank to allow it to clean the main
7 storage tank, as well as fund additional storage capacity, site improvements, transfer pump, booster
8 system upgrades, and provide one emergency generator.

9 4. On May 30, 2014, the Commission's Utilities Division ("Staff") issued a Staff Report
10 recommending partial approval of Appaloosa's financing application. Staff recommended
11 authorization of only \$41,000 of debt for one emergency stand-by generator with propane tank,
12 subject to certain terms and conditions. According to the Staff Report, Staff had previously
13 concluded that Appaloosa's well production and storage capacities were adequate to serve up to 296
14 connections, based on the 65,000 gallons of storage supplied water by multiple wells. The Company
15 expects little or no growth over the next five years and, as a result, Staff determined that Appaloosa's
16 water system has adequate production capacity and storage capacity to serve the existing customer
17 base and reasonable growth. Therefore, no additional storage capacity is needed for the foreseeable
18 future.

19 5. On June 9, 2014, Appaloosa filed an Affidavit of Mailing.

20 6. By Procedural Order issued on August 29, 2014, the Company was directed to file
21 comments to the Staff Report by September 11, 2014. Staff was also permitted time to file a reply.

22 7. On September 11, 2014, Appaloosa filed comments in response to the Staff Report,
23 stating it was "agreeing to staff's recommendations for the \$41,000 of debt for one emergency stand-
24 by generator with propane tank."

25 **Financing Proposal**

26 8. Staff used Appaloosa's historical financial statements for the year ending December
27 31, 2012, to conduct Staff's financial analysis and to determine the *pro forma* effects the \$41,000
28 WIFA loan, amortized for 20 years at 5 percent per annum would have on Appaloosa. That analysis

1 is set forth in Schedule TBH-1 to the Staff Report, which is attached hereto as Exhibit 1 and
2 incorporated herein.

3 9. Staff calculated Appaloosa's *pro forma* debt service coverage² at 2.01, showing that
4 cash flow from operations is sufficient to cover debt service.³ Staff noted that the Company had
5 unused authorizations to issue indebtedness through Decision No. 73270 and recommended that the
6 Commission rescind that authorization.

7 10. Staff reviewed Appaloosa's quote for one emergency generator with propane tank and
8 concluded that it was appropriate and that the purchase price was reasonable. However, Staff stated
9 that no used and useful determination of the proposed plant was made, and no particular future
10 treatment should be inferred for rate-making or rate base purposes.

11 11. Based on its review of the application, Staff recommended the authorization for the
12 Company to issue debt and pledge its assets and revenue as security to obtain a WIFA loan to
13 purchase an emergency generator with propane tank that is needed to supply power to run the water
14 system pumps during commercial power interruptions.

15 Staff Analysis

16 12. According to the Staff Report, Appaloosa is currently not in compliance with
17 Commission requirements to report the Company's water loss. Staff states the Company has had
18 high water loss since 2010, and that the Company filed its Water Loss Prevention Plan ("Plan") on
19 September 30, 2011. In Decision No. 73270, the Company was ordered, as a compliance item, to
20 docket "a report each January and July covering the previous six months that contains all activities
21 regarding its Water Loss Prevention Plan, until such time as Appaloosa Water Company has a water
22 loss of 10 percent or less, for a period of 12 consecutive months." Appaloosa failed to submit a water
23 loss report in January 2013 and July 2013, as required by Decision No. 73270, and Staff determined
24 the water loss report filed by the Company in January 2014, stating its water loss was at 16.98%, was
25 insufficient.

26 ² Debt service coverage ("DSC") ratio represents the number of times internally generated cash will cover required
27 principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from
28 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.

³ Staff Report at p. 2.

1 13. Staff recommended that Appaloosa utilize its Plan to reduce its water loss to less than
2 15 percent within 12 months of the effective date of the order issued in this proceeding, and to less
3 than 10 percent within 24 months of the effective date of the order issued in this proceeding. Further,
4 Staff recommended Appaloosa be required to file, as a compliance item, a report every January,
5 April, July, and October detailing the actions Appaloosa took over the previous three months relating
6 to its Plan, until such time as the Company has a water loss of ten percent or less for a period of 12
7 consecutive months.

