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**Snell & Wilmer**  
L.L.P.  
LAW OFFICES

One Arizona Center  
Phoenix, AZ 85004-2202  
602.382.6000  
602.382.6070 (Fax)  
www.swlaw.com

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Bradley S. Carroll  
Of Counsel  
602.382.6578  
bcarroll@swlaw.com

March 7, 2008

**VIA HAND-DELIVERY AND E-MAIL**

Blessing Chukwu  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Keith Layton, Staff Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Arizona Corporation Commission

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Re: Perkins Mountain Water Company and Perkins Mountain Utility Company  
Docket Nos. W-20380A-05-0490 and SW-20379A-05-0489  
Supplemental Response to Staff's Second Set of Data Requests Dated 2/8/08

Dear Ms. Chukwu and Mr. Layton:

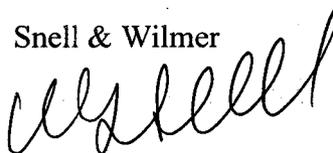
Perkins Mountain Water Company and Perkins Mountain Utility Company ("Applicants") hereby submit the attached supplemental response to BNC 2.12 of Staff's Second Set of Data Requests dated February 8, 2008. Electronic versions of these responses are also being sent to you via e-mail. The supplement to the response provides information relating to the states of Maryland, Pennsylvania, Indiana and Virginia. Applicants will be providing responses for the following remaining states shortly: North Carolina, South Carolina, Florida and Illinois.

Blessing Chukwu  
Keith Layton  
March 7, 2008  
Page 2

If you have any questions, please do not hesitate to contact me.

Sincerely,

Snell & Wilmer



Bradley S. Carroll

BSC:jyb

Enclosure

cc: Docket Control (Original plus 15 copies)  
Robin Mitchell, Esq. (Via e-mail only)  
Michele Finical (Via e-mail only)

**RESPONSE OF PERKINS MOUNTAIN WATER COMPANY  
AND PERKINS MOUNTAIN UTILITY COMPANY  
TO ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF DATA REQUESTS  
DOCKET NOs. W-20380A-05-0490, SW-20379A-05-0489  
February 8, 2008**

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**BNC 2.12**     **In March 2007, the Illinois Commerce Commission in Docket No. 06-0360, cited five (5) affiliates of Utilities, Inc., for failure to comply with Commission Orders and with Commission Rules. Please provide a history of Citations issued by regulatory agencies in other jurisdictions against Utilities, Inc. and/or any of its respective affiliates since the year 2000.**

Response:     Utilities, Inc. is a holding company that owns the stock of approximately 90 operating utilities in 17 states. As such, to the best of my knowledge and belief, there have been no citations that have been issued by regulatory agencies against Utilities, Inc. in connection with utility compliance obligations. With respect to its utility operating company affiliates, the requested information is set forth below for each of the applicable states:

Arizona        None

Georgia        None

Kentucky       None

Louisiana      None

Mississippi    None

New Jersey    None

Ohio            None

Tennessee     None

Nevada – On October 25, 2000, the Public Utilities Commission of Nevada issued an Order in Docket No. 98-0-5008 relating to an application by *Spring Creek Utilities Company* to withdraw from its Capital Projects and Hydrant Fund. During the review of this application, the Commission's Regulatory operations Staff identified three compliance issues including a failure to obtain a permit to construct pursuant to the Nevada Utility Environmental Protection Act ("UEPA") for construction of a 500,000 gallon storage tank. *Spring Creek Utilities Company* entered into a Stipulation wherein it agreed to pay a \$5,000 fine that would be

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February 8, 2008**

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suspended for three years and expunged if the utility obtained all necessary construction permits and there were no further violations of the UEPA. A copy of the Order is attached.

Maryland      None

Pennsylvania      None

Indiana - On August 24, 2004, as part of an order involving the sale of assets and approval of an acquisition adjustment, the Indiana Utility Regulatory Commission ("Commission") found in Cause No. 41873 that certain records of *Indiana Water Services, Inc. ("IWSI")* were being kept out of state (in Northbrook, Illinois) contrary to the requirement that a utility's books be kept in the state and not be removed except upon conditions prescribed by the Commission. *IWSI* did this because one of its Indiana affiliates, Twin Lakes Utilities, had already been given permission by the Commission to keep its books in Illinois. The Commission found that notwithstanding its authorization for the affiliate to keep its books and records out of state, *IWSI* should have asked for permission. The Commission did not require *IWSI* to transfer the books and records back to Indiana, but merely ordered that *IWSI* would have to pay the costs of the Commission and the Office of Utility Consumer Counselor related to any necessary visits to Northbrook.

