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DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF the APPLICATION of) REGULATORY DIVISION
AquaFlo, LLC for Authority to Permanently)
Increase Rates and Charges and Amend Tariff) DOCKET NO. D2011-4-14
Rules and Regulations for Water and Sewer)
Service to its Helena, Montana, Customer)

**AQUAFLO, LLC RESPONSES TO MONTANA CONSUMER COUNSEL
DATA REQUESTS MCC-001 TO MCC-022**

AquaFlo's position remains unchanged that the PSC lacks the authority to impose discovery requirements upon an entity such as AquaSierra, which the PSC does not and cannot legally regulate.

However, in an effort to mitigate the financial impact on its consumers of a lengthy and expensive court action, pursuant to the Notice of Commission action issued on February 8, 2012, AquaFlo, LLC (AquaFlo) submits amended responses to MCC-002 and MCC-005.

In order to make the document easier to use (and so that the manner in which it appears is consistent with the manner in which the amended responses to the PSC data requests are being filed), AquaFlo is simply including the amended responses with the responses that have not changed so that all of the responses appear in a single document.

MCC-001 RE: Adjustments to O&M expenses
Witness: Sandra Barrows

Please detail the \$34,500 in total projected rate case expense as listed on page nine of your pre-filed direct testimony by outlining and describing the different categories of rate case expense included, the estimated hours of time comprising each category, and the hourly rate or charge for each expense category.

RESPONSE:

Legal: 125 hours at \$180 per hour = \$22,500
Regulatory consultant: 80 hours at \$150 per hour = \$12,000

MCC-002 RE: Ownership
Witness: John Maxness

Please indicate whether any of the individual providers of contracted services to AquaFlo personally, or through ownership/membership of any legal entity have a direct or an indirect interest in AquaSierra, LLC.

RESPONSE:

This data request is directed by the MCC to John Maxness. However, the only witness for whom pre-filed testimony has been filed to this point is Sandra Barrows. AquaFlo would therefore respectfully request that the data request be changed so that it is directed to Ms. Barrows. While AquaFlo reserves the right to call Mr. Maxness as a rebuttal witness, AquaFlo does not currently intend to call Mr. Maxness as a witness at the hearing of this matter.

Amended Response:

Yes, John Maxness has an interest in AquaSierra, LLC

MCC-003 RE: Adjustments to O&M expenses
Witness: Sandra Barrows

For each of the individual nine adjustments outlined in statement 38.5.157 please explain why you chose to use projected expenses or the three year average of expenses rather than actual expenses from the test year and provide the actual accrual basis amounts for 2010.

RESPONSE:

	2010 accrual basis
Operation and Maintenance	\$10,124
Billing / Meter Reading	\$19,258
Management	\$ 9,102
Professional Services and Fees	\$ 7,488
Testing & Monitoring	\$ 3,966
Field Equipment & Supplies	\$ 14
Office Expense & Supplies	\$ 1,440
Public Relation / Meetings	\$ 1,008
Rate Case Expense	\$ 0

AquaFlo believes the proposed amounts as outlined in statement 38.5.157 best represent normalized expenses. The calculations take into account known and measurable changes

occurring within 12 months of the end of the test year and also the fact that the 2010 test year, as ordered by the Commission, didn't have the much needed rate increase until near mid-year. For example, during 2010 AquaFlo deferred property maintenance and as a result received complaints from the Home Owners Association. System maintenance was also deferred. Continued deferral of maintenance is not an option. Management expense was calculated based on the contract. For Testing and Monitoring, the number and frequency of DEQ required testing increased during 2010. This change was accounted for in the pro forma adjustment. Clearly, \$14 for Field Equipment and Supplies is not a sufficient amount to cover ongoing expenses so a three year average was used. Because there are no specific contracts or requirements on which to base a calculation, a three year average was also used for Office Equipment & Supplies and Public Relation / Meetings. While a three year average was used for Billing and Meter Reading, this expense would more accurately be calculated by using the contracts. Using the contracts would result in a pro forma decrease of \$1,450 instead of a \$4,742 decrease (2010 actual \$23,584; proforma decrease \$1,450; 2010 adjusted total \$22,134). For Professional Services and Fees, a three year average would have resulted in an annual expense calculation of \$20,058. AquaFlo thought this was too high, so instead choose to use a lower annual estimate of \$12,955. Rate Case expense was included to reflect the current rate application at the Commission.

MCC-004 RE: Billing
Witness: Sandra Barrows

Please provide an explanation and example of AquaFlo's billing cycle including:

- a) When bills are sent;
- b) The period of water and wastewater service covered by those bills;
- c) The due date for those bills.

RESPONSE:

- a. Bills are sent by the 25th of each month (between the 21st and 25th).
- b. Period of service is from meter read to meter read (approximately 20th to 20th of each month).
- c. Bills are due by the 15th of the following month.

