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ORIGINAL EXCEPTION

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1 FENNEMORE CRAIG
Jay L. Shapiro (No. 014650)
2 Patrick Black (No. 017141)
3003 N. Central Ave.
3 Suite 2600
Phoenix, Arizona 85012
4 Attorneys for Pine Water Company, Inc.

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AZ CORP COMMISSION
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Arizona Corporation Commission

DOCKETED

JUN 30 2004

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BEFORE THE ARIZONA CORPORATION COMMISSION

6 IN THE MATTER OF THE APPLICATION
OF PINE WATER COMPANY FOR A
7 DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
8 AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
9 THEREON FOR UTILITY SERVICE AND
FOR APPROVAL TO INCUR LONG-
10 TERM DEBT

DOCKET NO: W-03512A-03-0279

**PINE WATER COMPANY'S
EXCEPTIONS TO RECOMMENDED
OPINION AND ORDER**

11 Pine Water Company ("Pine Water" or "Company") submits its exceptions to the
12 Recommended Opinion and Order ("ROO") issued by the Assistant Chief Administrative
13 Law Judge (the "ALJ") on May 28, 2004. In summary, the ROO fails to approve the
14 Settlement Agreement entered into between the Company, Utilities Division Staff
15 ("Staff") and intervenors John O. Breninger and the Pine-Strawberry Water Improvement
16 District (collectively referred to herein as the "Settling Parties"). Instead, the ROO
17 adopts the majority of the Settling Parties' agreed-upon terms and conditions, rejects two
18 others and adds an additional condition.

19 In summary, the ROO would modify the Settlement Agreement in three material
20 respects:

- 21 (1) The ROO would require the Company to establish a 24-hour local call
22 center for handling leaks and/or service outages. ROO at 12, 16.
- 23 (2) The ROO would preclude Pine Water from recovering the full amount of
24 approved rate case expense in the event the Commission establishes a new
25 revenue requirement for the Company within four years. ROO at 7-8.
- 26 (3) The ROO declines to provide the Company rate making and regulatory
guidance regarding the exploration of additional water supplies in the water
starved Pine-Strawberry region. ROO at 10-11.

1 Pine Water takes exception to two of these material modifications to the
2 Settlement Agreement. First, the ROO's requirement that the Company establish a local
3 24-hour call center is not based on evidence in the record concerning whether such a call
4 center is necessary or prudent.¹ Moreover, the ROO makes no provision for recovery of
5 the increased operating expenses that Pine Water must incur if the ROO's call center
6 requirement were adopted. Adoption of this requirement would offset the revenue
7 increase approved in this case, and could result in a larger operating loss than Pine Water
8 experienced during the test year.

9 Second, although the ROO accepts the Settling Parties' agreement that \$200,000
10 amortized over four years is reasonable recovery of rate case expense, the ROO rejects
11 the agreement's provision for reamortization of unrecovered rate case expense if a new
12 revenue requirements is established within four years of a decision. This provision was
13 simply a recognition of the Commission's traditional treatment of unamortized rate case
14 expense. By rejecting this aspect of the Settling Parties' agreement, the ROO would
15 penalize Pine Water if increased capital investment and/or increased operating expenses
16 require the Company to seek additional rate relief in the next two years.

17 In contrast, while Pine Water is disappointed that the Commission will not, under
18 the ROO, provide the regulatory guidance concerning the exploration for additional water
19 supplies the Settling Parties have requested, Pine Water does not take exception to this
20 recommendation. Instead, Pine Water accepts that the Commission prefers to leave
21 decisions on further capital investment to locate additional water supplies within the
22

23 ¹ As explained further herein, Pine Water cannot simply establish a 24 hour "number" to address the
24 requirements in the ROO, nor can its existing field technicians and operations personnel take on the added
25 duty of handling customer service calls. Rather, a local call "center" would have to be established and
26 operated. Of course, the existing call center utilized for all of Brooke Utilities' customers in Arizona
already provides 24-hour leak and service outage reporting as well as coordination with field technicians
that investigate and repair leaks and other service related issues. Hearing Transcript ("TR") at 939-943,
945-949, 969. See also Call Center Procedures, filed as a late filed Exhibit, attached hereto at Exhibit A.

