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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKET CONTROL

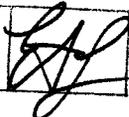
8 IN THE MATTER OF THE APPLICATION  
9 OF PAYSON WATER CO., INC., AN  
10 ARIZONA CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR VALUE  
12 OF ITS UTILITY PLANTS AND  
13 PROPERTY AND FOR INCREASES IN ITS  
14 WATER RATES AND CHARGES FOR  
15 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

Arizona Corporation Commission

DOCKETED

MAR 31 2014

DOCKETED BY 

17 IN THE MATTER OF THE APPLICATION  
18 OF PAYSON WATER CO., INC., AN  
19 ARIZONA CORPORATION, FOR  
20 AUTHORITY TO: (1) ISSUE EVIDENCE  
21 OF INDEBTEDNESS IN AN AMOUNT  
22 NOT TO EXCEED \$1,238,000 IN  
23 CONNECTION WITH INFRASTRUCTURE  
24 IMPROVEMENTS TO THE UTILITY  
25 SYSTEM; AND (2) ENCUMBER REAL  
26 PROPERTY AND PLANT AS SECURITY  
27 FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

INTERVENOR Response PWC Reply Brief  
03/31/14

31 **Reply to Company's Notice Was Adequate:**

32 If approval of the WIFA loan in Phase 1 was not combined and expedited with the Rate Increase of Phase  
33 2, this could have been a much less complicated case. As such, the estimated \$195,000 Regulatory rate  
34 case expense would not be so large and the yearly \$65,000 Reg. rate case expense now added to  
35 Operating Expenses could be much lower. As a customer, Phase 1 has impacted my rate increase and I  
36 should have allowed to be present and Intervene at Phase 1.

37

38

39

1 **Reply to Company's Comments on Management Fees:**

2

3 Mr. Hardcastle swore that PWC's 2011 and 2012 Annual reports were both "correct and complete."  
4 New PWC president says that the 2012 Annual Report is both "incorrect and incomplete." The 2011  
5 PWC Annual Report did not have the Mesa Del Caballo water use data sheet included. Therefore, PWC  
6 2011 Annual Report was also not complete.( SN- Intervenor Brief, March 10, pg.5 lines 14-17.) In fact,  
7 (SN-Intervenor Brief March 10, pg.4, lines 10-17) even the Company's revised 2012 Mesa Del Caballo  
8 water use data shows a **26.6% leakage of 4,685,580 gallons.**

9

10 Mr. Hardcastle was quite aware that he could increase the water supply at Mesa Del Caballo by drilling a  
11 well. From 2010 to 2012, the water pumped at Mesa Del Caballo increased from **7,910 Thousand**  
12 **Gallons (See Exhibit N, SN 2010 PWC Annual Report, pg 104 of 238)** to **13,441 Thousand Gallons** (See  
13 Exhibit P, SN 2012 PWC Annual Report, pg. 216 of 238) a **70% increase** in production. He did this using  
14 Water Sharing Agreements. He was quite aware that many of his customers were drilling wells in Mesa  
15 Del Caballo and were successful pumping water. This solution would be very cost effective and it was  
16 working for others in the community.

17 From 2008 to 2012, PWC averaged spending \$19,783 per year in repairs and maintenance. **(SN-Final**  
18 **March 21 pg. 2, lines 21-23)** They could have used this money for a new well and tanks at both Mesa Del  
19 Caballo and East Verde Park.

20

21 In addition to "incorrect and incomplete" Annual Reports turned in by Payson Water Company, new  
22 company President Jason Williamson swore under oath that his testimony was "the whole truth and  
23 nothing but the truth." But he submitted East Verde Park 2012 revised Total water use data with a math  
24 error to answer the question "Has the Company hauled water out of EVP to deliver elsewhere?"  
25 A. Certainly not since we took over ownership and operation. Nor do I find any evidence that this has  
26 occurred in the recent past. **(SN Brief March 10<sup>th</sup>, pg. 5. Lines 23-24)** reference.

27

28 The intervenors in this case have found incomplete and incorrect information given in Annual Reports  
29 and testimony. The Company uses their inaccurate or incomplete record keeping as justification for  
30 adding \$65,000 Regulation Commission – Rate Case expense to their operating expenses. If the  
31 Company kept accurate and complete records this rate case would not have taken so long.

32

33 Mr. Bourassa, (A-6, pg. 9 lines 12-14) "The Company estimates rate case expense of \$195,000. The  
34 Company proposes that rate case expense be recovered over three years because it believes a 3-year  
35 cycle for future rate cases is reasonable given this utility's circumstances."

1 What circumstances? That it can't keep accurate records? Is Mr. Bourassa implying that the company  
2 will continue to keep inaccurate records and file "incomplete and incorrect" Annual Reports and  
3 testimony that will lead to future protracted rate cases? Payson Water Company customers should not  
4 have to pay increased rates for sloppy record keeping and questionable management practices.

