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Transcript Exhibit(s)

AZ CORP COMMISSION  
DOCKET CONTROL

Docket#(s): W-01583A-04-0178

W-01583A-05-0326

W-01583A-05-0340

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Arizona Corporation Commission  
**DOCKETED**  
DEC 19 2007

DOCKETED BY 

Exhibit #: A1-A4, S1

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**EXHIBIT A-1**  
(Affidavit of Mailing)

Las Quintas Serenas Water Co.  
Docket Nos. W-01583A-04-0178,  
W-01583A-05-0326 and W-01583A-05-0340  
November 14, 2007

# LAS QUINTAS SERENAS WATER COMPANY

P.O. Box 68

Sahuarita, Arizona 85629

Telephone: 520.625.8040 Facsimile: 520.648.3520

October 16, 2007

## RECEIVED RECEIVED

Docket Control  
Arizona Corporation Commission  
1201 W Washington Street  
Phoenix, Arizona 85007

10/15/2007 10/15/2007  
Lawrence V. Robertson, Jr. Lawrence V. Robertson, Jr.

Subject: Affidavit of Mailing  
Docket Nos: W-01583A-04-0178, W-01583A-05-0326, W-01583A-05-0340

To Whom It May Concern;

In accordance with the Procedural Order dated September 24, 2007, referencing docket numbers W-01583-A-04-0178, W-01583A-05-0326, and W-01583A-05-0340, I have enclosed the original Affidavit of Mailing of the Public Notice of Hearing on the Fire Sprinkler Tariff of Las Quintas Serenas Water Company for filing, along with the Docket Control Cover Sheet.

Please note that I have also included seventeen (17) copies of each document. The first page of each copy, including the original, has been marked with the appropriate docket number.

Also note that copies of the mailing affidavit were forwarded to the attention of Ms. Jane L. Rodda, Administrative Law Judge, Mr. Ernest Johnson, Director; ACC Utilities Division, Mr. Christopher Kempley; Chief Counsel; ACC Legal Division, and Mr. Lawrence V. Robertson, Jr.; Munger Chadwick, PLC.

If you have any questions, need clarification or additional information, please do not hesitate to contact me at the office, (520) 625-8040. If you do not reach me, please leave a brief message with a telephone number where I can contact you and I will return your call as soon as possible.

Sincerely,

*Kaycee Conger*  
Kaycee Conger; Administrative Manager  
Las Quintas Serenas Water Company

## RECEIVED

10/16/2007

Lawrence V. Robertson, Jr.

cc: Lawrence V. Robertson Jr., Munger Chadwick, PLC  
correspondence file

# LAS QUINTAS SERENAS WATER COMPANY

P.O. Box 68

Sahuarita, Arizona 85629

Telephone: 520.625.8040 Facsimile: 520.648.3520

## AFFIDAVIT OF MAILING

STATE OF ARIZONA     )  
                                  ) SS  
County of Pima         )

Kaycee Conger; Administrative Manager for Las Quintas Serenas Water Company, being duly sworn, states that on Monday, October 16, 2007, she mailed a copy of a Public Notice of Hearing on the Fire Sprinkler Tariff of Las Quintas Serenas Water Company (a copy of which is hereto attached) to each customer of record at his or her last known mailing address as it was recorded on the books of Las Quintas Serenas Water Company or as could otherwise be reasonably determined where no address existed. Such copies were deposited in the United States Post Office in the Town of Sahuarita, Arizona, postage prepaid, and duly addressed.

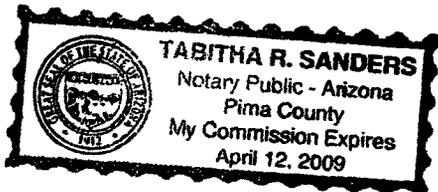
IN WITNESS WHEREOF, the undersigned party has executed this Affidavit of Mailing this 16<sup>th</sup> day of October, 2007.

BY: *Kaycee Conger*  
**COPI**

SUBSCRIBED AND SWORN TO before me this 16<sup>th</sup> day of October, 2007, by *Kaycee Conger*

My Commission Expires: *April 12, 2009*

*[Signature]*  
Notary Public



**PUBLIC NOTICE OF HEARING ON THE  
FIRE SPRINKLER TARIFF OF  
LAS QUINTAS SERENAS WATER COMPANY  
Docket No. W-01583A-04-0178 ET AL**

On August 22, 2007, the Arizona Corporation Commission ("Commission") re-opened Docket No. W-01583A-04-0178 et al. for the purpose of implementing a fire sprinkler tariff for Las Quintas Serenas Water Company ("Company"). On September 6, 2007, the Company submitted a proposed fire sprinkler tariff. The Company proposes a charge of \$10.00 for each fire sprinkler connection 6 inches or smaller and a \$15.00 charge for each fire sprinkler connection larger than 6 inches. The Company has stated that at this time, it is not proposing to alter its other rates and charges on account of its proposed fire sprinkler tariff.

