

W-03443A-15-0271



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Arizona Corporation Commission

Utilities Complaint Form

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AZ CORP COMMISSION

DOCKET CONTROL

Investigator: Deborah Reagan

Phone: <<< REDACTED >>>

Completion Date:

Priority: Please respond within 5 business days

2015 AUG 19 AM 9 57

Opinion Number: 2015 - 123963

Opinion Codes:

Opinion Date: 8/19/2015 9:24 AM

Rate Case Items - Opposed

First Name: Vincent

Last Name: Ruocco

Account Name: Vincent Ruocco

Street Address: <<< REDACTED >>>

City: Chino Valley

State: AZ

Zip Code: 86323

<<< REDACTED >>>

<<< REDACTED >>>

Company: Appaloosa Water Company

Division: Water

Joe Cordovana

<<< REDACTED >>>

<<< REDACTED >>>

Nature Of Opinion:

Docket Number: W-03443A-15-0271

Docket Position: Against

In its application the Applicant was required to explain that which necessitates the rate adjustment. In response the Applicant cited anticipated repairs. Its response appears to lack substance. It offered no supportive details as to the amount and justification for the anticipated repairs. As a result the Applicant failed to support the need for a 100% rate increase.

In its application the Applicant was required to explain factors that influence its revenues, expenses and/or rate base. In its response the Applicant pointed to the lack of flexibility needed to address unforeseen expenses. I agree that it is wise to maintain sufficient working capital to address unforeseen expenses. However, the notion that current water rates are inadequate flies in the face of the evidence. According to the applicant's balance sheet the current rates generated approximately \$100,000 which, instead of being maintained to fund unforeseen expenses, was diverted and used to grant loans to associated companies (see Page 42 Line 146 of the application).

In its application the Applicant was asked to explain its anticipated construction. In response the Applicant referred to a generator. However, the Applicant failed to explain the need for the generator and its cost.

In its application the Applicant was asked to offer other reasons for the requested rate adjustment. In response the Applicant's commentary offered only redundant reasons leading to the broad statement that its current rates are not adequate. Its explanation offers absolutely nothing to support the statement that "rates do not provide for the additional expenses." Simply saying that rates are inadequate does NOT make it factual.

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### Utilities Complaint Form

On Page 6 of the application the Applicant stated that if the Company is granted the rate adjustment, its annual operating revenues would be \$283,378. In that gross revenues, including the requested rate relief, would cause said revenues to exceed \$250,000, it seems that the Applicant prepared its application using the wrong form per Arizona Administrative Code R14-2-103. Accordingly, its application should be rejected.

It appears that the Applicant's request is in anticipation of a counteroffer from the Commission of something less than the requested 100% increase, as if the Applicant believes that a more reasonable request would be met with an automatic, yet still unjustified, counteroffer. It seems that the Applicant is hoping the Commission will be willing to play the Applicant's game. We trust that the Commission will, instead, exercise its fiduciary responsibility and adhere to its mission. It should be the Applicant's responsibility to present a reasoned and thoughtful request that considers the interests of all stakeholders. In that the Applicant has failed to exercise its obligations in this regard, its application should be rejected.

Page 7 of the Applicant's application indicates that the Company is a "C" Corporation. As a Corporation, the application asks for the names of stockholders and the number of shares owned by each. The Applicant failed to provide the information. Accordingly, the application is incomplete. Is there an effort to hide something, or was this simply an oversight?

The income statement on Page 18 of the Applicant's application suggests that the Applicant's current rates are generating positive cash flow 37K in the prior year (net loss of 20K plus depreciation of 57K), and positive cash flow of 7K in the test year. However, the reduction in cash flow seems to associated with an increase in salaries and wages of approximately 24K, an increase of 85%. This raises questions concerning hours worked, services rendered, and whether any employees are related to the applicant. In this context "related" means owners, and their family members, etc. The same questions should be considered with regard to the increase in repairs and maintenance. The responses may lead to the conclusion that the reported operating losses have been overstated to hide the fact that, instead of losses, the Company actual was profitable.

It seems that the applicant's cash has been diverted and used to fund advances to Associated Companies rather than maintained as reserves to address unforeseen expenses and capital improvements. The balance sheet on Page 22 of the Applicant's application shows Note Receivables from Associated Companies at the beginning and ending of the test year in the amounts of \$110K and 94K. Steps should be taken to collect the receivables from the Associated Companies, BEFORE the Commission considers the Applicant's request for a rate increase. It would appear that the return of the diverted cash back to the Company would make the Applicant's request for a rate increase unnecessary and unjustified.

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**Notes:**

<b>Date:</b>	<b>User:</b>	<b>Submitted By:</b>	<b>Note Type:</b>
8/19/2015	Deborah Reagan	Email	Investigation

Comments entered for the record and filed with Docket Control.

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