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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
CHAPARRAL CITY WATER COMPANY, INC.,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO. W-02113A-07-0551

**STAFF'S UPDATE
(PUBLIC)**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") files the public version of this update in accordance with Decision No. 71308. The confidential version will be provided to all parties who have signed protective agreements and to the Commission under seal.

I. INTRODUCTION.

Chaparral City Water Company ("the Company", or "Chaparral") serves approximately 13,500 customers in portions of eastern Maricopa County, Arizona, including the Town of Fountain Hills and a small portion of the City of Scottsdale.¹ In October 2000, American States Water Company (American States) purchased Chaparral City's stock from MCO Properties, Inc. (MCO).

Chaparral is wholly owned by American States Water Company ("American States"), which is publicly traded on the New York Stock Exchange. American States is the also the parent of Golden State Water Company (formerly Southern California Water Company), American States Utility Services, Inc., and Bear Valley Electric Services. Through its subsidiaries, American States provides water to over 255,000 customers in over 75 communities throughout 10 counties in Northern, Coastal and Southern California. American States also distributes electricity to

¹ CCWC Application at 1, ll. 18-22.

1 approximately 23,250 customers in the Big Bear recreational area of California via Bear Valley
2 Electric Services. Through its Contracted Services subsidiary, American States Utility Services, the
3 Company contracts with municipalities, the U.S. government, and private entities to provide various
4 services, including billing and meter reading, water marketing, and operation and maintenance of
5 water and wastewater systems at various military installations throughout the United States.

6 In August, 2004, Chaparral filed an application for an increase in rates. The Commission
7 issued Decision No. 68176 granting the Company a rate increase.² The Company appealed this
8 decision to the Arizona Court of Appeals, asserting, among other things, that the Commission did not
9 use the Company's fair value rate base to determine its rates. The Court of Appeals agreed with the
10 Company in part and remanded the case to the Commission. The Commission held a hearing on the
11 remand in January 2008 and issued a decision in July 2008 ("Remand Proceeding").

12 On September 26, 2007, the Company filed an application for an increase in rates in the above
13 captioned matter. Staff moved to suspend the time clock on that application because the Remand
14 Proceeding was pending and its outcome would impact the September 2007 application. The ALJ
15 granted Staff's motion. Further, by her January 18, 2008 procedural order, the ALJ directed the
16 parties to continue discovery, in order to minimize any delay processing of the rate case.
17 Additionally, the ALJ ordered that a hearing be scheduled as soon as practicable after the issuance of
18 a final order in the Remand Proceeding.

19 On July 7, 2008, the Company filed a "Notice of Implementation of Interim Rates Pursuant to
20 Arizona Revised Statutes ("ARS") § 40-256". The Company's filing stated that the Company
21 intended to unilaterally implement an increase in its rates on an interim basis on August 18, 2008, and
22 also intended to provide notice to its customers of its intention within 10 days after its July 7, 2008
23 filing. The Company subsequently agreed to hold in abeyance its intent to implement interim rates
24 and proceed with its rate application in the instant case.

25 In December 2008, Staff received a call from the California Public Utilities Commission
26 ("CPUC"). During the course of an investigation into certain procurement practices of Golden State
27 Water, the CPUC discovered information regarding Chaparral. Staff commenced discovery and filed

28 _____
² Dec. No. 68176, Docket No. W-02213A-04-1616 (September 30, 2005).

1 in the docket copies of a lawsuit filed by two former officers of Golden State.³ A review of those
2 court pleadings contained allegations of an on-going investigation into Golden States procurement
3 practices. The complaint in that matter also contained allegations regarding bidding irregularities
4 involving the Shea Treatment Plant.⁴

5 Staff met with the Company and RUCO in January 2009 shortly after the conclusion of the
6 evidentiary hearing to discuss the CPUC investigation and its impact on Chaparral.

7 The Commission issued Decision No. 71308 in October 2009 authorizing new rates for
8 Chaparral. The Decision ordered Staff to file a status update regarding its investigation and left the
9 docket open pending the filing of Staff's update.⁵ The following paragraphs outline the status of
10 Staff's work on this matter. The information presented below was compiled from a variety of
11 documents provided to Staff by the Company.

12 **II. GOLDEN STATE INVESTIGATION.**

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 _____
26 ³ Dickson v Golden State Water Company, American States Water Company, et al. Case no. BC380721, (Superior Ct, CA
filed Nov. 15, 2007).

