

OPEN MEETING ITEM



ORIGINAL



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

ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: AUGUST 10, 2010
DOCKET NO.: W-01825A-09-0345

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Sarah N. Harpring. The recommendation has been filed in the form of an Order on:

LAGOON ESTATES WATER COMPANY, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

AUGUST 19, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

AUGUST 24, 2010 and AUGUST 25, 2010

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

AUG 10 2010

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347
www.azcc.gov

This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES - Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

7 IN THE MATTER OF THE APPLICATION OF
8 LAGOON ESTATES WATER COMPANY, INC.
9 FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-01825A-09-0345

DECISION NO. _____

ORDER

10 Open Meeting
11 August 24 and 25, 2010
12 Phoenix, Arizona

BY THE COMMISSION:

13 This case involves an application for a permanent rate increase, filed with the Arizona
14 Corporation Commission ("Commission") on July 2, 2009, by Lagoon Estates Water Company, Inc.
15 ("Lagoon"), a Class D water utility providing service through two separate water systems to
16 approximately 372 customers in a service area near the Colorado River, approximately 20 miles south
17 of Bullhead City, in Mohave County. Lagoon's current rates and charges, other than its late payment
18 charge, were approved in Decision No. 68084 (August 17, 2005). Lagoon's late payment charge was
19 approved in Decision No. 69207 (December 21, 2006). Lagoon's application uses calendar year
20 2008 as its test year ("TY").

21 * * * * *

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

FINDINGS OF FACT

Background

26 1. Lagoon is a Class D public service corporation providing water utility service to
27 approximately 372 customers in a service area near the Colorado River approximately 20 miles south
28 of Bullhead City, in Mohave County. Lagoon's service area is approximately 3.7 square miles in

1 size.

2 2. Lagoon is an S corporation owned equally by the Charles B. Sherrill Senior Trust and
3 the Sherrill Family Trust.

4 3. Lagoon has two independent water systems. The larger system has two active wells
5 yielding a combined 1,950 gallons per minute ("GPM"),¹ three pressure tanks, and a distribution
6 system serving 336 metered customers. The smaller system has two active wells yielding a combined
7 300 GPM, one pressure tank, and a distribution system serving 36 metered customers. The wells for
8 both systems pump directly into distribution systems through pressure tanks. The Commission's
9 Utilities Division ("Staff") concluded that Lagoon's production and storage capacities are adequate to
10 serve its present customer base and reasonable growth.

11 4. Lagoon primarily serves customers through 5/8" x 3/4" meters, with most of those
12 customers being residential. During the TY, Lagoon served approximately 366 customers served by
13 5/8" x 3/4" meters, two customers served by 1" meters, one customer served by a 2" meter, one
14 customer served by a 3" meter, and one customer served by an 8" meter. The 2" meter and 8" meter
15 both serve the local high school.

16 5. Lagoon reported 36,207,232 gallons pumped and 34,312,039 gallons sold for the
17 larger system and 3,001,090 gallons pumped and 2,615,950 gallons sold for the smaller system
18 during the TY. This results in water loss of 5.23 percent for the larger system and 12.83 percent for
19 the smaller system or, if the data from the two systems are combined, an overall water loss of 5.82
20 percent for Lagoon.

21 6. Staff's Consumer Services Section database shows no complaints filed against Lagoon
22 from January 1, 2006, through February 2, 2010.

23 7. Staff's Compliance Section database shows no outstanding compliance issues for
24 Lagoon.

25 8. Lagoon is current on its property and sales tax payments.

26 9. As of the Staff Report, Lagoon was in good standing with the Commission's
27

28 ¹ A third pump with a capacity of 90 GPM is on stand-by.

1 Corporations Division. A search of the Commission's Corporations Division website shows that as
 2 of August 9, 2010, Lagoon was not in good standing with the Commission's Corporations Division
 3 because of a delinquent 2010 Annual Report, which was due on April 16, 2010.²

4 10. Lagoon is not located in an Arizona Department of Water Resources ("ADWR")
 5 designated Active Management Area. ADWR reported to Staff that Lagoon is in compliance with
 6 ADWR's requirements governing water providers and/or community water systems.

7 11. According to two Arizona Department of Environmental Quality ("ADEQ") Drinking
 8 Water Compliance Status Reports dated June 25, 2009, Lagoon has no major deficiencies on either
 9 system, and both systems are currently delivering water that meets the water quality standards
 10 required by Arizona Administrative Code ("A.A.C.") Title 18, Chapter 4.

11 12. Lagoon has an approved curtailment plan tariff on file with the Commission.

12 13. Lagoon has an approved backflow prevention tariff on file with the Commission.