For example, a meter would be read on January 20th; the bill would be sent by January 25th and due February 15th.

MCC-005 RE: Audits
Witness: Sandra Barrows

Please provide copies of any audit reports that have been produced concerning AquaFlo or its parent AquaSierra, LLC since the inception of AquaFlo in 2007.

RESPONSE:

No audit reports have been produced for AquaFlo.

Amended Response:

The current AquaSierra management is not aware of and does not possess AquaSierra audit reports for 2007 through 2010. No audit reports have been produced for AquaSierra in 2011 as this is simply a pass-through company that normally would not produce such reports.

MCC-006 RE: Property Taxes
Witness: Sandra Barrows

Please provide copies of AquaFlo's property tax bills for 2009 and 2010.

RESPONSE:

The 2009 and 2010 property tax statements are attached hereto as MCC-006. Schedule K (38.5.173) reduced the recorded 2010 property tax payment by \$480 resulting in proposed annual property taxes of \$2,034. The reduction should have been \$1,282; for an annual property tax amount of \$1,232.

MCC-007 RE: Water Consumption
Witness: Sandra Barrows

What was the maximum water demand for the shortest time period that such information is available (hourly, daily etc.) for 2009 and for 2010?

RESPONSE:

2009: 2,774,700 gallons for the time period 8/19/09 to 9/22/09.

2010: 2,083,900 gallons for the time period 6/21/10 to 7/21/10.

MCC-008 RE: Water Production
Witness: Sandra Barrows

What is the capacity of each well in the water system in terms of pumped gallons per minute and please indicate any major design elements of the system such as the number of wells or the size of the pumps that were required to meet Department of Environmental Quality (DEQ) or other regulatory requirements.

RESPONSE:

Wells one and two each have a tandem capacity of 100 gallons per minute. The third well has a capacity of 35 gallons per minute.

The capacity of each well was set by the Department of Natural Resources and Conservation (DNRC).

MCC-009 RE: Schedules
Witness: Sandra Barrows

Please provide a copy of all exhibits, schedules, and supporting work papers included in your pre-filed direct testimony in electronic format with all links and formulas intact.

RESPONSE:

An electronic version of the excel file has been provided to MCC and PSC staff.

MCC-010 RE: Waste Water capacity
Witness: Sandra Barrows

Please provide an explanation of how the waste water system works including the capacity of the system and historical peak flows for 2009 and 2010. Please indicate if any of those peak flows were caused by anomalous events outside of the system such as flooding.

RESPONSE:

Approximately 6.5 million gallons of wastewater per year is generated by the system. It is first filtered through septic tanks located at each connection where solids are removed. Then via a gravitational collection system, the waste water is collected in a basin, filtered again and then pumped to the effluent treatment plant. The effluent is then filtered yet again and divided among three sand filtration systems where the water is biologically filtered through the sand filters five times before being pumped to a discharge basin where it is filtered again before being pumped to one of several discharge systems where the treated water is discharged back into the ground.

The highest daily recorded flow for 2009 was 18,926 gallons on October 7, 2009. The highest daily recorded flow for 2010 was 23,303 gallons on March 17, 2010. AquaFlo cannot definitively determine if an anomalous event caused a specific peak flow.

The capacity of the waste water plant, as mandated by the Department of Environmental Quality (DEQ), is 30,660 gallons per day.

MCC-011 RE: Statement C – Utility Plant Accounts
Witness: Sandra Barrows

It was indicated at the discovery audit that the \$5,473 reduction in Account 303 Land & land rights from the end of 2009 to the end of 2010 was from land being used to pay off a debt. Please specify:

- a) The name of the creditor and if they are or were affiliated with AquaFlo directly or indirectly.
- b) The description of the land involved and how it was valued.
- c) Whether the debt is completely paid off.
- d) Whether this payment of utility property for a debt also resulted in any ownership interest in the utility being created or increased.
- e) Whether the land involved is necessary for the provision of utility service and if so, why?

RESPONSE

- a. The creditor was AquaSierra, LLC. AquaSierra, LLC owns 100% of the membership shares of AquaFlo, LLC. See PSC-014 Attachment C.
- b. Skyview Phase II Block 7 Lot 6A. \$5,473 was the value assigned at the time of the 2007 sale.
- c. Yes. Note: The debt was paid off January 4, 2011. The referenced reduction should not have been reflected at 2010 year end.
- d. No.
- e. Skyview Phase II Block 7 Lot 6A served as the previous drain field, it was decommissioned in 2007 and physically disconnected from the system.

MCC-012 RE: Capital Structure
Witness: Sandra Barrows

Statement A shows Long Term Debt at the end of 2010 of \$67,302 but there is a note on Statement F saying that as of February, 2011 AquaFlo had 100% equity. Please specify:

- a) The particular consideration given for retirement of those liabilities and by whom since according to Statement A AquaFlo had a negative cash balance at the end of 2010.
- b) If someone or some entity other than AquaFlo retired these liabilities, did this create a new or increased direct or indirect ownership interest in AquaFlo for that person(s) or entity(s)?

