

ORIGINAL

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0000139549

September 14, 2012

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2012 SEP 17 AM 9 47

RE: Docket No. W-20475A-12-0143

Dear Brendan Aladi,

I have reviewed the Staff Report for Watco, Inc. and discovered two errors that Watco, Inc. feels should be corrected in the recommended rates.

The test year customer count for 2 inch meters was one; not the Staff reported number of 5. Included as Attachment A is Page 2 from the Staff Report identifying the report of five (5) 2 inch meters and a copy of the 2 inch meter bill count summary submitted with the original application identifying one (1) 2 inch meter. The bill count summary clearly shows 3 bills in the first quarter and 2 bills in the second quarter; these were all accounted for by one (1) 2 inch meter.

Salaries and wages are understated by Staff in the Staff Report. Schedule BCA-3, Page 2 of 11, reports Thomas Grapp's salary as being \$3,279.68 and indicates that only 16 hours per month was attributable to Watco, Inc. Watco, Inc. did not submit any supporting documentation identifying 16 hours per month as being attributable to Watco, Inc. and does not understand the methodology used to determine that amount. Communication with Staff was that Thomas Grapp's salary of \$39,241.14 during the test year was allocated to Watco, Inc. using the same allocation methodology as that applied to Mark Grapp's salary. Watco, Inc.'s response to Brendan Aladi's request submitted to Watco, Inc. on August 23, 2012 clarified this information. Watco, Inc's aforementioned response is included herein as Attachment B. Using Staff's allocation methodology, the portion of Thomas Grapp's salary allocable to Watco, Inc. would be \$20,588.65 ($\$39,241.14 * .524670083 = \$20,588.65$). This will increase Staff's reported salary of \$3,279.68 by \$17,308.97.

Watco, Inc. requests that these issues be addressed and corrected in the Staff Report.

Thank you. Have a great day!

Best Regards,

Thomas Grapp

Arizona Corporation Commission

DOCKETED

SEP 17 2012

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ATTACHMENT A

Customers:

Number of customers in prior test year (12/31/01) 289

Average Number of customers in the current test year (12/31/12): 296

Current test year customers by meter size:

5/8 X 3/4 – inch	291
3/4 – inch	0
1 – inch	0
1 1/2 – inch	0
2 – inch	5 A
4 – inch	0
6 – inch	0

Seasonal customers: N/A

Customer notification for rate application filed: April 14, 2012

Number of customer complaints and/or opinions concerning rate application filed: 5 complaints and 32 opinions opposed to the rate increase.

Summary of Filing

The test year results as adjusted by Utilities Division Staff (“Staff”), for Watco, Inc. (“Watco” or “Company”) show total operating revenue of \$143,460 and an operating loss of \$36,842 for an operating margin that is not meaningful as shown on Schedule BCA-1. The Original Cost Rate Base (“OCRB”) as adjusted by Staff is negative \$73,832.

Watco’s proposed rates would produce total operating revenue of \$250,686 and operating income of \$25,903, for a 10.33 percent operating margin. The Company proposed OCRB is \$243,073. The Company’s proposed rates would increase the typical residential bill,¹ with a median usage of 3,383 gallons, from \$32.53 to \$56.61 for an increase of \$24.07, or 74.0 percent, as shown on Schedule BCA-5.

Staff recommends rates that would produce total operating revenue of \$201,430 and operating income of \$21,128, for a 10.49 percent operating margin. Staff recommends an OCRB of negative \$73,832. Staff’s recommended rates would increase the typical residential bill with a median usage of 3,383 gallons, from \$32.53 to \$40.99 for an increase of \$8.46 or 26.0 percent, as shown on Schedule BCA-5.

¹ 5/8 x 3/4 –inch meter

Company Name: <i>Watco, Inc.</i>	Test Year Ended: <i>December 2011</i>
Meter Size: <i>2"</i>	

BILL COUNT SUMMARY

	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Total
- 0 -					
1 to 1,000					
1,001 to 2,000	1				1
2,001 to 3,000					
3,001 to 4,000					
4,001 to 5,000					
5,001 to 6,000					
6,001 to 7,000					
7,001 to 8,000					
8,001 to 9,000					
9,001 to 10,000					
10,001 to 12,000	1				1
12,001 to 14,000	1	1			2
14,001 to 16,000					
16,001 to 18,000		1			1
18,001 to 20,000					
20,001 to 25,000					
25,001 to 30,000					
30,001 to 35,000					
35,001 to 40,000					
40,001 to 50,000					
50,001 to 60,000					
60,001 to 70,000					
70,001 to 80,000					
80,001 to 90,000					
90,001 to 100,000					
Over 100,000 (List actual gallons, e.g., 120,000)					
Total Bills	<i>A</i> 3	<i>B</i> 2	0	0	5

ATTACHMENT B

August 24, 2012

RE: Docket No. W-20475A-12-0143
Brendan Aladi Request 8-23-12

Dear Brendan Aladi,

The responses to your requests follow:

Please explain why Thomas Grapp is getting \$682.57 in direct salaries and wages attributable to Watco and now he is claiming \$39,241.14.

