OPEN MEETING ITEM

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ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: JUNE 28, 2011

DOCKET NO.: W-01583A-09-0589

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Opinion and Order on:

LAS QUINTAS SERENAS WATER COMPANY
(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:

JULY 7, 2011

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:

JULY 12, 2011 and JULY 13, 2011

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
JUN 28 2011
DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF LAS QUINTAS SERENAS WATER COMPANY FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND AN INCREASE IN IT WATER RATES AND CHARGES FOR WATER UTILITY SERVICE.	DOCKET NO. W-01583A-09-0589 DECISION NO. __________ **OPINION AND ORDER**

DATE OF HEARING: September 28, 2010

PLACE OF HEARING: Tucson, Arizona

ADMINISTRATIVE LAW JUDGE: Belinda A. Martin

APPEARANCES: Mr. Lawrence V. Robertson, Jr., on behalf of the Las Quintas Serenas Water Company; and

Ms. Robin Mitchell and Ms. Kimberly Ruht, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

PROCEDURAL HISTORY

On December 31, 2009, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase ("Application"), which included the Direct Testimony of the Company's rate case consultant, Thomas Bourassa.

On January 29, 2010, the Commission's Utilities Division Staff ("Staff") filed a Letter of Deficiency, and on February 12, 2010, the Company filed its responses to the Letter of Deficiency.

On March 12, 2010, Staff filed its Letter of Sufficiency stating that the Application was sufficient under Arizona Administrative Code ("A.A.C.") R14-2-103(B)(7), and classifying Las Quintas as a Class C public water utility.

On March 24, 2010, a Procedural Order was issued setting the hearing for September 28, 2010, and establishing other procedural deadlines.

On April 23, 2010, Staff filed a Request for Modification to the March 24, 2010, Procedural Order asking that certain dates for filing testimony be revised. The Company did not object.

On April 28, 2010, a Procedural Order was issued granting Staff's Request for Modification.

On May 5, 2010, Las Quintas filed an Affidavit of Publication stating that the notice of hearing had been published on April 28, 2010, in the *Green Valley News and Sun*, and was mailed to all customers by U.S. Mail on April 27, 2010. In response to the Company's Notice, the Commission received three customer comments opposed to the Company's requested rate increase.

On August 9, 2010, Staff filed the Direct Testimony of Crystal Brown, Juan Manrique and Marlin Scott, Jr.

On August 23, 2010, Las Quintas filed the Rebuttal Testimony of Thomas Bourassa.

On September 13, 2010, Staff filed the Surrebuttal Testimony of Crystal Brown and Juan Manrique.

On September 20, 2010, Las Quintas filed the Rejoinder Testimony of Thomas Bourassa.

On September 28, 2010, the hearing in this matter convened as scheduled. No members of the public were present to provide public comment. At the conclusion of the hearing, the matter was taken under advisement pending the submission of the parties' post-hearing briefs.

On November 1, 2010, Staff and Las Quintas filed their initial Post-Hearing Briefs.

On November 15, 2010, Staff and Las Quintas filed their Post-Hearing Reply Briefs.

On November 15, 2010, Las Quintas filed for Commission approval of its Standpipe Water Service Refundable Key Charge Tariff.

On June 14, 2011, Staff filed a Notice of Errata regarding Surrebuttal Schedule CSB-19.

On June 20, 2011, Staff filed a Notice of Errata regarding Surrebuttal Schedule CSB-18.

On July 22, 2011, Las Quintas filed a Notice of Association of Co-Counsel for Applicant.

* * * * * * * * * *

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

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FINDINGS OF FACT

BACKGROUND

1. Las Quintas is an Arizona Class C public water utility corporation engaged in the business of providing water service to approximately 867 service connections, 156 standpipe customers and four fire sprinkler service customers in the Town of Sahuarita, Arizona.

2. The Commission granted Las Quintas a Certificate of Convenience and Necessity ("CC&N") in Decision No. 30888 (May 6, 1958). In Decision No. 58839 (November 2, 1994), the Commission authorized Las Quintas to charge a $250 off-site hook-up fee ("HUF"). Las Quintas' current rates and charges were set by the Commission in Decision No. 67455 (January 4, 2005).[1] In Decision No. 68718 (June 1, 2005), the Commission authorized Las Quintas to borrow up to $1,580,446 from the Water Infrastructure Finance Authority ("WIFA") to construct an arsenic treatment plant. In Decision No. 68863 (July 28, 2006), the Commission approved an arsenic impact HUF for new service connections, authorizing a $1,135 charge for new 5/8 x 3/4-inch meters. In Decision No. 69214 (December 21, 2006), the Commission approved an arsenic remedial surcharge tariff, authorizing a surcharge of $11.37 on 5/8 x 3/4-inch meters[2] to support debt service payments on the WIFA loan approved in Decision No. 68718.

RATE APPLICATION

3. Las Quintas' test year is the twelve-month period ending June 30, 2009.

4. In the test year, Las Quintas reported adjusted gross revenues of $488,270, which, according to the Company, resulted in an adjusted operating income of $52,655. Based on the Company's final schedules, Las Quintas' rate of return was 2.61 percent on an adjusted test year rate base of $2,015,574.

5. Las Quintas is seeking a gross revenue requirement of $687,117, an increase of $198,847, or 40.72 percent, resulting in operating income of $190,270, a rate of return of 9.44 percent on its proposed Fair Value Rate Base ("FVRB") of $2,015,574.

