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Betty Camargo

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From: Steve Cockrum [azsteve1s@yahoo.com]

Sent: Sunday, April 23, 2006 9:55 AM

To: Keith Allen; Jim Canida; Marva Carter; Brenda (ARMY) Cockrum; dana.cole@svherald.com; Todd Evans; John Eyre; Herb Funston; Mike Gleason; Flavio Gonzalez; Judy Goodenough; Jeff Hatch-Miller; Dennis Hess; Kathryn Honda; Henri Hull; Julie Kline; Leo Kline; Kristin Mayes; John Laster; Jim Manley; Maria Marsh; Tom Mathias; Martin McCarthy; Ted Morris; Marc Spitzer; Paul Newman; Ed Pamatat; pcall@co.cochise.az.us; Jennifer Reardon; Dennis Richter; Otto Richter; Richard Searle; M Shumsky; Cheryl Siler; Lou Valle; Allison Van; Thomas Van; Val Wallace; William Mundell

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AZ CORP COMMISSION DOCUMENT CONTROL

Subject: My weekend comments April 22-23, 2006

Let me begin by thanking Commissioner Marc Spitzer and John Chelus of the Arizona Corporation Commission for joining Dennis Hess and me this morning (Saturday) on our tour of Cochise and Horseshoe Ranch Water Companies. Accompanying Commissioner Spitzer was his son Bennett, who also had the opportunity to see first hand how 30+ years of neglect and abuse can so negatively affect a water system and cause so much hardship upon the customers on those systems. We began the tour at the Naranja well and storage site, traveled the route of the transfer line, detoured to allow Commissioner Spitzer the opportunity to see the new home connection along a portion of Calle de Mango (the 3/4" PVC that is above ground for some 100+ feet), saw several crushed and/or broken meter boxes, visited the repair site at the corner of Hereford Road and Circle S Dr.; this stop allowed the Commissioner to speak with the homeowner about the conditions that remain at the repair site; we then proceeded to the area in the alleyway where the obstruction was removed and the lines were repaired, and finally completed our tour at the Global Headquarters building on Sunnyvale Rd. This stop allowed the Commissioner to meet with one of the ARUS on site "trainees". The Commissioner had the opportunity to see first hand the general conditions that prevail at the sites, the security, or lack thereof, and I hope get a better understanding of those conditions that are faced daily by the employees of ARUS/ASUA and the customers of the subject water companies.

I have for some time when referring to our Interim Manager referred to the combination of ASUA/ARUS and will continue to do so. I would like for you to do the same for at least the following reasons: a.) the two organizations are inextricably linked to one another, and b.) when one speaks to one you speak to the other, and c.) when to speak to either you are in effect speaking to both, and d.) the duties, job titles, responsibilities, and accountability seems to evolve to suit the circumstances of the situation, so that at any given moment it is very difficult to know exactly who is doing what to whom.

As I am sure that you all are aware, the \$9.00 surcharge is now scheduled to go into effect with the May 1 billing cycle. I can only hope that sufficient oversight will be applied from the very first day to assure that every cent of the surcharge funds are fully accounted for and that those funds, when used, are used only for the benefit of the water company entity from which the funds originated. That we expect ASUA/ARUS to separate the \$9.00 portion of our payments to be deposited into a separate account seems an accounting challenge. And this from the bunch that posted and paid bank fees in December 2005 and January 2006 of approximately \$10,000.00! This was \$10,000.00 of money that you had sent to ASUA/ARUS that otherwise could have been used for past due accounts payable buy down, or the purchase of repair parts and supplies, or perhaps some sort of infrastructure upgrade, but instead went to "bank fees and charges". I do not make these numbers up, they are a matter of public record and are clearly noted on the December and January Operating Reports that are filed with the Bankruptcy Court. This information is not widely known, I would suspect.

This is the same ASUA/ARUS that currently has somewhere between 2 and 3 employee "trainees" on the ground; the name identification badges carried by these individuals clearly would lead one to believe that these individuals are employees of Arizona Rural Utility Services, Inc. (a wholly owner subsidiary of ASUA); we can presume perhaps these individuals are paid in the neighborhood of let's say \$12.00 per hour. With the labor load, and I think being very generous with a 30% load, the approximate "out of pocket"

expense for these individuals is around \$16.00. Remembering that ARUS is a for profit corporation, it only follows that to whomever ARUS renders its' invoice to, that invoice will be an amount in excess of \$16.00 per hour. Do they invoice at a rate of \$20.00 or \$30.00 or \$40.00 or more per hour and to whom are those invoices directed? In my opinion the combination of ASUA/ARUS has been using the corporate veil of secrecy to protect those transactions from seeing the light of day. I have been arguing for an audit of every transaction and invoice that has been generated by either ASUA or ARUS, and I would argue for that audit to go back to the creation of ARUS that occurred in August of 2004. If you should happen to agree with me that these transaction appear to be suspect and warrant a further inspection, I would encourage you to write, call or e-mail the Commission and politely ask that all of these transactions be subject to further scrutiny.

