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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
MAR 30 2010

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF
GRANITE MOUNTAIN WATER COMPANY,
INC. FOR APPROVAL OF A RATE
INCREASE.

DOCKET NO. W-02467A-09-0333

IN THE MATTER OF THE APPLICATION OF
GRANITE MOUNTAIN WATER COMPANY,
INC. FOR APPROVAL OF FINANCINGS.

DOCKET NO. W-02467A-09-0334

PROCEDURAL ORDER

BY THE COMMISSION:

On June 30, 2009, Granite Mountain Water Company, Inc. ("Granite Mountain") filed with the Arizona Corporation Commission ("Commission") a Rate Application requesting a rate increase that would generate additional annual revenues of \$14,797 ("Rate Application"). Granite Mountain's Rate Application showed that Granite Mountain had three long-term debts outstanding during the 2008 test year ("TY")—a January 2004 loan in the amount of \$27,773.65; a March 2006 loan in the amount of \$26,365; and an April 2007 loan in the amount of \$78,655 (collectively referred to herein as the "three loans"). The Rate Application showed that the total amounts of the three loans were outstanding.

Also on June 30, 2009, in a separate docket, Granite Mountain filed a Financing Application requesting authority to obtain a line of credit in the amount of \$125,000, to be used primarily to fund the design and construction of a 50,000 gallon water storage tank, retaining wall, and required fencing, and requesting authority to issue three promissory notes totaling \$132,793.65, which arose from the three loans ("Financing Application"). Granite Mountain stated in the Financing Application that the three promissory notes had already been paid in full from operations and were no longer outstanding obligations.

1 On July 17, 2009, a Granite Mountain customer filed comments opposing the rate increase in
2 the Rate Application docket.

3 On July 30, 2009, the Commission's Utilities Division Staff ("Staff") filed a Letter of
4 Deficiency and Data Request in the Rate Application docket.

5 On August 11, 2009, a Procedural Order was issued consolidating the Rate Application
6 docket and the Financing Application docket and requiring Granite Mountain to mail each of its
7 customers notice of the consolidated matter by August 24, 2009, and to file certification of mailing
8 notice with the Commission by September 3, 2009.

9 On August 14, 2009, Granite Mountain filed a response to Staff's Letter of Deficiency and
10 Data Request. In its response, Granite Mountain provided revised Rate Application pages related to
11 revenues and its requested rate increase, plant, water loss, long-term debt, bill counts, and its balance
12 sheet and provided documentation for expenses. Granite Mountain showed its TY revenues as
13 \$74,122; stated that its water loss during the TY was partially due to non-billed meters that were not
14 being read and that consumed approximately 1,320,600 gallons during the TY; showed reduced
15 gallons pumped during the TY; and showed that the three loans were no longer outstanding and that
16 the entire principal balance for each had been paid during the TY.

17 On August 27, 2009, Granite Mountain filed certification of mailing notice of this
18 consolidated matter, including a copy of the notice provided to its customers.

19 On September 2, 2009, Staff issued a Second Letter of Deficiency and Data Request.

20 On September 15, 2009, a customer filed comments in opposition to the Rate Application.

21 On September 17, 2009, Granite Mountain filed a response to Staff's Letter of Deficiency and
22 Data Request. In its response, Granite Mountain provided revised Rate Application pages related to
23 plant, depreciation, and its balance sheet.

24 On October 19, 2009, Staff issued a letter of Sufficiency stating that Granite Mountain's
25 applications had met the Commission's sufficiency requirements and that Granite Mountain had been
26 classified as a Class D utility.

27 On December 1, 2009, a bundle of documents was filed with the Commission. The
28 documents, which include a number of handwritten notations, are not accompanied by a cover sheet

1 and do not in any other way identify who filed them. Among other things, the documents show
2 revised TY operating revenues; revised proposed miscellaneous service charges; and revised plant in
3 service for the TY. They also include a copy of an "Easement and Agreement for Ninety Nine
4 Years," dated December 28, 2001, between the Paul D. and Rae Levie Trust, Granite Mountain, and
5 Daniel Paul Levie ("Easement Agreement"). Under the Easement Agreement, Daniel Paul Levie
6 grants to Granite Mountain two 20' x 20' permanent well sites together with easements for the two
7 existing wells, well sites, well houses, main lines, water lines, pumps, and other facilities as they exist
8 in, on, and over two properties owned by him, in return for which Granite Mountain provides Daniel
9 Paul Levie the sum of \$10.00 plus free use of water on one of the properties, a discounted price for
10 the use of water on the other property, and forgiveness of existing accumulated charges for the first
11 property.

