

OPEN MEETING ITEM

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



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ARIZONA CORPORATION COMMISSION

ORIGINAL

DATE: MARCH 31, 2010
DOCKET NO.: W-02113A-07-0551

Arizona Corporation Commission
DOCKETED
MAR 31 2010

TO ALL PARTIES:

DOCKETED BY *MM*

Enclosed please find the recommendation of Administrative Law Judge Teena Wolfe. The recommendation has been filed in the form of an Order on:

CHAPARRAL CITY WATER COMPANY, INC.
(PERMANENT RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

APRIL 12, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

APRIL 27, 2010 and APRIL 27, 2010

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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EXECUTIVE DIRECTOR

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SBernal@azcc.gov

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- KRISTIN K. MAYES, Chairman
- 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

DECISION NO. _____

ORDER

Open Meeting
 April 27 and 28, 2010
 Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On October 21, 2009, the Arizona Corporation Commission ("Commission") issued Decision No. 71308 in this docket authorizing new interim rates for Chaparral City Water Company ("CCWC," "Chaparral," or "Company"). Decision No. 71308 ordered that the approved rates be interim and subject to modification in the event an ongoing Commission Utilities Division ("Staff") investigation related to certain California Public Service Commission ("CPUC") investigation documents revealed the existence of circumstances which would warrant modification of the interim rates.
2. On December 8, 2009, the Commission issued Decision No. 71424 in this docket, correcting an error in the rates approved in Decision No. 71308 *nunc pro tunc*.
3. On January 5, 2009, during the course of the hearing on the rate application in this docket, Staff docketed a Notice of Filing Regarding Investigation. Staff stated in the Notice that the

1 CPUC had contacted Staff regarding a CPUC investigation of Golden States Water Company
2 (“Golden States”), CCWC’s parent, alerting Staff that in the course of its investigation, the CPUC
3 had discovered information relating to CCWC that it thought would be of interest to Staff. Staff
4 further stated that it was working with the CPUC on a confidentiality agreement to allow Staff to
5 obtain information from the CPUC regarding its investigation.

6 4. On January 6, 2009, Staff docketed a Notice of Filing to which was attached a copy of
7 a November 15, 2007, complaint filed in Los Angeles Superior Court against Golden States Water
8 Company, American States Water Company, et al.

9 5. On January 29, 2009, Staff docketed another Notice of Filing in which Staff stated that
10 on January 12, 2009, the Company had provided responses to Staff’s data requests related to the
11 CPUC investigation of Golden States; that based on the responses, Staff had concluded that
12 additional discovery was necessary; and Staff would continue to provide updates on the issue in this
13 docket.

14 6. On February 10, 2009, Staff filed a Motion to Compel, requesting that the
15 Commission order the Company to promptly provide information requested by Staff related to the
16 CPUC investigation of Golden States.

17 7. On February 18, 2009, Staff docketed an update to its February 10, 2009, Motion to
18 Compel. Staff indicated that Staff and the Company had agreed to extend the time period in which
19 the Company had to respond, pending the outcome of ongoing negotiations to resolve the Motion to
20 Compel.

21 8. On June 3, 2009, a procedural order was issued directing Staff to file, by June 12,
22 2009, an update on its Motion to Compel and the progress made in its discovery related to the
23 CPUC’s Golden States investigation. The procedural order directed Staff to include in the update a
24 recommendation regarding an appropriate procedural means of addressing the CPUC investigation
25 issue, including whether it should be addressed in this docket.

26 9. On June 11, 2009, Staff filed a Request for Extension of Time, requesting that it be
27 allowed to file its update by June 19, 2009.

28

1 10. On June 12, 2009, the Company filed a Response in Opposition to Staff's Motion for
2 Extension of Time. Therein, the Company stated that it had offered to stipulate to either (1) keep this
3 docket open, pending conclusion of Staff's review of the CPUC investigation documents and a
4 determination of whether any further proceedings or relief are warranted, or (2) to open a new docket
5 for the same purpose.

6 11. On June 17, 2009, a procedural order was issued granting Staff a one-week time
7 extension, and extending the time for filing responses.

