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BEFORE THE ARIZONA CORPORATION COMMISSION
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AZ CORP COMMISSION
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COMMISSIONERS

- KRISTIN K. MAYES, CHAIRMAN
- GARY PIERCE
- PAUL NEWMAN
- SANDRA D. KENNEDY
- BOB STUMP

**IN THE MATTER OF THE
APPLICATION OF F. WAYNE &
DOROTHY THOMPSON DBA WEST
VILLAGE WATER CO., FOR A RATE
INCREASE**

Docket No. W-03211A-08-0621
Docket No. W-03211A-08-0622

RESPONSE TO STAFF REPORT

F. Wayne & Dorothy Thompson dba West Village Water Company ("West Village" or "Company"), hereby responds to the Staff Report for F. Wayne & Dorothy Thompson dba West Village Water Company's Applications for a Permanent Rate Increase and Financing Approval ("Staff Report").

1.0 Rate Base

To clarify the Company's position and help all parties understand its position, the Company is providing revised rebuttal schedules (all excluding the WIFA Surcharge):

- Schedule SSR-1 Rate Base/Operating Income;
- Schedule SSR-2 Utility Plant in Service;
- Schedule SSR-3 Statement of Operating Income; and
- Schedule SSR-4 Rate Design.

Arizona Corporation Commission

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1 See Attachment 1. The primary point of disagreement concerns Staff's Adjustment 1
2 disallowing the Company's water purchase expense of \$18,765 during the test year
3 because Staff believes that the well failure was not a recurring expense. However, as
4 Schedule SSR-3 set forth in Attachment 1 illustrates, the Company routinely incurs
5 purchase water and repair costs that from 2004 to 2008 averaged \$16,071. So while it
6 can be argued that any pump failure or major line break could be considered non-
7 recurring, the fact is that such costs are routine and should be reflected in the Company's
8 rate base. Otherwise, any year the system has a major line break or a pump failure, it will
9 operate at a loss. Therefore, the Company believes that these expenses should be
10 normalized and considered when calculating rate base. See Attachment 1, Schedule
11 SSR-3.
12

13 **2.0 Deadlines**

14
15 In the Staff Report, Staff recommends that the Commission should include
16 deadlines for the Company to act. Knowing that much of what needs to be done depends
17 upon action by others, the Company believes that several of these deadlines should be
18 extended. The Company requests that the following deadlines be set as described below:
19
20
21

- 22 • The Company should be given two years (rather than one year) to obtain
23 financing;
- 24 • The Company should be given 18 months (rather than one year) to draw funds
25 from the loan;
- 26 • The Company should be given until December 31, 2010 to file a water loss report;
27 and
- 28 • The Company should be given one year (rather than rather than six months) after
loan closing to file the Approval to Construct for the deep well project.

1 RESPECTFULLY SUBMITTED this 15th day of December, 2009.

2 **Moyes Sellers & Sims**

3 *Steve Wene*

4 _____
5 Steve Wene
6 Attorneys for West Village Water Company

7 Original and 15 copies of the foregoing
8 filed this 15th day of December, 2009 with:

9 Docket Control
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Copy of the foregoing mailed this
14 15th day of December, 2009 to:

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27 *Donnelly Herbert*
28 _____

ATTACHMENT 1

RATE BASE/OPERATING INCOME EXCLUDING WIFA SURCHARGE

	Staff Adjusted Rate Base ¹	Company Adjustments ²	Company Rebuttal Rate Base
Plant in Service	\$ 99,572	\$ -	\$ 99,572
Less:			
Accumulated Depreciation	(70,334)	(270)	(70,604)
Net Plant	\$ 29,238	\$ (270)	\$ 28,968
Less:			
Plant Advances	\$ -	\$ -	\$ -
Customer Deposits	-	-	-
Total Advances	\$ -	\$ -	\$ -
Contributions Gross	\$ 20,886	\$ -	\$ 20,886
Less:			
Accumulated Amortization of CIAC	20,886	-	20,886
Net CIAC	\$ -	\$ -	\$ -
Total Deductions	\$ -	\$ -	\$ -
Plus:			
1/24 Power	\$ 183	\$ -	\$ 183
1/8 Operation & Maintenance	3,221	1,531	4,752
Inventory		-	
Prepayments		-	
Total Additions	\$ 3,404	\$ 1,531	\$ 4,935
RATE BASE	\$ 32,642	\$ 1,261	\$ 33,903
Rate of Return	17.15%	-	23.31%
Operating Income	\$ 5,598	\$ 2,304	\$ 7,902
Operating Margin	15.00%	0.00%	15.00%

¹ Amounts from CRM-2, Page 1 of 3 and CRM-1.