13 Procedural History

14 14. On July 2, 2009, Lagoon filed an application for a permanent rate increase, using a TY
 15 ending December 31, 2008. Lagoon reported unaudited TY operating revenues of \$199,609 and an
 16 operating loss of \$6,281.³ Lagoon requested an increase in revenues of \$30,000, or approximately 15
 17 percent, over its reported unaudited TY revenues, for total annual operating revenues of \$229,609. In
 18 its application, Lagoon stated that it had mailed notice to each of its customers contemporaneously
 19 with filing its application. The customer notice included with the application stated that Lagoon had
 20 experienced an operating loss of \$30,055 during the TY. Lagoon's application shows excessive
 21 water loss for the TY for its smaller system, which Lagoon stated was partially due to its having
 22 irrigated a local youth sports field at no charge.

23 15. On July 22, 2009, Lagoon filed a revised application page.

24 16. On August 13, 2009, Lagoon filed additional revised application pages.

25 17. On August 13, 2009, Staff issued a Letter of Deficiency.

26 18. On November 25, 2009, Staff issued a Letter of Sufficiency stating that Lagoon's

27
 28 ² Official notice is taken of this search result from the Commission's Corporations Division website.

³ Lagoon's application provided revenue and expense figures supporting a TY operating loss of \$6,259.

1 application had met the sufficiency requirements outlined in A.A.C. R14-2-103(B)(7) and that
2 Lagoon had been classified as a Class D water system.

3 19. On December 4, 2009, a Procedural Order was issued requiring Lagoon to provide its
4 customers additional notice because the original notice provided contained inaccurate information
5 and may have been misleading. The Procedural Order also required Staff to file with Docket Control
6 a copy of each document provided to Staff by Lagoon and not yet docketed in this matter.

7 20. On December 30 and 31, 2009, copies of the documents previously provided to Staff
8 by Lagoon were docketed.

9 21. On January 5, 2010, Lagoon filed an affidavit of service stating that its customers had,
10 on December 30, 2009, been mailed notice pursuant to the Procedural Order. The notice attached
11 substantially conformed to the requirements of the Procedural Order.

12 22. On January 15, 2010, a customer comment was filed opposing Lagoon's proposed rate
13 increase, apparently due to the current state of the national economy.

14 23. On January 20, 2010, a customer comment was filed opposing the rate increase
15 because of water quality and service problems. The issues raised by this customer comment are
16 discussed later.

17 24. On February 10, 2010, Staff filed its Staff Report, recommending that Lagoon's rate
18 application be approved using Staff's recommended rates and charges. The Staff Report did not
19 discuss the allegations of water quality and service problems or whether Lagoon's providing
20 irrigation water to a youth sports field at no charge was permissible under Lagoon's current tariff.

21 25. On February 18, 2010, Lagoon filed a response to the Staff Report, requesting that
22 Staff reconsider its recommendation that the \$5.00 late charge proposed by Lagoon not be authorized.
23 Lagoon asserted that the other two local water companies in its vicinity charge \$5.00 late charges and
24 that such a late charge is reasonable, normal, and not excessive and further stated the following:

25 We are a small water utility with about half of our customers habitually
26 paying their utility bill late. The majority of these customers call and request that
27 their payment be deferred until a later date and are charged the 1.5% deferred
28 payment fee. The same customers do this month after month because the charge is so
minimal and normally do not pay the past due amount by their deferred payment date.
The deferred payment fee of 1.5% does not deter them from doing this month after
month, so we do not feel that a 1.5% late charge will deter them either.

1 Our average monthly bill of \$25.04 would only require that thirty eight cents
2 (.38) be charged on a late bill. This does not even cover the postage, let alone the
3 labor cost and other office supplies used to send out the monthly late notices. In an
4 attempt to keep our shuts off at a minimum, we work diligently for the two weeks
5 after shut off notices are sent out, attempting collections and tagging doors of
6 customers who are scheduled for shut off; this incurs additional costs to the
7 Company. Because of the number of customers late and our short staff we are at the
8 point where we will no longer be able to continue this practice. The customer will be
9 shut off and charged the reconnect fee.

6 26. On April 26, 2010, a Procedural Order was issued stating that the record in this matter
7 was not adequate for the Commission to render a decision on Lagoon's application, requiring Lagoon
8 to file additional information in response to questions set forth in the Procedural Order, requiring
9 Staff to file a response to Lagoon's filing, and allowing Lagoon to file a reply to Staff's response.
10 The Procedural Order also extended the Commission's time frame to issue its decision in this matter.

11 27. On May 18, 2010, Lagoon filed its answers to the questions posed in the Procedural
12 Order of April 26, 2010.

13 28. On June 21, 2010, Staff filed its responses to Lagoon's answers.

14 29. On June 22, 2010, Staff filed an amended schedule that had been inadvertently omitted
15 from its responses to Lagoon's answers.

16 30. On July 1, 2010, Lagoon filed additional answers to the questions posed in the
17 Procedural Order of April 26, 2010.

18 **Water Loss**

19 31. The TY water loss for Lagoon's smaller system exceeded the maximum acceptable
20 water loss threshold (10 percent) recommended by Staff.

