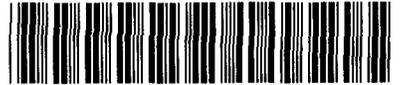


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Transcript Exhibit(s)

Docket #(s): W-01774A-12-0089

Arizona Corporation Commission

DOCKETED

MAY 22 2012

DOCKETED BY JM

Exhibit #: A1-A3, S1, S2

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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NEW APPLICATION

ORIGINAL

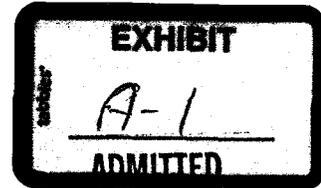
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AZ CORP COMMISSION
DOCKET CONTROL

Picacho Water Improvement Corporation
6240 East Monitor St.
PO Box 10
Picacho, AZ 85141

DATE: *March 5, 2012*



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

W-01774A-12-0089

Dear Sirs,

Enclosed are 13 copies of our Emergency Rate Increase Application along with relevant attachments. Please inform us if there is additional information needed. We appreciate your urgent processing of our request and will provide whatever is needed to facilitate your consideration.

Sincerely,

Hank Holmes
President
Picacho Water Improvement Corporation

Arizona Corporation Commission
DOCKETED
MAR - 8 2012

DOCKETED BY *nr*

Picacho Water Improvement Corporation
EMERGENCY RATE CASE

General conditions necessary for application of interim, emergency rates:

- 1) Situation of sudden change which brings hardship to a Company.

The sudden loss of 53 water users from 127 (42%) due to ADOT's acquisitions causes an immediate reduction of revenue from approximately \$ 6666 per month to \$3866 per month. This loss of users is permanent with no possibility of new settlement in Picacho in the foreseeable future. The situation occurred due to ADOT realignment of I-10 through the Village of Picacho. Mitigation was expected and promised for three years, however, PWIC is now told that no compensation will be paid by ADOT.

All attempts to appeal, arbitrate, and reverse this position have failed to date. We have involved the ACC in our dilemma. In addition to loss of ratepayers, PWIC has accumulated \$50,000 in debt directly related to the impact of ADOT's project over the last 4 years. Our Capital Improvement Plan (To be coupled with rate increase application) has been delayed 3 years due first to uncertainty about the new alignment of I-10 and now to loss of ratepayers to spread the cost of improvements. The CIP was begun in 2006 and could not be completed until May 2009 because of the uncertainty of how to address three different I-10 placement scenarios. We have accumulated engineering, legal, matching fund contributions and endless communications and meetings to present our legitimate claims. Extra demands are placed on the Water Company daily due to ADOT demolition and construction activity. Response to two mainline breaks (caused by ADOT) alone cost over \$6000. ADOT has refused to create a memorandum of understanding or formal mechanism for mitigating its impact. We are endlessly blue staking, identifying pipes, removing meters, fixing pipes, etc.

- 2) Situation where Company is insolvent.

PWIC is insolvent due to the above. Any major equipment breakdown will precipitate a financial crisis.

- 3) Situation where ability of Company to maintain service (pending a formal rate determination) is in serious doubt.

Without some kind of breakthrough with ADOT and/or the FHWA (Appears doubtful at this time), operating revenue will be exhausted within 1 month. Any equipment failure (Pump failure for example) cannot be paid for. PWIC has continuous demands by ADOT for services due to its demolition activity in our franchise.

In support of the above, the inability of the Commission to grant permanent rate relief within a reasonable time would be grounds for granting interim relief. This would require that the Company demonstrate that

the period needed to grant permanent relief would not be reasonable, given the emergency condition present.

Our financial needs are immediate or we may be forced to curtail services in an emergency fashion leaving residents without water. The ACC has had no influence over ADOT's position.

Further, there is certain information that, at a minimum, would be required to be submitted in an application for emergency rate relief:

- a) A narrative cover sheet(s) devoted to the explanation of the emergency condition present in the company.

Please see attached Narrative.

- b) A requested amount of dollars to be recovered in the emergency rate.

An additional \$83,308 / year in revenue is required to remain in business.

1. Lost Revenue from operations (Fixed Costs)	\$24,000*
2. Emergency Fund	\$15,000
3. Temporary Patch Failing 200,000 Storage Tank	\$20,000
4. Engineering (Response to ADOT)	\$10,000*
5. Increased Operations responding to I-10 construction	\$15,000*
6. Service on \$25,000 loan	<u>\$ 4,308*</u>
	\$88,308/ year

* Indicates direct impact of ADOT realignment. However, the \$50,000 debt accumulated that would have been available to PWIC is also a direct ADOT impact. These are conservative figures. This level of impact will continue during ADOT construction and then fall to a long-term level caused by loss of revenue base. A permanent rate increase is needed, but is difficult to predict the long-term needs of the Company until the dust settles. Capital improvements are needed. We are still hoping for some avenue of mitigation from ADOT.

- c) An emergency rate charge to apply to customers.

We request that the ACC assist us in determining how new rates should be structured.

- d) A method or mechanism to recover the requested amount of dollars.

We have found no such mechanism despite diligent search for redress from ADOT, the FHWA, ACC, and political appeals to the Governor's Office, The Pinal County Board of Supervisors, and others. We continue our efforts.

- e) A detailed breakdown of the system repairs, if any, necessary to alleviate the emergency condition. To include information such as size, quantity, capacity and condition of all repair areas, and a listing for the cost of labor per repair item.

N/A

- f) A copy of an estimate of the cost of repairs.

N/A

- g) Original and 13 copies of all of the information.

Included.

- h) Delivery of the original and 13 copies to:

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

Included

Sincerely,

Hank Holmes
President PWIC

ORIGINAL

original

4/30/12
Picacho Water Improvement Corporation (PWIC)
Response to Staff Report dated 4/26/2012
Emergency Rate Increase
Docket No. W-01774A-12-0089)

RECEIVED

2012 MAY -7 A 9:14

AVOID BOARD CONFLICT
DOCKET CONTROL

ACC Staff,

The PWIC respectfully submits the following comments related to the staff report of 4/26/2012:

STAFF'S RECOMMENDED EMERGENCY INTERIM RATES AND REVENUE CALCULATION (PAGES 7&8)

The ACC reduces the requested yearly increased annual increase from the requested \$83,308 to \$43,888 for the following reasons:

1. ACC excluded engineering costs related to the ADOT project.

PWIC Comment: Engineering costs are immediate and ongoing until ADOT's project is complete. These have already been incurred due to the need to respond to ADOT's lack of engineering expertise with small utilities. If the ADOT realignment is not done correctly PWIC will pay more in the long run for revisions. PWIC must have a professional capable of interfacing with ADOT engineers and, to date, ADOT has shown no willingness to compensate this. These costs are not avoidable. They are necessary and prudent.

2. ACC excluded costs to stabilize the storage tank, indicating that Staff did not see anything to indicate that a major failure was imminent or about to occur.

PWIC Comment: PWIC respectfully disagrees. Both Ed Geiser, the engineer who produced our CIP report and our current engineer, Bill Collings, see tank failure as a real possibility during ADOT construction. This is more likely given the compaction vibration from both ADOT and UP railroad construction. This is PWIC's only campus and tank failure would produce a prolonged water outage for Picacho. Further, our Board feels that sandwiched between I-10 and the Railroad is not a prudent placement for our Water Campus. This was being addressed in our CIP plan which has been delayed over 2 ½ years waiting for ADOT to determine I-10 location and establish mitigation. Storage tank stabilization cannot wait. It is prudent to await building a new tank as it may be best built at a different location.

3. ACC Staff removed the debt principal and interest payments because PWIC did not obtain Commission authorization for these loans and "accordingly, they are invalid."

Arizona Corporation Commission

DOCKETED

MAY 07 2012

DOCKETED BY *JM*

EXHIBIT
A-2
ADMITTED

PWIC Comment: PWIC acknowledges our negligence on this point. We were not aware We simply point out, first, that only \$25,000 of the loans are interest bearing. Second, PWIC expected timely reimbursement by ADOT for these monies. This, unexpectedly, did not occur. The direct relationship of the costs to ADOT activity is well documented in our Data Sets. Thirdly, at the time these loans were taken, PWIC never expected the need to repay them from rate increases. Again, they result from ADOT direct impacts and ADOT had represented that our water company would be "made whole".

THREE CRITERIA FOR DETERMINING WHETHER AN EMERGENCY CONDITION EXISTS

1. Condition One: Sudden Change brings hardship to the Company.

It is true that PWIC was encouraged to file for a rate increase beginning in Nov 2011. The bind PWIC experienced was not knowing what to ask for as we were in active dispute with ADOT over mitigation funding. We did not want to increase rates excessively. Had we received funding from ADOT, financial issues would have been more clear and a more orderly and lower permanent rate application could have been pursued. Also being considered was a petition for abandonment. PWIC believes that this sequence is understandable under the circumstances and respectful of ACC resources.

2. Condition two: The company is insolvent

It is somewhat humiliating to be found to meet the criteria to apply for Emergency rates on the basis of insolvency. Still we accept the truth of this situation. PWIC presented to ADOT in 2009 that it was financially incapable of dealing with so large a loss of ratepayers and the demands of preparing and interfacing with their preparations and construction. PWIC's was reassured that it would receive mitigation. ADOT proposed that mitigation come through the Environmental Assessment addressing NEPA statute and ADOT's mandate to make PWIC "whole". PWIC expected that both lost revenue from 42% loss of ratepayers and costs incurred would be repaid in full and thus the loans repaid. The debt incurred is all as a result of ADOT's activity and, therefore, we expected to be reimbursed. PWIC expected that part of mitigation would come in the form of capital improvements.

3. Condition Three: The Company's ability to maintain service pending a formal rate determination is in serious doubt.

The company is providing water. PWIC's costs are fixed. The loss of 42% of water users makes it impossible to make payroll.

Respectfully Submitted,

Hank Holmes
President PWIC

DOCKET NO. W-01774A-12-0089

Compliance with Procedural Order: Picacho Water Improvement Corporation

A. The Picacho Water Improvement Corporation (PWIC) certifies that:

**PUBLIC NOTICE OF THE HEARING ON
PICACHO WATER IMPROVEMENT CORPORATION'S
APPLICATION FOR AN EMERGENCY RATE INCREASE
DOCKET NO. W-01774A-12-0089**

1. A copy of the Public Notice ordered by the Procedural Hearing of 3/22/12 was mailed to each of our customers by first class U.S. Mail on 3/30/12.
 2. The Public Notice was posted at the Public Mail Boxes in Picacho on 3/30/12
 3. The mailing and posting were in accordance with the ordered format.
- B. PWIC further reports that its Annual Report has been filed with the Corporations Division.
- C. PWIC Board voted a Resolution to authorize Hank Holmes, President, to serve as it's representative in all matters related to PWIC's Emergency Rate Increase Application before the ACC on 3/26/12 and this was forwarded to docket Control on approximately 3/28/12

Picacho Water Improvement Corporation
6240 Monitor Street
PO Box 10
Picacho, AZ 85141

4/7/2012

Jeffrey M. Michlik
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Scott Hesla
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Docket No. W-01774A-12-0089
Response Second Set of Data Requests

Dear Sirs:

This response provides the information that you requested 3/27/2012.

Sincerely,

Hank Holmes
President PWIC
541-327-2676

3/7/2012

PWIC RESPONSE TO:

**ARIZONA CORPORATION COMMISSION
STAFF'S SECOND SET OF DATA REQUESTS TO**

PICACHO WATER IMPROVEMENT CORPORATION

DOCKET NO. W-01774A-12-0089

March 24, 2012

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

DS-2.1 Provide the in-service dates and describe with some specificity any system improvements/additions that have been completed since the Company's last rate application.

Answer: PWIC has had no system improvements since the last rate increase in 1987. We did have an addition to the system in 2001 with a mainline extension to a Subdivision that that was approved by Pinal County, the State of Arizona Department of Real Estate (Registration No: DM01-028226 Picacho Townsite), and the ADEQ (ADEQ File No: 20030142) and with right of way permit issued by Pinal County (Permit # 1295). This added 6 new meters to our system. The remainder of the lots remain undeveloped. The Developer paid all infrastructure expenses.

DS-2.2 Describe the system repair/improvements that were funded using the \$50,000 debt resulting from the ADOT highway realignment.

Answer: This entails a long answer. There were no system repairs funded using the \$50,000 debt resulting from the ADOT highway alignment. These funds (and more) would have been used for PWIC's CIP, which had momentum and was the company's focus. We first had to await ADOT's choice among three I-10 placement options each requiring a different PWIC configuration and costs. In the last three years all available PWIC time and funds have been expended just to defend our franchise against potential insolvency and to have our claims handled lawfully. Instead of contributing toward the CIP, the money and energy that would have been used for improvements had to be used defensively.

Attachment A estimates very conservatively the \$50,000 in financial impact PWIC has represented. Some are hard and some are estimated and the reasoning might be questioned. In aggregate, they are substantial.

Attachment B is a short selection of PWIC's communications with ADOT over this issue which go back to 2007 meant the support our claim of impact and due diligence responding ADOT's impact. We anticipated significant financial impact on our

company, repeatedly asked for compensation to prepare for the impacts responsibly, and received no response. This fact is the reason for the \$50,000 indebtedness that PWIC has accumulated. More importantly, if ADOT did not have this project, PWIC would have a funded CIP completed or near completion driven partly by the need to be ready for ADOT's project. Instead, we have 42% less ratepayers both for revenue and borrowing ability and are bringing our emergency rate case to the ACC.