² Plant and Accumulated Depreciation adjustments per Schedule SSR-2. Working capital increased as a result of income statement adjustments as reflected on Schedule SSR-3.

UTILITY PLANT IN SERVICE

Acct. No.	Description	Staff Adjusted Plant ¹	Company Adjustments ²	Company Rebuttal Plant
301	Organization		\$ -	
302	Franchises		-	
303	Land & Land Rights	18,460	-	18,460
304	Structures & Improvements	1,198	-	1,198
307	Wells & Springs	12,638	-	12,638
311	Pumping Equipment	23,259	-	23,259
320	Water Treatment Equipment		-	
320.1	Water Treatment Plants		-	
320.2	Solution Chemical Feeders		-	
330	Distribution Reservoirs & Standpipes		-	
330.1	Storage Tanks	5,257	-	5,257
330.2	Pressure Tanks		-	
331	Transmission & Distribution Mains	35,270	-	35,270
333	Services		-	
334	Meters & Meter Installations	3,490	-	3,490
335	Hydrants		-	
336	Backflow Prevention Devices		-	
339	Other Plant & Misc Equipment		-	
340	Office Furniture & Equipment		-	
340.1	Computers & Software		-	
341	Transportation Equipment		-	
343	Tools, Shop & Garage Equipment		-	
346	Communications Equipment		-	
347	Miscellaneous Equipment		-	
348	Other Tangible Plant		-	
TOTAL WATER PLANT		\$ 99,572	\$ -	\$ 99,572
108	Accumulated Depreciation	\$ (70,334)	\$ (270)	\$ (70,604)
Net Utility Plant In Service		\$ 29,238	\$ (270)	\$ 28,968

¹ Amounts from CRM-2, Page 2 of 3 and Page 3 of 3.

² The Company Rebuttal adjustment to increase Accumulated Depreciation is the result of Staff's calculation and that of the Company. The Company arrived at Accumulated Depreciation as of December 31, 2007 as follows:

\$	76,948	12/31/06 Accum Depr
	270	2007 Depreciation Expense*
	(6,614)	2007 Staff Retirement
\$	70,604	12/31/07 Accum Depr

* \$10,778 times 5%, divided by 2 for half year convention, (\$540/2).

STATEMENT OF OPERATING INCOME EXCLUDING WIFA SURCHARGE

Acct. No.	OPERATING REVENUES	Staff Adjusted Amounts ¹	Company Adjustments ²	Co. Rebuttal Amounts
461	Metered Water Revenue	\$ 37,315	\$ 15,367	\$ 52,682
474	Other Water Revenues	-	-	-
	TOTAL OPERATING REVENUES	\$ 37,315	\$ 15,367	\$ 52,682
	OPERATING EXPENSES			
601	Salaries and Wages	\$ -	\$ -	\$ -
610	Purchased Water	-	6,485	6,485
615	Purchased Power	4,390	-	4,390
618	Chemicals	100	-	100
620	Repairs and Maintenance	3,817	5,769	9,586
621	Office Supplies & Expense	1,030	-	1,030
630	Outside Services	15,550	-	15,550
635	Water Testing	1,144	-	1,144
641	Rents	-	-	-
650	Transportation Expenses	-	-	-
657	Insurance - General Liability	1,124	-	1,124
659	Insurance - Health and Life	-	-	-
666	Regulatory Commission Exp-Rate Case	3,000	-	3,000
675	Miscellaneous Expense	-	-	-
403	Depreciation Expense	539	808	1,347
408	Taxes Other Than Income	-	-	-
408.11	Property Taxes	1,023	-	1,023
409	Income Tax	-	-	-
	TOTAL OPERATING EXPENSES	\$ 31,717	\$ 13,063	\$ 44,780
	OPERATING INCOME/(LOSS)	\$ 5,598	\$ 2,304	\$ 7,902

¹ Amounts from CRM-1 and CRM-3, Page 1 of 2.

