BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

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

DOCKET NO. W-02500A-06-0281

DECISION NO. **69404**

OPINION AND ORDER

DATE OF HEARING: January 24, 2007

PLACE OF HEARING: Tucson, Arizona

ADMINISTRATIVE LAW JUDGE: Jane L. Rodda

APPEARANCES: Michael F. McNulty. Lewis and Roca, PLC on behalf of Goodman Water Company;

Lawrence Wawrzyniak, Intervenor; and

Robin Mitchell, Staff Attorney, Legal Division, on behalf of the Utilities Division for the Arizona Corporation Commission.

BY THE COMMISSION:

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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. On April 26, 2006, Goodman Water Company ("Goodman" or "Company") filed the above-captioned rate application with the Commission.

2. On May 26, 2006, the Commission's Utilities Division Staff ("Staff") notified the Company that its application was not sufficient under the requirements of the Arizona Administrative Code.

3. The Company filed additional information on June 12, 2006, and June 22, 2006.

4. On July 12, 2006, Staff notified the Company that its rate application was sufficient, and classified the Company as a Class C utility.

5. By Procedural Order dated July 28, 2006, the Commission set the matter for hearing on January 24, 2007, and established other procedural guidelines. By the terms of the Procedural Order, Goodman was to mail notice of the hearing to its customers on or before September 29, 2006. The Procedural Order established an intervention deadline of November 22, 2006.

6. On November 21, 2006, Goodman filed a Motion to Extend Time for Customer Intervention. Goodman reported that due to a misunderstanding, it did not mail notice of the hearing until November 16, 2006.

7. By Procedural Order dated November 27, 2006, the Commission ordered that Goodman send a revised notice of the hearing to its customers, and extended the deadline to intervene until January 15, 2007.

8. On November 29, 2006, Goodman mailed a second, revised notice to its customers pursuant to the November 27, 2006 Procedural Order.

9. The Commission granted intervention to the following individual customers of the Company: Dean and Raynelle Duhl, Patricia Friedrich, Graciela Peschard-Abkin, Heather Robinson, Stewart Wallace, Lawrence Wawrzyniak, Kevin Hernandez, Ellen Kirton, John H. Reese, Michael D. Oaks, Joy Vincent, and Louis and Pauline Gurrieri.

10. On November 24, 2006, Staff filed the Direct Testimonies of Charles Myhlhousen, Steven Irvine and Marlin Scott, Jr.

11. On December 21, 2006, the Company filed the Rebuttal Testimony of Thomas Bourassa.

12. By Procedural Order dated January 10, 2007, the Commission extended the time to file Surrebuttal Testimony until January 12, 2007.

13. On January 12, 2007, Intervenor Wawrzyniak filed a letter containing his comments/testimony.

14. On January 12, 2007, Staff filed the Surrebuttal Testimony of Mr. Myhlhousen and Mr. Irvine.

15. By Procedural Order dated January 19, 2007, the deadline for filing Rejoinder Testimony was extended to January 22, 2007.

16. On January 22, 2007, the Company filed the Rejoinder Testimony of Mr. Bourassa.

17. The hearing convened as scheduled on January 24, 2007, before a duly authorized Administrative Law Judge at the Commission's Tucson offices. Mr. Bourassa, Mr. Alexander Sears, Mr. James Shiner, and Mr. Christopher Hill testified on behalf of Goodman. Mr. Wawrzyniak testified on his own behalf. Mr. Scott, Mr. Myhlhousen and Mr. Irvine testified for Staff.

18. At the hearing, Goodman agreed to extend the deadline for a final Decision on its application so that the Commission could consider the application at its regularly scheduled open meeting in April 2007. (TR at 262) Absent the extension, the deadline for a final Decision pursuant to the Arizona Administrative Code would have been April 9, 2007. The Commission's regularly scheduled Open Meeting is set for April 11 and 12, 2007.

19. In addition to the requests to intervene, over 25 customers of Goodman wrote, phoned, or appeared personally to oppose the proposed increase. In addition, the customers filed a petition in opposition to the increase containing approximately 300 individual signatures, and a second petition containing 38 names from residents whose homes are required to have fire sprinklers and who have special concerns about the equities of the proposed rates.

20. Goodman provides water utility service to a development known as Eagle Crest Ranch, located two miles south of Oracle Junction and approximately 22 miles north of downtown Tucson. In the test year ended September 30, 2005, the Company served approximately 459 customers.

21. Goodman received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 56111 (September 15, 1988). In that Decision, the Commission set initial rates based on an estimated rate base and revenue requirement. The current application is the Company's first rate case since its initial rates were established in 1988.

