



BEFORE THE ARIZONA CORPORATION CO. COMMISSION  
Arizona Corporation Commission

DOCKETED

JUL 28 2006

COMMISSIONERS

- JEFF HATCH-MILLER, Chairman
- WILLIAM A. MUNDELL
- MARC SPITZER
- MIKE GLEASON
- KRISTIN K. MAYES

DOCKETED BY	ne
-------------	----

IN THE MATTER OF THE APPLICATION OF  
TORTOLITA WATER COMPANY FOR A RATE  
INCREASE.

DOCKET NO. W-02301A-05-0873

DECISION NO. 68864

**ORDER**

Open Meeting  
July 25 and 26, 2006  
Phoenix, Arizona

**BY THE COMMISSION:**

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

\* \* \* \* \*

**FINDINGS OF FACT**

1. Tortolita Water Company ("Tortolita" or "Company") is an Arizona corporation that provides water utility service in an area of Pima County, northwest of Tucson.
2. On December 5, 2005, Tortolita filed an application with the Commission for a rate increase.
3. On January 4, 2006, February 6, 2006 and March 16, 2006, Commission Utility Division Staff (Staff") notified the Company that its application was not sufficient pursuant to Commission rules.
4. On January 19, 2006, February 21, 2006 and March 26, 2006, the Company provided additional information in support of its application.
5. On April 19, 2006, Staff notified the Company that its application was sufficient, and classified the Company a Class E utility.
6. The Company notified is customers of its rate application on December 2, 2005.

1           7.     Staff filed its Staff Report in June 19, 2006, and recommended rates and charges  
2 different than those proposed by the Company in its application.

3           8.     The Company's current rates were set in Decision No. 47973 (June 8, 1977).

4           9.     In the Test Year ended December 31, 2004, the Company had approximately four  
5 customers, but in 2005, had only one customer. The three customers that were lost are a mobile  
6 home that was moved from the property<sup>1</sup>, an irrigation system that was disconnected and an  
7 excavating company that completed its project.

8           10.    Tortolita's system was originally designed in 1976 to serve a 12 lot subdivision which  
9 was never built. The water system was recently expanded in preparation of serving a new  
10 subdivision comprising 25 lots known as "The Estate Lots at Tortolita Preserve" which is a single  
11 family subdivision with each lot ranging in size from approximately 2.5 acres to 4 acres. The  
12 developer and the shareholder of the water company are the same entity—Moore Corridor Limited  
13 Partnership.

14           11.    The Company's current system consists of a single well site with one well pumped  
15 into two storage tanks, followed by a booster pump and pressure tank. The facilities are new, except  
16 for the well which was drilled in 1970 and one of the storage tanks.

17           12.    In the Test Year, as adjusted by Staff, Tortolita suffered an operating loss of \$13,021  
18 on total revenues of \$1,171.

19           13.    The Company proposed rates that would produce operating revenues of \$3,012 and an  
20 operating loss of \$4,590.

21           14.    Staff recommends rates that would produce revenues of \$17,645 and an operating  
22 income of \$2,990, for an operating margin of 16.95 percent on an adjusted rate base of \$1,457.

23           15.    The rates and charges for Torolita, as proposed in the application, and as  
24 recommended by Staff are as follows:

25  
26  
27  
28 

---

<sup>1</sup> The water company had owned a mobile home that it rented to a non-employee. The landowner plans to develop the property for residential homes, and has removed the mobile home from the property.

	<u>Present Rates</u>	<u>Proposed Company</u>	<u>Proposed Staff</u>
1			
2	<u>MONTHLY USAGE CHARGE:</u>		
3			
4	5/8" x 3/4" Meter	\$15.00	\$20.00
5	3/4" Meter	0.00	20.00
6	1" Meter	0.00	24.50
7	1 1/2" Meter	0.00	125.00
8	2" Meter	0.00	200.00
9	3" Meter	0.00	375.00
10	4" Meter	0.00	625.00
11	6" Meter	0.00	1,250.00
12	Gallons included in the minimum:	5,000	0
13			0
14	<u>COMMODITY CHARGE</u>		
15	Excess of minimum – per 1,000 gallons		
16	<b>5/8 x 3/4 inch meter</b>		
17	Tier One - 0 to 3,000 gallons	n/a	\$3.00
18	Tier Two – 3,001 to 5,000 gallons	n/a	4.70
19	Tier Three – over 5,000 gallons	n/a	7.00
20	<b>3/4 inch meter</b>		
21	Tier One - 0 to 3,000 gallons	n/a	\$3.00
22	Tier Two – 3,001 to 5,000 gallons	n/a	4.70
23	Tier Three – over 5,000 gallons	n/a	7.00
24	<b>1 inch meter</b>		
25	Tier One - 0 to 7,500 gallons	n/a	\$3.00
26	Tier Two – 7,501 to 12,500 gallons	n/a	4.70
27	Tier Three – over 12,500 gallons	n/a	7.00
28	<b>1 1/2 inch meter</b>		
29	Tier One - 0 to 15,000 gallons	n/a	\$3.00
30	Tier Two – 15,001 to 25,000 gallons	n/a	4.70
31	Tier Three – over 25,000 gallons	n/a	7.00
32	<b>2 inch meter</b>		
33	Tier One - 0 to 24,000 gallons	n/a	\$3.00
34	Tier Two – 24,001 to 40,000 gallons	n/a	4.70
35	Tier Three – over 40,000 gallons	n/a	7.00
36	<b>3 inch meter</b>		