12 On January 4, 2010, Staff filed its Staff Report for the Rate Application and Financing
13 Application, recommending that the Rate Application be approved using Staff's recommended rates
14 and charges and that the Financing Application be denied. Because Staff recommended a larger
15 revenue requirement than requested by Granite Mountain, Staff recommended that Granite Mountain
16 notify its customers of Staff's recommended increase in revenue and rates. Regarding the Financing
17 Application, Staff stated that the line of credit for which Granite Mountain requests approval has
18 already been secured by Granite Mountain without approval; that Granite Mountain has already
19 drawn on the line of credit; and that the construction project for which the line of credit was to be
20 used has already been completed with the exception of connecting the new storage tank to the
21 existing system. Staff added that Granite Mountain has not yet obtained an Approval to Construct
22 from the Arizona Department of Environmental Quality. Staff stated that the line of credit is not a
23 loan and recommends that it be classified as paid-in capital, which needs no Commission approval.
24 Staff further stated that the other three loans included in the Financing Application need no further
25 consideration as they are paid in full.

26 Granite Mountain did not file a response to the Staff Report.

27 Nothing has been filed in the docket to indicate that Granite Mountain has provided its
28 customers notice of Staff's recommended increase in revenue and rates.

1 On March 17, 2010, a Procedural Order was issued stating that the record in this matter is
2 insufficient to allow the Commission to reach a decision on either Granite Mountain's Rate
3 Application or its Financing Application; scheduling a procedural conference for March 29, 2010, to
4 discuss the questions that remain unanswered in the record and how the matter should proceed; and
5 suspending the timeframe in this matter.

6 On March 29, 2010, the procedural conference proceeded as scheduled at the Commission's
7 offices in Phoenix, Arizona. Granite Mountain appeared through Paul D. Levie, who is a licensed
8 Arizona attorney. Staff appeared through counsel. The parties were advised that numerous questions
9 remain unanswered in the record and were provided an opportunity to discuss amongst themselves
10 how the questions should be answered and how the matter should proceed. The parties agreed that
11 they would like to have a Procedural Order issued memorializing the questions, to which they would
12 respond in writing. Neither indicated a desire to hold a hearing. Granite Mountain provided a copy
13 of a draft notice for its customers, and it was determined that the Procedural Order would address the
14 notice to be provided to Granite Mountain's customers. The parties were informed that they would
15 be given an opportunity to reply to each other's filed responses, that they should err on the side of
16 providing more information than they believe is necessary, and that they should provide supporting
17 documents along with their responses to the extent that such documents are available.

18 It is now appropriate to issue a Procedural Order setting forth the questions to which each
19 party shall respond, establishing a schedule for the responses and any replies by the parties, and
20 establishing the notice that shall be provided by Granite Mountain to its customers.

21 IT IS THEREFORE ORDERED that **Granite Mountain shall, by April 19, 2010, file with**
22 **the Commission's Docket Control full and complete responses to the questions set forth in**
23 **Exhibit A** hereto, which is incorporated by reference herein, along with any documents that support
24 Granite Mountain's responses.

25 IT IS FURTHER ORDERED that **Staff shall, by April 19, 2010, file with the Commission's**
26 **Docket Control full and complete responses to the questions set forth in Exhibit B** hereto, which
27 is incorporated by reference herein, along with any documents that support Staff's responses.

28

1 IT IS FURTHER ORDERED that **Granite Mountain and Staff each shall, by May 3, 2010,**
 2 **file any reply** that either may have to the responses previously filed by the other.

3 IT IS FURTHER ORDERED that **Granite Mountain shall, by April 9, 2010, send to each**
 4 **of its customers**, by First Class U.S. Mail, **notice** in the following format and style, with the heading
 5 in at least 12-point bold type and the body in at least 10-point regular type, **along with a complete**
 6 **copy of Schedules CRM-4 and CRM-5 from the Staff Report.**

7 **NOTICE OF GRANITE MOUNTAIN WATER COMPANY, INC.'S**
 8 **APPLICATIONS FOR A RATE INCREASE AND**
 9 **FOR APPROVAL OF FINANCINGS**
 10 **Docket Nos. W-02467A-09-0333 et al.**

11 On June 30, 2009, Granite Mountain Water Company, Inc. ("Granite Mountain") filed
 12 with the Arizona Corporation Commission ("Commission") a Rate Application
 13 requesting a rate increase that would generate an additional \$14,797 in annual revenues.
 14 On the same date, Granite Mountain filed a Financing Application requesting authority
 15 to obtain a line of credit in the amount of \$125,000 and retroactive authority to issue
 16 three promissory notes totaling \$132,793.65, which arose from three loans obtained in
 17 January 2004, March 2006, and April 2007.

18 The Commission is considering the Rate Application and Financing Application
 19 together as a consolidated matter and is not required to schedule a hearing concerning
 20 the consolidated matter.

