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BEFORE THE ARIZONA CORPORATION C(

Arizona Corporation Commission
DOCKETED
MAR 17 2010
DOCKETED BY MR

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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

DOCKET NO. W-04049A-08-0339

DECISION NO. 71504

ORDER

Open Meeting
March 2 and 3, 2010
Phoenix, Arizona

BY THE COMMISSION:

This case involves an application for a permanent rate increase, filed with the Arizona Corporation Commission ("Commission") on July 3, 2008, by DS Water Company ("DSWC"), a Class D water utility providing water utility service to approximately 89 customers in a service area near Littlefield, Arizona, in Mohave County. DSWC's current rates were approved in Decision No. 65977 (June 17, 2003), the same Decision that granted its Certificate of Convenience and Necessity ("CC&N").

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Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

Background

1. DSWC is a Class D public service corporation providing water utility service to approximately 89 customers in an approximately two-mile service area located on I-15 near Littlefield, Arizona, in Mohave County. DSWC obtained its CC&N, and had its current rates and charges authorized, in Decision No. 65977 (June 17, 2003). This is DSWC's first rate case.

2. DSWC is an Arizona C corporation wholly owned by Desert Springs Water Trust.

3. DSWC's water system has one active well yielding 186 gallons per minute ("GPM"), one inactive well, two storage tanks with a combined capacity of 160,000 gallons, a booster station with two booster pumps, eight pressure tanks, and a distribution system serving 89 metered customers located on both sides of the Virgin River.[1] The Commission's Utilities Division ("Staff") concluded that DSWC's production and storage capacities are adequate to serve its present customer base and reasonable growth.[2]

4. Of DSWC's 89 customers, 83 are served by 5/8" x ¾" meters, and 6 are served by 1" meters. The average and median monthly consumption levels of DSWC's residential 5/8" x ¾" customers are 8,686 gallons and 5,671 gallons, respectively.

5. DSWC reported 11,825,815 gallons pumped and 10,234,910 gallons sold for the TY, resulting in a water loss of 13.45 percent, which exceeds Staff's recommended maximum threshold of 10 percent water loss.

6. From January 1, 2006, through June 9, 2009, one complaint was filed against DSWC. The single complaint, filed in 2007, has been resolved.

7. Staff's Compliance Section database shows no outstanding compliance issues for DSWC.

8. DSWC is not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area. According to an ADWR Compliance Status Report dated September 23, 2008, DSWC has not submitted its Annual Report for Community Water System or its System Water Plan and, thus, is not in compliance with the reporting requirements of A.R.S. §§ 45-341 through 45-343.

9. According to an Arizona Department of Environmental Quality ("ADEQ") Drinking Water Compliance Status Report dated September 12, 2008, DSWC has major deficiencies in monitoring and reporting requirements for lead and copper.[3] Because of the monitoring and reporting deficiencies, ADEQ stated that it cannot determine whether DSWC is currently delivering water that

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[1] DSWC does not serve any fire hydrants.

[2] DSWC has experienced only limited growth, increasing from 84 customers in 2003 to 89 customers during the TY.

[3] ADEQ stated that DSWC has not completed initial lead and copper tap sampling. ADEQ stated that DSWC is required to take 10 samples for two consecutive six-month periods, one set of 10 samples during the first half of a calendar year and one set of 10 samples during the second half of a calendar year.

meets the water quality standards required by Arizona Administrative Code ("A.A.C.") Title 18, Chapter 4.

10. DSWC's active well produces water with an arsenic level of 7 parts per billion ("ppb"), which is in compliance with the U.S. Environmental Protection Agency and ADEQ maximum contaminant level ("MCL") for arsenic of 10 ppb.

11. DSWC is subject to mandatory participation in ADEQ's Monitoring Assistance Program ("MAP").

12. DSWC is in good standing with the Commission's Corporations Division.

13. DSWC is in good standing with the Arizona Department of Revenue and is current on its Mohave County property taxes.

14. DSWC has an approved curtailment plan tariff on file with the Commission

15. DSWC has an approved backflow prevention tariff on file with the Commission.

16. DSWC has approved hook-up fees ("HUFs") ranging from $1,500 for a 5/8" x ¾" meter to $75,000 for a 6" or larger meter. The HUFs were approved in Decision No. 65977, which also required DSWC to file annual HUF reports with Staff.

Procedural History

17. On July 3, 2008, as required by Decision No. 65977,[4] DSWC filed an application for a permanent rate increase, using 2007 as its TY. DSWC reported unaudited TY operating revenues of $43,967 and requested an increase in revenues of $7,915, or 18 percent, for total annual operating revenues of $51,882. DSWC also reported an operating loss of $11,793 for the TY. DSWC included with its application an affidavit stating that it had provided all of its customers notice of its application by mail on or before July 3, 2008. However, the copy of the customer notice provided did not include a copy of DSWC's current and proposed rates.

18. On July 10, 2008, one customer comment was filed opposing the rate increase as excessive.

19. On August 1, 2008, Staff issued a Letter of Deficiency stating that DSWC's

[4] Decision No. 65977 required DSWC to file the application by July 1, 2008.

application had not met the sufficiency requirements of A.A.C. R14-2-103.

