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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH - Chairman  
BOB STUMP  
BOB BURNS  
DOUG LITTLE  
TOM FORESE

Arizona Corporation Commission

DOCKETED

AUG 26 2015

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF  
GLOBAL WATER – SANTA CRUZ WATER  
COMPANY FOR AN EXTENSION OF ITS  
EXISTING CERTIFICATE OF CONVENIENCE  
AND NECESSITY.

DOCKET NO. W-20446A-14-0290

DECISION NO. 75230

OPINION AND ORDER

DATE OF HEARING:

June 2, 2015

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Scott M. Hesla

APPEARANCES:

Mr. Timothy J. Sabo, Snell & Wilmer, L.L.P., on behalf of Applicant; and

Mr. Brian E. Smith, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On July 30, 2014, Global Water – Santa Cruz Water Company (“Santa Cruz” or “Company”) filed with the Arizona Corporation Commission (“Commission”) an application for approval to extend its Certificate of Convenience and Necessity (“CC&N”) to provide water utility service to the following five properties within or near the cities of Maricopa and Casa Grande, Arizona: (1) City of Maricopa – Estrella Gin (“Estrella Gin”); (2) City of Maricopa – Eagle Wing

1 PAD; (3) Anderson Russel, LLC; (4) El Dorado Holdings, Inc. – Eagle Wing PAD; and (5) Santa  
2 Cruz Land Development, LLC.

3 2. On August 8, 2014, Santa Cruz filed copies of letters mailed to Maricopa and Casa  
4 Grande informing those cities of the application and proposed extension areas.

5 3. On August 21, 2014, Santa Cruz filed a Motion to Consolidate this matter with the  
6 application of Global Water – Palo Verde Utilities Company (“Palo Verde”), filed in Docket No.  
7 SW-20445A-14-0291 (“Palo Verde Docket”), stating that both dockets concern CC&N extension  
8 requests covering essentially the same area.

9 4. On August 28, 2014, the Commission’s Utilities Division (“Staff”) filed an  
10 Insufficiency Letter notifying Santa Cruz that its application did not meet the sufficiency  
11 requirements outlined in the Arizona Administrative Code (“A.A.C”).

12 5. On September 5, 2014, Staff filed a Revised Insufficiency Letter.

13 6. On November 4, 2014, Santa Cruz filed a Response to Insufficiency Letter.

14 7. On December 4, 2014, Staff filed a Second Insufficiency Letter requesting additional  
15 information from Santa Cruz.

16 8. On February 13, 2015, Santa Cruz filed an amended application stating that it was  
17 excluding four of the five properties from its initial CC&N extension request in order to expedite  
18 consideration of this matter.<sup>1</sup> In its amended application, Santa Cruz requests approval to extend its  
19 existing CC&N territory to provide water utility service to Estrella Gin. Contemporaneously with the  
20 filing of its amended application, Santa Cruz filed a Response to Second Insufficiency Letter.

21 9. On March 10, 2015, Staff filed a Sufficiency Letter indicating that Santa Cruz’s  
22 amended application meets the sufficiency requirements outlined in A.A.C. R14-2-402.

23 10. On March 12, 2015, a Procedural Order was issued consolidating this matter with the  
24 Palo Verde Docket, establishing various filing deadlines, and scheduling a hearing to commence on  
25 June 2, 2015.

26 ...

27  
28 <sup>1</sup> Santa Cruz states that the excluded properties will be included in a subsequent application filed in a new docket.

1           11.     On April 2, 2015, Palo Verde filed a Motion to Withdraw its application and  
2 administratively close the Palo Verde Docket based on a recent discovery that Estrella Gin is located  
3 within Palo Verde's existing CC&N territory.

4           12.     On April 3, 2015, Santa Cruz filed affidavits verifying that notice of the amended  
5 application and hearing was: (1) mailed to each property owner in the proposed extension area on  
6 March 19, 2015; and (2) published in the *Casa Grande Dispatch* on March 24, 2015.

7           13.     On April 10, 2015, a Procedural Order was issued deconsolidating and  
8 administratively closing the Palo Verde Docket. Additionally, the Procedural Order affirmed the  
9 filing deadlines and hearing date for the amended application of Santa Cruz.