8 14. Staff stated that Arizona Revised Statute § 40-202 requires public service corporations
9 to comply with every Decision made by the Commission that relates to the public service
10 corporation's business. Staff stated that Appaloosa's continuing noncompliance with Commission
11 Decisions may result in Staff filing a petition for an Order to Show Cause against the Company.

12 15. In addition to the water loss issues, Staff reviewed Appaloosa's accounting practices
13 and found several that are not compliant with National Association of Regulatory Commissioners
14 ("NARUC") Uniform System of Accounts, despite the Company being directed in a prior
15 Commission Decision to have its books conform to those standards. Staff continues to recommend
16 Appaloosa be required to file its next rate case by July 30, 2015, with a test year ending December
17 31, 2014, as was ordered in Decision No. 73270.

18 16. Appaloosa is in good standing with the Corporations Division. Although the
19 Company has been the subject of several complaints since 2011, all complaints have been resolved
20 and are closed. No opinions were filed regarding this application.

21 17. Per the Staff Report, Appaloosa is located within the Arizona Department of Water
22 Resources ("ADWR") Prescott Active Management Area. According to a March 3, 2014 ADWR
23 compliance status report, the Company's drinking water system is out of compliance with
24 departmental requirements governing water providers and/or community water systems.

25 18. Appaloosa has approved Curtailment and Backflow Prevention tariffs on file with the
26 Commission. The Company is currently working with Staff on implementing five Best Management
27 Practice tariffs.

28

1 Staff Recommendations

2 19. Staff recommends that:

3 a) The Company be granted the authorization to incur a 20-year amortizing loan in an
4 amount not to exceed \$41,000 pursuant to a loan agreement with WIFA and at an interest rate not to
5 exceed that available from WIFA, for the purpose of acquiring one emergency generator with
6 propane tank and with sufficient capacity to run the Company's high yield well. The remainder of the
7 Company's \$295,000 request for authorization to borrow funds should be denied;

8 b) The Company be authorized to pledge its assets in the State of Arizona pursuant to
9 A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan;

10 c) The Company be directed to file as a compliance item in this Docket, within 60
11 days of the execution of any financing transaction authorized herein, a notice confirming that such
12 execution has occurred and a certification by the shareholder that the terms of the financing fully
13 comply with the authorizations granted;

14 d) The Company be directed to provide to the Utilities Division, upon Staff request, a
15 copy of any WIFA loan documents executed pursuant to the authorizations granted herein;

16 e) The Commission set an expiration date for any unused authorization to incur debt
17 granted in this proceeding at July 31, 2015;

18 f) The Commission rescind the previous financing authorization in Decision No.
19 73270;⁴

20 g) The Company be authorized to engage in any transaction and to execute any
21 documents necessary to effectuate the authorizations granted;

22 h) The denial of the Company's application for financing approval to construct a
23 large storage tank in order to clean the main storage tank;

24 i) The Company be directed to file with Docket Control, as a compliance item in this
25 docket, an updated ADWR Compliance Status Report indicating that the Company is in compliance

26 _____
27 ⁴ In Decision No. 73270, Appaloosa was authorized to obtain a WIFA loan in the amount of \$160,000. However, an
28 ordering paragraph in that decision limited the authorization to 24 months from the effective date of the Decision (July 30, 2012). The Staff Report for the current application was issued on May 30, 2014, which left the previous financing authorization open and unused. As of the date of the current Decision, the financing approved in Decision No. 73270 has terminated and, as such, the authorization need not be rescinded.

1 with ADWR requirements within six months of the effective date of the order issued in this
2 proceeding;

3 j) The Company be directed to take action based on the Water Loss Prevention Plan
4 to reduce water loss to less than 15 percent within 12 months of the effective date of of the order
5 issued in this proceeding. Additionally, the Company should be directed to reduce the water loss to
6 less than 10 percent within 24 months of the effective date of the order issued in this proceeding; and

7 k) The Company be required to file with Docket Control, as a compliance item in this
8 Docket, a report each January, April, July and October covering the previous three months that
9 contains all activities regarding its Water Loss Prevention Plan, until such time as Appaloosa has a
10 water loss of 10 percent or less, for a period of 12 consecutive months. The report must include
11 gallons pumped and gallons sold for the reporting period, and explain in detail all activities for each
12 of the 11 plan items.

