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9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 **COMMISSIONERS**

11 BOB STUMP, CHAIRMAN
12 GARY PIERCE
13 BRENDA BURNS
14 SUSAN BITTER SMITH
15 BOB BURNS

16 **ORIGINAL**

Arizona Corporation Commission

DOCKETED

MAY 12 2014

DOCKETED BY 

17 IN THE MATTER OF THE APPLICATION
18 OF TRUXTON CANYON WATER
19 COMPANY, INC. FOR APPROVAL OF A
20 RATE INCREASE.

DOCKET NO. W-02168A-11-0363

21 IN THE MATTER OF THE APPLICATION
22 OF TRUXTON CANYON WATER
23 COMPANY, INC. FOR APPROVAL OF A
24 REVISION OF THE COMPANY'S
25 EXISTING TERMS AND CONDITIONS OF
26 WATER SERVICE.

DOCKET NO. W-02168A-13-0309

27 IN THE MATTER OF THE APPLICATION
28 OF TRUXTON CANYON WATER
COMPANY, INC. FOR AUTHORITY TO
INCUR LONG-TERM DEBT.

DOCKET NO. W-02168A-13-0332

**POST HEARING RESPONSIVE
BRIEF**

Truxton Canyon Water Company, Inc. ("Company" or "Truxton") hereby files its
post hearing responsive brief.

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1 **1.0 Preliminary Statement**

2 The parties' positions remain the same on almost every issue. Therefore, Truxton
3 herein adopts its position set forth in its closing brief and at the hearing. Though it is still
4 seeking a rate increase, the Company is concerned about the dire consequences of a rate
5 decrease as proposed by Staff and reiterates that reducing the rates will have a
6 catastrophic impact on Truxton and the community. Therefore, as a middle ground, the
7 Company continues to suggest as one possibility the "do no harm" approach and leave
8 the rates as they currently stand.
9
10

11 **1.1 Staff's Position**

12 The last test year used to set Truxton's current rates was 1999. Fifteen years later,
13 Staff wants to reduce the Company's rates by 22%. This follows the reduction in
14 VVPOA's rates already enacted. Staff asserts the Company can serve 924 customers,
15 including a large golf course, park, and amenities for less than \$500,000 in revenue. This
16 means the typical residential user would pay less than \$20.00 a month for water service.
17 See S-3, Direct Testimony of Crystal Brown, at p. 4. In 2014, this is clearly too low to be
18 sustainable and will break both Truxton and the community.
19
20
21

22 **1.2 VVPOA's Position**

23 The irony is not lost upon Truxton that throughout this proceeding VVPOA's
24 leaders continuously bemoan that it is barely scraping by to operate a golf course and
25 swimming pool with revenues approaching \$1,200,000.00. See VVPOA's Closing Brief
26 at p. 7. Meanwhile, they argue Truxton should be required to meet all of its water
27 demands, as well as those of all residents in the community, for less than \$500,000. Put
28

1 another way, VVPOA understands it needs \$1,200,000.00 to provide water-intense
2 recreational activities in one of the driest areas in Arizona. Yet, it expects the water
3
4 Company to meet all of the golf course demands as well as those of every home and
5 business in Truxton for approximately 60% less.

6 The people of VVPOA clearly do not understand the perilous position that
7
8 Truxton is being placed. The Company cannot function if VVPOA's rates are reduced
9 once again from \$1.70/\$1.90 to \$1.20 per thousand gallons for the golf course and
10 residential rates drop by more than 22%. The self-proclaimed "glittering jewel in the
11 desert" will suffer a catastrophic drought due to the fact that Truxton will not be able to
12 pay its bills or make necessary repairs.

14 **2.0 Revenue Requirement**

15 If adopted, Staff's position would devastate Truxton and the community it serves.
16
17 Staff makes two critical expense adjustments that will leave the Company destitute.
18 Overall, according to Staff, the general ledger shows \$356,554 in expenses relating to
19 management and water purchases. See Staff's Closing Brief at p. 14 (\$146,205 +
20 \$210,349). Truxton's 2012 Test Year application sought \$413,692 for these expenses.
21 See *id.* (\$147,409 + \$266,283). These numbers are not too far apart (\$57,138), especially
22 when you consider that the Company's \$266,283 for outside services included all outside
23 services, not just management.
24
25

26 But instead of recognizing nearly none of these costs for management and
27 purchased water, Staff applies legal arguments to justify disallowing these expenses.
28 Staff reduced purchased water to \$0.00 and outside services by \$202,891. Staff's

1 position is that it discounted purchased water expense because it assumed the Trust
2 Facilities have been transferred to the Company. As we all know, this assumption is
3 incorrect. The Company understands that if the Trust Facilities are transferred for value
4 (i.e., not for free as proposed by Staff and VVPOA), then adjusting the \$147,000 in
5 purchased water expense might be appropriate. Otherwise, there must be revenue
6 sufficient to purchase water from the Trust.
7
8

9 Staff's position regarding management fails to recognize that these are expenses
10 necessary to operate and maintain the system. While it is true that the 2011 application
11 prepared by Sonn Rowell did make a pro forma adjustment considering the management
12 agreement cancelled as requested by Staff, the 2012 application that Staff demanded
13 showed the actual costs. Staff should not be able to pick and choose between the two
14 applications because they are completely different. Further, the expenses were
15 documented and explained despite Staff's arguments to the contrary. Staff seems to take
16 issue with the fact that the receipts for management do not go into detail of work, but
17 rather are based upon a monthly charge per connection. *See id.* at 19. However, this is
18 exactly what the Commission approved Truxton's last rate case. *See Decision No. 63713*
19 at p. 4.
20
21
22

23 **3.0 Transfer of Trust Facilities.**

24 The position that the Trust must give the Trust Facilities to Truxton for no value is
25 irrational. The Commission, a branch of the State of Arizona, is demanding that these
26 assets be given to Truxton. The Trust Facilities include, but are not limited to, six wells,
27 a 500,000 gallon underground storage tank, a 40,000 gallon storage tank, and 15 miles of
28

1 14-16 inch transmission lines. To argue that this equipment has no value is obviously
2 wrong.

