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2015 FEB 11 P 3: 55
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
FEB 11 2015

Attorneys for Navajo Water Co., Inc.

DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

6 IN THE MATTER OF THE APPLICATION
7 OF NAVAJO WATER CO., INC., AN
8 ARIZONA CORPORATION, FOR A
9 DETERMINATION OF THE FAIR VALUE
10 OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03515A-14-0304

RESPONSE TO STAFF REPORT

ORIGINAL

11
12 Navajo Water Co., Inc. ("Company") hereby responds to the Staff Report filed in
13 the above-captioned matter. Generally, the Company accepts the adjustments and
14 recommendations made by Staff. However, there are some recommendations that Staff
15 has made that the Company believes are either (1) based on an error or (2) inappropriate,
16 in that such adjustments would contribute to rates below the level necessary to provide
17 the Company with a reasonable opportunity to earn a fair return on its rate base.
18 The recommendations with which the Company disagrees are discussed below.

19 **Disputed Recommendation - Salaries & Wages Expense**

20 Staff's Adjustment A decreases salaries and wages expense by \$15,738, from
21 \$15,738 to \$0, as shown on schedule BAB-3, pages 1 and 2. Staff reasoned that because
22 salaries and wages are included in the administrative fee of \$13.31 per customer per
23 month charged as an outside service, including an allocation for salaries would result in
24 a "double counting" of these expenses.¹ Staff is in error.

25
26 ¹ Staff Report at 7.

1 While the Company has no direct employees, operations personnel employed by
2 JW Water (“JWW”) record on timesheets the actual time they spend operating each of
3 the JWW systems, including the Company as well as Payson Water Co. and Tonto Basin
4 Water Co. As such, the test year salary expense reflects the actual hourly wages for
5 operations, and the management contract between JWW and the Company does not
6 cover or include direct operations expense. The monthly management fee of \$13.31 per
7 customer per month includes management salaries only. The decrease in salaries and
8 wages expense of \$15,738 is not duplicative and should not have been deducted from
9 the Test Year revenue requirement as doing so would leave the Company unable to pay
10 its operators.

11 **Disputed Recommendation – Property Tax Expense**

12 Property Taxes – Adjustment H decreases property tax expense by \$1,549, from
13 \$4,239 to \$2,690, as shown on schedule BAB-3, pages 1 and 4. This adjustment reflects
14 Staff’s recalculation of property tax expense.² The Company has found that Staff’s
15 property tax expense is understated because Staff used an incorrect effective property
16 tax rate of 7.326 percent.³ The correct effective property tax rate is 11.6386 percent.
17 **Exhibit 1** shows the computation of the effective property tax rate. **Exhibit 2** shows the
18 correct computation of the property tax rate using Staff’s proposed revenues.⁴
19 The Company’s utility accountant, Tom Bourassa, has contacted Staff and explained his
20 findings.

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23 ² Staff Report at 8.

24 ³ See Staff Report at Schedule BAB-3.

25 ⁴ A correction to the property tax expense will also mean a correction to the Staff
26 proposed revenue increase and revenue requirement, as other things remaining equal.
The computation in **Exhibit 2** does not reflect these changes.

1 **Disputed Recommendation – Implementation of BMPs**

2 Staff recommends approval of the five Best Management Practices (“BMPs”)
3 included in Attachment A to the Staff Report.⁵ Staff further recommends that the
4 Company notify its customers, in a form acceptable to Staff, of the BMP tariffs
5 authorized in this proceeding and their effective date by means of either an insert in the
6 next regularly scheduled billing or by a separate mailing and shall provide copies of the
7 BMP tariffs to any customer, upon request.⁶ Staff’s BMP recommendation should be
8 rejected in its entirety.

9 The Company is not located within an Active Management Area, therefore, Staff
10 recommends that the Commission impose requirements that are not otherwise required
11 by the Department of Water Resources. Moreover, the Company is a very small water
12 company struggling to pay its bills. It does not have the extra revenue available to fund
13 Staff’s recommended Commission-imposed water conservation rules. It is not sufficient
14 to allow the Company to recover these costs in some future rate case, as Staff
15 recommends.⁷ This is a Class E water utility with less than \$250,000 in annual
16 revenues.