13 Conclusion

14 20. Staff's recommendations, as described herein, are reasonable and appropriate.
15 Appaloosa indicated in its September 11, 2014 letter that the Company agrees with Staff's
16 recommendations as it relates to the authorization to incur a \$41,000 WIFA loan for the purpose of
17 acquiring one emergency generator with propane tank. The Company did not object to Staff's other
18 recommendations. The Commission needs additional assurances that Appaloosa has complied with
19 the provisions of the loan as described herein and, as such, the Company will be required to file the
20 loan documentation with Staff rather than filing the documents upon Staff's request. Therefore, we
21 will adopt Staff's recommendations as modified.

22 CONCLUSIONS OF LAW

23 1. Appaloosa Water Company is a public service corporation within the meaning of
24 Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-285, 40-301 and 40-302.

25 2. The Commission has jurisdiction over Appaloosa Water Company and the subject
26 matter of the application.

27 3. Notice of the application was provided in accordance with the law.

28 4. The financing approved herein is for lawful purposes within Appaloosa Water

1 Company's corporate powers, is compatible with the public interest, with sound financial practices,
2 and with proper performance by Appaloosa Water Company of service as a public service
3 corporation, and will not impair Appaloosa Water Company's ability to perform that service.

4 5. The financing approved herein is for the purposes stated in the application and is
5 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
6 chargeable to operating expenses or to income.

7 6. Approval of the proposed financing should not guarantee or imply any specific
8 treatment of any capital additions for ratemaking or rate base purposes.

9 7. The financing approved in Decision No. 73270 has terminated and, as such, the
10 authorization need not be rescinded.

11 8. Staff's recommendations set forth in Finding of Fact No. 19, as modified, are just and
12 reasonable and in the public interest.

13 **ORDER**

14 IT IS THEREFORE ORDERED that Appaloosa Water Company is hereby authorized to
15 obtain from the Water Infrastructure Finance Authority of Arizona a 20-year amortizing loan in an
16 amount not to exceed \$41,000 at an interest rate not to exceed that available from the Water
17 Infrastructure Finance Authority of Arizona.

18 IT IS FURTHER ORDERED that the granted financing authority is expressly contingent
19 upon Appaloosa Water Company's use of the proceeds for the purpose of acquiring one emergency
20 generator with propane tank and with sufficient capacity to run the company's high yield well.

21 IT IS FURTHER ORDERED that the remainder of Appaloosa Water Company's \$295,000
22 request for authorization to borrow funds is hereby denied.

23 IT IS FURTHER ORDERED that Appaloosa Water Company is hereby authorized to pledge,
24 mortgage, lien, and/or otherwise encumber its assets in the State of Arizona pursuant to A.R.S. § 40-
25 285 and A.A.C. R18-15-104, in connection with the indebtedness authorized herein.

26 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, as a compliance
27 item, within 60 days of the execution of any financing transaction, a notice confirming that such
28 execution has occurred and a certification by the shareholder that the terms of the financing fully

1 comply with the authorizations granted.

2 IT IS FURTHER ORDERED that Appaloosa Water Company shall provide to the
3 Commission's Utilities Division a copy of any Water Infrastructure Finance Authority of Arizona
4 loan documents executed pursuant to the authorizations granted herein within 60 days of execution.

5 IT IS FURTHER ORDERED that any unused debt authorization granted in this proceeding
6 shall terminate on July 31, 2015.

7 IT IS FURTHER ORDERED that Appaloosa Water Company is hereby authorized to engage
8 in any transaction and to execute any documents necessary to effectuate the authorization granted
9 herein.

10 IT IS FURTHER ORDERED that Appaloosa Water Company's application for financing
11 approval to construct a large storage tank to clean the main storage tank is hereby denied.