10          14.     On May 5, 2015, Staff filed its Staff Report recommending approval of the amended  
11 application, subject to certain conditions.

12          15.     On May 7, 2015, Staff filed a Notice of Errata to incorporate three exhibits that were  
13 inadvertently omitted from the Staff Report, as filed.

14          16.     On May 19, 2015, Santa Cruz filed a Response to the Staff Report objecting to one of  
15 Staff's recommended conditions.

16          17.     On June 2, 2015, a full public hearing was convened as scheduled, with Santa Cruz  
17 and Staff appearing through counsel. At the conclusion of the hearing, the Company agreed to file a  
18 page that was inadvertently omitted from its filed Response to the Staff Report, and Staff agreed to  
19 submit its response to that filing, if any, no later than June 5, 2015.

20          18.     On June 2, 2015, Santa Cruz filed a Notice of Errata to incorporate the page that was  
21 inadvertently omitted from its Response to the Staff Report, as filed. Staff did not submit comments  
22 in response to the Company's filing.

23 **Background**

24          19.     Santa Cruz is an Arizona public service corporation engaged in providing water utility  
25 service to approximately 17,200 customers in Pinal County, Arizona. The Company's current rates  
26 and charges for water utility service were authorized in Decision No. 74364 (February 26, 2014).<sup>2</sup>

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<sup>2</sup> Exh. S-1 at 1.

1           20. Santa Cruz is currently in good standing with the Commission's Corporations  
2 Division and Staff reports that there are no delinquent compliance issues.<sup>3</sup>

3           21. The Company's existing water system consists of six active wells with total pumping  
4 capacity of 11,315 gallons per minute ("GPM") for potable water use; four active wells with total  
5 pumping capacity of 4,530 GPM for construction, golf course, irrigation, and lake water use; five  
6 storage tanks with total storage capacity of 6,500,000 gallons; hydro-pneumatic systems; and a  
7 distribution system.<sup>4</sup>

8           22. Based on Staff's engineering analysis, the Company's water system has adequate  
9 production and storage capacity to serve its customers and reasonable growth in the proposed  
10 extension area.<sup>5</sup>

11           23. According to a Department of Environmental Quality ("ADEQ") Compliance Status  
12 Report dated December 4, 2014, Santa Cruz is currently delivering water that meets the water quality  
13 standards required by 40 C.F.R. §§ 141.1, *et seq.* (National Primary Drinking Water Regulations) and  
14 A.A.C., Title 18, Chapter 4.<sup>6</sup>

15           24. The Company's water system is located in the Pinal Active Management Area  
16 ("AMA") and is subject to the water reporting and conservation requirements of the Arizona  
17 Department of Water Resources ("ADWR"). In a Compliance Status Report dated March 26, 2015,  
18 ADWR determined that Santa Cruz is currently in compliance with departmental requirements  
19 governing water providers and/or community water systems.<sup>7</sup>

20           25. Santa Cruz has approved Backflow Prevention, Curtailment, and Best Management  
21 Practices Tariffs on file with the Commission.<sup>8</sup>

22 **The CC&N extension area**

23           26. In its amended application, Santa Cruz seeks to extend its CC&N territory to provide  
24 water service to approximately 65 acres comprising a development known as Estrella Gin. Estrella  
25

26 <sup>3</sup> Exh. S-1 at 1, 3.

27 <sup>4</sup> Exh. S-2 at Exhibit 2.

28 <sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

1 Gin is owned by the city of Maricopa and, once developed, will consist of commercial and industrial  
 2 land uses. Maricopa has scheduled Parcels 1 and 2 of Estrella Gin to be completed and occupied in  
 3 2015, and Parcels 3 and 4 to be completed and occupied in 2016.<sup>9</sup>

4 27. The extension area is located adjacent to the Company's existing CC&N territory.<sup>10</sup>  
 5 The legal description for the CC&N extension area is attached hereto as Exhibit A.