1	Tier One - 0 to 48,000 gallons	n/a	\$3.50	\$3.00
2	Tier Two - 48,001 to 80,000 gallons	n/a	4.50	4.70
3	Tier Three - over 80,000 gallons	n/a	5.50	7.00
4	<b>4 inch meter</b>			
5	Tier One - 0 to 125,000 gallons	n/a	\$3.50	\$3.00
6	Tier Two - 125,001 to 200,000 gallons	n/a	4.50	4.70
7	Tier Three - over 200,000 gallons	n/a	5.50	7.00
8	<b>6 inch meter</b>			
9	Tier One - 0 to 150,000 gallons	n/a	\$3.50	\$3.00
10	Tier Two - 150,001 to 250,000 gallons	n/a	4.50	4.70
11	Tier Three - over 250,000 gallons	n/a	5.50	7.00
12	Standpipe - per 1,000 gallons)	n/a	n/a	\$7.00

**SERVICE LINE AND METER INSTALLATION CHARGES:**

(Refundable pursuant to A.A.C. R14-2-40-5)

	<u>Present Rates</u>	<u>Proposed Company</u>	<u>Proposed Staff</u>	
14	5/8" x 3/4" Meter	\$ 100.00	\$520.00	\$520.00
15	3/4" Meter	120.00	600.00	600.00
16	1" Meter	160.00	690.00	690.00
17	1 1/2" Meter	300.00	935.00	935.00
18	2" Meter Turbo	400.00	1,595.00	1,595.00
19	2" Meter Compound	N/A	2,320.00	2,320.00
20	3" Meter Turbo	N/A	2,275.00	2,275.00
21	3" Meter Compound	N/A	3,110.00	3,110.00
22	4" Meter Turbo	N/A	3,520.00	3,520.00
23	4" Meter Compound	N/A	4,475.00	4,475.00
24	6" Meter Turbo	N/A	6,275.00	6,275.00
25	6" Meter Compound	N/A	8,050.00	8,050.00

**SERVICE CHARGE:**

23	Establishment	\$0.00	\$25.00	\$25.00
24	Establishment (After Hours)	n/a	35.00	35.00
25	Reconnection (Delinquent)	5.00	50.00	50.00
26	Meter Test (If Correct)	n/a	0.00	10.00
27	Deposit	per rule	per rule	*
28	Deposit Interest	per rule	per rule	*
	Reestablishment (Within 12 Months)	25.00	per rule	**
	NSF Check	n/a	15.00	15.00
	Deferred Payment	0.00%	Per rule	*

1	Meter Reread (If Correct)	2.50	10.00	10.00
2	Late Fee	n/a	1.5% per mo	***

3 MONTHLY SERVICE CHARGE FOR  
4 FIRE SPRINKLER

4	4" or Smaller	\$0.00	\$0.00	****
5	6"	\$0.00	\$0.00	****
6	8"	\$0.00	\$0.00	****
7	10"	\$0.00	\$0.00	****
8	Larger than 10"	\$0.00	\$0.00	****

9 \* Per Commission rule A.A.C. R-14-2-403(B).

10 \*\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

11 \*\*\* 1.50 percent per month on the unpaid monthly balance

12 \*\*\*\* 1.00% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

13 16. The Company reported a rate base of \$61,787, comprised of net plant in service. Staff  
14 reduced total rate base by \$60,331, to \$1,457. Staff removed all the old plant that was no longer  
15 used or useful and allowed post-test year contributed plant of \$381,919. Staff treated the post-test  
16 year plant as contributed plant. Staff also included \$1,457 in working capital based on the formula  
17 method of calculating working capital and using Staff's recommended operating expenses.

