

ORIGINAL

MEMORANDUM



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TO: Docket Control

FROM: *for* Steven M. Olea  
Director  
Utilities Division



DATE: May 5, 2015

RE: IN THE MATER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY, INC. FOR AN EXTENSION ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. W-20446A-14-0290)

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

SMO:VW:red\BES

Originator: Vicki Wallace

Arizona Corporation Commission  
**DOCKETED**  
MAY 05 2015

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Docket No. W-20446A-14-0290

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ARIZONA CORPORATION COMMISSION

GLOBAL WATER – SANTA CRUZ WATER COMPANY, INC.

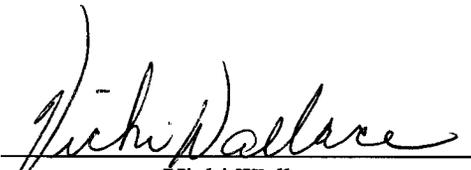
DOCKET NO. W-20446A-0290

AMENDED APPLICATION FOR AN EXTENSION OF AN EXISTING  
CERTIFICATE OF CONVENIENCE & NECESSITY

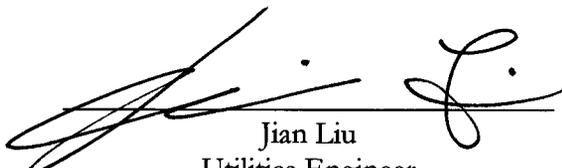
MAY 5, 2015

## STAFF ACKNOWLEDGEMENT

The Staff Report for Global Water – Santa Cruz Water Company, Inc. (Docket No. W-20446A-14-0290) 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; Jian Liu was responsible for the engineering and technical analysis; and Teresa Hunsaker was responsible for the financial analysis.



Vicki Wallace  
Executive Consultant



Jian Liu  
Utilities Engineer



Teresa Hunsaker  
Public Utility Analyst

**EXECUTIVE SUMMARY**  
**GLOBAL WATER – SANTA CRUZ WATER COMPANY, INC.**  
**DOCKET NO. W-20446A-14-0290**

On July 30, 2014, Global Water – Santa Cruz Water Company (“Santa Cruz” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) requesting approval for an extension of its existing Certificate of Convenience and Necessity (“CC&N”) to provide public utility water service in Pinal County. This case was originally consolidated with a request to extend wastewater service by Global Water – Palo Verde Utilities Company (Docket No. SW-020445A-14-0291), but that case was later withdrawn. On February 13, 2015, Santa Cruz filed an amended application limiting the requested service area to expedite processing.

Santa Cruz is an Arizona public service corporation, authorized by the ACC to provide water service in Pinal County, Arizona. By the amended application, Santa Cruz is seeking to extend the Santa Cruz CC&N to provide potable water service to the Estrella Gin property (“the Development”) covering approximately 65 acres in an area adjacent to the Company’s current CC&N service area. The Development is undeveloped land owned by the City of Maricopa (“City”) and consists of commercial, flex office/warehouse, and industrial use with no planned residential at this time. Santa Cruz does not need any additional plant facilities to provide service to the Development.

**CONCLUSIONS AND RECOMMENDATIONS**

*Conclusions*

1. The Company is in compliance with ADEQ, ADWR, and ACC regulations.
2. The Company has adequate production and storage capacity to serve existing customers (including the proposed extension area) and to provide reasonable growth.
3. The Company has the financial capabilities to provide service to the requested extension area.
4. It is in the public interest to approve this request for an extension of Santa Cruz’s CC&N, subject to the conditions below.

*Recommendations*

Staff recommends that the Commission approve Santa Cruz for an extension of its existing CC&N to include the Estrella Gin Property to provide water service, subject to compliance with the following conditions:

1. To require Santa Cruz to charge its existing rates and charges in the proposed extension area.

2. Staff is concerned about Santa Cruz's over-reliance on advances in aid of construction and contribution in aid of construction, therefore, the Company should be 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 infrastructure.

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## **INTRODUCTION**

On July 30, 2014, Global Water – Santa Cruz Water Company (“Santa Cruz” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) requesting approval for an extension of its existing Certificate of Convenience and Necessity (“CC&N”) to provide public utility water service in Pinal County. This case was originally consolidated with another application requesting to extend wastewater service by Global Water – Palo Verde Utilities Company (Docket No. SW-20445A-14-0291), but that case was later withdrawn.

The Santa Cruz application initially covered six properties: City of Maricopa – Estrella Gin; City of Maricopa – Eagle Wing PAD; Anderson Russell, LLC Property; El Dorado Holdings, Inc. – Eagle Wing; and Santa Cruz Land Development, LLC, and Pinal County – Maricopa Recycling Center. Staff issued Insufficiency Letters on August 28, September 5, and December 4, 2014, indicating that the Company’s application did not meet the sufficiency requirements of the Arizona Administrative Code (“A.A.C.”) R14-2-402. The Company subsequently filed responses to the Insufficiency Letters. To expedite the process, Santa Cruz filed an Amended Application on February 13, 2015, to cover only one of the six properties, the City of Maricopa’s Estrella Gin property. On March 10, 2015, Staff filed its Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

On March 12, and April 10, 2014, Procedural Orders were issued settling procedural matters and setting an evidentiary hearing for June 2, 2015.