6 28. To serve Estrella Gin, Santa Cruz plans to construct Well No. 1 and an on-site water  
 7 system at estimated costs of \$1,105,500 and \$421,032, respectively. Santa Cruz does not anticipate  
 8 needing the production capacity of Well No. 1 until the year 2020.<sup>11</sup>

### 9 Financing

10 29. Staff reviewed the Company's planned facility investments and projected revenues  
 11 and expenses for the next five years as well as unaudited financial statements for 2013 and 2014.  
 12 Based on Staff's analysis, Santa Cruz has the financial capabilities to provide service to the requested  
 13 extension area.<sup>12</sup>

14 30. Santa Cruz proposes to finance the plant expansion needs in three phases, utilizing a  
 15 combination of advances in aid of construction ("AIAC") and hook-up fees. Plant provided to a  
 16 utility pursuant to AIAC and hook-up fees is treated as contributions in aid of construction ("CIAC")  
 17 for ratemaking purposes.<sup>13</sup>

18 31. Staff indicated that the Company's current combined total AIAC and CIAC results in  
 19 35.28 percent of total capital. According to Staff, the *pro forma* effect of funding the entire plant  
 20 expansion with AIAC would result in a capital structure comprised of 35.57 percent AIAC/CIAC;  
 21 62.03 percent equity; and 2.40 percent debt.<sup>14</sup>

22 32. Staff is concerned about a continuing over-reliance on AIAC and CIAC. According to  
 23 Staff, an over-reliance on AIAC and CIAC can lead to a utility not having a sufficient rate base to  
 24 earn a reasonable rate of return. To ensure a utility remains financially viable, Staff states that it

25 <sup>9</sup> Exh. S-1 at 1.

26 <sup>10</sup> *Id.*

27 <sup>11</sup> Exh. S-2 at Exhibit 2.

28 <sup>12</sup> Exh. S-2 at Exhibit 3.

<sup>13</sup> *Id.*

<sup>14</sup> Staff removed the costs associated with Well No. 1 from its financial analysis based on the Company's representation that Well No. 1 will not be needed until the year 2020.

1 generally recommends that investor-owned utilities have a combined AIAC and CIAC funding ratio  
2 not in excess of 30 percent of total capital. Since the Company's *pro forma* AIAC and CIAC funding  
3 ratio is 35.57 percent, Staff recommends that the Company be placed on notice that it should plan to  
4 fund future infrastructure needs with equity and long-term debt in order to bring more balance to its  
5 capital structure.<sup>15</sup>

6 33. Santa Cruz objects to Staff's recommendation relating to how the Company should  
7 fund its future infrastructure needs. The Company argues that Staff's recommendation should not be  
8 adopted because: (1) a combined AIAC and CIAC funding ratio that is only 5 percent higher than the  
9 30 percent limit recommended by Staff is not excessive; (2) Santa Cruz is not thinly capitalized and  
10 has over \$59 million in equity; and (3) the utilization of AIAC and hook-up fees is consistent with its  
11 Code of Conduct adopted in Decision No. 74364 (February 26, 2014). Further, Santa Cruz notes that  
12 CIAC benefits ratepayers because it provides a low cost source of capital to the utility.<sup>16</sup>

13 34. At hearing, Mr. Ron Fleming, president of Santa Cruz, testified that the Company  
14 agrees with Staff that excessive amounts of AIAC and CIAC can be problematic for a utility.  
15 According to Mr. Fleming, an over-reliance on AIAC and CIAC results in a reduction to rate base  
16 which makes it difficult for a utility to secure funding through equity or debt. Testifying further, Mr.  
17 Fleming stated that any concern regarding an over-reliance on AIAC and CIAC is not applicable in  
18 this case because the Company's current capital structure is reasonable.<sup>17</sup>

19 **Staff's Recommendations**

20 35. Staff recommends approval of the Company's amended application for extension of its  
21 CC&N to provide water utility service, subject to compliance with the following conditions:

- 22 1) That Santa Cruz charge its existing rates and charges in the proposed extension  
23 area; and  
24 2) That Santa Cruz be placed on notice that, to the extent reasonably possible, it  
25 should plan to fund future infrastructure needs with equity and long-term debt in  
26 order to bring more balance to its capital structure.

