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BEFORE THE ARIZONA CORPORATION COMMISSION

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2005 DEC 29 P 2:34
AZ CORP COMMISSION
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IN THE MATTER OF THE
APPLICATION OF WHY UTILITY
COMPANY, INC. FOR A RATE
INCREASE

DOCKET NO. W-⁰2052A-05-0529

DOCKET NO. W-0252A-05-0528
02052

IN THE MATTER OF THE
APPLICATION OF WHY UTILITY
COMPANY, INC. FOR APPROVAL
OF FINANCING

RESPONSE TO STAFF'S REPORT

Why Utility Company, Inc. ("Why Utility" or "Company") hereby submits its Response to the Staff Report for Why Utility's Financing and Rate Increase Applications dated December 6, 2005 ("Staff Report"). On July 22, 2005, the Company filed with the Arizona Corporation Commission ("Commission") an application for approval of financing to fund the purchase and construction of arsenic removal equipment and an application for a rate increase. Specifically, the Company seeks Commission approval to incur long-term debt in the amount of \$185,000, which in return earns the utility a grant from the US Department of Agriculture Rural Development ("USDA-RD") of approximately \$1,200,000. The capital is to be used to build infrastructure including a water treatment facility to treat for arsenic as well as the replacement of two storage tanks and the replacement and installation of a water distribution system. The Company is also seeking an increase in revenue to pay for the long term debt. Based upon Staff's recommendation to decrease the Company's revenue request, the Company will be unable to meet the revenue requirement to service the debt.

Although Staff recommends approval of both applications, the recommendation is based upon the use of Staff's revised rates and charges. Although the Company agrees with Staff's disallowance of depreciation expense in the amount of \$9,984 on plant

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1 already fully depreciated, the Company does not agree with the depreciation expense
2 calculated by Staff for the Company's pumping equipment and used to calculate the
3 recommended rates and charges. The service life depreciation expense used for the
4 pumping equipment is based on a rate that is inappropriate and misleading. By using
5 the recommended depreciation rate, the Company incurs a revenue shortfall. As a result,
6 the Company is at risk of being denied necessary and critical funding from the USDA-
7 RD due to reduced revenue recommended by Staff.

8 Depreciation Expense

9 Staff disallowed the Company's depreciation expense of \$28,142, claiming that
10 the Company's plant is fully depreciated except for \$18,158 for pumping equipment put
11 into service and expensed in 2004. Staff depreciated the pumping equipment based upon
12 an eight (8) year service life, which is the depreciation rate for pumping equipment as set
13 forth in Table B of Staff's Engineering Report. Although such rates for depreciation
14 may be "typical and customary depreciation rates within a range of anticipated
15 equipment life [sic]," Staff acknowledges that "water companies may experience
16 different rates due to variations in construction, environment, or the physical and
17 chemical characteristics of the water."

18 Why Utility has a two-well system serving the community of Why, Arizona.
19 Well No. 1 is 1,180 feet deep and Well No. 2 is 1,000 feet deep. Due to unique physical
20 and chemical characteristics of the water pumped from these wells, the pumping
21 equipment in each well must be replaced in a much shorter timeframe than the
22 recommended 8-year period. Specifically, the pumping equipment in Well No. 1 is
23 replaced every 15 - 18 months, and the pumping equipment in Well No. 2 is replaced
24 every 3 - 4 years. (See Exhibit A). The Commission's rules define service life as "the
25 period between the date an asset is first devoted to public service and the date of its
26 retirement from service." A.A.C. R14-2-102 (A) (9). Staff's proposed 8-year service
27 life exceeds the actual service life for this equipment by 4 - 6½ years, which results in
28 an inconsistency with the underlying matching principle upon which depreciation is

1 based.