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[1] After receiving its CC&N in 1958, the Commission approved a rate increase for Las Quintas in Decision No. 52854 (March 5, 1982), and another increase in Decision No. 54760 (November 13, 1985). The Company did not come in for another rate increase until 2004, which was approved by the Commission in Decision No. 67455.

[2] Larger meters incur a larger surcharge.

6. Staff also calculated the Company's test year revenues at $488,270, which Staff determined resulted in an adjusted operating income of $51,564. Based on Staff's final schedules, the Company's rate of return was 2.70 percent on an adjusted test year rate base of $1,913,221.

7. Staff recommends a gross revenue requirement of $638,106, an increase of $149,836, or 30.69 percent, over test year revenues which results in operating income of $162,624, an 8.5 percent rate of return on Staff's proposed $1,913,221 FVRB.

8. The major contested issues in this proceeding were the treatment of accumulated deferred income taxes, the amount of depreciation expense attributable to amortization of contributions in aid of construction ("CIAC"), the cost of equity, rate design and the imposition of interest on security deposits for standpipe keys.

RATE BASE

9. As reflected in their respective final schedules,[3] Las Quintas' and Staff's proposed Original Cost Rate Bases ("OCRB") and FVRBs are as follows:

	OCRB	FVRB
Las Quintas	$2,015,574	$2,015,574
Staff	$1,913,221	$1,913,221

10. The sole rate base issue in dispute involves the treatment of accumulated deferred income taxes ("ADIT").

11. ADIT reflects the timing difference between when income taxes are calculated for ratemaking purposes and the actual federal and state income taxes that are paid by a company. The timing difference is primarily due to the fact that straight line depreciation is used by a company for ratemaking purposes, whereas accelerated depreciation is used for income tax reporting purposes.

12. The National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts requires utilities to use straight line depreciation for plant. In the early years of an asset's life, straight line depreciation typically results in a lower depreciation expense, resulting in a higher operating income, and thus a higher income tax, than under the accelerated depreciation

[3] Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule A-1; Surrebuttal Testimony of Crystal Brown, Surrebuttal Schedule CSB-1.

methodology used for tax purposes. The Internal Revenue Service Code allows companies to use accelerated depreciation for preparing their taxes, which in the early years of an asset's life typically results in a higher depreciation expense, and lower income taxes.

13. When a company has paid less in taxes because of accelerated or bonus depreciation than is calculated for ratemaking purposes, a deferred liability is created. An ADIT liability is a deduction from rate base. When the rate-making depreciation expense is greater than the depreciation expense for tax purposes, a deferred asset is created. An ADIT asset is an addition to rate base.

14. Las Quintas asserts that ADIT is critical to the ratemaking process and if not properly calculated and reflected in the ratemaking formula, it will cause ratepayers to either pay too much or too little. Las Quintas believes that regardless of whether an ADIT asset or liability is created, the use of the money or the loss of the use of money should be recognized in rate base.[4]

15. In this matter, the Company is proposing an ADIT asset whereas Staff is recommending an ADIT liability. Las Quintas' and Staff's final recommended ADIT components are as follows:

	Las Quintas[5]	Staff[6]
Fixed Asset Component	$(77,925)	($66,475)
AIAC Component	$32,463	$35,169
NOL Component	$116,508	0
Total	$71,046	$(31,307)

16. In his testimony, Thomas Bourassa, Las Quintas' witness on this issue, stated that during the test year, the Company opted to take advantage of a special fifty percent depreciation allowance on qualifying property permitted under the Economic Stimulus Act of 2008.[7] Mr. Bourassa testified that this "bonus" depreciation was a one time "take it or lose it" tax opportunity.[8] Las Quintas chose to take the bonus depreciation, with a resulting tax depreciation deduction of over $1 million. However, the Company's book depreciation for the same property in the same period was approximately $34,000. As a result, Las Quintas' depreciation deduction exceeded its income,

[4] Rebuttal Testimony of Thomas Bourassa, pages 9-10.
[5] Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule B-2, page 6.
[6] Surrebuttal Testimony of Crystal Brown, Surrebuttal Schedule CSB-10.
[7] Rebuttal Testimony of Thomas Bourassa, page 8.
[8] Tr. at 19.

and it incurred a net operating loss ("NOL") in 2009.[9]

17. Mr. Bourassa stated that, for tax purposes, an NOL can be applied against prior years' income (a tax loss carry back) and also against future income (a tax loss carry forward).[10] Mr. Bourassa stated that he applied some of the NOL as a tax loss carry back, with the remaining NOL to be used as a tax loss carry forward to offset Las Quintas' future tax liability.[11] He concludes that "the NOL will provide future tax benefits as an offset to future taxable income and accordingly results in an ADIT asset."[12]

18. Staff believes that it is not appropriate to include NOLs in the ADIT calculation.[13] Staff testified that NOL represents losses incurred by a company when it failed to earn taxable profit in previous years.[14] Staff believes that to include NOLs in ADIT would be unfair to ratepayers because ratepayers essentially would be paying a carrying charge on the Company's expected future recovery of a tax benefit while the ratepayers have already paid their share of income tax expense in rates.[15] Staff further asserts that the NOLs are not the result of book versus tax timing differences, but represent a tax loss that can be carried forward to offset taxable income in future years.[16] Additionally, Staff's witness, Crystal Brown, testified that the only ADIT components that should be included in rate base are those that reflect a net investment of capital. Staff argues that if funds not representing capital investment were included in rate base, then investors would earn a rate of return on an amount that is not an investment; a result unfair to ratepayers.[17]