21 32. Lagoon attributes its TY water loss to the following: flushing of both of its
22 distribution systems, backflow cleaning on both systems, irrigation of the high school sports fields
23 with water from the larger system at no charge, mains leaks (including a major leak in Unit 7 of the
24 larger system that also necessitated major repairs to the well), and a malfunctioning meter⁴ on the
25 smaller system that was not detected for a couple of months. Lagoon further stated that it has
26 replaced both flow meters for the smaller system and that, since the replacements were made,
27

28 ⁴ Lagoon states that the meter was stuck and thus was not reading.

1 Lagoon's monthly water reconciliation reports have balanced.

2 33. Lagoon provided data showing that for the post-TY period of January through August
3 2009, Lagoon's larger system had 22,508,000 gallons pumped and 21,755,260 gallons sold, resulting
4 in 3.34 percent water loss, and Lagoon's smaller system had 1,797,000 gallons pumped and
5 1,716,380 gallons sold, resulting in 4.49 percent water loss. This results in combined water loss for
6 both systems of 3.43 percent.

7 34. Based on the post-TY data provided by Lagoon, Staff determined that the water loss
8 level for each of Lagoon's systems is now within acceptable limits. We agree with this
9 determination.

10 **Water Quality/Service Interruption**

11 35. In a comment filed on January 20, 2010, a Lagoon customer asserted that the water is
12 an orange/brown color, that it is so dirty that it stains everything with which it comes into constant
13 contact, and that it cannot be used for cooking without ruining cookware. The customer further
14 asserted that the water is not potable, that the lines are full of dirt and constantly in need of repair,
15 that Lagoon's personnel often damage lines and leave customers without service or running meters
16 for days at a time, that home plumbing equipment needs to be replaced frequently because of damage
17 caused by the water, and that many of the customer's neighbors purchase hauled water for drinking
18 and cooking.

19 36. In response to the customer comment, Lagoon dispatched its system operator to the
20 customer's residence. The system operator checked the water at the customer's premises and
21 determined that there was no issue at that time. The system operator also informed the customer that
22 Lagoon has never received any complaints from the customer previously and requested that the
23 customer contact Lagoon should issues arise in the future. Lagoon determined that the outage
24 complained of was one that resulted from a line break made by a work crew cleaning up meter boxes,
25 that it lasted approximately two hours, and that it was an isolated incident. The customer informed
26 Lagoon that she was upset about the requested rate increase and because she had seen no
27 improvement in water quality since moving into the service area. Lagoon reported that the
28 conversation with the customer ended on a very positive note as the customer learned that Lagoon's

1 system operator is accessible to address any issues related to service.

2 37. Lagoon reported that it receives only one or two calls per month regarding water
3 quality, mostly from its Unit 2 area, which is on a different system from the customer who
4 commented. Lagoon also reported that it has not received complaints from any of the customer's
5 neighbors regarding the need to replace equipment due to the water. Copies of Lagoon's 2009
6 Annual Drinking Water Quality Reports for both of its systems show that the water from the smaller
7 system (which includes Unit 2) exceeds secondary standards⁵ for iron, manganese, sulfate, and total
8 dissolved solids ("TDS") and that the water from its larger system exceeds secondary standards for
9 sulfate and TDS. Lagoon explained that the water discoloration experienced is due to iron and
10 manganese levels and that iron coating the inside of a pipe over time and being flushed through the
11 line can cause a light tea discoloration. Lagoon asserts that water discoloration is infrequent because
12 of proper chlorination, regular flushing of its main lines, and flushing of individual service lines on
13 one of its systems twice per year. Lagoon has also replaced steel column pipe with PVC pipe and
14 cleaned and maintained its storage tanks to address the issue.

15 38. Staff determined that Lagoon's response as to the cause of discoloration is correct and
16 that Lagoon's actions taken to remedy water discoloration have been reasonable. We agree with
17 Staff's determination that Lagoon's actions related to this issue have been reasonable and
18 appropriate.

19 39. Lagoon reported that it had approximately 20 water service interruptions between
20 January 1, 2008, and May 18, 2010, most of which were short-term outages (approximately one hour)
21 that affected only small areas of service. Lagoon only reported one of these service interruptions to
22 the Commission, a May 26, 2009, outage that lasted 9 hours, was caused by a pump malfunction, and
23 was resolved by replacing the pump. Lagoon asserts that it is able to isolate service outage effects
24 due to the valves on its system, which are subject to an annual exercising and replacement program.

25 40. Commission rule A.A.C. R14-2-407(D)(5) requires that an interruption of service be
26 reported to the Commission only if it affects the entire system or any major division of the system.

27 ⁵ Secondary standards are non-enforceable guidelines established by the Environmental Protection Agency.
28 Exceedances for secondary standard contaminants may cause cosmetic or aesthetic effects in water, but do not result in non-potable water or in violations of safe drinking water standards.

1 Thus, we find that Lagoon behaved appropriately in reporting the May 26, 2009, extended outage and
2 in not reporting the other outages.