22. Goodman's shareholders are Mr. Sears, Mr. Shiner, Mr. Shiner's ex-wife, and D.R. Horton (a home building company). Mr. Sears and Mr. Shiner are also principals of a partnership known as Goodman Ranch Associates, a limited partnership which has acted as the master developer

of the Eagle Crest Ranch development. Although the property was acquired and the water company established in the 1980s, market conditions did not favor development until approximately 2002. (TR at 120) While Goodman Ranch Associates is the master developer, D.R. Horton is the physical developer and homebuilder.

23. In the test year, the Company experienced an adjusted operating loss of $78,932 on revenues of $213,348.

24. The Company is seeking total revenues of $538,812, an increase of $325,464, or 152.5 percent, over test year revenues. The Company's testimony reflects adjusted Operating Expenses of $403,147, which would yield Operating Income of $135,665, a 10.5 percent rate of return on a proposed adjusted rate base of $1,292,051.

25. Staff recommends rates that would yield total revenues of $463,194, an increase of $249,846, or 117 percent, over test year revenues. Staff recommends adjusted Operating Expenses of $345,015, which would yield Operating Income of $118,179, a 9.3 percent rate of return on an adjusted rate base of $1,270.741.

26. Goodman's present and proposed rates and charges, and Staff's recommended rates and charges are as follows:

	Present Rates	Proposed Rates Company	Proposed Rates Staff
MONTHLY USAGE CHARGE:			
5/8" x ¾" Meter	$18.00	$44.87	$39.00
¾" Meter	27.00	67.18	59.00
1" Meter	48.00	111.96	95.00
1 ½" Meter	90.00	223.92	195.00
2" Meter	144.00	358.27	305.00
3" Meter	270.00	671.76	624.00
4" Meter	450.00	1,119.60	975.00
6" Meter	900.00	2,239.20	1,950.00
COMMODITY RATES:			
Per 1,000 gallons			
5/8 x ¾ inch meters			
Gallons included in minimum	1,000	0	0
Excess over gallons in minimum	$2.20	N/A	N/A

5/8 x ¾ inch meter			
From 1 to 4,000 gallons		5.02	
4,001 to 10,000 gallons		6.72	
Over 10,000 gallons		7.72	
From 1 to 4,000 gallons			3.60
From 4,001 to 9,000 gallons			5.35
Over 9,000 gallons			6.30
¾ inch meter			
From 1 to 4,000 gallons		5.02	
4,001 to 10,000 gallons		6.72	
Over 10,000 gallons		7.72	
From 1 to 4,000 gallons	N/A	N/A	3.60
From 4,001 to 9,000 gallons	N/A	N/A	5.35
Over 9,000 gallons	N/A	N/A	6.30
One inch meter and larger	2.20	N/A	See Below
0 gallons to 10,000 gallons	N/A	5.02	See Below
From 10,001 to 25,000 gallons	N/A	6.72	See Below
Over 25,000 gallons	N/A	7.72	See Below
1 inch meter			
From 0 to 22,500 gallons	N/A	N/A	5.35
Over 25,000 gallons	N/A	N/A	6.30
1 ½ inch meter			
From 1 to 34,000 gallons	N/A	N/A	5.35
Over 34,000 gallons	N/A	N/A	6.30
2 inch meter			
From 1 to 45,000 gallons	N/A	N/A	5.35
Over 45,000 gallons	N/A	N/A	6.30
3 inch meter			
From 1 to 68,000 gallons	N/A	N/A	5.35
Over 68,000 gallons	N/A	N/A	6.30
4 inch meter			
From 1 to 90,000 gallons	N/A	N/A	5.35
Over 90,000 gallons	N/A	N/A	6.30
6 inch meter			
From 1 to 135,000 gallons	N/A	N/A	5.35
Over 135,000 gallons	N/A	N/A	6.30
Standpipe	$4.75	$7.72	$6.42

Irrigation	See above for meter size	See above for meter size	See above for meter size

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

5/8" x ¾" Meter	$225.00	$225.00	$225.00
¾" Meter	270.00	270.00	270.00
1" Meter	300.00	300.00	300.00
1 ½" Meter	425.00	425.00	425.00
2" Meter	550.00	550.00	550.00
3" Meter	750.00	750.00	750.00
4" Meter	1,375.00	1,375.00	1,375.00
6" Meter	2,800.00	2,800.00	2,800.00

SERVICE CHARGES:

Establishment	$50.00	$50.00	$50.00
Establishment (After Hours)	75.00	75.00	75.00
Reconnection (Delinquent)	75.00	75.00	75.00
Reconnection (After Hours)	N/A	N/A	50.00
Meter Test (If Correct)	20.00	20.00	20.00
Deposit	*	*	*
Deposit Interest	6.0%	6.0%	**
Reestablishment (Within 12 Months)	***	***	***
NSF Check	15.00	15.00	15.00
Deferred Payment per month	18.0%	18.0%	18.0%
Meter Reread (If Correct)	20.00	20.00	20.00
Late Charge per month	10.00	10.00	****

* Per Commission rule A.A.C. R14-2-403(B).
** Per Commission rule R14-2-403.B.3.
*** 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 balance.

