ORIGINAL

Steve Wene, State Bar No. 019630
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Ave., Suite 1100
Phoenix, Arizona 85004
Telephone: 602-604-2141
e-mail: swene@law-msh.com

0000168273

RECEIVED

2016 FEB -5 P 2: 24

AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED
FEB 05 2016
DOCKETED BY

COMMISSIONERS

DOUG LITTLE, CHAIRMAN
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

IN THE MATTER OF THE APPLICATION OF JOSHUA VALLEY UTILITY COMPANY, INC. FOR AN INCREASE IN RATES

DOCKET NO. W-02023A-15-0315

COMMENTS RE STAFF REPORT

Joshua Valley Utility Company, Inc. ("Joshua Valley" or "Company") hereby files its comments to the Staff Report.

Plant and Accumulated Depreciation

Staff disallowed $37,653 in plant and removed the associated accumulated depreciation of $16,873. Staff's justified the disallowance because the Company did not have invoices for the plant. Although Staff previously has allowed plant not supported by invoices in rate base, here Staff offers no additional rationale for its position.

Staff should have a common sense approach on this matter. The Company could not locate six invoices that were 8 to 13 years old. Primarily, this is due to the fact that the invoices are so old and the Company owner primarily responsible for such matters has been in extremely poor health for the past few years and can no longer assist with the rate case. In this situation, it is understandable that a few old invoices could not be located.

Joshua Valley believes that the plant and accumulated depreciation disallowed by Staff should remain in rate base. For several years now, and moving forward, plant additions are tracked and accounted for differently. In the event the Commission does decide to side with Staff and disallow the unsupported plant and associated accumulated depreciation, Joshua Valley requests that the correct amount of depreciation be used per the table below:

Disallowed Asset Amount	Staff Disallowed Depreciation	Depreciation Rate	Annual Depreciation	Year Added and Years Depreciated	Company Depreciation
$ 10,200	**$ 4,401**	3.33%	$ 340	2002 - 12.5	**$ 4,246**
7,835	1,175	2.00%	157	2007 - 7.5	1,175
14,106	8,813	8.33%	1,175	2007 - 7.5	8,813
1,497	**845**	20.00%	299	2007 - 5	**1,497**
3,657	1,371	5.00%	183	2007 - 7.5	1,371
357	268	10.00%	36	2007 – 7.5	268

Many of the Joshua Valley calculated amounts for accumulated depreciation match those determined by Staff on Schedule BCA-2, page 4 of 6. The amounts in bold differ between the Company and Staff, and without Staff's calculations, Joshua Valley cannot determine why there is this difference. If the Commission decided to remove this plant and the associated depreciation, the Company asks that the actual accumulated depreciated amount recognized by Joshua Valley of $17,370 detailed above be used instead of the $16,873 recommended by Staff.

CIAC and Accumulated Amortization

Staff and the Company agree that the CIAC amount of $58,342 per Decision 64000 is still correct. There has been no new CIAC added to Joshua Valley since the last test year. The Company disagrees, however, with Staff's use of a 2.34% CIAC amortization rate for the last fourteen years, resulting in a $5,426 decrease to amortization of CIAC. In the last rate case, Staff set the CIAC amortization rate at 3.00%. *See* Staff Report, Docket No. W-02023A-01-0187, Schedule 3, p. 3 (June 15, 2001). In response to Staff Data Request JLK 1.7, Joshua Valley provided a schedule delineating the increase to accumulated CIAC amortization by $1,750 each year. For some unexplained reason, Staff decided to retroactively apply the composite rate determined in this case[1] as the CIAC amortization rate for the past fourteen interim years since the last rate case. Joshua Valley asserts that 3.00% should be applied.

Operating Expense

Staff reclassified $20,000 of owner compensation from Outside Services to Salaries and Wages, and then disallowed $7,400 of that amount for "duplication of service efforts." Staff contends that "both the owner and the General Manager perform

[1] Schedule BCA-3, Page 3 of 4, line 31

the same service 'oversee all aspects of operations'".[2] But Staff offers no evidence that the owner and general manager both perform the role. The Company owner primarily oversees the Company's finances while the general manager oversees the water system operations in Meadview, Arizona. The manager does have to consult the owner routinely on all Company matters, which is common practice throughout the industry. Small water company owners and managers have to coordinate on operations, finances, and virtually all aspects of the utility. These are not duplicative efforts.

Here, in an effort to save the utility a bit of money, the owner received his payment as outside services instead of payroll tax generating wages or salary. If $20,000 is to be reclassified to salaries and wages expense, then an additional amount of at least $1,530 for FICA taxes would need to be added to the Taxes Other Than Income Expense account for the taxes that would need to be paid by the utility. Finally, it is important to note that Staff's recommended adjustments A and B disallowing $7,400 exceed total Staff adjustments of $5,756 to test year expenses on Schedule BCA-3, Page 1 of 4.

Joshua Valley continues to propose the rates and charges set forth in the application that include the amount paid to the owner for services provided as outside services.

Best Management Practices

Staff recommends the Commission require the Company to file three BMPs in the form of tariffs. The Company opposes this recommendation. As noted in Commission

---

[2] Salaries and Wages Expense section of Page 6 of the Staff Report dated January 22, 2016.

Decision No. 74900, "BPMs are a creation of ADWR and [Naco Water Company] is not required to adopt BMPs under ADWR rules. Recent Commission Decisions have opted not to adopt BMPs for companies that have objected to their imposition." In the Naco matter, the Commission encouraged Naco to consider implementing BMPs, but there was no requirement to do so. Joshua Valley believes the approach adopted in the Naco case is reasonable and the recommended opinion and recommendation here should be similar.

Financial Analysis and Conclusion

In summary, Joshua Valley and Staff agree on most issues. The three central differences relate to: (1) Staff's removal of <u>all</u> unsupported plant and the associated accumulated depreciation; (2) Staff's retroactive application of a currently-calculated CIAC amortization; and (3) Staff's operating expense adjustment reclassifying $20,000 of owner payment for duties from outside services to salaries and wages expense, and then disallowing $7,400 for "duplicative services", which is untrue. In addition, Staff did not calculate and include payroll taxes on this reclassification.

The Company believes that it has set forth a fair and reasonable case for the proposed revenue requirement increase in the original application. According to Staff's Summary of Filing Schedule BCA-1, Page 1 of 3, Staff and the Company agree on what the target rate of return on rate base and operating margin should be. This further reinforces the impact on revenue requirement that seemingly immaterial changes can make to a utility moving forward. This is especially true when adjustments made by Staff are inconsistent between utilities and involve retroactive application of a CIAC amortization rate.

It is for the above reasons that Joshua Valley continues to support the position in its original application and urges the Court to recommend the Company's proposed rates.

DATED this 5th day of February 2016.

MOYES SELLERS & HENDRICKS LTD.

Steve Wene

Steve Wene

Original and **13** copies hand-delivered
This 5th day of February, 2016, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Donnelly Herbert