1 Company's discretion. However, Pine Water does respond herein to intervenor Robert
2 M. Cassaro's post-ROO request that the Commission further modify the Settlement
3 Agreement by ordering the drilling of three new wells outside the Company's CC&N.
4 Such well drilling is already underway and further modification of the Settlement
5 Agreement appears unnecessary. Moreover, the modification requested by Mr. Cassaro
6 would be inconsistent with the ROO's rejection of the Settling Parties' request for
7 regulatory guidance concerning the exploration for additional water supplies.

8 **I. THE ROO DENIES PINE WATER ANY RATE INCREASE.**

9 In Decision No. 65914 (May 13, 2004), the Commission unanimously found that
10 an emergency exists in Pine Water's CC&N with "respect to lack of water supply and
11 due to its precarious financial position." Decision No. 65914 at 5-6. The Commission
12 ordered Pine Water to file this rate case so that a new revenue requirement could be
13 established. The Settling Parties and the ALJ agree that, under the terms of the
14 Settlement Agreement, an increase of \$77,243, or 11.8% percent, is reasonable. ROO at
15 7. However, by requiring the Company to establish and operate a 24-hour call center, the
16 ROO would increase operating expense by an amount estimated by Pine Water to be at
17 least equal to the \$77,000 rate increase it would receive. Given the concessions made by
18 Pine Water and its shareholder, Brooke Utilities, to the other Settling Parties and to the
19 Company's customers, including, most notably, Brooke's relinquishment of any
20 ownership claim in Project Magnolia, Pine Water cannot reasonably be expected to
21 forego any rate increase in this docket.

22 Even if cost recovery were adequately addressed, there is no basis to require that a
23 call center be created. The record before the Commission is devoid of any evidence
24 regarding the prudence of a local call center given Pine Water's size and other
25 characteristics. There is simply no evidence before the Commission showing that having
26 a local call-in number and leak response requirements would result in leaks and service

1 outages being reported and repaired sooner. There is no evidence that customers would
2 receive any more information any sooner. And there is absolutely no evidence regarding
3 how much these requirements and procedures will cost Pine Water, and no assessment of
4 whether the benefits outweigh the costs.

5 It should be obvious, that this requirement will be costly, even under conservative
6 estimates. To meet the recommendations in the ROO, the Company will have to hire no
7 less than 3.5 employees working 40 hours per week in shifts to man the phones on a 24-
8 hour basis, including weekends and holidays. At \$9 per hour, plus reasonable employee
9 benefits, Pine Water will expend more than \$75,000 per year on just the labor to answer a
10 24 hour call in number.² Further, these telephone operators need a place to answer the
11 phones as well as office furniture and supplies, computers and phone systems. These
12 employees need to be trained in the collection and transmission of water system leak and
13 service outage information as well as learning to use computer technology to protect the
14 privacy of consumer information. Thus, in addition to a substantial increase in annual
15 operating expenses, the ROO would require a significant up-front investment of capital
16 and administrative resources to set up a local 24-hour call center.

17 At present, customers can call a toll-free number in San Dimas, California, where
18 Pine Water already employs a state of the art 24-hour call center for its customers. TR at
19 939-943, 945-949, 969.³ The call center already has procedures in place to address leaks,
20 including procedures for immediately contacting local field personnel after reports of
21 leaks or service outages are received. *See* Exhibit A. The call center provides services at
22 far less cost because it provides the same services to several water utility companies,

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24 ² \$9 per hour for 40 hours per week for 50 weeks a year for 3.5 employees is \$63,000.