8 12. On June 19, 2009, Staff filed its Update and Reply to Chaparral City Water
9 Company's Response. Staff stated that the discovery dispute had been resolved through the
10 execution of a protective agreement, and the Company had subsequently provided Staff with over
11 15,000 pages of documents. Staff stated that its investigation was ongoing; Staff had not yet
12 determined whether the Company's activities rise to the level of impropriety or wrongdoing, or
13 would impact the Company's rates or the pending rate case; and Staff had retained an outside
14 consultant to assist in reviewing investigation documents and determining whether any alleged
15 improprieties would impact this rate case. Staff stated that it would accept the Company's stipulation
16 proposal, with the acknowledgement that rates approved in the rate case could be modified if Staff's
17 investigation yielded circumstances warranting such action.

18 13. On June 23, 2009, RUCO filed a Response to Staff's Update Regarding the CPUC
19 Investigation. RUCO agreed that there has been insufficient time to review and analyze the
20 documentation the Company had produced on March 10, 13 and 16, 2009. RUCO did not object to
21 having the rate case proceed while leaving the docket open, subject to reconsideration in the event the
22 investigation revealed impropriety by Chaparral or its parent, officers or employees.

23 14. On June 25, 2009, the Company filed a Response to Staff's Update. The Company
24 asserted that there was no reason to delay rate relief, and requested the issuance of a rate decision as
25 soon as possible.

1 15. Along with making the authorized rates interim, Decision No. 71308 ordered Staff to
2 file a report documenting its review of the CPUC investigation documents, reporting its findings, and
3 making a recommendation regarding the need for any further proceedings or relief in this docket.

4 16. On February 26, 2010, Staff docketed the report required by Decision No. 71308.

5 17. Staff stated that its investigation revealed that data responses provided by the
6 Company in response to a Staff data request were not entirely complete. In identifying the
7 individuals responsible for the preparation of the less than complete data responses, CCWC indicated
8 that Mr. Hanford, its district manager, and a Golden State employee, Peggy Thornburg, an accountant
9 with Golden State, were responsible for it. Staff stated that Mr. Hanford is no longer district manager
10 of CCWC, but is now a district manager at another system within Golden State, and Ms. Thornburg is
11 no longer employed with Golden State.

12 18. Staff stated that its investigation revealed that the amount in question in the rate case
13 was not included in the Company's expenses, and is therefore not included in the interim rates
14 approved by Decision No. 71308.

15 19. Staff stated that it found the Company's failure to completely disclose the facts
16 surrounding the matters at issue in the CPUC investigation of Golden States troubling.

17 20. Based on the results of its investigation, Staff made the following recommendations:

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

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

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

21. No responses to Staff's report were filed.

1 IT IS FURTHER ORDERED that Chaparral City Water Company shall, in its next rate case,
2 certify that its responses to data requests are true and correct in a form similar to the sworn statement
3 contained in the standard Annual Report. This certification of data responses shall be made by the
4 person providing the response, the attorney representing the Company, and an officer of the
5 Company.

6 IT IS FURTHER ORDERED that Chaparral City Water Company shall, in its next rate
7 application, provide a certification by an officer that Chaparral City Water Company's current
8 bidding practices were followed for any projects that are proposed to be included in plant in service
9 or operating expenses.

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1 IT IS FURTHER ORDERED that Chaparral City Water Company shall file in this docket,
2 commencing June 1, 2010, biennial status reports of the California Public Service Commission
3 investigation until such time as the California Public Service Commission investigation has been
4 finally resolved. Chaparral City Water Company shall file a report on the ultimate resolution of the
5 California Public Service Commission investigation within 30 days of the resolution.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
8

9 _____
10 CHAIRMAN

COMMISSIONER

11 _____
12 COMMISSIONER

COMMISSIONER

COMMISSIONER

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14 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
15 Executive Director of the Arizona Corporation Commission,
16 have hereunto set my hand and caused the official seal of the
17 Commission to be affixed at the Capitol, in the City of Phoenix,
18 this _____ day of _____, 2010.

19 _____
20 ERNEST G. JOHNSON
21 EXECUTIVE DIRECTOR

22 DISSENT _____
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24 DISSENT _____
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1 SERVICE LIST FOR: CHAPARRAL CITY WATER COMPANY, INC.

2 DOCKET NO. W-02113A-07-0551

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