Attachment A details where the money went.

DS-2.3 Describe in detail the extra system maintenance and repair costs the Company has incurred as a result of ADOT construction activity.

Answer: Attachment D of the first data set response covers this.

DS-2.4 Describe the specific ADOT construction activities that caused the mainline breaks referenced in the Company's application.

Answer: These mainline breaks were caused by heavy equipment used by Demolition Crews hired by ADOT for Phase I of their four proposed demolition cycles. We expect similar vulnerability of our infrastructure with the following phases of demolition. It is too early to tell, but we may have better coordination with ADOT on the second Phase and, hopefully, less system damage and repair expenses.

PCIC EXPENSES RELATED TO ADOT PROJECT

(2007-4/1/2012)

DEMOLITION PHASE I EXPENSES:	\$16,898
See attachment Attachment D (7 pages) from Set I	
ENGINEERING EXPENSE:	5000
See attachment C(2 pages) from Set I	
LEGAL EXPENSE:	5000
(Steve Wene attorney at law)	
CAPITAL IMPROVEMENT PLAN LOSSES:	12,000
<p>PWIC match of \$12,000 on \$48,000 WIFA grant for CIP plan. CIP completion delayed by two years and the value of the analysis diluted by ADOT need to decide on one of three options for Freeway placement. CIP forced to consider 3 options and inability to pursue funding for CIP losing opportunity for "shovel ready" project under the Stimulus Act. We estimate that rate increase through ACC would have occurred in 2009 at the latest. Estimated rate increase of 30% even without Capital Improvement expenses (Last Rate Increase 1987). (.30 (30%) increase in charges on \$65,000 average revenue = \$19,5000/ year x 3 years = \$58,500.</p>	
LOSS DUE TO RATE INCREASE DELAY:	58,000
(See Above)	
TIME (MEETINGS, TRAVEL, PREPARATION)	5000
6 meetings with ADOT, endless exchange of E-mails, air travel, preparation and response. (Very conservative estimate).	
TIME REQUIREMENTS RELATED TO ADOT	000
1000- 2000 hours (President, Operator, Financial Manager)	
LOSS OF GRANTS AND LOANS:	000
(Unknown Value)	
LOSS OF BORROWING POWER (42%):	000
The difference of 42% in ratepayers would weigh heavily on the ACC's award of rate increase. PWIC has no way of estimating this value. (Unknown Value)	
LOSS OF REVENUES FROM RATEPAYER LOSS	000

PWIC has lost users from the first announcement of ADOT's intention to condemn the residences and businesses in the Realignment Footprint. This loss is ongoing. With Picacho's livability degraded due to loss of the Post Office, only businesses, and the 7.5 mile drive between the North and South sides of Picacho, further out-migration may occur.

TOTAL:

\$101,890

ATTACHMENT B

FINANCIAL IMPACT OF ADOT ON PWIC 2007 TO PRESENT

3/4/2012

BACKGROUND COMMUNICATION WITH ADOT:

NOTE: These are selected communications which are background for the claim that ADOT's I-10 Realignment had significant financial impact on PWIC. PWIC repeatedly expressed the financial impacts beginning in 2007. The ACC can readily understand this predicament of being in the middle of a CIP project and unable to proceed. It is doubtful that ODOT could understand, as they did not involve anyone with small water utility experience in their assessments. We asked in 2009 for ADOT to independently investigate their financial impact. They answered that ADOT had found no way to do this. Interestingly, this kind of evaluation was not performed in the EA either, yet as we understand it, this is the purpose of the EA.

1/7/09 (PWIC Formal request included in the Final Environmental Assessment Volume II)

REQUESTED ACTIONS

1. We request that ADOT immediately conduct a study of the financial impact of the I-10 expansion on PWIC at ADOT's expense.
2. We ask that you provide financial help to us immediately for: a) engineering planning (The needs and cost go well beyond the scope of a current capital improvement grant from WIFA) and b) to compensate us for emergency application to the ACC for a rate increase. A rough estimate is \$50,000 (\$35,000 for engineering + \$15,000 for rate increase). We need these funds to investigate, in a timely manner, the options we may have to continue providing water services. Infrastructure changes, of course, take time to implement.

NO RESPONSE

1/13/09 (Impacts discussed at large ADOT-PWIC Meeting)

"The following are the definite impacts impacts of the ADOT realignment on PWIC: None of these can be avoided.

1. Loss of infrastructure under I-10 (Pipes, valves, meters, mainlines under I-10, etc)
2. Loss of 37 of 125 hookups (customers) with ongoing loss of revenue. Loss of revenue has already begun with customers moving from the acquisition area.
3. Loss of customer base to finance needed to qualify for WIFA funding necessary for any physical restructuring of our company.
4. Engineering and plan development necessary to meet project deadlines and have functioning system in place before construction starts.
5. Revenue lost by inability to apply to Arizona Corporation Commission for rate increase until impact of ADOT on needed capital improvements can be determined (average application requires \$20,000 and 18 months).
6. Greatly restricted access to water campus.

NO RESPONSE

1/14/10 (PWIC COMMUNICATION: Ongoing expression to ADOT of Financial Impacts)

1. "We are unclear, of course, what mitigation funds we will be found to deserve. More important immediately, when can we expect any funds at all? I understood that remediation could come in stages rather than necessarily in a lump sum. We have immediate needs and no funds to address them. We have had to delay application to the AZ Corporation Commission for needed rate increase and authorization for capital improvement for almost 3 years as ADOT plans have evolved. Our CIP studies began in August of 2006. The rate increase process takes a year at minimum and considerable expense (\$20,000). We have a leaking 250,000-gallon tank that could fail at any time leaving Picacho without water. This is a tiny utility which financially operates month to month. Our current financial position is (-\$40,000) in loans. All of this debt is related to the CIP studies. Until PWIC knows what funds are forthcoming and when, we cannot proceed with engineering planning for the most prudent configuration of our system. This planning would usually be done with the assistance of WIFA, a process that requires advance application. We are losing 35% of our users with the I-10 realignment. We cannot decide where to place our new tank until a settlement is reached. The "survival" placement is probably in its current location. This placement wastes the \$550,000 it will cost ADOT to replace the mainlines under the freeway. The prudent placement and planning is probably on the south side of I-10.

As I said at the meeting, I will pursue this week any options WIFA, the Corporation Commission, or Pinal County may have to bridge the gap. How long is the gap likely to last??"

NO RESPONSE

3/23/2010 ADOT description: "Telephone call between the Arizona Corporation Commission (ACC) and ADOT."

ADOT synopsis: "The ACC stated that if a utility is in financial difficulty, the ACC will work with that utility to maintain services to the area. If necessary, the ACC will appoint an interim manager for the utility."

THIS DISCUSSION NOT SHARED WITH PWIC

(Note: This contact seems to assume that PWIC is insolvent or will be through the impact of the ADOT project. It builds on ADOT's misinterpretation of the CIP, and again, no Consultant familiar with Small Water Utilities was involved. The summary is not in line with the facts that the ACC has appointed such interim management very rarely, in only extreme conditions, and only after providing substantial rate increases to assist the utility to survive. The "interim manager" would assume the ability to charge the same rates or higher, thus directly shifting the impact of ADOT's actions to the ratepayer. The "interim manager" would acquire the CC&N (franchise) at no cost and the PWIC franchise is extremely valuable to an investor because of its prime location at the junction of I-10 and Hwy 87 where part of the new I-10 design is done to facilitate development within our franchise. This contact points most clearly to ADOT's willingness to cause PWIC to be insolvent and to pass their impact on to the water user. It also does not analyze the value of the PWIC franchise and the options for sale that would be available without the loss of 42% of our revenue. The bottom line is that PWIC, like many AZ small utility companies struggles and, yet would remain in business with considerable potential for future success were it not for ADOT's impact.)

PWIC OPINION:

1. ADOT knew early on that its actions would cause PWIC to be insolvent if not mitigated.
2. ADOT relied for its position on PWIC's CIP without ever having a consultant with Small Utility Credentials to advise them.
3. PWIC was/ is a viable small water utility with similar problems that many small companies face.
4. ADOT was asked for appropriate funds to prepare for its impact.
5. ADOT knew that PWIC had a CIP in progress and that it could not proceed due to their project.
6. ADOT lead PWIC to believe that mitigation for impacts would be provided.
7. ADOT indicated that the EA was the mechanism for receiving mitigation.
8. ADOT never communicated with ADOT during the entire EA process despite repeated requests and consciously excluded our testimony in the Environmental Assessment that is required to receive FHWA funds for their project.
9. ADOT made the decision that PWIC was not a viable Water Utility. ADOT made a strategic decision not to assist the company in any way including refusing to investigate multiple valid and legal claims. This included skirting ADOT policy and NEPA mandates. ADOT did not "coordinate" with PWIC at all despite the favorable status accorded to Utilities under the law. By doing so, ADOT avoided the requirement for a more extensive environmental assessment and was able to claim FONSI and move forward to obtain Categorical Exclusion.
10. The FHWA, despite NEPA requirements colluded in this decision. The FHWA was involved at each step in the process.

EXPENSES:

OPERATOR: \$700/ month (40 years service)

FINANCIAL MANAGER: \$500/ month (40 years service)

BILLING AND COLLECTIONS: \$500/ month (4 years service)

PRESIDENT: Uncompensated (50 years of Holmes Presidency, H. Howard, David, Hank Holmes)

CORPORATE PROFIT 1962-PRESENT: NONE

Picacho Water Improvement Corporation
6240 Monitor Street
PO Box 10
Picacho, AZ 85141

4/1/2012

Jeffrey M. Michlik
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Scott Hesla
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Docket No. W-01774A-12-0089
Response First Set of Data Requests

Dear Sirs:

This response provides the information that you requested 3/22/2012. The Second Data Set will follow very shortly.

Sincerely,

Hank Holmes
President PWIC
541-327-2676

**ARIZONA CORPORATION COMMISSION
STAFF'S FIRST SET OF DATA REQUESTS TO
PICACHO WATER IMPROVEMENT CORPORATION
DOCKET NO. W-01774A-12-0089
March 22, 2012**

JMM 1-1 Refer to page nine of the Company's 2010 Annual Report filed with the Arizona Corporation Commission ('Commission'), and provide the Commission Decision No. that granted the Company authorization for each of the three outstanding loans.

Answer: There is no Commission Decision No. for the three loans because PWIC did not apply to the ACC to approve these loans. It was not with any intention to deceive, however. PWIC was simply unaware of the requirement to do so. The company received its last rate increase in 1987. We avoided going back for a later increase because our understanding was that the process required an attorney and was expensive (\$20,000 was the figure given us). PWIC had great difficulty attracting Board members for the two decades afterward and had very little sophistication as a company. We naively thought that we could rely on our accountant to monitor our compliance. Attachment F is the loan document from Key Bank for the initial loan of \$25,000. This was initially a line of credit which was used for emergencies and repaid. We assumed indebtedness Key Bank would not renew this PWIC loan without a guarantor and I agreed to be guarantor as the company could not afford to pay the loan off in one sum. I did this at a time when mitigation from ADOT was promised and seemed eminent. That has changed. The monthly payment, interest and principal is \$_____ x 12 = \$_____.

JMM 1-2 On page eleven of the Company's 2010 Annual Report filed with the Commission, the Company indicates that it has only 6 customers, all with two-inch meters. Please provided the following:

- a. Provide the number of customers for each meter size prior to disconnections due to the ADOT I-10 project.
- b. Provide the number of customers for each meter size subsequent to disconnections due to the ADOT I-10 project.

JMM 1-3 Regarding the Emergency rate application that the Company filed on March 15, 2012, please provide a response to each of the following:

- a. Explain how the Company calculated the \$24,000 in lost revenue.

Answer: Average revenue per year = \$65,000 X .42 (42% of ratepayers lost) = \$27,300

- b. Explain the basis of the \$15,000 emergency fund and show supporting calculations.

Answer:

- c. Explain how the \$20,000 cost for the temporary patch for the 200,000 storage tank was determined and provide all supporting documentation (e.g., written estimates).

Answer: Please see Attachment A which is a bid for placing a steel ring 2 feet high around the base of our 200,000 gal storage tank which is past its useful lifetime (50 years), is rusted out at the bottom and bulging, has been welded several times, could fail at any time, and would be very expensive to replace. See attached Picture labeled Attachment B. It is estimated that this will extend the life of the tank for 5-10 years. This time would allow PWIC to replace with loans or grants.

- d. Explain how the \$10,000 amount in engineering costs (Response to ADOT) was determined and provide all supporting documentation (e.g., estimates, invoices).

