

ORIGINAL

CEDAR GROVE WATER, INC.

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January 2, 2012

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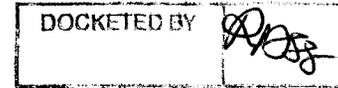
Arizona Corporation Commission

DOCKETED

AZ CORP COMMISSION
DOCKET CONTROL

RE: Staff's Second Set of Data Requests to Cedar Grove Water, Inc.
Docket No. W-20541A-11-0199

JAN 9 2012



Dear Mr. Darak Eaddy,

DRE 2-1 In the Company's response to the Staff Report, the Company asserted that \$10,694 in sales taxes was included in its original application's metered water revenues for the Company. Does the Company now claim that its metered water revenue for the test year is \$157,441? If not, what is the Company's amended metered revenue? Does the Company contend that the bill counts in its original application reproduce this figure? If not, will the Company be submitting new bill counts?

In the original application, sales taxes were included in the metered water revenues for the Company. Subtracting \$10,694 from \$168,135 equals metered water revenue of \$157,441. The Company is unaware of the equation the ACC uses to calculate revenues from bill count; however, the bill count as submitted in the original application is accurate and Company would gladly provide the ACC information necessary for the ACC to verify the bill count.

DRE 2-2 Did the American Water Works Association ("AWWA") study referenced by the Company for its salary increase justification consider location and size of the company in deriving its recommended salary? What is the recommended salary for office personnel, water plant operator, vice-president of operations and president for water companies located in Apache County, Arizona or surrounding counties with approximately 350-400 customers? What were the factors that determine the salary recommendations for the study?

Information regarding the AWWA study as available on the AWWA website is as follows, "The information for job descriptions and salary data was obtained from the 2004 AWWA Water Utility Compensation Survey. The salary data reported is the Employee Weighted Average for 521 water utilities that participated in both the 2003 and 2004 AWWA Water Utility Compensation Survey." The AWWA website does not reference the location or size of systems involved in the study. Information pertaining to recommended salaries for positions listed in DRE 2-2 in Apache County, Arizona and surrounding counties would most likely be obtained from Annual Reports of systems that have a comparable size. Understanding that many privately owned water utilities do not offer industry competitive salaries, Company does not feel that county data will provided an accurate representation and believes an AWWA study to be much more comprehensive and equitable. Company also believes that compliance status with regulating agencies should be considered when reviewing salaries and wages; not all systems in Apache County or surrounding counties from which salary information can be obtained would be in compliance with regulating agencies. Company would like to address the fact that the AWWA study is currently over 7 years old and provides the most current data readily available for

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comparison; considering cost of living increases and inflation, the possibility of the salaries and wages having increased since the study is very high.

DRE 2-3 What is the basis for the Company's claimed \$100 rate case expense rate for Company personnel? How was this rate determined? Does this rate differ from the normal salary or wage rate for Company personnel?

Contracting with a consultant, attorney, accountant or other professional to perform a rate case costs \$150 to \$250 per hour. The expense of \$100 per hour that Company used in determining rate case expense is below the industry average and is deemed reasonable by the Company. Yes, the rate differs from the normal salary or wage rate for Company personnel. Rate cases are a specialized application that requires Company personnel to oversee the preparation; however, the actual preparation of a rate case is additional work above and beyond normal activities. Company personnel who prepared the rate case obtained a Master of Business Administration Degree and pursued viable experience to more fully understand business practices and the process of analyzing and preparing strategies and applications. Considering the education, experience and additional time devoted to preparation of the rate case, Company feels a rate that aligns more closely with the industry average should be paid.

DRE 2-4 Did the Company use any outside personnel to develop, process, and/or analyze the rate case outside of the attorney fees from Moyes Sellers and Hendricks? If so, please submit the invoices.

Company did not use any outside personnel to develop, process, and/or analyze the rate case outside of the attorney fees from Moyes Sellers and Hendricks; therefore, no other invoices are available for submittal.

DRE 2-5 Did the Company personnel who worked on the case continue to be paid their regular salary/wages?

Yes, Company personnel who worked on the case continued to be paid their regular salary/wages for work within their assigned tasks. Rate cases are a specialized application that requires Company personnel to oversee the preparation; however, the actual preparation of a rate case is additional work above and beyond normal activities. Company personnel who prepared the rate case obtained a Master of Business Administration Degree and pursued viable experience to more fully understand business practices and the process of analyzing and preparing strategies and applications. Considering the education, experience and additional time devoted to preparation of the rate case, Company feels a rate that aligns more closely with the industry average should be paid.

DRE 2-6 Did the Company perform any analysis of how the Company's new contract with eWaterbilling.com will effect accounts 601 Salaries and Wages and 621 Office Supplies and Expense? If so, please provide the analysis. If not, does the Company anticipate what, if any, effects the contract will

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have on the going forward cost for these accounts? Will the Company be submitting any pro-forma adjustments for these test year effects?

The Company analyzed the amount that was being spent on paying an individual to perform billing functions and the amount that eWaterbilling.com proposed. Company also considered the level of knowledge, service, expertise and accessibility offered by a billing company. Furthermore, the salary/wage for office personnel was negligible and was not structured to attract, maintain or encourage advancement in the individual(s) who filled that position. Salaries and Wages 601 will decrease by \$7,740.78 and Office Supplies and Expense 621 will remain consistent because the same supplies will be used by the billing company as were used by Company office personnel. Outside Services will increase in accordance with the amount charged by eWaterbilling.com. Pro-forma adjustments for these test year effects were included in Company's last response to the ACC dated November 23, 2011. The section pertinent to Outside Services 630 is listed as Pro Forma Adjustment "B".

Thank you.

Best Regards,

A handwritten signature in black ink, appearing to read "Thomas Grapp". The signature is written in a cursive, flowing style.

Thomas Grapp