

ORIGINAL



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August 3, 2009

Arizona Corporation Commission
Utilities Division
Docket Control
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

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AZ CORP COMMISSION
DOCKET CONTROL

Re: Docket No. W-01906A-09-0283

This correspondence will serve to document the response of East Slope Water Company ("ESWC" or "Company") to the Arizona Corporation Commission ("ACC") Staff report filed on July 24, 2009, regarding ACC Docket # W-01906A-09-0283.

Please be advised that it is the unequivocal opinion of ESWC that an emergency surcharge which only authorizes an additional \$7.60 base surcharge per customer per month is not sufficient. In order to maintain the system until a permanent rate case using a December 31, 2009, test year end can be filed, processed, and take effect, which will likely be almost two years, \$7.60 will not cover the cost to maintain operations. The company is currently struggling with system breakdowns, and expenses that are in excess of revenue.

ESWC acknowledges a rate case could have been filed at an earlier time, however, keeping the system operational, and water to the customers has been the main priority. As Staff and the ACC know, rate cases most times are costly, lengthy, and time consuming. The Company felt its resources were better utilized maintaining the water flow to its customers. The Company intends to file a financing application when the rate case is filed, which will address the many deficiencies of this aging water system. The company realizes the original request of an increase of \$19.55 per customer per month is substantial; however, the customers of ESWC have had the benefit of paying extremely low rates in comparison to other water utilities for almost 20 years. After reviewing the Staff report, the Company has revised its requested surcharge amount, as well as the rate design necessary to generate the emergency surcharge revenue.

The ESWC system has only one major well and no storage. The well pump is old, and the water table in the area has been, and continues to deplete. We feel it is critical to get a new well in service so there is redundancy in the system. This new well, in addition to storage, will reduce the severe water outages the customers currently experience. The Company feels that it is absolutely imperative, under any scenario, that the ACC approve an emergency surcharge amount that will keep the water system operational, as well as emergency situations that occur sometimes on a weekly basis.

East Slope Water Company
Letter to Arizona Corp. Commission (continued)
Re: Docket No. W-01906A-09-0283

To elaborate and to provide details on the most recent outage in July that occurred within ESWC's service area, the main well (#4), that supplies water to approximately 800 customers, ceased to operate. The cost to respond and fix the problem for this emergency was in excess of \$21,000. This well has no storage capacity, and the water is pumped directly out of the well into a pressure tank with no boosters. The cost to permanently fix this problem is expensive, and will be addressed in the financing application.

With no storage available at well #4, the system must run 24/7, with no rest for the pump and motor. As a result, these continuously moving pieces of equipment burn up very rapidly. If storage was available, this would reduce the demand on the well pump and motor. Like mentioned above, the cost to replace these parts each time this failure occurs is approximately \$21,112. Prior to this most recent emergency described above, the pump and motor on the well burned so badly it ruined three transformers at the well site.

Well #2 has 50,000 gallons of storage, but the storage cannot keep up with customer demand. As a result, this pump and motor are required to run continuously as well.

Well #3 has sufficient storage, 200,000 gallons, but the distribution pipes are old and undersized. This system has 2-inch and 4-inch transite pipes (asbestos), and any increased pressure on the system to supply water to other portions of the service area would break the lines.

The other two wells Staff mentions the Company has in its report are not being used because they are "sanded in", and pump nothing but sand mixed with water. This leaves well #4 as the main source of water, and two much smaller wells to serve the customers. ESWC management disagrees with the statement in the Staff report that indicates an emergency situation doesn't exist from an engineering perspective.

ESWC cannot remain viable if it must continue to incur substantial repair and maintenance costs until the infrastructure problems are corrected. These large repair expenses in addition to its normal monthly operating costs cannot be feasibly supported in the interim, unless ESWC has a sufficient emergency surcharge in place until permanent rates can be established in a rate proceeding. To date, the Company has approximately \$3,500 in its checking account, and an accounts payable balance of approximately \$62,000.

The Company submits the attached Revised Calculation of Monthly Surcharges schedule as an alternative to its original request, and Staff's recommendation in its Staff Report. Staff's recommended surcharge amount included a monthly average of \$579 for repairs and maintenance, based on the actual cost for January through April of 2009, or \$2,316.