RESPONSE

- a. See Response to PSC-014.

Secured Promissory Note for \$100,000 between AquaFlo, LLC, a Montana Limited Liability Company and W.A. (Bill) Gallagher, individually, the "Borrower" and MT Associates, LLC, a Montana Limited Liability Company, the "Lender". The \$22,642 balance was paid off by AquaSierra, LLC in January 2011.

Promissory Note for \$50,747 between AquaFlo, LLC ("Borrower") and Valley Bank of Helena ("Lender"). The \$44,818 balance was paid off by AquaSierra, LLC in January 2011.

Note: The difference between \$67,302 and \$67,460 (\$22,642 + \$44,818) is the interest that accrued from the end of 2010 to when the debts were paid in January, 2011.

- b. No.

MCC-013 RE: Debt Retirement
Witness: Sandra Barrows

Regarding the retirement of all debt in February, 2011:

- a) Please indicate where in the 2011 ledger provided at the discovery audit in response to PSC-009 the transaction(s) showing the retirement of all debts is/are recorded.
- b) If those transactions are not shown please provide a complete ledger for 2011 that includes those transactions; otherwise, please provide an explanation of why those transactions are not reflected on the books of AquaFlo.

RESPONSE:

- a. The transactions are not in the 2011 ledger.
- b. The ledgers that exist are provided in response to PSC-019 (Audit Request PSC-009). See also PSC-014.

MCC-014 RE: Payments to Accounting Beans, LLC
Witness: Sandra Barrows

How many hours did Accounting Beans, LLC log in providing accounting and collection services to AquaFlo in 2009, 2010, and for the first half of 2011?

RESPONSE:

The terms of the contract with Accounting Beans, LLC are not based solely on hours. Total hours worked are not submitted.

MCC-015 RE: Public Relations/Meetings
Witness: Sandra Barrows

Line 9 of Statement G lists Public Relations/Meetings expense. Please specify exactly what these expenses were for and the subject matter discussed at the meetings supported by this expense.

RESPONSE:

The expenses incurred were associated with Home Owners Association meetings. AquaFlo provided food and promotional items to be used as incentives for attendance. Topics discussed during the meetings included conservation, budget billing and general education of system use.

MCC-016 RE: Chart of Accounts
Witness: Sandra Barrows

Please provide the Chart of Accounts for AquaFlo.

RESPONSE:

AquaFlo does not maintain a chart of accounts.

MCC-017 RE: General Ledger
Witness: Sandra Barrows

Please provide a general ledger for 2009, 2010, and year to date 2011 showing the balance and activity of all accounts along with corresponding account numbers.

RESPONSE:

The AquaFlo general ledgers are provided in response to PSC-019 (Audit Request PSC-009).

MCC-018 RE: Meter Reconciliation
Witness: Sandra Barrows

Is there a reconciliation completed of the pump house master meter to the total readings from individual customer meters? If the answer is yes, please provide copies for 2009 and 2010.

RESPONSE:

No.

MCC-019 RE: Form 8832 Election
Witness: Sandra Barrows

Does AquaFlo have any plans to change its Form 8832 election to be treated like a C Corporation for federal income tax purposes?

RESPONSE:

No.

MCC-020 RE: Land
Witness: Sandra Barrows

Please describe how Lot 6A, Block 7, Skyview Subdivision, Phase II is used in the provision of utility service, and indicate whether this lot could be used for purposes of building a single family dwelling or commercial structure.

RESPONSE:

The referenced lot served as the previous drain field, it was decommissioned in 2007 and physically disconnected from the system.

The lot could not be used for purposes of building a single family dwelling or commercial structure requiring water and wastewater service without approval from DEQ.

MCC-021 RE: Land
Witness: Sandra Barrows

Please describe how Lot 14, Block 11, Skyview Subdivision, Phase IV-A is used in the provision of utility service, and indicate whether this lot could be used for purposes of building a single family dwelling or commercial structure.

RESPONSE:

The referenced lot is where the water/pump house and reservoir are located.

With the current utility structures in place, no, this lot could not be used for the purposes of building a single family dwelling or commercial structure. Approval from DEQ would also be required.

MCC-022 RE: Land
Witness: Sandra Barrows

Please describe how Lot 9A, Block 3, Skyview Subdivision, Phase II is used in the provision of utility service, and indicate whether this lot could be used for purposes of building a single family dwelling or commercial structure.

RESPONSE:

The referenced lot is where the sewer plant and drain field are located.

With the current utility structures in place, no, this lot could not be used for the purposes of building a single family dwelling or commercial structure. Approval from DEQ would also be required.

RESPECTFULLY SUBMITTED this 17th day of February, 2012.



Michael Strand
Attorney for AquaFlo