25 ³ The call center Brooke Utilities contracts with for its Arizona operations is owned and operated by
26 American States, which owns several water companies in California and the Chaparral City Water
Company in Fountain Hills, Arizona. The Company offered Mr. Cassaro a tour of the call center
operation and further invites the Commissioners or Staff to do the same.

1 allowing for economies of scale and enhanced training and customer response.

2 For example, the ROO would require Pine Water's local service representatives to
3 meet certain response requirements, such as providing, within 30 minutes, an estimate of
4 when a leak or service outage will be investigated and repaired. This will make it
5 necessary for the local call center operator to coordinate the transmission of information
6 between field technicians and customers. However, when a leak is discovered, a water
7 utility will often receive dozens of calls in minutes. Answering multiple calls in a short
8 period, coordinating with the field personnel and providing updated information to
9 customers is going to overwhelm a single customer service representative. In contrast,
10 the call center operation currently utilized by Brooke Utilities for its Arizona water
11 systems has a large, well-trained staff with established procedures intended to allow the
12 Company to investigate and repair leaks and service outages as soon as possible. *See*
13 Exhibit A.

14 Pine Water does not disagree with the ALJ, who stated in the ROO that "it is
15 incumbent on a public service corporation to be responsive to customer inquiries of all
16 types, but especially where leaks or outages are reported that have the potential to
17 jeopardize the health and safety of the customers served by the utility company." ROO at
18 12. But what is the appropriate response? The issue of "leak response" was raised
19 through the public comment process and Pine Water has followed up on each and every
20 customer comment and, in particular, has addressed the call center complaints with its
21 service provider. In so doing, Pine Water has concluded, among other things, that
22 multiple call centers will result in greater customer confusion and frustration, rather than
23 enhanced customer service, while increasing operating expenses. Accordingly, Pine
24 Water suggests that the ROO's recommendation for a local 24-hour call center is
25 unnecessary and unreasonable.

26 Moreover, in the Settlement Agreement, Pine Water has agreed to submit to Staff

1 a detailed plan for addressing water loss within 180 days of an order. If the Company's
2 call center and leak repair and response procedures are jeopardizing the health and safety
3 of its customers, which the Company does not believe to be true, the Company will be
4 studying and proposing a means to address such potential in that report. Foreshadowing
5 the outcome of one aspect of that analysis and dictating in advance a remedy – a
6 requirement that promises greater expense but not necessarily better customer service – is
7 simply not justified given the lack of any evidence supporting this requirement.

8 **II. PINE WATER MERELY SEEKS A REASONABLE OPPORTUNITY TO**
9 **RECOVER ITS RATE CASE EXPENSE.**

10 The Settling Parties agreed that total rate case expense of \$200,000 was reasonable
11 and that the Company should be allowed to recover that expense over four years. ROO at
12 4-5. The ALJ agreed. *Id.* at 7. The Settling Parties also agreed that any unrecovered
13 portion of that expense should remain subject to recovery in a future rate case.
14 Settlement Agreement at ¶ 5. The ALJ disagreed with this provision of the Settlement
15 Agreement, and in the ROO recommends that “rate case expenses should be treated in the
16 same manner as all other expenses in a future rate case.” ROO at 8.

17 Ironically, Pine Water understood this provision was being included in the
18 Settlement Agreement to reflect the manner in which the Commission has previously
19 treated approved, but unrecovered rate case expense when circumstances require
20 additional rate relief before the amortization period for this expense has ended. For
21 example, in *Paradise Valley Water Company*, Decision No. 60220 (May 27, 1997), the
22 Commission expressly allowed an amount of unrecovered rate case expense to be
23 reamortized and recovered through the new revenue requirement. Decision No. 60220 at
24 13-14. *See also* Decision No. 59079 (May 5, 1995) at 21; Decision No. 58419 (Sept. 30,
25 1993) at 10-11.