## **BACKGROUND**

Santa Cruz is an Arizona public service corporation, authorized by the ACC to provide water service in Pinal County, Arizona and is in good standing with the ACC’s Corporations Division. Santa Cruz’s parent company is Global Water Resources, Inc. (“GWRI” or “Global Parent”), a Delaware C Corporation, and 48.1% of the shares of GWRI are held by GWR Global Water Resources Corporation, a Canadian corporation.

Santa Cruz current serves approximately 17,200 customers within Pinal County, and its current rates were set by Decision No. 74364 issued February 26, 2014.

By the amended application, Santa Cruz is seeking to extend the Santa Cruz CC&N to provide potable water service to the Estrella Gin property (“Development”) covering approximately 65 acres in an area adjacent to the Company’s current CC&N service area. The Development is undeveloped land owned by the City of Maricopa (“City”) and consists of commercial, flex office/warehouse, and industrial use with no planned residential at this time. The City has scheduled Parcels 1 and 2 of Estrella Gin to be completed and occupied in 2015, and Parcels 3 and 4 to be completed and occupied in 2016. Santa Cruz does not need any additional plant facilities to provide service to the Development. Staff’s legal description and mapping of the area is attached as Exhibit 1.

According to the application, notice was provided to county and city entities within five miles of the extension area. The Company also forwarded a request for service which was received from the City of Maricopa for the 65 acres of the Estrella Gin Property.

## **THE WATER SYSTEM**

Staff's Engineering Report, which is attached as Exhibit 2, describes the existing water system facilities in detail. The water system basically consists of six active wells for potable water use, four active wells for construction, golf course, irrigation, and lake water use purposes only, five storage tanks, hydro-pneumatic systems, and a distribution system serving approximately 17,200 current customers.

Staff concludes that the Santa Cruz water system has adequate production and storage capacity to serve its existing customers (including the proposed CC&N extension area) and to provide for reasonable growth.

## **FINANCE OF FACILITIES**

The Company indicates in its application that Santa Cruz plans to construct and finance \$1,105,500 for Well Site No. 1 and \$421,032 for Estrella Gin On-Site Water System in three phases with a combination of advances in aid of construction ("AIAC") and hook-up fees, which will be recognized as a contribution in aid of construction ("CIAC"). The Company stated in response to Staff's data request that Well Site No 1 would not be required until 2020 and, thus, it was removed in Staff's analysis of anticipated plant costs and associated expenses.

Based upon the review of financial statements provided, Staff determined adequate funding exists for Santa Cruz's operational needs and provision of water service in the requested CC&N area.

After further assessment of the financial information submitted by the Company, Staff performed a capital structure analysis. Although the investment in Well No 1 is being disregarded since the plant will not be placed in service within five years, Staff is concerned about a continuing over-reliance on AIAC and CIAC. As a result, Staff recommends that the Company be 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 mix in accordance with the Settlement Agreement in Decision No.74364. For the detailed financial analysis conducted by Staff, please see the Financial and Regulatory Staff Report, Exhibit 3.

## **PROPOSED RATES AND CONSUMER SERVICES**

Santa Cruz has proposed to extend service to the extension property at its currently approved tariffed rates and charges established in Decision No. 74364 issued February 26, 2014.

A review of the Consumer Services database for complaints revealed that from 2013 to date, approximately 69 complaints (mostly billing/deposit issues) have been received for the entire Santa

Cruz CC&N water service area. All complaints have been resolved and closed. No opinions opposing this application have been received.

### **WASTEWATER PROVIDER**

According to information provided by the Company, Global – Palo Verde will be the wastewater provider in the requested extension area.

### **ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE**

ADEQ regulates the Company’s Water System under ADEQ Public Water System (“PWS”) No. 11-131. ADEQ reported that Santa Cruz is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated December 4, 2014).

### **ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE**

Santa Cruz is located in the Pinal Active Management Area (“AMA”) and is subject to ADWR and AMA reporting and conservation requirements. ADWR reported that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated March 26, 2015).

### **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**

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

### **CONCLUSIONS AND RECOMMENDATIONS**

#### *Conclusions*

1. The Company is in compliance with ADEQ, ADWR, and ACC regulations.
2. The Company has adequate production capacity and storage capacity to serve existing customers (including the proposed extension area) and to provide reasonable growth.

3. The Company has the financial capabilities to provide service to the requested extension area.
4. It is in the public interest to approve this request for an extension of Santa Cruz's CC&N, subject to the conditions listed below.

*Recommendations*

Staff recommends that the Commission approve Santa Cruz for an extension of its existing CC&N to include the Estrella Gin Property to provide water service, subject to compliance with the following conditions:

1. To require Santa Cruz to charge its existing rates and charges in the proposed extension area.
2. The Company should be 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 infrastructure.