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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRANITE MOUNTAIN WATER COMPANY, INC. FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02467A-14-0230

STAFF'S OPENING BRIEF

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files its closing brief in the above-captioned matter. In this brief, Staff will address the major disputed issues. On any issue not specifically addressed in this brief, Staff maintains its position as presented in its testimony. Staff will also provide an update on several matters addressed at hearing.

I. INTRODUCTION.

Granite Mountain Water Company Inc. ("Granite Mountain" or "Company") is a class D utility that provides water service in Yavapai County, Arizona, TO approximately 120 customers. The Company's current rates were authorized in Decision No. 71869, dated August 31, 2010. The Company is located approximately three miles north of the City of Prescott off the Williamson Valley Road in Yavapai County. The water system is located in the Prescott Active Management Area.[1]

On June 30, 2014, the Company filed its rate increase application in this matter and also filed a rate increase application as ordered in Decision No. 72896 for Chino Meadows II Water Company Inc. ("Chino Meadows" or "Company), a regulated affiliate of Granite Mountain, in Docket No. W-02370A-14-0231. That Decision required Chino Meadows to file its next general rate case using the same test year as that used in the next rate case for Granite Mountain in order to eliminate further disputes related to cost allocation. Decision No. 71869 ordered Granite Mountain to file its next rate case no later than August 31, 2012, which was later extended to June 30, 2014, in Decision No.

[1] Exhibit DMH-1 to Exhibit S-1.

74384. Chino Meadows and Granite Mountain both used a 2013 test year as ordered in Commission Decision No. 72896.

II. SUMMARY OF REVENUE REQUIREMENT POSITIONS.

The parties' recommended revenue requirements and associated rate increase are summarized as follows:

	Revenue Requirement	Revenue Change	% Change
Company Application	$181,668	$64,221	55.48%
Staff Direct	$185,719	$68,399	58.30%
Company Rebuttal	$177,270	$59,950	51.10%
Staff Surrebuttal	$169,647	$52,327	44.60%
Company	$177,563	$60,243	51.35%
Staff Responsive	$179,504	$62,184	53.00%

III. CONTESTED ISSUES.

Among the major contested issues between Staff and the Company are the allocation of costs between Chino Meadows and Granite Mountain; the revenue requirement; Staff's rate base adjustments for unsupported plant, post test year plant (Well No. 6 and related easement), post test year plant (Storage Tank No. 3), and the differing amounts of working capital due to the differences in test year expenses; Staff's operating income adjustments to Mr. Levie's salary expense, depreciation expense (due to the differing levels of CIAC), property taxes expense, and income tax expense; Granite Mountain's compliance with Commission orders re: uncollected revenues, affiliate transactions, and WIFA loan set asides; Staff's recommended Code of Affiliate Conduct, request for authorization to appoint an interim manager and the imposition of fines; and rate design,

A. Allocation of Costs.

The allocation of costs between Granite Mountain and Chino Meadows was in dispute in the companies' previous rate cases, causing the Commission to include in its Decision No. 72896 regarding Chino Meadows: "IT IS FURTHER ORDERED that in order to eliminate further disputes related to cost allocations, Chino Meadows II Water Company shall file its next general rate case using the same test year as is used in the next rate case for its sister utility, Granite Mountain Water Company, Inc."

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The Company proposes that 80.5 percent of common costs be allocated to Chino Meadows and 19.5 percent to Granite Mountain, based primarily on customer count.[2] Staff proposes that 74 percent be allocated to Chino Meadows and 25 percent to Granite Mountain, with 1 percent allocated to affiliate Antelope Lakes Water Company, Inc., using a multi factor analysis. While the Company asserted at hearing that a greater allocation should be made to Chino Meadows because its plant is older, more maintenance is required and replacements will be required in the near future, the Company has provided no details about the age or condition of the plant, nor quantified the costs associated with the age of the plant. Indeed, this assertion was first made at hearing, and absent from any of the Pre-filed Testimony or Data Responses in this during its preceding fifteen month duration.