19. The NOL results from bonus depreciation that was available in the test year, but is not, in and of itself, a tax timing difference. The Company could not utilize all of the bonus depreciation in the test year, which resulted in a carry forward of the tax benefit. The NOL carry forward benefits the Company, which it can utilize it to reduce the Company's tax liability, but under the Company's proposal it would result in an ADIT asset and an increase to rate base and rates. The Company has

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[9] Rebuttal Testimony of Thomas Bourassa, page 9.
[10] *Id.*
[11] *Id.*, page 10.
[12] *Id.*
[13] Tr. at 105.
[14] Surrebuttal Testimony of Crystal Brown, page 9.
[15] *Id.*, pages 9-10.
[16] Tr. at 97-98, 104-105.
[17] Surrebuttal Testimony of Crystal Brown, page 9.

not provided any authority for including the NOL in the ADIT calculation for rate-making purposes nor has it demonstrated why it is fair to Las Quintas' ratepayers to pay a return on the NOL when the rates customers pay allow the Company to earn operating income.

20. Accordingly, we adopt Staff's ADIT balance of $(31,307) as a reduction to rate base.

21. Las Quintas did not prepare schedules showing the elements of reconstruction cost new depreciated ("RCND") and instead requested that the OCRB be treated as its FVRB.[18] Based on the foregoing discussion, we adopt an adjusted OCRB and FVRB of $1,913,221 for Las Quintas as follows:

Commission Approved:

Plant in Service	$ 3,594,472
Less: Accumulated Depreciation	$ 1,021,769
Net Plant in Service	$ 2,572,703
Deductions:	
CIAC	$ 333,555
Less Accumulated Amortization	$ 83,901
Net CIAC	$ 249,654
Service Line and Meter Advances	$ 19,641
AIAC	$ 351,405
Customer Deposits	$ 7,475
ADIT	$ 31,307
Total OCRB	$ 1,913,221

INCOME STATEMENT

Revenues

22. Las Quintas and Staff agree on the Company's test year revenues of $488,270. We find test year revenues to be $488,270.

Expenses

23. Las Quintas proposed adjusted operating expenses of $435,615. Staff proposed adjustments to water testing expense, rate case expense, depreciation expense, property taxes and income taxes, resulting in adjusted test year operating expenses of $436,706.

24. Las Quintas objected to Staff's adjustment to that portion of the depreciation expense related to CIAC amortization, and to Staff's normalization of rate case expense over four years

[18] Application, page 2-3.

instead of three years as requested by the Company.

CALCULATION OF AMORTIZATION OF CIAC IN DEPRECIATION EXPENSE

25. Staff recommends a reduction to depreciation expense of $11,703 for amortization of CIAC, a difference of $212 from Las Quintas' proposed deduction of $11,915.[19] Although both Staff and Las Quintas applied a composite rate to calculate the CIAC amortization amount included in depreciation expense, the composite rate each used was different. Staff states the difference between Staff's calculation and the Company's is the result of the methodology used to compute the composite rate—the Company utilizes a composite amortization rate of 3.57 percent that includes non-depreciable plant, while Staff only used depreciable plant in the determination of its composite amortization rate of 3.51 percent.[20]

26. Las Quintas includes land acquired with CIAC in its amortization calculations. Staff argues that land is not depreciable and consequently is not amortizable, and therefore should be excluded from calculation of the amortization rate.[21] In support of this position, Staff cites to the NARUC Guideline that provides "balances in account 271 which represent contributions of *depreciable plant* shall be amortized by charges to this account over a period equal to the estimated service life of the related contributed asset."[22] (Emphasis added.) At hearing, Ms. Brown testified that in her experience, Commission Staff has not used any other manner of calculating CIAC amortization expense.[23]

27. Las Quintas states that the method of calculating CIAC amortization should be revenue neutral, and asserts that in order to ensure revenue neutrality, land funded with CIAC must be included in the composite amortization of all CIAC. The Company asserts that when all plant is used to calculate the composite rate there will be an exact offset of the annual amortization and no impact on the Company's operating expense and cash flows. According to the Company, if only depreciable plant is used to calculate the composite rate, there will be in a negative impact on the

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[19] Surrebuttal Testimony of Crystal Brown, Surrebuttal Schedule CSB-15; Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule C-2, page 2.
[20] Surrebuttal Testimony of Crystal Brown, page 13.
[21] *Id.*, pages 13-15.
[22] Tr. at 93, citing Hearing Exhibit S-6.
[23] Tr. at 91.

Company's operating expenses and cash flow.[24]

28. NARUC Guidelines provide that only depreciable plant should be amortized, and in the past the Commission has adopted Staff's methodology used here.[25] We agree that land can be funded with CIAC as well as any other type of asset. However, because land is assumed to have an infinite service life, it does not depreciate, and is not amortized.

29. Staff's method recognizes that CIAC may include both depreciable and non-depreciable plant, and insures that only depreciable CIAC is amortized. We recognize that there may be a timing difference between the Staff and the Company methods, but believe that Staff's method will insure that the total amount of CIAC amortization will match the depreciation of plant associated with CIAC. Thus, we agree that Staff's approach to use NARUC's Guideline to remove non-depreciable assets from the calculation of the composite amortization rate for CIAC is appropriate and we adopt Staff's position on CIAC amortization.

