

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

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TO: THE COMMISSION

NOV 26 2014

FROM: Utilities Division

2014 NOV 26 P 1:02

DATE: November 26, 2014

DOCKETED BY

AZ CORP COMMISSION
DOCKET CONTROL

RE: CIBOLA MUTUAL WATER COMPANY'S APPLICATION FOR APPROVAL OF A FINANCING APPLICATION--AUTHORIZATION TO BORROW UP TO NINETY THOUSAND DOLLARS FROM THE ARIZONA WATER INFRASTRUCTURE FINANCE AUTHORITY AND APPLICATION FOR APPROVAL OF A RATE INCREASE (DOCKET NOS. W-04106A-14-0319 AND W-04106A-13-0266)

SUBJECT: Arizona Revised Statute § 40-252 to amend Decision Nos. 74445 and 74552.

Cibola Mutual Water Company, Inc. ("Cibola" or "Company") is a Class D water utility, located in a rural area adjacent to the Cibola National Wildlife Refuge in La Paz County. The area is located at the Arizona state line approximately 20 miles south of Blythe, California. The Company provides potable water service to approximately 160 customers based on rates and charges approved by the Arizona Corporation Commission ("Commission") in Decision No. 74445, dated April 14, 2014. Cibola is a Non-Profit Corporation.

On September 2, 2014, Cibola filed a financing application with the Commission requesting debt authorization to borrow \$90,000 at a projected interest rate of 4.5% for 20 years from the Water Infrastructure Finance Authority of Arizona ("WIFA"). This new financing authority will allow Cibola to purchase and install equipment needed to become compliant with the Arizona Department of Environmental Quality ("ADEQ").

On November 13, 2014, the Commission voted in Open Meeting, pursuant to Arizona Revised Statute § 40-252, to reopen Decision No. 74445, as amended by Decision No. 74552 (June 20, 2014) for purposes of considering an amendment to these orders to permit sufficient revenue to support its September 2, 2014 WIFA Financing Application.

Because the revenues necessary to support the financing approvals must be established in the rate case, it is appropriate to consolidate the two matters.

PUBLIC NOTICE

On October 1, 2014, Cibola filed an affidavit of published notice to its customers verifying notice of its financing application by mail and also on the Company's website at cibolamutualwatercompany.com. Cibola docketed a second customer notice with the Commission on October 8, 2014, sent customers notices regarding an estimated \$4.97 in customers' bills and published the impact of the surcharge on the Company's website.

ORIGINAL

ANALYSIS

Based on an ADEQ Compliance Status Report dated July 1, 2014, Cibola has ongoing unresolved deficiencies for exceedance of the MCL for disinfection by-products for total Trihalomethane (“THM”). ADEQ will determine a new compliance status once the latest quarterly water testing lab results are available. Unless ADEQ determines that the Cibola water system is in compliance with the MCL for disinfection by-products, the Company will have to take action to address this issue.

The Company provided a copy of a quotation it received for a THM removal system manufactured by Medora Corporation. The removal equipment listed in the quotation includes a 3 horsepower (“hp”) floating spray nozzle and a 2 hp blower with air filter. Medora proposed to install this equipment in Cibola’s 100,000 gallon storage tank¹ at an estimated cost of \$87,051. This cost estimate with the project descriptions and a breakdown of costs is summarized below:

| | |
|---|----------|
| 1. Floating spray nozzle and mixer equipment | \$37,495 |
| Delivery and placement | 15,500 |
| 2. Air ventilation equipment, blowers and air filters | 6,620 |
| Delivery and placement | 4,200 |
| 3. Misc. Air ducting, material and labor beyond the scope of 2. above | 2,000 |
| 4. Motor control panels | 2,630 |
| 5. Electrical work connect all equipment to service main | 7,750 |
| 6. Engineering and construction management | 10,000 |
| 7. County Permit | 856 |
| Total | \$87,051 |

Staff concludes that providing that Cibola’s THM exceedance issue is not resolved, the proposed installation of a THM removal system is appropriate. Staff further concludes that the THM removal system cost estimate totaling \$87,051 is reasonable. No “used and useful” determination of the proposed project items were made and no particular treatment should be inferred for rate making or rate base purposes in the future.