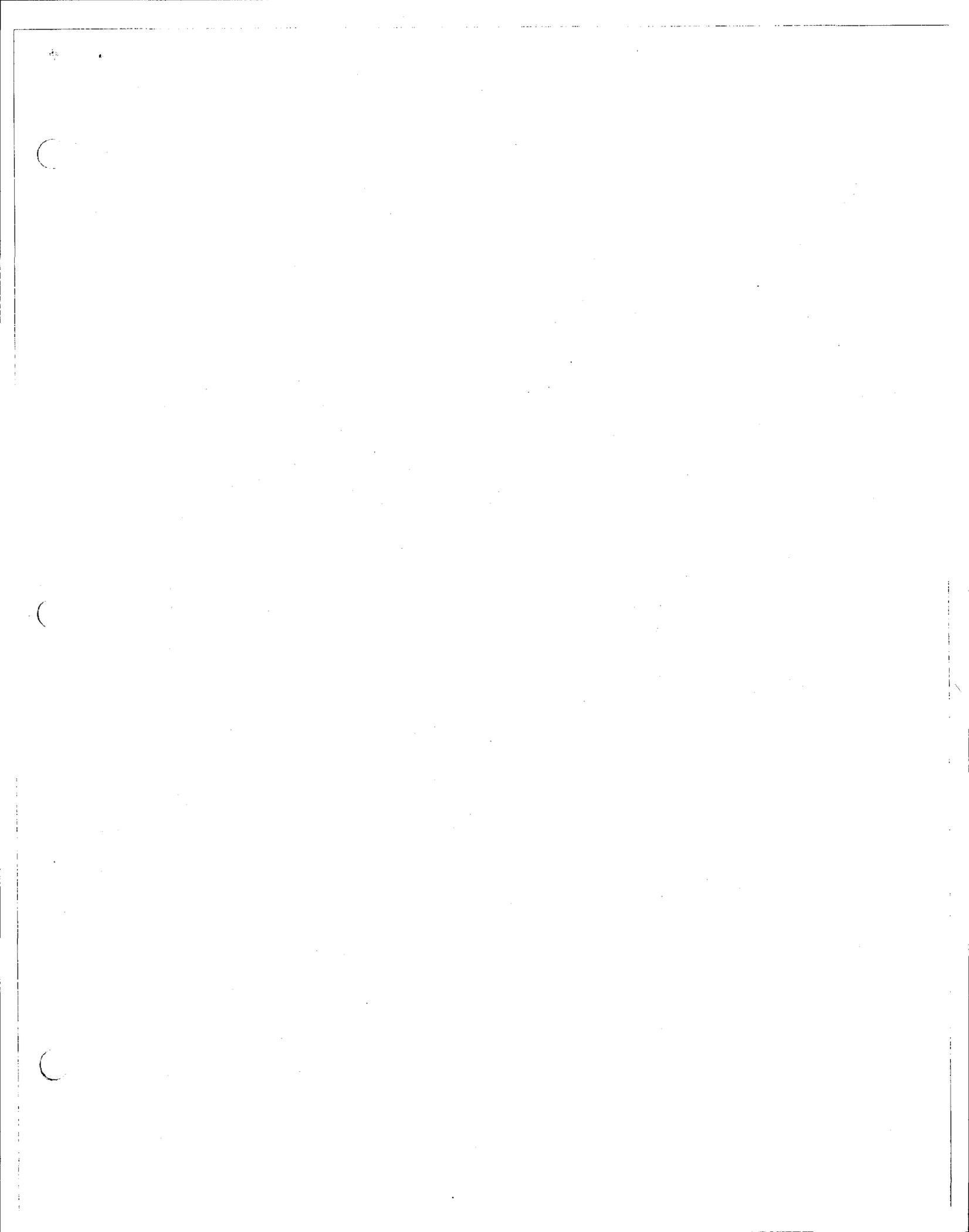
Answer: In August of 2011, PWIC hired a Water Engineer (Bill Collings) specifically for the purpose of representing us in interactions with ADOT which we could not avoid. Attachment C is our contract with his rates. ADOT pays us nothing for this impact. Since August, we have paid Mr. Collings _____ for a 6 month period. This expense is expected to continue at approximately the same level over the next two years during ADOT's demolition and construction. This is 4- 6 month periods or 4X \$ ____ = \$ _____

- e. Explain the basis for the \$15,000 increased cost for operations responding to I-10 construction was determined and provide all supporting documentation (e.g., estimates, invoices).

Answer: ADOT's project demands a lot of our operator beyond what he is paid for such as endless Blue Staking, fixing breaks (most expensive of which have been mainline breaks to our Asbestos Cement main-lines), locating valves and pipes, on site availability from 30-60 minutes distant depending on whether he is at home or out on his ranch. Major breaks entail hiring a contractor with the equipment and expertise to come from Tucson. Since ADOT began demolition preparations and demolition our costs have been \$16,897 (See Attachment D) of which we have received no reimbursement. We have hope that an agreement will be reached, however that does not look possible now. Attachment E is ADOT's current position expressed by Pete Mayne, and confirmed by an ADOT review of our claims. PWIC feels that \$15,000/ year for the period of construction is very conservative.

- f. Provide supporting calculations for the \$4,308 debt service on a \$25,000 loan.

Answer: See answer to JMM 1-1



Attachment A (4pages)

Fabtec, INC. | 1
Proposal# 021312

FABTEC INC
32632 W SANTA CRUZ AVE
MARICOPA, AZ 85138
(520)568-2756
FAX (520)568-3672
wemakeithappen@fabtecusa.com

DATE: 03/13/2012
PROPOSAL# 021312

Dear Ed,

This proposal is for your approval on the scope of work as outlined in the following proposal sheets numbers 1 through 4.

This project does not include sales tax, Shipping and Fuel Sur-Charges where applicable.

Thank you for the opportunity to quote this project.

Sincerely,

Bruce A. Sweet
Sr. Project Manager / Sr. Project Engineer
Fabtec, INC

Accepted By: _____

Date: _____

FABTEC, INC.
32632 W. Santa Cruz Ave.
Maricopa, AZ 85138

TERMS AND CONDITIONS
(PAGE 2 OF 4)

FABTEC, INC. is pleased to quote the following:

Scope of work:

- Seal and install steel skirt around lower 2ft of 32ft dia. tank.
- Dig out dirt to allow for welding approximately 1-1/4 in. outside body of tank.
- Pressure wash lower 2ft. of tank
- Apply epoxy sealant to lower portion of tank and up to 2ft. from the bottom. (This is a sealing compound.)
- Weld skirt full diameter of tank 2ft. high
- We will fill the void with non-shrink grout and cap top 2 in. with epoxy.

Total Cost: \$25,000

Notes: Terms are negotiable; call Hap at 520-705-2924. Materials will have to be paid upfront. Progressive payments expected as work is completed.

Terms: This quote is good for 2 days. After that it is subject to a surcharge due to price changes in material.
40% due upon issuance of purchase order.
50% due prior to shipment
10% due net 30 days from delivery.
A 1.5% per month (18% annual rate) finance charge will be added to all past due Invoices.

FABTEC, INC.
32632 W. Santa Cruz Ave.
Maricopa, AZ 85138

TERMS AND CONDITIONS
(PAGE 3 OF 4)

- A. **SHIPPING TERMS:** F.O.B.
1. Price(s) quoted do not include any taxes, crating charges, shipping charges, spare parts, drawings or manuals unless otherwise specified.
 2. Shipment of equipment is as follows:
 - a. Equipment to ship _____ weeks after receipt of order.
 - b. Proposed shipping date is based on receiving a written purchase order as well as a signed copy of our proposal no later than _____.
 - c. If changes and/or modifications are made to the equipment and/or equipment layout by the customer during the course of the project, the change in equipment price and ship date shall be mutually agreed upon, in writing, by the customer and FABTEC, INC. within five (5) working days (facsimile transmission acceptable).
 - d. Equipment proposed to be shipped F.O.B. factory, collect. All prepaid shipments will be invoiced at cost plus 10% surcharge.
- B. **WARRANTY – FABTEC, INC.** warrants for a period of 12 months or 2,080 operating hours, whichever is first, that the equipment furnished shall be free of defects in materials or workmanship if properly used and maintained. FABTEC, INC. liability is limited to repair or replacement of nonconforming equipment at its option. F.O.B. point of manufacture and in no event shall be liable for any direct, indirect or consequential damages of any kind which occur during or as a result of installation and/or operation of the equipment. There is no implied or express warranty of merchantability beyond that specifically described in this proposal.
- C. **RISK OF LOSS –** Purchaser assumes all risk of loss of damages and destruction after the materials and equipment are free on board at shipping point or upon arrival at Purchaser's installation site if shipping terms are F.O.B. destination. After risk of loss has passed to purchaser, purchaser will make payment per the contract terms regardless of any loss or damage to the material or equipment.
- D. **TERMINATION AND HOLDING CHARGES –** Purchaser may not cancel order without prior written approval of FABTEC, INC. Cancellation charges will be based on material, labor and engineering work started or completed at time of cancellation with a minimum charge of 15% of the total contract value. Any order placed on hold will be charged at 2% per day; Charges to begin date of hold and ending date of release.
- E. **TERMS OF PROPOSAL**
1. In the event this proposal is not under contract within 30 days of issuance, then the price, schedule and other portions are subject to change by the discretion of FABTEC, INC.
 2. Terms are 40% due upon issuance of purchase order with 50% due prior to shipment and 10% due Net days from delivery. FABTEC, INC. requires a written purchase order within five (5) working days after receipt of verbal purchase order.
- F. **CONTRACT DOCUMENTS –** This proposal consists of the following additional documents which shall incorporate herein by this reference as if fully set forth herein:

FABTEC, INC.
32632 W. Santa Cruz Ave.
Maricopa, AZ 85138

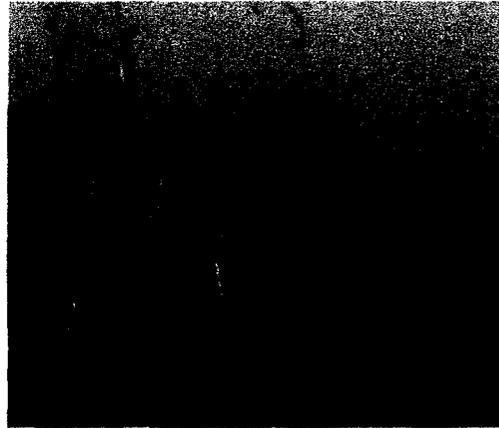
TERMS AND CONDITIONS
(PAGE 4 OF 4)

- G. **INSTALLATION BY FABTEC, INC. - Purchaser agrees to:**
- a. Prepare the work site to permit installation and operation of any equipment. Take responsibility for structural strength of and any required alteration to the building including removal of obstructions.
 - b. Provide necessary access roads, dock area suitable for receiving and unloading the equipment, secure dry convenient storage space for equipment, tools and materials used on the site, and make available any elevation crane or fork lift use for FABTEC, INC. during the installation.
 - c. Maintain the work site in a watertight condition and free of debris or obstructions other than caused by FABTEC, INC.
 - d. Prior to the scheduled start of installation, obtain all necessary local, state and federal permits for license.
 - e. Provide suitable electric current, lighting, compressed air, water and heat as may be required for installation, test and operation of the equipment.
 - f. Install all electrical wiring, conduit, controls, air piping and devices (whether furnished by FABTEC, INC. or Purchaser) required for operation of the equipment (except as specifically provided for by FABTEC, INC.)
 - g. Provide full service/maintenance of the equipment commencing with operation of the equipment or any part thereof.
- H. **INSTALLATION BY PURCHASER -** When the equipment is installed, purchaser will provide the required installation labor and all supplies. Purchaser will adjust supports, cut standard length conveyor bed sections, belts, conduits and the like to suit the installation and assume responsibility for any improper installation, adjustments, operation, maintenance, repairs or alterations by person other than FABTEC, INC.
- I. **CHANGE AND DELAYS -** If purchaser or its agents or other contractors cause changes, delays or interruptions of the continuous scheduled progress of work, Purchaser will excuse the delay and reimburse FABTEC, INC. for any additional expense which can be established as resulting from such conditions.
- J. **ASSIGNMENT -** It is agreed that Purchaser shall not delegate the performance of any obligation there under or assign any rights arising under this proposal to any third person without the prior written consent of FABTEC, INC.

Attachment B (1 page)

The pictures on Pg. 9 show the base of the existing 200,000 gallon above-ground storage reservoir located at Water Plant No.1. It is obvious that rusting and corrosion are prevalent on the exterior of the tank. This implies that the interior is in worse condition. To temporarily remedy the rusted areas, the water operator has welded steel plates to the tank where rusting and leaks were detected. This condition compromises the tank's structural integrity and increases the likelihood of tank failure. Again, this tank is the only storage structure in the water system. Therefore, the customers are on the brink of losing their potable water supply. To ensure that the customers have a safe and reliable water supply the deteriorating tank should be fixed immediately. Some options to accomplish this include but are not limited to the following:

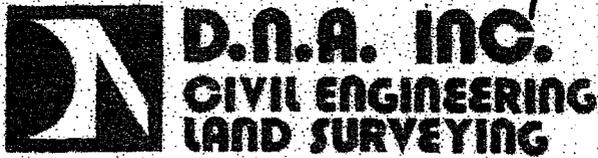
- Provide a new water storage structure at Water Plant No.1
- Rehabilitate Water Plant No. 2 so that it is in compliance with ADEQ and bring it back online
- Abandon both water plants and replace them with a new water plant



The majority of the pipe network is made of ACP. Asbestos cement pipe is no longer used for water supply in the U.S. due to danger of asbestos exposure during production, installation and maintenance of these pipes. Historically, this pipe has a service life of 50 years. Pipe aging beyond its service life increases the risk of pipe failure including leaks, breaks, cracking, and joint separation. Consequently, the reliability of supplying water to its customers decreases. To ensure that the water supply is safe and reliable it is recommended that a preventive pipe replacement plan be implemented over the course of 5 years. This equates to approximately 3,000 linear feet of pipe replacement annually. Due to the health hazards that may be encountered when handling ACP, it is recommended that it be abandoned-in-place.