3
4 Despite assertions to the contrary, the Company established a market value for the
5 Trust assets. Using replacement value methodology, the market value established for
6 these facilities is \$11,532,385. *See Exhibit A-7, Schedule 1 of Matt Rowell's Rejoinder*
7 *Testimony.* But knowing the ACC would not agree to such a high cost, the Trust agreed
8 to transfer the facilities to the Company for \$1.4 million. *See Exhibit A-5 Testimony of*
9 *Rick Neal at p. 2.*

10
11 Meanwhile, Staff simply assumed that Trust Facilities have no value. *See id.,*
12 *Testimony of Matthew Rowell at p. 3.* Staff has never assigned any value to the Trust
13 Facilities. Requiring the Trust to transfer its assets to the Company under such terms is a
14 taking without compensation by the State of Arizona.

15
16 Truxton's position is clear. The Company is willing to purchase the Trust
17 Facilities for \$1.4 million as sought by the Trust. If the Commission does not believe this
18 is a reasonable approval, then Truxton is willing to continue to purchase water from the
19 Trust.
20
21

22 **4.0 Financing Improvements.**

23 Truxton has asked for financing to address three water supply issues. First, the
24 Company wants to install an arsenic treatment plant. Based upon its brief, it appears as
25 though Staff is now recommending the ACC approved financing of up to \$199,800 to
26 construct the arsenic treatment facilities, which is consistent with Truxton's estimate of
27 \$193,625. *See Staff's Initial Closing Brief at p. 26.*
28

1 On the other hand, Staff recommends denial of financing for the proposed
2 transmission line replacement. This means the Company cannot afford to replace the
3 portion of the transmission line that leaks the most. Ironically, Truxton proposed this
4 improvement to meet Staff's demands that the Company address its water loss situation.
5 So if Staff now believes that replacing transmission lines to reduce water loss is no longer
6 necessary, the Company will comply with Staff's position.
7

8
9 Similarly, Staff recommends denial of financing to convert the Hualapai 1 Well to
10 electric power. The Company is seeking to convert its gas powered pumps to electric
11 power, which will cost approximately \$127,000. See Exhibit A-6, Rejoinder Testimony
12 of Rick Neal, p. 3, lns. 15-27. Staff's position is that the Company did not ask to finance
13 electric pumps, and the Company asserts that it is broke, so it cannot finish the project.
14 Therefore, Staff wants the Commission to deny all financing for this project. See Staff's
15 Initial Closing Brief at p. 24-25.
16
17

18 Truxton questions why Staff has taken such a hard-line position. The uncontested
19 testimony in this docket is that that diesel engines at Hualapai are not reliable,
20 replacement parts are no longer available, the engines are very likely to fail this summer,
21 and neither the Trust nor the Company has the money to make the necessary repairs. *Id.*
22 The predictable outcome is that water shortage issues are going to arise.
23
24

25 If Staff thinks that Truxton has not asked for enough money, then it should
26 recommend that the financing approve more money for this project. This would be very
27 easily accomplished here by simply approving the \$419,208 requested by the Company
28 to include purchase of electric motors. The Company also suggests that the Commission

1 could allow this funding to be used to construct actual electric power lines to the
2 Hualapai Well 1 system rather than installing electric generators.

3
4 **5.0 Interim Manager.**

5 Truxton asserts that the appointment of an interim manager here is inappropriate.
6 Staff asserts that the Commission should continue to authorize the appointment of an
7 interim manager. Staff cites Truxton's lack of compliance with ADEQ and ACC rules as
8 the reason for its position.
9

10 As it has maintained throughout these proceedings, Truxton would like to achieve
11 compliance with both agencies, but it is impossible to do so without proper funding. For
12 example, Truxton wants to construct an arsenic treatment plant, but the financing
13 application is still under consideration. Truxton wants to fix leaking pipelines, but Staff
14 does not recommend financing of this project. Truxton seeks to transfer the Trust's water
15 system to the Company, but Staff does not support any payment for this transfer.
16
17 Meanwhile Staff's recommended rates will ensure that Truxton cannot function on a
18 daily basis. Truxton's issues are not caused by a lack of competent management; they are
19 caused by a lack of revenue and financing ability. Staff's proposals will make the
20 situation catastrophically worse.
21
22

23 **6.0 Trust Is Not a Public Service Corporation.**

24 Although the Trust is not a party to this proceeding, the court required the parties
25 to address whether or not the Trust is a public service corporation. Truxton asserts the
26 Trust is not a public service corporation. Staff "is not recommending that the
27 Commission determine that the Trust is a public service corporation as part of this
28

1 proceeding.” Staff’s Initial Closing Brief at p. 38. VVPOA “does not believe there is
2 sufficient evidence in the record to determine whether the Trust is acting as a ‘public
3 service corporation....” VVPOA’s Closing Brief at p. 29. Therefore, the court should
4 find that either the Trust is not a public service corporation or the issue is beyond the
5 scope of this proceeding.
6

7
8 RESPECTFULLY SUBMITTED this 12th day of May, 2014.

9 **MOYES SELLERS & HENDRICKS LTD.**

10 

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14 Original and thirteen (13) copies
15 of the foregoing filed this
16 12th day of May, 2014 with:

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21 Copy of this foregoing mailed this
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