26 Put bluntly, Pine Water is not looking for something above and beyond what the

1 Settling Parties and ALJ agree is reasonable in this case. Rather, given the precarious
2 water supply situation that exists in Pine, Arizona, and the possibility that substantial
3 capital investment and/or increased operating expenses might be necessary to continue to
4 meet even a conservation-limited level of customer demand, it is impossible to know
5 when another rate case might be necessary. Pine Water simply wishes to not be
6 penalized by the loss of an opportunity to recover all of its approved rate case expense in
7 the event it needs rate relief to continue serving its customers. In this light, the
8 recommendation in the ROO that Pine Water be precluded from reamortizing
9 unrecovered rate case expense is unreasonable and should be rejected.

10 **III. WELL DRILLING IN STRAWBERRY, ARIZONA.**

11 Although not a Settling Party, Cassaro has filed his “exceptions” to the ROO
12 requesting that the Commission direct Pine Water to drill three new wells in Strawberry,
13 Arizona. This would constitute an unnecessary and material modification of the
14 Settlement Agreement. Well drilling in Strawberry has already commenced and two of
15 the three wells have already been drilled, while attempts to lower one of the wells and
16 achieve a productive water supply continue. Moreover, the third well will be drilled
17 shortly, subject to the well driller’s availability. Meanwhile, under the ROO the
18 Commission would decline to provide the Company any direction regarding ongoing
19 water exploration. Simultaneously mandating methods for seeking to augment available
20 water supplies makes little sense.

21 **IV. CONCLUSION AND RELIEF REQUESTED.**

22 Four of the five parties to this rate case, after considering the evidence, their
23 respective positions and interests and the interests of the public, have reached an
24 agreement to settle the issues in dispute in this docket. The ROO, while adopting most of
25 the Settling Parties’ agreed-upon terms and conditions, would modify the Settlement
26 Agreement in two material respects. As a result, after compromising its position,

1 including most notably, the relinquishment of ownership claims to Project Magnolia by
2 its sole shareholder, Pine Water would be denied even the limited rate relief it agreed to
3 accept under the Settlement Agreement.

4 The Settling Parties have already recognized that Pine Water cannot be obligated
5 to accept material changes to the Settlement Agreement if the rate and other relief it was
6 to receive are not approved by the Commission. See Settlement Agreement at ¶¶ 17-21.
7 Nor should Pine Water be required to accept less than it agreed to accept when it entered
8 the Settlement Agreement, such as a reduction in operating income due to increased
9 operating expenses. Public policy favors settlement. See, e.g., *Untied Bank of Arizona*
10 *v. Sun Valley Door & Supply, Inc.*, 149 Ariz. 64, 68, 716 P.2d 433, 437 (App. 1986);
11 *Shell Oil Company v. Christie*, 125 Ariz. 38, 39, 607 P.2d 21, 22 (App. 1979). Rejecting
12 the Settlement Agreement in the manner contemplated in the ROO would send a message
13 that settling parties proceed with an unreasonable assumption of risk that it will not
14 receive the consideration it agreed to when it compromised its position. Pine Water
15 suggests this is simply the wrong message for the Commission to send

16 Accordingly, Pine Water respectfully requests that the Commission adopt the
17 ROO, but only after it is modified to eliminate the requirement that a 24-hour call in
18 number be established and to eliminate forfeiture of approved but unrecovered rate case
19 expense in a future revenue requirement.

20 RESPECTFULLY SUBMITTED this 30th day of June, 2004.

21 FENNEMORE CRAIG

22
23 By _____

24 Jay L. Shapiro
25 Patrick J. Black
26 3003 North Central Avenue
Suite 2600
Phoenix, Arizona 85012
Attorneys for Pine Water Company

1 Original and 13 copies were filed
2 this 30th day of June, 2004, to:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