The age of the water distribution system is causing the infrastructure to deteriorate. Failure is likely to occur at any moment which will cause unpredictable consequences to

Attachment C (2 pages)



DAVID J. NYKORCHUK, R.L.S.
President
WILLIAM E. COLLINGS, P.E., R.L.S.
Vice-President

August 18, 2011

Via E-Mail: happyholmes904@yahoo.com

Mr. Hank Holmes, MD
President
Picacho Water Improvement Corporation
P.O. Box 44
Picacho, AZ85421

REF: ADOT/Water System Issue

Dear Mr. Holmes:

D.N.A. Inc. Civil Engineering and Land Surveying, appreciates the opportunity to assist you in resolving the intransigent position that ADOT has taken with respect to mitigating the adverse impact of the proposed freeway re-alignment on the Water Company's financial and operational viability. Based on our conversations with you and our onsite meeting with Ed Kile, your system operator, we propose to provide the following scope of services.

1. Review the reference information furnished to date together with any additional supplemental information which may be forthcoming.
2. Discuss aspects of the situation with you, your water company representatives and your attorneys.
3. Accompany Mr. Kile to a meeting with ADOT project team members for the purpose of reviewing their current proposal for mitigating the freeway relocations adverse impacts on the Water Company and discussing ongoing concerns that the proposed freeway improvements will have with respect to the viability of the Water Company and their customers.
4. Confer with you and your representatives regarding the issues addressed at the ADOT meeting together with resolutions, if any, as to the Water Company concerns.

We propose to provide the aforementioned scope of services for a fixed fee of \$1,250. Should additional services be requested following completion of the above activities they may be provided either on a time and materials basis per the attached Schedule of Fees or through a supplemental proposal.

We look forward to working with you on this ADOT issue. Should you have any question with regard to the scope of services or related fee please do not hesitate to contact us. If this proposal meets with your satisfaction please indicate your acceptance by signing on the space provided below and returning a copy to us.

Sincerely,

Handwritten signature of William E. Collings in cursive.

William E. Collings, P.E., R.L.S.
Vice President

Accepted By:

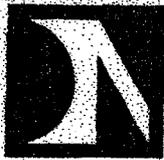
Handwritten signature of Nancy D. Arlan in cursive.
Pres - PWIC

Date 8/28/2011

340 East Willetta Street
314 East 8th Street

Phoenix, Arizona 85004
Casa Grande, Arizona 85222

(602) 271-9911
(520) 806-5501
FAX (602) 271-9985



D.N.A. INC.
CIVIL ENGINEERING
LAND SURVEYING

DAVID J. NYKORCHUK, R.L.S.
 President
 WILLIAM E. COLLINGS, P.E., R.L.S.
 Vice-President

SCHEDULE OF FEES - MAY, 2006

Principal	\$125.00 HR
Senior Design Engineer	\$ 95.00 HR
Professional Engineer	\$ 85.00 HR
Designer	\$ 75.00 HR
Draftsman	\$ 60.00 HR
3 Man Field Crew	\$175.00 HR
Field Inspector	\$ 95.00 HR
Computer Time	\$ 75.00 HR
Clerical	\$ 50.00 HR

All prints supplied at cost plus 15%.

All filing fees, plan check fees, bonds, permits, etc. to be paid by Client. Any filing fees, plan check fees, bonds, permits, etc. paid by Engineer will be invoiced to the Client at cost plus 15%.

Outside Consultants - Cost plus 15%.

Field staking materials and special equipment at direct cost, unless otherwise stated.

Unpaid amounts will be charged interest at a rate of 1.5% per month (18% per year) beginning 30 days after the date of invoice.

D.N.A. INC.

By: _____

Date: _____

CLIENT SIGNATURE

By: Henry A. Adams - President - Picacho Water Improvement Corp
 Date: _____

Attachment D (7 pages)

4/1/2012

ACCOUNTING OF ADOT FINANCIAL IMPACT DURING DEMOLITION EXPENSES INCURRED THROUGH 4/1/2012

(See Invoices)

1. PWIC Operator Expenses @ \$75.00/ hour (Discounted)
2. Contractor Expenses for Mainline breaks with rates included.

Total:
\$4800.00
320.00
325.00
3290.30
5000.00
3162.60

\$16,897.90 Total

To: Picacho Water Improvement Corporation
6240 E Monitor Street
Picacho, AZ 85141

From: Ed Kile
P.O. Box 61
Eloy, AZ 85131

Date: 3/16/12

Subject: Invoice for services due to ADOT impact

12/5/11 – Line Location	4 hours
12/11/11- Line Location	3 hours
12/20/11-Main Line Break	8 hours
1/2/12-Line Location	3 hours
1/3/12 - 2"Line Break	5 hours
1/6/12-8"Line Break	8 hours
2/8/12-Met with Locator	4 hours
2/19/12 Met with Dan Padilla	5 hours

Total Hours – 64 @ \$75.00 per hour

Total Due \$4,800.00

356572

W. KELE
PO BOX 111
PICACHO, AZ 85141

customer's order no.	phone	date 1-10-12
----------------------	-------	-----------------

ORDER IN	name PICACHO WATER INC	
	address	
	city, state, zip	
	sold by	cash <input type="checkbox"/> charge <input type="checkbox"/> c.o.d. <input type="checkbox"/> on acct. <input type="checkbox"/> shipping information

quantity	description	price	amount
1	4 HOURS ON 12-20 11 LABOR		
2	REPAIR 8" MAIN.		
3			
4	8 HOURS ON 1-3-12 LABOR		
5	REPAIR 2" MAIN		
6			
7	4 HOURS ON 1-6-12 LABOR		
8	REPAIR 8" MAIN.		
10	Total 10		
11	320.00		
12	CR # 905		
13			
14			

received by

lien
(20) 251-2098

Steve
(520) 229-7058

CONTRACTORS INVOICE

Vaquero Excavating & Trucking L.L.C.
Trenching and Material Hauling

2006

3611 West Silverbell Road
a, Arizona

WORK PERFORMED AT:

O.C. 208979

Picacho Water Imp.

*Camino Adelante
(Picacho)*

DATE
12-20-11

YOUR WORK ORDER NO.

OUR BID NO.

DESCRIPTION OF WORK PERFORMED	PRICE	AMOUNT
<i>12-16-11 Dig for 8" water main + repair. Backfill with native material.</i>		
<i>3 hrs. @</i>	<i>75⁰⁰</i>	<i>225⁰⁰</i>
<i>Trip Charge</i>		<i>100⁰⁰</i>
<i>Ueff</i>		
<i>894</i>		
<i>Total:</i>		<i>325⁰⁰</i>

I Material is guaranteed to be as specified, and the above work was performed in accordance with the drawings and specifications provided for the above work, and was completed in a substantial workmanlike manner for the agreed sum of

Three hundred twenty five & 00/100 Dollars (\$ *325⁰⁰*)

is is a Partial Full invoice due and payable by: *12* Month *26* Day *2011* Year

CONTRACTORS INVOICE

Allen
(520) 251-2098

Steve
(520) 229-7058

CONTRACTORS INVOICE

Vaquero Excavating & Trucking L.L.C.
Trenching and Material Hauling

2007

16611 West Silverbell Road
Tucson, Arizona
85733
P.O.C. 208979

WORK PERFORMED AT:

Picacho Motel

TO: Picacho Water Eng.

DATE: 1-9-12 YOUR WORK ORDER NO. OUR BID NO.

DESCRIPTION OF WORK PERFORMED	PRICE	AMOUNT
1-6-12 Dig up 8" CA water main where 4" PVC tied into 8" concrete valve that was leaking. Replace main with 8" C-900 and 2 8" Flex couplings.		
Material		\$590.30
Labor + equipment: 9 hrs @ \$300 ^{hr}		\$2,700.00
Total:		\$3,290.30

All Material is guaranteed to be as specified, and the above work was performed in accordance with the drawings and specifications provided for the above work, and was completed in a substantial workmanlike manner for the agreed sum of

Three thousand two hundred ninety & 30/100 Dollars (\$ 3,290.30)

This is a Partial Full invoice due and payable by: 15 12

Month Day Year

CONTRACTORS INVOICE

len
20) 251-2098

Steve
(520) 229-7058

CONTRACTORS INVOICE

Vaquero Excavating & Trucking L.L.C.
Trenching and Material Hauling

2009

611 West Silverbell Road
3, Arizona

WORK PERFORMED AT:

O.C. 208979

Picacho Water Temp

Picacho Water
Camino Adelante

DATE 9-12 to 1-13-12	YOUR WORK ORDER NO.	OUR BID NO.
-------------------------	---------------------	-------------

DESCRIPTION OF WORK PERFORMED	PRICE	AMOUNT
9-12 Monitor Demo Crew, remove meters 10hrs @	\$100 ⁰⁰	\$1,000 ⁰⁰
10-12 Monitor Demo Crew, look for valve by Post Office	\$100 ⁰⁰	\$1,000 ⁰⁰
11-12 Monitor Demo Crew, work valves 10hrs @	\$100 ⁰⁰	\$1,000 ⁰⁰
12-12 Monitor Demo Crew 10 hrs @	\$100 ⁰⁰	\$1,000 ⁰⁰
13-12 Monitor Demo Crew 10hrs @	\$100 ⁰⁰	\$1,000 ⁰⁰
Total :		\$5,000 ⁰⁰

OK # 911

I Material is guaranteed to be as specified, and the above work was performed in accordance with the drawings and specifications provided for the above work, and was completed in a substantial workmanlike manner for the agreed sum of

Five thousand & 00/100 Dollars (\$ 5,000⁰⁰)

is a Partial Full invoice due and payable by: 1 Month 27 Day 12 Year

CONTRACTORS INVOICE

Allen
(520) 251-2098

Steve
(520) 229-7058

CONTRACTORS INVOICE

Vaquero Excavating & Trucking L.L.C.
Trenching and Material Hauling

2010

6611 West Silverbell Road
Tucson, Arizona
I.O.C. 208979

WORK PERFORMED AT:

18535 S. Picacho Hwy (Garcia)
7120 E. Picacho Blvd.

TO: Picacho Center Temp

DATE: 1-18-12 YOUR WORK ORDER NO. OUR BID NO.

DESCRIPTION OF WORK PERFORMED	PRICE	AMOUNT
1-17-12 18,535 S. Picacho Hwy (Garcia) Install new 1" service and Tap 8" main.		
1-18-12 7120 E. Picacho Blvd. Replace approx 400ft of 1 1/2 steel service with 1 1/2 PVC.		
Material :		\$4162.60
2 man Crew with Backhoe	\$150.00/hr.	
	18 hrs.	\$2,700.00
Total :		\$3,162.60

OK # 911

All Material is guaranteed to be as specified, and the above work was performed in accordance with the drawings and specifications provided for the above work, and was completed in a substantial workmanlike manner for the agreed sum of

Three thousand one hundred sixty two & 60/100 Dollars (\$ 3,162.60)

This is a Partial Full invoice due and payable by: 1 Month 27 Day 12 Year

CONTRACTORS INVOICE

Attachment E - (5 pages)



Arizona Department of Transportation

Intermodal Transportation Division

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

Floyd Roehrich Jr.
State Engineer

January 24, 2011

Mr. Hank Holmes
P.O. Box 904
Jefferson, OR 97352

RE: Project: NH-010-D(205)A / 010 PN 210 H769602R
Section: I-10, I-10/SR87 TI
Subject: Picacho Water Improvement Corp. Mitigation

Dear Mr. Holmes,

The ADOT has evaluated the PWIC system and is committed to partnering with you to help the community preserve its water supply. This project is funded completely by the Federal Highway Administration and ADOT will assist financially with the PWIC mitigation using federal funds but must comply with federal regulations regarding how the monies are used.

The evaluation consisted of reviewing the analysis done by Ed Geiser and Tristan Woster of EEC, Inc. dated March 31, 2009. ADOT agrees with implementing some, but not all, of the components mentioned in their analysis. As you are well aware, many of the issues facing PWIC are simply the result of the facilities reaching the end of their functional life and are not due to ADOT's highway project.

ADOT will sleeve and pipe I-10 in two areas for water from Water Plant # 1 to go south of the highway. ADOT will remove any asbestos containing pipe within new or existing r/w. ADOT will pay to bring new service lines to the edge of the r/w but from this point final hook-up to any structure must be done by PWIC. ADOT will re-imburse the contractor directly for the pipe hook-up and this amount will be based on the lowest bid of three qualified contractors. Other repairs or replacements that need to be done per EEC's analysis will need to be addressed by PWIC.

If you have any questions, please contact me.

