

ORIGINAL



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August 18, 2004

James Dorf
Arizona Corporation Commission
Utilities Division
1200 W. Washington
Phoenix, Arizona 85007

AZ CORP COMMISSION
DOCUMENT CONTROL

2004 AUG 20 A 11: 24

RECEIVED

Re: Pineview Water Company, Inc; Rate Application; Docket No. W-01676A-04-0500;
Deficiency Response and Amendment of Application

Dear Mr. Dorf:

Thank you and your Staff for meeting with representatives of Pineview Water Company and me yesterday. I believe it was very helpful for all concerned in establishing the most effective and efficient communications to process this Application.

Based upon those discussions, I have enclosed responses to Deficiency Items 1 through 4 as set forth in your August. 9, 2004 letter. We are hereby amending the Application to withdraw the request for Working Capital. However, we look forward to your reconsideration of the policy regarding the requirement for Lead-Lag Studies for small companies, after which the Company we may elect to again request a Working Capital allowance. With this filing, we understand the Application will be considered sufficient and that you will issue a letter to that effect in the near future.

By separate letter, we will provide responses to Additional Information Requests 5 through 11 that were not technically deficiency items. That filing will hopefully eliminate the need for a formal data request regarding those items.

Also based on yesterday's helpful discussions, as soon as the as the Rate Application is declared sufficient, we will file a Motion to Consolidate the Rate Application and the Financing Application.

Arizona Corporation Commission
DOCKETED

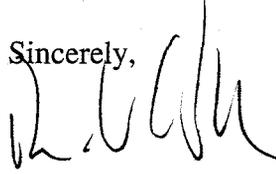
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James Dorf
August 18, 2004
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Thank you again for your assistance and in the event you have any further questions, please do not hesitate to call.

Sincerely,

A handwritten signature in black ink, appearing to read "R. L. Sallquist". The signature is fluid and cursive, with the first name "Richard" and last name "Sallquist" clearly distinguishable.

Richard L. Sallquist

Enclosures

Copies: Docket Control (15 Copies)

David Ronald
Elena Zestrijan
Dorothy Hains
Ron McDonald
Dan Neidlinger

PINEVIEW WATER COMPANY
Test Year Ended December 31, 2003

BILL COUNT

DESCRIPTION	BLOCK				CUMULATIVE			
	BILLS	PERCENT	GALLONS	PERCENT	BILLS	PERCENT	GALLONS	PERCENT
1 1/2" METERS:								
No Usage	0	0.00%	0	0.00%	0	0.00%	0	0.00%
0-1,000	1	2.00%	400	0.03%	1	2.00%	400	0.03%
1,000 - 2,000	2	4.00%	3,100	0.25%	3	6.00%	3,500	0.28%
2,000 - 3,000	2	4.00%	5,400	0.43%	5	10.00%	8,900	0.72%
3,000 - 4,000	2	4.00%	7,100	0.57%	7	14.00%	16,000	1.29%
4,000 - 5,000	2	4.00%	9,500	0.76%	9	18.00%	25,500	2.05%
5,000 - 6,000	2	4.00%	12,000	0.96%	11	22.00%	37,500	3.01%
6,000 - 7,000	2	4.00%	14,000	1.13%	13	26.00%	51,500	4.14%
7,000 - 8,000	1	2.00%	7,600	0.61%	14	28.00%	59,100	4.75%
8,000 - 9,000	3	6.00%	26,000	2.09%	17	34.00%	85,100	6.84%
9,000 - 10,000	0	0.00%	0	0.00%	17	34.00%	85,100	6.84%
10,000 - 12,000	0	0.00%	0	0.00%	17	34.00%	85,100	6.84%
12,000 - 14,000	0	0.00%	0	0.00%	17	34.00%	85,100	6.84%
14,000 - 16,000	0	0.00%	0	0.00%	17	34.00%	85,100	6.84%
16,000 - 18,000	1	2.00%	18,000	1.45%	18	36.00%	103,100	8.29%
18,000 - 20,000	0	0.00%	0	0.00%	18	36.00%	103,100	8.29%
20,000 - 25,000	2	4.00%	49,000	3.94%	20	40.00%	152,100	12.23%
25,000 - 30,000	10	20.00%	281,900	22.66%	30	60.00%	434,000	34.89%
30,000 - 40,000	15	30.00%	523,000	42.04%	45	90.00%	957,000	76.93%
40,000 - 50,000	3	6.00%	138,000	11.09%	48	96.00%	1,095,000	88.02%
50,000 - 60,000	0	0.00%	0	0.00%	48	96.00%	1,095,000	88.02%
60,000 - 70,000	1	2.00%	64,000	5.14%	49	98.00%	1,159,000	93.17%
70,000 - 80,000	0	0.00%	0	0.00%	49	98.00%	1,159,000	93.17%
80,000 - 90,000	1	2.00%	85,000	6.83%	50	100.00%	1,244,000	100.00%
90,000 - 100,000	0	0.00%	0	0.00%	50	100.00%	1,244,000	100.00%
100,000 - 125,000	0	0.00%	0	0.00%	50	100.00%	1,244,000	100.00%
125,000 - 150,000	0	0.00%	0	0.00%	50	100.00%	1,244,000	100.00%
Over 150,000	0	0.00%	0	0.00%	50	100.00%	1,244,000	100.00%
Total	50	100.00%	1,244,000	100.00%				

Deficiency Item 1

**PINEVIEW WATER COMPANY, INC.
RATE APPLICATION
DOCKET NO. W-01676A-04-0500**

FILING DEFICIENCIES

Item 2. Bill Count, Construction Water – Please provide the number of gallons sold for construction water.