21 The Commission's Utilities Division Staff ("Staff") has issued its recommendations
 22 regarding the two applications in a Staff Report dated January 4, 2010. Staff
 23 recommends that Granite Mountain be granted a rate increase that would generate an
 24 additional \$29,949 in annual revenues, that the line of credit be denied, and that no
 25 further consideration is needed for the three loans as they have been paid in full.
 26 Attached to this notice are a schedule showing Granite Mountain's current rates,
 27 Granite Mountain's proposed rates, and Staff's recommended rates and a schedule
 28 showing a typical bill analysis using each set of rates.

The Commission is not bound by the proposals made by Granite Mountain, Staff, or
 any intervenors. The rates and charges ultimately approved by the Commission may be
 higher or lower than the rates and charges requested in the Rate Application or
 recommended by Staff.

Regardless of whether a hearing is held, written customer comments can be placed in
 the file, which the Commission will review before making its final decision on the
 applications. It is important that customers wishing to comment do so promptly so that
 the Commission can consider any customer comments and concerns in reaching its
 decision. Customers should bring to the Commission's attention any questions or
 concerns related to either application, including concerns as to service, billing
 procedures, or other factors important in determining the reasonableness of the
 proposed or recommended rates and charges or the financings.

Copies of the applications, the Staff Report, and the other documents filed in this matter
 are available at Granite Mountain's office at 2465 Shane Drive, Prescott, AZ 86305 and
 the Commission's Docket Control at 1200 West Washington Street, Phoenix, AZ
 85007 for public inspection during regular business hours and on the Internet via the
 Commission website (www.azcc.gov) using the e-Docket function.

1 If you have questions about either application, you may contact Granite Mountain at
2 928-717-2616. If you wish to file written comments on either application or want
3 further information, you may contact the Commission's Consumer Services Section by
4 calling 1-800-222-7000 or 602-542-4251. Written public comments may also be filed
5 by mailing an original and 13 copies of the comments (referencing Docket No. W-
6 02467A-09-0333 et al.) to the Commission's Docket Control at 1200 West Washington
7 Street, Phoenix, AZ 85007.

8 Any person entitled by law to intervene and having a direct and substantial interest in
9 this matter will be permitted to intervene. A person desiring to intervene must file a
10 Motion to Intervene with the Commission's Docket Control and serve the Motion upon
11 Granite Mountain. A Motion to Intervene shall contain at least the following:

- 12 1. The name, address, and telephone number of the proposed intervenor and of any
13 person upon whom service of documents is to be made if different than the intervenor;
- 14 2. A short statement of the proposed intervenor's interest in the proceeding
15 (customer, etc.);
- 16 3. Whether the proposed intervenor desires a formal evidentiary hearing on the
17 applications and the reasons for such a hearing; and
- 18 4. A statement certifying that a copy of the Motion to Intervene has been mailed to
19 Granite Mountain or its counsel.

20 The granting of Motions to Intervene shall be governed by Arizona Administrative
21 Code R14-3-105. If a hearing is scheduled in this matter, a deadline for Motions to
22 Intervene will be established in the Procedural Order scheduling the hearing.

23 IT IS FURTHER ORDERED that **Granite Mountain shall, by April 19, 2010, file** with the
24 Commission's Docket Control **certification of mailing notice** to its customers, which shall include
25 one sample notice letter with the required attachments.

26 IT IS FURTHER ORDERED that all parties must comply with Rules 31 and 38 of the Rules
27 of the Arizona Supreme Court and A.R.S. § 40-243 with respect to the practice of law and admission
28 *pro hac vice*.

IT IS FURTHER ORDERED that the Ex Parte Rule (A.A.C. R14-3-113 - Unauthorized
Communications) applies to this proceeding and shall remain in effect until the Commission's
Decision in this matter is final and non-appealable.

IT IS FURTHER ORDERED that the Presiding Officer may rescind, alter, amend, or waive
any portion of this Procedural Order either by subsequent Procedural Order or by ruling at hearing.

DATED this 30th day of March, 2010.


SARAH N. HARPRING
ADMINISTRATIVE LAW JUDGE

1 Copies of the foregoing mailed/delivered
2 this 30th day of March, 2010, to:

3 Paul D. Levie
4 GRANITE MOUNTAIN WATER COMPANY, INC.
5 2465 West Shane Drive
6 Prescott, Arizona 86305
7 Attorney for Granite Mountain Water Company, Inc.