Rate Base

27. As reflected in its rejoinder testimony, the Company proposes a rate base of $1,292,651. Goodman and Staff agree on plant balances and all other rate base accounts, except for the Company's request to include an Allowance for Cash Working Capital in the amount of $21,310.

28. Goodman determined its proposed Allowance for Cash Working Capital based on the formula method of calculating working capital, which is dependent on the amount of Operating Expenses. Staff recommends against including an Allowance for Working Capital in rate base because the Company did not perform a lead/lag study, or explain how it determined that it had a positive cash working capital need. Staff argues that the formula method always results in a positive Allowance for Cash Working Capital, while lead/leg studies often result in a negative cash working capital need. Staff states that the Commission permits the use of the formula method of calculating an Allowance for Cash Working Capital for small utilities, but generally requires Class C and larger utilities to perform a lead/lag study to demonstrate a need for Cash Working Capital.

29. Goodman argues that lead/lag studies are expensive to perform and can result in conflict over the methodology of the study. Goodman asserts that working capital represents the invested capital used to support inventories, petty cash, prepayments, minimum bank balances, and the costs of providing services and that when these funds have come from investor sources, they are legitimate investments to provide service and should be reflected in rate base.

30. We find that the Company has not demonstrated that including an Allowance for Cash Working Capital is appropriate in this case. This is Goodman's first rate case, and the Company has never performed a lead/lag study. The formula method of determining an Allowance for Cash Working Capital always results in a positive balance. However, we have no basis for determining if a positive balance would be justified. Without a showing that the Company is entitled to an Allowance for Cash Working Capital, we adopt a zero balance.

31. Consequently, we find the Company has an Original Cost Rate Base, ("OCRB") of $1,270,741.

32. The Company did not propose a reconstruction cost new less depreciation rate base, as is allowed by A.A.C. R14-2-103. Therefore, the Company's fair value rate base ("FVRB") is the same as its OCRB, or $1,270,741.

Operating Revenue and Expenses

33. The Company reported Test Year Operating Expenses of $289,943. Staff made adjustments totaling $21,975, reducing Operating Expenses to $267,968. The areas of dispute

involve Staff's recommended adjustments to Salaries and Wages and to Outside Services. Staff recommended disallowing $25,600 associated with the salary of Mr. Sears, $5,777 associated with payments to Mr. Shiner and $11,916 in payments made to Mr. Hill's company, CWH2 Services LLC ("CWH2"). The parties proposed different totals for Property Tax and Income Tax Expense, as these accounts are dependent on revenues.

34. Mr. Sears is the Company's only employee, and receives a salary of $32,000 a year. According to the Company, Mr. Sears provides for the overall long-term management of the financial and strategic planning of the Company, as well as oversees the preparation and review of monthly and annual financial results; provides for cash management as it relates to capital expenditures and operating expenses; reviews and authorizes payment of Company expenditures; and supervises the preparation of income tax returns. (Ex A-2, Bourassa Rebuttal at 9)

35. From responses to data requests, Staff ascertained that Mr. Sears works for Goodman on an as-needed basis and his weekly hours vary. The Company provided Staff with a list of the types of duties performed by Mr. Sears. Staff recommended removing 80 percent of the salary paid to Mr. Sears because Staff did not believe that the Company had presented Staff with sufficient documentation concerning the hours Mr. Sears worked for the Company or the duties he performed. According to Staff, because the Company was unable to provide time cards or other substantiation, Staff estimated the proportion of time that Mr. Sears worked on duties that would benefit current ratepayers instead of benefiting the development business on future customers in a future CC&N extension. (TR at 230) Staff determined that only one of the five listed categories benefited current ratepayers, and thus allowed 20 percent of Mr. Sear's salary.

36. Mr. Shiner is Goodman's President. He does not receive a salary from Goodman, but is paid on an hourly basis for his services. The Company states that Mr. Shiner and Mr. Sears share responsibility for day-to-day operations. (Ex A-3; Bourassa Rejoinder at 6). In addition to duties that directly relate to the day-to-day operations of the Company, Goodman states that Mr. Shiner supervises the work of outside counsel on regulatory matters; negotiates line extension agreements with developers; and engages in corporate planning, including capital financing and extensions of the Company's CC&N. The Company states that Mr. Shiner also assists Mr. Sears review financial and

operational results and provides input in the long-term financial and operational needs of the Company to adequately address system growth, water supplies and water usage.