12 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, as a compliance
13 item, an updated Arizona Department of Water Resources Compliance Status Report indicating the
14 Company is in compliance with Arizona Department of Water Resources requirements within six
15 months of the effective date of this Decision.

16 IT IS FURTHER ORDERED that Appaloosa Water Company shall take action based on its
17 Water Loss Prevention Plan to reduce water loss to less than 15 percent within 12 months of the
18 effective date of this Decision.

19 IT IS FURTHER ORDERED that Appaloosa Water Company shall reduce water loss to less
20 than 10 percent within 24 months of the effective date of this Decision.

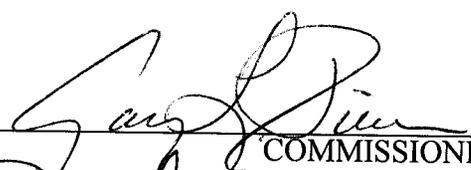
21 IT IS FURTHER ORDERED that Appaloosa Water Company shall file, as a compliance item
22 in this Docket, a report each January, April, July, and October covering the previous three months
23 that contains all activities regarding its Water Loss Prevention Plan. The report shall include gallons
24 pumped and gallons sold for the reporting period, and explain in detail all activities for each plan
25 item. These reports shall be filed until such time as the Company has a water loss of 10 percent or
26 less, for a period of 12 consecutive months.

27 IT IS FURTHER ORDERED that Staff shall monitor Appaloosa Water Company's
28 compliance and take any appropriate action.

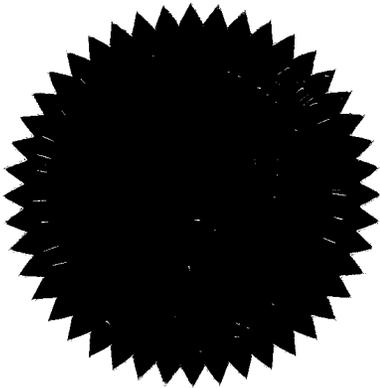
1 IT IS FURTHER ORDERED that Appaloosa Water Company shall file its next general rate
2 case no later than July 30, 2015, using a test year ending December 31, 2014.

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

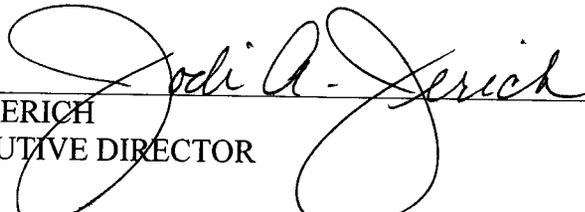
4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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6  
7 CHAIRMAN COMMISSIONER

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9 COMMISSIONER COMMISSIONER COMMISSIONER



11 IN WITNESS WHEREOF, I, JODI JERICH, Executive
12 Director of the Arizona Corporation Commission, have
13 hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this 24th day of October 2014.

16 
17 JODI JERICH
18 EXECUTIVE DIRECTOR

19 DISSENT _____

20 DISSENT _____
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1 SERVICE LIST FOR: APPALOOSA WATER COMPANY

2 DOCKET NO.: W-03443A-13-0379

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Appaloosa Water Company

Docket No. W-03443A-13-0379

EXHIBIT 1

For the 12-Month Period Ended December 31, 2012

Application For Financing

FINANCIAL ANALYSIS

Selected Financial Information

	[A] ¹	[B] ²
	<u>Company as of 12/31/2012</u>	<u>Company as of 12/31/2012</u> <u>Pro Forma</u>
1 Operating Income	\$ (5,668)	\$ (5,668)
2 Depreciation & Amort.	34,547	34,547
3 Income Tax Expense	0	0
4		
5 Interest Expense	3,670	5,692
6 Repayment of Principal	7,427	8,652
7		
8 DSC		
9 $[1+2+3] \div [5+6]$	2.60	2.01
10		

11 ¹ Column [A] is based on financial information for the period ending December 31, 2012 provided in the application.

12 ² Column [B] is Column [A] modified to reflect issuance of the Staff Recommended \$41,000 debt financing
 13 amortized for a 20 year term at 5 percent per annum. Schedule TBH-2