8 Matthew Lauterbach, Chief Operating Officer
9 GRANITE MOUNTAIN WATER COMPANY, INC.
10 2465 West Shane Drive
11 Prescott, Arizona 86305

12 Janice Alward, Chief Counsel
13 Legal Division
14 ARIZONA CORPORATION COMMISSION
15 1200 W. Washington Street
16 Phoenix, Arizona 85007

17 Steven M. Olea, Director
18 Utilities Division
19 ARIZONA CORPORATION COMMISSION
20 1200 W. Washington Street
21 Phoenix, Arizona 85007

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By:



Debra Broyles
Secretary to Sarah N. Harpring

EXHIBIT A

1. Who made the filing on December 1, 2009?
2. What is the company's explanation for its excessive water loss?
3. If the water loss was due to theft, when and how was that first detected, and how much water was stolen?
4. Why did the company not detect the water loss sooner, if the company tracks its water pumped and sold each month?
5. Have the owners of the properties at which meters apparently went unread been held responsible in any way for the water usage? If so, how?
6. Whose responsibility is it to ensure that water cannot be obtained at an inactive property?
7. What actions has the company taken to ensure that it will not again have water usage at inactive properties?
8. Why did the company not seek Commission approval for the line of credit or the three loans described in the financing application before obtaining them?
9. Looking at prior Commission Decisions, it appears that the company has been specifically ordered by the Commission on several occasions not to obtain long-term debt without first obtaining Commission approval.¹ Does the company believe that it has complied with those Commission orders?
10. If not, why has the company failed to comply with those Commission orders?
11. The rate application originally showed that all three loans were outstanding during the test year. Why did the rate application show that they were outstanding if they had already been paid off?
12. When were the three loans paid off, and using what funds?
13. Has the company claimed any of the expense of those three loans as test year operating expenses?
14. What were the proceeds from the three loans used for?
15. What was the line of credit used for? (Was it the "storage tank project," which includes a 50,000-gallon tank, a retaining wall, and fencing?)
16. When was the storage tank project construction completed?
17. Why did the company not get an Approval to Construct before constructing its storage tank project?
18. Has the company now obtained an Approval to Construct and/or an Approval of Construction for the storage tank project? When was each obtained?
19. Is the 50,000-gallon storage tank now in service?

¹ See Decision No. 54902 (February 20, 1986); Decision No. 55921 (March 25, 1988); Decision No. 61731 (June 4, 1999).

20. Why was there a \$2,000 penalty on Well #4? By whom was it assessed, and for what?
21. Does the company plan to drill a replacement well? If so, for what well, where, and who owns the wellsite?
22. What is the company's reaction to Staff's recommendation for a new 110,000-gallon storage tank?
23. What is the company's reaction to Staff's recommendations that approval of the line of credit be denied and that no action be taken regarding the three loans?
24. What is the company's reaction to Staff's recommended rates and charges?
25. Is the easement agreement between the company and Daniel Paul Levie still in effect?
26. Are the two properties owned by Daniel Paul Levie the properties on which Wells #3 and 4 are located?
27. How is Daniel Paul Levie related to Paul D. and Rae Levie, the owners of the company?
28. Is Daniel Paul Levie receiving water at a rate of \$2.00 per 1,000 gallons for one property described in the easement agreement and at no charge for the other property described in the easement agreement?
29. Has the Commission approved the easement agreement in any way? If so, how and when?
30. What meter size is used to serve each of the two properties owned by Daniel Paul Levie?
31. Does Daniel Paul Levie pay a monthly minimum charge for the water used at either of those two properties?
32. How much water was used by Daniel Paul Levie for each of those properties during the test year? Is that water usage included in the company's water pumped and sold as reported to the Commission?
33. How much did Daniel Paul Levie pay for water for the two properties during the test year? Is the revenue from Daniel Paul Levie's water usage for those two properties included in the company's test year revenues?
34. Was the water usage for Daniel Paul Levie's two properties during the test year representative of the usage by Daniel Paul Levie for those two properties during the years prior and subsequent to the test year?
35. How did Daniel Paul Levie come to own the properties that include the two wellsites? From whom did he obtain them, at what price, and when?

EXHIBIT B

1. Why does Staff believe that it is appropriate to deny the line of credit?
2. How did Staff determine that the line of credit is not actually a loan and that it is actually paid-in capital? What makes it paid-in capital as opposed to a loan?
3. Why did Staff not recommend that the three loans from the trust be treated as paid-in capital as well?
4. How did Staff treat the plant or other items that were paid for with the proceeds from the three loans and the proceeds from the line of credit?
5. In light of the company's apparent history of obtaining long-term financings without first obtaining Commission approval, does Staff continue to believe that its recommendations related to the line of credit and the three loans are appropriate?
6. Did Staff consider the company's history when it formulated its recommendations?
7. What is Staff's analysis of the company's plan to drill a replacement well within the next year?
8. What is Staff's analysis of the easement agreement between the company and Daniel Paul Levie?
9. Does Staff have any recommendations related to the easement agreement?
10. Is Staff's recommendation for the company to hire an engineer to design the 110,000-gallon tank due to a Staff determination that there was a problem with the design of the 50,000-gallon tank?