Virginia - On January 21, 2005 *Massanutten Public Service Corporation ("MPSC")* filed an application with the Virginia State Corporation Commission ("Commission") under the state's Affiliates Act requesting approval of a water services agreement with Water Service Corporation ("WSC") (an affiliate of *MPSC*) under which *MPSC* and *WSC* had already been operating. At the time *MPSC* and *WSC* had entered into the agreement, *MPSC* was exempt from the Affiliates Act because it did not meet the financial threshold that would have required approval of the agreement. On April 20, 2005, *MPSC* filed a request to withdraw its application because certain provisions of the agreement needed to be revised. On April 21, 2005, the Commission granted the application and dismissed the case without prejudice. By order dated June 7, 2005, *MPSC* was directed to file a new application with a Revised Agreement. *MPSC* filed a new application for approval of the Revised Agreement in Case No. PUE-2005-0063. On October 19, 2005, the Commission issued an order granting approval of the Revised Application. In its order approving the

**RESPONSE OF PERKINS MOUNTAIN WATER COMPANY  
AND PERKINS MOUNTAIN UTILITY COMPANY  
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February 8, 2008**

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Revised Agreement, the Commission found that *MPSC* and *WSC* had been operating under the prior agreement which had not been approved by the Commission and ordered that *MPSC* "take the necessary steps to ensure that prior approval is obtained by the Commission under the Affiliates Act for any future affiliate transactions." A copy of the order is attached for your convenience.

Prepared by: Michael T. Dryjanski  
Manager, Regulatory Accounting  
Utilities, Inc.  
2335 Sanders Road  
Northbrook, IL 60062

DOCUMENT CONTROL

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

OCT 19 11 50

AT RICHMOND, October 19, 2005

APPLICATION OF

CASE NO. PUE-2005-00063

MASSANUTTEN PUBLIC SERVICE  
CORPORATIONFor approval of transactions under Chapter 4  
of Title 56 of the Code of VirginiaORDER GRANTING APPROVAL

On January 21, 2005, Massanutten Public Service Corporation ("MPSC") filed an application with the State Corporation Commission ("Commission") under Chapter 4 of Title 56 of the Code of Virginia ("Code") in Case No. PUE-2005-00005 requesting approval for the agreement under which MPSC will receive services provided by Water Service Corporation ("WSC") that are deemed necessary for the performance of MPSC's public service obligations. At MPSC's request, the Commission permitted MPSC to withdraw the application. By Order dated June 7, 2005, MPSC was directed to file a new application under Chapter 4 of Title 56 of the Code in connection with the services provided by WSC to MPSC. On July 22, 2005, MPSC filed a new application for approval of services provided to MPSC by WSC ("Revised Agreement").

MPSC is a Virginia public service corporation that provides water and sewer services in and around Massanutten Village, located in Rockingham County, Virginia. MPSC first obtained a certificate of public convenience and necessity from the Commission to provide such services in 1985. MPSC is a wholly owned subsidiary of Utilities, Inc., a holding company that owns and operates water and sewer companies in

17 states. WSC also is a wholly owned subsidiary of Utilities, Inc., that manages and operates the water and sewer companies owned or operated by Utilities, Inc.

Pursuant to Chapter 4 of Title 56 of the Code (the "Affiliates Act"), MPSC and WSC are deemed to be "affiliates" within the meaning of the Affiliates Act because of their relationship to Utilities, Inc. As such, MPSC is required to file for prior approval under the Affiliates Act for any arrangements or agreements with WSC since MPSC's annual operating revenues are equal to or greater than \$500,000, pursuant to Chapter 10.2:1 of Title 56 of the Code of Virginia ("Small Water or Sewer Public Utility Act").

MPSC, therefore, requests approval under the Affiliates Act for the Revised Agreement. The Revised Agreement provides for WSC to provide to the operating subsidiaries of Utilities, Inc., including MPSC, services to include executive, engineering, accounting, operating, construction, legal, and billing and customer relations services. The Revised Agreement provides for these services to be provided at cost, without any profit. The Revised Agreement also prescribes the method of allocating costs among water and sewer companies owned or operated by Utilities, Inc. The Revised Agreement continues in effect until termination by either party upon 90 days' written notice.

MPSC has been operating under an agreement for the provision of services by WSC since January 1, 1987. At that time, approval was not required because MPSC was exempt from the Affiliates Act pursuant to the provisions of the Small Water or Sewer Public Utility Act. MPSC does not meet, and has not met for many years, the Small Water or Sewer Public Utility Act's financial threshold for exemption from the Affiliates Act and, therefore, has filed this application seeking approval of the Revised Agreement.