37. Staff recommends disallowing $5,777, out of a total of $17,325, paid to Mr. Shiner as consulting fees. Because Mr. Shiner is a co-owner of the Company, Staff viewed payments made to him as "related party transactions" and noted that there are no time-sheets, written reports or contracts between Mr. Shiner and the Company which delineate Mr. Shiner's duties or responsibilities. Thus, Staff found that the Company had not justified all of the expenses paid to Mr. Shiner.

38. The Company argues that Staff's analysis in disallowing a portion of Mr. Shiner's fees and Mr. Sears' salary was inadequate. The Company states that as owners of the Company, Mr. Sears and Mr. Shiner together fulfill the duties and responsibilities of managing the Company. The Company compared the total amount paid to Mr. Sears and Shiner ($32,000 for Mr. Sears and $17,325 for Mr. Shiner) with the average salary paid to top executives working for a private utility, which was $176,982 in 2006 pursuant to the compensation survey performed by the American Water Works Association. The Company argued it would not be possible to find a top executive to work part-time, as Mr. Sears and Shiner do, and that Goodman would have to pay more than the total paid to these individuals to hire someone to perform the executive and managerial services they are performing.

39. Mr. Hill, through his company CWH2, has a contract with Goodman to act as a General Manager for the Company. (Ex A-3, Bourassa Rejoinder; Exhibit 2) Staff recommends removing $11,916 paid to CWH2. Staff states that Mr. Hill spends approximately 4 to 8 hours a month providing services to Goodman and based on the Company's response to a Staff data request, Staff believes that the services performed by Mr. Hill duplicate the services provided by YL Technologies, the firm that has contracted to act as Goodman's Certified Operator. Staff did not find the invoices from Mr. Hill to be sufficiently detailed to allow Staff to conclude Mr. Hill was providing more managerial-type services than those day-to-day services provided by YL Technologies. (TR at 240)

40. The Company argued that Mr. Hill does not duplicate the services provided by YL Technologies. The Company asserts that YL Technologies provides for more of the day-to-day operations including customer billing and customer service, while CWH2 provides management support which includes consulting services to: 1) assist in regulatory matters and management of staffing; 2) assist in developing and review of Company policies and procedures; 3) assist in planning for plant and security improvements; 4) provide advice to maintain a well run water system; and 5) assist in monitoring the progress and activities of other professionals that may from time to time be contracted to perform work, including YL Technologies. The Company notes that CWH2 is an unrelated third-party and charges fees at market rates.

41. The responses the Company provided to Staff's data requests were not sufficiently detailed to allow Staff to fully scrutinize the payments made to Mr. Sears, Mr. Shiner and CWH2. Mr. Myhlhousen did not testify that overall expenses for Wages and Salaries and Outside Services were unreasonable for a company like Goodman, but rather that he could not verify that the time spent on activities would benefit ratepayers as opposed to the developer, or that services were not duplicative. Mr. Sears, Mr. Shiner and Mr. Hill all testified at the hearing, clarifying the scope of their duties on behalf of the water company. Based on all of the evidence before us, we find that the salary of $32,000 paid to Mr. Sears is reasonable and should be allowed. However, we concur with Staff that the Company has not met its burden of demonstrating that all of Mr. Shiner's billed time benefited the water company business. Mr. Shiner testified that he reviews financial statements, supervises Mr. Hill, the lawyers and engineers, and is on-call for emergencies. (TR at 127-129) Mr. Shiner does not have a contract with the Company and the Company did not provide documentation describing specific tasks being billed. Absent documentation that would verify that Mr. Shiner's billed hours were devoted to utility business, we find Staff's methodology of allowing a percentage of Mr. Shiner's fees to be reasonable. Where the utility and developer are owned by the same individuals, and those individuals work for both entities, the utility must be able to provide sufficient records that would allow the Commission to audit the related-party payments and be assured that the business of each are kept separate, and that ratepayers are not charged, even inadvertently, with expenses more property associated with the developer. The Company should have contracts with Mr.

Shiner that detail his duties on behalf of the utility, and his billing invoices should be sufficiently detailed to allow a determination that his activities were specific to the utility. Furthermore, as Mr. Sears and Mr. Shiner share some of the responsibility of managing Goodman, Mr. Shiner should not be billing the Company for the same activities for which Mr. Sears is being paid.

42. The testimony indicates that Mr. Hill does not duplicate the services of YL Technologies. Consequently, we will allow the $11,916 paid to CWH2.