3 **Sports Field Irrigation**

4 41. Lagoon provided water to irrigate the local high school's sports fields on four separate
5 occasions during the TY. Lagoon estimates that it provided approximately 200,000 gallons of water
6 each time, for a total of 800,000 gallons of water provided to the local high school at no charge
7 during the TY. Lagoon states that the high school had completely re-landscaped its sports fields, was
8 in the process of putting in a new water system, and was having problems with its well (through
9 which the high school typically obtains irrigation water). Lagoon provided the irrigation water for
10 the sports fields until the high school's well was back in service so that the high school's new
11 landscaping did not perish. Lagoon states that this was done "as a charitable contribution." Lagoon
12 states that the high school would have been charged approximately \$3,978 for this water had Lagoon
13 used its tariff rates for the water provided.

14 42. Lagoon's current tariff does not include a bulk water commodity rate and does not
15 allow for the provision of free water. The Commission's policy is that no one should receive free
16 water. In cases in which free or discounted water is provided by a utility, the Commission often
17 imputes into TY revenue the revenue that was lost because of the free or discounted water provided.
18 Imputation of the revenue that should have been collected for water that was provided at no charge or
19 at a reduced charge protects ratepayers from inappropriately subsidizing water use of owners,
20 operators, or others. In addition, the Commission does not believe that charitable contributions are
21 appropriate above-the-line expenses that should be collected from ratepayers and thus disallows them
22 when they are included as operating expenses, because charitable contributions are not necessary to
23 provide service.⁶

24 43. Although imputing \$3,798 in TY metered water revenues to Lagoon for the water
25 provided to the high school at no charge would be appropriate, in this instance we will not make such
26 an imputation, as the high school is not expected to obtain water for irrigation from Lagoon in the
27

28 ⁶ See, e.g., Decision No. 7124 (September 8, 2009) at 7-11.

1 future. The high school typically obtains its irrigation water through its own well and only obtained
2 irrigation water from Lagoon because it was having difficulty with its well, difficulty which has been
3 resolved. Thus, although we will not impute revenue to Lagoon for the water provided to the high
4 school free of charge, we will order Lagoon not to provide any water to any person without charging
5 that person in accordance with Lagoon's approved tariff.

6 **Late Fees**

7 44. Lagoon has provided data showing that during the TY it billed late fees 580 times and
8 collected total late fees of \$387.32. The average late fee charged during the TY was approximately
9 \$0.67.⁷ Lagoon asserts that its currently authorized late fee (1.50 percent of the unpaid balance) is
10 insufficient to deter its customers from habitually paying their bills well after the due date. Lagoon
11 explained that although its bills are due on the 15th of each month, late fees are not charged until after
12 the end of the month. Thus, although late fees were assessed 580 times, Lagoon actually sent out
13 approximately 1,800 late notices during the TY.⁸ Lagoon points out that the current late charge does
14 not even cover the postage required to send out these late notices. Lagoon also explained that it has
15 historically had a practice of tagging the doors of customers who are scheduled for shut off, after late
16 notices have been sent out, but that it has had to discontinue this practice because of the volume of
17 customers who are late and Lagoon's short staff. Lagoon asserts that a monthly late charge of \$5.00
18 is not excessive, will help deter customers from paying their bills late, will allow Lagoon to resume
19 the practice of tagging doors, and will offset the added costs that Lagoon incurs from sending out late
20 notices.

21 45. Late fees have two purposes—(1) to compensate a utility for additional administrative
22 effort that must be expended as a result of sending out additional notices, making other customer
23 contacts, and even resorting to commercial collection efforts when a bill goes unpaid; and (2) to
24 encourage a customer to pay his or her bill in a timely fashion by serving as a deterrent to
25 nonpayment.⁹ During the TY, Lagoon sent late notices to approximately 40 percent of its customers
26 each month and assessed late fees to approximately 13 percent of its customers each month.

27 ⁷ The late fee for a 5/8" x 3/4" meter customer with median usage would be only \$0.38.

28 ⁸ Assuming a first class postage rate of \$0.44 per notice, this results in a cost of \$792.

⁹ Decision No. 71482 (February 3, 2010).

1 Lagoon's current 1.50-percent late fee typically results in a late fee that does not even cover the
 2 postage cost to send a late notice. After considering the record in this matter, we find that the current
 3 1.50-percent late fee generally does not effectively serve either of the two purposes set forth above.
 4 Thus, we find that Lagoon's request for a \$5.00 late fee is reasonable, and we will approve it.

