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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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MAY - 3 2010

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AZ CORP COMMISSION
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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

STAFF'S RESPONSES TO COMPANY'S RESPONSES TO MARCH 30, 2010 PROCEDURAL ORDER - EXHIBIT A

On June 30, 2009, Granite Mountain Water Company, Inc ("Granite Mountain" or "the Company") filed with the Arizona Corporation Commission ("the Commission") a Rate Application and a Financing Application. On August 11, 2009, a Procedural Order was issued consolidating the Rate Application docket and the Financing Application docket. On January 4, 2010, Staff filed its Staff Report for the Rate Application and Financing Application, recommending that rates be increased but that the Financing Application be denied. The Company did not file a response to the Staff Report. A Procedural Order was issued on March 17, 2010, stating that the record was insufficient in this matter. A Procedural Conference was held on March 29, 2010, where the ALJ set forth questions for the parties in an effort to further develop the record. A Procedural Order was issued March 30, 2010, requiring the parties to respond in full to the question posed. On April 19, 2010, both the Company and Staff filed responses to the questions set forth in the Procedural Order.

The following is Staff's response to the Company's Response to ALJ's Procedural Order dated March 30, 2010.

1. Who made the filing on December 1, 2009?

The Company stated in its response that it believes Staff filed the December 1st documents. While it is not Staff's policy to file documents on behalf of an applicant, all of the docketed documents appear to be updates of most, if not all, of the Company's rate application - received and

1 annotated at various times by Mr. Myhlhousen. Mr. Myhlhousen has retired from the Commission
2 and cannot answer this question. However, since these documents all appear to have been created by
3 the Company, but handled by Mr. Myhlhousen prior to filing, Staff will concede that it is likely that
4 Mr. Myhlhousen made the December 1, 2009 filing. Staff assumes this was done to facilitate the
5 Company's filing a corrected version of its rate application.

6 **2. What is the Company's explanation for its excessive water loss?**

7 The Company's response provides a possible explanation for the level of non-account water
8 during the test year; however, it does not persuade Staff to alter its current position regarding
9 excessive water loss. The Company's test year water loss was at 20.5 percent and, while subsequent
10 documentation states it has been reduced to 9.9 percent in 2009, Staff continues to recommend that
11 the Company monitor its water use data to ensure that water loss remains within acceptable limits.

12 **3. If the water loss is due to theft, when and how was that first detected, and how much**
13 **water was stolen?**

14 Staff has insufficient information to dispute the Company's response. However, Staff has
15 difficulty comprehending under what facts and circumstances the knowing receipt and use of goods
16 and services without payment for such could be considered "not intentional" and/or "not theft."

17 **4. Why did the Company not detect the water loss sooner, if the Company tracks its water**
18 **pumped and sold each month?**

19 The Company claims in its response that the excessive water loss was determined only after
20 administrative and personnel changes in the fall of 2008. Staff is unaware of any management or
21 ownership changes within the Company.

22 **5. Have the owners of the properties at which meters apparently went unread been held**
23 **responsible in any way for the water usage? If so, how?**

24 See Staff's response to Question #3. Further, Staff does not understand why the Company
25 would decline in any case to assert its right under Arizona Administrative Code Rule 14-2-409 to
26 collect under-billings for at least the three months prior to discovery. Additionally, it is unclear from
27 ...

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1 the Company's response if the three previously-unmetered residences are now being billed at the
2 tariff rate, in addition to simply having the meters monitored.

3 **6. Whose responsibility is it to ensure that water cannot be obtained at an inactive**
4 **property?**

5 Staff concludes that it is utility's responsibility to ensure that water cannot be obtained from
6 an inactive property.

7 **7. What actions has the Company taken to ensure that it will not again have water usage at**
8 **inactive properties?**

9 The Company stated that in the fall of 2009, it checked all inactive meter boxes for tampering,
10 vandalism and theft and locked all boxes if not previously locked. Staff concludes that the
11 Company's action is reasonable.

12 **8. Why did the Company not seek Commission approval for the line of credit or the three**
13 **loans described in the financing application before obtaining them?**

14 At this time, Staff has no comment on the Company's response.

15 **9. Looking at the Commission Decisions, it appears that the Company has been specifically**
16 **ordered by the Commission on several occasions not to obtain long-term debt without first**
17 **obtaining Commission approval. (See Decision No. 54902 (February 20, 1986); Decision No.**
18 **55921 (March 25, 1988); Decision No. 61731 (June 4, 1999). Does the Company believe that it**
19 **has complied with the Commission orders?**

20 The Company's response appears contradictory and generally non-responsive. Staff
21 concludes that the Company's actions are not in compliance with Commission orders.