18 17. Staff's adjustments to rate base, as reflected in the Staff Report are reasonable and  
19 should be adopted. Thus, Tortolita's Original Cost Rate Base is determined to be \$1,457 which is  
20 the same as its fair value rate base ("FVRB").

21 18. Staff made no adjustments to test year metered revenue, but accepted the Company's  
22 adjustments which reported revenue on an accrual basis and annualized test year revenues.

23 19. Staff's adjustments to Operating Expenses, increased total expenses from \$7,602 to  
24 \$14,192. Staff adjusted expenses to reflect the total number of customers at build-out of the 25 lot  
25 subdivision rather than for the single current customer. This adjustment reduces the burden on the  
26 current customer. Staff's adjustments: (a) increased purchased power by \$2,471 from \$567 to  
27 \$3,038 to reflect the cost of purchased power for 25 customers; (b) removed the office supplies and  
28 expense of \$56 because the Company will engage an outside service company to handle day-to-day

1 administrative, billing and collections operations; (c) increased outside services by \$6,845, from  
2 \$1,375 to \$8,220 to reflect the cost of having an outside service company and for the cost of an  
3 outside certified operator; (d) increased water testing by \$735, from zero, to reflect the projected  
4 cost of MAP testing; (e) decreased rent expense by \$2,600, from \$2,600 to zero, because the  
5 Company no longer rents a mobile trailer home; (f) decreased miscellaneous expense from \$110 to  
6 zero as the Company will not have the expense on a going-forward basis; and (g) decreased  
7 depreciation expense by \$695, to zero, because the Company installed all new plant that is treated  
8 as a contribution, and depreciation expense is offset by CIAC amortization.

9 20. Staff's adjustments to Operating Expenses, as reflected in the Staff Report, are  
10 reasonable and should be accepted.

11 21. The Company proposed an inverted three tier rate structure. Staff concurs with the  
12 rate design, but not with the tier break points as proposed for the one inch meter. The Company  
13 expects all connections will have a one inch meter. Staff believes that its recommended tiers, which  
14 have varying break points based on size, will provide an economic incentive for large consumption  
15 customers to conserve.

16 22. As reflected above, Staff concurs with the Company's proposed service line and meter  
17 installation charges, and most of the proposed service charges. Staff asserts that the Company did  
18 not provide justification for increasing the "reconnection (delinquent)" fee from \$5.00 to \$50.00,  
19 and recommends that \$40.00 is reasonable and normal. The Company did not propose a monthly  
20 service charge for fire sprinklers and Staff recommends such monthly service charge be included in  
21 the tariff. New homes will be required to have fire sprinklers installed.

22 23. The Company's proposed rates would increase a residential bill with a median usage  
23 of 9,500 gallons from \$21.75 for a 5/8 inch meter to \$59.25 for a 5/8 inch meter and one inch meter,  
24 for an increase of \$37.50 or 172.40 percent.

25 24. Staff's recommended rates would increase the typical residential bill with a median  
26 usage of 9,500 gallons from \$21.75 for a 5/8 inch meter to \$59.00 for a 5/8 inch meter and a one  
27 inch meter for an increase of \$37.25 or 171.30 percent.

1           25. Staff's recommended rates and charges are fair and reasonable and should be adopted.

2           26. The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic  
3 maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu$ /l") to 10  
4  $\mu$ /l. The level of arsenic reported for the Company's well complies with the new arsenic MCL.

5           27. Currently the Tortolita system is not regulated by the Arizona Department of  
6 Environmental Quality ("ADEQ") because it is a semi-public system with only one connection.  
7 Projected future growth will bring the system within the jurisdiction of ADEQ.

8           28. The Company is in compliance with Commission orders, rules and regulations.

9           29. Tortolita is within the Tucson Active Management Area ("AMA"). Because the  
10 Company supplies less than 250 acre-feet per year for non-irrigation use, it is considered a "small  
11 provider" and is not subject to the gallons per capita per day ("GPCD") limit and conservation rules,  
12 and is only required to monitor and report water use. The Arizona Department of Water Resources  
13 ("ADWR") reports that Tortolita is in compliance with its monitoring and reporting requirements.

14           30. Tortolita has an approved curtailment tariff on file with the Commission. Staff  
15 recommends that the Company amend this tariff to reflect the correct Public Water System  
16 Identification Number and that the revised tariff be filed with Docket Control as a compliance item  
17 for Staff review within 45 days of the effective date of the Decision in this matter.

18           31. Staff determined that the Company has not been utilizing the NARUC Uniform  
19 System of Accounts.