5 **Ratemaking**

6 46. Lagoon's current and proposed rates and charges and Staff's recommended rates and
 7 charges are as follows:

8 **MONTHLY USAGE CHARGE:**

| | <u>Present</u> | <u>Company</u> | <u>Staff</u> |
|-----------------------------------|-----------------------|------------------------|---------------------------|
| | <u>Rates</u> | <u>Proposed</u> | <u>Recommended</u> |
| 9 5/8" x 3/4" Meter (All Classes) | \$ 15.00 | \$ 20.00 | \$ 15.00 |
| 10 3/4" Meter (All Classes) | 20.25 | 25.25 | 22.50 |
| 11 1" Meter (All Classes) | 35.00 | 40.00 | 37.50 |
| 12 1-1/2" Meter (All Classes) | 65.00 | 70.00 | 75.00 |
| 13 2" Meter (All Classes) | 108.00 | 113.00 | 120.00 |
| 14 3" Meter (All Classes) | 190.00 | 195.00 | 240.00 |
| 15 4" Meter (All Classes) | 325.00 | 330.00 | 375.00 |
| 16 6" Meter (All Classes) | 625.00 | 630.00 | 750.00 |
| 17 8" Meter | 825.00 | 830.00 | 1,200.00 |

18 **COMMODITY RATES (Per 1,000 Gallons):**

| | | | |
|-----------------------------|--------------|--------------|--------|
| 19 <u>5/8" x 3/4" Meter</u> | | | |
| 20 1 to 3,000 Gallons | \$2.00 | \$2.25 | \$2.15 |
| 21 3,001 to 10,000 Gallons | 2.55 | 2.80 | 3.30 |
| 22 Over 10,000 Gallons | 3.25 | 3.50 | 3.90 |
| 23 <u>1" Meter</u> | | | |
| 24 1 to 10,000 Gallons | \$2.55 | \$2.80 | \$3.30 |
| 25 Over 10,000 Gallons | 3.25 | 3.50 | \$3.90 |
| 26 <u>2" to 8" Meters</u> | | | |
| 27 1 to 30,000 Gallons | \$2.55 | \$2.95 | \$3.30 |
| 28 Over 30,000 Gallons | 3.25 | 3.75 | 3.90 |
| 29 <u>Bulk Water</u> | | | |
| 30 All Usage | Not Tariffed | Not Included | \$3.90 |

1 In addition to the collection of its regular rates and charges, the company shall collect from its
2 customers their proportionate share of any privilege, sales, or use tax in accordance with A.A.C. R14-
3 2-409(D)(5).

4 47. Lagoon proposed an original cost rate base ("OCRB") of \$76,273 and has waived the
5 right to reconstruction cost new rate base.

6 48. Staff determined that Lagoon's OCRB is \$107,302. Staff's adjustments to Lagoon's
7 OCRB included an overall decrease in plant in service of \$2,367,¹⁰ made to be consistent with the
8 plant in service balance established in Lagoon's last rate case and to reflect increases supported by
9 documentation submitted by Lagoon; a \$13,044 decrease in accumulated depreciation resulting from
10 Staff's adjustments to plant in service and the addition of depreciation expense to the accumulated
11 depreciation balance established in the last rate case; and an increase of \$20,352 to cash working
12 capital, calculated using the formula method.

13 49. We find that Staff's adjustments to Lagoon's OCRB are reasonable and appropriate,
14 and we will adopt them. We further find that Lagoon's fair value rate base ("FVRB") is equivalent to
15 its OCRB and is \$107,302.

16 50. Lagoon reported actual unaudited TY operating revenue of \$199,609 and TY
17 operating expenses of \$205,868, which result in a TY operating loss of \$6,259¹¹ and, using the FVRB
18 adopted herein, a rate of return on rate base of negative 5.83 percent.

19 51. Staff determined that Lagoon had adjusted TY operating revenue of \$200,109;
20 adjusted TY operating expenses of \$201,731; and a TY operating loss of \$1,622. This represents a
21 return on rate base of negative 1.51 percent.

22 52. Staff increased Lagoon's adjusted TY revenue by \$500 to reflect metered water
23 revenue per Lagoon's submitted bill count. We find that Staff's adjustment to Lagoon's TY metered
24 water revenue is reasonable and appropriate, and we adopt Staff's adjusted TY revenue of \$200,109.

25 53. Staff decreased Lagoon's adjusted TY operating expenses by \$4,137 overall, resulting
26 in a TY operating expense figure of \$201,731. Staff's adjustments to operating expenses include a

27 ¹⁰ The changes include a \$1,655 increase to structures and improvements, a \$5,669 decrease to transmission and
28 distribution mains, a \$3,402 increase to meters and meter installations, a \$1,655 decrease to other plant and equipment,
and a \$100 decrease to transportation equipment.

¹¹ Lagoon showed its TY operating loss as \$6,281. It is unclear why this discrepancy exists.

