

ORIGINAL



0000039499

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

RECEIVED

WILLIAM A. MUNDELL  
Chairman

DOCKETED

JIM IRVIN  
Commissioner

DEC 03 2001

2001 DEC -3 P 3:33

MARC SPITZER  
Commissioner

|             |            |
|-------------|------------|
| DOCKETED BY | <i>mac</i> |
|-------------|------------|

AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION  
OF BRADSHAW WATER COMPANY FOR  
A PERMANENT RATE INCREASE.

DOCKET NO. W-02476A-01-0502

**STAFF'S RESPONSE TO BRADSHAW WATER CO.'S  
EXCEPTIONS TO DRAFT ORDER AND  
OBJECTIONS TO STAFF REPORT**

Staff of the Utilities Division of the Arizona Corporation Commission ("Staff") hereby files its response to the exceptions to the draft order and objections to the staff report submitted by Bradshaw Water Company, Inc. ("Bradshaw"). Staff filed its report in this docket on October 5, 2001. Subsequently, the Hearing Division filed its draft order on November 8, 2001, substantially adopting Staff's recommended rates and charges. Mr. Don Lovell, President of Bradshaw, objected to the Staff Report in this docket by letter dated November 13, 2001, addressed to Mr. Steven M. Olea (Acting Director of the Utilities Division at the time). Mr. Lovell filed exceptions to the draft order by letter dated November 16, 2001, to Mr. Brian McNeil, Executive Secretary of the Arizona Corporation Commission. This Staff Response addresses Mr. Lovell's objections to the Staff Report and his exceptions to the draft order point by point.

**STAFF RESPONSE TO THE OBJECTIONS TO THE STAFF REPORT:**

1. Objection No. 1 – Mr. Lovell objects to the claim that the "percentage of complaints to customer base was 100%."  
Staff Response – Consumer Services, is in the process of identifying the number of customers versus number of signatures found in the petition. Staff continues to believe that percentage of complaints to customer base was 100%.
2. Objection No. 2 – Mr Lovell objects to the claim that the filing of the rate case application is fifteen months late. He indicates that the application was filed six months late.

Staff Response – Staff agrees with Mr. Lovell. Decision No. 60708, dated February 27, 1998, recommends filing a rate case application within 24 months from when rates and charges become effective. Subsequently a procedural order was issued on August 25, 2000, granting an extension of the filling to December 31, 2000, at which time a rate

1 review was to be filed by Bradshaw.

- 2  
3  
4
3. Objection No. 3 – Mr. Lovell objects to the claim that Bradshaw is a subsidiary of Professional Brokers. He indicates that Bradshaw is a subsidiary of Lynx Creek Ranch, Inc.

5 Staff Response – Staff agrees with Mr. Lovell. Staff will amend its report with the correction.

- 6  
7
4. Objection No. 4 –Mr. Lovell objects to eliminating \$9,000 from rates for his time devoted to manage Bradshaw Water Company.

8  
9  
10

Staff Response – Staff did include the \$9,000 management fee, but it properly classified it as an Outside Service. Generally accepted accounting and rate-making principles would not permit Staff to classify the \$9,000 in the Salaries and Wages account because the Company's books and records indicate that no associated payroll taxes were charged or paid.

- 11  
12  
13
5. Objection No. 5 – Mr. Lovell suggests reclassifying \$9,000 discussed in Objection No. 4 from account 630 (Outside Services) to accounts 621 (Office Supplies/Expense) and 641 (Rents).

14  
15

Staff Response – Staff disagrees the \$9,000 is clearly an outside service and could not reasonably be accounted for in accounts 621 of 641 since the expense is neither an office supply nor a rent.

- 16  
17
6. Objection No. 6 – The Company does not agree with Staff's recommendation that the Company maintain a separate bank account for utility purposes only.

18  
19

Staff Response – Based on audit findings, funds are regularly transferred out of the Bradshaw bank account into a Creekside Sanitary District bank account. Staff continues to believe that its recommendation is appropriate.

- 20  
21
7. Objection No. 7 – Mr Lovell objects to the statement that Bradshaw has “major plant deficiencies.”

22  
23

Staff Response – Staff agrees with Mr. Lovell pursuant to an updated water quality compliance report from the Arizona Department of Environmental Quality (“ADEQ”) received by the ACC on November 23, 2001.

- 24  
25
8. Objection No. 8 – Mr. Lovell objects to consolidating four expense items into account 630.

26  
27  
28

Staff Response – Staff did not consolidate the four expense items. Page 15 of Bradshaw's application shows the consolidated expenses in Account 630. Bradshaw properly accounted for those expenses in Account 630.