The Commission's Utilities Division Staff has not yet made a recommendation regarding the Company's proposed fire sprinkler tariff, and the Commission will determine whether the proposed fire sprinkler tariff should be approved based on the evidence of record in this proceeding. The Commission is not bound by the proposals made by the Company, Staff, or any intervenors and, therefore, the final tariff approved in this docket may contain different terms or charges that are either lower or higher than the proposed charges. Copies of the proposed tariff are available at the Company's offices located at 75 W. Calle de las Tiendas, Suite 115-B, Green Valley Arizona, 85614 and on the internet via the Commission website ([www.azcc.gov](http://www.azcc.gov)) using the e-docket function.

The Commission will hold a **hearing** on this matter beginning **November 14, 2007, at 10:00 a.m.** at the Commission's offices, **Room 131**, 400 West Congress, Tucson Arizona. Public comments will be taken at the beginning of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission no later than **November 5, 2007**. The motion to intervene must be sent to the Company or its counsel and to all parties of record, and must contain the following:

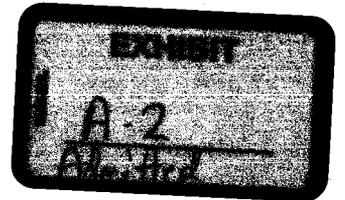
1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different from the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, etc.).
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the tariff or from filing written comments in the record of the case. You will not receive any further notice of this proceeding unless you request it.

If you have any substantive questions about this application you may contact the Company: Kaycee Conger; Administrative Manager, 75 W. Calle de las Tiendas, Suite 115-B, Green Valley Arizona 85614, call 520-625-8040, or e-mail at [lqswater@aol.com](mailto:lqswater@aol.com).

If you wish to file written comments regarding the tariff, or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix Arizona 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Linda Hogan, at [LHogan@azcc.gov](mailto:LHogan@azcc.gov), voice phone number 602/542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.



**EXHIBIT A-2**  
(Proposed Fire Sprinkler  
Service Tariff)

Las Quintas Serenas Water Co.  
Docket Nos. W-01583A-04-0178,  
W-01583A-05-0326 and W-01583A-05-0340  
November 14, 2007

**LAWRENCE V. ROBERTSON, JR.**  
**ATTORNEY AT LAW**

**P. O. Box 1448**  
**TUBAC, ARIZONA 85646**

**(520) 398-0411**  
**FAX: (520) 398-0412**  
**EMAIL: TUBACLAWYER@AOL.COM**

**OF COUNSEL TO**  
**MUNGER CHADWICK, P.L.C.**

**ADMITTED TO PRACTICE IN:**  
**ARIZONA, COLORADO, MONTANA,**  
**NEVADA, TEXAS, WYOMING,**  
**DISTRICT OF COLUMBIA**

September 6, 2007

Chairman Mike Gleason  
Commissioner William A. Mundell  
Commissioner Jeff Hatch-Miller  
Commissioner Kristin K. Mayes  
Commissioner Gary Pierce  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Re: Las Quintas Serenas Water Co.  
Docket Nos. W-01583A-04-0178, W-01583A-05-0326 and  
W-01583A-05-0340

Dear Chairman Gleason and Commissioners Mundell, Hatch-Miller, Mayes and Pierce:

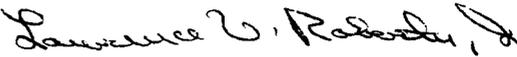
It is the understanding of Las Quintas Serenas Water Co. ("LQS") that the Commission recently directed the Commission's Hearing Division to institute a proceeding pursuant to A.R.S. § 40-252 for the purpose of inquiring as to whether a Fire Sprinkler Service Tariff should be added to LQS' currently authorized rates and charges for water service. To date, to the knowledge of the undersigned, no Procedural Order has as yet been issued instituting such a proceeding.

However, in anticipation of such a development, LQS' Management has developed a proposed Fire Sprinkler Service Tariff for consideration by the Commission and other interested parties. At a meeting conducted earlier this afternoon at LQS' offices, LQS' Board of Directors authorized the undersigned to transmit a copy of the proposed tariff as an informational courtesy to each of you in advance of the yet to be scheduled hearing. Accordingly, a copy of the proposed tariff is enclosed with this letter.

