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2006 SEP 29 P 3: 35

AZ CORP COMMISSION  
DOCUMENT CONTROL

September 29, 2006  
Arizona Corporation Commission  
**DOCKETED**

SEP 29 2006

DOCKETED BY 

Mr. Mark Grapp  
Watco, Inc.  
Post Office Box 1270  
Showlow, Arizona 85902

RE: WATCO, INC. - APPLICATION FOR A RATE INCREASE  
DOCKET NO. W-20475A-06-0550

LETTER OF DEFICIENCY

Dear Mr. Grapp:

In reference to your rate application received on August 31, 2006, this letter is to inform you that your application has not met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103.

Staff has found several deficiencies with your application, which are listed on a separate attachment. The 30-day sufficiency determination period will begin anew when the company provides the requested documents, information, and corrected application pages and Docket Control receives an original and sixteen copies of the aforementioned information.

You have 15 calendar days, or until October 16, 2006, to correct the deficiencies or make other arrangements with Staff to remedy your rate application. If the corrections or other arrangements are not made by the above date, Staff will request your docket number be administratively closed. Docket Control will retain one copy of the original application for Commission records. You may file an original and sixteen copies of an updated application at a later date.

Mr. Mark Grapp  
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The Staff person assigned to your application is Crystal S. Brown. She can be reached at (602) 542-0864, or toll free at (800) 222-7000, if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "James Dorf". The signature is stylized with a large loop at the beginning and a small flourish at the end.

James Dorf  
Chief, Financial & Regulatory Analysis Section  
Utilities Division

CC: Docket Control Center (sixteen copies)  
Lyn Farmer, Hearing Division  
Delbert Smith, Engineering  
Consumer Services  
Legal Division

### WATCO INC. – LIST OF DEFICIENCIES

1. Inconsistencies In Rate Application – Please correct the inconsistencies in the application listed below:
  - a. Plant Additions – The “Plant Summary” schedule shown on page 14 shows total plant additions of \$50,851 were added since the late rate case. However, the “Plant Additions and Retirements by Year” schedule shown on page 13 shows that plant additions totaling only \$18,020 were added since the late rate case.
  - b. Plant Retirements – The “Plant Summary” schedule shown on page 14 shows total plant retirements of \$11,304 were made since the late rate case. However, the “Plant Additions and Retirements by Year” schedule shown on page 13 shows that plant retirements totaling only \$2,148 were made since the late rate case.
2. Invoices – The application contained an invoice for \$540.67 billed to Cedar Grove Water Company and another for \$1,409 billed to Cedar Grove Water Management Company. Please answer the following:
  - a. Please explain why the invoices were billed to these companies rather than Watco and/or Silverwell. As part of your response, please explain why these invoices not billed to Watco and/or Silverwell are plant costs of Watco and/or Silverwell.
  - b. Please explain whether these invoices support plant additions or repairs and maintenance expense.
  - c. Please explain how Cedar Grove Water Company and Cedar Grove Water Management Company are related to Watco and/or Silverwell.
3. Plant Invoices – The “Plant Summary” schedule shown on page 14 shows total plant additions of \$50,851. However, the application did not provide invoices to support the \$50,851 in plant additions. For each plant asset added since the last rate case please provide the following information:
  - a. All invoices/contracts of \$150 or more that support the plant addition.
  - b. A schedule showing the amount recorded to each NARUC account number for each invoice and a description of the capital improvement.
  - c. A schedule reconciling the total of all invoices/contracts of at least \$150 and total plant additions claimed (\$50,851) that shows the amount of additions claimed that are less than \$150.

4. Repair and Maintenance Expense – The “Statement of Income and Expense” schedule shown on page 19 shows Repairs and Maintenance Expense \$2,226. The application contained only one invoice for \$178.88 that Staff identified as Repairs and Maintenance expense. Please provide the following information:
  - a. All invoices/contracts of \$150 or more that support the expense.
  - b. A schedule showing the amount recorded to each NARUC account number for each invoice and a description of the expense.
  - c. A schedule reconciling the total of all invoices of at least \$150 and total operating expenses claimed (\$114,294) that shows the amount of expenses claimed that are less than \$150.
5. Outside Services – The “Statement of Income and Expense” schedule shown on page 19 shows Outside Services expense \$3,163. The application contained invoices totaling \$3,280. Please identify/provide the invoices that support the \$3,163
6. Expense. As part of your response, please provide the following information:
  - a. A schedule showing the amount recorded to each NARUC account number for each invoice and a description of the expense.
  - b. Staff noted that some of the invoices were billed to Four Star Land and Water, Inc.; Mark Grapp; or Mark and Barbara Grapp. Please explain how Four Star Land and Water, Inc. is related to Watco and/or Silverwell. Also, please explain why these invoices not billed to Watco and/or Silverwell are expenses of the utility.
7. Engineering Issues – Please provide the following information:
  - a. The most recent lab analyses for the arsenic level for each well.
  - b. Please state whether the two water systems are interconnected. If not, provide a projected completion date for interconnection.
  - c. A separate water company plant description for each water system.
  - d. An explanation of the status of the meter replacement program implementation required by Commission Decision No. 66175 (Fact # 28).
8. Ownership – The ambiguity regarding the Watco versus Silverwell ownership must be clarified.