7 A copy of the foregoing
8 hand-delivered this 30th day
9 of June, 2004, to:

10 Chairman Marc Spitzer
11 Arizona Corporation Commission
12 1200 W. Washington St.
13 Phoenix, AZ 85007

14 Commissioner William A. Mundell
15 Arizona Corporation Commission
16 1200 W. Washington St.
17 Phoenix, AZ 85007

18 Commissioner Mike Gleason
19 Arizona Corporation Commission
20 1200 W. Washington St.
21 Phoenix, AZ 85007

22 Commissioner Jeff Hatch-Miller
23 Arizona Corporation Commission
24 1200 W. Washington St.
25 Phoenix, AZ 85007

26 Commissioner Kristin K. Mayes
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Phil Dion, Aide to Chairman Spitzer
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

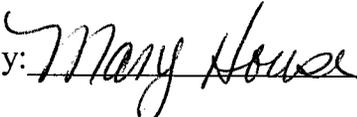
- 1 Adam Stafford, Aide to Commissioner Mundell
Arizona Corporation Commission
2 1200 W. Washington St.
3 Phoenix, AZ 85007
- 4 Jodi Jerich, Esq., Aide to Commissioner Gleason
Arizona Corporation Commission
5 1200 W. Washington St.
6 Phoenix, AZ 85007
- 7 Dean Miller, Aide to Commissioner Hatch-Miller
Arizona Corporation Commission
8 1200 W. Washington St.
9 Phoenix, AZ 85007
- 10 Garry Hays, II, Esq., Aide to Commissioner Mayes
Arizona Corporation Commission
11 1200 W. Washington St.
12 Phoenix, AZ 85007
- 13 Dwight D. Nodes, Assistant Chief ALJ
14 Hearing Division
Arizona Corporation Commission
15 1200 W. Washington St.
16 Phoenix, AZ 85007
- 17 Gary H. Horton, Esq.
18 Legal Division
Arizona Corporation Commission
19 1200 W. Washington St.
Phoenix, AZ 85007
- 20
- 21 ...
- 22 ...
- 23 ...
- 24 ...
- 25 ...
- 26 ...

1 AND a copy sent by
2 regular mail this 30th day of
3 June, 2004 to:

4 John Gliege, Esq.
5 Law Office of John G. Gliege
6 P.O. Box 1388
7 Flagstaff, Arizona 86002-1388
8 Attorney for Pine-Strawberry
9 Water Improvement District

10 John O. Breninger
11 P.O. Box 2096
12 3475 Whispering Pines Road
13 Pine, AZ 85544-2096

14 Robert M. Cassaro
15 P.O. Box 1522
16 Pine, Arizona 85544

17 By: 
18 _____
19 JSHAPIRO/1560112

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21
22
23
24
25
26

A

HYDRANT LEAK**1. DEFINITION**

A hydrant leak is defined as water loss from a hydrant.

Excessive water loss may cause the following potential problems:

- Property damage
- Safety hazards
- Water quality inquiries/complaints

2. COMPANY POSITION

Pine Water Co., Inc. considers hydrant leaks an emergency and will investigate immediately.

3. GUIDELINES

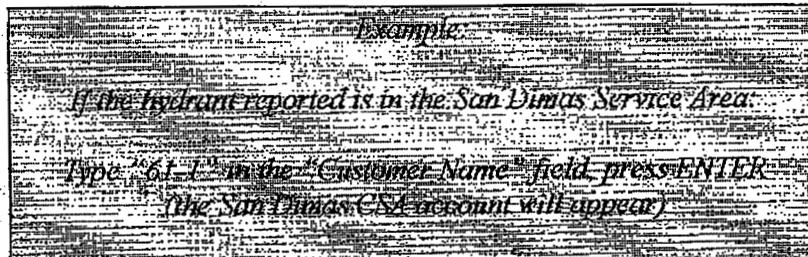
Review the following with the caller to assist in the investigation:

- Verify the hydrant in question is in the Company's service area (service location, maps, etc.). If not, try to refer the caller to the appropriate agency
- Ask the severity of leak (dripping, steady stream, gushing or sheared)
- Ask when first noticed (today, last week, month, etc.)
- Always obtain service address and cross streets or best possible directions