Chairman Mike Gleason  
Commissioner William A. Mundell  
Commissioner Jeff Hatch-Miller  
Commissioner Kristin K. Mayes  
Commissioner Gary Pierce  
September 6, 2007  
Page 2 of 2

Copies of the proposed tariff are also contemporaneously being mailed to Unity Church and the Town of Sahuarita, as well as the other indicated copy recipients of this letter.

Sincerely,

  
Lawrence V. Robertson, Jr.

cc: Unity Church  
Town of Sahuarita  
Hon. Jane Rodda  
Ernest Johnson  
Steve Olea  
Christopher Kempley  
Las Quintas Serenas Water Co.

**TARIFF SCHEDULE**  
**FIRE SPRINKLER SERVICE**

**AREA OF AVAILABILITY:** In the certificated water utility service area of Las Quintas Serenas Water Co. ("Company") where (i) the fire sprinkler system to be served has been specifically designed to serve the structure in which the fire sprinkler system has been or is to be installed, (ii) the designer of the fire sprinkler system has fully taken into account the then existing delivery capacity and pressure of that portion of Company's water system facilities which will provide service to the fire sprinkler system, (iii) the Town of Sahuarita and/or Pima County certifies that the fire sprinkler system to be served does or will satisfy all applicable ordinances and codes, and (iv) the fulfillment of conditions (i) through (iii) above is demonstrated to Company's satisfaction.

**LIMITED APPLICABILITY:** Water service provided pursuant to this tariff is limited solely to water for fire sprinkler systems, which are designed to provide a "first response" to an actual or potential fire. Company's water system facilities are not designed or constructed to provide water service in satisfaction of fire protection service or fire hydrant flow requirements. In addition, no water may be taken through fire sprinkler systems for any purpose other than providing a "first response" to actual or potential fires; and, connections or taps to fire sprinkler service facilities for any other purpose are prohibited.

**MONTHLY BILL:**

**RATE**            \$10.00 for each fire sprinkler connection 6" or smaller  
                      15.00 for each fire sprinkler connection above 6"  
                      (Water used incident to this service is supplied at no additional charge)

**PLUS**            The applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of the gross revenue of the Company and/or the price or revenue from the water or service sold and/or the volume of water pumped or purchased for sale and/or sold hereunder. In the event of any increase or decrease in taxes or other governmental impositions, monthly bills shall be adjusted to reflect such increase or decrease.

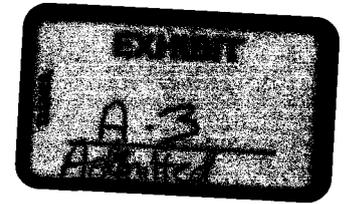
**TERMS AND CONDITIONS:** Subject to the Company's "Water Service Rules and Regulations" and/or applicable decisions or regulations of the Arizona Corporation Commission.

**SPECIAL PROVISIONS:** Applicants for and recipients of service under this tariff expressly acknowledge, accept and agree that (i) Company does not have water system facilities capable of satisfying fire protection service or fire hydrant flow requirements, and (ii) Company is not, either expressly or impliedly, warranting or representing that it can or will provide fire protection service or fire hydrant flow service.

In connection with the provision of fire sprinkler service under this tariff, Company will specify, furnish, install, own and maintain all facilities related to the provision of fire sprinkler service up to the point of interconnection with Customer's check valve and back-flow prevention facilities. Prior to the installation of such facilities, Customer will pay to Company the full cost of acquiring and installing such facilities, including the cost of all labor and material. Such payment shall be non-refundable to Customer.

Fire sprinkler systems served pursuant to this tariff must be installed and maintained in accordance with standards (i) established by the National Fire Protection Association, and (ii) which are acceptable to the Town of Sahuarita and/or Pima County.

In the event of any activation of a fire sprinkler system and the resulting use of water, Customer must notify Company within forty-eight (48) hours of such event.



**EXHIBIT A-3**  
(Prepared Direct Testimony  
of Kaycee Conger)

Las Quintas Serenas Water Co.  
Docket Nos. W-01583A-04-0178,  
W-01583A-05-0326 and W-01583A-05-0340  
November 14, 2007

LAWRENCE V. ROBERTSON, JR.  
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OF COUNSEL TO  
MUNGER CHADWICK, P.L.C.

