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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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JAN 14 2011

ARIZONA CORPORATION COMMISSION  
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IN THE MATTER OF THE APPLICATION OF  
EAST SLOPE WATER COMPANY FOR A  
PERMANENT RATE INCREASE.

DOCKET NO. W-01906A-10-0170

**STAFF'S REPLY TO MOTION TO  
COMPEL SUFFICIENCY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") files its reply to the motion to compel sufficiency by Indiada Water Company ("Indiada"), Antelope Run Water Company ("Antelope Run") and East Slope Water Company ("East Slope") (collectively referred to as the "Companies").

**I. BACKGROUND.**

On April 30, 2010, Indiada Water Company, Antelope Run Water Company and East Slope Water Company filed rate applications on a consolidated basis. Prior to the filing by the Companies, Staff was contacted and advised the Companies not to file the applications consolidated because there was no Commission decision that consolidated these utilities. These applications were found insufficient on May 28, 2010 for, among other reasons, filing consolidated schedules when there has been no Commission decision consolidating the Companies. Prior to the filing of an amended application, the Companies filed a financing application on May 7, 2010.

The Companies then amended the applications and filed amended applications on August 30, 2010. The Companies were issued a second deficiency letter on September 27, 2010.

**II. SUMMARY OF THE APPLICATIONS.**

In its amended application, Indiada has approximately 55 customers and has requested a gross revenue increase of \$29,992 or an increase of approximately 106.82% over test year revenues. Antelope Run has approximately 167 customers and has requested gross revenue increase of approximately \$90,065 or an increase of approximately 182.85%. East Slope has approximately 787 customers and has requested an increase in gross revenue of approximately \$331,372 or 160.33% over test year revenues. The Companies have requested consolidation. In each filing, the Companies

1 state that the purpose of the rate increase is to meet operational expenses and to service the requested  
2 financing.

3 The financing application filed May 7, 2010, requested approval to incur debt in the amount  
4 of \$3 million, for system improvements and improvements for water production.

5 **III. SUFFICIENCY.**

6 Under A.A.C. R-14-2-103 (B)(7) (“Rule”)states, in part, that “staff will review each filing to  
7 ascertain whether it is in compliance with the provisions of this Section including the instructions  
8 contained in (B)(9) or in forms prescribed by the Commission.” The initial filing for the Companies  
9 did not comport with the requirements of the Rule. In the Companies amended application, filed  
10 after the financing application, Companies’ witness, Sonn Rowell indicated that the proposed  
11 increase was to pay for increased operational expenses and needed improvements that will be funded  
12 with the proposed loan from the Water Infrastructure Finance Authority (“WIFA”).<sup>1</sup>

13 Staff, to aid in its determination, requested further information from the Companies regarding  
14 the need for the financing. Staff propounded a data request on May 24, 2010. Staff, referring to the  
15 Companies preliminary statement contained in its finance application, asked why they stated they are  
16 seeking to finance improvements to water production and distribution systems.<sup>2</sup> Yet, on the Exhibit  
17 E to the finance application there were no proposed improvements to water production listed. Staff  
18 also requested that the Companies provide a report prepared by the Companies’ engineer that  
19 identified the respective CC&Ns, a layout of existing plant by system and proposed improvements,  
20 analysis of each system deficiencies and recommendations of the most efficient and appropriate  
21 improvements with detailed description of the proposed construction cost and timeline.

22 The Companies have not responded to Staff’s data request. The Companies indicated at first  
23 that it did not have the resources to prepare an engineering report in response to Staff. Staff learned  
24 that the Companies received a Planning and Design Grant (“Grant”) from WIFA in the amount of  
25 \$35,000. According to WIFA, only \$8,000 has been used.

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28 <sup>1</sup> Direct Testimony of Sonn Rowell at 2.

<sup>2</sup> Finance Application at 2.

1 The purpose of WIFA's Planning and Design Grant Program is to help prepare water and  
2 wastewater facilities for future infrastructure project construction. Typically, awards are made to  
3 facilities with limited resources that need assistance in completing the planning and/or design phase  
4 of an infrastructure project. Grant funding is provided to employ the services of an engineer or other  
5 consultant to complete these activities. Initially, Antelope Run applied for and received the Grant in  
6 2009. When the Companies filed the financing application indicating that it desired to consolidate  
7 East Slope, Indiada and Antelope Run, the Grant required modification and approval of that  
8 modification from WIFA. WIFA approved the modification. Thus, the Companies had received  
9 funds to assist them in preparing the very report that Staff was requesting.

10 In an effort to avoid a discovery dispute, Staff met with the Companies on November 30,  
11 2010. During the meeting, the Companies revealed, that despite receiving approval from WIFA to  
12 modify the parameters of the Grant, the Companies neglected to inform its engineer to commence  
13 work. Had the Companies promptly notified its engineer, Staff could have received the information  
14 timely and proceeded with processing both applications.

15 During the November meeting, the Companies proposed that its rate application be found  
16 sufficient and, in return, would commit to providing the responses to the outstanding data request in  
17 45 days. Staff reasoned that it would have the data responses shortly after the Christmas holidays and  
18 could proceed with sufficiency in a more timely manner and did not accept the Companies'  
19 suggestion.

20 Without the requested engineering data, Staff is at a disadvantage in processing the finance  
21 application, knowing that and the rates that must be derived should support the requested financing.  
22 The Companies' request to have sufficiency ordered would result in the processing of a rate  
23 application that may determine rates that may not be sufficient to support the financing. In that event  
24 the Companies would then be forced to file another rate application. Such a result would be an  
25 inefficient use of Staff resources as well as placing a burden on the Companies' ratepayers.

26 Staff would request that the Companies' motion be denied and the Companies be ordered to  
27 provide responses to Staff's data request.

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RESPECTFULLY SUBMITTED this 14<sup>th</sup> day of January, 2011.



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Original and thirteen (13) copies  
of the foregoing were filed this  
14<sup>th</sup> day of January, 2011 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Copies of the foregoing were mailed  
and/or emailed this 14<sup>th</sup> day of January, 2011 to:

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