



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

AUG 10 2010

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

DOCKETED BY	nr
-------------	----

IN THE MATTER OF THE APPLICATION OF LAZY C WATER SERVICE FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-01536A-09-0410

DECISION NO. 71832

ORDER

Open Meeting
July 27 and 28, 2010
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

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

FINDINGS OF FACT

1. Lazy C Water Service ("Lazy C" or "Company"), is an Arizona 'C' corporation engaged in the business of providing water utility service to the public approximately six miles northwest of Tucson, in Pima County, Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission") in Decision No. 30454 (August 16, 1957).¹ The Company's current rates and charges for water service were approved in Decision No. 67161 (August 10, 2004).

2. On August 28, 2009, Lazy C filed with the Commission an application for a permanent rate increase ("Application").

¹ The original Certificate of Convenience and Necessity ("CC&N") was issued to Mrs. Joseph Canfield d/b/a Lazy C Water Service. In Decision No. 56606 (August 24, 1989), the Commission authorized the transfer of Lazy C's CC&N to Box One, Inc., Lazy C's current owner.

1 3. On September 25, 2009, the Commission's Utilities Division Staff ("Staff") issued its
2 Letter of Deficiency.

3 4. On November 13, 2009, the Company filed its Responses to Staff's Letter of
4 Deficiency.

5 5. On December 10, 2009, Staff issued its Second Letter of Deficiency.

6 6. On March 9, 2010, Staff filed its Sufficiency Letter and on March 12, 2010, filed its
7 Amended Letter of Sufficiency, classifying the Company as a Class D utility.

8 7. On May 24, 2010, Staff filed its Staff Report recommending approval of the
9 Company's Application, subject to certain conditions.

10 8. On July 1, 2010, Lazy C filed an Arizona Department of Environmental Quality
11 ("ADEQ") Drinking Water Compliance Status Report dated June 14, 2010 ("ADEQ Report").

12 9. On July 13, 2010, Staff filed a Memorandum regarding the ADEQ Report.

13 10. The Company notified its customers of the proposed rates and charges by first class
14 U.S. mail on August 26, 2009. One customer filed a comment in opposition to the Company's
15 requested rate increase.

16 11. According to Staff, Lazy C's water system is comprised of two wells, three storage
17 tanks, four pressure tanks, three booster pumps and a distribution system. The Company's total
18 production capacity of 173 gallons per minute ("gpm") consists of 98 gpm from its wells and 75 gpm
19 from an interconnection with the City of Tucson, and it has storage capacity of 135,000 gallons.
20 Based on this, Staff determined that Lazy C has adequate capacity to serve its customers as well as
21 reasonable growth.

22 12. During the test year ended December 31, 2008, the Company served approximately
23 106 customers on 5/8" x 3/4" meters, 25 customers on 1" meters, and one customer on a 1-1/2"
24 meter.

25 13. Average and median usage on the 5/8" x 3/4" meters during the test year were 11,249
26 and 8,333 gallons per month, respectively.

14. The rates and charges for the Company at present, as proposed in the Application, and as recommended by Staff are as follows:

<u>MONTHLY USAGE CHARGE:</u>	Present Rates	Company Proposed	Staff Recommended
5/8" x 3/4" Meter	\$ 19.00	\$ 24.70	\$ 19.00
3/4" Meter	28.50	37.05	28.28
1" Meter	35.63	46.32	47.50
1-1/2" Meter	41.56	54.03	75.00
2" Meter	128.00	166.40	150.80
3" Meter	285.00	370.50	301.60
4" Meter	475.00	617.50	471.25
6" Meter	950.00	1,235.00	942.50

COMMODITY RATES:

Tier One Rate – 0-3,000 gallons	\$ 2.45	\$ 3.18	\$ 2.45
Tier Two Rate – 3,001 – 9,000 gallons	N/A	N/A	4.00
Tier Two Rate – 3,001 – 10,000 gallons	3.83	4.98	N/A
Tier Three Rate – Over 9,000 gallons	N/A	N/A	5.50
Tier Three Rate – Over 10,000 gallons	5.20	6.76	N/A
Standpipe (Per 1,000 gallons)	3.00	5.65	5.50

SERVICE LINE AND METER INSTALLATION CHARGES:

	Present Rates	Company's Proposed	Staff Recommended Service Line Charges	Staff Recommended Meter Installation	Staff Recommended Total
5/8" x 3/4" Meter	\$ 406.00	\$ 528.00	\$ 420.00	\$ 108.00	\$ 528.00
3/4" Meter	455.00	592.00	395.00	197.00	592.00
1" Meter	520.00	676.00	430.00	246.00	676.00
1-1/2" Meter	740.00	962.00	505.00	457.00	962.00
2" Meter	1,235.00	1,606.00	716.00	890.00	1,606.00
3" Meter	1,705.00	2,217.00	855.00	1,362.00	2,217.00
4" Meter	2,700.00	3,510.00	1,255.00	2,255.00	3,510.00
6" Meter	5,035.00	6,546.00	1,990.00	4,556.00	6,546.00
Over 6-inch	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

SERVICE CHARGES:

	Present Rates	Company Proposed	Staff Recommended
Establishment	\$ 15.00	\$ 20.00	\$ 20.00
Establishment (After Hours)	25.00	33.00	33.00
Reconnection (Delinquent)	15.00	20.00	20.00
Meter Test (If Correct)	25.00	33.00	33.00
Deposit	*	*	*
Deposit Interest	**	**	**
Re-Establishment (Within 12 Months)	***	***	***
NSF Check	\$15.00	\$20.00	\$20.00
Deferred Payment	N/A	N/A	N/A
Meter Re-Read (If Correct)	\$10.00	\$15.00	\$15.00
Late Payment Charge-Per-Month	N/A	N/A	N/A
Charge for Moving Meter	Minimum Cost	Minimum Cost	Minimum Cost

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:

4" or Smaller	\$0.00	\$0.00	****
6"	0.00	0.00	****

1	8"	0.00	0.00	****
	10"	0.00	0.00	****
2	Larger than 10"	0.00	0.00	****

3 * Per Commission Rule A.A.C. R14-2-403(B)(7).

4 ** Per Commission Rule A.A.C. R14-2-403(B)(3).

5 *** Months off system times the monthly minimum A.A.C. R14-2-403(D).

6 **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but
7 no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only
8 applicable for service lines separate and distinct from the primary water
9 service line.

10 15. Staff determined Lazy C's original cost rate base, which is the same as its fair value
11 rate base ("FVRB"), to be \$71,814. This is a \$244,345 decrease to Lazy C's proposed FVRB of
12 \$316,159, based primarily upon Staff's adjustments to plant-in-service, accumulated depreciation,
13 and working capital. Staff's proposed rate base adjustments are reasonable and will be adopted.

14 16. During the test year, Lazy C collected total operating revenues of \$102,674. Staff
15 made no adjustments to test year operating revenues.

16 17. Staff decreased Lazy C's claimed test year operating expenses by \$32,889, from
17 \$129,747 to \$96,858, due to adjustments to purchased water expense, repairs and maintenance
18 expense, office supplies expense, outside services, water testing expense, miscellaneous expense,
19 depreciation expense, property tax expense and income tax expense. Staff's proposed adjustments to
20 operating expenses are reasonable and will be adopted.

21 18. Based on Staff's analysis, Lazy C's present water rates and charges produced
22 operating revenues of \$102,674 and adjusted operating expenses of \$96,858, which resulted in an
23 adjusted test year net operating income of \$5,816, for a rate of return on Staff's adjusted FVRB of
24 8.10 percent and a 5.66 percent operating margin.

25 19. The water rates and charges Lazy C proposed would produce operating revenue of
26 \$133,476 and operating expenses of \$129,747, resulting in an operating income of \$3,729, for a 1.18
27 percent rate of return on its proposed \$316,159 FVRB, and an operating margin of 2.79 percent.

28 20. The water rates and charges Staff recommends would produce operating revenues of
\$114,352 and operating expenses of \$99,489, resulting in a \$14,863 operating income, for a 20.70

1 percent rate of return on Staff's recommended \$71,814 FVRB, and an operating margin of 13.00
2 percent.

3 21. The Company's proposed rate schedule would increase the average monthly
4 residential customer bill (11,249 gallons, on a 5/8" x 3/4" meter) by \$17.89, or 30.0 percent, from
5 \$59.65 to \$77.54 and would increase the median monthly residential customer bill (8,333 gallons, on
6 a 5/8" x 3/4" meter) by \$14.02, or 30.0 percent, from \$46.78 to \$60.80.

7 22. Staff's recommended rates would increase the average monthly residential customer
8 bill (11,249 gallons, on a 5/8" x 3/4" meter) by \$3.07, or 5.1 percent, from \$59.65 to \$62.72 and
9 would increase the median monthly residential customer bill (8,333 gallons, on a 5/8" x 3/4" meter)
10 by \$.90, or 1.9 percent, from \$46.78 to \$47.68.