20. On September 15, 2008, DSWC filed revised application pages and supplemental information. DSWC included an explanation for its excessive water loss, stating that its well had a check valve that would randomly stick open and that has since been fixed and is being monitored more closely; that its tanks are higher than the well, causing water to run back down into the well when the pump is shut off; that it had a main line break that drained the system; and that the meter at the well was not checked each month when the customer meters were read, due to the President's inexperience during the TY. DSWC also included a revised income and expense statement showing an operating loss of $108,698 for the TY.

21. On October 14, 2008, Staff issued a second Letter of Deficiency.

22. On November 6, 2008, DSWC filed revised application pages.

23. On December 8, 2008, Staff issued a third Letter of Deficiency.

24. On January 28, 2009, DSWC filed revised application pages.

25. On February 27, 2009, Staff issued a Letter of Sufficiency ("LOS"), stating that DSWC's application had met the sufficiency requirements of A.A.C. R14-2-103 and that DSWC had been classified as a Class D water utility.

26. On April 27, 2009, Staff filed a Motion to Suspend Time Clock, requesting a 90-day extension of time to file the Staff Report in this matter because DSWC had asked for multiple extensions of time to respond to Staff's data requests made subsequent to the LOS. Staff asserted that DSWC did not object to the extension.

27. On April 29, 2009, a Procedural Order was issued granting Staff's Motion and extending the time frame in this matter by 90 days.

28. On August 7, 2009, Staff filed its Staff Report, recommending approval of DSWC's application for a rate increase, using Staff's recommended rates and charges. Because Staff's recommended rates and charges would increase revenue significantly more than would DSWC's proposed rates and charges, Staff requested in the Staff Report that DSWC again notify its customers of the rate application and specifically notify them of Staff's recommended increase. DSWC did not file any exceptions to the Staff Report.

29. On September 28, 2009, because DSWC had not filed proof of having provided its customers notice of Staff's recommended rates and charges, a Procedural Order was issued requiring DSWC to provide its customers such notice; requiring DSWC to file proof of such notice; requiring DSWC to explain discrepancies between the charges shown as monthly minimums for 3" meters, 4" meters, and 6" meters and as a service line and meter charge for 6" meters in its current tariff[5] and as authorized in Decision No. 65977; requiring DSWC to explain whether any of those charges have ever been assessed; and extending the time frame in this matter for 30 days.

30. On October 19, 2009, DSWC filed certification of customer notification stating that notice of the application and Staff's recommended rates and charges had been mailed to all of its customers on or before October 8, 2009. With its certification, DSWC filed a copy of the notice provided, which conformed to the requirements of the Procedural Order issued on September 28, 2009. DSWC also filed a document stating that it had changed the monthly minimum charges for its 3", 4", and 6" meter charges from those included in its original application because it was instructed to do so by Staff in a Deficiency Letter. DSWC also stated that it has not had any 3", 4", or 6" meter connections.

31. On October 19, 2009, one set of customer comments was filed by Wayne Hansen, a DSWC customer, in which Mr. Hansen stated that the DSWC-requested rate increase of approximately 18 percent should be adequate. Mr. Hansen included "Motion to intervene" as a subject line in his comments, but did not include the other information required for a Motion to Intervene.

32. On October 20, 2009, a Procedural Order was issued requiring Mr. Hansen to make a filing clarifying whether he desired to intervene and to have an evidentiary hearing in this matter; requiring DSWC and Staff to file responses to Mr. Hansen's filing; requiring Staff to include in its filing a response to DSWC's explanation of the discrepancies between its rate application/tariff and the rates authorized by Decision No. 65977; and extending the time frame in this matter by 30 days.

33. On November 13, 2009, Staff filed its response to DSWC's explanation of the

[5] Official notice is taken of DSWC's current tariff, which was filed on March 30, 2004, in the docket for Decision No. 65977 (W-04049A-01-0768 et al.).

discrepancies, stating that the discrepancies in the tariff have existed undetected in DSWC's tariff since its 2003 compliance filing for Decision No. 65977. Staff proposed that the discrepancies be corrected in this rate case and noted that DSWC's system has not had any 3" meter, 4" meter, or 6" meter connections.

34. On November 13, 2009, Mr. Hansen filed a document stating that he does not desire to participate in this matter as an intervenor, only to provide public comment. Mr. Hansen added that an audit should be made of DSWC's books.

35. On November 16, 2009, DSWC filed a response to Mr. Hansen's filing, stating that Staff has done an extensive audit of DSWC's books through the rate case; that Staff has come up with a number that will enable DSWC to continue operating; and that DSWC needs what Staff has recommended.

36. On December 28, 2009, DSWC filed a document explaining that its water loss was created by a bad check valve that was sticking open part of the time, combined with its elevated tank. Water was being counted by the well meter when pumped and was then flowing back into the well when the pumping stopped, creating the appearance of water loss. DSWC stated that the check valve has been fixed. DSWC also stated that it had been reading its customer meters starting at night and finishing in the morning and then reading the well meter afterwards. If the well turned on during the meter readings, this resulted in discrepancies between the water pumped and sold, showing water loss. DSWC stated that the well meter is now read both before and after the customer meters are read, producing an accurate figure for gallons pumped and sold. DSWC further stated that it has not had water loss since those changes were made.

