



0000023494

ORIGINAL

RECEIVED

12

Richard L. Sallquist, Esq.
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Telephone: 602-224-9222
Attorneys for Oak Creek Utility Corporation

EXCEPTION 2005 JUL -5 P 2: 26

AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-02061A-04-0835
OAK CREEK UTILITY CORPORATION FOR)
AN INCREASE IN ITS WATER AND)
WASTEWATER RATES FOR CUSTOMERS)
WITHIN COCONINO COUNTY, ARIZONA.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-02061A-04-0836
OAK CREEK UTILITY CORPORATION FOR)
AUTHORITY TO ISSUE VAIL WATER)
PROMISSORY NOTE(S) AND OTHER)
EVIDENCES OF INDEBTEDNESS PAYABLE)
AT PERIODS OF MORE THAN TWELVE)
MONTHS AFTER THE DATE OF ISSUANCE.)

EXCEPTIONS TO THE
ADMINISTRATIVE LAW
JUDGES
RECOMMENDED ORDER

Oak Creek Utility Corporation (the "Company or "Applicant") herewith files its
Exceptions to the Administrative Law Judge's Recommended Order dated June 23, 2005.

This Company is operating on rates established in 1985. Normally, the appropriate
response from Staff would be "That's your fault, not ours". However, in this matter, the
Company was only recently acquired, and the new owner has been working diligently to: (1)
improve the operations of that system, and (2) bring the rates in line with the cost to provide the
service.

With his acquisition, the new owner received very few records for the last 20 years
operations of the Company. Therefore, much of the plant and expense data was not available.
Recognizing this, the Engineering Staff visited the site, analyzed the plant and thereafter placed a
value on the plant in service. The Company is very grateful for that effort by the Engineering

Arizona Corporation Commission

DOCKETED

JUL 05 2005

DOCKETED BY []

1 Division. Traditionally, that has been the role of the Commission Staff--to help small
2 companies that need assistance in upgrading a company's system and records.

3 However, the Commission's Audit Staff was, in the Company's opinion, overly legalistic
4 in its review of this small company's records. After extraordinary Data Requests and the
5 requirement to update the Test Year, the Staff unmercifully applied its audit requirements that
6 this, and probably most, small companies could not meet.

7 The Staff Report and the Recommended Order do recognize the need for the WIFA loan
8 to meet the Arizona Department of Environmental Quality's regulations, for which the Company
9 is grateful. However, while the pro forma coverage ratios on the recommended revenue levels
10 appear to be acceptable, if not generous, the untold story is that the expenses allowed by Staff,
11 and the resultant Revenue Requirements, are so restrictive that the Company will never produce
12 the allowed Operating Income or the resultant coverage ratios.

13 For instance, in the Company's Water Division, the Staff made three major adjustments
14 to the Company's Test Year expenses. The first was to the Repairs and Maintenance Expense
15 Account. Because the Company's new owner has not had sufficient cash to perform all
16 necessary repairs and maintenance during the past couple of years, the Company utilized an
17 average of the last 10 years Repair and Maintenance Expenses as reported in the Annual Reports
18 to the Commission as the representative cost for those expenses going forward. That average
19 was a \$1,972, \$1,291 more than the Test Year booked expenses of \$681. The Staff removed the
20 high and low years and reduced that amount by \$1,333 to \$639, less than the Test Year booked
21 number.

22 The Company had booked Miscellaneous Expenses of \$2,718 during Test Year, and
23 \$3,266 during the prior year. The Staff removed \$1,815. These were not reallocated to different

1 accounts, but totally removed. The Staff also made a draconian adjustment to the Company's
2 Depreciation Expense. The Company had booked the Commission's 1985 mandated
3 Depreciation Expense based on 2.5 percent for all accounts, for total Depreciation Expense of
4 \$1,367. The Company's Application provided a Schedule utilizing the Staff's recommended
5 depreciation expense by account, exactly the levels set forth in the Engineering Division Staff
6 Report, and determined the depreciation expense in the Test Year of \$3,351. Audit Staff
7 disallowed that total adjustment as "unsubstantiated". Those three adjustments alone reduce the
8 Company's Water Division expenses by a total of \$6,535.

9 For the Wastewater Division, the Staff disallowed 100 percent of the Company's booked
10 and paid Contractual Services Other Expense of \$3,061 for the stated reason: "Community septic
11 tank, minimum payments required". These were actual, incurred and paid expenses during the
12 Test Year.

13 The Staff may believe they are acting prudently in their role to protect the public by these
14 radical reductions in expenses that were actually incurred, but that belief is very shortsighted.
15 With the additional cash flow requirements associated with the WIFA loan, plus the actual
16 historic expense levels of the Company, it is evident that this Company can not make any
17 progress in upgrading or improving the system, other than improvements funded by the WIFA
18 loan. This is the proverbial downward spiral that many small companies face due to overzealous
19 requirements in the rate making process.

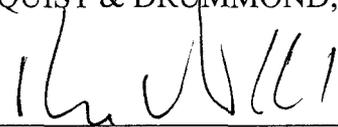
20 Although the Company's requested total percentage increase is rather large, the Staff's
21 recommended increases are ridiculously low. Increases of only \$12 to \$13 in water rates, and
22 only an \$8 to \$9 increase in wastewater rates over an eighteen-year period simply are not
23 justified or reasonable. Although the Company's prior owner should have requested a smaller

1 increase sooner, that is not the fault of the new management. It is new management's
2 responsibility to operate the Company on going forward basis, and he should be allowed
3 reasonable rates to do so.

4 We urge the Commission to consider adopting the Company's proposed expense levels
5 for the above items and adjust the revenue requirements and rates accordingly.

6 Respectfully submitted this 5th day of July 2005.

7 SALLQUIST & DRUMMOND, P.C.

8 By: 

9 Richard L. Sallquist
10 SALLQUIST, DRUMMOND & O'CONNOR, P.C.
11 4500 South Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Attorneys for Oak Creek Utility Corporation

12 The original and fifteen copies of
13 the foregoing were filed this 5th
day of July, 2005:

14 Docket Control
15 Arizona Corporation Commission
1200 W. Washington St.
16 Phoenix, AZ 85007

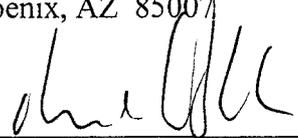
17 Copies of the foregoing were mailed
this 5th day of July 2005 to:

18 Brian C. McNeil
19 Executive Secretary
Arizona Corporation Commission
1200 W. Washington St.
20 Phoenix, AZ 85007

21 Judge Dwight Nodes
22 Hearing Division
Arizona Corporation Commission
1200 W. Washington St.
23 Phoenix, AZ 85007

Legal Division
Arizona Corporation Commission
2200 W. Washington St.
Phoenix, AZ 85007

3
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

6 

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

~