ADMITTED TO PRACTICE IN:  
ARIZONA, COLORADO, MONTANA,  
NEVADA, TEXAS, WYOMING,  
DISTRICT OF COLUMBIA

October 9, 2007

RECEIVED

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

OCT 10 2007

ARIZONA CORP. COMM  
400 W CONGRESS STE 218 TUCSON AZ 85701

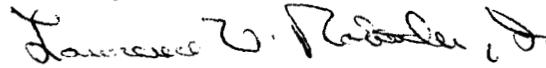
Re: Las Quintas Serenas Water Co.  
Docket Nos. W-01583A-04-0178,  
W-01583A-05-0326 and W-01583A-05-0340

To Whom It May Concern:

Pursuant to the Second Ordering Paragraph of the September 24, 2007 Procedural Order issued in the above-referenced docketed proceedings, enclosed for filing are the original and seventeen (17) copies of the Prepared Direct Testimony of Kaycee Conger on behalf of Las Quintas Serenas Water Co.

Thank you for your assistance with regard to this matter.

Sincerely,



Lawrence V. Robertson, Jr.

cc: Hon. Jane L. Rodda  
Ernest Johnson  
Christopher Kempley  
Kevin Torrey  
Parties of Record  
Las Quintas Serenas Water Co.

LAWRENCE V. ROBERTSON, JR.  
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P.O. Box 1448  
Tubac, Arizona 85646  
(520) 398-0411

1 PREPARED DIRECT TESTIMONY  
2 OF  
3 KAYCEE CONGER  
4 ON BEHALF OF  
5 LAS QUINTAS SERENAS WATER CO.  
6 (DOCKET NO. W-01583A-04-0178, W-01583A-05-0326, W-01583A-05-0340)

7 **Q.1 Please state your name and your business address.**

8 **A.1** Kaycee Conger. My business address is 75 W. Calle de las Tiendas, Suite 115-B,  
9 Green Valley Arizona, 85614.

10 **Q.2 Are you employed by Las Quintas Serenas Water Co. ("LQS") and, if  
11 so, in what capacity?**

12 **A.2** Yes. I am the Administrative Manager for LQS.

13 **Q.3 Please describe the responsibilities and functions associated with that  
14 position.**

15 **A.3** My responsibility areas include the following: Office/Administrative  
16 Management of Day-to-Day Operations; Public Relations; Budget; Scheduling;  
17 Contracts/Agreements; Primary Interface with Professional Services Entities,  
18 Regulatory Agencies, and State-County-Town Offices; Company Regulatory  
19 Compliance; Submittal of Compliance Reports (such as Payroll, Tax, Agency);  
20 Vulnerability Assessment and Emergency Response Plans; and Publication of  
21 Company Policies, Procedures, and Manuals.

22 **Q.4 How long have you been employed by LQS?**

23 **A.4** 8 - 1/2 years.

24 **Q.5 Are you familiar with the Fire Sprinkler Service Tariff being proposed  
25 by LQS?**

26 **A.5** Yes. I was LQS' principal point of contact with the neighboring water companies  
27 as well as the company's engineering consultant and legal counsel in connection  
28 with (i) researching the subject, (ii) preparing the proposed tariff and (iii)  
presenting the proposed tariff to the LQS Board of Directors for approval.

The proposed Fire Sprinkler Service Tariff for LQS was generally patterned after  
a similar tariff included in the rate schedules of Community Water of Green  
Valley. However, certain revisions and significant language additions were made  
to the LQS tariff in order to specifically address the current capacity limitations of

1 the LQS system. Of particular significance in this regard are the terms and  
2 conditions in the sections on "Area of Availability," "Limited Applicability" and  
3 "Special Provisions," which are prerequisites to receiving service under LQS'  
4 proposed tariff.

5 **Q.6 Does LQS expect the customers with fire sprinkler systems to**  
6 **continue to pay the monthly service charge and the arsenic**  
7 **remediation surcharge they currently pay should the proposed**  
8 **tariff be approved?**

9 A.6 No. If the proposed Fire Sprinkler Service Tariff is accepted and approved by the  
10 Commission, those customers with fire sprinkler systems who opt and qualify to  
11 receive service under the tariff would only be responsible for those charges listed  
12 within the tariff. They would no longer pay a monthly minimum, based on meter  
13 size, or monthly ARSM Surcharge.

14 **Q.7 Would Commission approval of the proposed Fire Sprinkler Service**  
15 **Tariff affect the level of revenue LQS would otherwise receive from its**  
16 **customers; and, if so, how and why?**

17 A.7 Approval of the proposed Fire Sprinkler Service Tariff would result in a reduction  
18 in the level of revenues received by LQS. This is because LQS would no longer  
19 receive the monthly minimum and the monthly ARSM Surcharge associated with  
20 those water system connections which transferred to the new Fire Sprinkler  
21 Service Tariff. The revenues which would result from the new tariff, as to those  
22 service connections, would be substantially less than those currently received  
23 from the applicable monthly minimum and monthly ARSM Surcharges.