Sincerely,

Pete Mayne
Right of Way Agent
Arizona Department of Transportation
205 South 17th Avenue, MD 612E
Phoenix, AZ 85007-3212
ph: (602) 712-8738, fax: (602) 712-3051, e-mail: pmayne@azdot.gov



Arizona Department of Transportation

Intermodal Transportation Division

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

Jennifer Toth
State Engineer

February 3, 2012

Mr. Hank Holmes, President
Picacho Water Improvement Corporation
P.O. Box 904
Jefferson, Oregon 97352

Re: Picacho Water Improvement Corporation, Picacho, Arizona

Dear Mr. Holmes:

I am responding to your letter (sent via e-mail) dated January 23, 2012. Your letter was very helpful in my understanding of your position in this matter.

In order to obtain input regarding impact of the Interstate-10 improvement project on the Picacho Water Improvement Corporation (PWIC) system, on January 23, 2012, I assembled a meeting of representatives from the various sections within the Arizona Department of Transportation (ADOT) that are involved with this project. A member of the Office of the State Attorney General was also at this meeting as were representatives from the Federal Highway Administration.

Issues raised in your letter contributed substantially to the discussion at this meeting and the insight provided by the various representatives allowed for a thorough analysis of these issues. The project Environmental Assessment, federal and state legal requirements, mitigation measures, and acquisition and demolition processes were discussed at length.

Following is a summary of the discussion:

- Project Environmental Assessment—Both ADOT and FHWA reviewed the EA and neither have found a flaw with the EA. If new information comes in, ADOT is willing to review and take action if needed, but at this time there is nothing in the process that ADOT or FHWA have issue with.
- State Legal Requirements – The ADOT Right of Way Group and the Office of the Arizona Attorney General have reviewed the project and have determined that ADOT has priority rights. The utilities owned by the water district are in under permit and as such are required to relocate if they are in conflict.
- Mitigation Measures – It is my understanding that ADOT has agreed to replace, at ADOT's cost, sections of the water lines which will need to be relocated as a result of the project and within the right of way. The cost of this work is approx 500K. This work would be done at the time of construction.

Mr. Hank Holmes
January 25, 2012
Page Two

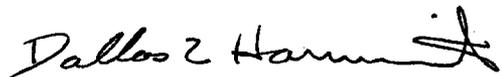
- Acquisition and Demolition Processes – ADOT is completing the first of three demo projects. In Raul Torres's January 23, 2012 e-mail, questions are answered as to who to contact if there is a break in the line and contact info is given in case of an emergency. As stated in the e-mail, if the leak is caused as a direct result of work conducted by ADOT, we will respond as we are contacted.

The above discussion resulted in a consensus that ADOT is not in a position to consider payment of compensation to PWIC or to provide mitigation measures beyond those already incorporated into the construction project.

Having been involved with the Interstate-10 Picacho Project for a number of years, you are certainly aware of ADOT's need to move ahead with this important highway improvement. We must, therefore, continue to acquire the right of way needed for construction and to relocate those individuals displaced by the project. Demolition of improvements on the acquired properties will proceed per established guidelines.

We encourage your continued involvement and input throughout these activities as well as during the phases of the project. With that being said, ADOT will be calling to schedule a meeting between PWIC, ADOT Right of Way Group and myself to discuss next steps. ADOT is willing to coordinate with PWIC in the effort to minimize any inconvenience, either to PWIC or to the residents of Picacho.

Sincerely,



Dallas Hammit
Deputy State Engineer, Development

From: Peter Mayne <PMayne@azdot.gov>
To: hank holmes <happyholmes904@yahoo.com>
Cc: Bill Collings <dnacivil@aol.com>; Arlene Kile <arleedki5@yahoo.com>; Dallas Hammit <DHammit@azdot.gov>; Brian Rockwell <BRockwell@azdot.gov>; Ken Davis <ken.davis@dot.gov>; Stephen Wilson <smwilson@azdot.gov>; Nancy Scott <niscott@azcc.gov>; "lpatton@dot.gov" <lpatton@dot.gov>
Sent: Tuesday, March 6, 2012 8:10 AM
Subject: RE: Picacho Water Improvement Corp. (PWIC)

Hank,

As we discussed over the phone last week, here's a response to the four areas you requested.

1. Proof of (Prior) Rights.

If the Utility Co. is claiming prior rights, it has always been incumbent on the Utility Co. to provide proof of the prior rights claim by submitting easement documents or other similar documents providing evidence of their claim. To date, no such documents have been submitted to ADOT and we can only surmise no such documents exist. Also, ADOT has offered to construct a new loop system with new pipe to ensure a water source for your remaining customers, all at ADOT expense. This is very similar to ADOT paying a prior rights claim and is to your benefit. The loop system requires some cooperation from PWIC, but the cooperation has been repeatedly withheld. Additional payment based on a Prior Rights Claim is denied.

2. Clarification of the Mitigation Language.

The mitigation language in the environmental document says "During final design, the Arizona Department of Transportation will coordinate with the Picacho Water Improvement Corporation to mitigate the impacts and ensure a continued source of water to the community of Picacho with minimal disruption of the water supply during construction." The language seems pretty clear and the loop system proposed is in line with the mitigation measures. The environmental document is required for the project and is for use by the Department. Input from the public is desired, solicited and helps formulate any mitigation measures that may be needed, but the ultimate decision on what the appropriate mitigation measures are rests with ADOT.

3. Franchise.

ADOT has reviewed a franchise agreement between Picacho Water Improvement Corp. and Pinal County from 1987 that expired after twenty-five years. The franchise agreement does not affect our highway project. Also checked with with the same person at Pinal County that you contacted, for copies of the recent franchise agreement that you said was renewed in 2006. The copies sent were for Picacho Water Company, an entirely different entity than PWIC. No evidence has been submitted to ADOT that the franchise agreement for PWIC was indeed renewed. If a copy of the renewed franchise agreement is available, ADOT would like to review it.

4. Expertise of Small Water Systems.

ADOT is in the process of hiring a small systems expert now. We have previously attempted to utilize your expert rather than hiring a separate one, thus ensuring that PWIC had ample access and input into the design and implementation of the mitigation measure, but again cooperation was repeatedly withheld.

Also, you mentioned having ADOT perform an ALTA survey, but a survey is unnecessary. ADOT tried to get PWIC permission, by a Temporary Entry document, to ascertain pipe locations

and joint types, but again, permission was denied. ADOT is moving forward with the mitigations measure (loop system) that has been previously discussed and unless additional evidence is presented by PWIC, will not pay for anything other than the loop system.

If you would like to meet to discuss this or if you have any questions or comments, please let me know.

Cordially,
Pete Mayne
602-712-8738.

Attachment F (2 pag) PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No.	City/Town	Account	Office	Initials
*****	*****	*****	*****	*****	*****	*****	*****

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.

Borrower: HENRY H. HOLMES
P.O. BOX 904
JEFFERSON, OR 97352

Lender: GREAT WESTERN BANK
Casa Grande Main Office
1300 E. Florence Blvd.
P.O. Box 12066
Casa Grande, AZ 85130-2066

Principal Amount: \$24,667.41

Date of Note: February 4, 2011

PROMISE TO PAY. HENRY H. HOLMES ("Borrower") promises to pay to GREAT WESTERN BANK ("Lender"), or order, in lawful money of the United States of America, the principal amount of Twenty-four Thousand Six Hundred Sixty-seven & 41/100 Dollars (\$24,667.41), together with interest on the unpaid principal balance from February 4, 2011, calculated as described in the "INTEREST CALCULATION METHOD" paragraph using an interest rate of 7.750% per annum based on a year of 360 days, until paid in full. The interest rate may change under the terms and conditions of the "INTEREST AFTER DEFAULT" section.

PAYMENT. Borrower will pay this loan in 23 regular payments of \$309.00 each and one irregular last payment estimated at \$21,160.10. Borrower's first payment is due March 4, 2011, and all subsequent payments are due on the same day of each month after that. Borrower's final payment will be due on February 4, 2013, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; and then to any unpaid collection costs. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

EFFECTIVE RATE. Borrower agrees to an effective rate of interest that is the rate specified in this Note plus any additional rate resulting from any other charges in the nature of interest paid or to be paid in connection with this Note.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: GREAT WESTERN BANK, Casa Grande Main Office, 1300 E. Florence Blvd., P.O. Box 12066, Casa Grande, AZ 85130-2066.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 2.000% of the regularly scheduled payment or \$25.00, whichever is greater.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, the interest rate on this Note shall be increased to 18.000% per annum based on a year of 360 days. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured if Borrower, after Lender sends written notice to Borrower demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees, expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. However, Borrower will only pay attorneys' fees of an attorney not Lender's salaried employee, to whom the matter is referred after Borrower's default. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Arizona without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of Arizona.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Pinal County, State of Arizona.

**PROMISSORY NOTE
(Continued)**

Loan No: 15525174146

Page 2

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the debt against any and all such accounts.

COLLATERAL. Borrower acknowledges this Note is secured by **UNSECURED**.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

NOTIFY US OF INACCURATE INFORMATION WE REPORT TO CONSUMER REPORTING AGENCIES. Borrower may notify Lender if Lender reports any inaccurate information about Borrower's account(s) to a consumer reporting agency. Borrower's written notice describing the specific inaccuracy(ies) should be sent to Lender at the following address: GREAT WESTERN BANK Loan Servicing P. O. BOX 12066 CASA GRANDE, AZ 86130-2066.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

X COPY
HENRY H. HOLMES



DISBURSEMENT REQUEST AND AUTHORIZATION

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$24,667.41	02-04-2011	02-04-2013	15525174146	4A / 280		STRT	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: HENRY H. HOLMES
P.O. BOX 904
JEFFERSON, OR 97352

Lender: GREAT WESTERN BANK
Casa Grande Main Office
1300 E. Florence Blvd.
P.O. Box 12066
Casa Grande, AZ 85130-2066

LOAN TYPE. This is a Fixed Rate (7.750%) Nondisclosable Loan to an individual for \$24,667.41 due on February 4, 2013.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for:

- Personal; Family, or Household Purposes or Personal Investment.
- Business; (Including Real Estate Investment).

SPECIFIC PURPOSE. The specific purpose of this loan is: RENEWAL OF PICACHO WATER IMPROVEMENT CORP LOAN.

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$24,667.41 as follows:

Amount paid on Borrower's account:	\$24,337.41
\$24,337.41 Payment on Loan # 800617002	
Other Charges Financed:	\$30.00
\$30.00 FED EX FEE	
Total Financed Prepaid Finance Charges:	\$300.00
\$150.00 LOAN FEE	
\$150.00 DOC FEE	
<hr style="width: 20%; margin-left: auto; margin-right: 0;"/>	
Note Principal:	\$24,667.41

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED FEBRUARY 4, 2011.

BORROWER:

X 
HENRY H. HOLMES



Great Western BankSM

Making Life Great

Member FDIC

January 25, 2011

Henry H. Holmes

1700 Geary St S E

Albany, Oregon, 97322

Hank,

Enclosed is the renewal loan stretching the maturity date out 24 months. Your payments will remain the same at \$309.00 per month and the interest rate remains unchanged. The loan fees involved have been added to the loan so there is no need to pay those at this time. Please sign in the areas marked and have your signatures notarized. Please return through Fed-EX. If you have any questions, please contact me.

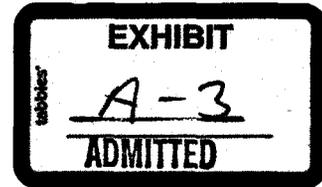
Sincerely,

Terry Strain

VP Business Banking MGR

520-876-2970

Terry.strain@greatwesternbank.com



Picacho Water Improvement Corporation
6240 Monitor Street
PO Box 10
Picacho, AZ 85141

4/1/2012

Jeffrey M. Michlik
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Scott Hesla
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Docket No. W-01774A-12-0089
Response First Set of Data Requests

Dear Sirs:

This response provides the information that you requested 3/22/2012. The Second Data Set will follow very shortly.

Sincerely,

Hank Holmes
President PWIC
541-327-2676

PWIC RESPONSE TO :

**ARIZONA CORPORATION COMMISSION
STAFF'S FIRST SET OF DATA REQUESTS TO
PICACHO WATER IMPROVEMENT CORPORATION
DOCKET NO. W-01774A-12-0089
March 22, 2012**

(Note: Responses/ Answers are below each request for information and documentation is included as Attachments A-).

JMM 1-1 Refer to page nine of the Company's 2010 Annual Report filed with the Arizona Corporation Commission ("Commission"), and provide the Commission Decision No. that granted the Company authorization for each of the three outstanding loans.

Answer: PWIC does not have Commission Decision Numbers for the three loans. PWIC did not apply to the ACC to approve these loans. It was not with any intention to deceive. PWIC was simply unaware of the requirement to do so.

Justification: PWIC had great difficulty attracting Board members for the two decades after the 1987 rate increase and had very little sophistication as a company. We naively thought that we could rely on our accountant to monitor our compliance. We avoided applying for a later rate increase because our understanding was that the process required an attorney and was expensive (\$20,000 was the figure given us). We made what we thought was the prudent decision to apply once when our Capital Improvement Plan was complete and the rate could reflect modest system replacements and repairs.

JMM 1-2 On page eleven of the Company's 2010 Annual Report filed with the Commission, the Company indicates that it has only 6 customers, all with two-inch meters. Please provided the following:

a. Provide the number of customers for each meter size prior to disconnections due to the ADOT I-10 project.

Answer: There were 123 Residential (5/8" -1 1/2 ") and 6 - 2" meters

b. Provide the number of customers for each meter size subsequent to disconnections due to the ADOT I-10 project.