The Company advocates what it deems to be a simple analysis of the allocation of costs. Company witness Ray L. Jones testified that, although Chino Meadows and Granite Mountain have traditionally allocated costs solely on the basis of customer counts, with 88 percent going to Chino Meadows and 12 percent to Granite Mountain, he attempted to address Staff's concerns regarding that single factor methodology by also including plant in service as a factor.[3] However, the Company's new methodology still retains its primary focus on customer count due to the manner in which it weights the two factors. The Company weights customer count so that it constitutes 83.3 percent and the plant in service constitutes only 16.7 percent of the total consideration.[4] The Company weights plant in service at 1.0, while test year customer count is rated at 2.5 and 2018 customer count is rated at 2.5, so that customer count is are weighted at 5.0 compared to plant in service at 1.0. That weighting is further skewed by the fact that the Company did not include Storage Tank No. 3 in plant in service for Granite Mountain, even though it seeks to include the tank (and Staff agrees) in rate base, increasing it by $102,222.68.[5]

While customer count is one factor in determining cost causation, there are many others that can impact allocation, and they can be weighted at different levels depending on the facts of a case.[6] These include plant in service (net or gross), gallons of water pumped, and annual revenue. In

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[2] Exhibit A-1 at 15-16.
[3] Chino Meadows (hereinafter "CM") TR at 29.
[4] CM Exhibit A-1, Schedule TBH Chino Meadows-193, Company Workpaper.
[5] Exhibit S-4 at 3.
[6] *Id*; CM TR at 123; CM Exhibit S-1 at 9-12.

addition, these can be looked at a number of points in time, e.g. the end of the test year, the time of filing the application, a future year, or some average of these. Staff initially recommended a four factor analysis – customer count, net plant in service, total annual revenue and total annual gallons pumped - which it believes better represents a correct allocation of costs.

Staff then analyzed numerous scenarios utilizing both weighting and non-weighting of factors.[7] These included not only those proposed by the Company, but also net plant at the time of the rate case, gross plant at the time of filing, post test year net plant, post test year gross plant, customer counts, various expense categories, annual revenue, gallons pumped and any other factors that would help identify the cost drivers so they could be properly allocated.[8]

By running a number of scenarios, Staff was able to determine the range within which the allocations fell. Staff ultimately modified its four factor analysis to a simpler application, and selected the analysis that it deemed most appropriate based on the range of calculations in the various scenarios with each factor given equal weight. This percentage would be fixed and not subject to additional analysis until the Company's next rate case. This would reduce the complexity of the Company's record keeping and operations as plant is added or retired.

B. Revenue Requirement.

In its Application, Granite Mountain requested a revenue increase of $64,221, or 55.48 percent.[9] In its Rebuttal Testimony, the Company requests a revenue increase of $59,950, or 51.10 percent, over test year revenues of $117,370, for a total revenue of $402,603.[10] It included the estimated cost of the post test year plant which was not yet in use, but updated its schedules with its Supplemental Direct Testimony of Ray Junes, filed January 21, 2016, after that plant was placed in service. Its final position is summarized in the chart below.

In Direct Testimony, Staff recommended a revenue increase resulting in a total operating revenue of $185,719, a $68,399 (58.30 percent) increase, to provide a $34,625 operating income and an 8.03 percent rate of return on Staff's adjusted original cost rate base ("OCRB") $431,139. OCRB

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[7] *Id* at 3-4.
[8] CM TR at 123.
[9] Exhibit A-1 at iii, 6.
[10] *Id* at 7.

and fair value rate base ("FVRB") are deemed to be the same.[11] In Staff's surrebuttal testimony, Staff recommended a revenue increase resulting in a total operating revenue of $169,647, a $52,327 (44.60 percent) increase, to provide a $34,287 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB $426,930.[12]

With Granite Mountain's filing of its January 21, 2016, testimony and the placement in service of post test year plant, Staff revised its schedules and recommendations. Staff now recommends a revenue increase resulting in a total operating revenue of $179,504, a $62,184 (53.00 percent) increase, to provide a $51,340 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB $529,152 as shown on Final Schedule TBH GM-1. Again, OCRB and FVRB are deemed to be the same.[13]

The parties' recommended revenue requirements and associated rate increase are summarized as follows:

	Revenue Requirement	Revenue Change	% Change
Company Application	$181,668	$64,221	55.48%
Staff Direct	$185,719	$68,399	58.30%
Company Rebuttal	$177,270	$59,950	51.10%
Staff Surrebuttal	$169,647	$52,327	44.60%
Company	$177,563	$60,243	51.35%
Staff Responsive	$179,504	$62,184	53.00%

C. Rate Base Issues.

1. Unsupported Plant.

Staff has identified $96,432 in plant additions for which the Company is unable to provide support.[14] These items are detailed In Schedule TBH GM-5, attached to Staff's Direct Pre-filed Testimony. The Company acknowledges that, other than its accounting records, it is unable to provide detailed invoices for this plant; the Company's offices were destroyed by fire in December 2011.[15] Although the Company attempted to obtain duplicate supporting documents from vendors, those records no longer existed.

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[11] Exhibit S-3 at 5-6.
[12] Exhibit S-4 at 2-3.
[13] Exhibit S-9 at 3.
[14] Exhibit S-3 at 12-14, Schedule TMH GM-5.
[15] *Id* at 13; Exhibit A-1 at 11.

A.A.C. § R14-2-411(D)(1) requires a regulated utility to "keep general and auxiliary accounting records reflecting the cost of its properties ... and all other accounting and statistical data necessary to give complete and authentic information as to its properties." Further, the Company which seeks an increase in rates bears the burden of proof to support its request. Where those records are not produced, Staff typically recommends that all related costs be removed from rate base. Staff is not unsympathetic to the Company's circumstances in this regard and is recommending that the substantial majority, 90 percent, of these costs be included in rate base. However, as even the Company has acknowledged, it is not unusual in a rate case for some portion of plant in services, including interest and late fees, to be excluded from rate base.[16] As Staff is unable to review the invoices supporting this plant to determine whether 100 percent of the amounts are includable, Staff recommends a 10 percent reduction. While Staff does not believe the Company should suffer the consequences of the loss of documentation due to the fire, neither should it benefit unduly.

2. Post Test Year Plant (Easement).

In Decision No. 71869, Granite Mountain was directed to address its storage capacity issue by either drilling a replacement well for Well No. 5 or constructing a 110,000 gallon storage tank, and to do so before the end of February 2012.[17] A number of extensions of time were granted to Granite Mountain[18] and, on October 22, 2012, in Docket Nos. W-02467A-09-0333, W-02467A-09-0334 and W-02467A-09-0483 ("Docket No. W-02467A-09-0333, et al.") Granite Mountain filed a request to modify Decision No. 72294, *inter alia*, to allow Granite Mountain to acquire an existing well rather than drilling a new well. That request was granted and the acquired well, Well No. 6, which replaced Well No. 5, was brought into service after the December 31, 2013, end of test year in this case. In its Application, the Company estimated the costs for Well No. 6 to be $75,000, $25,000 for the well and $50,000 for the easement, which it seeks to include in rate base.[19] Both the value of the property – the well and the easement - and the easement's status as used and useful are at issue.

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[16] CM TR at 40-41.
[17] Decision No. 71869 at 37.
[18] *See* Decision Nos. 72294, 72377 and 74384.
[19] Application, Attachment 1 at 3; Exhibit S-3 at 15.

When the Company filed its request to modify Decision No. 72294, it advised the Commission that it had arranged to have Mr. Levie's daughter purchase a one-acre lot adjacent to Granite Mountain's existing water system, upon which a domestic well already existed. The Company would then petition ADWR to convert the domestic well to a production well – which has occurred. The Commission granted the Company's request but ordered that "Granite Mountain Water Company, Inc. shall, in its next permanent rate case application, provide full information regarding the amounts paid to acquire Well No. 6 and the easements for access to Well No. 6, along with an explanation of and supporting documentation for the manner in which the value of each was determined."[20]

The Commission's rationale for this requirement was stated as follows:

> GMWC has previously engaged in transactions preferential to GMWC's owners and their family members, something about which the Commission expressed concern in Decision No.71869. GMWC is aware that this type of self-preferential dealing is disfavored by the Commission. GMWC will be required, in its next rate case, to provide complete information regarding the costs of acquiring Well No. 6 and the easements necessary for its use as a production well, to demonstrate that these transactions did not result in the type of self-preferential dealing that has occurred with GMWC in the past. If the Commission were to determine in GMWC's next rate case that GMWC has structured these transactions in a manner inconsistent with the public interest and with the best interests of GMWC's ratepayers;' GMWC will not be permitted to recover the full amount claimed and could be subjected to additional adverse actions.[21]