17 In summary, the Commission has been consistently rejecting recommendations
18 by Staff to impose BMPs on regulated water providers for reasons that include, among
19 other reasons, overregulation and cost.⁸ The Commission should do so again in this rate
20 case.

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22 _____
23 ⁵ Staff Report at 10.

24 ⁶ Staff Report at 10.

25 ⁷ Staff Report at 10.

26 ⁸ *E.g., Pima Utility Company*, Decision No. 73573 (Nov. 21, 2012) at 37; *New River Utility Company*, Decision No. 74294 (Jan. 29, 2014) at 63-65; *Lago Del Oro Water Company*, Decision No. 74564 (June 20, 2014) at 22-23.

1 **Disputed Recommendation – New Storage Capacity**

2 Staff recommends that the Company file with Docket Control as a compliance
3 item in this docket, within three months of the effective date of the order in this matter,
4 a replacement plan for its Summer Pines gallon storage tank.⁹ Staff further recommends
5 that the Company file with Docket Control as a compliance item in this docket, within
6 six months of the effective date of the order in this matter, a copy of the ADEQ
7 Approval of Construction for the Summer Pines new storage tank with a minimum
8 capacity of 40,000 gallons.

9 The Company agrees that the storage tank currently in service in Summer Pines
10 will soon require replacement. However, Staff does not propose any financial
11 mechanisms in their recommendation to pay for this costly upgrade, and the Company
12 cannot fund this upgrade along the recommended timeline without causing financial
13 distress. As such, the Company proposes a phased-in plan for the storage tank as
14 follows:

- 15 ○ File with Docket Control as a compliance item in this docket, within
16 six months of the effective date of the order in this matter, a replacement
17 plan for its Summer Pines gallon storage tank.
- 18 ○ Install phase one within nine months of the effective date of the
19 order. Phase one would include 20,000 gallons of storage, operating in
20 conjunction with the existing storage tank as a temporary measure.
- 21 ○ Install phase two within 18 months of the effective date of this order.
22 Phase two would include an additional 20,000 gallons of storage, and
23 removal of the existing tank, and receipt of the final ADEQ approval.

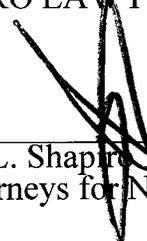
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⁹ Staff Report at 10.

1 The Company's proposed plan would also allow the Company to apply to WIFA for an
2 engineering design assistance grant for the plans and specifications necessary to apply to
3 ADEQ for the necessary approvals. This is one additional benefit and the Company
4 requests that its plan for storage capacity improvements be approved instead of Staff's
5 plan.

6 RESPECTFULLY SUBMITTED this 11th day of February, 2015.

7 SHAPIRO LAW FIRM, P.C.

8
9 By 
10 Jay L. Shapiro
11 Attorneys for Navajo Water Co., Inc.

12 **ORIGINAL** and thirteen (13) copies
13 of the foregoing were filed
14 this 11th day of February, 2015, with:

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

19 **COPY** of the foregoing was hand-delivered
20 this 11th day of February, 2015, to:

21 Teena Jibilian, ALJ
22 Hearing Division
23 Arizona Corporation Commission
24 1200 W. Washington Street
25 Phoenix, AZ 85007

26 Robin Mitchell
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

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COPY of the foregoing was e-mailed
this 11th day of February, 2015, to:

Robert T. Hardcastle
Brooke Utilities, Inc.
P.O. Box 82218
Bakersfield, CA 93380

By: Walter Burk

EXHIBIT 1

Navajo Water Company

Exhibit 1

Computation of Effective Property Tax Rate based on 2013 Property Taxes

Tax Identification Number	Full Cash Value	(a) Assess- ment Ratio	Assess. Value	Property Tax	Property Tax Rate
919-91-000 3	\$ 37,636	19.50%	\$ 7,339	872	11.8844%
919-91-005 8	\$ 22,166	19.50%	\$ 4,322	511	11.8282%
919-91-070-6	\$ 172,199	19.50%	\$ 33,579	3,882	11.5604%
					0.0000%
Utility Plant	<u>\$ 232,001</u>	<u>20%</u>	<u>\$ 45,240</u>	<u>5,265</u>	<u>11.6386%</u>