43. Thus, based on the foregoing, we find for the test year, total adjusted operating expenses of $292,280 and total revenues of $213,438, which produced an adjusted loss of $78,932.

Cost of Capital

44. Goodman's capital structure consists of 100 percent equity.

45. Goodman proposes a cost of equity of 10.5 percent. In analyzing the cost of equity, the Company's expert witness, Mr. Bourassa, applied two versions of the constant growth Discounted Cash Flow ("DCF") Model, and a two-stage DCF model based on the six publicly traded water utilities in the sample group. Mr. Bourassa's DCF models produce an indicated equity cost of between 9.8 percent and 11.4 percent. (Ex A-3, Bourassa Rejoinder at 9) Mr. Bourassa also developed and reviewed cost of equity estimates based on the bond-yield plus risk premium method, which indicated a cost of equity in the range of 10.1 to 11.3 percent. (Id.) In the third part of his analysis, Mr. Bourassa compared the actual and authorized returns reported in *AUS Utility Reports* to the results of this DCF and risk premium methods. According to Mr. Bourassa, the range of actual returns is from 10.1 percent to 10.2 percent, and the range of authorized returns is from 10.8 percent to 11.3 percent. Finally, Mr. Bourassa considered *Value Line's* most current forecasts of the composite equity return for the water utility industry, which indicated a composite return of 9.5 percent for 2006, 10.5 percent for 2007 and 11.5 percent for 2009. Based on the foregoing, Mr. Bourassa testified that 10.5 percent is a reasonable rate of return for Goodman, especially, he believes, in light of the additional risk the Company argues is associated with investment in Goodman as compared with the sample group of six publicly traded water utilities employed in the various analyses. Mr. Bourassa did not perform a Capital Asset Pricing Model ("CAPM") analysis,

as he believes that empirical studies indicate the CAPM beta does a relatively poor job of explaining differences in actual returns.

46. Staff recommends a cost of equity of 9.3 percent. In determining the cost of equity, Staff's cost of capital witness, Mr. Irvine, employed the CAPM and DCF models. Mr. Irvine's Constant Growth DCF estimate of cost of equity was 8.5 percent, and his Multi-stage DCF estimate resulted in a cost of equity of 9.5 percent, resulting in an average of 9.0 percent. Mr. Irvine's CAPM method produced a cost of equity estimate of 10.7 percent using an historical market risk premium and 8.5 percent utilizing a current market risk premium. The average of Mr. Irvine's CAPM analyses was 9.6 percent. In recommending a cost of equity, cost of capital, and recommended rate of return, Mr. Irvine averaged the results of his DCF and CAPM analyses to arrive at 9.3 percent. (Ex. S-5, Irvine Surrebuttal, SPI-2)

47. The Company criticized Staff's recommended rate of return on equity as too low given the risks the Company believes it faces, such as its small size, limited revenue and cash flow, small customer base, lack of diversification, and lack of liquidity. In addition, the Company criticizes Staff's selection of inputs to both its CAPM and DCF analyses. Goodman argued Staff's reliance on historic growth rates results in biased estimates. Goodman also takes issue with Staff's use of geometric averages in computing growth rates and its use of median values instead of average values in the CAPM. Mr. Bourassa argues Staff's CAPM was not stable and does not accurately capture the risk associated with relatively small water companies.

48. Staff also criticizes the inputs the Company's witness employed in his DCF analysis, believing the projections of growth to be too optimistic and subjective. Staff asserts that present rates are a better indicator of tomorrow's rates than projected rates. Staff further explains that it uses both analyst projections and historic rates in its analysis as well as both arithmetic and geometric means. Staff asserts its CAPM Market Risk Premium is not unstable, but reflects changes in the current risk premium. Staff further explains that it uses median values for dividend yields as these values are published and readily available to investors. Staff argues that firm size is a unique risk and not grounds for a risk premium. Staff asserts that unique risks that Goodman may face are not

relevant to the determination of the cost of equity, as investors who hold diverse portfolios can eliminate non-systematic risk, and thus, only systematic risk affects cost of equity.

49. Based on all the evidence and circumstances, we find that Staff's recommended cost of equity of 9.3 percent is fair and reasonable. The estimate is based on accepted methodologies, using neutral and reasonable inputs and is consistent with recent Commission decisions.

50. Both parties recommend utilizing the Company's actual capital structure which consists of 100 percent equity to determine the cost of capital. Consequently, we find that a cost of capital, and rate of return of 9.3 percent for Goodman is fair and reasonable.