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37. DSWC's current rates and charges, DSWC's proposed rates and charges, and Staff's recommended rates and charges are as follows:

MONTHLY USAGE CHARGE:	**Present Rates**	**Company Proposed**	**Staff Recommended**
5/8" x 3/4" Meter (All Classes)	$ 20.56	$ 24.26	$ 25.00
3/4" Meter (All Classes)	20.56	24.26	37.50
1" Meter (All Classes)	33.48	39.50	62.50

1-1/2" Meter (All Classes)	57.00	67.26	125.00
2" Meter (All Classes)	92.00	108.56	200.00
3" Meter (All Classes)	175.00[6]	318.60	400.00
4" Meter (All Classes)	300.00[7]	501.50	625.00
6" Meter (All Classes)	575.00[8]	973.50	1,250.00
Standpipe Construction Water	135.00	135.00	0.00

COMMODITY RATES (Per 1,000 Gallons):

All Meters Except Standpipe			
0 to 4,000 Gallons	$1.77	$2.09	
4,001 to 50,000 Gallons	2.38	2.80	
Over 50,000 Gallons	2.60	3.06	
5/8" x ¾" Meter (Residential)			
1 to 4,000 Gallons			$2.00
4,001 to 10,000 Gallons			3.75
Over 10,000 Gallons			6.32
5/8" x ¾" Meter (Commercial)			
1 to 10,000 Gallons			3.75
Over 10,000 Gallons			6.32
¾" Meter (All Classes)[9]			
1 to 10,000 Gallons			N/A
Over 10,000 Gallons			N/A
1" Meter (All Classes)			
1 to 18,000 Gallons			3.75
Over 18,000 Gallons			6.32
1 ½" Meter (All Classes)			
1 to 40,000 Gallons			3.75
Over 40,000 Gallons			6.32
2" Meter (All Classes)			
1 to 65,000 Gallons			3.75
Over 65,000 Gallons			6.32
3" Meter (All Classes)			
1 to 140,000 Gallons			3.75
Over 140,000 Gallons			6.32

[6] DSWC's tariff shows $270.00 for this charge.
[7] DSWC's tariff shows $425.00 for this charge.
[8] DSWC's tariff shows $825.00 for this charge.
[9] Staff did not include commodity rates for the ¾" meter size. It is unclear why Staff did not include such rates, as there is currently a monthly minimum charge and a service line and meter installation charge for the ¾" meter size, and Staff has recommended such charges in this matter. We are treating the omission as inadvertent.

4" Meter (All Classes)			
1 to 225,000 Gallons			3.75
Over 225,000 Gallons			6.32
6" Meter (All Classes)			
1 to 450,000 Gallons			3.75
Over 450,000 Gallons			6.32
Standpipe/Construction Water			
All Usage, Per 1,000 Gallons	$2.60	$3.06	$6.32

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

	Present	Company Proposed			Staff Recommended		
	Total Charge	Service Line Charge[10]	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8" x ¾" Meter	$425.00	$1,770.00	$501.50	$2,271.50	$345.00	$80.00	$425.00
¾" Meter	450.00	2,655.00	531.00	3,186.00	345.00	105.00	450.00
1" Meter	500.00	4,425.00	590.00	5,015.00	325.00	175.00	500.00
1-1/2" Meter	700.00	8,850.00	826.00	9,676.00	365.00	335.00	700.00
2" Meter	1,125.00	14,160.00	1,327.50	15,487.50	495.00	630.00	1,125.00
3" Meter	1,505.00	26,550.00	1,775.90	28,325.90	570.00	935.00	1,505.00
4" Meter	2,340.00	44,250.00	2,761.20	47,011.20	820.00	1,520.00	2,340.00
6" Meter	4,445.00[11]	88,500.00	5,251.00	93,751.00	1,335.00	3,110.00	4,445.00

SERVICE CHARGES:	Present Rates	Company Proposed	Staff Recommended
Establishment	$20.00	$24.00	$24.00
Establishment (After Hours)	$30.00	$36.00	$36.00
Re-Establishment (within 12 mos.)	*	*	*
Reconnection (Delinquent)	$30.00	$36.00	$36.00
Reconnection (After hours)	N/A	N/A	N/A
Meter Test (If Correct)	$30.00	$36.00	$36.00
Deposit	**	**	**
Deposit Interest	6.00%	6.00%	**
NSF Check	$15.00	$30.00	$30.00
Deferred Payment (per month)	1.50%	1.50%	1.50%
Late Payment Penalty (per month)	1.50%	$10.00	1.50%
Meter Re-Read (If Correct)	$10.00	$12.00	$12.00
Main Extension	Cost	***	Cost
Call Out (for malfunction on customer side of meter)	$25.00	***	$25.00

[10] DSWC may be confusing its service line installation charge with its HUFs, as it listed its current HUF amounts as its current service line installation charges on its application, although DSWC does not currently have separate service line and meter installation charges.