27 ⁴ *Id.*

28 ⁵ Decision No. 71308 at 73.

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[REDACTED]

II. THE SHEA TREATMENT PLANT.

In early 1999, American States was negotiating to purchase Chaparral from MCO Properties

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1 **IV. STAFF INVESTIGATION.**

2 During the course of its regulatory audit in Docket No. 07-0551, Staff issued the following
3 data request:

4 Please provide an explanation of the "Impairment of Assets entries in the
5 CCWC General Ledger on 12/31/06 for \$1,494.30, \$13,448.70 and
6 \$76,892.00.

6 Chaparral responded as follows:

7 **RESPONSE:** The impairment of assets entries totaling \$91,835 related to a project
8 that was never completed and subsequently abandoned. Since it was never completed,
9 the asset was never used and useful. In accordance with generally accepted accounting
10 principles, the cost of the asset was removed from CWIP and written off as an
11 impairment loss during 2006.

11 Staff followed up with a subsequent data response:

12 **MEM 13.1:** Referring to Data Request MEM 8.3, please explain when the
13 abandoned project mentioned was started. Also, please indicate if the project was
14 funded with AIAC or CIAC and provide data regarding other abandoned projects, to
15 include the start date, abandonment date and cost.

15 **RESPONSE:** The abandoned project was for an initial attempt to use a sole source
16 design-build concept for the expansion of the Shea Water Treatment Plant Expansion.
17 This project was started in April 2002 and stopped in July 2003. This project was not
18 funded with AIAC or CIAC funds. There are no other projects since the acquisition of
19 CCWC by American States Water that have similar asset impairment and were in turn
20 abandoned.

19 As was later discovered, these responses were not entirely complete. [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 After the conclusion of the 2009 evidentiary hearing, Staff issued additional discovery and
23 received over 15,000 pages of documents to review. The vast majority of the documents related to
24 Golden State. Staff hired a consultant to review the information related to the Company's
25 adjustment. The amount in question was not included in the Company's expenses and therefore is
26 not in rates. Staff has concerns about the Company's responsiveness to Staff's data requests. In
27 identifying the individuals responsible for the preparation of the less than complete data responses,
28 Chaparral indicated that Mr. Hanford and a Golden State employee, Peggy Thornburg, an accountant

1 with Golden State, were responsible for DR 8.3. Mr. Hanford was solely responsible for the
2 preparation of DR 13.1. Mr. Hanford is no longer district manager of Chaparral, but is now a district
3 manager at another system within Golden State. Ms. Thornburg is no longer employed with Golden
4 State.

5 **V. RECOMMENDATIONS.**

6 The Company's failure to completely disclose the facts surrounding the matters at issue herein
7 is troubling. Staff and the Commission rely on public service corporations to be straightforward in
8 data responses issued during the regulatory process. Staff would make the following
9 recommendations.

10 Chaparral should be ordered to certify that it has instituted proper controls in its procurement
11 policy and practices to ensure compliance. Chaparral should file a report, in this docket, detailing
12 what changes have been made to its procurement practices and what controls have been instituted to
13 ensure compliance. Such report should be certified, under oath, by an officer of American States.

14 Chaparral, in its next rate application, should be ordered to certify that its responses to data
15 requests are true and correct in a form similar to the sworn statement contained in the standard
16 Annual Report. This verification should be made by the respondent, the attorney representing the
17 Company and an officer of the Company. Further, for any projects that are to be included in plant in
18 service or operating expenses, an officer should provide a certification that the Company's current
19 bidding practices were followed.

20 Chaparral should be ordered to file in this docket periodic status reports of the CPUC
21 investigation and ultimate resolution of the CPUC investigation.

22 RESPECTFULLY SUBMITTED this 26th day of February, 2010.

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24
25 

26 Robin R. Mitchell, Staff Attorney
27 Wesley Van Cleve, Staff Attorney
28 Arizona Corporation Commission
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1 Original and Thirteen (13) copies of the
2 foregoing were filed this 26th day of
February, 2010 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
Phoenix, AZ 85007

6 Copies of the foregoing mailed this
7 1st day of March, 2010 to:

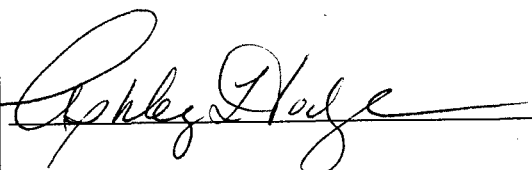
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