22 **10. If not, why has the Company failed to comply with those Commission orders?**

23 The Company's response appears to be contradictory to the evidence presented. Staff
24 concludes that the Company's actions are not in compliance with Commission orders.

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1 **11. The rate application originally showed that all three loans were outstanding during the**
2 **test year. Why did the rate application show they were outstanding if they had already been**
3 **paid off?**

4 At this time, Staff has no reason to dispute the Company's response.

5 **12. When were the three loans paid off, using what funds?**

6 At this time, Staff has no comment on the Company's response.

7 **13. Has the Company claimed any of the expenses of those three loans as test year operating**
8 **expenses?**

9 At this time, Staff has no comment on the Company's response.

10 **14. What were the proceeds from the three loans used for?**

11 The Company has stated that all three loans were used to pay for mains and fire hydrants.
12 The loans occurred in 2005, 2006, and 2007. Based on the years the loans were obtained, Staff
13 assumed all installations were completed prior to the end of the year 2007, and used the Company's
14 Annual Report from 2002 to 2008 to compare the plant additions. At this time, Staff has no reason to
15 dispute the Company's response as to how the promissory notes were used.

16 **15. What was the line of credit used for? (Was it the "storage tank project," which includes**
17 **a 50,000-gallon tank, a retaining wall, and fencing?)**

18 Staff has no reason to dispute the Company's response that the line of credit to date has been
19 used for the 50,000-gallon tank, the retaining wall, and the fencing.

20 **16. When was the storage tank project completed?**

21 At this time, Staff has no reason to dispute the Company's response.

22 **17. Why did the Company not get an Approval to Construct before constructing its storage**
23 **tank project?**

24 While Staff has insufficient information to dispute the Company's response, Staff is unaware
25 of any instance in which ADEQ has given a company "verbal authorization" to install any plant
26 related to water supply, storage and/or distribution system.

1 **18. Has the Company now obtained an Approval to Construct and/or Approval of**
2 **Construction for the storage tank project? When was each obtained?**

3 Staff acknowledges that the Company was granted a Certificate of Approval to Construct
4 Water Facilities from ADEQ, dated February 17, 2010. ADEQ has not yet issued an Approval of
5 Construction for the completion of this storage tank.

6 **19. Is the 50,000-gallon storage tank now in service?**

7 At this time, Staff has no reason to dispute the Company's response.

8 **20. Why was there a \$2,000 penalty on Well #4? By whom was it assessed, and for what?**

9 At this time, Staff has no reason to dispute the Company's response. However, Staff is not
10 changing its position to remove the \$2,000 from the Company's Operating Income, as discussed in
11 the Staff Report, Adjustment 4, and reflected in Schedule CRM-3.

12 **21. Does the Company plan to drill a replacement well? If so, for what well, where, and**
13 **who owns the well site?**

14 At this time, Staff has no comment on the Company's response, except to clarify that a
15 Company's response to a Data Request sent by Staff is not a stipulation.

16 **22. What is the Company's reaction to Staff's recommendation for a new 110,000-gallon**
17 **storage tank?**

18 At this time, Staff has no comment on the Company's response. Please see Staff's Response
19 to Procedural Order – Exhibit B Questions, Question #10.

20 **23. What is the Company's reaction to Staff's recommendation that the approval of the line**
21 **of credit be denied and that no action be taken regarding the three loans?**

22 It appears from the Company's response that the Company may not fully understand Staff's
23 recommendation.

24 **24. What is the Company's reaction to Staff's recommended rates and charges?**

25 While staff did work extensively with the Company to assist it in completing its rate
26 application, Staff's recommended rates and charges were not developed, determined nor modified in
27 consultation or negotiation with the Company. Rather, Staff's rates and charges were designed
28

1 independently by Staff to provide an opportunity for the Company to collect the Staff-recommended
2 revenue requirement.