Revenue Requirement

51. Based on our findings herein, we determine that Goodman is entitled to a gross revenue increase of $288,304, as summarized below:

Fair Value Rate Base	$1,270,741
Adjusted Operating (Loss)	($78,932)
Required Rate of Return	9.3%
Required Operating Income	$118,179
Operating Income Deficiency	$197,111
Gross Revenue Conversion Factor	1.4626
Gross Revenue Increase	$288,304

Rate Design

52. Goodman currently has a flat rate commodity charge of $2.30 per 1,000 gallons, which applies to all meter sizes and customer classes. One thousand gallons of water are included in the monthly minimum for the 5/8 x ¾ inch meter only. The standpipe rate is $4.75 per 1,000 gallons.

53. The Company proposes a monthly meter charge for the 5/8 x ¾ inch meter of $44.78, and proposes to scale up the monthly charges for the larger meters, based on the 5/8 inch meter. The Company proposes a three tier commodity rate for the 5/8 inch and 3/4 inch residential meters and a

two tier commodity rate for all other meter sizes. The Company includes no gallons in the monthly minimum for any meter size.

54. Staff recommends a three tier inverted rate design for the 5/8 inch and ¾ inch residential customers and two tiers for all other meters. Staff's proposed rates also include no gallons in the monthly minimum.

55. Goodman and Staff each propose rates designed to achieve their proposed revenue levels. They differ on the break points for the tiers. Goodman proposes the same break-over points for all meter sizes, while Staff recommends different break-over points depending on meter size. They also disagree on the appropriate late charge. Staff recommends a late charge of 1.5 percent per month, while Goodman proposes a late charge of 1.5 percent per month or $5.00, whichever is greater. Goodman believed that a late charge of 1.5 percent a month would not sufficiently encourage prompt payment. For example, the Company calculated that on a $50.00 unpaid balance, a 1.5 percent charge would be only $.75.

56. Mr. Wawrzyniak lives in Phase 3-B of the D.R. Horton homes in Eagle Crest Ranch, which homes, because of their location on a cul-de-sac, are required to have fire sprinklers pursuant to the requirements of the Golder Ranch Fire District. D.R. Horton installed 1 inch meters for these homes, apparently under the belief that 1 inch meters were the minimum size required to meet fire flow requirements. The other homes in the development have 5/8 x ¾ inch meters. Because of the larger meter size, the residents of the 42 affected homes argue they would face an unreasonably large increase, not justified by their circumstances or usage. Mr. Wawrzyniak argued that the affected homes are no different than the homes in the rest of the development except for the fire sprinkler requirement, and that unless the sprinklers are operating, they place no greater demand on the system than any other home. Thus, Mr. Wawrzyniak requests the implementation of a fire sprinkler rate that would have a base charge comparable to a 5/8 inch meter. Forty-two homes are currently affected, but as future phases of the Eagle Crest development are constructed, additional homes will be required to have fire sprinklers.

57. Mr. Wawrzyniak presented correspondence from the Golder Ranch Fire District that confirms the fire code requirement that certain homes be installed with fire sprinklers, but stating that the minimum meter size required for these homes is ¾ inch. (Ex I-1).

58. Staff and Goodman confirm that the Golder Ranch Fire District only requires a ¾ inch meter for those homes requiring automatic fire sprinklers. Goodman offered to replace the 1 inch meters with a ¾ inch meter at Goodman's cost (cost of meter and labor) for any affected resident who makes such request. At the hearing, Goodman did not know how much the cost would be, but stated that it would be less than the tariffed installation charge because switching out a meter is less costly than installing the initial meter. (TR at 156 and 171)

59. The applicable Fire Code for Eagle Ranch requires that certain homes, because of their location and size, have automatic fire sprinklers, and that these homes have a minimum meter size of ¾ inch. Goodman's offer to replace the 1 inch meters with ¾ inch meters, at Goodman's cost, is reasonable. Some water companies have separate fire sprinkler tariffs, but these tariffs apply when there is a separate connection and meter serving the fire sprinkler system. Typically these tariffs apply to larger meter sizes and provide that the charge will be the higher of $5 or 1 percent of the monthly minimum of a comparably sized meter. (TR at 200) Residences typically do not have two connections, and could require plumbing reconfigurations to achieve a separate connection for fire sprinklers. Mr. Wawrzyniak suggested a flat rate charge to cover the additional demand on the system caused by the larger meter sizes necessary to meet the applicable fire code. We find that the monthly minimum charge for the ¾ inch meter, which is calculated to cover the potential demand these meters place on the system, is fair and appropriate. The differential between the monthly minimum charge for the ¾ inch meter and the 5/8 inch meter is a proxy for the fire sprinkler charge requested by the Intervenor. On the record before us, we are not able to calculate a charge for fire sprinklers in any other manner. The affected homes, with their ¾ inch meters, place a potential demand on the Company's system, and these homeowners receive the benefits afforded by the larger meter and automatic fire sprinklers.

