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MEMORANDUM
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TO: Docket Control

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FROM: Steven M. Olea
Director
Utilities Division

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

AUG 22 2014

DATE: August 22, 2014

DOCKETED BY

RE: **STAFF REPLY TO DATELAND PUBLIC SERVICE COMPANY, INC.'S
OBJECTIONS TO THE STAFF REPORT (DOCKET NO. W-02027A-13-0470)**

On July 3, 2014, Dateland Public Service Company, Inc. ("DPSC" or "Company") filed objections to eight of the eleven recommendations of the Staff Report dated June 23, 2014. Pursuant to the Procedural Order dated July 30, 2014, Staff submits its Reply to the Company's objections. Following are the Staff recommendations the Company objected to, the Company's objections and Staff's replies.

Staff Recommendation No. 2 The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Company Objection: DPSC does not understand why it is ordered to file with Docket Control a tariff schedule of its new rates and charges since these items are set by the Arizona Corporation Commission ("ACC" or "Commission") and will be part of this docket package. DPSC will use the Commission's rates and charges as reported to our customer's in the "special mailing" requirement of the Commission, or the final rates that the Commission establishes. DPSC has only one part time employee and would like this tariff to be removed as a requirement.

Staff Reply: Staff believes that the Company should be responsible for submitting new tariffs with its approved rates since the Company needs to incorporate these new rates into its billing system. However, at the Commission's discretion, Staff could file new tariffs reflecting DPSC's newly-approved rates and charges.

Staff Recommendation No. 4 The Company provide a copy of all annual audit reports provided to the United States Department of Agriculture ("USDA") as required by that agency within 30 days from the date the report is submitted to the USDA.

Company Objection: DPSC does not agree that we should provide a copy of all annual audit reports that are provided to the USDA. DPSC and USDA are under contract with each other and these contracts are between these two parties. DPSC has provided written authorization allowing the Commission to review the file and feel that this is sufficient. DPSC's file can be reviewed annually by the Commission staff if necessary but notification should not be required.

Staff Reply: Staff is not privy to notices and correspondence between the Company and the USDA. As a result, Staff has no way of knowing when an audit report is filed, and it may miss receiving and reviewing important reports. Providing copies of such reports to Staff should not be burdensome on the Company.

Staff Recommendation No. 5 The Company be ordered to obtain qualified assistance to create an accounting system in compliance with National Association of Residential Utility Commissioners (“NARUC”) Uniform System of Accounts (“USOA”). The system shall include a general ledger, a journal and financial statements, as well as an inventory of plant and the depreciation and amortization schedules recommended herein. Within 180 days of the effective date of a decision in this proceeding, the Company will file as a compliance item in this docket a report detailing the results of its efforts to create a viable accounting system.

Company Objection: DPSC has purchased the RVS Mosaics computer program that prepares the monthly billing and this has been in service since November 2012. DPSC has purchased the Quicken home and business and this program has been in service starting January 1, 2014. DPSC feels that these programs meet the uniform system of accounts. DPSC is unable to purchase additional software programs at this time, and feel that the programs in service meet the needs of our small utility system. DPSC has provided the Commission with an updated inventory with our rate request for the year ending 2012. DPSC provides updates on an annual basis (sic) per the annual filings. DPSC feels this is sufficient. DPSC believes that the current billing and accounting programs are viable accounting systems. It would be a financial burden upon DPSC to replace our current accounting systems and to hire this done would require funds that are not available to us.

Staff Reply: All Company reporting should comply with the NARUC USOAs, as required by Rule R14-2-411(D)(2). Staff found that the Company’s Application and Annual Reports are filled with errors and inaccurate financial representations. Although the Company’s recent Rate Application was deemed Sufficient, it did not accurately present the financial position of the Company, and the Company could not produce a general ledger.

If the accuracy and completeness of the financial information submitted to support subsequent rate filings and the financial data contained in future required reports do not improve, the review and processing of such documents will be problematic. Future rate applications may be deemed insufficient.

Staff Recommendation No. 6 The Company file a rate case no later than June 1, 2018, with a test year ending in 2017.