² Revenue increased by \$15,367 to attain operating income as calculated on Schedule SSR-1.

Purchased water and repairs and maintenance increase as calculated on SSR-3, Page 2 of 2.

Depreciation expense increased to reflect depreciable assets times the proposed depreciation rate, (2007 pumping equipment additions of \$10,778 times 12.5%). Until the additions in this category in 2007, all utility plant had been fully depreciated prior to the current test year, including Staff's asset retirement in the amount of \$6,614.

Normalization of Test Year Expenses

Acct No	Expense Account	Per ACC Utilities Division Annual Reports					5-year Total	5-year Average
		2004	2005	2006	2007	2008		
610	Purchased Water	\$ -	\$ 13,660	\$ -	\$ 18,765	\$ -	\$ 32,425	\$ 6,485
620	Repairs & Maintenance	6,880	26,323	890	2,317	11,522	47,932	9,586

Explanation of Adjustments

As reflected on Schedule CRM-3, Page 1 of 2, Adjustment 1, Staff disallowed \$18,765 in test year purchased water expense, stating:

"This expense was incurred in the test year because of a pump failure and it is unknown when or if it will occur in future years. It did not occur in year 2008 or years prior to the test year."

The Company asserts that a disallowance of this size, which represents almost 59% of test year revenue, is unfair. In addition, since the Company had to pay such a large amount due to the ongoing problems with pumps and wells, it was unable to incur expenses in other areas due to the revenue limitation (there is only so much cash coming in the door to pay bills). The Company incurred large purchased water and repair and maintenance expense in 2005, followed by 2006, which had very low expense in both categories. Then again in the test year 2007, purchased water expense was high, but R&M was not. However, R&M increased dramatically in 2008 when cash flow was available to spend on expense items other than purchased water. The Company feels a 5-year average is the most appropriate method to address the recurring fluctuations in these expense categories from year to year.

RATE DESIGN EXCLUDING WIFA SURCHARGE

Rates and Charges	Staff Proposed Rates ¹	Company Rebuttal Rates
Monthly Usage Charges		
5/8" x 3/4" Meter	\$ 26.00	\$ 45.00
3/4" Meter	39.00	67.50
1" Meter	65.00	112.50
1 1/2" Meter	130.00	225.00
2" Meter	208.00	360.00
3" Meter	416.00	675.00
4" Meter	650.00	1,125.00
6" Meter	1,300.00	2,250.00
Commodity Rates		
Gallons Included in Monthly Minimum	0	0
Excess of Minimum - Per 1,000 Gallons		
5/8" x 3/4" and 3/4" Meters Only		
Tier 1 1 - 3,000 Gallons	\$ 5.50	\$ 6.05
Tier 2 3,001 - 10,000 Gallons	8.60	8.60
Tier 3 All Gallons over 10,000	9.95	10.50
1-inch Meter		
Tier 1 1 - 10,000 Gallons	\$ 8.60	\$ 8.60
Tier 2 All Gallons over 10,000	9.95	10.50
1 1/2-inch Meter		
Tier 1 1 - 20,000 Gallons	\$ 8.60	\$ 8.60
Tier 2 All Gallons over 20,000	9.95	10.50
2-inch Meter		
Tier 1 1 - 40,000 Gallons	\$ 8.60	\$ 8.60
Tier 2 All Gallons over 40,000	9.95	10.50
3-inch Meter		
Tier 1 1 - 144,000 Gallons	\$ 8.60	\$ 8.60
Tier 2 All Gallons over 144,000	9.95	10.50
4-inch Meter		
Tier 1 1 - 225,000 Gallons	\$ 8.60	\$ 8.60
Tier 2 All Gallons over 225,000	9.95	10.50
6-inch Meter		
Tier 1 1 - 450,000 Gallons	\$ 8.60	\$ 8.60
Tier 2 All Gallons over 450,000	9.95	10.50
Standpipe Rate - Per 1,000 Gallons	\$ 9.95	\$ 10.50

¹ Staff proposed rates per CRM-4, Page 1 of 2.