RATE CASE EXPENSE

30. The Company proposes a rate case expense of $80,000, to be amortized over three years, for an annual rate case expense of $26,667.[26] The Company asserts that a normalization over three years is appropriate because it intends to come in after three years with another rate case.[27]

31. Staff accepts the Company's proposed rate case expense of $80,000, but normalizes that amount over four years, resulting in an annual rate case expense of $20,000.[28] Staff notes that it usually normalizes rate case expense over a three-to-five year period.[29] Staff argues that given the Company's inconsistent history of rate case applications,[30] it is appropriate to normalize the rate case expense in this matter over four years.[31]

32. Given the Company's uneven history of rate increase applications, we find Staff's recommendation of a rate case expense of $80,000 normalized over four years, for an annual rate

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[24] Rebuttal Testimony of Thomas Bourassa, page 14-15.
[25] See, for example, Decision No. 72251 (April 7, 2011).
[26] Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule C-1, page 1.
[27] Rebuttal Testimony of Thomas Bourassa, page 15.
[28] Direct Testimony of Crystal Brown, page 11.
[29] *Id.*
[30] Rate increases were approved in 1982, 1985, 2005, and the instant rate case was filed in 2009.
[31] Direct Testimony of Crystal Brown, page 11.

case expense of $20,000, is reasonable.

33. Based on the foregoing discussion, we find that Staff's recommended test year operating expense of $436,706 is reasonable and shall be adopted.

34. Accordingly, we find that test year operating revenues were $488,270 and test year operating expenses were $436,706, for a test year operating income of $51,564.

COST OF CAPITAL

35. The parties' positions on the cost of capital components are summarized as follows:

	Cost of Debt	Cost of Equity	WACC
Las Quintas[32]	7.1%	14.4%	9.44%
Staff[33]	7.1%	10.4%	8.5%

36. The cost of capital is the opportunity cost represented by anticipated returns that are foregone by choosing one investment over another, or, in other words, the return that investors expect from a venture. The weighted average cost of capital ("WACC") is the average of the cost rates on all issued securities adjusted to reflect their relative amounts in the company's capital structure. Thus, the WACC for a particular company is determined based on the cost of its debt and the cost of its equity, multiplied by the proportion of the debt and equity that comprise its total capital.[34]

37. The cost of debt is determined by the interest rate of the company's debt instruments. In this matter, Staff and Las Quintas agree that the applicable cost of debt is 7.1 percent.

38. The cost of equity ("COE") is determined by the market, and represents investors' expected returns, not realized accounting returns.[35] The COE is estimated using various methodologies. Most commonly, and in this case, witnesses used the Discounted Cash Flow ("DCF") method and the Capital Asset Pricing Model ("CAPM"). Despite using the same basic methodologies and the same representative sample group of publicly traded utilities for their calculations, the witnesses derive differing results due to their use of different assumptions and inputs.

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[32] Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule D-2, page 1.
[33] Surrebuttal Testimony of Juan Manrique, Surrebuttal Schedule JCM-1.
[34] Direct Testimony of Juan Manrique, pages 3-4.
[35] *Id.*, page 7.

39. The DCF uses the present value of the current average market price of the sample group and shareholder expected future cash flows (primarily dividends) to determine the stock value of the subject utility.[36] The CAPM model describes the relationship between a security's investment risk and its market rate of return.[37] The CAPM assumes that investors require a return that is commensurate with the level of risk associated with a particular security.[38] Under the CAPM, the expected return is equal to the risk-free interest rate plus the product of the market risk premium, multiplied by beta, where beta represents the riskiness of the investment relative to the market.[39]

40. In this case, Las Quintas seeks a rate of return on rate base using a WACC of 9.44 percent. Las Quintas calculates the WACC using its capital structure of 67.9 percent debt and 32.1 percent equity, which is far more leveraged than the sample companies' capital structure.

41. Las Quintas calculates a COE of 14.40 percent based on its witness, Mr. Bourassa's, analysis. [40] Mr. Bourassa utilized the DCF and the CAPM to calculate its proposed COE. Mr. Bourassa then adjusted the COE produced by his DCF and CAPM calculations upward by 150 basis points to account for the higher debt level in Las Quintas' capital structure as compared to the sample group, and then again adjusted the COE upward by another 100 basis points to account for Las Quintas' small size relative to the sample companies, the Company's lack of investment liquidity, and additional risks that Las Quintas believes result from the particular rate-making methods employed in Arizona.[41]

42. Staff recommends a hypothetical capital structure consisting of 60.0 percent debt and 40.0 percent equity.[42] Staff recommends the application of a hypothetical capital structure in this case because of the Company's highly leveraged financial position. According to Staff, the recommended hypothetical capital structure provides Las Quintas additional financial assistance given its higher financial risk than that of the sample companies.[43] Staff asserts that its hypothetical capital structure

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[36] *Id.*, page 14.
[37] *Id.*, page 25-26.
[38] *Id.*, page 27.
[39] *Id.*
[40] Rejoinder Testimony of Thomas Bourassa, page 2; Rejoinder Schedule D-2, page 1.
[41] *Id.*
[42] Direct Testimony of Juan Manrique, page 6.
[43] Surrebuttal Testimony of Juan Manrique, page 3-4.