Response: 941,800 gallons of construction water were sold during the test year.

PINEVIEW WATER COMPANY
Test Year Ended December 31, 2003

PRO FORMA ADJUSTMENTS TO OPERATING INCOME STATEMENT

DESCRIPTION	AMOUNT
WATER SALES:	
Reconciliation of Billing Detail to Book Revenues	\$19,637
Annualization of Home Depot Account	5,448
Pro Forma Adjustment - Water Sales	<u>\$25,085</u>
SALARIES & WAGES:	
Annualization of Employee Salaries & Wages	<u>\$19,200</u>
EMPLOYEE PENSIONS & BENEFITS:	
Employee Pensions & Benefits Related to Salaries & Wages Adjustment	<u>\$3,086</u>
PUMPING POWER:	
Increase in Pumping Power Related to Home Depot Rev. Annualization	<u>\$143</u>
GENERAL & ADMINISTRATIVE EXPENSES:	
Increase in Customer Accounting Exp. Related to Home Depot Adj.	\$54
Amortization of \$48,000 Rate Case Expenses Over 3 Years	16,000
Elimination of Bad Debt Expenses Applicable to Prior Years	(7,425)
Pro Forma Adjustment - General & Administrative Expenses	<u>\$8,629</u>
PROPERTY TAXES:	
Adjustment to Book Property Taxes to ADOR Formula	<u>\$4,870</u>
INCOME TAXES:	
Book Operating Loss Before Adjustments	(\$21,932)
Pro Forma Adjustments	(10,843)
Synchronized Interest Expense	(20,972)
Taxable Loss	<u>(\$53,747)</u>
Income Taxes @ 23.35%	<u>(\$12,550)</u>

Deficiency Item 3

PINEVIEW WATER COMPANY
Test Year Ended December 31, 2003

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS

DESCRIPTION	ORIGINAL COST	RCND
Adjusted Rate Base (1)	\$730,084	\$730,084
Adjusted Operating Income (2)	(20,225)	(20,225)
Current Rate of Return	-2.77%	-2.77%
	FAIR VALUE	
Fair Value Rate Base (50/50)	\$730,084	
Required Rate of Return	10.505%	
Operating Income Requirement	\$76,698	
Operating Income Deficiency	\$96,923	
Gross Revenue Conversion Factor (3)	1.3047	
Increase in Gross Revenue Requirements	\$126,452	
Indicated Percentage Increase (4)	24.19%	

Supporting Schedules:
(1) Schedule B-1
(2) Schedule C-1
(3) Schedule C-3
(4) Schedule H-1

Deficiency Item 4

PINEVIEW WATER COMPANY
Test Year Ended December 31, 2003

SUMMARY COST OF CAPITAL

DESCRIPTION	12-31-03 AMOUNT	PERCENT	COST RATE	WEIGHTED COST RATE
Long Term Debt	\$380,327	49.03%	5.43%	2.662%
Common Equity	395,345	50.97%	15.39%	7.843%
Total Capital	\$775,672	100.00%		10.505%

PINEVIEW WATER COMPANY
Test Year Ended December 31, 2003

ORIGINAL COST AND RCND RATE BASE ELEMENTS

DESCRIPTION	ORIGINAL COST RATE BASE (1)	RCND RATE BASE (2)
Gross Utility Plant In Service	\$2,162,941	\$2,162,941
Less: Accumulated Depreciation	1,109,241	1,109,241
Net Utility Plant In Service	\$1,053,700	\$1,053,700
Plus:		
CWIP	\$6,983	\$6,983
Working Capital Allowance	0	0
	\$6,983	\$6,983
Less:		
Meter Deposits	\$72,414	\$72,414
Advances In Aid of Construction	243,473	243,473
Contributions In Aid of Construction - Net	14,712	14,712
	\$330,599	\$330,599
Total Rate Base	\$730,084	\$730,084

Supporting Schedules & Notes:

- (1) Schedules B-2, B-5 and E-5
- (2) Pineview Water Company Requests a Waiver on the Development of RCND Rate Base

PINEVIEW WATER COMPANY
Test Year Ended December 31, 2003

CALCULATION OF WORKING CAPITAL ALLOWANCE

DESCRIPTION	AMOUNT
Purchased Power	\$0
Adjusted O&M	\$0
Working Capital Calculation:	
1/24 Purchased Water	\$0
1/8 O&M	\$0
Total Working Capital Allowance	\$0