3 **25. Is the easement agreement between the Company and Daniel Paul Levie still in effect?**

4 At this time, Staff has no reason to dispute the Company's response.

5 **26. Are the two properties owned by Daniel Paul Levie the properties on which Wells #3
6 and 4 are located?**

7 At this time, Staff has no reason to dispute the Company's response.

8 **27. How is Daniel Paul Levie related to Paul D. and Rae Levie, the owners of the Company?**

9 At this time, Staff has no reason to dispute the Company's response.

10 **28. Is Daniel Paul Levie receiving water at a rate of \$2.00 per 1,000 gallons for the property
11 described in the easement agreement and at no charge for the property described in the
12 easement agreement?**

13 At this time, Staff has no reason to dispute the Company's response. Staff notes that it is this
14 Commission's policy that no one should receive "free" water. A.A.C. Rule 14-2-409(D)(1) states
15 that "[e]ach customer shall be billed under the applicable tariff" In a rate increase application
16 scenario, Staff typically imputes into the test year revenue, the revenue that was lost by offering any
17 free or discounted water. This protects ratepayers from inappropriately subsidizing water use of
18 owners, operators, etc.

19 **29. Has the Commission approved the easement agreement in any way? If so, how and
20 when?**

21 At this time, Staff has no reason to dispute the Company's response. However, Staff notes
22 that it is not the practice of the Commission to approve private contracts.

23 **30. What meter size is used to serve each of the two properties owned by Daniel Paul Levie?**

24 At this time, Staff has no reason to dispute the Company's response.

25 **31. Does Daniel Paul Levie pay a monthly minimum charge for the water used at either of
26 those two properties?**

27 At this time, Staff has no reason to dispute the Company's response.

1 32. How much water is used by Daniel Paul Levie for each of those properties during the
2 test year? Is that water usage included in the Company's water pumped and sold as reported
3 to the Commission?

4 The Company's response provided information on the total gallons of water usage, per
5 property, for the entire test year. The Company also stated that this usage was reported in the "water
6 usage" given to the Commission. Based on the Company's response, Staff is unable to determine
7 whether the water was included in only gallons pumped or in both gallons pumped and gallons sold,
8 and whether the quantities were reported as stated or at some other amount to account for the
9 variance in the rates charged.

10 33. How much did Daniel Paul Levie pay for water for these two properties during the test
11 year? Is the revenue from Daniel Paul Levies' water usage for those two properties included in
12 the Company's test year revenues?

13 The Company responded that Mr. Daniel Paul Levie did not pay for water on the property
14 listed in Exhibit A, and that the revenue related to property in Exhibit B was \$917.87, which the
15 Company did include in the test year.

16 Without monthly readings, Staff cannot accurately calculate the amount of lost revenue.
17 Since the filing of Staff's response, Staff has sent out an additional data request, asking the Company
18 for all test year meter readings for any unbilled water usage. Without having the requested data, Staff
19 has calculated an estimate of lost revenue for the properties referenced in the Easement:

21	a) Minimum monthly charge:		
22		\$23.00/mo x 12 mos	= \$276
23	First tier usage (10,000 gals/mo x 12 mos):		
24		120,000 gals x \$4.00/1,000 gals	= 480
25	Second tier usage (329,610 gals - 120,000 gals):		
26		209,610 gals x \$5.00/1,000 gals	= <u>1,048</u>
27		Exhibit "A" TOTAL	= 1,804

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b) Minimum monthly charge:			
	\$23.00/mo x 12 mos	=	\$276
First tier usage (10,000 gals/mo x 12 mos):			
	120,000 gals x \$4.00/1,000 gals	=	480
Second tier usage (381,430 gals - 120,000 gals):			
	261,430 gals x \$5.00/1,000 gals	=	1,307
Less revenue as reported by Company:			
	at \$2.00 per 1,000 gallons	=	<u>(918)</u>
	Exhibit "B" TOTAL	=	1,145

The grand total of lost revenue for both properties during the test year is \$2,949, which represents about 10 percent of the increase in revenue recommended by Staff. Depending on individual monthly readings, the actual revenue lost may be even greater, as Staff has maximized first tier usage in its estimate.

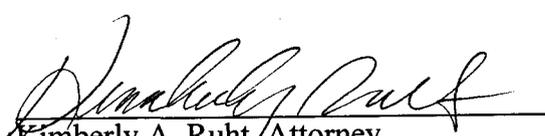
34. Was the water usage for Daniel Paul Levies' two properties during the test year representative of the usage by Daniel Paul Levie for those two properties during the years prior and subsequent to the test year?

At this time, Staff has no reason to dispute the Company's response.

35. How did Daniel Paul Levie come to own the properties that include the two well sites? From whom did he obtain them, at what price, and when?

At this time, Staff has no reason to dispute the Company's response.

RESPECTFULLY SUBMITTED this 3rd day of May 2010.


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