20           32. Staff further recommends:

- 21           a. In addition to its regular rates and charges, the Company collect a  
22 proportionate share of any privilege, sales or use tax per Commission rule R14-  
23 2-490(D)(5);
- 24           b. The Company docket with the Commission a tariff with its approved rates and  
25 charges within 30 days after the Decision in this matter is issued;
- 26           c. The Company use the Uniform System of Accounts provided by NARUC and  
27 within 60 days of the Decision in this matter, the Company should file an  
28

1 affidavit with Docket Control stating that its books and accounting are now in  
2 compliance with NARUC;

3 d. The Company use the specific depreciation rates by NARUC category as  
4 recommended in the Engineering Report, Exhibit 3 to the Staff Report;

5 e. That the Company be required to file a rate case application within five years  
6 of the Decision in this matter; and

7 f. The Company utilize the plant balances in Section B of the Engineering Report  
8 for future reference and depreciation purposes.

9 33. Because an allowance for the property tax expense of Tortolita is included in the  
10 Company's rates and will be collected from its customers, the Commission seeks assurances from the  
11 Company that any taxes collected from ratepayers have been remitted to the appropriate taxing  
12 authority. It has come to the Commission's attention that a number of water companies have been  
13 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,  
14 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure Tortolita  
15 should annually file, as part of its annual report, an affidavit with the Utilities Division attesting that  
16 the Company is current in paying its property taxes in Arizona.

#### 17 CONCLUSIONS OF LAW

18 1. Tortolita is a public service corporation within the meaning of Article XV of the  
19 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

20 2. The Commission has jurisdiction over Tortolita and of the subject matter of the  
21 application.

22 3. Notice of the application was provided in the manner prescribed by law.

23 4. The rates and charges authorized hereinbelow are just and reasonable and should be  
24 approved without a hearing.

25 5. Staff's recommendations, as set forth in Findings of Fact Nos. 30 and 32 are  
26 reasonable and should be adopted.

**ORDER**

IT IS THEREFORE ORDERED that Tortolita Water Company is hereby directed to file with Docket Control as a compliance item, within 30 days of the effective date of this Decision, revised rate schedules setting forth the following rates and charges:

**MONTHLY USAGE CHARGE:**

5/8" x 3/4" Meter	\$20.00
3/4" Meter	20.00
1" Meter	24.50
1 1/2" Meter	125.00
2" Meter	200.00
3" Meter	375.00
4" Meter	625.00
6" Meter	1,250.00

**COMMODITY CHARGE**

Gallage charge – per 1,000 gallons

**5/8 x 3/4 inch meter**

Tier One - 0 to 3,000 gallons	\$3.00
Tier Two – 3,001 to 5,000 gallons	4.70
Tier Three – over 5,000 gallons	7.00

**3/4 inch meter**

Tier One - 0 to 3,000 gallons	\$3.00
Tier Two – 3,001 to 5,000 gallons	4.70
Tier Three – over 5,000 gallons	7.00

**1 inch meter**

Tier One - 0 to 7,500 gallons	\$3.00
Tier Two – 7,501 to 12,500 gallons	4.70
Tier Three – over 12,500 gallons	7.00

**1 1/2 inch meter**

Tier One - 0 to 15,000 gallons	\$3.00
Tier Two – 15,001 to 25,000 gallons	4.70
Tier Three – over 25,000 gallons	7.00

1	<b>2 inch meter</b>	
2	Tier One - 0 to 24,000 gallons	\$3.00
3	Tier Two - 24,001 to 40,000 gallons	4.70
4	Tier Three - over 40,000 gallons	7.00
5	<b>3 inch meter</b>	
6	Tier One - 0 to 48,000 gallons	\$3.00
7	Tier Two - 48,001 to 80,000 gallons	4.70
8	Tier Three - over 80,000 gallons	7.00
9	<b>4 inch meter</b>	
10	Tier One - 0 to 125,000 gallons	\$3.00
11	Tier Two - 125,001 to 200,000 gallons	4.70
12	Tier Three - over 200,000 gallons	7.00
13	<b>6 inch meter</b>	
14	Tier One - 0 to 150,000 gallons	\$3.00
15	Tier Two - 150,001 to 250,000 gallons	4.70
16	Tier Three - over 250,000 gallons	7.00
17	Standpipe - per 1,000 gallons)	\$7.00
18	<b><u>SERVICE LINE AND METER INSTALLATION CHARGES:</u></b>	
19	(Refundable pursuant to A.A.C. R14-2-40-5)	
20	5/8" x 3/4" Meter	\$520.00
21	3/4" Meter	600.00
22	1" Meter	690.00
23	1 1/2" Meter	935.00
24	2" Meter Turbo	1,595.00
25	2" Meter Compound	2,320.00
26	3" Meter Turbo	2,275.00
27	3" Meter Compound	3,110.00
28	4" Meter Turbo	3,520.00
	4" Meter Compound	4,475.00
	6" Meter Turbo	6,275.00
	6" Meter Compound	8,050.00
	<b><u>SERVICE CHARGE:</u></b>	
	Establishment	\$25.00