4. PROCEDURES

- Access "Display/Enter Customer Contacts by Cust #" from the Main Menu
- Access nearest service address to the hydrant
If service address is not available, access CSA account number
(see example below)

HYDRANT LEAK



- Review customer contact history (duplicate request)
- Review step #5 Guidelines
- Create a "LEAK5" Customer Contact
(“L5” Service Order will be generated)

**** NOTE **** *If necessary, see Procedure No. 19, "Customer Contacts/Service Orders", step #6C, for step by step instructions on creating customer contacts and service orders.*

- Make appropriate notes (location, severity, etc.)
- Print the "L5" Service Order for immediate dispatch
- Call the CSA to verify receipt of the service order

**** NOTE **** *Upon service order return, if necessary, see Procedure No. 21, "Service Order Update", step #6A, for step by step instructions on updating service orders.*

LEAK CUSTOMER PREMISES**1. DEFINITION**

A leak on a customer's premises is defined as water loss from the customer's property.

2. COMPANY POSITION

Pine Water Co., Inc. considers any leak an emergency and will investigate immediately.

3. GUIDELINES**A. Responsibility**

All repairs and charges associated with a leak on the customer's premises are the responsibility of the property owner. Pine Water Co will **not** make any repairs; however, a service person may attempt to locate leak(s) as a courtesy.

B. Locating a Leak

The customer may request assistance in locating leak(s) if he/she hears water running on their property and are unable to locate it. In addition, a door tag left by a serviceperson may also prompt a request for assistance.

C. Never

Never refer a caller to outside services (leak detection service, plumber, etc.) due to liability.

Never lead a caller to believe that Pine Water Co will make any repair or adjustment. (If necessary, see Procedure No. 6, "Adjustments")

D. Review the following with the caller to assist in the investigation:
(If necessary, refer to the diagram on page 5)

- Ask when first noticed (today, last week, month, etc.)
- Ask the severity of leak (flooding, gushing)
- Ask if the caller has checked indoor fixtures and plumbing

LEAK CUSTOMER PREMISES
(toilets, faucets, etc.)

- Ask if the caller has checked outdoor fixtures and plumbing (house valve, hose bibbs, irrigation system, etc.)
- Ask if any recent plumbing repairs have been made

4. PROCEDURES

- Access "Display/Enter Customer Contacts by Cust #" from the Main Menu
- Access customer's account
If customer number is not known, search by available data (name, address, etc.)
- Review customer contact history (NON2, duplicate request, BILL2)
- Review step #5 Guidelines
- Create a "LEAK3" Customer Contact ("L3" Service Order will be generated)

**** NOTE **** *If necessary, see Procedure No. 19, "Customer Contacts/Service Orders", step #6C, for step by step instructions on creating customer contacts and service orders.*

- Make appropriate notes in the customer contact and service order (customer concern)
- Print the "L3" Service Order for immediate dispatch
- Call the CSA to verify receipt of the service order
- Upon service order return, if noted that the "L3" Service Order did not apply, close it and generate the correct service order

**** NOTE **** *All paperwork should be kept together and filed upon completion.*

**** NOTE **** *Upon service order return, if necessary, see Procedure No. 21, "Service Order Update", step #6A, for step by step instructions on updating service orders.*

SERVICE / MAIN LEAK

1. DEFINITION

A main leak is defined as water loss from a main line.

A service leak is defined as water loss from a service line.

Excessive water loss may cause the following potential problems:

- Property damage
- Safety hazards
- Water quality inquiries/complaints
- Pressure inquiries/complaints
- Interruption of service

2. COMPANY POSITION

Pine Water Co. considers any service or main leak an emergency and will investigate immediately.