Company Objection: DPSC does not want to commit to this request. Although this is a good request and rate increases are necessary in the future, we do not want to commit to an exact date. DPSC will file for the next rate increase when the funds are available to hire this task done and when our community can bear additional financial responsibility. DPSC has also been considering

becoming a DWID and this is still on the table with our Board of Directors. We have not moved forward because of the time involved and our Operation's Manager is a part time employee. Because of the time spent with the USDA grant process still (sic) item has not been fully researched but DPSC believes that becoming a DWID may be in our best interest in the near future.

Staff Reply: The Company has provided a very fluid picture of its expected operating expenses over each of the next few years, and Staff believes that close monitoring of these expense levels is critical to assuring that the Company's rates remain fair and reasonable to both the Company and to ratepayers. The Company's plant, particularly the reverse osmosis ("RO") system and the solar system, are technically complicated and costly to repair. Further, three years is a reasonable and typical length of time between rate cases and Staff's recommendation reflects a five year span between the test years. Also, the Company is not precluded from filing earlier if it deems necessary.

Staff Recommendation No. 7 The Company work with utility plant vendors to develop and adopt a verifiable plant maintenance and replacement schedule. The schedule will include cost estimates and a maintenance and replacement schedule for the next five years. The Company should use this system in planning and managing ongoing operations. Within 180 days of the effective date of this Decision, the Company should file the maintenance and replacement schedule as a compliance item in this docket.

Company Objection: DPSC cannot meet this request. This information has been provided to the Commission with the 2012 rate increase documentation. DPSC will use the staff's calculations and the estimated replacement costs and maintenance sheet will be corrected based upon ACC staff recommendations. DPSC does not have the funds to hire plant vendors to develop and adopt a verifiable plant maintenance and replacement schedule. The schedule that was provided to ACC is based upon all of the equipment that was purchased and the estimated life based upon vendor warranties. This would be a financial burden upon DPSC to pay outside vendors to meet this request. Part of the USDA requirements was that our water operator be trained on all of the equipment, which was done. Also all vendors provided operational and maintenance manuals which are being used at this time. DPSC does not feel that money should be spent to hire this work to be done or that we should have this as a compliance item in our docket.

Staff Reply: Schedules in the Application are unsubstantiated. Development of such schedules need not require excessive manufacturer or vendor input. The maintenance schedule is needed to plan ongoing operations, and it is important due to the recent large addition of sophisticated plant.

Staff Recommendation No. 8 The Company monitors its water system and submits the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. 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. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

Company Objection: DPSC is currently monitoring its water system and annual gallons pumped and sold are reported annually to the Commission. Currently maintenance reports for the equipment and for the well meters are maintained daily and/or monthly. These reports were established by the RO vendor (Doosan) and these reports are available on site. DPSC cannot reduce its water loss to 10% or less. The water in our aquifer has high levels of Fluoride and Arsenic and the pre-treatment and RO Systems were designed to meet our water contamination needs. Our RO loses 18% to 20% in the treatment process. This could probably be reduced to 15% if the RO membranes were changed annually but this would be too large of a financial burden on DPSC. DPSC is unable to meet the request for a detailed analysis and plan to reduce water loss to 10% or less since our treatment process cannot be adjusted to a 10% loss. DPSC was out of compliance with the Safe Drinking Water Act and that is one of the reasons the USDA granted the funds to replace/improve the treatment plant. DPSC does not believe that funds would be provided by the USDA to replace our treatment system at this time. DPSC is not financially able to replace our treatment system. The Hero system had been considered in the initial evaluation based on engineering reports, USDA funds available, and the water testing reports, but the price tag was around one million dollars and USDA funds were not available. Our current RO system proved to be the best viable answer given all of the above factors.

2012 Water Use data sheet shows 15,971,501 gallons pumped and 9,984,132 gallons sold for a loss of **5,987,369**.

(DPSC has explained this additional water loss was a condition of construction.) Also our old RO system had a loss rate of 33% and this RO was being used up to the time the new RO became operational which was approximately 6 months of 2012.