will provide Las Quintas with a 10.6 percent greater return on equity than that calculated using the Company's current capital structure.[44] Staff concludes that, "use of a hypothetical capital structure more clearly demonstrates that Staff's overall rate of return recommendation is consistent with that for a utility with a capital structure Staff considers to be within a reasonable range."[45]

43. Staff recommends a COE of 10.4 percent.[46] Staff argues that its COE is based on sound and well-accepted methodologies that have consistently been utilized by the Commission. Staff used two versions of the DCF Model, the constant growth DCF and the multi-stage DCF. Staff recommends against too heavy a reliance on analysts' forecasts, which it believes the Company's witness has done, and states that its DCF methodology gives equal weight to historic data and analysts' forecasts. Staff's overall DCF COE is 9.7. Staff's overall CAPM COE is 11.0 percent, and includes both Staff's CAPM estimate using the historical market risk premium and the current market risk premium.[47]

44. Staff disagrees with the Company's inclusion in COE of an upward financial risk adjustment of 150 basis points. Staff asserts that it does not recommend the use of a financial risk adjustment because Las Quintas is not publicly traded and, as such, does not have access to the capital markets.[48] Staff also argues that including an upward financial risk adjustment along with the application of a hypothetical capital structure that benefits the Company effectively compensates the Company twice for its risky capital structure in relation to the sample companies, and it is not reasonable that ratepayers should compensate the Company twice for its highly-leveraged capital structure.[49]

45. Staff also argues that Las Quintas' firm-specific risk adjustment of 100 basis points is not necessary in this case because there is no evidence that Arizona has a less favorable regulatory environment than the sample companies.[50] Additionally, Staff notes that the Commission has

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[44] Direct Testimony of Juan Marique, page 33.
[45] *Id.*
[46] Surrebuttal Testimony of Juan Manrique, Surrebuttal Schedule JCM-1.
[47] *Id.*, Surrebuttal Schedule JCM-3.
[48] Direct Testimony of Juan Manrique, page 33.
[49] Surrebuttal Testimony of Juan Manrique, page 4.
[50] Direct Testimony of Juan Manrique, page 41.

previously rejected proposals for a "small firm risk premium."[51]

46. Given the Company's highly leveraged capital structure, we find that a hypothetical capital structure consisting of 60 percent debt and 40 percent equity is appropriate. After consideration of all the testimony, evidence and arguments presented, we find that, in this case, a COE of 10.4 percent and cost of debt of 7.1 percent is reasonable. Consequently, we approve a WACC of 8.5 percent as follows:

	Capital Structure	Cost	WACC
Debt	60.0 %	7.1 %	4.3 %
Equity	40.0 %	10.4 %	4.2%
Total	100.0%		8.5%

REVENUE REQUIREMENT

47. Based on our findings herein, we determine that Las Quintas is entitled to a gross revenue increase of $149,836, or 30.69 percent:

FVRB	$1,913,221
Adjusted Operating Income	$51,564
Required Rate of Return	8.5%
Required Operating Income	$162,624
Operating Income Deficiency	$111,059
Gross Rev. Conv. Factor	1.34915
Gross Revenue Increase	$149,836
Adjusted Test Year Revenue	$488,270
Approved Annual Revenue	$638,106
Percentage Revenue Increase	30.69%

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[51] *Id.*, page 43.

RATE DESIGN

48. Set forth below are the current, Company proposed, and Staff proposed rates and charges according to their respective revenue requirements and rate design recommendations:

MONTHLY USAGE CHARGE:	Present Rates	Company Proposed	Staff Recommended
All Classes			
5/8 x 3/4-inch Meter	$10.00	$20.00	$20.00
3/4-inch Meter	22.50	30.00	30.00
1-inch Meter	25.00	50.00	50.00
1-1/2-inch Meter	55.00	100.00	100.00
2-inch Meter	70.00	160.00	160.00
3-inch Meter	125.00	320.00	320.00
4-inch Meter	225.00	500.00	500.00
6-inch Meter	350.009	1,000.00	1,000.00
8-inch Meter	N/T	N/T	1,600.00
Standpipe	$10.10	$20.20	$20.20
Fire Sprinkler Connection			
Less than 6 inches (See Notes 1 and 2)	$10.00	$10.00	N/A
Larger than 6 inches (See Notes 1 and 2)	15.00	15.00	N/A
Less than 6 inches (See Notes 1 and 3)	10.00	N/A	Note 3
Larger than 6 inches (See Notes 1 and 3)	15.00	N/A	Note 3

Note 1 – Present Rates are 1% of monthly minimum for comparable sized meters, but not less than $5.00 per month.
Note 2 – Proposed rates are 2% of monthly minimum for comparable sized meters, but not less than $15 per month.
Note 3 – Staff's recommended monthly charges are 2% of the monthly minimum for an equivalent sized meter or $10, whichever is greater, for all meter sizes.