ESWC is also submitting three invoices incurred for repairs in the most recent system outage described above, as well as one invoice to rebuild a booster. Well #2 needs a spare booster onsite at all times as they burn out frequently. Without this spare booster the system pressure is not adequate to push the water through at a sufficient flow. Due to the frequency of repairs needed, the monthly average of \$579 is artificially low, and misrepresents the current expense level of the Company. Therefore, it is only appropriate that these additional, large repair expenses, be included in the emergency surcharge calculation, thereby increasing the monthly average for repairs and maintenance by \$2,940.

In addition, based on customer feedback, ESWC proposes implementing an emergency surcharge that includes both a monthly base fee, as well as a commodity rate per 1,000 gallons. This rate design will more appropriately distribute the impact of the emergency surcharge to the water users putting the most demand on the system. As a result, the Company proposes a base emergency surcharge amount of \$5.00 per connection per month, and \$0.80 per thousand gallons commodity surcharge on all gallons sold.

Finally, Staff recommends the Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$35,000 to ensure there is money available to refund ratepayers if the ACC determines in a later proceeding the emergency surcharge was too large. ESWC asserts it will be impossible to comply with this recommendation given the current financial state of the company. In the event the ACC decides at a later date that the surcharge was too large, refunds could be implemented via customer billing credits until the excess surcharge amounts are repaid.

Regards;



Bonnie O'Connor, President
Southwestern Utility Management, Inc.

For

Bobby Watkins, Owner
East Slope Water Company

cc: Bobby Watkins, Owner
Nathan Watkins, President

EAST SLOPE WATER COMPANY
DOCKET NO. W-01906A-09-0283
REVISED CALCULATION OF MONTHLY SURCHARGES

	Amounts	Actual Thru Jul-09	Monthly Average	Surcharge Per Conn	Monthly Revenue
Staff Proposed Amounts				\$ 7.60	\$ 6,247.20
January - April 2009 Actual Repairs and Maintenance		\$ 2,316.00			
Staff Monthly Average for Repairs & Maint			\$ 579.00		
May - July 2009 Additional Repairs & Maint:					
D&M Well Service	\$ 15,436.90				
Jim's Electric, Inc.	3,249.68				
Bestway Electric Motor Service Co., Inc.	2,424.33				
Bestway Electric Motor Service Co., Inc.	1,208.94				
Additional Repairs & Maint During 2009		22,319.85			
Revised Repairs & Maint for 2009 Through July		24,635.85			
Year to Date Months Included		7			
Revised Monthly Average for Repairs & Maint			3,519.41		
Increase to Monthly Average for Repairs & Maint			2,940.41		
Number of Connections			822		
Additional Surcharge for Repairs & Maintenance				3.58	2,940.41
Company Monthly Revised Totals				\$ 11.18	\$ 9,187.61

Company Proposed Change to Surcharge Rate Design:

Revised Base Surcharge Per Connection				5.00	4,110.00
Revenue to be Generated by Commodity Rate					\$ 5,077.61
Total Gallons Sold in 2008 (Thousands)	75,802				
Average Gallons Sold Per Month (Thousands)	6,317				6,317
Commodity Revenue Needed Per 1000 Gallons					\$ 0.80

Revenue check:

Number of Connections			822		
Monthly Base Surcharge Per Connection				\$ 5.00	
Monthly Revenue from Base Surcharge					\$ 4,110.00
Average Gallons Per Customer Per Month			7,685		
Commodity Surcharge Per 1,000 Gallons				\$ 0.80	
Monthly Revenue from Commodity Surcharge					5,053.47

Company Revised Monthly Surcharge Revenue Generated by Alternate Rate Design

\$ 9,163.47

Customer Current Rates and Proposed Surcharge Impact:

Monthly Minimum (5/8" x 3/4" & 3/4")		\$ 9.00			
Commodity Rate	\$ 1.71				
Gallons (2,000 included in monthly minimum)	5,685				
Amount Based on Usage		9.72			
Monthly Bill at Current Rates Based on 7,685 Gallons of Average Usage				\$ 18.72	
Proposed Monthly Base Surcharge				5.00	
Proposed Monthly Commodity Surcharge				4.57	
Monthly Bill Based on 7,685 Gallons of Average Usage Plus Proposed Surcharge Amount				\$ 28.29	