CALCULATION OF WIFA LOAN SURCHARGE

The proposed \$87,051 financing is a 20-year amortizing loan at an estimated interest rate of 4.50 percent. The payments are estimated to be \$771 per month, or \$9,251 annually, as shown on Schedule CLP-1. The surcharge also includes a provision for income taxes and the debt reserve deposit as shown on Step No. 8 on Schedule CLP-1, as attached.

¹ According to Cibola, the Company disconnected its second storage tank (a 168,000 gallons storage tank) in order to decrease water storage time.

- That the Company file a rate case no later than July 1, 2018, with a December 31, 2017 test year.



Steven M. Olea
Director
Utilities Division

SMO:CP:sms\CHH

ORIGINATOR: Christine Payne

The Company could begin collecting monies via the WIFA loan surcharge on the first month after Commission approval of the Company's WIFA loan surcharge filing. Staff recommends that the Company calculate the surcharge needed to provide funds for the debt service on its loan as shown on Schedule CLP-1.

RECOMMENDATIONS

Staff recommends approval of Cibola's request to borrow an amount from WIFA not to exceed \$87,051 with a twenty-year term. Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within the Company's corporate powers, is compatible with the public interest, is consistent with sound financial practices, and will not impair its ability to provide services.

Staff further recommends the following:

- Authorizing Cibola to engage in any transaction and to execute any documents necessary to effectuate the authorization granted herein as may be appropriate.
- Granting Cibola authorization to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-301 in connection with any indebtedness authorized in this proceeding.
- Directing Cibola to provide to the Utilities Division Compliance Section a copy of the loan documents executed pursuant to the authorizations granted herein within 30 days of the execution of the loan, and also file a letter in Docket Control verifying that such documents have been provided to the Utilities Division.
- That any unused authorizations to issue debt granted in this proceeding terminate within two years of a decision in this Docket.
- Approval of a WIFA loan surcharge mechanism that may result in a surcharge of approximately \$4.82 per month per customer, see attached CLP-1.
- That the actual amount of the WIFA loan surcharge be calculated based upon the actual amount of the WIFA loan and the actual number of metered customers in the system at the time the loan is closed per the method shown in Schedule CLP-1, which is attached to the Order.
- That the Company file with the Commission a WIFA loan surcharge tariff application that would enable the Company to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.
- That the Company make a WIFA loan surcharge filing within 60 days of the loan closing.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
OF CIBOLA MUTUAL WATER COMPANY)
FOR APPROVAL OF A FINANCING)
APPLICATION)

DOCKET NO. W-04106A-14-0319

IN THE MATTER OF THE APPLICATION)
OF CIBOLA MUTUAL WATER COMPANY)
FOR APPROVAL OF A RATE INCREASE)

DOCKET NO. W-04106A-13-0266

DECISION NO. _____

ORDER

Amending Decisions No. 74445 and 74552
and Consolidating Dockets

Open Meeting
December 11 and 12, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Cibola Mutual Water Company, Inc. ("Cibola" or "Company") is a Class D water utility, located in a rural area adjacent to the Cibola National Wildlife Refuge in La Paz County. The area is located at the Arizona state line approximately 20 miles south of Blythe, California. The Company provides potable water service to approximately 160 customers based on rates and charges approved by the Arizona Corporation Commission ("Commission") in Decision No. 74445 dated April 14, 2014. Cibola is a Non-Profit Corporation.

2. On September 2, 2014, Cibola filed a financing application with the Commission requesting debt authorization to borrow \$90,000 at a projected interest rate of 4.5% for 20 years from the Water Infrastructure Finance Authority of Arizona ("WIFA"). This new financing authority will allow Cibola to purchase and install equipment needed to become compliant with the Arizona Department of Environmental Quality ("ADEQ").

1 3. On October 1, 2014, Cibola filed an affidavit of published notice to its customers
 2 verifying notice of its financing application by mail and also on the Company's website at
 3 cibolamutualwatercompany.com. Cibola docketed a second customer notice with the Commission on
 4 October 8, 2014, sent customers notices regarding an estimated \$4.97 increase in their bills and
 5 published the impact of the surcharge on the Company's website.

6 4. On November 13, 2014, the Commission voted in Open Meeting, pursuant to
 7 Arizona Revised Statute § 40-252, to reopen Decision No. 74445, as amended by Decision No.
 8 74552 (June 20, 2014) for purposes of considering an amendment to these orders to permit sufficient
 9 revenue to support its September 2, 2014 WIFA Financing Application.

10 5. Because the revenues necessary to support the financing approvals must be established
 11 in the rate case, it is appropriate to consolidate the two matters.