24 **Q.8 How will LQS meet those expenses it would otherwise have paid from**  
25 **those "lost" revenues?**

26 A.8 It will have to pay those expenses from other revenues generated on its water  
27 system.

28 **Q.9 How long is it anticipated that this revenue "shortfall" will last?**

A.9 Until LQS' next rate case.

**Q.10 When does the company expect to submit its next rate case?**

A.10 Early 2009.

LAWRENCE V. ROBERTSON, JR.  
ATTORNEY AT LAW  
P.O. Box 1448  
Tubac, Arizona 85646  
(520) 398-0411

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**Q.11 Why does LQS believe that it can continue to fully pay its operating expenses until 2009, given this potential revenue “shortfall”?**

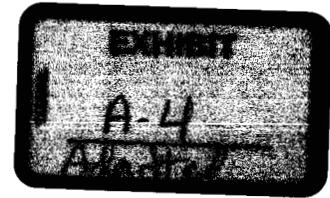
A.11 LQS anticipates only a small number of its current and currently foreseeable customers will both have a desire, and qualify for, fire sprinkler service under the proposed tariff. Thus, it believes that the revenue “shortfall” resulting from Commission approval of the proposed Fire Sprinkler Service Tariff would be relatively small within the context of LQS’ overall water system revenues, and thus manageable. However, it should be recognized that this is a calculated risk, based on certain assumptions.

**Q.12 What was the catalyst that caused LQS to consider proposing a Fire Sprinkler Service Tariff at this time rather than at the company’s next rate case, as is the usual practice?**

A.12 Although the company was anticipating submitting a proposed Fire Sprinkler Service Tariff in its next rate case, the recently expressed interest of the Commissioners in considering the subject at this point in time accelerated LQS’ presentation of such a proposal.

**Q.13 Does that complete your testimony?**

A.13 Yes.



**EXHIBIT A-4**  
(Supplemental Direct Testimony  
of Kaycee Conger)

Las Quintas Serenas Water Co.  
Docket Nos. W-01583A-04-0178,  
W-01583A-05-0326 and W-01583A-05-0340  
November 14, 2007

LAWRENCE V. ROBERTSON, JR.  
ATTORNEY AT LAW  
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Tubac, Arizona 85646  
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1 SUPPLEMENTAL DIRECT TESTIMONY  
2 OF  
3 KAYCEE CONGER  
4 ON BEHALF OF  
5 LAS QUINTAS SERENAS WATER CO.  
6 (DOCKET NO. W-01583A-04-0178, W-01583A-05-0326, W-01583A-05-0340)

7 **Q.1 Please state your name and your position with Las Quintas Serenas Water Co.**  
8 **("LQS").**

9 **A.1** My name is Kaycee Conger, and I am the Administrative Manager of LQS.

10 **Q.2 Please describe the responsibilities associated with your position as Administrative**  
11 **Manager.**

12 **A.2** My responsibility areas include the following: Office/Administrative Management of  
13 Day-to-Day Operations; Public Relations; Budget; Scheduling; Contracts/Agreements;  
14 Primary Interface with Professional Services Entities, Regulatory Agencies, and State-  
15 County-Town Offices; Company Regulatory Compliance; Submittal of Compliance  
16 Reports (such as Payroll, Tax, Agency); Vulnerability Assessment and Emergency  
17 Response Plans; and Publication of Company Policies, Procedures, and Manuals.

18 **Q.3 How long have you been employed by LQS?**

19 **A.3** I have been with LQS for 8 years.

20 **Q.4 Did you oversee the development of the Fire Sprinkler Service Tariff ("Tariff")**  
21 **which LQS filed with the Commission on September 6, 2007, which is the subject of**  
22 **today's hearing?**

23 **A.4** Yes, I did.

24 **Q.5 Does LQS have a Tariff or a rate for fire sprinkler service at this time?**

25 **A.5** No, it does not.

26 **Q.6 Does LQS offer fire hydrant or fire protection flow service on its system at this**  
27 **time?**

28 **A.6** No, it does not. LQS' current water system does not possess the capability to provide  
either the pressures or volumetric throughput or flow which are necessary in order for it  
to be able to provide fire hydrant flow or fire service protection to its customers. LQS

1 also does not have the financial resources at this time to make those capital improvements  
2 which would be necessary in order to provide it with such capability. It would take a  
3 significant increase in the company's revenues, either through a general rate increase or a  
4 special surcharge, before LQS would be in a position to install those facilities necessary  
5 to enable it to provide fire hydrant flow service or fire protection flow service to its  
6 customers.