COMMODITY RATES: **(Residential, Commercial, Industrial)** **(Per 1,000 gallons)**	Present Rates	Company Proposed	Staff Recommended
5/8" x 3/4-inch Meter			
0 to 4,000 gallons	$0.95	N/A	N/A
4,001 to 23,000 gallons	1.15	N/A	N/A
Over 23,000 gallons	1.35	N/A	N/A
0 to 4,000 gallons	N/A	$1.87	$1.08
4,001 to 10,000 gallons	N/A	2.37	2.08
Over 10,000 gallons	N/A	2.97	3.09

3/4-inch Meter			
0 to 4,000 gallons	$0.95	N/A	N/A
4,001 to 23,000 gallons	1.15	N/A	N/A
Over 23,000 gallons	1.35	N/A	N/A
0 to 4,000 gallons	N/A	$1.87	$1.08
4,001 to 10,000 gallons	N/A	2.37	2.08
Over 10,000 gallons	N/A	2.87	3.09
1-inch Meter			
0 to 40,000 gallons	$1.15	N/A	N/A
Over 40,000 gallons	1.35	N/A	N/A
0 to 25,000 gallons	N/A	$2.37	N/A
Over 25,000 gallons	N/A	2.97	N/A
0 to 27,000 gallons	N/A	N/A	$2.08
Over 27,000 gallons	N/A	N/A	3.09
1 1/2-inch Meter			
0 to 100,000 gallons	$1.15	N/A	N/A
Over 100,000 gallons	1.35	N/A	N/A
0 to 50,000 gallons	N/A	$2.37	N/A
Over 50,000 gallons	N/A	2.97	N/A
0 to 70,000 gallons	N/A	N/A	$2.08
Over 70,000 gallons	N/A	N/A	3.09
2-inch Meter (All Classes Except Standpipe)			
0 to 150,000 gallons	$1.15	N/A	N/A
Over 150,000 gallons	1.35	N/A	N/A
0 to 80,000 gallons	N/A	$2.37	N/A
Over 80,000 gallons	N/A	2.97	N/A
0 to 122,000 gallons	N/A	N/A	$2.08
Over 122,000 gallons	N/A	N/A	3.09
3-inch Meter (All Classes Except Standpipe)			
0 to 160,000 gallons	N/A	$2.37	N/A
Over 160,000 gallons	N/A	2.97	N/A
0 to 262,000 gallons	N/A	N/A	$2.08
Over 262,000 gallons	N/A	N/A	3.09

4-inch Meter (All Classes Except Standpipe)			
0 to 400,000 gallons	$1.15	N/A	N/A
Over 400,000 gallons	1.35	N/A	N/A
0 to 250,000 gallons	N/A	$2.37	N/A
Over 250,000 gallons	N/A	2.97	N/A
0 to 423,000 gallons	N/A	N/A	$2.08
Over 423,000 gallons	N/A	N/A	3.09
6-inch Meter (All Classes Except Standpipe)			
0 to 400,000 gallons	$1.15	N/A	N/A
Over 400,000 gallons	1.35	N/A	N/A
0 to 500,000 gallons	N/A	$2.37	N/A
Over 500,000 gallons	N/A	2.97	N/A
0 to 873,000 gallons	N/A	N/A	$2.08
Over 873,000 gallons	N/A	N/A	3.09
8-inch Meter (All Classes Except Standpipe)			
0 to 1,414,000 gallons	N/T	N/A	$2.08
Over 1,414,000 gallons	N/T	N/A	3.09
Standpipe			
0 to 4,000 gallons	$ 0.95	N/A	N/A
4,001 to 23,000 gallons	1.15	N/A	N/A
Over 23,000 gallons	1.35	N/A	N/A
0 to 4,000 gallons	N/T	$ 1.87	N/A
4,001 to 10,000 gallons	N/T	2.37	N/A
Over 10,000 gallons	N/T	2.97	N/A
0 to 4,000 gallons	N/T	N/A	$ 1.08
4,001 to 23,000 gallons	N/T	N/A	2.08
Over 23,000 gallons	N/T	N/A	3.09

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

		Company Proposed			Staff Recommended		
	Current Charge	Proposed Service Line Charge	Meter Installation Charge	Total Recommended Charges	Proposed Service Line Charge	Meter Installation Charge	Total Recommended Charges
5/8" x ¾ " Meter	$ 150.00	$ 445.00	$155.00	$ 600.00	$ 445.00	$155.00	$ 600.00
3/4 " Meter	NT	445.00	255.00	700.00	445.00	255.00	700.00
1" Meter	225.00	495.00	315.00	810.00	495.00	315.00	810.00
1-1/2" Meter	475.00	550.00	525.00	1,075.00	550.00	525.00	1,075.00
2" Meter	625.00	N/A	N/A	N/A	N/A	N/A	N/A
2" Meter Turbine	NT	830.00	1,045.00	1,875.00	830.00	1,045.00	1,875.00
2" Meter Compound	NT	830.00	1,890.00	2,720.00	830.00	1,890.00	2,720.00
3" Meter	850.00	N/A	N/A	N/A	N/A	N/A	N/A
3" Meter Turbine	NT	1,045.00	1,670.00	2,715.00	1,045.00	1,670.00	2,715.00
3" Meter Compound	NT	1,165.00	2,545.00	3,710.00	1,165.00	2,545.00	3,710.00
4" Meter	1,800.00	N/A	N/A	N/A	N/A	N/A	N/A
4" Meter Turbine	NT	1,490.00	2,670.00	4,160.00	1,490.00	2,670.00	4,160.00
4" Meter Compound	NT	1,670.00	3,645.00	5,315.00	1,670.00	3,645.00	5,315.00
6" Meter	3,000.00	N/A	N/A	N/A	N/A	N/A	N/A
6" Meter Turbine	NT	2,210.00	5,025.00	7,235.00	2,210.00	5,025.00	7,235.00
6" Meter Compound	NT	2,330.00	6,920.00	9,250.00	2,330.00	6,920.00	9,250.00
8" Meter	NT	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