11 23. The Company did not object to Staff's recommended rates and charges and we find
12 that Staff's recommended rates are reasonable and will be adopted.

13 24. Staff recommends that the Company file with the Commission a schedule of its
14 approved rates and charges no later than 30 days from the effective date of this Decision.

15 25. According to Staff, the ADEQ reported that during its last sanitary survey, it found
16 significant deficiencies regarding the Company's management and operation. Staff notes that the
17 sole remaining issue relates to Lazy C's lack of a certified operator. As such, ADEQ cannot
18 determine if Lazy C's water system is currently delivering water that meets drinking water quality
19 standards required by 40 C.F.R. 141 and Arizona Administrative Code ("A.A.C."), Title 18, Chapter
20 4.

21 26. Staff recommended that any increase in permanent rates and charges in this matter
22 should become effective on the first day of the month after the Company files with Docket Control,
23 as a compliance item in this Docket, documentation from ADEQ indicating that there are no
24 compliance deficiencies and that the Company's water system is delivering water that meets the
25 water quality standards required by 40 C.F.R. 141 and A.A.C., Title 18, Chapter 4.

26

27

28

1 27. On July 1, 2010, Lazy C filed the ADEQ Report, indicating that Lazy C is currently
2 delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative
3 Code, Title 18, Chapter 4, and the Company is in compliance with ADEQ requirements.

4 28. On July 13, 2010, Staff filed a memorandum acknowledging the receipt of the ADEQ
5 Report and stating that Lazy C has complied with the above-stated recommendation.

6 29. In Lazy C's last rate case, the Commission ordered the Company to adopt Staff's
7 recommended depreciation rates for each plant account. Staff found that Lazy C did not comply with
8 this requirement.² Accordingly, Staff recommends that the Company adopt the depreciation rates as
9 set forth in Table B to the Engineering Report, appended to the Staff Report as Attachment A, no
10 later than 30 days from the effective date of this Decision.

11 30. During Engineering Staff's review of Lazy C's water use data, Staff found that the
12 Company reported 16,147,248 gallons of water pumped/purchased and 17,509,490, gallons of water
13 sold, indicating that it sold more gallons of water than it pumped. The Company asserted that the
14 discrepancy could have been due to malfunctioning well meters during the test year. Lazy C states
15 that both well meters were replaced in February 2010.

16 31. Due to the discrepancy between gallons pumped/purchased and gallons sold, Staff
17 recommends that the Company be ordered to monitor the well pump meters to ensure they are
18 working properly, and if they are not, Lazy C should repair or replace the well meters as necessary
19 within 30 days from the discovery of any malfunction.

20 32. Further, Staff recommends that the Company continue to monitor the water system
21 closely and take action to ensure that water loss is less than 10 percent in the future. If the water loss
22 at any time before the next rate case is greater than 10 percent, the Company shall come up with a
23 plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and
24 explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost
25 effective. The report should be filed with Docket Control.

26
27
28 ² Staff's calculations of accumulated depreciation in this matter included a recalculation of Lazy C's plant depreciation based on the depreciation rates approved in the prior rate case.

ORDER

IT IS THEREFORE ORDERED that Lazy C Water Service is hereby directed to file with Docket Control, as a compliance item in this docket, within 30 days of the effective date of this Decision, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$ 19.00
3/4" Meter	28.28
1" Meter	47.50
1-1/2" Meter	75.00
2" Meter	150.80
3" Meter	301.60
4" Meter	471.25
6" Meter	942.50

COMMODITY RATES:

(Per 1,000 Gallons)

0-3,000 gallons	\$2.45
3,001 – 9,000 gallons	4.00
Over 9,000 gallons	5.50
Standpipe (Per 1,000 gallons)	5.50

SERVICE LINE AND METER INSTALLATION CHARGES:

	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 420.00	\$ 108.00	\$ 528.00
3/4" Meter	395.00	197.00	592.00
1" Meter	430.00	246.00	676.00
1-1/2" Meter	505.00	457.00	962.00
2" Meter	716.00	890.00	1,606.00
3" Meter	855.00	1,362.00	2,217.00
4" Meter	1,255.00	2,255.00	3,510.00
6" Meter	1,990.00	4,556.00	6,546.00
Over 6"	Actual Cost	Actual Cost	Actual Cost

SERVICE CHARGES:

Establishment	\$20.00
Establishment (After Hours)	33.00
Reconnection (Delinquent)	20.00
Meter Test (If Correct)	33.00
Deposit	*
Deposit Interest	**
Re-Establishment (Within 12 Months)	***
NSF Check	\$20.00
Deferred Payment	N/A