27 <sup>15</sup> Exh. S-2 at Exhibit 3.

28 <sup>16</sup> Exh. A-12 at 1-2.

<sup>17</sup> Tr. at 25-26.

**Resolution**

36. We find that the Company's CC&N extension request is in the public interest because there is a need for water utility service in the extension area; the city of Maricopa is requesting water utility service to the extension area; and the Company is a financially sound public service corporation and able to provide service in the extension area.

37. We agree with Staff that Santa Cruz should be monitoring its capital structure in order to obtain an appropriate balance for the benefit of both ratepayers and shareholders. However, we find Staff's recommendation to put Santa Cruz on notice as to how it should fund future infrastructure unnecessary given that the Company is already aware of the ratemaking issues associated with an over-reliance on AIAC and CIAC. Further, there is no evidence that the Company or its ratepayers will be adversely affected by the funding proposed in this case. Based on the foregoing, we decline to adopt Staff's second recommended condition.<sup>18</sup>

38. Staff's recommendations in Findings of Fact No. 35, as modified herein, are in the public interest and should be adopted.

**CONCLUSIONS OF LAW**

1. Global Water – Santa Cruz Water Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

2. The Commission has jurisdiction over Global Water – Santa Cruz Water Company and the subject matter of the amended application.

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

4. There is a public need and necessity for water utility service in the area described in Exhibit A.

5. Global Water – Santa Cruz Water Company is a fit and proper entity to receive an extension of its CC&N, as discussed herein.

6. The amended application of Global Water – Santa Cruz Water Company for an extension of its CC&N to provide water utility service described in Exhibit A should be granted

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<sup>18</sup> It should be noted, however, that we consider capitalization issues on a case-by-case basis and a different conclusion may be reached for a utility with less equity that relies heavily on AIAC and/or CIAC to fund infrastructure needs.

1 subject to the recommendations of Staff set forth in Findings of Fact No. 35, as modified herein.

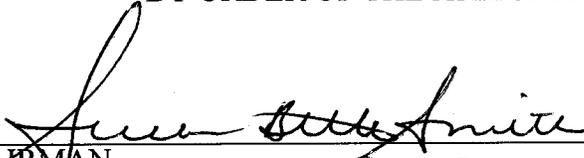
2 **ORDER**

3 IT IS THEREFORE ORDERED that the amended application of Global Water – Santa Cruz  
4 Water Company for an extension of its Certificate of Convenience and Necessity to provide water  
5 utility service in the area more fully described in Exhibit A, is hereby approved as conditioned herein.

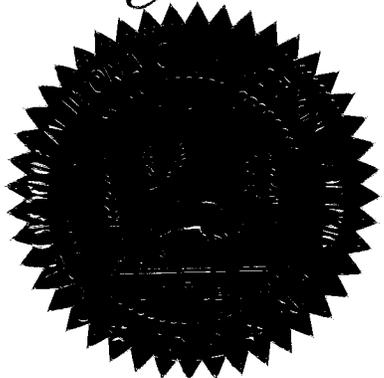
6 IT IS FURTHER ORDERED that Global Water – Santa Cruz Water Company shall charge its  
7 authorized rates and charges in the extension area until further Order of the Commission.

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

9 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

10    
11 CHAIRMAN COMMISSIONER

12     
13 COMMISSIONER COMMISSIONER COMMISSIONER  
14



15 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
16 Director of the Arizona Corporation Commission, have  
17 hereunto set my hand and caused the official seal of the  
18 Commission to be affixed at the Capitol, in the City of Phoenix,  
19 this 20th day of August 2015.

20   
21 JODI JERICH  
22 EXECUTIVE DIRECTOR

23 DISSENT \_\_\_\_\_

24 DISSENT \_\_\_\_\_  
25 SMH:tv(ru)

1 SERVICE LIST FOR: GLOBAL WATER - SANTA CRUZ WATER  
2 COMPANY

3 DOCKET NO.: W-20446A-14-0290

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Policy No.: 1002024.V7073

**EXHIBIT A**

File No.: 01006476-010-LS

**EXHIBIT A****LEGAL DESCRIPTION**

**THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF PINAL, STATE OF ARIZONA, AND IS DESCRIBED AS FOLLOWS:**

The Northeast quarter of the Southwest quarter; AND the Southeast quarter of the Northwest quarter of Section 21, Township 4 South, Range 3 East of the Gila and Salty River Meridian, Pinal County, Arizona, lying North of the Southern Pacific Railroad right of way.