7 **Q.7 Against this background, why has LQS proposed a fire sprinkler service at this**  
8 **point in time?**

9 A.7 During August 2007, four (4) members of the Commission wrote individual letters in  
10 which they indicated a desire to investigate the feasibility of adding a rate for fire  
11 sprinkler service to LQS' rates and charges at this point in time. These letters appear to  
12 have been occasioned by the Commission's receipt of letters from representatives of  
13 Unity Church and the Town of Sahuarita expressing unhappiness with the fact that LQS  
14 currently does not have a rate for fire sprinkler service.

15 Under these circumstances, LQS concluded that it would be appropriate to submit a  
16 Tariff for consideration by the Commission, which was carefully written and  
17 circumscribed in its applicability, in order to recognize and reflect the present limited  
18 capability of LQS' system. Examples of such circumscription are to be found in the  
19 language of the Tariff under the Area of Availability, Limited Applicability and Special  
20 Provisions subsections.

21 In that regard, it is very important to recognize that the water service which would be  
22 provided under the Tariff would be in the nature of a momentary or short-term fire  
23 suppression service, until the fire district personnel arrived. It would not be sufficient in  
24 and of itself to extinguish a fire of any significance.

25 **Q.8 What are the proposed rates for fire sprinkler service based upon?**

26 A.8 LQS surveyed other water provider systems in the Sahuarita and Green Valley areas to  
27 ascertain which systems provided fire sprinkler service, and, if such service was  
28 provided, at what rate. We found that Sahuarita Water Company and Farmers Investment  
Water Company currently do not provide fire sprinkler service. Community Water  
Company of Green Valley and Green Valley Water District do offer such service, and  
LQS decided to pattern its proposed rates after those of Community Water Company of  
Green Valley, which is adjacent to LQS' service area.

29 **Q.9 Would LQS experience a revenue gain or a revenue loss if the Commission**  
30 **approved the Tariff which LQS has submitted?**

31 A.9 Assuming that one (1) or more existing customers decided to change from an existing  
32 service arrangement to the Tariff, LQS would experience two (2) types of revenue loss  
33 from each such customer.

1 The first type or category of revenue loss would be the monthly minimum payment that  
2 LQS is currently receiving from such customer for the meter in question. The amount  
3 lost would depend upon the meter size involved. But, if we assume a 4-inch meter,  
4 which is what Unity Church has on the line to which its fire sprinkler system is currently  
5 connected, the monthly minimum revenue loss associated with it would be \$225.00.  
Whereas, the monthly revenue received from Unity Church under the Tariff would be  
\$10.00, thus resulting in a net monthly minimum revenue loss from it of \$215.00.

6 In addition, LQS would also no longer be in a position to collect from customers  
7 changing to the Tariff the monthly ARSM Surcharge applicable to the meter size on the  
8 water line connected to their fire sprinkler systems. In the case of Unity Church, the  
9 monthly ARSM Surcharge amount is \$284.20, which would be a second type of category  
10 of revenue loss for LQS. Further complicating the situation is the fact that the ARSM  
11 Surcharge revenues were intended by the Commission as the means through which LQS  
12 would repay the \$5.86 million the Commission authorized LQS to borrow from the  
13 Arizona Water Infrastructure Financing Authority ("WIFA") in order to construct arsenic  
14 treatment facilities for the LQS system. The problem is that each time LQS loses the  
15 ability to collect the ARSM Surcharge from a given customer, because that customer  
16 switches to the Tariff, LQS has to make up those lost revenues from its general revenues  
17 in order to be able to satisfy that portion of its WIFA loan obligation; and, meanwhile,  
18 LQS' general revenues are being reduced by the loss of the monthly minimum payments  
19 I just described.

20 **Q.10 Given the picture of ongoing "revenue erosion" which you have described, how  
21 could LQS even propose a Tariff at this point in time?**

22 A.10 The company did so only after giving the matter a great deal of thought; and, even then, it  
23 did so with some reluctance. In essence, the company had to (i) project the potential  
24 number of current and foreseeable customers who might select service under the Tariff,  
25 and (ii) determine if it could withstand such revenue loss and still satisfy its ongoing  
26 costs of doing business (including the WIFA loan repayments) until its next rate case in  
27 2009. LQS decided that it could, but its financial ability to do so is very definitely "a  
28 calculated gamble," and not a guarantee.

**Q.11 Have you read the November 9, 2007 Staff Report and Recommendations which  
were filed in this proceeding?**

A.11 Yes, I have.

**Q.12 Do you have any comments you wish to make?**

A.12 Yes, in several areas.