That property, referred to as the Short Spur property, was purchased in December 2012 by Paul Levie's daughter and her husband, through their company, Sandia Properties, L.L.C., for the sum of $155,000. Sandia Properties then transferred the well to Granite Mountain at a cost of $25,000 and granted an easement to Granite Mountain at a cost of $50,000, for a total cost of $75,000. No appraisal was conducted at the time of purchase; the value of the well and the land was based on the Company's 'own internal valuation process.'[22] Only at Staff's direction did the Company conduct an appraisal, in April 2015. The values of both the well and the easement appear to be inflated. Moreover, the size and scope of the easement are far greater than the Company requires and much of it is not used and useful.

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[20] Decision No. 74384 at 21.
[21] *Id.*
[22] TR at 30.

The Short Spur property consists of 61,034 square feet, with the easement representing 44,594 square feet thereof. The 16,034 square foot area excluded from the easement contains a 1,440 square foot, single family residence, which is rented to residential tenants by Sandia Properties. A shaded version of the map showing the areas of dispute was admitted as Exhibit S-5. A square area marked "Not Part of Easement" sits in the upper center portion of the map, and reflects the residence and a small perimeter around it. Both parties agree that this is not part of the easement. The portion which is shaded with pink diagonal lines is the area Staff believes to be used and useful. This area contains the transmission lines, the well and the well house. The remaining, unmarked portion of the map is that which is in dispute.[23]

The Company asserts that the disputed area of land should be included for the reason that the Company intends to dig another well on that site at some point in the future.[24] But there are no plans to dig a well. In fact, when asked if this area was reserved for the possible drilling of a well in the future, Company witness Ray Jones stated: "Well, I don't know if I would called it reserved, but that is obviously the area where, if you were going to drill a well in the future, that you would do it."[25] Mr. Jones concedes that he does not believe the disputed area "is being used for anything at time."[26] (Mr. Jones had not been to the site and could not confirm the location or use of any of the buildings on the property.)

Staff witnesses Dorothy Hains and Teresa Hunsaker conducted two site visits and observed the buildings located on the Short Spur property: the residence and a carport (not part of the easement), a well house (within the easement), and three sheds and a guesthouse (all in the disputed area).[27] Ms. Hunsaker testified that during the first visit, operations manager Arden Barney informed her that the sheds and the guesthouse were all being used by the tenants of the house. Ms. Hunsaker and Ms. Hains both observed that the guest house was filled with furniture, a stuffed animal and other household belongings.

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[23] *Id* at 69-72.
[24] Exhibit A-2 at 4-5.
[25] TR at 29.
[26] *Id* at 29.
[27] *Id* at 83.

Based on the current use of the property and the lack of plans for its future use by the Company, Staff concludes that the disputed area is not used and useful and should not be included in rate base. The company asserts that, even though the disputed area is not being used, it should be included in rate base, based on the fact that "paying $75,000 for this operating well is a very, very good value for this water company or any water company. And I think this is really the core of our position."[28] Staff disagrees and suggests that this transaction, in which a significant portion of the Short Spur property is used by the residential tenant, but paid for by the Granite Mountain is the very circumstance which so concerned the Commission in Decision No. 74384.

Not only is the Company's position contrary principles of what is used and useful, it also is inconsistent with either the Company's appraisal or Staff's valuation. Despite the Commission's direct order, the Company, in its Application, merely estimated the value of the well and the easement.

At Staff's request, Granite Mountain obtained an appraisal of the easement.[29] The April 14, 2015, appraisal, conducted by Huck Appraisal Office, values the property as of May 29, 2014, the date the easement was recorded in the Yavapai County Recorder's Office. That appraisal determined the easement (both the agreed upon and the disputed area) to consist of 44,594 square feet, with a fee simple value of $1.15 per square foot. After deducting ten percent from the value to reflect ownership of an easement rather than a fee simple property, the appraisal concluded that the easement was valued at $46,000.[30]

The improvements in the undisputed area include only the well and the well house. Staff adopts the appraiser's value of the well, pump and slab - $16,000. Staff adopts the appraiser's valuation of the well house at $1,232 (cost of $1,449 less $217 in depreciation).[31] These adjustments result in a reduction of $7,768 in the estimated costs for Well No. 6 and Well House for Well No. 6 from $25,000 to $17,232.