2 The goal of depreciation is to provide for a reasonable, consistent matching of
3 revenue and expense by allocating the cost of depreciable assets over their estimated
4 useful life. Using an eight (8) year service life, Staff's calculation of depreciation
5 expense on \$18,158 of pumping equipment for Well No. 1 is only \$2,270 per year. By
6 adopting Staff's recommended depreciation rate, the Company will incur costs well in
7 excess of that amount. To illustrate this point, at the end of 3 years (36 months), the
8 Company will have already retired 2 pumps for Well No.1 at a cost of \$36,316.00 and
9 will have installed a third. Yet, under Staff's depreciation rate, the Company will have
10 depreciated only \$6,810 for the first pump and \$2,270 for the second pump, for a total of
11 \$9,080. This results in a shortfall of \$27,236 (\$36,316 - \$9,080). This shortfall skews
12 the revenue requirement in determining the appropriate rates and charges, resulting in
13 under-recovery of real costs. (See Exhibit A).

14 Financing For Arsenic Treatment and Improvements

15 The arsenic concentration level for the Company's two wells is at 150 ppb. The
16 US Environmental Protection Agency's new standard, effective January 2006, requires
17 levels to be at or below 10 ppb. The USDA-RD has agreed to lend and grant the
18 Company the necessary funds to improve and upgrade the water system to include
19 arsenic treatment. The USDA-RD assisted the Company in putting together a budget
20 that would produce revenue sufficient to allow the Company to qualify for the loan.
21 USDA-RD's commitment is contingent upon the Company providing evidence that it
22 has designed a rate schedule that provides a minimum revenue requirement.

23 Based upon the Company's calculations, it has proposed revenue in the amount of
24 \$38,936, based upon an average charge of \$49.38 per month. (See Why Utility Company
25 Financing Application, USDA-RD Letter, April 11, 2005). In contrast, Staff is
26 recommending revenue of \$31,971, based upon a typical residential bill of \$32.45. The
27 \$6,965 deficit jeopardizes the Company's ability to close on the financing with the
28 USDA-RD. The Company must somehow make up the revenue shortfall or risk a denial

1 of crucial and necessary funding to upgrade the water system to comply with the new
2 arsenic standards.

3 Based upon the foregoing, the Company respectfully requests that the revenue
4 requirement of \$38,936 be approved as set forth in the Company's Rate Application.

5 RESPECTFULLY SUBMITTED this *29* day of December, 2005.

6 SNELL & WILMER L.L.P.

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12 ORIGINAL and 13 copies filed this *29th*
13 day of December, 2005, with:

14 Docket Control
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17 Phoenix, AZ 85007

18 COPY hand-delivered this *29th*
19 day of December, 2005, to:

20 Mr. Ernest G. Johnson
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25 Ms. Lynn Farmer
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INVOICES FOR WELL 1