1 decrease of \$1,374 in purchased power expense to reflect Staff's computation based on submitted
 2 invoices, a decrease of \$146 in repairs and maintenance expense to remove unsupported expenses, a
 3 decrease of \$174 in office supplies and expense to remove unsupported expenses, an increase of
 4 \$2,366 in outside services expense to reflect Staff's computation based on submitted documentation,
 5 a decrease of \$1,494 in transportation expense to remove unsupported expenses, an increase of
 6 \$1,537 in miscellaneous expense to reflect Staff's computation based on submitted documentation, an
 7 increase of \$5,942 in depreciation expense to reflect Staff's calculation of depreciation expense using
 8 Staff's adjusted plant in service and Staff's recommended depreciation rates, a decrease of \$11,076 in
 9 taxes other than income expense to remove sales taxes incorrectly recorded to the account, and an
 10 increase of \$282 in property tax expense to reflect Staff's computation based on submitted
 11 documentation. We find that Staff's adjustments to Lagoon's TY operating expenses are reasonable
 12 and appropriate, and we adopt Staff's adjusted TY operating expense figure of \$201,731.

13 54. Lagoon proposed total operating revenue of \$229,609, an increase of \$30,000, or
 14 15.03 percent, over its reported TY operating revenue of \$199,609.¹² Using the TY operating
 15 expenses and FVRB adopted herein, this would result in operating income of \$27,878; a rate of return
 16 of 25.98 percent; and an operating margin of 12.14 percent.¹³

17 55. Staff recommends total operating revenue of \$225,304, an increase of \$25,195, or
 18 12.59 percent, over Staff's adjusted TY operating revenue of \$200,109. Using the total operating
 19 expense figure of \$201,731 adopted herein, this would result in operating income of \$23,573; a rate
 20 of return of 21.97 percent; and an operating margin of 10.46 percent. Staff asserts that its
 21 recommended revenue requirement would provide Lagoon sufficient funds to manage contingencies,
 22 operating expenses, and below-the-line expenses.

23 56. Lagoon's proposed rates and charges would increase the monthly bill for a residential
 24 customer served by a 5/8" x 3/4" meter, with median usage of 4,586 gallons, from \$25.04 to \$31.19,
 25 for an increase of \$6.15 or 24.56 percent. For a residential customer with a 5/8" x 3/4" meter and
 26

27 ¹² Staff determined that Lagoon's proposed rates and charges would actually produce revenue of \$234,115, an increase
 of \$34,506, or 17.29 percent, over its reported TY operating revenue.

28 ¹³ Revenue of \$234,115 would result in operating revenue of \$32,384; a rate of return of 30.18 percent; and an
 operating margin of 13.83 percent.

1 average usage of 5,972 gallons, Lagoon's proposed rates and charges would increase the monthly bill
2 from \$28.58 to \$35.07, for an increase of \$6.49 or 22.71 percent.

3 57. Staff's recommended rates and charges would increase the monthly bill for a
4 residential customer with a 5/8" x 3/4" meter and median usage of 4,586 gallons from \$25.04 to
5 \$26.68, for an increase of \$1.64 or 6.55 percent. For a residential customer with a 5/8" x 3/4" meter
6 and average usage of 5,972 gallons, Staff's recommended rates and charges would increase the
7 monthly bill from \$28.58 to \$31.26, for an increase of \$2.68 or 9.37 percent.

8 58. Lagoon has not proposed a bulk water commodity rate, but has stated that it provides
9 bulk water service through both a standpipe and 2 1/2" construction meters.¹⁴ The standpipe is
10 currently being used by only one customer, but Lagoon stated that it would take beginning and
11 ending readings for each customer if multiple customers were to use the standpipe. Lagoon has three
12 construction meters altogether, one of which is being used on the standpipe, and the other two of
13 which are currently in shop inventory. Lagoon requires each construction meter user to submit an
14 application and a deposit before a construction meter is provided and requires a customer to return
15 the construction meter after use, which is typically only several days in duration. Lagoon reads each
16 construction meter when checked out and when returned and then bills the customer for usage.
17 Lagoon has not yet had a customer require long-term use of a construction meter.

18 59. Staff recommends that Lagoon be authorized to charge a commodity rate of \$3.90 per
19 1,000 gallons for all bulk water sold, without a minimum monthly charge.

20 60. The record in this case establishes that Lagoon sells bulk water both through a
21 standpipe (which is potentially multi-user) and through individually assigned hydrant meters. Thus,
22 it is appropriate to ensure that Lagoon's rates accommodate the provision of such services.

23 61. Recent Commission decisions have recognized that it is appropriate to allow a
24 monthly minimum charge for individually assigned hydrant meters to recognize the demand that
25 these meters place on the system and to allow recovery of administrative costs that are not fully
26 recovered through commodity rates when the meters have been assigned but have no usage for a

27

28 ¹⁴ We note that 2 1/2" is an unusual size for a water meter, as water meters are typically sized in whole numbers for meters larger than 2" in size.