[11] DSWC's tariff shows $4,450.00 for this charge.

* Number of months off system times monthly minimum, per Commission rule A.A.C. R14-2-403(D).

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

*** Company did not provide information in the application for this service.

38. DSWC's proposed figures result in an original cost rate base ("OCRB") of $308,226. DSWC waived the right to have its fair value rate base ("FVRB") determined using reconstruction cost new.

39. Staff increased DSWC's proposed OCRB by $3,372 overall, to $311,598, by reducing plant in service by $13,715; reducing accumulated depreciation by $11,911; and adding $5,176 in cash working capital based on the formula method. Staff's reduction to plant in service results from a reduction of $7,782 for structures and improvements due to a reclassification to rent expense and a reduction of $5,933 for transmission and distribution mains because of a lack of supporting invoices. Staff's reduction to accumulated depreciation results from Staff's removal of $13,715 in plant in service and Staff's recalculation of DSWC's accumulated depreciation since Decision No. 65977.[12] DSWC did not dispute Staff's recommended adjustments to its OCRB.

40. We find that Staff's adjustments to DSWC's OCRB are reasonable and appropriate and that DSWC's OCRB is $311,598. We further find that DSWC's FVRB is equivalent to its OCRB and is $311,598.

41. DSWC reported TY revenues of $43,967; TY operating expenses of $152,666; and a TY operating loss of $108,698. Using the FVRB adopted herein, this represents a return on rate base of negative 34.88 percent. It also reflects an operating margin of negative 247 percent.

42. Staff determined that DSWC had adjusted TY revenues of $45,090; adjusted TY operating expenses of $62,207; and an operating loss of $17,117 for the TY. This represents a return on rate base of negative 5.49 percent and an operating margin of negative 37.96 percent.

43. Staff adjusted DSWC's TY revenues to $45,090 by imputing an additional $1,122 in metered revenue to reflect additional revenue that should have been generated by DSWC's 1" meter

[12] Staff determined that DSWC has not been using the depreciation rates adopted for DSWC in Decision No. 65977, such as by not classifying its plant-in-service into NARUC sub-accounts. DSWC did not provide specific reasons for this deviation.

customers, whom DSWC has erroneously been billing using its ¾" meter rate. DSWC did not dispute Staff's adjustment to its TY revenues. We find that Staff's adjusted TY revenue calculation is reasonable and appropriate, and we adopt it.

44. Staff made numerous adjustments to DSWC's TY operating expenses, resulting in an overall decrease of more than $90,000,[13] to reach a TY operating expense figure of $62,207. Staff's adjustments to operating expenses include a decrease of $75,389 in salaries and wages to allow a salary of $20,000 rather than a salary of $95,389 for DSWC's President;[14] an increase of $778 in water testing expenses to reflect the usual testing costs for a MAP participant and additional testing costs for biannual lead and copper testing, monthly total coliform testing, and monthly courier service; an overall decrease of $9,062 in rent expense to reflect the elimination of $14,400 because DSWC is no longer leasing a water truck or backhoe[15] and an increase of $7,782 due to the reclassification from plant in service mentioned previously; a decrease of $6,854 in transportation expense to reflect a reasonable amount based on utility size and customer count;[16] a decrease of $499 in insurance to eliminate the cost of insurance that was purchased with the backhoe rental; a decrease of $3,762 in depreciation expense based on Staff's calculation of plant in service and use of a half-year depreciation methodology for plant added during the TY; a decrease of $50 in taxes other than income to disallow a penalty assessed by the Arizona Department of Revenue; an increase of $1,109 in property taxes to reflect a full year rather than a half year; and an increase of $50 in income tax, based on taxable income and application of statutory federal and state tax rates. We find that Staff's adjustments to DSWC's TY operating expenses are reasonable and appropriate, and we adopt Staff's

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[13] Staff performed its analysis using the income and expense figures provided by DSWC in its original application. DSWC had adjusted its miscellaneous expense figure, depreciation expense figure, and taxes other than income figure in its filing on September 15, 2008, reducing its TY expenses by $3,222. Staff's analysis was made using the larger original expense figures.

[14] Staff explained that a $20,000 salary is more in keeping with other small water systems, many of which do not have salaries and wages expense.

[15] DSWC rented a water truck and backhoe for $1,200 per month during the TY, but did not use the water truck much and used the backhoe only a few times for emergency purposes. DSWC is no longer incurring this expense, as the water truck and backhoe have been returned to their owner.

[16] DSWC's truck was used for both personal use and utility business, apparently without any kind of mileage log to record personal versus business use. As the service area has only an eight-mile radius and DSWC only 89 customers, Staff determined that a yearly transportation expense of $1,000 is reasonable. Staff recommends that, in the future, DSWC keep a mileage log in its truck in which each trip will be recorded with beginning and ending mileage and the nature of the trip.

adjusted TY operating expense figure of $62,207.