Watco, Inc. does not know what information Staff is referencing to determine that \$682.57 in direct salaries and wages is attributable to Watco. Further, Watco does not claim that \$39,241.14 is attributable to Watco. The \$39,241.14 is total salaries and wages attributable to all Companies. Watco's portion is allocated the same as other allocable expenses. Per information submitted with the original rate application, the total salaries and wages (this incorporates the Operator, the Vice President of Operations and the President) attributable to Watco is \$63,736.64. Using the total salaries and wages of \$139,828.24, the Operator receives approximately 28%, the Vice President of Operations receives approximately 28% and the President receives approximately 44%. Therefore, the direct salaries and wages attributable to Watco for Thomas Grapp would be approximately \$17,846.26. Additionally, Staff needs to calculate that the documentation submitted with the original application includes Pro Forma Adjustments to Salaries and Wages to more closely align with industry average salaries and wages.

How many active customers did Cedar Grove, Vernon Valley and A. Petersen have during the Test Year (2011)?

Cedar Grove had 378 customers, Vernon Valley had 15 customers and A. Petersen had 45 customers.

Please provide a copy of General Liability Insurance policy to support 2011 expenses. Please explain if the policy also covered Cedar Grove Water Management Company, Watco, Cedar Grove, Vernon Valley and A. Petersen.

Please see Attachment A. Cedar Grove Water Management Company was included in the policy. In Company's response to Staff's Third Set of Data Requests, Company provided an updated schedule identifying costs applicable to Watco; that schedule and documentation provided in the original application are included herein for Staff's convenience.

Does Watco own the vehicle used on operation? If the Vehicle is a personal vehicle, please state if the auto loan payments are included in the transportation cost.

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Watco does not own the vehicle used on operation. The vehicle is owned by Mark Grapp and is leased to the four utilities. The vehicle's sole purpose and use is 100% for the utilities; there is no personal use. Therefore, the entire amount of the lease is applicable to and payable by the water companies.

Thank you. Have an excellent day!

Best Regards,



Thomas Grapp

STAFF ADJUSTMENTS

A -	OTHER WATER REVENUE - Per Company	\$ 1,405	
	Per Staff	1,430	\$25

To reflect computation of other water revenue based on documentation submitted by the Company.

B -	SALARIES AND WAGES - Per Company	\$91,414	
	Per Staff	56,055	(\$35,359)

To reflect Staff's calculation of the allocated portion of officer's salaries using Staff's four-factor allocation methodology and and direct officer's salary expense.

Allocated Salaries and Wages Expense

Mark Grapp	\$	32,554
Thomas Grapp	\$	3,280
Bryan Mullins	\$	20,221
	\$	56,055

Officer Salary (Mark Grapp)			
Per BCA 3.2			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Cedar Grove	\$ 62,046.00	0.383808735	\$ 23,813.80
Watco	\$ 62,046.00	0.524670083	\$ 32,553.68
Vernon Valley	\$ 62,046.00	0.037035166	\$ 2,297.88
A. Petersen	\$ 62,046.00	0.054486016	\$ 3,380.64

Direct Officer's Salary (Thomas Grapp) Expense	
Per BCA 3.2	

Supervision and Management of Company Employees
Review Accounts Payable and Accounts Receivable
Meet with Mgt to adress water plant facilities issues
Project Management

Hours	Worked	
	Per month	
		4
		4
		4
		4
		16
	X	\$204.98
		\$3,279.68

$\text{B } \$39,241.14 / (16 \text{ hrs per month} \times 12 \text{ months}) = \204.38
(2.14)

Employee Salary (Bryan Mullins)			
Per BCA 3.2			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Cedar Grove	\$ 38,540.98	0.383808735	\$ 14,792.36
Watco	\$ 38,540.98	0.524670083	\$ 20,221.30
Vernon Valley	\$ 38,540.98	0.037035166	\$ 1,427.37
A. Petersen	\$ 38,540.98	0.054486016	\$ 2,099.94