1	Meter Re-Read (If Correct)	\$15.00
	Late Payment Charge-Per-Month	N/A
2	Charge for Moving Meter	Minimum Cost

3 MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:

4	4" or Smaller	****
	6"	****
5	8"	****
	10"	****
6	Larger than 10"	****

- 7 * Per Commission Rule A.A.C. R14-2-403(B)(7).
- 8 ** Per Commission Rule A.A.C. R14-2-403(B)(3).
- 9 *** Months off system times the monthly minimum A.A.C. R14-2-403(D).
- 10 **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but
11 no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only
12 applicable for service lines separate and distinct from the primary water
13 service line.

11 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
12 provided on and after August 1, 2010.

13 IT IS FURTHER ORDERED that Lazy C Water Service shall notify its customers of the rates
14 and charges authorized herein, and their effective date, in a form acceptable to the Commission's
15 Utilities Division Staff, by means of an insert in the Company's next regular scheduled billing.

16 IT IS FURTHER ORDERED that Lazy C Water Service shall adopt the depreciation rates as
17 set forth in Table B to the Engineering Report, and attached hereto as Exhibit A, no later than 30 days
18 from the effective date of this Decision.

19 IT IS FURTHER ORDERED that Lazy C Water Service shall continue to monitor and assure
20 that its well pump meters are working properly, and if it is determined that they are not, Lazy C
21 Water Service shall repair or replace such well pump meters within 30 days after such determination.

22 IT IS FURTHER ORDERED that Lazy C Water Service shall continue to monitor closely its
23 water system and take actions to ensure that its water loss is less than 10 percent. If the water loss at
24 any time before the next rate case is greater than 10 percent, Lazy C Water Service shall develop a
25 plan to reduce the water loss to less than 10 percent, or prepare a report containing a detailed analysis
26 and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost
27

28

1 effective. The water loss reduction report or the detailed analysis, whichever is submitted, shall be
2 filed with Docket Control.

3 IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges,
4 Lazy C Water Service shall collect from its customers a proportionate share of any privilege, sales or
5 use tax per A.C.C. R14-2-409(D).

6 IT IS FURTHER ORDERED that Lazy C Water Service shall annually file as part of its
7 annual report, an affidavit with the Utilities Division attesting that Lazy C Water Service is current in
8 paying its property taxes in Arizona.

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

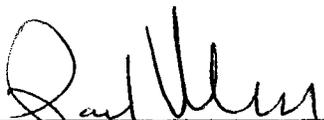
10 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

11 

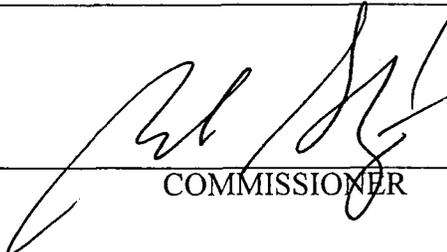
12 CHAIRMAN



COMMISSIONER

13 

14 COMMISSIONER

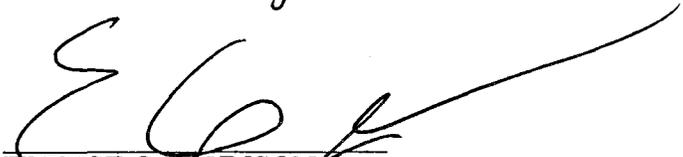


COMMISSIONER

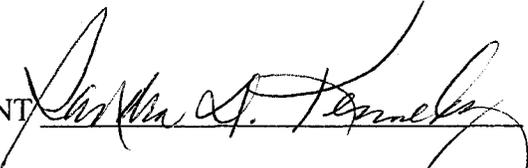


COMMISSIONER

16
17 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
18 Executive Director of the Arizona Corporation Commission,
19 have hereunto set my hand and caused the official seal of the
20 Commission to be affixed at the Capitol, in the City of Phoenix,
21 this 10th day of August, 2010.



22 ERNEST G. JOHNSON
23 EXECUTIVE DIRECTOR

24
25 DISSENT 

26
27 DISSENT _____

1 SERVICE LIST FOR: LAZY C WATER SERVICE

2 DOCKET NO. W-01536A-09-0410

3
4 Robert Canfield
5 LAZY C WATER SERVICE
6 P. O. Box 1
7 Tucson, AZ 85745

8 Janice Alward, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, AZ 85007

13 Steven M. Olea, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, AZ 85007

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

Lazy C Water Service

EXHIBIT "A"

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.