45. DSWC proposes total operating revenue of $51,882, an increase of $7,915, or 18.00 percent, over its stated TY operating revenue of $43,967. Using the TY operating expenses and FVRB adopted herein, this would result in an operating loss of $10,325; a rate of return of negative 3.31 percent; and an operating margin of negative 19.90 percent.

46. Staff recommends total operating revenue of $71,150; an increase of $26,060, or 57.80 percent, over Staff's adjusted TY operating revenue of $45,090. This would result in an operating income of $7,115; a rate of return of 2.28 percent; and an operating margin of 10.00 percent.

47. Staff asserts that a 2.28-percent rate of return on rate base is fair and reasonable for DSWC in this case. Staff reasoned that this is DSWC's first rate case since its CC&N case; that DSWC filed its rate application to be in compliance with the Decision in its CC&N case; and that the rates set in the CC&N case were based on projections, which have turned out to be inconsistent with the actual revenues produced by DSWC as a result of much slower growth in DSWC's service area than was anticipated at the time the CC&N was granted. Staff asserts that its recommended 2.28-percent rate of return will mitigate the rate shock that would result if a higher rate of return were used and also notes that its recommended rate of return results in a 10-percent operating margin that will provide DSWC with sufficient operating income.

48. DSWC's proposed rates and charges would increase the monthly bill for a residential customer served by a 5/8" x ¾" meter, with median usage of 5,671 gallons, from $31.62 to $37.30, for an increase of $5.68 or 17.96 percent.

49. Staff's recommended rates and charges would increase the monthly bill for a residential customer served by a 5/8" x ¾" meter, with median usage of 5,671 gallons, from $31.62 to $39.27, for an increase of $7.65 or 24.19 percent.

50. Staff did not include commodity rates for the ¾" meter size in its rate design. This appears to have been an inadvertent omission, and we find it appropriate to include commodity rates for this meter size, consistent with those recommended by Staff for the 5/8" x ¾" commercial meter size.

51. DSWC has not requested, and Staff has not recommended, any changes to DSWC's

HUFs.

52. Staff recommends that the $135 monthly minimum charge for standpipe construction water be removed and that the highest commodity rate be charged for all construction water usage. The record does not establish that DSWC had any standpipe or construction water sales during the TY or that it currently has any such sales. DSWC's bill counts and plant description and Staff's Engineering Report show that DSWC is only providing water through 5/8" x ¾" meters and 1" meters and not through any fire hydrants. Indeed, the record indicates that there are no fire hydrants in DSWC's distribution system. DSWC's tariff, however, explains that DSWC anticipated providing construction water service "through a company approved meter . . . attached to a company fire hydrant." Because DSWC could add a fire hydrant or a standpipe to its system at any time, if necessary to support its service area, it is appropriate to ensure that DSWC's rates continue to accommodate the provision of such services.

53. DSWC is currently authorized to assess a monthly minimum charge for an individually assigned hydrant meter and to assess its highest commodity rate for all usage from such a meter. Staff has not explained why DSWC should no longer be authorized to charge a monthly minimum for an individually assigned hydrant meter. Recent Commission decisions have recognized that it is appropriate to allow a monthly minimum charge for individually assigned hydrant meters to recognize the demand that these meters place on the system and to allow recovery of administrative costs that are not fully recovered through commodity rates when the meters have been assigned but have no usage for a given period.[17] Thus, we find that it is appropriate to authorize a monthly minimum charge for individually assigned hydrant meters, based on the meter size of the hydrant meter, and to require DSWC to charge customers the tiered commodity rates adopted herein for their water usage through such individually assigned hydrant meters.

54. In addition, we find that it is appropriate to authorize DSWC to assess the Staff-recommended $6.32 construction water commodity charge for all water obtained through an unassigned hydrant meter that is used as a standpipe and available to numerous entities, and to

[17] It is more appropriate that these costs be incurred by the individual customers that cause them than that they be spread over the entire customer base by increasing rates elsewhere to compensate.

prohibit DSWC from assessing a monthly minimum charge for such usage. In the rate design adopted herein, we will refer to this as a standpipe rate rather than a construction water rate, in recognition that the water may be used for purposes other than construction.

55. We find that Staff's recommended monthly minimum charges and commodity rates, modified as described above, are just and reasonable and should be adopted. While Staff's rate design will result in a relatively low rate of return, we find that it is appropriate to mitigate the rate shock that would be experienced by DSWC's 89 customers if they were required to pay rates resulting in a more typical rate of return. In addition, we note that DSWC has agreed to the revenue increase recommended by Staff and will be earning a positive return, apparently for the first time.

56. Staff recommends replacing the current deposit interest rate of 6.00 percent with a reference to Commission rule A.A.C. R14-2-403(B). A.A.C. R14-2-403(B) states: "Interest on deposits shall be calculated annually at an interest rate filed by the utility and approved by the Commission in a tariff proceeding. In the absence of such, the interest rate shall be 6%." We are concerned that DSWC and its customers may find the rule reference to be vague. Thus, we will instead retain the express 6.00-percent interest rate. This is the default rate in the absence of a tariff proceeding to establish a different interest rate and will maintain transparency as to the deposit interest rate, for both DSWC and its customers.

