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ORIGINAL**MEMORANDUM
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FROM: Ernest Johnson
Director
Utilities Division

2009 JAN 28 P 12: 34

Arizona Corporation Commission

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JAN 28 2009

AZ CORP COMMISSION
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DATE January 28, 2009

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RE: STAFF'S RESPONSE TO UTILITY SYSTEMS, LLC. DBA CHRISTOPHER CREEK HAVEN WATER COMPANY EXCEPTIONS TO STAFF REPORT AND RECOMMENDED ORDER. (DOCKET NO. W-20459A-08-0168)

Background

On March 31, 2008, Utility Systems, LLC. dba Christopher Creek Haven Water Company ("Christopher Creek" or "Company") filed an application for a permanent rate increase before the Arizona Corporation Commission ("Commission"), pursuant to Decision No. 65353. On April 17, 2008, Staff filed a Letter of Deficiency. Staff issued a Letter of Sufficiency on June 18, 2008. A Procedural Order dated August 21, 2008, directed Staff to file its report by October 13, 2008.

On October 14, 2008, Staff filed a Staff Report recommending approval of the rates and charges shown in Schedule PMC-4.

On November 25, 2008, the Hearing Division filed a recommendation in the form of a Recommended Opinion and Order ("ROO") adopting the rates and charges proposed by Staff.

On December 1, 2008, Christopher Creek filed Exceptions to the Staff report and the ROO. In its exceptions the Company primarily claimed that:

1. It used previously adopted depreciation tables.
2. It followed the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").
3. It separated the customer count for each of the independent systems.
4. Staff excluded loans involved with the purchase of the utility.
5. Staff ignored the Company's poor financial health.
6. Staff removed expenses of operations incurred by the system.
7. The service charges recommended by Staff are not reasonable.
8. Plant adjustments made to depreciation will drastically and incorrectly affect the Company's Balance Sheet.

Depreciation Tables

As indicated in the Staff Report, the depreciation rate table submitted by the Company with the application did not include certain plant accounts specified in Decision No. 65353, dated November 1, 2002.¹ Specifically, Christopher Creek omitted Account Nos. 305, 308, 309, 310 and 342.

NARUC USOA

The Company has been ordered on multiple occasions to maintain its books and records in accordance with the NARUC USOA.² Christopher Creek does not maintain proper records, and hence, it is not in compliance with NARUC USOA. For example, the Company does not have any records prior to the year 2007, nor does it have appropriate documentation for plant additions, such as computers and software for the test year.

Customer Count

The Company did not separate the customer count for each of its two independent water systems (Christopher Creek and Gardner) in Annual Reports filed with the Commission prior to the year 2007.³ The ROO ensures that future filings will separate the customer count for each of the independent systems.

Unauthorized Loans

Although the Company claims that it is obvious that the loans were part of Decision No. 69421, there is no record showing approval of the loans by the Commission. In fact, there are no loan authorizations of any kind to Christopher Creek by the Commission.

Financial Health

The Company's operating margin, as filed, is 30.13 percent and its operating margin, as adjusted by Staff, is 23.96 percent. This operating margin is higher than the usually recommended operating margin for a similar size utility.

Operating Expenses

Schedule PMC-3 of the Staff Report, indicates that Staff included a total of \$4,599 more in operating expenses than requested by Christopher Creek. Staff included types of expenses that the Company did not request, such as rate case expense.

¹ Staff Report, Attachment A, page 7.

² Decision No. 69421, dated April 16, 2007, and Decision No. 65353.

³ Staff Report, Attachment A, page 6.

Service Charges

The service charges recommended by Staff in the Staff Report are consistent with the Arizona Administrative Code and with prior Commission Decisions.

Plant Adjustments Made to Depreciation

Christopher Creek did not provide proper records of plant additions and retirements. The Company did not record adjusting entries to reflect the plant values adopted in the prior rate case (Decision No. 65353). Further, the Company included personal property as part of utility plant. Staff's objective is to correctly assess the plant of the Company, so it reflects the appropriate balances, as indicated in Schedule PMC-2, page 2 of 3 of the Staff Report.

EGJ:PMC:red

Originator: Pedro M. Chaves

Service List for: Utility Systems, LLC. dba Christopher Creek Haven Water Company
Docket No. W-20459A-08-0168

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