

ORIGINAL



**COMMENTS FROM PINE VALLEY WATER COMPANY ON  
THE DOCKETED STAFF REPORT FOR PVWC'S  
APPLICATION FOR AN INCREASE IN ITS RATES**

RECEIVED  
AZCC  
2015  
AZCC  
DOCKETED  
AZCC  
DOCKETED

The following are comments on the staff report prepared by AZCC staff for the Pine Valley Water Company Application for an increase in its rates. (Docket # W-02181A-15-0216) These comments were prepared by Lance Wischmeier, President of Pine Valley Water Company. While we have attempted to cover our issues with the staff report, we would like to retain the right to make further comments or raise other issues going forward whether in a comment period or during the decision making process up to and including a possible hearing on our application.

**1. We think that the staff has our OCRB & FVRB set too low mainly in part due to the reduction of our rate base because of Advances in Aid of Construction (AIAC). We feel this is not a correct classification of the money we received from our customers.**

A. The money has been classified by staff as a loan from our customers to construct our Arsenic Treatment Plant (ATP), however we do not feel the money was a loan but rather a prepayment of their account by our customers similar to layaway at a department store. We have a number of customers that routinely prepay their bills because of convenience, or they are seasonal or they are going to be out of town for whatever reason and they do not want to have to worry about their bill. These would not be loans or advances in aid of construction, just because a large number of customers prepaid it should not change this.

B. Secondly if the money was a loan there would have been a structured repayment plan such as they would get \$50 a month credit for 20 months and they would pay the amount over this monthly, rather they simply prepaid for the amount of the water used and when that is used up no matter how long it may take they must then make payments again, though some of those that prepaid will prepay an amount of their choice as they did in the past.

C. Even if our understanding of this is incorrect and the money the customers prepaid is indeed an Advance in Aid of Construction we still feel that it has been incorrectly debited against our OCRB & FVRB. We have looked into Advances and Contributions in Aid of Construction and the following is our understanding of the difference between Advances and Contributions. Please see Exhibit A at the end of these comments to see an example of what we are referencing. At the time of these comments the amount to be refunded is less than \$6,000 meaning our OCRB/FV is undervalued by almost \$13,000.

Arizona Generation Commission  
DOCKETED  
DEC 03 2015  
DOCKETED BY *KE*

(Docket # W-02181A-15-0216)

Advances in Aid of Construction are from customers and are refundable to those customers that made the advances. Advances which are no longer refundable (which will not take place in our situation) are THEN reclassified as Contributions in Aid of Construction. From what we have found for ratemaking purposes it is Contributions and not Advances that generally serve as a basis for rate base reduction.

In our case it makes no sense to reduce our rate base by the amount of credit our customers had at the end of 2014, our test year, especially because as it is stated in the staff report almost all of the credit will be used up by the customers by the time our rate increase goes into effect and this will require us to immediately file for a new rate increase within months of the decision on this rate increase. Forcing us to immediately reapply for a rate increase is not only a waste of AZCC resources to restart this process, but is an completely unfair burden for a water company of our tiny size and limited finances especially when the staff is recommending a reduction to our management fee and incur the expense of another rate application which would not normally be covered by a "typical" management fee. We will address the staff's recommendation on our management fee below.

**2. We completely disagree with the Staff's recommendation that our Outside Services Expense be reduced by \$19,200 from \$60,000 to \$40,800. While staff may have a calculation or formula for a "typical" management fee for a water company, it is apparent from the number it produced that Pine Valley Water Company with its 170 customers, owned (and maybe most importantly supported) by the same family since 1978 and located in the high cost of land and living area of Sedona is not a typical water company and Lance Enterprises is not a "typical" management company.**

A. We included in the 1<sup>st</sup> Request for Data from the staff BCA 1.5 Contracts or Agreements which was a list of what is included in the Management Fee that is paid to Lance Enterprises Inc. We have included a copy of this document at the end of these comments and is labeled as Exhibit B. We have calculated from this document and before allowing for any compensation for staff, the cost for Lance Enterprises is over \$26,000, this leaves about \$14,800 to pay for our office staff and a certified operator and the payroll expenses for these employees. One office person at 20 hours a week paid \$12.50 per hour is \$13,000; the company associated payroll expenses would be about \$1,000 leaving \$800 for a certified operator and any other extra ordinary expenses LEI may incur and not charge back to PVWC. We do not feel that \$19,200 is in any way an exorbitant amount to pay to an operator that is responsible for running the water company including but not limited to day to day operations, monthly meter reading, bill prep, collection and transportation of samples, maintenance, leak repair as well as being on call 24/7 365 days a year to respond to emergencies. While the staff recommendation does not even allow for paying an operator for PVWC, there is also no ROI for Lance Enterprises as the owner of the water company

(Docket # W-02181A-15-0216)

B. Lance Enterprises does not, as stated in the staff report, sell and erect water tanks: that was what LEI did when Pete and Judy Mandeville, Lance Wischmeier's parents, had to earn a living since owning PVWC has not been enough to support the owners. Lance Enterprises now is the owner and runs Pine Valley Water Company and is necessary because when there are capital investments needed such as the water tanks, offices built, ATP media, or well and booster pumps and PVWC does not have the capital LEI can purchase or borrow and purchase the needed item and wait for PVWC to repay it or lease it from LEI.

C. Lance Enterprises is not a "typical" management company in that it does not management multiple water companies where the first 2 or 3 would cover the costs of operation and companies 4 and 5 with a \$20.00 per customer rate would be income above and beyond the already covered fixed costs and could cover an additional employee for the management company.