57. With the exception of the deposit interest rate, which we are modifying as set forth above, we find that Staff's recommended miscellaneous service charges are reasonable and appropriate, and we will adopt them.

58. DSWC requested service line and meter installation charges that are greatly increased over those currently authorized for DSWC. Service line and meter installation charges are refundable advances. Staff has developed a customary range of service line and meter installation charges based on typical costs for service lines and meters. DSWC's proposed service line and meter installation charges fall far outside of the customary range,[18] and DSWC did not provide evidence establishing

[18] In the Staff Report, Staff stated that DSWC has not requested changes to its service line and meter installation charges. However, DSWC's filing of September 15, 2008, did propose changes to its service line and meter installation charges that would increase the current charges, characterized by DSWC as meter installation charges, and would add separate service line installation charges consistent with DSWC's HUFs for the corresponding meter sizes.

that its requested charges are reasonable. Staff's recommendation to retain DSWC's current service line and meter installation total charges, but to include separate charges for service line installation and meter installation is reasonable and appropriate and will be followed.

59. DSWC's tariff includes monthly minimum charges for 3" meters, 4" meters, and 6" meters that were not authorized by Decision No. 65977. Rather, they are the monthly minimum charges for those meter sizes that had been proposed by DSWC in its CC&N case. DSWC's tariff also includes a service line and meter installation charge of $4,450 for a 6" meter, rather than the charge of $4,445 authorized in Decision No. 65977. The record establishes that DSWC does not currently have and has not had any 3" meters, 4" meters, or 6" meters on its system and that these charges thus have not been assessed by DSWC. While this means that there have not been any overcharges by DSWC, it does not change the fact that DSWC failed to ensure that its tariff conformed to Decision No. 65977. We remind DSWC that it has a duty to comply with all Commission orders and that this includes a duty to verify that its tariff includes only those rates and charges approved by the Commission.

Staff Recommendations

60. Staff recommends the following:

(a) That Staff's recommended rates and charges be approved;

(b) That DSWC be authorized to collect from its customers a proportionate share of any privilege, sales, or use tax, as provided for in A.A.C. R14-2-409(D);

(c) That DSWC be required to file with Docket Control, as a compliance item in this docket, within 30 days after the decision in this matter, a schedule of its approved rates and charges;

(d) That any increase in DSWC's permanent rates and charges in this matter not become effective until the first day of the month after DSWC files with Docket Control, as a compliance item in this docket, ADEQ documentation reporting that DSWC is delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4;

(e) That DSWC be ordered to evaluate its water system and prepare a report for corrective measures demonstrating how DSWC will reduce its water loss to less than 10 percent by

December 31, 2010, or, if DSWC finds that reduction of water loss to less than 10 percent is not cost-effective, to submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost effective and to file such report or cost analysis and explanation with Docket Control, as a compliance item in this docket, within six months after the effective date of the decision in this case;

(f) That DSWC be prohibited from having water loss of 15 percent or greater;

(g) That DSWC be required to file, no later than December 31, 2010,[19] as a compliance item in this docket, documentation issued by ADWR indicating that DSWC's System Water Plan meets ADWR requirements;

(h) That DSWC be ordered to utilize, on a going-forward basis, the depreciation rates delineated in Table C of the Engineering Report portion of the Staff Report in this matter; and

(i) That DSWC keep in its truck a mileage log that contains the beginning and ending mileage for each trip, along with the nature of each trip (personal or DSWC business).

Resolution

61. As stated previously, we are adopting Staff's recommended monthly minimum charges and commodity rates, but are modifying Staff's rate design by including commodity rates for the ¾" meter size; by requiring that individually assigned hydrant meter customers be assessed a monthly minimum charge, according to meter size, along with Staff's recommended tiered commodity rates; and by designating Staff's construction water commodity rate as a standpipe rate applicable to hydrant meters that are not individually assigned. We are also retaining DSWC's express 6.00-percent deposit interest rate rather than adopting the rule reference recommended by Staff, to ensure transparency in the interest rate to be applied.

62. DSWC is out of compliance with ADEQ requirements. Staff has recommended that DSWC's new rates and charges not become effective until after DSWC files ADEQ documentation showing that DSWC is delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4. We believe that this is appropriate, as it should provide a very strong incentive

[19] In the Staff Report, Staff included this date as December 31, 2009. We have treated the 2009 as a typographical error, as the Staff Report was filed in August 2009, and there almost certainly would not have been sufficient time for DSWC to obtain such an approval from ADWR by the end of 2009 after obtaining a Decision in this matter.

for DSWC to come into compliance as quickly as possible.