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[28] Ray Jones, *Id* at 60.
[29] Exhibit S-3 at 14-19; Exhibit A-1 at 9.
[30] Exhibit S-6.
[31] Exhibit S-4 at 6.

As to the value of the land easement, Staff adopts the valuation provided by Yavapai County Public Works Department on February 29, 2012, which valued the parcel at $1.00 per square foot.[32] Staff engineer Dorothy Hains calculated the undisputed area, and area used and useful, to be 12,200 square feet with a value of $12,200. Thus, for the land, the well and the well house the total value would be $29,432.

3. Post Test Year Plant (Storage Tank No. 3).

The Company completed construction of Storage Tank No. 3 on November 16, 2015. On December 3, 2015, the Arizona Department of Environmental Quality issued an Approval to Construct ("AOC") for Storage Tank No.3.[33] On December 5, 2015, the Company placed Storage Tank No.3 into service. The final cost of Storage Tank No.3 was $106,043.13. The Company obtained a refund of $18,925 from the original contractor for unfinished work and their failure to complete the tank in a timely manner. The Company believes that this refund eliminates most, if not all, of the unnecessary or duplicate costs of constructing the tank. However, in order to be certain there are no duplicate costs and to address Staff's concern, the Company has reduced the cost of the tank by an additional $3,820.45, which lowers the tank construction costs to the original bid of $93,650.00, eliminating any possibility of duplicate costs. After the cost reduction, the cost of Storage Tank No.3, including engineering, construction and miscellaneous items is $102,222.68. Staff agrees with this cost for Storage Tank No. 3.[34]

4. Working Capital.

The Company and Staff agree as to the methodology for determining working capital.[35] This is a flow-through issues: the only dispute results from the differences in the parties' positions in adjusted test year expenses. The Company's adjusted end of test year working capital is $7,932[36]; Staff's is $10,349.[37]

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[32] Exhibit S-7.
[33] Exhibit A-5 at 4-5.
[34] Exhibit S-9 at 6.
[35] TR at 21.
[36] Exhibit A-5, Schedule RLJ-2.
[37] Exhibit S-9, Schedule TBH GM-10.

D. Operating Income Issues.

1. Salary of Paul Levie.

Mr. Paul Levie is the president and primary shareholder of Chino Meadows and Granite Mountain. He provides management services for both companies for which he receives a flat fee in compensation. Company witness Ray Jones testified that Mr. Levie's salary for both companies is based on what the Company feels a full-time senior executive at a regulated water company of this size would be paid - $76,800. Because Mr. Levie works about 20 hours per week, his annual salary has been set at $38,400. However, due to an error, Mr. Levie was actually paid $37,700 for the 2013 test year, so that is the amount the Company seeks to recover. Under its proposed allocation rates, the Company seeks to recover $31,700 through Chino Meadows' rates and $6,000 through Granite Mountain's rates.[38]

Staff attempted to determine the reasonableness of Mr. Levie's compensation by reviewing the services actually provided. Unfortunately, Mr. Levie does not maintain time records for his services to Chino Meadows or Granite Mountain, nor does he maintain any records showing the allocation of time he spends on each Company. In response to Staff's DR TBH 1.26 seeking supporting documentation, the company was able to provide only an estimate of his representative monthly schedule. Staff would note that, in the Company's previous rate case, the Commission adopted Staff's position as to Mr. Levie's salary, which was reduced from what the Company sought, on the basis that there were no time records or other supporting documentation for his salary. Although the Company bears the burden of supporting Mr. Levie's salary and Mr. Levie had notice of the risk that his salary could be impacted if he failed to provide supporting documentation, he did not provide that documentation here.[39]