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**Q.13 Please proceed to do so.**

A.13 First, the \$5 rate per fire sprinkler service proposed by the Staff is too low, and would not cover LQS' monthly administrative expense for administering the Tariff.

Second, the Staff Report erroneously assumes that only one (1) LQS customer would switch to the new Tariff. Thus, the Staff Report understates the monthly and annual revenue loss resulting from customer conversion to, or, in the case of a new customer, selection of service under the Tariff.

Third, the Staff Report fails to give any consideration to the loss of monthly ARSM Surcharge payments, and the resulting and associated impact on LQS' general revenues and ability to make its WIFA loan payments.

Fourth, and perhaps most egregiously, the Staff Report recommends a \$0.25 increase in the monthly minimum rate for all of LQS' customers as the means for offsetting the monthly and annual revenue loss calculated to result from one (1) customer switching to the Tariff. In other words, the Staff is in effect recommending that all of LQS' other customers subsidize the economic cost of one (1) customer receiving a lower rate. As a matter of principle, LQS cannot and does not support the Staff's \$0.25 rate increase recommendation, even though it appears that the Staff was motivated to assist LQS.

**Q.14 If the Commission was inclined to accept the Staff's Recommendation that the monthly minimum be increased for all of LQS' customers, would the amount of monthly increase need to be greater than \$0.25 in order to accomplish the Staff's goal?**

A.14 Yes. The amount of increase would need to be at least doubled, and perhaps quadrupled per month for all customers. For example, in order to address both the monthly minimum and ARSM Surcharge revenue losses associated with Unity Church, as discussed above, the amount of rate increase to all of LQS' customers would need to be \$0.56 per month. If this amount were to be doubled or quadrupled, the resulting monthly increase would be \$1.12 and \$2.24, respectively, per LQS customer.

**Q.15 Isn't an increase in the range of \$0.56 to \$2.24 a month a relatively small amount for an LQS customer to absorb?**

A.15 That depends upon the customer's circumstances. But the size of the increase under the Staff's recommendation is not the issue. As LQS views the situation, the issue is whether all of LQS' customers should be required to pay a subsidy in order to resolve a situation affecting only a handful of LQS' customers, particularly when that situation can be addressed in a more comprehensive and fair manner in LQS' next rate case. If the Commission is going to consider adopting the Staff's recommended increase in the monthly minimum of all of LQS' customers, the Commission must fully appreciate what, in reality, it is being asked to do.

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**Q.16 Did the Staff submit any data requests to LQS, following LQS' submittal of the Tariff to the Commission, and prior to the filing of the November 5, 2007 Staff Report?**

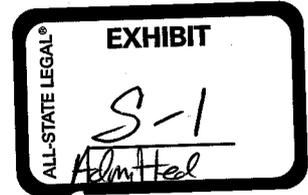
A.16 No. LQS did not receive any data requests from the Staff in connection with the Tariff.

**Q.17 Does that complete your testimony?**

A.17 Yes.

ORIGINAL

MEMORANDUM



30

TO: Docket Control

FROM: Ernest G. Johnson  
*EGJ* Director  
Utilities Division

DATE: November 5, 2007

RE: STAFF REPORT FOR LAS QUINTAS SERENAS WATER COMPANY'S APPLICATION FOR ESTABLISHMENT OF A FIRE SPRINKLER SERVICE TARIFF (DOCKET NO. W-01583A-04-0178, W-01583A-05-0326, AND W-01583A-05-0340)

Attached is the Staff Report for Las Quintas Serenas Water Company's application for the establishment of a fire sprinkler service tariff. Staff recommends approval of the application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 12:00 p.m. on or before November 12, 2007.

EGJ: MEM:red

Originator: Marvin E. Millsap

Attachment: Original and sixteen Copies

Arizona Corporation Commission  
**DOCKETED**  
NOV - 5 2007

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Service List for: Las Quintas Serenas Water Company  
Docket No. W-01583A-04-0178 et al

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**STAFF REPORT  
UTILITY DIVISION  
ARIZONA CORPORATION COMMISSION**

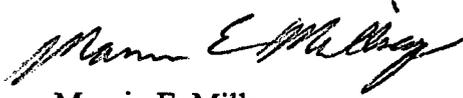
**LAS QUINTAS SERENAS WATER COMPANY  
DOCKET NO. W-01583A-04-0178, W-01583A-05-0326  
AND W-01583A-05-0340**

**APPLICATION  
FOR A  
FIRE SPRINKLER SERVICE TARIFF**

**NOVEMBER 5, 2007**

## STAFF ACKNOWLEDGMENT

The Staff Report for Las Quintas Serenas Water Company, Docket No. W-01583A-04-0178 et al, was the responsibility of Staff member Marvin E. Millsap.