1 given period.¹⁵ Thus, we find that it is appropriate to authorize a monthly minimum charge for
2 individually assigned hydrant meters, according to the meter size of the individually assigned hydrant
3 meter, and to require Lagoon to charge customers the tiered commodity rates adopted herein for their
4 water usage through such individually assigned hydrant meters, based on meter size.¹⁶

5 62. In addition, we find that it is appropriate to authorize Lagoon to assess the Staff-
6 recommended \$3.90 bulk water commodity rate for all water obtained through an unassigned hydrant
7 meter that is used as a standpipe and available to numerous entities, and to prohibit Lagoon from
8 assessing a monthly minimum charge for such usage. In the rate design adopted herein, we will refer
9 to this as a standpipe rate.

10 63. We find that Staff's recommended monthly minimum charges and commodity rates,
11 modified as described above, are just and reasonable and should be adopted.

12 64. Lagoon and Staff agree to retain most of Lagoon's current service charges. As stated
13 previously, we find that it is reasonable and appropriate to authorize Lagoon to charge a \$5.00
14 monthly late fee. Otherwise, we find that it is reasonable and appropriate to retain Lagoon's
15 currently authorized miscellaneous service charges and, as recommended by Staff, to authorize
16 Lagoon to assess a monthly service charge for fire sprinkler service, and we will do so.

17 65. Lagoon proposes to retain its current combined service line and meter installation
18 charges. Staff recommends the adoption of separate service line charges and meter charges and of
19 different charges for compound meters sized 2" and larger, which are currently not addressed
20 separately in Lagoon's tariff. Because it is possible that Lagoon may be called upon to add a new
21 meter to its system without adding a new service line, we find that it is reasonable and appropriate to
22 adopt the separate service line charges and meter charges recommended by Staff. In addition, as
23 compound meters are more expensive than turbo meters, we find that it is reasonable and appropriate
24 to adopt different charges for compound meters than for turbo meters.

25 _____
26 ¹⁵ 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.

27 ¹⁶ The rates and charges adopted herein do not include a monthly usage charge for a 2 ½" meter, which is an unusual
28 meter size. If the hydrant meters are 2 ½" in size, Lagoon shall either charge the monthly minimum charge authorized
herein for 2" meters or file for approval a tariff that includes a monthly usage charge for 2 ½" meters that falls between
the monthly usage charges adopted herein for 2" meters and 3" meters.

1 **Staff Recommendations**

2 66. Staff recommends the following:

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

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

6 (c) That Lagoon be ordered to file with Docket Control, as a compliance item in
7 this docket, within 30 days after the decision in this matter, a tariff schedule of its new rates and
8 charges; and

9 (d) That Lagoon be ordered to use the depreciation rates delineated in Table H of
10 the Engineering Report portion of the Staff Report in this matter.

11 **Resolution**

12 67. As stated previously, we are adopting Staff's recommended monthly minimum
13 charges and commodity rates, but are additionally requiring that individually assigned hydrant meter
14 customers be assessed a monthly minimum charge, according to meter size, along with Staff's
15 recommended tiered commodity rates for the meter size and are designating Staff's recommended
16 bulk water commodity rate as a standpipe rate applicable to hydrant meters that are not individually
17 assigned. We are also adopting the service charges recommended by Staff, modified to include a late
18 fee of \$5.00 per month.

19 68. We find that it is not necessary to take any action at this time regarding Lagoon's
20 water loss, water quality, or service interruptions, as Lagoon's efforts to address these issues have
21 been reasonable and appear to have been effective.

22 69. As stated previously, we will order Lagoon not to provide water to any entity without
23 charging that entity the rates and charges included in Lagoon's tariffs on file with the Commission.

24 70. Because Lagoon is currently not in good standing with the Commission's
25 Corporations Division, we will order Lagoon to file its 2010 Annual Report, to bring itself into
26 compliance with the Corporations Division, and to file proof that it has done so as a compliance item
27 in this docket.

28 71. Staff's recommendations set forth in Findings of Fact No. 66, as modified herein, are

1 just and reasonable and in the public interest, and we are adopting them.

2 **CONCLUSIONS OF LAW**

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

5 2. The Commission has jurisdiction over Lagoon and the subject matter of the
6 application.

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

9 4. Lagoon's FVRB is \$107,302.

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

12 6. It is just and reasonable and in the public interest to require Lagoon to comply with the
13 conditions described in Findings of Fact No. 66, as modified herein, and to take the actions set forth
14 in Findings of Fact Nos. 67 through 70.

15 **ORDER**

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

19 **MONTHLY USAGE CHARGE:**

| | |
|---------------------------------------|---------------|
| 20 5/8" x 3/4" Meter (All Classes) | \$ 15.00 |
| 21 3/4" Meter (All Classes) | 22.50 |
| 22 1" Meter (All Classes) | 37.50 |
| 23 1-1/2" Meter (All Classes) | 75.00 |
| 24 2" Meter (All Classes) | 120.00 |
| 25 3" Meter (All Classes) | 240.00 |
| 26 4" Meter (All Classes) | 375.00 |
| 27 6" Meter (All Classes) | 750.00 |
| 28 8" Meter | 1,200.00 |
| Hydrant Meter (Individually Assigned) | By Meter Size |
| Standpipe (Not Individually Assigned) | None |

