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March 3, 2011

ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission

DOCKETED

MAR 3 2011

CERTIFIED MAIL

Ms. Sonn S. Rowell, CPA
Desert Mountain Analytical Services PLLC
Post Office Box 51628
Ahwatukee, Arizona 85076

DOCKETED BY

RE: BOB B. WATKINS DBA EAST SLOPE WATER COMPANY – APPLICATION FOR
A RATE INCREASE DOCKET NO. W-01906A-10-0170

LETTER OF SUFFICIENCY

Dear Ms. Rowell:

On September 27, 2010, Staff issued a second letter of deficiency for your application citing insufficient engineering information. At the Procedural Conference held on February 8, 2011, the Administrative Law Judge encouraged Staff and the Company to resolve the sufficiency issue by finding a way to work around the absence of the engineering information that Staff deems necessary to evaluate the financing application. Despite the material impairment to Staff's ability to adequately evaluate the financing application due to the lacking engineering information, Staff desires to reasonably accommodate the Company's asserted difficulty providing this information at this time and to support the encouragement advocated by the Administrative Law Judge to resolve the sufficiency issue. Therefore, notwithstanding the intricate relationship between the rate and financing applications, Staff has determined to support the consolidation of the dockets in this matter and to grant sufficiency. Nevertheless, Staff encourages the Company to expedite delivery of the required engineering information as it is essential for Staff's ability to adequately evaluate the financing application and any related rate implication.

Hence, this letter (per section R14-2-103 B.7 of the Arizona Administrative Code) is to inform you that your rate application, originally received on April 30, 2010, and amended on August 27, 2010, has met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103. Your utility has been classified as a Class C Utility due to the Company's proposed consolidation of all of its water systems. Staff's testimony is due to be docketed on or about July 13, 2011, and the ultimate due date of the Commission Order finalizing the case will be due on or about November 25, 2011.

Ms. Sonn S. Rowell, CPA
March 3, 2011
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Regarding a related issue, as noted at the Procedural Conference on February 8, 2011, Staff still has not received a response to the outstanding data request that was sent to you on September 29, 2010. Staff asks for your immediate attention to this matter. A duplicate copy of the request is enclosed for your convenience. Additionally, Staff has included its second set of data requests.

The Staff person assigned to your application is Jeffrey M. Michlik. He can be reached at (602) 364-2034, or toll free at (800) 222-7000, if you have any questions or concerns.

Sincerely,



Nancy Scott
Chief, Financial & Regulatory Analysis Section
Utilities Division

NLS:JMM:tdp

CC: Docket Control Center (fifteen copies)
Lyn Farmer, Hearing Division
Connie Walczak, Consumer Services
Delbert Smith, Engineering
Legal Division

**ARIZONA CORPORATION COMMISSION STAFF'S
SECOND SET OF DATA REQUESTS
REGARDING THE WATER RATE INCREASE APPLICATION OF
EAST SLOPE WATER COMPANY
DOCKET NO. W-01906A-10-0170
TEST YEAR ENDED DECEMBER 31, 2009**

Accounting Data Requests

- JMM 2-1 General Ledger - Please provide a copy of the Company's General Ledger by item and by month for the test year. This may be provided in an electronic medium using a Microsoft Excel format. Please include any codes and descriptions that will clearly explain accounts and entries in the general ledger.
- JMM 2-2 Cross References For General Ledger – Please provide a cross reference to show the general ledger accounts accumulated for presentation of each line item in Schedule B-1.
- JMM 2-3 Electronic Copies of Rate Application – Please provide electronic copies of all schedules in your rate application in Microsoft Excel or compatible format.
- JMM 2-4 Work Papers - Please provide a copy of all the work papers created/used to develop the Application, and any updates or revision throughout the rate case process.
- JMM 2-5 Contracts and Agreements – Please provide copies of all contracts related to the operation and maintenance of the systems.
- JMM 2-6 Operational & Productivity Reports - Please provide the following:
a. the resulting reports from any productivity or operational efficiency studies or management audits of the Company conducted during the test year or within the prior two years.
b. the periodical (monthly, quarterly, etc.) operating results for the test year and prior two years.
- JMM 2-7 Internal Audits – Please provide a copy of each internal audit performed by the Company's internal auditors during the test year or the prior two years.
- JMM 2-8 Service and Quality Levels - Please state all major service objectives and indicate any areas where service levels or quality were not met in the test year or within the two prior years. If service or quality levels were not met, please provide documentation explaining at a minimum the deficiency, the action(s) taken and the current status.