63. DSWC is out of compliance with ADWR requirements. Staff has recommended that DSWC be provided a deadline to demonstrate compliance with ADWR requirements. This is also appropriate. Staff has not recommended any consequences, however, should DSWC fail to demonstrate compliance with ADWR requirements by the deadline. While we have contemplated imposing consequences for such eventuality, we find that it is more appropriate to require DSWC to file, as a compliance item in this docket, on a quarterly basis, status reports relating its progress each quarter in preparing, filing with ADWR, and obtaining ADWR approval of its System Water Plan. The first report, for the period of January 1 through March 31, 2010, will be due on April 15, 2010. Subsequent quarterly reports will be due on July 15, 2010, and October 15, 2010. We will require Staff to review each of these quarterly reports and to communicate any suggestions for improvement to DSWC. Through this requirement, we intend for Staff to scrutinize DSWC's process and progress toward reaching ADWR compliance, not its System Water Plan, and for Staff to communicate to DSWC Staff's suggestions for improving that process and progress. If DSWC does not meet its December 31, 2010, deadline for demonstrating compliance, Staff shall file a Memorandum in this docket recommending whether an Order to Show Cause proceeding ("OSC") should be initiated. If Staff determines that an OSC should be initiated, Staff shall include with its Memorandum, for Commission consideration at an Open Meeting, a Recommended Order to initiate an OSC.

64. DSWC's water loss of 13.45 percent during the TY exceeded the Commission's accepted threshold of 10-percent maximum water loss. DSWC explained that its TY water loss was due to a malfunctioning check valve and its meter reading practices, that it has since replaced the check valve and modified its meter reading practices, and that it is no longer experiencing water loss. We find that DSWC has already provided and implemented a plan for reducing its water loss to a level below 10 percent. Thus, we are modifying Staff's recommendation regarding water loss to require DSWC to file, as a compliance item in this docket, on a quarterly basis for the 2010 calendar year, reports setting forth the quantity of water pumped and sold for the preceding quarter, an explanation of any water loss, and a description and implementation timeline for any additional steps DSWC will be taking to reduce its water loss further. The first report, for the period of January 1

through March 31, 2010, will be due on April 15, 2010. Subsequent quarterly reports will be due on July 15, 2010; October 15, 2010; and January 17, 2011. We will require Staff to review each of these quarterly reports and to communicate any suggestions for improvement to DSWC. If Staff determines that DSWC's water loss continues to exceed 10 percent at the end of 2010, Staff shall file a Memorandum in this docket recommending whether an OSC should be initiated. If Staff determines that an OSC should be initiated, Staff shall include with its Memorandum, for Commission consideration at an Open Meeting, a Recommended Order to initiate an OSC.

65. Staff's recommendations set forth in Findings of Fact No. 60, as modified herein, are just and reasonable and in the public interest, and we are adopting them.

CONCLUSIONS OF LAW

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

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

3. Notice of DSWC's application and this matter was provided in accordance with the law.

4. DSWC's FVRB is $311,598.

5. The rates, charges, and conditions of service established herein are just and reasonable and in the public interest.

6. It is just and reasonable and in the public interest to take the actions described in Findings of Fact Nos. 61 through 65.

ORDER

IT IS THEREFORE ORDERED that DS Water Company is hereby authorized and directed to file with the Commission's Docket Control, as a compliance item in this docket, on or before April 1, 2010, a revised tariff setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter (All Classes)	$ 25.00
3/4" Meter (All Classes)	37.50
1" Meter (All Classes)	62.50

1-1/2" Meter (All Classes)	125.00
2" Meter (All Classes)	200.00
3" Meter (All Classes)	400.00
4" Meter (All Classes)	625.00
6" Meter (All Classes)	1,250.00
Hydrant Meter (Individually Assigned)	By Meter Size
Standpipe (Not Individually Assigned)	None

COMMODITY RATES (Per 1,000 Gallons):
(Applicable to All Classes as Specified, Except Standpipe)

5/8" x ¾" Meter (Residential)	
1 to 4,000 Gallons	$2.00
4,001 to 10,000 Gallons	3.75
Over 10,000 Gallons	6.32
5/8" x ¾" Meter (Commercial)	
1 to 10,000 Gallons	3.75
Over 10,000 Gallons	6.32
¾" Meter (All Classes)	
1 to 10,000 Gallons	3.75
Over 10,000 Gallons	6.32
1" Meter (All Classes)	
1 to 18,000 Gallons	3.75
Over 18,000 Gallons	6.32
1 ½" Meter (All Classes)	
1 to 40,000 Gallons	3.75
Over 40,000 Gallons	6.32
2" Meter (All Classes)	
1 to 65,000 Gallons	3.75
Over 65,000 Gallons	6.32
3" Meter (All Classes)	
1 to 140,000 Gallons	3.75
Over 140,000 Gallons	6.32
4" Meter (All Classes)	
1 to 225,000 Gallons	3.75
Over 225,000 Gallons	6.32
6" Meter (All Classes)	
1 to 450,000 Gallons	3.75
Over 450,000 Gallons	6.32

Standpipe Water (Not Individually Assigned)
All Usage, Per 1,000 Gallons $6.32

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

	Service Line Charge	Meter Charge	Total Charge
5/8" x ¾" Meter	$ 345.00	$ 80.00	$ 425.00
¾" Meter	345.00	105.00	450.00
1" Meter	325.00	175.00	500.00
1 ½" Meter	365.00	335.00	700.00
2" Meter	495.00	630.00	1,125.00
3" Meter	570.00	935.00	1,505.00
4" Meter	820.00	1,520.00	2,340.00
6" Meter	1,335.00	3,110.00	4,445.00