3. GUIDELINES

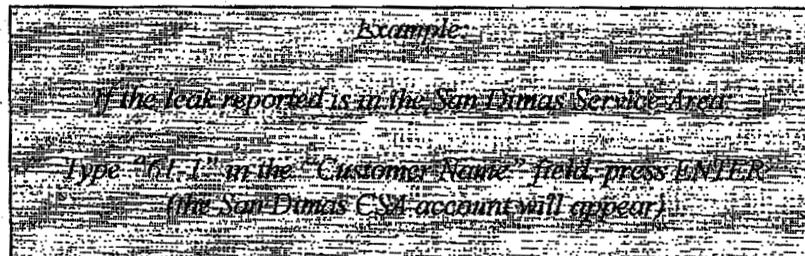
Review the following with the caller to assist in the investigation:
(If necessary, refer to the diagram on page 6)

- Verify the leak in question is in the company's service area (service location, maps, etc.). If not, try to refer the caller to the appropriate agency
- Ask the severity of leak (bubbling, steady stream, gushing)
- Ask when first noticed (today, last week, month, etc.)
- Always obtain service address and cross streets or best possible directions
- Ask for the location of the leak
(middle of street, by curb, next to meter, yard, alley, etc.)

SERVICE / MAIN LEAK

4. PROCEDURES

- Access "Display/Enter Customer Contacts by Cust #" from the Main Menu
- Access nearest service address to the leak
If service address is not available, access CSA account number
(see example below)



- Review customer contact history (duplicate request)
 - Review step #5 Guidelines
 - Create a "LEAK2" or "LEAK4" Customer Contact
("L2" or "L4" Service Order will be generated)
- ** NOTE **** *If necessary, see Procedure No. 19, "Customer Contacts/Service Orders", step #6C, for step by step instructions on creating customer contacts and service orders.*
- Make appropriate notes in the customer contact and service order
(location, severity, etc.)
 - Print the "L2" or "L4" Service Order for immediate dispatch
 - Call the CSA to verify receipt of the service order
 - Upon service order return, if noted that the "L2" or "L4" Service Order did not apply, close it and generate the correct service order

****NOTE**** *All paperwork should be kept together and filed upon completion.*

SERVICE / MAIN LEAK

**** NOTE **** Upon service order return, if necessary, see Procedure No. 21, "Service Order Update", step #6A, for step by step instructions on updating service orders.

METER LEAK

1. DEFINITION

A meter leak is defined as water loss from a meter.

Excessive water loss may cause the following potential problems:

- Property damage
- Safety hazards
- Pressure inquiries/complaints
- High bill

2. COMPANY POSITION

Pine Water Co considers any meter leak an emergency and will investigate immediately.

3. GUIDELINES

A. Review the following with the caller to assist in the investigation:
(If necessary, refer to the diagram on page 6)

- Verify the meter in question is in the company's service area (service location, maps, etc.). If not, try to refer the caller to the appropriate agency
- Ask the severity of leak
(dripping, steady stream, meter box full of water, gushing)
- Ask when first noticed (today, last week, month, etc.)
- Always obtain service address and cross streets or best possible directions
- Ask if there is meter movement

B. Never lead a caller to believe that Pine Water Co will make adjustments.
(If necessary, see Procedure No. 6, "Adjustments")

METER LEAK**4. PROCEDURES**

- Access "Display/Enter Customer Contacts by Cust #" from the Main Menu
- Access customer's account
If customer number is not known, search by available data
(name, address, etc.)
- Review customer contact history (duplicate request)
- Review step #5 Guidelines
- Create a "LEAK1" Customer Contact
("L1" Service Order will be generated)

**** NOTE **** *If necessary, see Procedure No. 19, "Customer Contacts/Service Orders", step #6C, for step by step instructions on creating customer contacts and service orders.*

- Make appropriate notes in the customer contact and service order
(location, severity, etc.)
- Print the "L1" Service Order for immediate dispatch
- Call the CSA to verify receipt of the service order
- Upon service order return, if noted that the "L1" Service Order did not apply, close it and generate the correct service order

****NOTE**** *All paperwork should be kept together and filed upon completion.*

**** NOTE **** *Upon service order return, if necessary, see Procedure No. 21, "Service Order Update", step #6A, for step by step instructions on updating service orders.*