1 COMMODITY RATES (Per 1,000 Gallons):**2** (Applicable to All Classes as Specified, Except Standpipe)**3** 5/8" x 3/4" Meter**4** 1 to 3,000 Gallons \$2.15

3,001 to 10,000 Gallons 3.30

5 Over 10,000 Gallons 3.90**6** 1" Meter**7** 1 to 10,000 Gallons \$3.30

Over 10,000 Gallons \$3.90

8 2" to 8" Meters**9** 1 to 30,000 Gallons \$3.30

Over 30,000 Gallons 3.90

10 Standpipe Water (Not Individually Assigned)**11** All Usage, Per 1,000 Gallons \$3.90**12** SERVICE LINE & METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

| | Service Line Charge | Meter Charge | Total Charge |
|-----------------------------|---------------------------|-----------------|-----------------|
| 13 5/8" x 3/4" Meter | \$ 415.00 | \$ 105.00 | \$ 520.00 |
| 14 3/4" Meter | 415.00 | 205.00 | 620.00 |
| 15 1" Meter | 465.00 | 265.00 | 730.00 |
| 16 1-1/2" Meter | 520.00 | 475.00 | 995.00 |
| 17 2" Turbo Meter | 800.00 | 995.00 | 1,795.00 |
| 2" Compound Meter | 800.00 | 1,840.00 | 2,640.00 |
| 18 3" Turbo Meter | 1,015.00 | 1,620.00 | 2,635.00 |
| 3" Compound Meter | 1,135.00 | 2,495.00 | 3,630.00 |
| 19 4" Turbo Meter | 1,430.00 | 2,570.00 | 4,000.00 |
| 4" Compound Meter | 1,610.00 | 3,545.00 | 5,155.00 |
| 20 6" Turbo Meter | 2,150.00 | 4,925.00 | 7,075.00 |
| 6" Compound Meter | 2,270.00 | 6,820.00 | 9,090.00 |
| 21 8" Turbo Meter | 3,080.00 | 7,055.00 | 10,135.00 |
| 8" Compound Meter | 3,200.00 | 12,585.00 | 15,875.00 |

22 SERVICE CHARGES:**23** Establishment \$30.00**24** Establishment (After Hours) \$40.00**25** Reconnection (Delinquent) \$30.00

Meter Test (If Correct) \$30.00

26 Deposit *

Deposit Interest *

27 Re-Establishment (within 12 mos.) **

NSF Check \$25.00

28

| | | |
|---|------------------------------|---------|
| 1 | Deferred Payment (per month) | *** |
| | Meter Re-Read (If Correct) | \$23.00 |
| 2 | Late Charge (per month) | \$5.00 |

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:

All Meter Sizes *****

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

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

*** Per Commission rule A.A.C. R14-2-409(G).

**** 2.00% of monthly minimum for a comparably sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinkler service is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of its regular rates and charges, the company shall collect from its customers their proportionate share of any privilege, sales, or use tax in accordance with A.A.C. R14-2-409(D)(5).

IT IS FURTHER ORDERED that the rates and charges set forth above shall be effective for all services rendered by Lagoon Estates Water Company, Inc. on and after September 1, 2010.

IT IS FURTHER ORDERED that Lagoon Estates Water Company, Inc. shall notify its customers of the revised schedule 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.

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

IT IS FURTHER ORDERED that Lagoon Estates Water Company, Inc. shall not provide any water to any entity without charging that entity the applicable rates and charges included in Lagoon's approved tariffs on file with the Commission.

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24 ...
25 ...
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that Lagoon Estates Water Company, Inc. shall promptly file its
2 2010 Annual Report with the Commission's Corporations Division and shall, within 90 days after the
3 effective date of this Decision, file with the Commission's Docket Control, as a compliance item in
4 this docket, a certificate of good standing establishing that Lagoon Estates Water Company, Inc. is in
5 good standing with the Commission's Corporations Division.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

8
9
10 CHAIRMAN _____ COMMISSIONER

11
12 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

13
14 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
15 Executive Director of the Arizona Corporation Commission,
16 have hereunto set my hand and caused the official seal of the
17 Commission to be affixed at the Capitol, in the City of Phoenix,
18 this _____ day of _____, 2010.

19 _____
20 ERNEST G. JOHNSON
21 EXECUTIVE DIRECTOR

22 DISSENT _____

23 DISSENT _____
24
25
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27
28

1 SERVICE LIST FOR: LAGOON ESTATES WATER COMPANY, INC.

2 DOCKET NO.: W-01825A-09-0345

3
4 Stanley Miller, Controller
LAGOON ESTATES WATER COMPANY, INC.
2600 North 44th Street, Suite 208
5 Phoenix, AZ 85008

6 Janice Alward, Chief Counsel
Legal Division
7 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
8 Phoenix, AZ 85007

9 Steven Olea, Director
Utilities Division
10 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
11 Phoenix, AZ 85007

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