Staff's review of the information provided leads Staff to conclude that Mr. Levie's salary is overstated, at either the $37,700 or the $38,400 level. In general terms, Staff is concerned that, as Mr. Jones acknowledged, Mr. Levie is now nearly 90 years of age and has a number of other businesses. Also, due to recent health issues, Mr. Levie's family is taking over some business

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[38] CM TR at 48-56

[39] *Id;* Exhibit S-3 at 33-36.

functions to relieve the stress on Mr. Levie. This would suggest that he is not providing the same level of services as he has in the past.[40]

More specifically, in reviewing the records the Company provided to Staff to support its Application, Staff determined that Mr. Levie was out of town for 33 percent of the year. The Company describes Mr. Levie's duties as supervision and management of company personnel; oversight of company operations; provision of strategic direction; review of company financial data including payables, receivable, revenue and expenses; provision of legal representation for Company; review of payroll and signing of checks; review and authorization of all vendor payments; acquisition regulation and oversight of company loans and long-term debts; meeting with operations management to review capital program and address operational issues and ensuring that proper facilities and equipment are available; development and review of company processes and procedures to ensure regulatory compliance; and revision and Income Taxes. Given that Mr. Levie indicated that he performed typical duties on a monthly basis and the nature of the services provided, if Mr. Levie was out of town for extended periods, he would be unable to perform these functions.[41]

Staff reduced Mr. Levie's salary by $11,761 to reflect this time. Further, Staff identified duplication in the duties of Mr. Levie and his operations manager and decreased his salary by an additional $4,673 to reflect the same. This results in a total reduction of $17,444 to Mr. Levie's salary. Staff recommends allowing a salary of $21,266 for services to Granite Mountain and Chino Meadows, to be allocated according to Staff's recommendation.[42]

2. Miscellaneous and Fallout issues.

The parties show differing levels of depreciation expense due to the differing levels of CIAC. Staff increased the plant in service for storage tanks by $102,223. Staff has adjusted the depreciation expense from $30,165 to $32,434, an increase of $2,269 as shown on Final Schedule TBH GM-21.[43]

Staff recommends $4,410 for test year property tax expense, a $642 decrease to the Company's proposed amount, as shown on Final Schedule TBH GM-22.[44] Staff further recommends

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[40] CM TR at 49.
[41] Exhibit S-3 at 35-37; Schedule TBH CM-20g.
[42] *Id.*
[43] Exhibit S-9.
[44] *Id.*

adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a factor for Property Tax Expense, as shown on Final Schedule TBH GM-2. Staff has revised its income tax expense item and now adopts the Company use of personal rather than corporate income tax rates.

Staff applied the statutory state and federal income tax rates to Staff's revised test year taxable income. Income tax expenses for the test year and recommended revenues are shown on Final Schedule TBM GM-11.[45]

E. Compliance with Commission Orders.

1. Revenues Not Collected Properly.

The issue of the Company's provision of free or discounted water to Mr. Levie's family members was addressed in the Company's last rate case, in Docket No. W-02467A-09-0333. In that case, Granite Mountain reported that 329,610 gallons were used at Daniel Levie's home during the test year and generated no revenues, and that 381,430 gallons were used at Daniel Levie's Stables Property during the test year and generated revenues of only $915.87.[46] As part of the decision in that case, issued on August 31, 2010, it was specifically ordered that "Granite Mountain Water Company, Inc. shall immediately cease providing water without charge and shall immediately cease providing water at a discounted rate.[47] In addition, the Commission ordered:

> [T]hat Commission Staff shall, in reviewing Granite Mountain Water Company, Inc.'s permanent rate case application, scrutinize Granite Mountain Water Company, Inc.'s records to determine whether Granite Mountain Water Company, Inc. has ceased providing free and discounted water and is appropriately collecting revenues from every recipient of water from its system.[48]

The evidence in this case clearly shows that the Company did not discontinue this practice as ordered. As part of Staff's analysis of the rate application in the matter, Staff reviewed the account histories for individuals related to the owners of Granite Mountain. Staff found that Daniel Levie's Home Property (Account 80.002.01) did not reflect any payments from December 2011 through the end of test year. There was one adjustment to remove $1,564.42 on December 10, 2013 for a water

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[45] *Id.*
[46] Decision No. 71869 at 17-18.
[47] *Id.* at 38.
[48] *Id. at* 38-39.