Answer: There are 68 residential and 2 - 2" meters.

JMM 1-3 Regarding the Emergency rate application that the Company filed on March 15, 2012, please provide a response to each of the following:

a. Explain how the Company calculated the \$24,000 in lost revenue.

Answer: Average revenue per year = \$65,000 X .42 (42% of ratepayers lost) = \$27,300

b. Explain the basis of the \$15,000 emergency fund and show supporting calculations.

Answer: Over the years a major repair (pulling a failed pump, etc) has cost PWIC in the range of \$10,000 plus or minus. We have averaged a major every 2 years. The last two repairs required urgent loans from stockholders. PWIC has no reserves to handle major repairs and \$15,000 in reserves would allow continued operation despite expected emergencies.

c. Explain how the \$20,000 cost for the temporary patch for the 200,000 storage tank was determined and provide all supporting documentation (e.g., written estimates).

Answer: Please see Attachment A which is a bid for placing a steel ring 2 feet high around the base of our 200,000 gal storage tank which is past its useful lifetime (50 years), is rusted out at the bottom and bulging, has been welded several times, could fail at any time, and would be very expensive to replace. The bid is for \$25,000, but we are hoping to negotiate lower. See attached Picture labeled Attachment B. It is estimated that this will extend the life of the tank for 5-10 years. This time would allow PWIC to replace with loans or grants.

d. Explain how the \$10,000 amount in engineering costs (Response to ADOT) was determined and provide all supporting documentation (e.g., estimates, invoices).

Answer: In August of 2011, PWIC hired a Water Engineer (Bill Collings) specifically for the purpose of representing us in interactions with ADOT which we could not avoid. We are to interface with their engineers in the design and placement of replacement mainlines to maintain the integrity of our system. Attachment C is the unsigned contract with Mr Collings' rates. ADOT denies responsibility for this impact even though it is necessitated by their construction. For the four month period August 2011 – Jan 2012 we have paid Mr. Collings \$3450. This expense is expected to continue at approximately the same level/ rate over the next two years during ADOT's demolition and construction. Four months at \$3450 computes to \$10,350 per year.

e. Explain the basis for the \$15,000 increased cost for operations responding to I-10 construction was determined and provide all supporting documentation (e.g., estimates, invoices).

Answer: ADOT's project demands a lot of our operator beyond what he is paid for such as endless Blue Staking, fixing breaks (most expensive of which have been mainline breaks to our Asbestos Cement main-lines), locating valves and pipes, on site availability from 30-60 minutes distant depending on whether he is at home or out on his ranch. Major breaks entail hiring a contractor with the equipment and expertise to come from Tucson. Since ADOT began demolition preparations and demolition our costs have been \$16,897 (See Attachment D) of which we have received no reimbursement. We have hope that an agreement will be reached, however that does not look possible now. Attachment E is ADOT's current position expressed in three different documents by Pete Mayne, Dallas Hammitt, summarizing an ADOT review of our claims, and confirmed by Pete Mayne. PWIC feels that \$15,000/ year for the period of construction is very conservative.

f. Provide supporting calculations for the \$4,308 debt service on a \$25,000 loan.

Answer: We apologize for providing an incorrect figure. The correct figure is \$3708/ year. Attachment F is the loan document from Key Bank. In 2011, Key Bank would not renew this PWIC loan without a guarantor and President Hank Holmes, became the stockholder guarantor for the PWIC Loan. At that time mitigation compensation from ADOT had been promised and seemed eminent, part of which would be used to pay off the loan. That now has changed. The monthly payment, interest and principal is \$309.00/ month x 12 = \$3708.00/ year. The loan exists because PWIC has had to divert revenue to respond to ADOT's impact rather than to this loan.



000136159

ORIGINAL

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: April 27, 2012

RE: STAFF REPORT FOR PICACHO WATER IMPROVEMENT CORPORATION'S APPLICATION FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-01774A-12-0089).

Attached is the Staff Report for Picacho Water Improvement Corporation's ("Company") application for an emergency rate increase. Staff recommends approval of an emergency revenue increase as described herein.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before May 4, 2012.

SMO:JMM:red

Originator: Jeffrey M. Michlik

Arizona Corporation Commission

DOCKETED

APR 27 2012

DOCKETED BY

AZ CORP COMMISSION
DOCKET CONTROL

2012 APR 21 A 8:58

RECEIVED

Service List for: Picacho Water Improvement Corporation
Docket No. W-01774A-12-0089

Mr. Hank Homes
President
Picacho Water Improvement Corporation
6240 Moniter Street
PO Box 10
Picacho, AZ 85421

Ms. Janice Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Steve Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

PICACHO WATER IMPROVEMENT CORPORATION

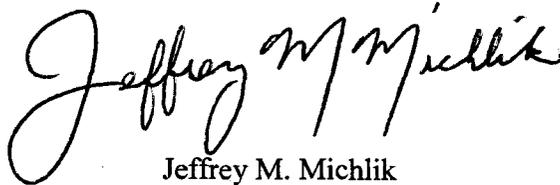
DOCKET NO. W-01774A-12-0089

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**

APRIL 26, 2012

STAFF ACKNOWLEDGMENT

The Staff Report for Picacho Water Improvement Corporation, Docket No. W-0177A-12-0089 is the responsibility of the Staff members listed below. Jeffrey M. Michlik is responsible for the financial review and analysis of the Company's application. Del Smith is responsible for the engineering and technical analysis. Trish Meeter is responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Jeffrey M. Michlik
Public Utilities Analyst V



Del Smith
Engineering Supervisor



Trish Meeter
Consumer Analyst I

**EXECUTIVE SUMMARY
PICACHO WATER IMPROVEMENT CORPORATION
DOCKET NO. W-01774A-12-0089**

Picacho Water Improvement Corporation ("Company") is engaged in the business of providing water services to customers in the unincorporated community of Picacho (Picacho Village), southeast of Eloy in Pinal County, Arizona. The Company provides services to approximately 70 metered customers and its current rates became effective July 1, 1987, per Arizona Corporation Commission Decision No. 55612.

EMERGENCY RATE CASE

The Company's emergency rate application requests an increase in revenues of \$88,308 per year in order to remain financially solvent.

STAFF RECOMMENDATIONS

Staff recommends approval of an emergency revenue increase of \$43,888 annualized.

Staff further recommends that the Company file a general rate case application within 12 months of a Commission Decision in this matter.

Staff further recommends that the Company file, in conjunction with the ordered rate application filing, a financing application if the Company intends to borrow money to address any infrastructure needs that remain after the Interstate-10 realignment.

Staff further recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Utilities Division annual report going forward.

Staff further recommends that, in the event the water loss reported in any Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than March 31 of the year following the excessive water loss.

Staff further recommends that the Company seek a technical assistance grant from Arizona Department of Environmental Quality ("ADEQ"), to complete a more comprehensive evaluation of the water system post Arizona Department of Transportation ("ADOT") construction prior to investing in the proposed tank repair.

Staff further recommends that the Company file as a compliance item in this Docket proof of its application for a technical assistance grant with the appropriate authority within 45 days of the effective date of the Commission's Decision in this matter.

Staff further recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff should be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification, and the tariff should generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentStandard2009.doc>.

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INTRODUCTION

On March 8, 2012, Picacho Water Improvement Corporation ("PWIC" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission"). A Procedural Order dated March 23, 2012, established May, 7, 2012, as the date for a hearing on the application.

The Company's application implies that the cause of the emergency is the Arizona Department of Transportation's ("ADOT") realigning of a curved section of Interstate 10, that passes through the community of Picacho, which will result in approximately 75 properties being acquired, vacated and demolished as part of the project.¹

Attorney General Opinion No. 71-17, allows for interim or emergency rates when one of three conditions is present: (1) sudden change brings hardship to a company; (2) the company is insolvent; or (3) the condition of the company is such that its ability to maintain service pending a formal rate determination is in serious doubt.

The Company in its emergency rate application asserts that each of these three conditions has been met, as follows:

- 1) Situation of sudden change which brings hardship to a Company.

The sudden loss of 53 water users from 127 (42%) due to ADOT's acquisitions causes an immediate reduction of revenue from approximately \$6,666 per month to \$3,866 per month. This loss of users is permanent with no possibility of new settlement in Picacho in the foreseeable future. The situation occurred due to ADOT realignment of Interstate-10 through the Village of Picacho. Mitigation was expected and promised for three years, however, PWIC² is now told that no compensation will be paid by ADOT.

All attempts to appeal, arbitrate, and reverse this position have failed to date. We have involved the ACC in our dilemma. In addition to loss of ratepayers, PWIC has accumulated \$50,000 in debt directly related to the impact of ADOT's project over the last 4 years. Our Capital Improvement Plan (To be coupled with rate increase application) has been delayed 3 years due first to uncertainty about the new alignment of Interstate-10 and now to loss of ratepayers to spread the cost of improvements. The CIP was begun in 2006 and could not be completed until May 2009 because of the uncertainty of how to address three different Interstate-10 placement scenarios. We have accumulated engineering, legal, matching fund

¹ Some of the homes have already been acquired, vacated and demolished.

² Picacho Water Improvement Corporation refers to itself as PWIC.

contributions and endless communications and meetings to present our legitimate claims. Extra demands are placed on the Water Company daily due to ADOT demolition and construction activity. Response to two mainline breaks (caused by ADOT) alone cost over \$6,000. ADOT has refused to create a memorandum of understanding or formal mechanism for mitigating its impact. We are endlessly blue staking, identifying pipes, removing meters, fixing pipes, etc.

2) Situation where Company is insolvent.

PWIC is insolvent due to the above. Any major equipment breakdown will precipitate a financial crisis.

3) Situation where ability of Company to maintain service (pending a formal rate determination) is in serious doubt.

Without some kind of breakthrough with ADOT and/or the Federal Highway Administration (Appears doubtful at this time), operating revenue will be exhausted within 1 month. Any equipment failure (Pump failure for example) cannot be paid for. PWIC has continuous demands by ADOT for services due to its demolition activity in our franchise.

In support of the above, the inability of the Commission to grant permanent rate relief within a reasonable time would be grounds for granting interim relief. This would require that the Company demonstrate that the period needed to grant permanent relief would not be reasonable, given the emergency condition present.

Our financial needs are immediate or we may be forced to curtail services in an emergency fashion leaving residents without water. The ACC has had no influence over ADOT's position.

The Company requests an additional \$83,308 per year in revenues to remain in business, but it did not provide any proposed method or mechanism for recovery of the additional revenue requested.

COMPANY BACKGROUND

The Company is engaged in the business of providing water services to customers in the unincorporated community of Picacho (Picacho Village), southeast of Eloy in Pinal County, Arizona. The Company provides services to approximately 70 metered customers, and its current rates became effective July 1, 1987, per Commission Decision No. 55612.

On March 8, 2012, the Company filed the Emergency rate case described herein.

CUSTOMERS

In response to Staff data request JMM 1-2, the Company stated that it now provides service to 68 residential 5/8 x 3/4-inch metered customers and 2 two-inch metered customers.³

COMPLIANCE

A check of the Commission's Compliance database shows no delinquencies for the Company. However, as discussed below, the Company has incurred long-term debt without Commission authorization in violation of A.R.S §40-301.

CONSUMER SERVICES ANALYSIS

Consumer Services reports that the Company is currently in good standing with the Corporations Division.

A search of the Utilities Division database from January 1, 2009, through April 10, 2012, indicates that there have been zero complaints, zero inquires, and zero opinions opposing the emergency rate case request.

ENGINEERING ANALYSIS

System Analysis

The Company's water system well production capacity is 325 gallons per minute (currently there is one well serving the water system),⁴ and the system currently has 200,000 gallons of storage capacity. The system has no fire hydrants, and there is no fire flow requirement.

Engineering Memorandum

A discussion of Staff's technical findings and conclusions is provided in the attached Engineering Memorandum.

Ability to Maintain Service

Staff concludes that the Company has adequate production and storage capacity to serve its existing customers and reasonable growth.

³ Prior to initiation of ADOT's I-10 realignment project, the Company provided service to 123 residential 5/8 x 3/4-inch metered customers and 2-two-inch metered customers.

⁴ The Company has an interconnect agreement with the Picacho Elementary School Public Water System as an alternate source. The Company is not purchasing any water from this alternative.

FINANCIAL ANALYSIS

Staff applies Attorney General Opinion No. 71-17 when determining if an emergency condition exists. That opinion allows interim or emergency rates when one of three conditions is present: (1) sudden change brings hardship to a company; (2) the company is insolvent; or (3) the condition of the company is such that its ability to maintain service pending a formal rate determination is in serious doubt.

Staff's analysis of each of these three conditions is presented below:

Condition One: Sudden change brings hardship to the company

The Company has known about the Interstate-10 realignment for several years.⁵ Staff became aware of the potential effects of the road realignment in October 2011, when Staff met with representatives of ADOT at their request. Staff subsequently coordinated phone calls and meetings that included Staff, ADOT and the Company to facilitate a better understanding of the Company's situation. Staff suggested several times that the Company file requests for a rate increase and financing and, on November 30, 2011, provided Mr. Holmes with both emergency and permanent rate applications and information about the related processes and procedures. Staff again encouraged Mr. Holmes to file for a permanent rate increase, which could be processed without a hearing. Accordingly, Staff concludes that emergency condition one has not been met because there has been no sudden change that brought hardship to the Company.