A handwritten signature in cursive script, appearing to read "Marvin E. Millsap".

Marvin E. Millsap  
Public Utilities Analyst IV

**EXECUTIVE SUMMARY**  
**LAS QUINTAS SERENAS WATER COMPANY**  
**DOCKET NO. W-01583A-04-0178, W-01583A-05-0326**  
**AND W-01583A-05-0340**

Las Quintas Serenas Water Company ("Company") currently serves approximately 905 customers in a portion of Pinal County approximately twenty miles south of Tucson in Green Valley, Arizona. The Company is requesting that the establishment of a fire sprinkler service tariff be approved.

Staff recommends approval of its recommended rates and charges as presented in this report.

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**FACT SHEET**

Company: Las Quintas Serenas Water Company

Current rates: Decision No. 68718, re-opened August 22, 2007, as well as Dockets:  
W-01583A-04-0178, W-01583A-05-0326, and W-01583A-05-0340.

Type of ownership: Corporation

Location: The Company currently serves approximately 905 customers in a portion of Pinal County approximately twenty miles south of Tucson in Green Valley, Arizona.

Rates: The Company currently does not have a fire sprinkler service tariff.

Customers: The Company currently has only one customer to whom the fire sprinkler will apply.

Notification:

Customer notification was mailed on October 19, 2007.

## **SUMMARY OF FILING AND BACKGROUND**

The Las Quintas Serenas Water Company ("LQS" or "Company") selected a test year ended September 30, 2003, for a rate increase request docketed as W-1583A-04-0178. Decision No. 67455, dated January 4, 2005, approved revised rates and charges recommended by Staff to be effective January 1, 2005. Neither the rates proposed by the Company nor Staff included a provision for fire sprinkler service. Decision No. 68718 and Dockets W-01583A-04-0178, W-01583A-05-0326, and W-01583A-05-0340 were re-opened by Commission vote on August 22, 2007, for the purpose of considering a fire sprinkler service tariff for LQS.

On September 6, 2007, the Company submitted a letter containing a proposed Fire Sprinkler Service Tariff of \$10.00 per month for each fire sprinkler connection of 6 inches or smaller and \$15.00 per month for each fire sprinkler connection above 6 inches, with water used incident to this service supplied at no additional charge.

The Company's proposed fire sprinkler service rate will reduce operating revenue by \$2,580.00 annually (\$225 per month basic charge for a four-inch meter less the Company's requested fire sprinkler service rate of \$10 per month for a six-inch, or smaller, connection, multiplied by twelve). The Company's 2005 operating revenue (per the 2005 Annual Report) would be reduced by 0.85 percent using LQS' proposed rates.

Utility Division Staff ("Staff") is proposing that the charge for fire sprinkler service be the greater of \$5 per month, or one percent of the minimum monthly charge for the equivalent meter size, for any size fire service connection, which has been the Commission's long standing practice for fire sprinkler tariffs. Staff's proposed fire sprinkler service rate will reduce operating revenue by \$2,640.00 annually (\$225 per month basic charge for a four-inch meter less the Staff's requested fire sprinkler service rate of \$5 per month for a fire service connection multiplied by twelve). The Company's 2005 operating revenue (per the 2005 Annual Report) would be reduced by 0.87 percent using Staff's proposed rates.

In order to compensate LQS for the loss of revenue from the fire sprinkler tariff, Staff recommends that the Monthly Usage Charge for each size of meter be increased by \$0.25. This increase will result in additional revenue of \$2,715.00 annually.

In this case, Staff determined that the Company's fair value rate base was \$161,341. That finding remains appropriate for purposes of evaluating the proposed tariff in this matter. Adopting the fire sprinkler tariff rate and additional Monthly Usage Charge recommended by Staff will have no effect on the Company's rate of return.

Other than the fact that the Commission has had the long standing practice of approving fire sprinkler service tariffs as recommended by Staff in this case, Staff does not find the Company's September 6, 2007 submittal unreasonable.

**STAFF RECOMMENDATIONS**

Staff recommends approval of its Fire Sprinkler Service Rates as presented above. The provisions of the Tariff Schedule for Fire Sprinkler Service submitted by the Company with its letter dated September 6, 2007, should be approved with the exception of the "Monthly Bill:", which should be \$5 per month or one percent of the minimum monthly charge for the equivalent meter size, whichever is greater as proposed by Staff, above.

Staff further recommends approval of an increase in the Monthly Usage Charge for each size of meter of \$0.25.