60. We direct the Company to inform the affected homeowners with 1 inch meters that they can have those meters replaced with ¾ inch meters for an installation charge equivalent to the

Company's cost of the meter plus labor. Goodman shall provide the cost of meter replacement to the homeowners as well as to Staff. To allow sufficient time for the Company to notify the affected customers, for those customers to request the smaller meter, and for the Company to install those meters, for 90 days following the implementation of the new rates, Goodman shall bill these customers at the ¾ inch meter rate applicable under this Order. Any 1 inch meter customer who has not opted to replace his or her meter within 90 days of the effective date of this Order shall thereafter be billed at the appropriate 1 inch meter rate approved herein.

61. In addition to the fire sprinkler issue, Mr. Wawrzyniak, and many of the individuals making public comment, complained that Goodman's proposed rates were significantly higher than surrounding communities such as Oro Valley, Marana and Lago Del Oro which serves the Saddlebrook development. Mr. Wawrzyniak also believed that the proposed tiers are lower than those for the City of Tucson, and Towns of Oro Valley and Marana, which he argues, results in higher commodity rates.

62. We find that the rates and charges approved herein are fair and reasonable. They are based on the specific operating costs and plant investments of Goodman, and cannot fairly be directly compared to municipal providers or other utilities.

63. The rates we approve incorporate Staff's recommended late charge, of 1.5 percent of the outstanding balance. The Company did not demonstrate it has a problem with late payments. The rate we approve is consistent with late fees we have approved for other similarly situated utilities.

64. The average Goodman 5/8 inch meter customer uses 5,509 gallons per month. The median 5/8 inch customer has a usage of 4,500 gallons.

65. The rates adopted herein are calculated to achieve the authorized revenue requirement. Under the approved rates, the average Goodman 5/8 inch meter customer bill would increase by $36.80, or 122.17 percent, from $30.12 to $66.92; and the median 5/8 inch meter bill would increase by $33.06, or 118.14 percent, from $27.90 to $60.96.[1]

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[1] By way of comparison, Goodman's proposed rates would increase the average 5/8 inch meter bill by $44.77, or 148.64 percent, from $30.12 to $74.89; and would increase the median 5/8 inch meter bill by $40.23, or 144.19 percent, from $27.90 to $68.13. Staff's recommended rates would

66. Finally, Mr. Wawrzyniak contends that the rate increase is premature, as only 470 homes have been built out of a total planned development of 958 homes. He asserts that the owners of Goodman would receive windfall profits as more homes are added. He argues that any rate increase should be spread out over the expected total homes at build-out and implemented on a stepped basis rather than all at once.

67. The current rates were set almost 20 years ago based solely on estimates. Those estimates were valid at the time they were approved, but have been shown to be outdated and inadequate. The rates approved herein are based on known and measurable investments and operating results. We are not able to forecast future growth or to project the additional plant investment and increased operating costs caused by growth with sufficient accuracy to use these projections to formulate fair and reasonable rates. However, because there is potential for significant customer growth in the future, we direct the Company to file for a rate review 3 years from the effective date of this Decision if the Company has not filed a rate application by that time.

68. In other situations where a Company is faced with significant growth potential, the Commission has approved a Hook-up fee tariff to protect current ratepayers from having to bear the costs of added infrastructure necessary to serve that growth. Plant financed with hook-up fees is deducted from total plant in service to determine rate base. Goodman already finances approximately 40 percent of its plant with Advances in Aid of Construction, which also represent a deduction when determining rate base. The Commission encourages utilities to strike a balance between plant funded by invested capital and that financed through advances, contribution and fees. No party recommended hook-up fees in this matter. We do not know the additional plant that will be required to serve the Eagle Crest development as it grows, and we cannot determine the effect hook-up fees would have on the Company or how they might ultimately affect ratepayers. We believe, however, that the concept of hook-up fees should be explored and consequently direct the Company to file a proposed hook-up fee tariff for Staff review no later than July 31, 2007.

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increase the average 5/8 inch meter bill by $31.93, or 106.01 percent, from $30.12 to $62.05; and would increase the median 5/8 inch meter bill by $28.50, or 102.15 percent, from $27.90 to $56.40.

Compliance Issues

69. The Arizona Department of Environmental Quality ("ADEQ") has determined that the Goodman system has no deficiencies and is currently delivering water than meets water quality standards required by the Arizona Administrative Code. Title 18, chapter 4.

70. The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The Company reports the arsenic concentration for Well No. 1 is 2.7 ppb and for Well No. 2 is 1.0 ppb. Based on these levels, the Company is in compliance with the arsenic standard.