5  
6 See Exhibit A – Reg. Commission Expense. SN looked at the same 46 companies from SN-6. The average  
7 2012 Rate Case Expense for these 46 companies was **\$12,876**. Bella Vista Water Company had a 2012  
8 Rate Case Expense of \$64,998, but Bella Vista WC has revenue of **\$4,523,515**. So their rate case expense  
9 is just 1.4% of Total Revenue, not **20.3% of Total Revenue** as it is for Payson Water Company. Here also,  
10 as with Management Fees or Miscellaneous Expenses, this is a small company spending like it has the  
11 income of a company 10 to 20 times its size.

12  
13 See SN-Exhibit B- Comparing 2000, 2001, 2011, 2012 and Company Adjusted Test Year results.  
14 Miscellaneous Expenses or Management Fees increased from **\$36,067** in 2001 to **\$235,253** Company  
15 2012 test year adjusted Miscellaneous Expenses. Using Future Value = Present Value  $\times (1 + \text{inflation}$   
16  $\text{rate})^t$  where  $t = 11$  years, we get  $235,253 = 36,067(1+r)^{11}$ . Solving for  $r$  the inflation rate or  
17 cost of living adjustment, we get **18.6%**. This shows that Payson Water Company's  
18 Miscellaneous Expenses or Management Fees have risen significantly higher than Mr.  
19 Bourassa's statement in testimony of a 2.8% per year on average inflation adjustment.  
20 (Bourassa Testimony, Vol. I, pg. 126, lines 1-12)

21  
22 The company claims that these Misc. Expenses include management fees not listed  
23 elsewhere. The Company is claiming that billing and customer service fees are  
24 **\$124,578**, legal expenses are **\$10,484**, and other consulting fees are **\$4,500**. Payroll  
25 expenses are **\$22,150**. JW Water Holdings management fee is **\$166,104**. (A-8, Rb Bourassa  
26 p.12.) Although they admit these are estimates since they only took over on June 1,  
27 2013. So they don't actually know what their costs are.

28  
29 If the Company is outsourcing billing and customer service and hiring consultants, what  
30 does management do to earn a management fee of **\$166,104**? (Payson Water Company  
31 customers account for 1114 customers of 2307 total JW Water Holdings customers or a  
32 **48.29%** of these estimated management fees.) (A-8,Rb Bourassa p. 12)

33

1 PWC Customers will pay \$80,208 of this management fee, which is 25% of total revenue.  
2 A management fee of 25% is not reasonable for managers that are not looking for cost  
3 effective solutions to maintaining these aging water infrastructures, they are looking for  
4 ways to increase their asset base in order to justify the highest rates possible.

5  
6 Note also that the Company adjusted the 2012 Total Revenue to \$320,525 which is even  
7 lower than the total revenue of \$337,967 in 2000 before the last rate increase. When  
8 the Company does not significantly improve water infrastructure in 11 years and the  
9 customers are forced to conserve under the water conservation restrictions, the  
10 Company should cut their costs to account for this reduction in usage. Again, the  
11 customers should not be penalized for management's failure to modernize these  
12 systems or budget their expenses.

13  
14 Payson Water Company is budgeting \$235,253 Miscellaneous Expense or Management  
15 Fees to Total 2012 Revenue Company adjusted test year of \$320,525. This is 73.4% of  
16 Total Revenue. This company is clearly not controlling expenses whether they are called  
17 Miscellaneous Expenses or Management fees.

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# Exhibit A

SOURCE: 2012 AZ Corp Commission ANNUAL REPORTS

Company Name	Reg Comm Exp	Rate Case
A.PetersenWC	0	
Abra	2,500	
Adaman Mutual	0	
AguilaW.Service	0	
AntelopeLakesWC	45	
AntelopeWC	46	
Anway_Manville	0	
Appaloosa WC	0	
ArivacaTownsite	0	
Arizona WC	340,063	57,853,832 Total Operating Revenue
Ashfork W.Dev	0	
Ashcreek WC	0	
Aubrey WC	0	
AVM-2005 WC	0	
Avra W. Coop	0	
Beardsley WC	0	
Beaver Dam WC	5,596	
Bella Vista WC	64,998	4,523,515
Bermuda WC	35,183	3,480,316
Berneil WC	0	
Bidegain WC	0	
Big Park WC	0	
Bonita Crk Land&	0	
Boynton CanyonE.	0	
Bradshaw Mtn WC	0	
Bradwhaw WC	273	
Brooke W LLC	0	
Caballeros WC	0	
Cactus Stellar Ltd	0	
Camp Verde WS	0	
Casa Grande S. WC	0	
Casa Grande W. WC	0	
CD Oasis WC	3	
Cedar Grove WC	0	
Cerbat WC	1,404	
Chaparral City WC	107,099	9,119,018
Chaparral WC	0	
Chino Meadows II	10,074	351,868
Cibola Mutual WC	0	
Circle City WC	0	
Citrus Park	0	
Clearwater Utilities	945	
Coldwater Canyon	0	
Commnity WC	24,000	3,866,735
Cordes Lakes WC	0	
CP WC	81	