- JMM 2-9 Management Letters – Please provide copies of all management letters received from the Company's outside auditors during the test year or the prior two years.
- JMM 2-10 Minutes of the Board of the Directors – Please provide copies of the minutes of all meetings of the Board of Directors for the test year and all intervening years since the test year in the Company's prior rate case.
- JMM 2-11 Employee Newsletters – Please provide copies of all internal Company/employee newsletters published since the beginning of the test year.
- JMM 2-12 Data Requests of All Intervenors – Please provide the following information:
a. Provide a copy of all formal data requests and your responses from all intervenors.
b. Provide a copy of all responses to informal and/or on-site data requests from intervenors.
- JMM 2-13 Abnormal or Non-Recurring Events – Please describe all abnormal or non-recurring events during the test year that are known to have materially impacted revenues, expenses or rate base.
- JMM 2-14 Related Parties - If there are any related party relations between employees of the Company and outside vendors or contractors please identify and state the nature of the relationship(s).
- JMM 2-15 Affiliates, Transactions – Please provide a schedule of all transactions with affiliates during the test year. As part of your response, please include the dollar amount and the account number for each affiliate transaction.
- JMM 2-16 Affiliates, Capitalized Billings – Please state whether or not any affiliate billings are capitalized.
- JMM 2-17 Affiliates, Profit – Please state the return or “profit” component included in the billings from each affiliate. Please explain the basis for determining such profit factors, provide a schedule showing profit factor calculations, explain how the amounts are recorded, and specify the actual profits included in plant costs. As part of your response, please identify for each plant addition, the year, the related plant account number(s), and amount(s) of “profit” recorded.
- JMM 2-18 Affiliates, Organization Chart – Please describe completely all relationships between the Company and affiliated companies, and furnish an organizational chart which reflects the relationships.

- JMM 2-19 Affiliates: Contributions, Dues, Etc. – Please state the amount of the following that is included in inter-company billings from the Company’s affiliates.
- a. Dues paid for social and service clubs.
 - b. Membership payments made to industry associations
 - c. Charitable contributions
 - d. Scholarships
 - e. Sponsorships
 - f. Lobbying expenses
 - g. Gifts and awards
 - h. Food and beverages
 - i. Luncheons and dinners
 - j. Employee parties, picnics, or other similar events
 - k. Entertainment
- JMM 2-20 Shared Facilities Allocations - Please describe in detail any operating or administrative facilities which the Company shares with other entities, affiliated or not, and the basis for quantification and allocation of the related capital costs.
- JMM 2-21 Lead/lag - Did the Company prepare or have prepared on its behalf a lead/lag study? If yes, please provide it. If not, why not?
- JMM 2-22 Significant Post-Test Year Developments – Please provide a narrative description of the following:
- a. Important financial or operational developments since the end of the test year.
 - b. Significant pending, planned, or probable financial or operational developments anticipated which have a potentially material impact on the Company.
- JMM 2-23 Post-Test Year Plant / Construction Work in Progress – Please provide the following information for each construction project that was not completed at the end of the test year that the Company is requesting to have included in rate base:
- a. Identification and description of the project.
 - b. Date construction began.
 - c. Date construction is expected to be completed or was completed and placed in service.
 - d. The periods during which the ratepayers will likely benefit from the project.
 - e. The extent to which the project replaces existing plant.
 - f. Actual costs as of the end of the Test Year.
 - g. Actual costs as of December 31, 2010.
 - h. Accounts to which such costs will be transferred from construction work in process.
 - i. Source of funding (i.e., hook-up fees, advances, equity or loans).