SERVICE CHARGES:	Present Rates	Company Proposed	Staff Recommended
Establishment	$20.00	$20.00	$20.00
Establishment (After Hours)	30.00	30.00	30.00
Reconnection (Delinquent)	20.00	20.00	20.00
Reconnection (Delinquent and After Hours)	30.00	30.00	30.00
Meter Test (If Correct)	25.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	$15.00	$15.00	$15.00
Deferred Payment (Per Month)	NT	1.50%	1.50%
Meter Re-Read (If Correct)	$15.00	$15.00	$15.00
After hours service charge (Per A.A.C. R14.2-403D)	NT	Cost	Cost
Late Charge per month (Per A.A.C. R14-2-409G(6))	1.50%	1.50%	1.50%

* Per A.A.C. R14-2-403.B.
** Months off system times the minimum, per A.A.C. R14-2-403.D.

Standpipe Deposits			
Original Key Deposit	$30.00	$30.00	$30.00
Additional Set	5.00	5.00	5.00

Arsenic Remedial Surcharge			
5/8 x 3/4-inch Meter	$11.37	*	*
¾-inch Meter	17.05	*	*
1-inch Meter	28.42	*	*
1-1/2-inch Meter	56.84	*	*
2-inch Meter	90.94	*	*
3-inch Meter	170.52	*	*
4-inch Meter	284.20	*	*

6-inch Meter or larger	568.40	*	*
Standpipe	11.37	*	*
*Staff and Company recommend discontinuation of this surcharge.			
Arsenic Impact Hook-up Fee			
5/8 x 3/4-inch Meter	$1,135.00	$1,135.00	$1,135.00
3/4-inch Meter	1,703.00	1,703.00	1,703.00
1-inch Meter	2,838.00	2,838.00	2,838.00
1-1/2-inch Meter	5,675.00	5,675.00	5,675.00
2-inch Meter	9,080.00	9,080.00	9,080.00
3-inch Meter	18,160.00	18,160.00	18,160.00
4-inch Meter	28,375.00	28,375.00	28,375.00
6-inch Meter or larger	56,750.00	56,750.00	56,750.00
Offsite Facilities Hook-up Fee			
5/8 x 3/4-inch Meter	$250.00	$250.00	$250.00
3/4-inch Meter	250.00	250.00	250.00
1-inch Meter	250.00	250.00	250.00
1-1/2-inch Meter	250.00	250.00	250.00
2-inch Meter	250.00	250.00	250.00
3-inch Meter	250.00	250.00	250.00
4-inch Meter	250.00	250.00	250.00
6-inch Meter or larger	250.00	250.00	250.00

N/T=No current tariff
N/A=Not applicable

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

All advances and/or contributions are to include labor, materials, overheads, and all applicable taxes.

49. Las Quintas believes that Staff's proposed design results in larger users subsidizing smaller users.[52] The Company notes that under its present rates, the 5/8 x 3/4-inch meter customers account for approximately 67.0 percent of revenues. Under the Company's proposed rates, those same customers provide 65.8 percent of revenues and under Staff proposed rates, the percentage drops to 64.8 percent. According to Las Quintas, this drop must be made up by those customers in the higher water usage levels. Las Quintas asserts that this is not only unfair, but if the larger metered customers begin to conserve water because of the uneven shift in rates, then there is a greater impact on revenue stability and on the Company's ability to earn its authorized rate of return.[53]

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[52] Rejoinder Testimony of Thomas Bourassa, page 15.
[53] *Id.*, page 16, and Rejoinder Exhibit TJB-RJ4.

50. Staff asserts that its rate design promotes efficient water use and provides an economic benefit to those customers who make efforts to conserve water. Staff argues that because those customers with larger meters use more water, it is reasonable to recover a more proportional amount of revenues from those high water use customers.[54]

51. Las Quintas currently charges an approved arsenic remedial surcharge tariff of $11.37 on 5/8x 3/4-inch meters per customer, per month. In its Application, the Company proposed to eliminate the arsenic remedial surcharge since the arsenic treatment facilities are now recognized in rate base and the associated debt is reflected in the Las Quintas' cost of capital. Staff agreed with Las Quintas' conclusion that the arsenic remedial surcharge should be eliminated since the plant associated with the surcharge is now in rate base.[55]

52. For a residential customer served by a 5/8 x 3/4-inch meter with average usage of 10,768 gallons per month, the current monthly charges are $32.95, including the arsenic remedial surcharge. Under the Company's final proposed rates, a customer with the same average usage would experience an increase of $11.05 per month, or 33.51 percent, to $44.00.

53. An average usage customer on a 5/8 x 3/4-inch meter under Staff's recommended rates would experience an increase of $6.22 per month, or 18.88 percent, from $32.95 to $39.17.

54. We agree with Staff that a rate structure that promotes water conservation is desirable. The Company's and Staff's rate designs are not significantly different and the Company's evidence that revenues would be harmed by Staff's rate design was not persuasive. Accordingly, we find that Staff's recommended rates are reasonable and should be adopted.

55. In its Surrebuttal Testimony, Staff recommended that Las Quintas be required to pay interest on customer standpipe charges at six percent annually pursuant to A.A.C. R14-2-403(B).[56] However, the Las Quintas argues that it should not be required to pay interest on customer standpipe key deposits because these deposits are in place only insure the return of the keys and are not in place to secure payment from customers, or used as a means for funding capital improvements.[57]

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[54] Surrebuttal Testimony of Crystal Brown, page 17.
[55] Direct Testimony of Crystal Brown, page 16.
[56] Surrebuttal Testimony of Crystal Brown, page 7.
[57] Rebuttal Testimony of Thomas Bourassa, page 11.