Hard Copy

Navajo County Treasurer

Owner

Thursday, August 14, 2014

Manny Hernandez

P.O. Box 668

Holbrook, AZ 86025-0668

Phone:(928) 524-4172, Fax:(928) 524-4211

ncto@navajocountyaz.gov

NAVAJO WATER COMPANY INC RO

P O BOX 82218
BAKERSFIELD CA 93380

Parcel ID: 919-91-000

Figures below based on 08/14/2014

Year	Roll #	Status	Taxes	CP Amount	Fee(s)	Interest	Payments	Balance Due
2013	85756	Tax	\$872.20	\$0.00	\$0.00	\$0.00	\$872.20	\$0.00
2012	85732	Tax	\$793.42	\$0.00	\$0.00	\$0.00	\$793.42	\$0.00
2011	86306	Tax	\$791.72	\$0.00	\$0.00	\$0.00	\$791.72	\$0.00
2010	85861	Tax	\$825.34	\$0.00	\$0.00	\$0.00	\$825.34	\$0.00
2009	85533	Tax	\$837.26	\$0.00	\$0.00	\$0.00	\$837.26	\$0.00
2008	2	Tax	\$791.82	\$0.00	\$0.00	\$0.00	\$791.82	\$0.00
2007	82636	Tax	\$760.82	\$0.00	\$0.00	\$5.14	\$765.96	\$0.00
2006	80289	Tax	\$908.54	\$0.00	\$0.00	\$0.00	\$908.54	\$0.00
2005	78665	Tax	\$970.84	\$0.00	\$0.00	\$90.78	\$1,061.62	\$0.00
2004	77808	Tax	\$895.34	\$0.00	\$0.00	\$0.00	\$895.34	\$0.00
2003	76720	Tax	\$807.26	\$0.00	\$0.00	\$0.00	\$807.26	\$0.00
2002	75811	Tax	\$754.72	\$0.00	\$0.00	\$0.00	\$754.72	\$0.00
2001	75165	Tax	\$540.78	\$0.00	\$0.00	\$0.00	\$540.78	\$0.00
2000	73353	Tax	\$847.46	\$0.00	\$0.00	\$0.00	\$847.46	\$0.00
			\$11,397.52	\$0.00	\$0.00	\$95.92	\$11,493.44	\$0.00

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Navajo County Treasurer

Owner

Thursday, August 14, 2014

Manny Hernandez

P.O. Box 668

Holbrook, AZ 86025-0668

Phone:(928) 524-4172, Fax:(928) 524-4211

ncto@navajocountyaz.gov

NAVAJO WATER COMPANY INC RO

P O BOX 82218
BAKERSFIELD CA 93380

Parcel ID: 919-91-005

Figures below based on 08/14/2014

Year	Roll #	Status	Taxes	CP Amount	Fee(s)	Interest	Payments	Balance Due
2013	85757	Tax	\$511.26	\$0.00	\$0.00	\$0.00	\$511.26	\$0.00
2012	85733	Tax	\$472.44	\$0.00	\$0.00	\$0.00	\$472.44	\$0.00
2011	86307	Tax	\$465.34	\$0.00	\$0.00	\$0.00	\$465.34	\$0.00
2010	85862	CP Redeeme	\$473.18	\$578.86	\$43.66	\$107.25	\$624.09	\$0.00
2009	85534	Tax	\$489.58	\$0.00	\$0.00	\$0.00	\$489.58	\$0.00
2008	3	Tax	\$452.94	\$0.00	\$0.00	\$0.00	\$452.94	\$0.00
2007	82637	Tax	\$451.90	\$0.00	\$0.00	\$3.05	\$454.95	\$0.00
2006	80290	Tax	\$532.44	\$0.00	\$0.00	\$0.00	\$532.44	\$0.00
2005	78666	Tax	\$573.52	\$0.00	\$0.00	\$0.00	\$573.52	\$0.00
2004	77809	Tax	\$517.68	\$0.00	\$0.00	\$0.00	\$517.68	\$0.00
2003	76721	Tax	\$346.52	\$0.00	\$0.00	\$0.00	\$346.52	\$0.00
2002	75812	Tax	\$320.10	\$0.00	\$0.00	\$0.00	\$320.10	\$0.00
2001	75166	Tax	\$262.98	\$0.00	\$0.00	\$0.00	\$262.98	\$0.00
2000	73354	Tax	\$272.34	\$0.00	\$0.00	\$0.00	\$272.34	\$0.00
			\$6,142.22	\$578.86	\$43.66	\$110.30	\$6,296.18	\$0.00