leak and late fees, which Staff accepts. The balance due through the end of the test year after the adjustment was $7,265.68 as shown on Schedule TBH GM-25.[49]

Staff found that the Stables Property (Account 80.001.02) made only sporadic payments and had not been fully collected since September 2010. The balance due through the end of the test year was $1,157.28 as shown on Schedule TBH GM-25.[50]

Staff identified two additional accounts owned by Daniel Levie that were delinquent as well. Account 81.002.01 is for the mobile homes on the Stables Property and shows no payments from July 2011 through the end of test year. The balance at the end of the test year was $7,759.51 as shown on Schedule TBH GM-25. Both accounts were paid by Mr. Paul Levie through Paul D. and Rae Levie Trust in 2014.[51]

In sum, he Company did not properly collect revenues on four water accounts for Daniel Levie, including the two from Decision No. 71869 as shown on Schedule TBH GM-25.[52] Staff adjusted the revenue on account 80.002.01 for Daniel Levie. Staff's total adjusted revenue not properly collected at the end of the test year is $17,369. There were 122 different occurrences of monthly billing statements on these four water accounts not properly collected, as shown on Schedule TBH GM-25.

Although these accounts have now been paid in full,[53] the Company's conduct in this regard was clearly in violation of the Commission's order in Decision No. 71869. The Company has continually failed to adhere to the Commission's orders. Based on the number of occurrences, the related party favoritism and the self-serving transactions by the Company and family members, Staff recommends that the Commission impose a penalty to the Company pursuant to A.R.S. § 40-424 and § 40-425 for the Company's failure to appropriately collect revenues as ordered in Decision No. 71869. Staff recommends that the Company be put on notice that any future violations should be met with penalties as well. As noted, Staff is recommending that the Company develop, submit and precisely follow the provisions of a Code of Affiliate Conduct.

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[49] Exhibit S-3 at 46-51.
[50] *Id.*
[51] *Id.*
[52] *Id.*
[53] Exhibit S-9 at 4.

2. Affiliate Transactions.

Staff's evaluation of Granite Mountain's rate application revealed several problematic transactions between the Company and its affiliate, Chino Meadows, and between the Company and its president and shareholder, Paul Levie, and his family. In response to Staff's DR TBH 1.31, the Company, through Mr. Jones, provided schedules of Accounts Receivable and Notes Payable for associate companies for 2010 through 2014.[54] The amounts due as of the end of the 2013 test year were: Chino Meadows - Other $19,891, Antelope Lakes $8,782, GFL CMI Tract B Water Line $15,196, PDL Trust $15,000 and PDL Zooki on behalf on Mr. Paul Levie's son, Mr. Daniel Levie $260. The total is $59,129.

On November 30, 2015, Granite Mountain provided its Accounting Report for Affiliated Receivables from December 31, 2013 to November 13, 2015.[55] This showed that all non-water company receivables were paid in full. The remaining Receivable Balance of $18,022.14 consists of $9,239.68 for Chino Meadows II Water and $8,782.46 for Antelope Lakes Water Company.[56]

The Company asserts that the Antelope Lakes Water and Granite Mountain accounts are not receivables or payables 'in a traditional sense,' and that neither Antelope Lakes nor Chino Meadows is required to make any payments. The Company characterizes each as an "intercompany balance, similar as to what would be recorded between a parent holding company and utility subsidiary companies or between utility subsidiary company when cash is transferred from one utility subsidiary to the parent holding company or another utility subsidiary and vice versa."[57] The Company does concede that the other accounts represent personal transactions.[58]

Staff disagrees that these accounts are not receivables and payables and thus not subject to A.R.S. §40-301-B. These are amounts payable over a period greater than twelve months and require Commission approval. Subsequent to the filing of the Pre-filed Testimony in this case, all non-utility payables were paid in full. However, given the Company's history and concerns with the Company's

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[54] Exhibits S-3, Attachment G.
[55] Exhibit S-9 at 3-4.
[56] *Id.*
[57] Exhibit S-1, Attachment G.
[58] *Id.*

lack of a specific plan for transitioning of management in the event Mr. Levie is no longer able to perform that function, Staff believes it would be in the best interests of both the Company and its customers that these considerations be incorporated as a part of the Code of Affiliate Conduct, and that Staff be authorized to appoint an interim manager if the Company violates any part of the Code of Affiliate Conduct.

