

ORIGINAL



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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 **COMMISSIONERS**

11 GARY PIERCE, CHAIRMAN
12 PAUL NEWMAN
13 SANDRA D. KENNEDY
14 BOB STUMP
15 BRENDA BURNS

Arizona Corporation Commission
DOCKETED

MAR - 6 2012

DOCKETED BY 

17 **IN THE MATTER OF ORANGE**
18 **GROVE WATER COMPANY, INC.'S**
19 **APPLICATIONS FOR A PERMANENT**
20 **RATE INCREASE AND A FINANCING**
21 **APPROVAL**

Docket Nos. W-02237A-11-0180
W-02237A-11-0084

**NOTICE OF COMPLIANCE RE
ACCOUNT OPENING**

22 Pursuant to Decision No. 72734, Orange Grove Water Company, Inc. hereby files
23 its plant retirement policy. See Attachment 1.

24 DATED this 6th day of March, 2012.

26 **MOYES SELLERS & HENDRICKS LTD.**

27 

28 Steve Wene

1 Original and 13 copies filed this
2 6th day of March, 2012, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

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ATTACHMENT 1

Orange Grove Water Company

Plant Retirement Policy

Description

From time to time, assets are removed or replaced prior to the end of their useful life. This policy governs the accounting treatment of asset retirements and how they are to be recorded on the utility books.

Regulatory References

NARUC Uniform System of Accounts, pages 31-33.

Other References

Handy-Whitman Index

Procedure

At the time of initiating a project, the company will determine the following:

Will assets costing more than \$5,000 be removed from service?

IF YES, the asset being removed will be documented as follows:

- Year original plant was installed;
- Original cost of plant (or estimate) to be removed;
- Original cost (or estimate) to install the plant being removed;
- Cost to replace the plant;
- Cost to install the replacement plant; and
- Is the Plant being removed reusable.

Accounting Entry required:

The recording of asset retirements will occur in tracking accounts as they occur. The following entry shall occur. The amount of the entry shall be book cost.

Dr. Accumulated Depreciation – Retired Plant
Cr. Retired Fixed Assets

In addition, depreciation expense on retired fixed assets should be tracked as well through the following entry, which shall occur from the time of retirement, until the end of the useful life of the asset:

Dr. Depreciation expense – retired plant
Cr. Depreciation expense – retired plant.

At the end of every calendar year, a manual adjusting entry must occur to depreciation expense in the amount of the total debits or total credits in the "Depreciation Expense – retired plant" account. The entry shall be:

Dr. Accumulated Depreciation – plant
Cr. Depreciation Expense

Salvage Value, Removal Costs, and other items in the course of retirement

Any other costs incurred or recovered (via salvage value) in the course of retirement shall be charged or credited against the accumulated depreciation account, consistent with instructions found in section 27(2) of the NARUC Uniform System of Accounts, page 32.

Book Costs:

The book cost of any plant item retired should be determined by referring to the original invoice. If an item cannot be easily distinguished on an invoice, an estimate may be used of original book cost by using an estimate of the replacement value (requires an up to date quote) and adjusting for inflation to the original installation date by using the inflation data in the Handy-Whitman index (2009 version attached for reference).

The Handy Whitman index provides an inflation adjusted value with a base year of 1973. If an item were to have a current day replacement cost of \$100, the book value would be deemed to be \$19.96 (calculated as $\$100(501/100)$) for retirement purposes.