12 6. Based on an ADEQ Compliance Status Report dated July 1, 2014, Cibola has ongoing
 13 unresolved deficiencies for exceedance of the MCL for disinfection by-products for total
 14 Trihalomethane ("THM"). ADEQ will determine a new compliance status once the latest quarterly
 15 water testing lab results are available. Unless ADEQ determines that the Cibola water system is in
 16 compliance with the MCL for disinfection by-products, the Company will have to take action to
 17 address this issue.

18 7. The Company provided a copy of a quotation it received for a THM removal system
 19 manufactured by Medora Corporation. The removal equipment listed in the quotation includes a 3
 20 horsepower ("hp") floating spray nozzle and a 2 hp blower with air filter. Medora proposed to install
 21 this equipment in Cibola's 100,000 gallon storage tank¹ at an estimated cost of \$87,051. This cost
 22 estimate with the project descriptions and a breakdown of costs is summarized below:

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 24 ...
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28 ¹ According to Cibola, the Company disconnected its second storage tank (a 168,000 gallons storage tank) in order to decrease water storage time.

| | | |
|---|---|----------|
| 1 | 1. Floating spray nozzle and mixer equipment | \$37,495 |
| | Delivery and placement | 15,500 |
| 2 | 2. Air ventilation equipment, blowers and air filters | 6,620 |
| 3 | Delivery and placement | 4,200 |
| | 3. Misc. Air ducting, material and labor beyond the scope of 2. above | 2,000 |
| 4 | 4. Motor control panels | 2,630 |
| | 5. Electrical work connect all equipment to service main | 7,750 |
| 5 | 6. Engineering and construction management | 10,000 |
| | 7. County Permit | 856 |
| 6 | | Total |
| | | \$87,051 |

7

8 8. Staff concludes that providing that Cibola's THM exceedance issue is not resolved, the

9 proposed installation of a THM removal system is appropriate. Staff further concludes that the THM

10 removal system cost estimate totaling \$87,051 is reasonable. No "used and useful" determination of

11 the proposed project items were made and no particular treatment should be inferred for rate making

12 or rate base purposes in the future.

13 9. The proposed \$87,051 financing is a 20-year amortizing loan at an estimated interest

14 rate of 4.50 percent. The payments are estimated to be \$771 per month, or \$9,251 annually, as shown

15 on Schedule CLP-1. The surcharge also includes a provision for income taxes and the debt reserve

16 deposit as shown on Step No. 8 on Schedule CLP-1, as attached.

17 10. The Company could begin collecting monies via the WIFA loan surcharge on the first

18 month after Commission approval of the Company's WIFA loan surcharge filing. Staff recommends

19 that the Company calculate the surcharge needed to provide funds for the debt service on its loan as

20 shown on Schedule CLP-1.

21 11.. Staff recommends approval of Cibola's request to borrow an amount from WIFA not

22 to exceed \$87,051 with a twenty-year term. Staff concludes that issuance of the proposed debt

23 financing for the purposes stated in the application is within the Company's corporate powers, is

24 compatible with the public interest, is consistent with sound financial practices, and will not impair its

25 ability to provide services.

26 12. Staff further recommends the following:

- 27 • Authorizing Cibola to engage in any transaction and to execute any documents
- 28 necessary to effectuate the authorization granted herein as may be appropriate.

- 1 • Granting Cibola authorization to pledge its assets in the State of Arizona pursuant to
2 A.R.S. § 40-301 in connection with any indebtedness authorized in this proceeding.
- 3 • Directing Cibola to provide to the Utilities Division Compliance Section a copy of the
4 loan documents executed pursuant to the authorizations granted herein within 30 days
5 of the execution of the loan, and also file a letter in Docket Control verifying that such
6 documents have been provided to the Utilities Division.
- 7 • That any unused authorizations to issue debt granted in this proceeding terminate
8 within two years of a decision in this Docket.
- 9 • Approval of a WIFA loan surcharge mechanism that may result in a surcharge of
10 approximately \$4.82 per month per customer, (see attached CLP-1).
- 11 • That the actual amount of the WIFA loan surcharge be calculated based upon the
12 actual amount of the WIFA loan and the actual number of metered customers in the
13 system at the time the loan is closed per the method shown in scheduled Schedule
14 CLP-1.
- 15 • That the Company file with the Commission a WIFA loan surcharge tariff application
16 that would enable the Company to meet its principal, interest, debt reserve, and tax
17 obligations on the proposed WIFA loan.
- 18 • That the Company make a WIFA loan surcharge filing within 60 days of the loan
19 closing.
- 20 • That the Company file a rate case no later than July, 1, 2018 with a December 31, 2017
21 test year.