- JMM 2-24 Capitalization Policy – Please state the dollar threshold for costs that are expensed versus capitalized. Is this threshold in writing?
- JMM 2-25 Construction Work Plans – Please provide your 2010 - 2015 construction work plans including estimated costs.
- JMM 2-26 Asset Retirement Obligation – Please state whether or not an asset related to an asset retirement obligation (“ARO”) is included in any amount shown on Schedule E-5, Detail of Plant? If so, please provide the following for each ARO:
- a. A description of the asset and the reason for the obligation;
 - b. Documentation establishing a legal obligation;
 - c. The balance of the asset and corresponding obligation and the related account numbers in which the amounts are recorded;
 - d. The amount included in rate base;
 - e. The recovery/amortization period, i.e., initial recording date through the obligation completion date;
 - f. The test year accretion expense;
 - g. The amount of accretion expense included in operating expenses;
 - h. The credit adjusted risk free (interest) rate.
- JMM 2-27 Expensed Plant – Please provide a listing of any plant items expensed by the Company during the test year. As part of your response, please include a description and cost.
- JMM 2-28 Contributions in aid of Construction “CIAC” – Please provide the following:
- a. A complete list of all contributions, showing the name of the contributor, reconciled to the amount on Schedule B-1;
 - b. An amortization schedule for each contribution in part “a” showing the year obtained, annual amortization, amounts converted to AIAC, and ending balance; also, if the Company maintains records to track the plant accounts to which the contributions were used to fund, identify the initial amounts, by plant account, used to fund each contribution;
 - c. A reconciliation of the CIAC adopted by the Commission in the prior rate case to the balance proposed in the current filing.
- JMM 2-29 Advances in aid of Construction “AIAC” and Refunds of AIAC – Please describe/provide the following:
- a. The Company’s procedures and internal controls used to record AIAC and to ensure that refunds are made in a timely basis.
 - b. A complete history (receipt dates, names of those providing funds) of all AIAC’s received and refunded in the intervening years from the end of the test year in the prior rate case to the end of the current test year.
 - c. A breakout of the AIAC balance at the end of the test year into its uses (e.g., plant in service, construction work in progress, cash and cash equivalents).

- JMM 2-30 Competitive Bids – Please state the Company’s policy and practice regarding the use of competitive bids for construction work. Please provide supporting documentation of the policy. If the Company does not have a policy, please explain.
- JMM 2-31 Penalties Fines, and Settlements - Please provide information regarding any fines, penalties, or settlements paid or incurred in the test year. Also, describe how they were accounted for in the Company’s books and records, and identify the amount, if any, included for recovery either as operating expenses or included in rate base.
- JMM 2-32 Meter Installation Charges - Please explain and provide documentation and justification for the increase in service line and meter installation charges.
- JMM 2-33 Long-Term Debt - Please provide Staff with the Arizona Corporation Commission Decision No(s). that granted authorization of each long-term obligation. Also, provide a copy of each loan agreement and the associated amortization schedules for each long-term obligation.
- JMM 2-34 Overhead, Construction Projects – Please provide a calculation of the overhead costs included in the total cost for each construction project completed in the intervening years since the test year in the prior rate case through the end of the test year in the current filing. As part of your response, please include a description of each type of overhead as well as assumptions used in the calculations.
- JMM 2-35 Allowance for Funds Used During Construction (“AFUDC”) – Does the Company record AFUDC? If so:
- a. For each construction project that the Company is proposing to include in rate base, please provide:
 1. The method used to determine the AFUDC rates and an example of the calculation.
 2. The AFUDC rates applied in each month in the intervening years since the test year in the prior rate case through the end of the test year in the current filing.
 - b. For each plant addition/construction project/work order that the Company is proposing to include in rate base that was not included in rate base in the prior rate case, please provide:
 1. The dollar amount of AFUDC recorded by year and plant account number;
 2. The total dollar amount by year and plant account number and the yearly total for all plant accounts;
 - c. State the AFUDC compounding methodology applied, if any, and the specific authorization for use of that compounding method;
 - d. If the Company does not accrue AFUDC or capitalize interest on construction work in progress, please provide written verification of such procedure.