SERVICE CHARGES:

Establishment	$24.00
Establishment (After Hours)	$36.00
Re-Establishment (Within 12 months)	*
Reconnection (Delinquent)	$36.00
Reconnection (Delinquent – After hours)	N/A
Meter Test (If Correct)	$36.00
Deposit	**
Deposit Interest	6.00%
NSF Check	$30.00
Deferred Payment (per month)	1.50%
Late Payment Penalty (per month)	1.50%
Meter Re-Read (If Correct)	$12.00
Main Extension	Cost
Call Out (for malfunction on customer side of meter)	$25.00

* Number of months off system times the monthly minimum, per Commission Rule A.A.C. R14-2-403(D).

** For residential customer, 2 times the average residential customer monthly bill, and for nonresidential customer, 2.5 times the customer's estimated maximum monthly bill, per Commission Rule A.A.C. R14-2-403(B).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule A.A.C. R14-2-409(D)(5).

All items billed at cost shall include labor, materials, and parts and all applicable taxes.

IT IS FURTHER ORDERED that the revised tariff filed as required herein shall specify that it will not become effective until the first day of the month after DS Water Company files with Docket

Control, as a compliance item in this docket, documentation issued by the Arizona Department of Environmental Quality reporting that DS Water Company is delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4.

IT IS FURTHER ORDERED that the rates and charges approved herein shall not become effective until the first day of the month after DS Water Company files with Docket Control, as a compliance item in this docket, documentation issued by the Arizona Department of Environmental Quality reporting that DS Water Company is delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4.

IT IS FURTHER ORDERED that DS Water Company shall notify its customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, or by separate mailing, in a form acceptable to the Commission's Utilities Division Staff that specifies that the revised rates and charges will not become effective until the first day of the month after DS Water Company files with Docket Control, as a compliance item in this docket, documentation issued by the Arizona Department of Environmental Quality reporting that DS Water Company is delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4.

IT IS FURTHER ORDERED that DS Water Company is prohibited from having water loss of 15 percent or greater.

IT IS FURTHER ORDERED that DS Water Company shall use, on a going-forward basis, the depreciation rates delineated in Table C of the Engineering Report portion of the Staff Report in this matter.

IT IS FURTHER ORDERED that DS Water Company shall keep in its truck a mileage log in which DS Water Company personnel shall enter the date and the beginning and ending mileage for each trip made using the truck, along with the nature of each such trip (personal or DS Water Company business).

IT IS FURTHER ORDERED that DS Water Company shall file with Docket Control, as a compliance item in this docket, by December 31, 2010, documentation issued by the Arizona Department of Water Resources indicating that DS Water Company's System Water Plan meets

Arizona Department of Water Resources requirements.

IT IS FURTHER ORDERED that DS Water Company shall file, as a compliance item in this docket, on April 15, July 15, and October 15, 2010, quarterly status reports relating DS Water Company's progress during the prior quarter in preparing, filing, and obtaining Arizona Department of Water Resources approval of its System Water Plan.

IT IS FURTHER ORDERED that Staff shall review DS Water Company's quarterly status reports related to its System Water Plan for the purpose of scrutinizing DS Water Company's process and progress toward reaching compliance with Arizona Department of Water Resources requirements and shall communicate to DS Water Company any Staff suggestions for improving that process and progress.

IT IS FURTHER ORDERED that if DS Water Company fails to demonstrate Arizona Department of Water Resources approval of its System Water Plan by December 31, 2010, Staff shall file a Memorandum in this docket recommending whether an Order to Show Cause proceeding should be initiated and, if Staff determines that an Order to Show Cause proceeding should be initiated, including, for Commission consideration at an Open Meeting, a Recommended Order to initiate an Order to Show Cause proceeding.

IT IS FURTHER ORDERED that DS Water Company shall file, as a compliance item in this docket, on April 15, July 15, and October 15, 2010, and on January 17, 2011, quarterly reports setting forth the quantity of water pumped and sold for the preceding quarter, an explanation of any water loss, and a description of and implementation timeline for any additional steps DS Water Company will be taking to reduce its water loss further.

IT IS FURTHER ORDERED that Staff shall review DS Water Company's quarterly reports relating to water loss and shall communicate any suggestions for improvement to DS Water Company.

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IT IS FURTHER ORDERED that if DS Water Company's water loss continues to exceed 10 percent at the end of 2010, Staff shall file a Memorandum in this docket recommending whether an Order to Show Cause proceeding should be initiated and, if Staff determines that an Order to Show Cause proceeding should be initiated, including, for Commission consideration at an Open Meeting, a Recommended Order to initiate an Order to Show Cause proceeding.

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, ERNEST G. JOHNSON, 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 17th day of March, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

SERVICE LIST FOR: DS WATER COMPANY

DOCKET NO.: W-04049A-08-0339

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