2013 Water Use data sheet shows 14,077,906 gallons pumped and 10,207,750 gallons sold for a loss of **3,870,156**.

DPSC has grown from a small one acre site to a four acre site. Yuma planning made us plant trees and scrubs around the entire four acre site as a barrier. These trees and scrubs (approximately 100) are maintained on a watering system that waters (each of 4 sections) approximately one hour daily for about 12,000 gallons per month. Also we have as part of our maintenance program the regeneration of the softeners (with brine water) at about 4,000 gallons per month. Rinse/backwash about 4,000 gallons per month. GAC pre-treat tanks approximate 4,000 per month. RO pre/post rinse cycle requires around 3,600 gallons per month. Also considered is the power cleaning of our solar panels, storage tanks, building, etc. DPSC estimates 35,000 per month is our maintenance programs or 420,000 annually. We estimate RO reject to be around 182,700 per month or 2,192,400 annually.

DPSC does not want this to be docketed as a compliance item. We feel that it is impossible to meet a 10% loss rate and DPSC is not financially able to replace our treatment system.

Staff Reply: Staff's position is unchanged.

Staff Recommendation No. 9 The Company keep records on any non-account water used for legitimate purposes such as the water used for water treatment system operation, dust control, distribution system flushing, etc.

Company Objection: DPSC has listed these items in answer 8 above.

Staff Reply: Staff's Recommendation No 9 has not changed based on the additional information filed by the Company on July 3, 2014. Reverse osmosis system losses should be monitored and recorded as water used for legitimate purposes.

Staff Recommendation No. 10 The Company be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three Best Management Practices ("BMP") in the form of tariffs that substantially conform to the templates created by Staff, available at the Commission's website, for the Commission's review and consideration. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

Company Objection: BMP 5.2 tariff in Exhibit A concerning conservation of groundwater, DPSC feels is already existing in the Arizona Administrative Code R14-2-410. A list of all of the Arizona Administrative Codes are available for review by its customers.

BMP 3.7 tariff cannot be managed by a part time operation's manager and a part time water operator. This would be too costly for DPSC to implement.

Public Education Program Tariff cannot be implemented by DPSC at this time. While it is our desire to establish education tours of our treatment facility explaining the need to conserve water DPSC does not have Staff available that can produce two newsletters per year at this time. DPSC has "free" water conservation materials available for our customers and it is provided when requested. Since DPSC does not have a public office, a public library, a chamber of commerce, or community events, this cannot be implemented. This tariff would involve additional Staff that is not available to us because of our current budget.

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DPSC does not feel that it can implement the BMP tariffs (BMP 3.7, BMP 5.2 and Education Program Tariff) at this time due to the financial hardship these tariffs would impose.

Staff Reply: The Company accepted the 3 BMPs recommended by ACC Staff on March 13, 2014. (See email dated March 13, 2014 hereto attached as Exhibit A.)

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Originator: Jorn L. Keller

Service List for: Dateland Public Service Company, Inc.
Docket No. W-02027A-13-0470

Ms. Michelle Lane,
Operations Manager
Dateland Public Service Co., Inc.
PO Box 3011
Dateland, Arizona 85333

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

Jian Liu

From: DONALD LANE <getaholdofus@wildblue.net>
Sent: Thursday, March 13, 2014 10:14 AM
To: Jian Liu
Subject: Re: Dateland Public Service --- rate application -BMPs

Jian: For Dateland Public Service Company Inc,I represent the Board of Director's in the position of the Operation's manager , and I accepted the 3 BMT's recommended by ACC staff.

On Thu, Mar 13, 2014 at 10:01 AM, DONALD LANE <getaholdofus@wildblue.net> wrote:

Jian: I have faxed over all of the tariffs along with a letter of our policies. If you need additional information please let me know. Regards, Michelle

On Wed, Mar 12, 2014 at 10:07 AM, Jian Liu <JLiu@azcc.gov> wrote:

Hi Michelle,

For your rate application, Staff recommends that the Company be required to file at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff.

Please read all attached files, and let me know if it is ok.

Thanks,

Jian W. Liu, PE

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