

ORIGINAL

MEMORANDUM



0000094254

RECEIVED

TO: Docket Control Center

Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

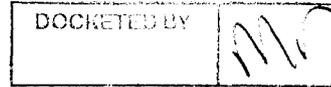
DOCKETED

2009 MAR -4 P 1:17

MAR - 4 2009

AZ CORP COMMISSION
DOCKET CONTROL

DATE: March 4, 2009



RE: DELLS WATER COMPANY, INC. - REQUEST FOR EXTENSION OF TIME
(DOCKET NO. W-01384A-08-0048)

In Decision No. 70102, dated December 21, 2007, the Arizona Corporation Commission ("Commission") approved the application of Dells Water Company, Inc. ("Dells" or "Company") for a permanent rate increase.

As part of Decision No. 70102, the Commission ordered that Dells file:

"...by December 31, 2008, with the Commissions Docket Control, as a compliance item in this docket, a copy of the Arizona Department of Environmental Quality Certificate of Approval of Construction for the plant to increase storage capacity."

On January 28, 2009, Dells docketed a letter to the Commission requesting an extension of time until November 1, 2009, for provision of the required Approval of Construction ("AOC"). However, in addition to the AOC, Decision No. 70102 also required several other compliance items which are currently outstanding. These other compliance items relate to a water loss report and to a customer notice of the rates and charges authorized in Decision No. 70102. Staff found that neither of these items were included in the application for extension of time. These compliance requirements are outlined below:

"... the Company monitor the system and submit the gallons pumped and sold to determine the actual water loss for one full year. The results of this monitoring and reporting should be docketed as a compliance item in this case within 13 months of the effective date of this Decision. If the reported water loss for the period is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item in this docket within 13 months of the effective date of this Decision."

“... notify its customers of the rates and charges authorized hereinabove and the effective date of same by means of an insert of the regular monthly billing which precedes the month in which they become effective and file a copy of the notice sent to its customers with the Commission’s Docket Control as a compliance item in this docket.”

On February 26, 2009, Staff contacted Mr. Jim West, Company consultant, to discuss the Dells request for extension of time. Mr. West stated that the extension request on the AOC was made simply to allow enough time for the financing case to finalize and for the Company to receive the Commission authority necessary to take a loan for the additional storage capacity. Staff then discussed the water loss and rate notification compliance items and inquired why they were not included as part of the request for extension of time. Mr. West responded that he did not include them but would like to do so. Staff accepted the discussion as a verbal amendment to the January 28, 2009 request for extension, and has therefore included the water loss and rate notification items in the current request for extension of time.

Mr. West further stated that he did provide a filing on the water loss issue on January 30, 2009. In his filing, Mr. West stated that the Company was able to provide water *sold* information for calendar year 2008 but was unable to provide water *pumped* information due to a defective meter on the second well. Water pumped and water sold information are both necessary to determine the water loss percentage and whether it is at or below the Commission required 10 percent threshold. According to Mr. West, the defective meter was discovered and replaced in July 2008. Without complete water pumped information for 2008, the Company was unable to fulfill the compliance requirement related to the water loss analysis. While the Company filing stated that they would try again in 2009, the Company should have realized that accurate meter information was an absolute prerequisite to fulfilling the Commission goal on this compliance item. As for the rate case notification item, Mr. West stated that the notification had been completed but the Company had failed to provide the copy of the notice to Docket Control.

In summary, Dells has three items to be addressed in this request for extension of time: the AOC, the water loss issue and the rate notification requirement. On the AOC, Staff finds that a financing case (Docket No. W-01384A-08-0048) is pending to obtain authority for incurring debt for the project to increase storage capacity. This authority is a necessary and unavoidable element in providing the AOC. Although the Company proposed an extension until November 1, 2009 (to obtain Commission authority and execute a Water Infrastructure Finance Authority (“WIFA”) application), Staff recommended in its January 15, 2009 Staff report that the storage tank project ADEQ AOC be provided by December 31, 2009. Staff therefore recommends that the existing December 31, 2008 due date outlined in Decision No. 70102 for the AOC be extended until December 31, 2009 to coincide with the Staff recommendation in the financing case.

In regard to the water loss requirement, the Company has failed to properly monitor its system to assure that it could adhere to this Commission requirement. Staff therefore recommends that the Company be admonished for failing to maintain its system in a manner that would allow them to comply with this Commission goal. In order to rectify this, Staff

recommends that the water loss report be provided based on the nearest 12 month period for which data will be available. In conversation with Staff, Mr. West stated that the first month for which full data was available on water pumped was August 2008 - the month after the defective meter was replaced. Based on this, the 12 month period from August 1, 2008 to July 31, 2009 is the nearest 12 month period for which the Company can provide full data for the water loss analysis. In line with Mr. West's comments, Staff recommends that the Company be ordered to utilize this 12 month period for the water loss analysis. Staff further recommends that the Company be granted an extension of time until August 31, 2009, to gather the necessary data, conduct all analysis and provide the required/appropriate water loss analysis filing. Staff further recommends that the Company be ordered to monitor the well meters on the Company wells on a weekly basis to assure that a full year of information is available for the water loss analysis at the 12 month period ending July 31, 2009.

Finally, Mr. West stated that the Company rate notification was accomplished in March or April of 2008, but that a copy of the notice was not docketed with the Commission. He indicated that he would locate it and docket this item in the very near future. Based on this, there is no good reason for the delay in this filing and Staff recommends that the Company be admonished for failing to meet this Commission requirement in a timely fashion. In order to help clear this item, Staff will recommend that the Company be granted until March 31, 2009 for the provision of the copy of the notice sent to customers regarding the new rates and charges.

Based on all of the above, Staff recommends that the following extensions be granted:

- The AOC should be filed on or before December 31, 2009.
- The water loss analysis should be filed on or before August 31, 2009, based on the above discussed 12 month data period.
- The rate notification should be filed on or before March 31, 2009.

Additionally, Staff reiterates that the water loss report should be filed utilizing the nearest 12 month period with full information. If for some reason, the Company was incorrect about the July 2008 date of the meter replacement, Staff recommends that the period utilized for the water loss analysis be adjusted to the nearest full 12 month period after the correct date of the meter replacement. The water loss report itself should then be due one month after the 12 month period utilized.

EGJ:BKB:lhm

Originator: Brian K. Bozzo

SERVICE LIST FOR: DELLS WATER COMPANY, INC.
DOCKET NO. W-01384A-07-0314

Mr. Robert Conlin
Dells Water Company, Inc.
Post Office Box 870
901 1st South Street
Clarkdale, Arizona 86370-0870

Mr. Douglas G. Martin
Mr. Jim West
Martin & Bell, L.L.C.
365 East Coronado Road, Suite 200
Phoenix, Arizona 85004-1560

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007