Even though MPSC has been subject to the Affiliates Act for quite some time, it was not until Staff discovered in the course of MPSC's 2002 Annual Informational Filing review that MPSC was operating under an agreement without Commission approval. MPSC subsequently filed for approval of the agreement in Case No. PUE-2005-00005 and the Revised Agreement under the Affiliates Act.

MPSC represents that WSC is able to provide the services that MPSC needs due to its centralized management system. As provided for in the Revised Agreement, charges that can be directly assigned to MPSC will be charged as such, while expenses that cannot be directly assigned will be allocated among MPSC and its affiliates or in the case of costs incurred with respect to a particular group of the operating companies, among the members of such group. Such costs will then be allocated based, among other factors, on each company's average number of customers, or customer equivalents, as defined in the Revised Agreement. MPSC represents that the majority of costs will be directly assigned from WSC with allocations used only when it is not possible to directly assign costs to each of the operating companies. Costs will be allocated among the operating companies through the use of allocation codes.

MPSC states that, by being part of the Utilities, Inc., family, MPSC is able to obtain services at a lower cost than MPSC could provide internally or through a third party due to the economies of scale associated with Utilities, Inc.

NOW THE COMMISSION, upon consideration of the application and representations of MPSC and having been advised by its Staff, is of the opinion and finds that MPSC's participation in the Revised Agreement with WSC to obtain services deemed necessary to provide its public service function is in the public interest and

should be approved. We believe that there are certain economies of scale that could result from MPSC's affiliation with Utilities, Inc., and from obtaining needed services from WSC. However, MPSC should evaluate services obtained from WSC on a regular basis. Services for which a market exists should be evaluated as to the cost of such services from the market to ensure that MPSC is paying WSC the lower of WSC's cost or the market price for such services. MPSC should bear the burden of proving during any rate proceeding that it paid WSC the lower of cost or market for such services. Our approval should include only those services specifically identified in the Revised Agreement. Any other services, including any loans or other capital from affiliates to MPSC would require separate approval.

We are concerned, however, that MPSC did not file for approval of the agreement in Case No. PUE-2005-00005 and the Revised Agreement until Staff discovered MPSC had been operating under an agreement for the provision of services by WSC during the course of its review. We, therefore, direct MPSC to take the necessary steps to ensure that such violations of the Affiliates Act do not occur in the future.

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to § 56-77 of the Code of Virginia, approval is hereby granted for MPSC to obtain services from WSC pursuant to the Revised Agreement under the terms and conditions and for the purposes as described herein.

(2) Regarding services obtained from WSC for which a market exists, MPSC shall make the necessary comparisons to ensure that it is paying the lower of cost or market for such services obtained from WSC.

(3) For purposes of cost recovery during any rate proceeding, MPSC shall bear the burden of proving that the pricing policy as described in Ordering Paragraph (2) was followed and shall maintain such records to support such compliance for Staff review upon request.

(4) The approval granted herein shall include only the specific services identified in the Revised Agreement. Any other services, including loans or other capital to MPSC from its affiliates shall require separate approval.

(5) MPSC shall take the necessary steps to ensure that prior approval is obtained from the Commission under the Affiliates Act for any future affiliate transactions.

(6) Any changes in the terms and conditions of the Revised Agreement from those described herein, including additional services, pricing, and allocation methods, shall require Commission approval.

(7) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.

(8) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approval granted herein whether or not the Commission regulates such affiliate.

(9) MPSC shall submit an Annual Report of Affiliate Transactions with the Commission's Director of Public Utility Accounting by no later than May 1 of each year, such date subject to administrative extension by the Director of Public Utility Accounting. Information to be included in such report shall include the name of the affiliate, a description of each affiliate arrangement or agreement, the dates covered by

such arrangement or agreement, and the total dollar amount for each service provided or transaction conducted. The report, the first of which shall be due on or before May 1, 2006, shall include all agreements with affiliates regardless of the amount involved.

(10) If General Rate Case Filings or Annual Informational Filings are not based on a calendar year, then MPSC shall include the affiliate information contained in the Annual Report of Affiliate Transactions in such filings.

(11) There appearing nothing further to be done in this matter, it hereby is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Donald G. Owens, Esquire, Troutman Sanders LLP, Troutman Sanders Building, 1001 Haxall Point, Richmond, Virginia 23219; and delivered to the Commission's Divisions of Public Utility Accounting and Energy Regulation.