In the matter of the Algonquin Application, I will address most of my remarks to the Applications filed on behalf of Southern Sunrise Water Company; that is the company that will combine the assets of the former Cochise, Horseshoe Ranch, and Miracle Valley Water Companies. Applicant initial rate is based upon a "fair value" purchase cost of \$604,725.00 plus investment costs of \$321,900.00 plus "acquisition" costs of \$235,281.00, to total \$1,162,006.00. Following the initial rate, Applicant has indicated that a "permanent" rate case will be filed not later than June 30, 2008, using the financial results of 2007 as the test year. Applicant states that the infrastructure and upgrade investments will begin not later than 90 days from its' receiving all governmental approvals, and Applicant further states that all of the initial infrastructure and upgrade investments will be completed within the first 12 months of operations. The breakdown by location for the investments is the Naranja Well Site at \$63,300.00; Jaxel Road Well Site at \$8,000.00; Horseshoe Ranch at \$52,800.00; and Miracle Valley at \$197,800.00.

Applicant estimates the total system connections for the first five years of operations as follows: Year 1= 845; Year 2= 850; Year 3= 860; Year 4=870; and Year 5= 880. For the purposes of creating the financial pro forma results, Applicant has assumed an average usage of 7,300 gallons per connection and a corresponding bill, exclusive of Superfund charges or taxes, of \$47.33 per month, per connection. Using a figure of 7,300 gallons as an average per month seems to be at significant variance to the historical data available addressing usage at these subject companies, however, with the new, considerably higher rates (especially for the customers of the former Miracle Valley system) perhaps Applicant assumes a paradigm shift in water usage by the customers of the former independent systems. Total revenue projections, again exclusive of Superfund or taxes, for the first five years are: Year 1= \$479,876.00; Year 2= \$482,965.00; Year 3= \$ 488,644.00; Year 4= \$494,323.00; and Year 5= \$500,002.00. Projected Operational expense during the same period is estimated to be: Year 1= \$345,006.00; Year 2= \$355,045.00; Year 3= \$361,962.00; Year 4= \$368,986.00; and Year 5= \$376,107.00. The projected Gross Margins for the periods are as follows: Year 1= \$134,870.00 (28.1%); Year 2= \$127,920.00 (26.5%); Year 3= \$126,682.00 (25.9%); Year 4= \$125,337.00 (25.4%); and Year 5= \$123,895.00 (24.8%). Remember when reviewing these figures that they are estimates only and are based upon the assumption that the Application will be approved as written.

Additionally, Applicant makes specific reference to, and takes serious objection to the Terms and Conditions imposed by the recent Order of the Commission relating to the \$9.00 per month surcharge and the banking, accounting, and reporting features of that Order. Applicant sites the language contained within Section 9.2 of the Purchase Agreement that states, in part, "All such transfers shall be approved without the imposition of any restrictions, conditions, or obligations that are unacceptable to Purchaser in its sole discretion". Applicant makes a proper and legitimate argument that the Terms, Conditions, and Covenants expressed in the Order of the Commission addressing the \$9.00 surcharge should not be passed to the new Owner; however, and though it is not specifically addressed it is my very strong suspicion that the Applicant will make the same argument, sighting the same logic and reasoning to request that the Moratorium Order (s) be lifted and not applied to the new Owners as well. This will be the much more interesting proposition.

A tentative date of Friday May 26, 2006 has been set for the Preparedness Meeting to address the concerns, potential problems, and possible remedies that may confront any, or all of the McLain Water System companies this summer. In addition to the Commission

members, it is thought that representatives from ADEQ, The Governors' Office, Cochise County (including the Supervisors and Emergency Planning and Response), ASUA/ARUS, our Legislative Representatives and Senators, Bella Vista Water and /or Algonquin, and any other interested parties, and, of course, a call to the public for those consumers directly affected by these incidents of low pressure and/or outage. As this date is still some many days away I would encourage any and all to begin to consider your questions, comments, recommendations, and proposals to allow for as complete a dialogue as possible. The specific format for this meeting, that is to be held at Buena High School I understand, has yet to be determined, however, I am sure that some very positive and constructive steps will be a result.

You may have read in the paper that I believe that I have found a serious discrepancy in the numbers when making a more detailed analysis of information provided to me by ASUA/ARUS. I will be publishing that information in the next few days giving you the opportunity to decide for yourselves if my reasoning is approximately correct.

As always, please feel free to address any questions, comments, or complaints to me as you see fit.

More to follow....

Steve

"The deterioration of every government begins with the decay of the principles on which it was founded." —Charles-Louis De Secondat

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