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EXCEPTION RECEIVED

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2005 JUL -7 P 2:09

AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

5 IN THE MATTER OF THE)
6 APPLICATION OF PINEVIEW)
WATER COMPANY, INC. FOR AN)
7 INCREASE IN ITS WATER RATES)
FOR CUSTOMERS WITHIN NAVAJO)
8 COUNTY, ARIZONA.)

DOCKET NO. W-01676A-04-0500
Arizona Corporation Commission

DOCKETED

JUL 07 2005

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9 IN THE MATTER OF THE)
10 APPLICATION OF PINEVIEW)
WATER COMPANY, INC., FOR)
11 AUTHORITY TO ISSUE)
PROMISSORY NOTE(S) AND)
12 OTHER EVIDENCES OF)
INDEBTEDNESS PAYABLE AT)
13 PERIODS OF MORE THAN TWELVE)
MONTHS AFTER THE DATE OF)
14 ISSUANCE)

DOCKET NO. W-01676A-04-0463

APPLICANT'S EXCEPTIONS

15 Pineview Water Company, Inc. (hereinafter "Pineview" or the "Company"), by and
16 through the undersigned counsel, hereby submits its Exceptions to the Administrative Law
17 Judge's Recommended Order dated June 28, 2005.

ACCOUNTING/COMMINGLING

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20 The Company believes the record is clear that the extensive discussion of its
21 accounting procedures and the alleged "commingling" are greatly out of proportion, if not
22 inaccurate, and are not appropriate for inclusion in this Opinion and Order.
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1 The NARUC Chart of Accounts was implemented by the Company in 2002 and is in
2 place with assistance of the premier water utility Certified Public Accounting firm in the State,
3 Ullmann & Company, PC. All cited irregularities were corrected during the Test Year, with the
4 exception of the one piece of equipment that was not timely "retired". That has now been
5 corrected.

6 The "commingling" was, as the record clearly states, really the owner of the Company
7 merely acquiring equipment because the Company has no credit worthiness to buy the
8 equipment, and then leasing that equipment to the Company. This is hardly a flagrant
9 commingling of funds as the Staff would have the Commission believe.

10 As a result of Staff's overreaction, the Recommended Order proposes a "training
11 program" for equipment operators and accounting staff. This is a "make-work" provision to
12 appease Staff. The Company's equipment operators are fully capable of operating equipment,
13 and have been doing so for literally years. There is no evidence of the record indicating that
14 there is any need for operator training. The proposed "hour-logs" may have been appropriate
15 when the equipment was used by the Company and some other entity. That is not the case now.
16 All equipment is used on Company projects only. The "accounting training" is equally punitive.
17 The Company's outside accountant works with the Company's bookkeeper on appropriate
18 posting of accounts, and the Manager long ago stopped the payment of non-Company invoices.
19 He testified that improperly addressed invoices are now returned unpaid to the vendor.

20 The Paragraph numbered 42 on page 30 may be Staff's Recommendation, but is not a
21 finding of fact that reflects the Company's method of operation. It should not be adopted by the
22 Commission.

1 **EXPENSES**

2 As to specific expense disallowances in the Recommended Order, the Company believes
3 the expenses as addressed in the Company's Brief dated April 8, 2005 are appropriate. We
4 would urge the Commission to review the Company's arguments in that Brief. However, there
5 are two notable disallowances that the Commission should surely allow. The first is the
6 Employee Pension Benefits Expenses as contained in the Salary and Wages Account and
7 explained in Mr. McDonald's Affidavit dated April 20, 2005. The result of that disallowance is a
8 cut in employee salaries. That result is totally inappropriate and those pension expenses should
9 be allowed. It should be noted that the requested \$7,557 in Pension Benefits do not relate to the
10 owners' salaries which have been totally disallowed.

11 The second totally inappropriate disallowance pertains to the Purchased Power Expense.
12 The Recommended Order adopts the Staffs level of expenditure. The record clearly indicates
13 that Staff included only eleven months of power bills. The Company's exhibit shows expenses
14 for the full year of operations and that should be allowed. This is an additional \$3,441.

15 **FINANCING**

16 The next Exception to the Recommended Order deals with the Financing Application.
17 The Recommended Order authorizes \$557,578, which basically disallows funds necessary to
18 construct the 2 million gallon storage tank. The Staff witness testified that the \$557,578 would
19 fund the one million gallon tank. That same witness also testified that the Company needs an
20 additional production well, but Staff did not provide any additional financing for that well. The
21 uncontested cost of an additional well will be \$94,147 (800 foot deep, 12" diameter Well
22 \$38,000, 1 Pump Assembly, 130 gpm, 40 Hp \$18,037, 1 Pump House and Chlorination System
23 \$16,570, Site Electric \$18,420 and Site Fencing \$3,120), plus the Well Site of \$54,000. It is
24 submitted that the \$148,147 to fund the additional well should be added to the authorized

1 financing for the Company's much needed water capacity in the community. As the
2 Commission is aware, the Company is now operating at the Stage 3 Curtailment level.

3 **FIRE SPRINKLER RATES**

4 The final Exception pertains to the rate structure. The Recommended Order apparently
5 overlooked the existing Sprinkler Rates. At page 34, lines 25 through 28, the Recommended
6 Order lists the Sprinkler Rate elements, but provides no rates. The Company's existing rates
7 provide rates of "1% of Monthly Minimum for a Comparable Sized Meter Connection, but no
8 less than \$5.00 per month. The service Charge for Fire Sprinklers is only applicable for service
9 lines separate and distinct from the primary water service line." It should be noted that the Staff
10 adopted Test Year revenue level of \$522,724 includes Sprinkler Revenues of \$1,097. It is
11 submitted that this Order should reaffirmed those rates.

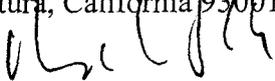
12 It is respectfully submitted that the Commission should: (1) reject Staff recommendation
13 as found in Finding of Fact 42 on Page 30, (2) increase the Company's Operating expenses by
14 \$10,998 (plus the related Income Tax Expenses)¹ for the Pension Expenses and the Power
15 Expenses and adjust the rates accordingly, (3) authorize the Fire Sprinkler rates presently in
16 effect, and (4) authorize an additional \$148,147 in debt financing for the new well.

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24 ¹ $\frac{\$10,998 \times 1.3047 \text{ Revenue Conversion Factor } (\$14,349)}{936 \text{ Bills} \times 12 \text{ Months } (11,232)} = \$1.28 \text{ increase to all Minimum Bills}$

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