1	Establishment (After Hours)	35.00
	Reconnection (Delinquent)	50.00
2	Meter Test (If Correct)	10.00
3	Deposit	*
	Deposit Interest	*
4	Reestablishment (Within 12 Months)	**
	NSF Check	15.00
5	Deferred Payment	*
	Meter Reread (If Correct)	10.00
6	Late Fee	***

7 MONTHLY SERVICE CHARGE FOR  
8 FIRE SPRINKLER

9	4" or Smaller	****
	6"	****
	8"	****
10	10"	****
11	Larger than 10"	****

- \* Per Commission rule A.A.C. R-14-2-403(B).
- \*\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
- \*\*\* 1.50 percent per month on the unpaid monthly balance
- \*\*\*\* 1.00% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

17 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service  
18 provided on and after August 1, 2006.

19 IT IS FURTHER ORDERED that Tortolita Water Company shall notify its customers, in a  
20 form approved by Staff, of the rates and charges authorized hereinabove and the effective date of  
21 same by means of an insert in its next regular monthly billing.

22 IT IS FURTHER ORDERED that Torolita Water Company shall collect a proportionate share  
23 of any privilege, sales or use tax.

24 IT IS FURTHER ORDERED that on a going-forward basis, Torolita Water Company shall  
25 use the depreciation rates by individual NARUC category, and shall utilize the plant balances as set  
26 forth in the Engineering Report attached to the Staff Report in this matter.

27 IT IS FURTHER ORDERED that Tortolita Water Company shall use the Uniform System of  
28 Accounts provided by NARUC and within 60 days of the Decision in this matter, shall file an

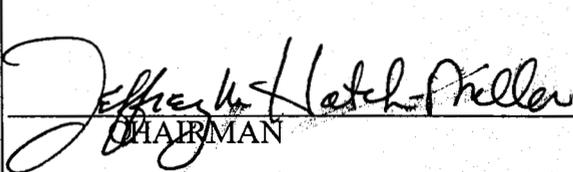
1 affidavit with Docket Control stating that its books and accounting are now in compliance with  
2 NARUC.

3 IT IS FURTHER ORDERED that Tortolita Water Company shall file a rate case application  
4 within five years of this Decision.

5 IT IS FURTHER ORDERED that Tortolita Water Company shall annually file as part of its  
6 annual report, an affidavit with the Utilities Division attesting that the Company is current in paying  
7 its property taxes in Arizona.

8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

10  
11   
12 CHAIRMAN

  
COMMISSIONER

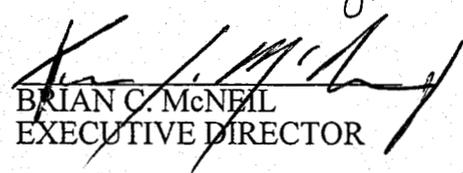
13  
14  
15 Commissioner Spitzer resigned  
effective 7-21-2006

16 COMMISSIONER

  
COMMISSIONER

  
COMMISSIONER

17  
18 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
19 Director of the Arizona Corporation Commission, have  
20 hereunto set my hand and caused the official seal of the  
21 Commission to be affixed at the Capitol, in the City of Phoenix,  
22 this 28<sup>th</sup> day of July, 2006.

  
23 BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

24 DISSENT \_\_\_\_\_

25  
26 DISSENT \_\_\_\_\_

27 JR:mj  
28

1 SERVICE LIST FOR: TORTOLITA WATER COMPANY

2 DOCKET NO.: W-02301A-05-0873

3  
4 Karyn Ullery  
Tortolita Water Company  
5 3567 East Sunrise Dr., Suite 119  
Tucson, Arizona 85718

6 Christopher Kempley, Chief Counsel  
7 Legal Division  
ARIZONA CORPORATION COMMISSION  
8 1200 W. Washington Street  
Phoenix, Arizona 85007

9 Ernest Johnson, Director  
10 Utilities Division  
ARIZONA CORPORATION COMMISSION  
11 1200 W. Washington Street  
Phoenix, Arizona 85007