1 **STAFF RESPONSE TO THE EXCEPTIONS TO THE DRAFT ORDER:**

- 2 1. Exception 1 – Mr. Lovell takes exception to Findings of Fact 7 to 12. Mr. Lovell  
3 objects to Staff’s adjustments to operating losses [*sic*], revenue, rates, rate base and  
4 cash flow.

5 Staff Response – Staff appropriately set rates based on the Companies books and  
6 audit findings.

7 Comparative Statement of Operating Income and Expense submitted by the Company  
8 indicated \$9,000 in Salaries/Wages. Based on audit findings, Staff determined that  
9 Company’s books and records indicate that no associated payroll taxes were charged  
10 or paid. The compensation received by the owner was reclassified to Outside  
11 Services.

12 In reference to the Rate Base, Staff’s adjustments to the Plant in Service, were  
13 necessary to record authorized ending balance in last rate case. Depreciation Expense  
14 was adjusted to reflect ACC authorized depreciation rates.

15 No adjustments made to revenue.

16 Cash flow of \$25,221 less payment of Reserve/Principal and Interest of WIFA loan in  
17 the amount of \$4,823 equals a net cash flow of \$20,398 or 26.8% of revenue. The  
18 Company requested a negative (10.21%) rate of return; Staff recommends a positive  
19 (.41%) rate of return.

- 20 2. Exception 2 – Mr. Lovell takes exception to Findings of Fact 19 and 24 (f).  
21 Company’s major deficiencies.

22 Staff Response – Staff agrees with Mr. Lovell pursuant to an updated water quality  
23 compliance report from the Arizona Department of Environmental Quality (“ADEQ”)  
24 received by the ACC on November 23, 2001. Staff recommends that the draft order  
25 delete these Findings of Fact.

- 26 3. Exception No. 3 – Mr. Lovell takes exception to Finding of Fact 21 that “The instant  
27 application was filed 15 months late. He indicates that the application was filed six  
28 months late.

Staff Response – Staff agrees with Mr. Lovell. Staff recommends that the draft  
order’s finding indicate that the application was filed six months late.

4. Exception No. 4 – Mr. Lovell takes exception to Finding of Fact 23. He states that  
“The Company is managed by its parent company Lynx Creek Ranch, Inc.  
Professional Brokers has nothing to do with the ownership of Bradshaw.”

Staff Response – Staff agrees that Lynx Creek Ranch, Inc. is indeed the parent  
company of Bradshaw. Staff disagrees with the statement that Lynx Creek Ranch, Inc.  
manages Bradshaw. Staff continues to believe that Professional Brokers manages

1 Bradshaw. Staff recommends Finding of Fact 23 delete "parent company" from the  
2 Finding of Fact.

- 3 5. Exception No. 5 – Mr. Lovell takes exception to Finding of Fact 24 (e). Mr. Lovell  
4 maintains that the Company has a completely separate bank account for utilities  
5 purpose only and does not co-mingle any funds with personal funds, or with the  
6 parent company.

7 Staff Response – Staff recommends no change to Finding of Fact 24 (e). If the  
8 Company already has a separate bank account for utility purposes only **then can it  
9 not object** to the Finding of Fact 24 (e). See Staff Response to Objection No..6,  
10 above.

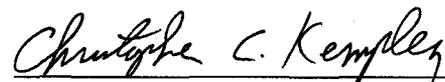
- 11 6. Exception No. 6 – Mr. Lovell takes exception to Finding of Fact 24 (f) Mr. Lovell  
12 requests that the proposed rate decrease not be implemented until his objections to the  
13 Staff recommendations and to the recommendation of the Administrative Law Judge  
14 be reviewed and considered.

15 Staff Response – Staff agrees with Mr. Lovell and recommends that the proposed rate  
16 decrease not be implemented until his objections to the Staff recommendations and to  
17 the recommendation of the Administrative Law Judge be reviewed and considered.

#### 18 CONCLUSION

19 Staff agrees in part and disagrees in part with Mr. Lovell's objections and exceptions as  
20 discussed above. However, Staff continues to recommend its rates and charges.

21 RESPECTFULLY SUBMITTED this 3<sup>rd</sup> day of December, 2001.

22 *for* 

23 Jason D. Gellman, Attorney  
24 Legal Division  
25 Arizona Corporation Commission  
26 1200 West Washington Street  
27 Phoenix, Arizona 85007  
28 (602) 542-3402

The original and ten copies of the  
foregoing filed this 3<sup>rd</sup> day of  
December, 2001, with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

1 COPIES of the foregoing  
2 mailed this 3<sup>rd</sup> day of  
3 December, 2001 to:

4 Don Lovell  
5 LYNX CREEK RANCH, INC.  
6 112 Grove Avenue  
7 Prescott, Arizona 86301

8   
9 Angela L. Bennett

10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28