D. If you were to go back and review prior decisions you would see that PVWC made what now appears to make a mistake and asked for less than the AZCC recommended because we had a small customer base and Pete and Judy Mandeville did not feel it was "fair" to burden the few customers we had, and that in the future when we had a bigger customer base we could get reasonable rates and returns that made the past decisions the right thing to do.

**3. We noticed some changes in the tables and schedules that we need to review further to see how the staff calculated them to see if we agree with them we note a few below.**

A. Under revenue they have increased our Other Water Revenue by \$815 which I believe is late fees and reconnection fees that we charged, however they were originally included in the Metered Water Revenue so if they are being taken out of that account and put in another the original account should be reduced by the amount moved to another account.

B. We will be reviewing the staff adjustments to accumulated depreciation to make sure we are in agreement with the adjustments, some of the adjustments may be items depreciated as part of an account total before they were actually put in service to begin depreciation. Again, we are going to take more time to review these entries so we can comment further and more accurately during further decision making in this process.

**4. A number of the recommendations in the Engineering Report Section of the report are already old and some are going to add expenses that we have not seen covered in other areas of the report.**

A. We would like to point out that many of the safety issues raised were due to our ongoing improvements in our structures and electrical systems and that we informed the engineers that they would be resolved before the application was decided. These items include the temporary wiring that was in place as we moved our electrical panels which is now all done and no temp wiring is involved, the dead wires that were protruding from the ground near the well pad have all been removed and the well is now in a locked well enclosure attached to the locked ATP building.

B. There are at least 2 places in the report that staff recommends that an engineer be retained to study water flows. However, we do not see how the funds to retain said engineer are created in the staffs recommended rates.

**5. Lastly we would like to comment that we still request rates well above what the staff recommends and more importantly we request rates with higher base rates so that we can avoid the higher seasonal fluctuations in revenue that small water companies like ours must deal with. We structured our requested rates using AZCC rates that were recently approved for companies similar in size to ours such as Montezuma Estates Water Company and Empirita Water Company.**

A. PVWC needs to have the funds to establish maintenance accounts to replace the media in the Arsenic Treatment Plant approxiamatley once per year (slightly less once we have the money to invest in getting the ATP blending water as recommended in the engineering report.

B. PVWC needs to establish capital replacement accounts to have the funds needed when we must replace the well pump or the booster pumps. A source of funds must be established if PVWC is to purchase the storage tanks as suggested in the staff report as well as establish an account to have the funds to maintain and eventually replace the tanks.

C. If you look at the summary of filing (page 3) from the February 15, 2001 staff report of our last rate increase you can see that the rates raised our median water bill to \$38.12 and if you refer to the Executive Summary Page (no page number) of the current staff report the staff recommended rates would make our median water bill \$35.13. The 2015 rates would result in a \$2.39 increase in the median bill, but because the median usage dropped by about 1000 gallons (thanks in part to the tiered rates we suggested in 2000) we would see an actual dollar decrease of \$3.01 in our median bill. While we have added 43 customers, seeing an actual decrease of \$3.01 in our median bill between rate increases is fiscally difficult. A \$2.39 or 7.3% increase is also difficult when we see our costs have gone up by much more, such as our electrical costs going up over 75% (I am guessing APS added more than 43 customers), our property taxes have gone up over 50%, our insurance is up over \$1200, we have spent about \$50,000 for Arsenic remediation that will include over \$7200 a year to replace the filter media each year going forward, and yet our customer base has gone up by 43 connections or 33% most of those in the first 5 years after our last rate case, we have added only 6 in the last 5 years.

Lance Wischmeier  
President, Pine Valley Water Company  
(928) 284-9311 Office  
(928) 451-1640 Cell  
(928) 284-2978 Home

(Docket # W-02181A-15-0216)

This excerpt taken from the AWK 10-K filed Feb 27, 2009.

### **Advances and Contributions in Aid of Construction**

Regulated utility subsidiaries may receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Advances which are no longer refundable are reclassified to contributions in aid of construction.

Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since they represent non-investor supplied funds. Non-cash utility property has been received, primarily from developers, as advances or contributions of \$83,041, \$101,226, and \$72,892 for the years ended December 31, 2008, 2007 and 2006, respectively.

Generally, the Company depreciates utility plant funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Certain of the Company's subsidiaries do not depreciate contributed property, based on regulatory guidelines. Amortization of contributions in aid of construction was \$20,219, \$20,720 and \$16,697 for the years ended December 31, 2008, 2007 and 2006, respectively.

EXHIBIT A

## BCA 1.5 CONTRACTS OR AGREEMENTS (LANCE ENTERPRISES INC.)

Due to the fact that Lance Enterprises and Pine Valley Water have the same stockholders, board and officers (Lance Wischmeier and Lisa Wischmeier) and have this has been the case since their inception with my parents there is not a formal contract between ourselves and ourselves. Listed below is a list of what is included in the monthly management of PVWC by LEI. (\$5000.00)

Certified water operator onsite daily for day to day operations

24/7 operator standby with Lance Wischmeier

Office manager, Statutory Agent with Lisa Wischmeier

Monthly Meter Reading

Meter reading input and bill preparation

Postcards and Postage for monthly bills

Collection of water payments and preparation of deposits

Collection and delivery of monthly and quarterly water samples

Lab costs for all water samples other than MAP samples

Office Rental

Office/shop electricity

Land line Telephone Service

Cellular Telephone Service

Internet Access

Office Furnishings

Computer, printer, fax equipment

Use of shop and all tools owned by Lance Enterprises

Vehicles for system maintenance, meter reading other transportation needs

Including Vehicle payments, maintenance, insurance and registration

Fuel costs including for vehicles and the backup generator upon completion

EXHIBIT B