71. Goodman is located in the Tucson Active Management Area ("AMA") and is subject to AMA reporting and conservation requirements. The Arizona Department of Water Resources ("ADWR") reports that the Company is in compliance with its water use and monitoring requirements.

72. There are no outstanding Commission compliance issues.

73. Pursuant to Decision No. 65651 (February 18, 2003), the Company has an approved curtailment tariff and backflow prevention tariff.

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

CONCLUSIONS OF LAW

1. Goodman is a public service corporation pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Goodman and the subject matter of the application.

3. Notice of the proceeding was provided in conformance with law.

4. The rates and charges approved herein are reasonable.

ORDER

IT IS THEREFORE ORDERED that the rates and charges set forth below are approved and Goodman Water Company shall file on or before April 30, 2007, a tariff that complies with the rates and charges approved herein:

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$42.20
¾" Meter	63.30
1" Meter	105.50
1 ½" Meter	211.50
2" Meter	339.68
3" Meter	675.20
4" Meter	1,055.00
6" Meter	2,110.00

COMMODITY CHARGE (per 1,000 gallons)

5/8" x ¾" meter	
1 to 4,000 gallons	$3.95
4,001 to 9,000 gallons	5.91
Over 9,000 gallons	7.11
¾" Meter	
1 to 4,000 gallons	$3.95
4,001 to 9,000 gallons	5.91
Over 9,000 gallons	7.11
1" Meter	
1 to 22,500 gallons	5.91
Over 22,500 gallons	7.11
1 ½" Meter	
1 to 34,000 gallons	5.91
Over 34,000 gallons	7.11
2" Meter	
1 to 45,000 gallons	5.91
Over 45,000 gallons	7.11

3" Meter	
1 to 68,000 gallons	5.91
Over 68,000 gallons	7.11
4" Meter	
0 to 90,000 gallons	5.91
Over 90,000 gallons	7.11
6" Meter	
0 to 135,000 gallons	5.91
Over 135,000 gallons	7.11
Standpipe	7.11

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-40-5)

5/8" x ¾" Meter	$225.00
¾" Meter	270.00
1" Meter	300.00
1 ½" Meter	425.00
2" Meter	550.00
3" Meter	750.00
4" Meter	1,375.00
6" Meter	2,800.00

SERVICE CHARGES:

Establishment	$50.00
Establishment (After Hours)	75.00
Reconnection (Delinquent)	75.00
Reconnection (After hours)	50.00
Meter Test	20.00
Deposit Requirement (Residential)	*
Deposit Interest	**
Reestablishment (Within 12 Months)	***
NSF Check	15.00
Deferred Payment, Per Month	1.50%
Meter Reread (If Correct)	$20.00
After hours service charge – per Rule R14-2-403D	10.00
Late Charge per month	1.50%

* Per Commission Rules R14-2-403.B
** Per Commission Rule R14-2-403.B.3
*** Months off system times the monthly minimum per Commission Rule R14-2-403.D.
**** 1.5 percent per month on the unpaid balance.

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for all service provided on and after May 1, 2007.

IT IS FURTHER ORDERED that within 15 days of the effective date of this Order, Goodman Water Company shall notify its customers of the rates and the effective dates approved herein, in a form and manner acceptable to the Commission's Utilities Division Staff.

IT IS FURTHER ORDERED that within 30 days of the effective date of this Decision, Goodman Water Company shall notify all homeowners with 1 inch meters installed to support fire sprinklers that the Company will replace those meters with ¾ inch meters for an installation charge equivalent to the Company's cost of the meter plus labor. Goodman Water Company shall provide the cost of meter replacement to the homeowners as well as to Staff.

IT IS FURTHER ORDERED that in order to allow time for Goodman Water Company to notify the affected customers, for interested customers to request the smaller meter, and to install those meters, for 90 days following the implementation of the new rates, Goodman Water Company shall bill the affected customers at the ¾ inch meter rate applicable under this Order.

IT IS FURTHER ORDERED that Goodman Water Company shall file a hook-up fee tariff with Docket Control, as a compliance item in this Docket, for Staff's review by July 31, 2007.

IT IS FURTHER ORDERED that Goodman Water Company shall file a rate review three years from the effective date of this Decision if it has not filed a rate application by that time.

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

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN   COMMISSIONER

COMMISSIONER   COMMISSIONER   COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 16th day of April, 2007.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT William A. Mundell

DISSENT ____________________

JR:

DECISION NO. 69404

SERVICE LIST FOR: GOODMAN WATER COMPANY

DOCKET NO.: W-02500A-06-0281

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