Location	Date	Quantity	Description	Cost	
Well 1	11/20/2001	504'	2.5" Blk Pipe	\$1,789.20	
Well 1	11/20/2001	40'	2.5" Stainless Steel 304 Pipe	\$696.00	
Well 1	11/20/2001	1	2.5" Stainless Coupling	\$21.55	
Well 1	11/20/2001	22	2.5" 3000# Couplings	\$486.20	
Well 1	11/20/2001		Stainless Steel Banding and Tape	\$58.00	
Well 1	11/20/2001		Labor - Install Well	\$2,000.00	
			Sales Tax	\$253.25	
			SUBTOTAL		\$5,304.20
Well 1	12/24/2001		Labor - Well Pumping for 30 min	\$350.00	
			SUBTOTAL		\$350.00
Well 1	3/11/2002		Pull pump	\$1,280.00	
Well 1	3/11/2002		Video of well	\$750.00	
Well 1	3/11/2002		Labor - Reinstall well	\$1,280.00	
			SUBTOTAL		\$3,310.00
Well 1	3/13/2002	1	Grundfos Pump & Motor	\$5,065.50	
Well 1	3/13/2002	756'	2.5" Blk Pipe	\$6,633.00	
Well 1	3/13/2002	15 pails	Liquid Acid Descaler	\$1,905.00	
Well 1	3/13/2002		Labor - Pull and Reinstall Pump	\$2,940.00	
			Sales Tax	\$857.00	
			SUBTOTAL		\$17,400.50
Well 1	4/21/2002	2	Green Pipe wrap tape	\$15.00	
Well 1	4/21/2002	1000'	1/4" hose & fittings	\$450.00	
Well 1	4/21/2002	2	1/2" Ductile Iron Check Valves	\$282.00	
Well 1	4/21/2002	1	Pump shroud	\$20.00	
Well 1	4/21/2002		Labor - Repair Pump	\$660.00	
			Sales Tax	\$48.32	
			SUBTOTAL		\$1,475.32
Well 1	6/16/2003	4	2.5" Ductile Iron Check Valves	\$564.00	
Well 1	6/16/2003	1	2.5" API Coupling	\$19.00	
Well 1	6/16/2003	1	Grundfos Pump & Motor	\$5,065.50	
Well 1	6/16/2003	1	2.5" Galvanized Bushing	\$13.12	
Well 1	6/16/2003	1	#6 Splice Kit	\$11.30	
Well 1	6/16/2003	45	Stainless Steel Banding and Tape	\$61.20	
Well 1	6/16/2003	3 rolls	Green Pipe wrap tape	\$24.75	
Well 1	6/16/2003	1	25 HP Hitachi Motor	\$1,490.33	
Well 1	6/16/2003	44	Stainless Steel Banding and Tape	\$59.84	
Well 1	6/16/2003	909'	#4/4 Double Jacketed Submersible Cable	\$1,990.71	
Well 1	6/16/2003	1	#4 Splice Kit	\$13.50	
Well 1	6/16/2003	2 rolls	Green Pipe wrap tape	\$16.50	
Well 1	6/16/2003		Labor - Pull and Reinstall Pump	\$2,760.00	
			Sales Tax	\$587.77	
			SUBTOTAL		\$12,677.52
Well 1	12/30/2004	1	Grundfos Pump & Motor	\$5,832.65	
Well 1	12/30/2004	756'	2.5" Blk Pipe	\$8,030.70	
Well 1	12/30/2004	4	2.5" Ductile Iron Check Valves	\$511.43	
Well 1	12/30/2004	45	Stainless Steel Banding and Tape	\$74.25	
Well 1	12/30/2004	1	2.5" Stainless Steel Bushing	\$50.00	
Well 1	12/30/2004	1	Iron Threaded Tee	\$50.00	
Well 1	12/30/2004	1	#4 Splice Kit	\$13.38	
Well 1	12/30/2004		Labor - Repair Pump	\$2,780.00	
			Sales Tax	\$815.49	
			SUBTOTAL		\$18,157.90
			GRAND TOTAL FOR WELL 1		\$53,371.24

Why Utility Company, Inc.
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INVOICES FOR WELL 2

Location	Date	Quantity	Description	Cost	
Well 2	6/6/2002	1	Grundfos Pump	\$5,065.50	
Well 2	6/6/2002	693'	Black Iron Pipe	\$9,999.99	
Well 2	6/6/2002	40'	Stainless Steel Pipe	\$1,460.00	
Well 2	6/6/2002	3	Ductile Iron Check Valves	\$567.00	
Well 2	6/6/2002	1000'	Air tube	\$450.00	
Well 2	6/6/2002	2	#4 Splice kits	\$27.00	
Well 2	6/6/2002	1	Steel Bands tape thread dope	\$65.00	
Well 2	6/6/2002		Labor - Install Motor	\$2,100.00	
			Sales Tax	\$1,110.97	
			SUBTOTAL		\$20,845.46
Well 2	10/9/2002	40'	Stainless Steel Pipe	Warranty	
Well 2	10/9/2002		Labor	\$500.00	
			SUBTOTAL		\$500.00
Well 2	5/25/2005		Labor - Repair Motor	\$1,571.30	
			SUBTOTAL		\$1,571.30
			GRAND TOTAL FOR WELL 2		\$22,916.76

Why Utility Company, Inc.
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