Except those portions conveyed to Pinal County, Arizona in Quit Claim Deeds recorded in Docket 973, Page 345 and Docket 1018, Page 934; and

ALSO Except that portion described as follows:

Commencing at the Northwest corner of the Southeast quarter of the Northwest quarter of said Section 21;

Thence South along the West line of said Southeast quarter of the Northwest quarter of Section 21, a distance of 945.00 feet to the TRUE POINT OF BEGINNING;

Thence East along a line perpendicular to said West line, a distance of 70.00 feet to a point on a line 70 feet East of and parallel with the West line of the Southeast quarter of the Northwest quarter of Section 21;

Thence South along said line, a distance of 50.00 feet;

Thence West along a line perpendicular to the West line of said Southeast quarter of the Northwest quarter of Section 21, a distance of 70.00 feet to a point on said West line;

Thence North along the West line of said Southeast quarter of the Northwest quarter of Section 21, a distance of 50.00 feet to the POINT OF BEGINNING; and

ALSO Except that portion described as follows:

Commencing at the Arizona Department of Transportation aluminum cap in handhole marking the North quarter corner of said Section 21 from which the Arizona Department of Transportation aluminum cap in handhole marking the Northeast corner of said Section 21 bears North 89 degrees 38 minutes 51 seconds East, a distance of 2714.34 feet;

Thence South 00 degrees 31 minutes 04 seconds East, along the North-South mid-section line of said Section 21, a distance of 2066.95 feet to the TRUE POINT OF BEGINNING;

Thence continuing South 00 degrees 31 minutes 04 seconds East, along said North-South mid-section line of said Section 21, a distance of 563.37 feet to the 1/4 inch iron pipe marking the center of said Section 21;

Thence South 89 degrees 53 minutes 52 seconds West, along the East-West mid-section line of said Section 21, a distance of 30.00 feet to a point on a line which is parallel with and 30.00 feet Westerly, as measured at right angle from the North-South mid-section line of said Section 21;

Thence North 00 degrees 31 minutes 04 seconds West, along said parallel line, a distance of 371.06 feet to the beginning of a tangent curve of 630.00 foot radius, concave Southeasterly;

Thence Northeasterly, along said curve, through a central angle of 17 degrees 45 minutes 10 seconds, a distance of 195.20 feet to the POINT OF BEGINNING.

APN: 510-17-005E-6

ALTA Owner's Policy (6-17-06)  
Form 1402.06.A

Page 2

Further excepting the following:

A strip of land 60 feet wide being 30 feet on either side of the Enid-Maricopa Highway survey as surveyed over and across the lands of Melvin S. Drake in section 21 T.4 S, R.3 E, G. & S.R.B.M. paralleling and adjacent to the North right-of-way line of the Southern Pacific Railroad and more particularly described as follows:

Beginning at the intersection of the center line of the above named survey at station 450+70 and the West line of the N.E.1/4 of the S.W.1/4 of section 21, which point lies 330 feet more or less South of the S.E. corner of the S.W.1/4 of the N.W.1/4 of section 21; running thence in a Southeasterly direction over and across the said section 21 a distance of 1650 feet more or less to a point marking the intersection of the center line of said survey at station 467+20 and the South line of the N.E.1/4 of the S.W.1/4 of section 21 which point lies 80 feet more or less West of the S.E. corner of the N.E.1/4 of the S.W.1/4 of section 21 containing 2.27 ACRES more or less, to be used for highway purposes only.

Also excepting:

That part of the Northeast quarter of the Southwest quarter (NE  $\frac{1}{4}$ , SW  $\frac{1}{4}$ ) of Section 21, Township 4 South, Range 3 East, G. & S.R.B. & M., more specifically described as follows:

A strip of land 20 feet in width lying parallel and adjacent to the North line of the existing 60 foot right-of-way .