12,876 Average Reg Comm Expense

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# Exhibit B

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COMPANY NAME **PAYSON WATER COMPANY, INC**

12/31/2012

**COMPARATIVE STATEMENT OF INCOME AND EXPENSE**

2012 2011

**INCOME AND EXPENSE**

Account No	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR
1	Metered Water Revenue	\$ 320,033	\$ 432,029	\$ 314,116	\$ 386,877
2	Unmetered Water Revenue	17,934	17,934	22,523	8,011
3	Other Water Revenues	337,967	445,163	197,939	394,908
4	<b>TOTAL REVENUES</b>	<b>\$ 675,934</b>	<b>\$ 895,126</b>	<b>\$ 534,578</b>	<b>\$ 789,796</b>
5	<b>OPERATING EXPENSES</b>				
6	Salaries and Wages	64,845	104,454	56,986	55,388
7	Purchased Water	2,763	7,252	46,604	51,951
8	Purchased Power	14,704	40,032	60,192	56,482
9	Chemicals	1,667			
10	Repairs & Maintenance	322	19	22,697	27,774
11	Office Supplies and Expense	24,741	36,882	48,624	61,114
12	Contractor Services	2,655	9,671	17,916	11,080
13	Water Testing	2,603	1,855		
14	Transportation Expenses		203		
15	Insurance - General Liability	5,929	5,819	2,814	866
16	Insurance - Health and Life				
17	Reg. Comm Exp - Rate Case	75,490	36,067	211,299	242,525
18	Miscellaneous Expense	47,079	71,607	37,452	61,428
19	Bad Debt Expense	18,457	26,838		
20	Taxes Other Than Income	15,933	25,478	74,322	11,127
21	Property Taxes			582,764	592,977
22	Income Taxes			92,721	139,069
23	Rounding				(1)
24	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 296,894</b>	<b>\$ 385,385</b>	<b>\$ 1,927,211</b>	<b>\$ 1,991,069</b>
25	Operating Income (Loss)	\$ 41,073	\$ 579,212	\$ (1,392,638)	\$ (1,201,273)
26	Interest and Dividend Income				771,571
27	Non-Utility Income			650	114
28	Miscellaneous Non-Utility Expenses			110	114
29	Interest Expense			160	771,557
30	<b>TOTAL OTHER INCOME-(EXPENSE)</b>			<b>\$ 690</b>	<b>\$ 571,488</b>
31	<b>NET INCOME-(LOSS)</b>			<b>\$ (1,392,638)</b>	<b>\$ (1,201,273)</b>

(A)

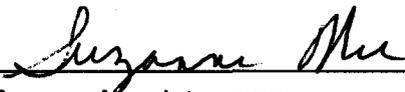
COMPANY TEST YEAR AS FILED

1	REVENUES	\$ 313,559
2	Metered Water Sales	
3	Water Sales - Unmetered	6,966
4	Other Operating Revenues	320,525
5	<b>Total Revenues</b>	<b>\$ 341,550</b>
6	EXPENSES	
7	Salaries and Wages	55,097
8	Employee Termination & Benefits	
9	Purchased Power	50,533
10	Fuel for Power Production	
11	Chemicals	2,181
12	Repairs and Maintenance	28,089
13	Office Supplies & Expense	
14	Contractor Services	58,481
15	Water Testing	11,080
16	Rents	
17	Transportation Expenses	
18	Insurance - General Liability	266
19	Insurance - Health and Life	
20	Reg. Comm Exp	
21	Reg. Comm Exp - Rate Case	65,000
22	Miscellaneous Expense	216,253
23	Bad Debt Expense	
24	Depreciation Expense	85,812
25	Taxes Other Than Income	
26	Property Taxes	210,830
27	Income Taxes	(109,557)
28	Rounding	(1)
29	<b>Total Operating Expenses</b>	<b>\$ 503,004</b>
30	Operating Income (Loss)	\$ (162,479)

% Total Revenue  
20.3%  
73.4%

1 Respectfully submitted this 31st day of March 2014.

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By   
Suzanne Nee, Intervenor  
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10 **ORIGINAL** and thirteen (13) copies  
11 of the foregoing were filed this 31st  
12 day of March, 2014 with:

13  
14 Docket Control  
15 Arizona Corporation Commission  
16 1200 W. Washington Street  
17 Phoenix, AZ 85007

18  
19 **COPY** of the foregoing was mailed  
20 this 10th day of March, 2014 to:

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