CONCLUSIONS OF LAW

19 1. Cibola Mutual Water Company, Inc. is a public service company within the meaning of
20 Article XV, Section 2 of the Arizona Constitution and A.R.S. §§ 40-250, and 40-301 *et seq.*

21 2. The Commission has jurisdiction over Cibola Mutual Water Company, Inc. and the
22 subject matter of the application.

23 3. The Commission, having reviewed the application and Staff's memorandum dated
24 November 26, 2014, concludes that pursuant to A.R.S. § 40-252 it is in the public interest to amend
25 Decision No. 74445, as modified by Decision No. 74552 to authorize Cibola Mutual Water Company,
26 Inc. to obtain a loan from WIFA to fund the construction of treatment facilities as recommended by
27 Staff in Findings of Fact Nos. 7 and 8.

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ORDER

IT IS THEREFORE ORDERED that Docket Nos. W-04106A-13-0266 and W-04106A-14-0319 are hereby consolidated.

IT IS FURTHER ORDERED that Cibola Mutual Water Company, Inc. is authorized to borrow an amount from WIFA not to exceed \$87,051 with a twenty-year term.

IT IS FURTHER ORDERED that such authority is expressly contingent upon Cibola Mutual Water Company's use of the proceeds for the purposes set forth in Findings of Fact Nos. 7 and 8.

IT IS FURTHER ORDERED that any unused debt authorization granted in this proceeding shall terminate in two years from date of the decision in this Docket.

IT IS FURTHER ORDERED that Cibola Mutual Water Company is hereby authorized to pledge, mortgage, lien, and/or otherwise encumber its assets and revenues in the State of Arizona pursuant to A.R.S. § 40-285 in connection with the indebtedness authorized herein.

IT IS FURTHER ORDERED that Cibola Mutual Water Company shall file with Docket Control, as a compliance item in this docket, within 30 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and certification by an authorized representative of Cibola Mutual Water Company that the terms of the financing fully comply with the authorizations granted herein.

IT IS FURTHER ORDERED that Cibola Mutual Water Company shall provide to the Utilities Division Compliance Section a copy of the loan documents executed pursuant to the authorizations granted herein within 30 days of the execution of the loan, and also file a letter in Docket Control verifying that such documents have been provided to the Utilities Division.

IT IS FURTHER ORDERED that Decision No. 74445 is hereby amended to include a surcharge for the recovery of debt service related to the financing authorizations discussed herein.

IT IS FURTHER ORDERED that such debt financing surcharge shall be calculated based upon the actual amount of the WIFA loan and the actual amount of metered customers in the system at the time the loan is closed per the method shown in attached Schedule CLP-1.

...
...

1 IT IS FURTHER ORDERED that Cibola Mutual Water Company file with the Commission
 2 within 60 days of closing any loan obtained in connection with the authorizations granted herein, a
 3 WIFA loan surcharge tariff application that would enable Cibola Mutual Water Company to meet its
 4 principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.

5 IT IS FUTHER ORDERED that Cibola Mutual Water Company file a rate case no later than
 6 July 1, 2018 with a December 31, 2017 test year.

7 IT IS FURTHER ORDERED that this Decision shall be effective immediately.

8
 9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

10
 11 _____
 12 CHAIRMAN COMMISSIONER

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 14 COMMISSIONER COMMISSIONER COMMISSIONER

15
 16 IN WITNESS WHEREOF, I, JODI JERICH, Executive
 17 Director of the Arizona Corporation Commission, have hereunto,
 18 set my hand and caused the official seal of this Commission to be
 affixed at the Capitol, in the City of Phoenix, this _____ day of
 _____, 2014.

19
 20 _____
 21 JODI JERICH
 22 EXECUTIVE DIRECTOR

23 DISSENT: _____

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 25 DISSENT: _____

26 SMO:CP:sms\CHH

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1 SERVICE LIST FOR: Cibola Mutual Water Company, Inc.
2 DOCKET NO. W-04106A-14-0319

3 David Grundy
4 General Manager
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8 Cibola, Arizona 85328

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