3. WIFA Loan.

During the hearing held herein on September 23, 2015, a concern regarding the status of Granite Mountain's loan from the Water Infrastructure Finance Authority of Arizona ("WIFA"). Decision No. 74384 had ordered that beginning in the month that financing documents are executed for the loan to fund the post test year plant, and continuing until the loan is paid in full, the Company was to set aside $10.00 from each customer's monthly bill payment which was to be deposited in an interest-bearing account established for that purpose. These funds were them to be used only to repay the loan.[59] The loan was executed in May 2014, at which time the set-asides should have begun. However, the first set-aside was not begun until November 2014. Mr. Jones testified that the Company was unaware that the set aside was to begin in May 2014 and only began setting aside funds in November 2014, when the first payment was due to WIFA.[60]

On November 30, 2015, the Company filed its late-filed exhibits, including Exhibit A-4, which reflected all deposits and transactions for the WIFA Loan Bank Account required by Decision No. 74384. That document revealed that no set-asides had occurred between May and November 2014, that beginning in November 2014, all set asides had been deposited as ordered and, on September 25, 2015, a deposit covering the amount of set-asides that should have been made between May and November 2014 was made into the bank account.[61]

Staff is appreciative of the efforts the Company has made, however belated, to come into compliance with the Commission's orders identified herein. However, it is evident that the Company has had a long history of non-compliance regarding improper affiliate transactions, failure to seek Commission approval for financing, giving family members free or discounted water, and failing to

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[59] Decision No. 74384 at 27.
[60] TR at 1214.
[61] Exhibit A-4; Exhibit A-5 at 4; Exhibit S-9 at 5.

set aside funds as directed. All of these activities continued throughout the 2013 test year, and some beyond it. Only when a rate case was to be filed did the Company appear to begin to take corrective action. Given the length and breadth of the Company's non-compliance, Staff believes it would be appropriate to impose fines upon this Company.

Staff also appreciates that Mr. Levie's assurance to Mr. Jones that he wants every order complied with and will do whatever it takes to accomplish that.[62] However, as Mr. Jones noted, Mr. Levie is 90 years old, is experiencing health issues, and is contributing less time to the business.[63] Although his family members are attempting to assist in management matters, no transition plan has been made.[64] For these reasons, it is more critical than ever that a Code of Affiliate Conduct be adapted so that whomever assumes responsibility for management of the Company will have some guidance. The terms of the Code of Affiliate Conduct are identical to those recommended for Chino Meadows and are fully discussed in the Opening Brief in that rate case, Docket No. W-02370A-14-0231, and incorporated herein by this reference.

F. Rate Design.

The Company proposes a rate design which it says essentially keeps the current ratio of revenue from the base charge and the commodity charges.[65]

Staff recommends increases in the minimum monthly charge for all meter sizes. Staff recommends that the monthly minimum for the 5/8 x 3/4-inch meter be $37.50. Staff recommends break-over points at 3,000 and 8,000 gallons for the 5/8 x 3/4-inch meter. Staff recommends an increase to commodity rates in all three tiers. First commodity tier rate would increase by $2.35 from $4.40 per 1,000 gallons to $6.75 per 1,000 gallons. Second commodity tier rate would increase by $3.65 from $6.60 per 1,000 gallons to $10.25 per 1,000 gallons. Third commodity tier rate would increase by $4.10 from $7.90 per 1,000 gallons to $12.00 per 1,000 gallons. The typical 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons would increase by $23.55 from $41.21 to

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[62] TR at 118.
[63] CM TR at 49
[64] *Id* at 85-87.
[65] Exhibit A-1 at 18.

$64.76. Staff's recommended rates are shown on Final Schedule TBH GM-26 and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown on Final Schedule TBH GM-27.[66]

IV. CONCLUSION.

Staff respectfully requests that the Commission adopt its recommendations on the disputed issues for the reasons stated above and the testimony provided.

RESPECTFULLY SUBMITTED this 22nd day of April, 2016.

By [signature]
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[66] Exhibit S-9 at 3.