Condition Two: The Company is insolvent

The Company's annual report for the year ending December 31, 2010, submitted to the Utilities Division of the Commission, indicates an operating loss of \$4,385. The Company's cash flow from operations, assuming no repayment of principal on \$45,000 of long-term debt, is negative \$6,278 (-\$4,385 operating loss - \$3,388 interest expense + \$1,497 depreciation expense). The Company's 2010 annual report shows that it has three loans: (Great Western Bank, October 28, 2003, \$25,000; Mrs. Holmes, March 1, 2006, \$5,000; and Hank Holmes, March 1, 2007, \$15,000.)⁶ According to the Company's 2010 annual report, it repaid \$1,000 of principal on the Great Western Bank loan in 2010 and that was the only repayment of these loans since their inception. The 2010 annual report also shows a \$19,464 negative equity position caused by accumulated losses of \$32,803 and a cash balance of \$6,814. This financial information shows that the Company has been operating at a loss over an extended period and has borrowed \$45,000 of which \$6,814 remained on hand at the end of 2010 to cover continuing cash deficiencies. Moreover, the Company's negative equity position and outstanding debt are significant obstacles for issuing additional debt. The Company's negative cash flow and its

⁵ Per review of correspondence between ADOT and the Company, the Company states that its first meaningful contact occurred on April 13, 2009.

⁶ The Company has not obtained Commission authorization to issue debt as required by A.R.S. § 40-301. The Company refinanced the Great Western Bank loan in the amount of \$24,667 on February 4, 2011. These debt issuances are invalid without the required regulatory approvals.

limited ability to issue additional debt will result in its inability to pay its obligations as they come due once its cash balance is absorbed. Loss of a large portion of the Company's customer base is likely to exacerbate the Company's cash flows compared to the 2010 results. Thus, the Company does not have the capacity to cover any additional costs related to the ADOT I-10 realignment. Accordingly, Staff concludes that the Company is insolvent, and it meets emergency condition two.⁷

Condition Three: The Company's ability to maintain service pending a formal rate determination is in serious doubt

As described in Staff's engineering memorandum, the Company is in compliance with the Arizona Department of Water Resources ("ADWR") reporting requirements, it is in compliance with the Arizona Department of Environmental Quality ("ADEQ") requirements, it is currently delivering water that meets water quality standards and it has adequate production and storage capacity to serve its existing customers and reasonable growth. Accordingly, Staff concludes that emergency condition three has not been met.

Staff's determination of whether emergency interim rates are warranted

Staff concludes that one of the conditions for eligibility for emergency rates exists – the Company is insolvent.

COMPANY'S PROPOSED EMERGENCY REVENUE CALCULATION

The Company's application states that it would need an additional \$83,308⁸ per year in revenue to remain in business, summarized as follows:

1. Lost Revenue from operations (Fixed Costs)	\$24,000
2. Emergency Fund	\$15,000
3. Temporary Patch Failing 200,000 Storage Tank	\$20,000
4. Engineering (Response to ADOT)	\$10,000
5. Increased Operations responding to I-10 construction	\$15,000
6. Service on \$25,000 loan	<u>\$ 4,308</u>
	\$88,308 per year

In its response to Staff data request JMM 1-3, the Company described its calculation of each component as follows.

1. Lost revenue from operations (\$24,000):

$$\text{Average Revenue per Year} = \$65,000 \times 0.42 \text{ (42\% of ratepayers lost)} = \$27,300.^9$$

⁷ Staff notes that the Company has greatly contributed to its own insolvency by not filing rate applications despite years of operating without a profit and by borrowing funds without regulatory approval.

⁸ \$83,308 is apparently a typographical error since the sum of detailed request is \$88,308 per year.

2. Emergency fund (\$15,000):

Over the years a major repair (pulling a failed pump, etc) has cost PWIC in the range of \$10,000 plus or minus. We have averaged a major every 2 years. The last two repairs required urgent loans from stockholders. PWIC has no reserves to handle major repairs and \$15,000 in reserves would allow continued operation despite expected emergencies.

3. Temporary patch for storage tank (\$20,000):

Please see Attachment A which is a bid for placing a steel ring 2 feet high around the base of our 200,000 gal storage tank which is past its useful lifetime (50 years), is rusted out at the bottom and bulging, has been welded several times, could fail at any time, and would be very expensive to replace. The bid is for \$25,000, but we are hoping to negotiate lower. See attached Picture labeled Attachment B. It is estimated that this will extend the life of the tank for 5-10 years. This time would allow PWIC to replace with loans or grants.

4. Engineering response to ADOT (\$10,000):

In August of 2011, PWIC hired a Water Engineer (Bill Collings) specifically for the purpose of representing us in interactions with ADOT which we could not avoid. We are to interface with their engineers in the design and placement of replacement mainlines to maintain the integrity of our system. Attachment C is the unsigned contract with Mr. Collings' rates. ADOT denies responsibility for this impact even though it is necessitated by their construction. For the four month period August 2011 - Jan 2012 we have paid Mr. Collings \$3450. This expense is expected to continue at approximately the same level/ rate over the next two years during ADOT's demolition and construction. Four months at \$3450 computes to \$10,350 per year.

5. Increased operations responding to Interstate-10 construction (\$15,000):

ADOT's project demands a lot of our operator beyond what he is paid for such as endless Blue Staking, fixing breaks (most expensive of which have been mainline breaks to our Asbestos Cement main-lines), locating valves and pipes, on site availability from 30-60 minutes distant depending on whether he is at home or out on his ranch. Major breaks entail hiring a contractor with the equipment and expertise to come from Tucson. Since ADOT began demolition preparations and demolition our costs have been \$16,897 (See Attachment D) of which we have received no reimbursement. We have hope that an agreement will be reached, however that does not look possible now.

⁹ Staff notes the Company's calculation does not equal the \$24,000 stated in the emergency rate application.

Attachment E is ADOT's current position expressed in three different documents by Pete Mayne, Dallas Hammitt, summarizing an ADOT review of our claims, and confirmed by Pete Mayne. PWIC feels that \$15,000 year for the period of construction is very conservative.

6. Service on \$25,000 loan (\$4,308):

We apologize for providing an incorrect figure. The correct figure is \$3708/year. Attachment F is the loan document from Key Bank. In 2011, Key Bank would not renew this PWIC loan without a guarantor and President Hank Holmes, became the stockholder guarantor for the PWIC Loan. At that time mitigation compensation from ADOT had been promised and seemed eminent, part of which would be used to pay off the loan. That now has changed. The monthly payment, interest and principal is \$309.00 month x 12 = \$3708.00 year. The loan exists because PWIC has had to divert revenue to respond to ADOT's impact rather than to this loan.

STAFF'S RECOMMENDED EMERGENCY INTERIM RATES AND REVENUE CALCULATION

Since Staff deems the Company insolvent due to insufficient generation of cash flow to meet on-going obligations, the purpose of any authorized emergency rates would be to satisfy the cash flow deficiency until rates can be established in a general rate case. Based on the Company's 2010 reported operating results and analysis of the Company's emergency rate application, Staff has calculated a \$43,888 annualized cash flow deficit, as follows:

Per Annual Report:

Operating Income/(Loss)	\$ (4,385)
Depreciation Expense	(1,497)
Interest Expense	(3,388)
Principal Repayment	(1,000)
Advance Refunds	0
Cash Flow Per Annual Report	<u>\$ (5,276)</u>

Staff Adjustments:

Interest Expense	\$ 3,388
Principal Repayment	1,000
Adjusted 2010 Cash Flow	(888)
Pro forma Lost Revenue	(24,000)
Allowance for incremental I-10 realignment costs	(15,000)
Allowance for Contingencies	(4,000)
Total Annualized Cash Flow Deficiency	<u>\$(43,888)</u>

As shown in the calculation, Staff removed the debt principal and interest payments because the Company has not obtained Commission authorization for these loans; accordingly, they are invalid. Due to the Company's insolvency, Staff concludes that evaluation of any request for approval of the Company's loans should be conducted within the context of the Company's general rate case that will follow this emergency rate case. Staff's cash flow deficiency calculation reflects the Company's estimate for lost revenue and incremental Interstate-10 realignment costs, as Staff concludes that these estimates are reasonable. The \$4,000 allowance for contingencies recognizes the inability to accurately estimate the incremental costs of the Interstate-10 realignment, as well as potential deviation in other expenses from that experienced in 2010. Staff concludes that the Company's emergency request for Engineering costs related to the Interstate-10 construction and costs to temporarily patch the storage tank should not be included in the emergency rates. Payment of the Engineering costs has not been shown to be urgent, and Staff does not support patching the storage tank until a more comprehensive evaluation of the water system post ADOT construction has been performed.

Staff has examined the Company's current tariff schedule which was approved in Decision No. 55612 and notes that the current monthly charge for a 5/8 x 3/4-inch metered customer is \$14.00 and for a 2-inch metered customer is \$21.00. Staff also notes that the commodity charge is \$1.50 per 1,000 gallons, and no charge for the first 2,000 gallons.

Staff recommends the following emergency interim rate surcharges to provide the cash flow deficiency. The emergency interim rate surcharge should appear as a separate line item on the customer's bill, in addition to the monthly minimum amount and commodity charge. Staff recommends the following surcharge per customer:

5/8 x 3/4-inch metered customer	\$50.80
2-inch metered customer	\$101.60

The surcharge amounts were derived as follows:

Meter Size	Monthly Surcharge	Number of Customer	x 12	Yearly Revenue Amount
5/8 x 3/4-inch	\$50.80	68	12	\$41,453
2-inch	\$101.60	2	12	\$ 2,438
				<u>\$43,891</u>

Staff has prepared a typical bill analysis based on usage of 5,000 gallons per month. Staff did not have billing determinants for calculating the actual average and median usage. Moreover, the existing billing determinants may not be representative of the remaining customers, i.e., usage of the remaining customers may vary from those of the lost customers. A 5/8 x 3/4-inch metered customer using 5,000 gallons would experience a \$36.80 dollar increase, or a 198.92 percent increase, in his/her monthly bill, from \$18.50 to \$55.30, under Staff's recommended interim rates.

OTHER ITEMS

Staff also advises the Company that the emergency rates are potentially refundable in the event that the Commission determines during the ensuing permanent rate case that the Company collections were excessive.

In response to Staff data request JMM 1-1, the Company indicated that it had previously avoided applying for a rate increase because of its understanding that the process required hiring an attorney and was expensive (\$20,000). Staff notes that, unless the Company's requested annual revenues exceed \$250,000, the Company is eligible to file the "short form" rate application, and it is not required to hire an attorney or other consultants.

STAFF RECOMMENDATIONS

Staff recommends approval of an emergency revenue increase of \$43,888 annualized.

Staff further recommends that the Company file a general rate case application within 12 months of a Commission Decision in this matter.

Staff further recommends that the Company file, in conjunction with the ordered rate application filing, a financing application if the Company intends to borrow money to address any infrastructure needs that remain after the Interstate-10 realignment.

Staff further recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Utilities Division annual report going forward.

Staff further recommends that in the event the water loss reported in any Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than March 31 of the year following the excessive water loss.

Staff further recommends that the Company seek a technical assistance grant from ADEQ, to complete a more comprehensive evaluation of the water system post ADOT construction prior to investing in the proposed tank repair.

Staff further recommends that the Company file as a compliance item in this Docket proof of its application for a technical assistance grant with the appropriate authority within 45 days of the effective date of the Commission's Decision in this matter.

Staff further recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff should be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification, and the tariff should generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentStandard2009.doc>.

MEMORANDUM

DATE April 20, 2012

TO: Jeff Michlik
Public Utility Analyst V

FROM: Del Smith *DS*
Engineering Supervisor

RE: **Picacho Water Improvement Corporation
Application for Approval of an Emergency Rate Increase
(Docket No. W-01774A-12-0089)**

Introduction

Picacho Water Improvement Corporation ("Company" or "Picacho") serves the Village of Picacho. The Village of Picacho is located where State Route 87 intersects with Interstate 10 ("I-10") southeast of Eloy. The Company serves a four square mile area which includes all of Sections 14, 15, 22 and 23 of Township 8 South and Range 8 East in Pinal County.

On March 8, 2012, the Company filed with the Arizona Corporation Commission ("Commission" or "ACC") an application for an emergency rate increase. The Company indicated that its request for an emergency rate increase was necessary, because it has experienced the sudden loss of 53 of its water users, with an immediate reduction in revenue of \$2,806, as well as a number of expenses resulting from activity caused by the Arizona Department of Transportation's ("ADOT's") realignment of I-10 through the Village of Picacho. The Company reported that prior to disconnections due to the realignment there were 129 customers served and subsequent to disconnections there will be 70 customers.¹ Picacho's current rates were approved in Commission Decision No. 55612, effective June 17, 1987. According to the Company's operator septic tanks are used in Picacho's service area for wastewater service.

Picacho Water SystemDescription of the Water System

The Picacho water system was visited on March 30, 2012, by Del Smith, of Commission Utilities Division Staff ("Staff"), in the accompaniment of Mr. Ed Kile. Mr. Kile is responsible for the day-to-day operation of the Picacho water system and is the Company's Certified Operator. The Picacho facility is classified as a Grade 1 Distribution system and Mr. Kile is a Grade 1

¹ See Company's response to JMM 1-2.