Hard Copy

Navajo County Treasurer

Owner

Thursday, August 14, 2014

Manny Hernandez

P.O. Box 668

Holbrook, AZ 86025-0668

Phone:(928) 524-4172, Fax:(928) 524-4211

ncto@navajocountyaz.gov

NAVAJO WATER COMPANY INC RO

P O BOX 82218
BAKERSFIELD CA 93380

Parcel ID: 919-91-070

Figures below based on 08/14/2014

Year	Roll #	Status	Taxes	CP Amount	Fee(s)	Interest	Payments	Balance Due
2013	85758	Tax	\$3,881.88	\$0.00	\$0.00	\$0.00	\$3,881.88	\$0.00
2012	85734	Tax	\$3,429.16	\$0.00	\$0.00	\$0.00	\$3,429.16	\$0.00
2011	86308	Tax	\$3,389.54	\$0.00	\$0.00	\$0.00	\$3,389.54	\$0.00
2010	85863	Tax	\$3,541.94	\$0.00	\$0.00	\$0.00	\$3,541.94	\$0.00
2009	85535	Tax	\$3,543.22	\$0.00	\$0.00	\$0.00	\$3,543.22	\$0.00
2008	4	Tax	\$3,314.94	\$0.00	\$0.00	\$0.00	\$3,314.94	\$0.00
2007	82638	Tax	\$3,094.90	\$0.00	\$0.00	\$20.91	\$3,115.81	\$0.00
2006	80291	Tax	\$3,836.58	\$0.00	\$0.00	\$0.00	\$3,836.58	\$0.00
2005	78667	Tax	\$4,114.26	\$0.00	\$0.00	\$384.72	\$4,498.98	\$0.00
2004	77810	Tax	\$3,930.48	\$0.00	\$0.00	\$0.00	\$3,930.48	\$0.00
2003	76722	Tax	\$3,596.68	\$0.00	\$0.00	\$0.00	\$3,596.68	\$0.00
2002	75813	Tax	\$3,534.36	\$0.00	\$0.00	\$0.00	\$3,534.36	\$0.00
2001	75167	Tax	\$3,139.72	\$0.00	\$0.00	\$0.00	\$3,139.72	\$0.00
2000	73355	Tax	\$2,702.84	\$0.00	\$0.00	\$0.00	\$2,702.84	\$0.00
1999	72421	Tax	\$2,878.46	\$0.00	\$0.00	\$19.19	\$2,897.65	\$0.00
1998	70879	Tax	\$2,760.28	\$0.00	\$0.00	\$0.00	\$2,760.28	\$0.00
1997	70201	Tax	\$2,951.48	\$0.00	\$0.00	\$0.00	\$2,951.48	\$0.00
1996	69487	Tax	\$2,588.52	\$0.00	\$0.00	\$172.52	\$2,761.04	\$0.00
			\$60,229.24	\$0.00	\$0.00	\$597.34	\$60,826.58	\$0.00

EXHIBIT 2

Exhibit 2

Company Name: Navajo Water Company	Test Year Ended: June 30, 2014
---------------------------------------	-----------------------------------

Corrected Staff Property Tax Computation

Line No.	Description	Staff As Adjusted	Staff Recommended
1	Staff Adjusted Test Year Revenues	\$ 99,246	\$ 154,268
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	198,493	308,536
4	Staff Recommended Revenue	99,246	154,268
5	Subtotal (Line 4 + Line 5)	\$ 297,739	\$ 462,804
6	Number of Years	\$ 3	\$ 3
7	Three Year Average (Line 5 / Line 6)	\$ 99,246	\$ 154,268
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 198,493	\$ 308,536
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 + Line 11)	\$ 198,493	\$ 308,536
13	Assessment Ratio	18.5%	18.5%
14	Assessed Value (Line 12 * Line 13)	\$ 36,721	\$ 57,079
15	Composite Property Tax Rate	11.6386%	11.6386%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 4,274	
17	Property Taxes in the test year	4,239	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 35	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 6,643
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		4,274
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 2,369
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 2,369
23	Increase in Revenue Requirement		\$ 55,022
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		4.30625%
25			