

ORIGINAL



MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson  
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  
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Docket No. W-01583A-04-0178 et al

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**STAFF REPORT  
UTILITY DIVISION  
ARIZONA CORPORATION COMMISSION**

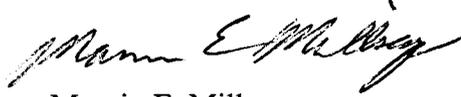
**LAS QUINTAS SERENAS WATER COMPANY  
DOCKET NO. W-01583A-04-0178, W-01583A-05-0326  
AND W-01583A-05-0340**

**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 black ink, appearing to read "Marvin E. Millsap". The signature is written in a cursive style with a large, stylized initial "M".

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.