- JMM 2-36 Purchased Power - Please provide a detailed line item schedule for this account clearly showing the separate transaction/invoice amounts that make up the total balance of \$52,368 as shown in the rate application. Please include the invoice(s), and other supporting documentation reconciled to the amount claimed as an operating expense in the application.
- JMM 2-37 Chemicals - Please provide a detailed line item schedule for this account clearly showing the separate transaction/invoice amounts with the total reconciled to the amount (\$460) claimed as an operating expense in the rate application. Please include the invoice(s), and other supporting documentation.
- JMM 2-38 Repairs and Maintenance - Please provide a detailed line item schedule for this account clearly showing the separate transaction/invoice amounts with the total reconciled to the amount (\$11,895) claimed as an operating expense in the rate application. Please include the invoice(s), and other supporting documentation.
- JMM 2-39 Office Supplies and Expense - Please provide a detailed line item schedule for this account clearly showing the separate transaction/invoice amounts with the total reconciled to the amount (\$8,246) claimed as an operating expense in the rate application. Please include the invoice(s), and other supporting documentation.
- JMM 2-40 Outside Services - Please provide a detailed line item schedule for this account clearly showing the separate transaction/invoice amounts with the total reconciled to the amount (\$122,149) claimed as an operating expense in the rate application. Please include the invoice(s), and other supporting documentation.
- JMM 2-41 Water Testing - Please provide a detailed line item schedule for this account clearly showing the separate transaction/invoice amounts with the total reconciled to the amount (\$3,980) claimed as an operating expense in the rate application. Please include the invoice(s), and other supporting documentation.
- JMM 2-42 Transportation Expense - Please provide a detailed line item schedule for this account clearly showing the separate transaction/invoice amounts with the total reconciled to the amount (\$13,003) claimed as an operating expense in the rate application. Please include the invoice(s), and other supporting documentation.
- JMM 2-43 Insurance – General Liability Expense - Please provide a detailed line item schedule for this account clearly showing the separate transaction/invoice amounts with the total reconciled to the amount (\$6,491) claimed as an operating expense in the rate application. Please include the invoice(s), and other supporting documentation.

- JMM 2-44 Rate Case Expense - Please provide a detailed breakout of the Company's requested rate case expense estimate. Also, please provide any rate case expense billings/invoices that have already been incurred and all future billings/invoices as they become available.
- JMM 2-45 Property Taxes – Please provide Staff with a copy of all property tax bills and cancelled checks to support the amount (\$10,547) claimed as an operating expense in the rate application. Also, specify the Company's composite property tax rate.
- JMM 2-46 Income Tax – Please provide Staff with a copy of the Company's income tax returns (both state and federal) for the test year and the 4 prior years.
- JMM 2-47 Plant Additions and Deletions – Please provide a schedule of plant additions and deletions by year and by line item (e.g., 307 Wells and Springs), for the intervening years since the test year in the Company's prior rate case through the end of the test year in the current filing. In addition, provide the invoices and other supporting documentation for all of these additions.

Engineering Data Requests

Please answer the following data requests that have been outstanding since September 29, 2010, and have been reproduced here for your convenience.

- KS – 1.1 Referring to the Amended Rate Applications, Water Testing during the Test Year (Exhibit 7 & 8):

Please correct discrepancies in the cost per test for TTHM. The cost is \$110 according to the Exhibit 7, but \$150 according to invoices in Exhibit 8.

- KS – 1.2 Referring to the Amended Rate Applications, Additions (Acct.311 & 331/ Schedule E-5):

In order for Staff to accurately evaluate Rate Applications, please provide a spreadsheet identifying the plant items that are associated with the dollar amounts. For example, under Account 311 Pumping Equipment, East Slope/Well ADWR55-805786: replaced failed 20hp pump (originally installed in 2000, with cost amount \$_) with a new 20hp pump, with cost amount \$_. Also, for example, under Account 331 Transmission & Distribution Mains, East Slope: replaced a leaking pipe (1,000 feet of 6 inch AC pipe, originally installed in 1980/ cost amount \$_) with a new pipe (1,000 feet of 6 inch PVC pipe/cost amount \$_).

KS – 1.3 Please provide **Sustained Well Production with Presently Installed Pump** (GPM) data for each active well listed in the Water Systems Plant Description (Exhibit 4). Please identify active wells by ADWR ID Number.