Distribution system and Treatment plant Certified Operator. Mr. Kile's Arizona Department of Environmental Quality ("ADEQ") Operator Identification Number is OP001151.

The yard at the operating well site (Water Plant No. 1 located north of I-10) was reasonably well maintained and the in-service plant (i.e., well, tanks, visible pipe and valves) seemed to be in good working order. Staff did not observe any existing leaks at the well site or in the distribution area. The storage tank and pressure tank at Water Plant No. 1 were in poor condition due to age. The storage tank showed signs of multiple repairs at its base. Staff, however, did not see anything to indicate that a major failure was imminent or about to occur. Staff observed that the plant at the secondary well site (Water Plant No. 2 located south of I-10) had been disconnected from the system and was not in-service. The inactive plant included the well (Arizona Department of Water Resources ("ADWR") Registration No. 55-622044) and a pressure tank.²

The water system consists of one operating well (ADWR Registration No. 55-622043) which has a pump yield of 325 gallons per minute ("GPM"). The well feeds water to one 200,000 gallon storage tank. Water pressure in the system is increased prior to being delivered to customers through a booster system consisting of two 25 horsepower booster pumps and a 7,500 gallon hydro-pneumatic pressure tank. The distribution system includes a combination of 4-inch, 6-inch and 8-inch asbestos-cement pipe ("ACP"). Picacho has an interconnection agreement with the Picacho Elementary School (ADEQ Public Water System ("PWS") No. 11-072) which would enable it to purchase water from an alternative source. Staff understands this agreement has never been used.

System Analysis

The Picacho water system well production capacity is 325 GPM (currently there is one well serving the water system and no water is being purchased from the school) and the system currently has 200,000 gallons of storage capacity. There are no fire hydrants and the system does not have a fire flow requirement. The Company reported 3,456,000 gallons sold during the peak month of November 2011. Staff concludes that the Company has adequate production and storage capacity to serve its existing customers and reasonable growth.

Water Loss

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. Lost water for Picacho was calculated to be over 19 percent in 2011 which exceeds Staff's recommended threshold of 10 percent. Staff noted that in reviewing prior year annual report records for 2007, 2008 and 2009 that the Company had lost water levels that were less than 10 percent. Staff believes that the water loss may be higher in 2011 due in part to ADOT demolition activities and the resulting main line breaks.

² The inactive well was taken off-line several years ago due to maintenance issues and a high operating cost.

The Company also reported the same gallons pumped each month during 2011 which invalidates the result since the calculation should be based on the actual quantity of gallons pumped each month as read at the source meter. Staff recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Reports going forward.³ Staff further recommends in the event the water loss reported in any Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than March 31 of the year following the excessive water loss.

ADEQ Compliance

Drinking Water Compliance Status Report

Staff received an ADEQ Drinking Water Compliance Status Report dated November 18, 2011, in which ADEQ reported that the Picacho water system, PWS No. 11-042, is in compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

September 9, 2011 Sanitary Survey

The last ADEQ compliance inspection of the Picacho water system occurred on September 9, 2011. Based upon the inspection, ADEQ determined that the operation and maintenance of the physical plant was in compliance with ADEQ Rules. In the report the ADEQ inspector noted that the storage tank and pressure tank were in poor condition due to age. No ADEQ action resulted from the inspection.

ADWR Compliance

ADWR reported in an email sent to Staff on March 22, 2012, that there were no issues for Picacho and that the Company was in compliance with ADWR reporting requirements.

ACC Compliance

A check of the Utilities Division Compliance Database indicates that there are currently no delinquent compliance items for Picacho.

³ The Company shall collect the data needed to accurately complete the water use data sheets contained in the Annual Report form.

Other Issues

Temporary Patch Failing 200,000 Storage Tank (Old Deteriorating 200,000 Gallon Storage Tank Nearing End of Useful Service Life)

The Company's only storage reservoir is old and in need of replacement. In its application for an emergency rate increase the Company requested \$20,000⁴ to extend the life of this storage tank until the Company can obtain funds to replace the tank. The Company indicated that the tank was past its useful life of 50 years, was rusted out at the bottom, and could fail at any time. While ADEQ noted in its last inspection report that this storage tank was in poor condition, it concluded that the operation and maintenance of the water system was in compliance with its Rules. In addition, Staff did not see anything during its inspection to indicate that a major failure of this tank was imminent or about to occur. At this time Staff believes it would be more prudent to seek a technical assistance grant from ADEQ to complete a more comprehensive evaluation of the water system post ADOT construction. The economics of replacing the existing 200,000 gallon storage tank with a smaller capacity tank is one option that the Company should consider.

Increased Operations Responding to I-10 Construction (Pipe Repair Expenses Directly Related to ADOT Demolition and Construction Activity)

According to the Company it is incurring unforeseen pipe repair expenses directly related to the I-10 realignment demolition and construction activity. The majority of the distribution system pipe is made of ACP.⁵ This Pipe is approaching the end of its useful service life and like all old pipe is more prone to failure due to leaks, breaks, cracking and joint separation, especially in an area where heavy equipment is being operated. During its site inspection Staff observed the area where major leaks had occurred and where heavy equipment operation and demolition activities were continuing in close proximity to the Company's lines. It is reasonable to expect that more breaks will occur as the construction continues. The Company reported that it has already spent almost \$17,000 on pipe repairs directly related to ADOT activity. Staff concludes that the Company's estimate of costs to cover unforeseen pipe repair expenses is reasonable.

Cross Connection /Backflow Tariff

The Company has an approved Cross Connection Tariff.

Curtailment Tariff

The Company does not have an approved Curtailment Tariff. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and

⁴ The actual bid received to complete the proposed tank repairs was for \$25,000. The Company was hoping to negotiate the lower \$20,000 figure.

⁵ ACP is no longer used for this purpose due to the danger of asbestos exposure during production, installation and maintenance of the pipe.

certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentStandard2009.doc>.

Summary

Conclusions

1. Staff concludes that the Company has adequate production and storage capacity to serve its existing customers and reasonable growth.
2. ADWR reported that there were no outstanding issues for Picacho and that the Company was in compliance with ADWR reporting requirements.
3. ADEQ reported that the Picacho water system is in compliance with ADEQ requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
4. A check of the ACC Utilities Division Compliance Database indicates that there are currently no delinquent compliance items for Picacho.
5. Staff concludes that the Company's estimate of costs to cover unforeseen pipe repair expenses is reasonable.

Recommendations

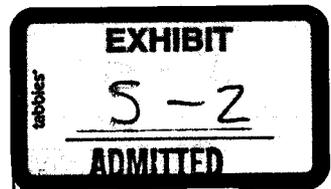
1. Staff recommends that the Company coordinate the reading of its well meters and individual customer meters on a monthly basis and report this data in its Commission Annual Reports going forward. Staff further recommends in the event the water loss reported in any Annual Report is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to less than 10 percent. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted per this recommendation, shall be docketed as a compliance item no later than March 31 of the year following the excessive water loss.
2. Staff recommends the Company seek a technical assistance grant from ADEQ, to complete a more comprehensive evaluation of the water system post ADOT construction prior to investing in the proposed tank repair. Staff recommends that the Company file as a compliance item in this Docket proof of its application for a technical assistance grant with the appropriate authority within 45 days of the effective date of the Commission's Decision in this matter.

Picacho Water Improvement Corporation

Docket # W-01774A-12-0089

Page 6

3. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentStandard2009.doc>.



ORIGINAL

MEMORANDUM

39E

TO: Docket Control

FROM: Steven M. Olea
 Director
 Utilities Division

DATE: May 1, 2012

RE: **NOTICE OF FILING - PICACHO WATER IMPROVEMENT CORPORATION'S APPLICATION FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-01774A-12-0089)**

Errata - Correction to the Filed Staff Report

On April 27, 2012, Staff filed its Staff Report in the above-captioned matter. Subsequently, Staff identified a mathematical error in its calculation of the cash flow deficiency, which resulted in an incorrect calculation of Staff's recommended surcharge amounts.

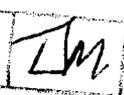
Staff hereby provides revised pages 7 and 8, which correct the errors referenced above and reflect the revised bill impact of Staff's recalculated surcharge.

Reply - Staff's Reply to the Company's Response

The Procedural Order issued on March 23, 2012, directed that Staff file, by May 4, 2012, any reply to the Company's response to the filed Staff Report. Staff hereby provides notice that it will not be filing a written reply.

SMO:JMM:red

Originator: Jeffrey M. Michlik

Arizona Corporation Commission
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Service List for: Picacho Water Improvement Corporation
Docket No. W-01774A-12-0089

Mr. Hank Homes
President
Picacho Water Improvement Corporation
6240 Monitor Street
PO Box 10
Picacho, AZ 85421

Ms. Janice Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Attachment E is ADOT's current position expressed in three different documents by Pete Mayne, Dallas Hammitt, summarizing an ADOT review of our claims, and confirmed by Pete Mayne. PWIC feels that \$15,000 year for the period of construction is very conservative.

1. Service on \$25,000 loan (\$4,308):

We apologize for providing an incorrect figure. The correct figure is \$3708/year. Attachment F is the loan document from Key Bank. In 2011, Key Bank would not renew this PWIC loan without a guarantor and President Hank Holmes, became the stockholder guarantor for the PWIC Loan. At that time mitigation compensation from ADOT had been promised and seemed eminent, part of which would be used to pay off the loan. That now has changed. The monthly payment, interest and principal is \$309.00 month x 12 = \$3,708.00 year. The loan exists because PWIC has had to divert revenue to respond to ADOT's impact rather than to this loan.

STAFF'S RECOMMENDED EMERGENCY INTERIM RATES AND REVENUE CALCULATION

Since Staff deems the Company insolvent due to insufficient generation of cash flow to meet on-going obligations, the purpose of any authorized emergency rates would be to satisfy the cash flow deficiency until rates can be established in a general rate case. Based on the Company's 2010 reported operating results and analysis of the Company's emergency rate application, Staff has calculated a \$45,888 annualized cash flow deficit, as follows:

Per Annual Report:

Operating Income/(Loss)	\$ (4,385)
Depreciation Expense	1,497
Interest Expense	(3,388)
Principal Repayment	(1,000)
Advance Refunds	<u>0</u>
Cash Flow Per Annual Report	<u>\$ (7,276)</u>

Staff Adjustments:

Cash Flow based on Annual Report (from above)	\$ (7,276)
Interest Expense	\$ 3,388
Principal Repayment	<u>1,000</u>
Adjusted 2010 Cash Flow	(2,888)
Pro forma Lost Revenue	(24,000)
Allowance for incremental I-10 realignment costs	(15,000)
Allowance for Contingencies	<u>(4,000)</u>
Total Annualized Cash Flow Deficiency	<u>\$ (45,888)</u>

As shown in the calculation, Staff removed the debt principal and interest payments because the Company has not obtained Commission authorization for these loans; accordingly, they are invalid. Due to the Company's insolvency, Staff concludes that evaluation of any request for approval of the Company's loans should be conducted within the context of the Company's general rate case that will follow this emergency rate case. Staff's cash flow deficiency calculation reflects the Company's estimate for lost revenue and incremental Interstate-10 realignment costs, as Staff concludes that these estimates are reasonable. The \$4,000 allowance for contingencies recognizes the inability to accurately estimate the incremental costs of the Interstate-10 realignment, as well as potential deviation in other expenses from that experienced in 2010. Staff concludes that the Company's emergency request for Engineering costs related to the Interstate-10 construction and costs to temporarily patch the storage tank should not be included in the emergency rates. Payment of the Engineering costs has not been shown to be urgent, and Staff does not support patching the storage tank until a more comprehensive evaluation of the water system post ADOT construction has been performed.

Staff has examined the Company's current tariff schedule which was approved in Decision No. 55612 and notes that the current monthly charge for a 5/8 x 3/4-inch metered customer is \$14.00 and for a 2-inch metered customer is \$21.00. Staff also notes that the commodity charge is \$1.50 per 1,000 gallons, and no charge for the first 2,000 gallons.

Staff recommends the following emergency interim rate surcharges to provide the cash flow deficiency. The emergency interim rate surcharge should appear as a separate line item on the customer's bill, in addition to the monthly minimum amount and commodity charge. Staff recommends the following surcharge per customer:

5/8 x 3/4-inch metered customer	\$53.12
2-inch metered customer	\$106.24

The surcharge amounts were derived as follows:

Meter Size	Monthly Surcharge	Number of Customer	x 12	Yearly Revenue Amount
5/8 x 3/4-inch	\$53.12	68	12	\$43,346
2-inch	\$106.24	2	12	\$ 2,550
				<u>\$45,896</u>

Staff has prepared a typical bill analysis based on usage of 5,000 gallons per month. Staff did not have billing determinants for calculating the actual average and median usage. Moreover, the existing billing determinants may not be representative of the remaining customers, i.e., usage of the remaining customers may vary from those of the lost customers. A 5/8 x 3/4-inch metered customer using 5,000 gallons would experience a \$53.12 increase, or a 287.14 percent increase, in his/her monthly bill, from \$18.50 to \$71.62, under Staff's recommended interim rates.