56. At hearing, however, Staff witness Crystal Brown testified that if the Company does not want to pay interest on the funds collected to insure customers return the standpipe keys, Staff recommends that the Company change the standpipe key deposit to a standpipe key charge.[58]

57. Accordingly, in its initial Post-Hearing Brief, Las Quintas indicated that it would file a tariff adopting Staff's suggestion and on November 15, 2010, the Company filed for Commission approval a Standpipe Water Service Refundable Key Charge Tariff ("Key Charge Tariff") in this docket. The Company also attached a copy of the Key Charge Tariff to its Post-Hearing Reply Brief. Under the Key Charge Tariff, the Refundable Key Charge for the first key is $30 and if a second key is needed, there would be an additional $5.00 charge. These are the same rates that are currently in effect for the standpipe key deposit.

58. Staff filed no comments or objections to the proposed Key Charge Tariff. As such, we approve the Key Charge Tariff attached hereto as Exhibit A.

59. Las Quintas has an approved off-site HUF of $250, which became effective in November 1994. Additionally, in 2006, the Commission approved an arsenic impact HUF for new service connections, under which the Company charges $1,135 for new 5/8 x 3/4-inch meters. The Company proposed to change the off-site HUF from a flat $250 charge per hook-up to an off-site HUF determined by meter size.[59] Because of this requested change to the off-site HUF, Las Quintas proposed to eliminate the $1,135 per 5/8-inch meter arsenic impact HUF.[60]

60. Staff recommended that the arsenic impact HUF and the off-site HUF should remain in place and unchanged in order to assist Las Quintas in servicing the debt associated with the installation of the arsenic treatment facilities.[61] The Company accepted Staff's recommendations to continue with the arsenic impact HUF and the off-site HUF.[62]

61. We find that Staff's recommended charges, as well as the Company's Key Charge Tariff, are reasonable and shall be adopted.

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[58] Tr. at 87, 89.
[59] Direct Testimony of Thomas Bourassa, page 17; Schedule H-3, page 5.
[60] *Id.*, page 18.
[61] Direct Testimony of Marlin Scott, Exhibit MSJ, pages 9-10.
[62] Rebuttal Testimony of Thomas Bourassa, page 21.

DECISION NO. ___________

MISCELLANEOUS MATTERS

62. Staff recommends that the Company continue to use the depreciation rates by individual National Association of Regulatory Utility Commissioners category, as set forth in the Direct Testimony of Marlin Scott, Exhibit MSJ, Table I-1, and attached as Exhibit B.

63. Staff noted that it received a compliance status report from the Arizona Department of Environmental Quality dated March 19, 2010, indicating that Las Quintas' water system is currently delivering water that meets water quality standards required by A.A.C., Title 18, Chapter 4.

64. Las Quintas' water system is located in the Tucson Active Management Area ("AMA"). In an Arizona Department of Water Resources ("ADWR") compliance status report dated April 5, 2010, ADWR determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

65. Staff stated that Las Quintas has no delinquent Commission compliance issues.

66. The Company has an approved curtailment tariff and an approved backflow prevention tariff on file with the Commission.

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

68. The Modified Non-Per Capita Conservation Program is a regulatory program administered by the ADWR that was added to the Third Management Plan for Arizona's AMAs. It is a performance-based program that requires participating providers to implement water conservation measures that result in water use efficiency in their service areas.[63] Under the program, water service providers implement a Public Education Program and one or more additional Best Management

[63] See http://www.azwater.gov/azdwr/Watermanagement/AMAs/documents/MNPCCPFAQs.pdf.

Practices ("BMPs") based on their total number of residential and non-residential water service connections.

69. The Company does not dispute the importance of conservation and the benefits of adopting BMPs. Las Quintas' witness Kaycee Conger testified that the Company provides its customers with conservation information, but it would also be willing to consider the implementation of BMPs appropriate and cost-effective for its service area.[64] Staff has considerable experience working with companies like Las Quintas to document their BMPs in the form of a tariff. We will direct the Company and Staff to work together to document and implement the Company's BMP tariff.

CONCLUSIONS OF LAW

1. Las Quintas is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250, 40-251 and 40-367.

2. The Commission has jurisdiction over Las Quintas and the subject matter contained in the Company's Application.

3. Notice of the Application was given in accordance with Arizona law.

4. Las Quintas' FVRB is $1,913,221.

5. The rates and charges established herein are just and reasonable and in the public interest.

6. The recommendations stated herein are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Las Quintas Serenas Water Company is hereby authorized and directed to file with the Commission by July 29, 2011, revised schedules of rates and charges consistent with the discussion herein, as set forth below:

MONTHLY USAGE CHARGE:

All Classes

5/8 x 3/4-inch Meter	$20.00
3/4-inch Meter	30.00
1-inch Meter	50.00

[64] Tr. at 45-46.

1-1/2-inch Meter	100.00
2-inch Meter	160.00
3-inch Meter	320.00
4-inch Meter	500.00
6-inch Meter	1,000.00
8-inch Meter	1,600.00

Standpipe	$20.20

Fire Sprinkler Connection
2% of the monthly minimum for an equivalent sized meter or $10, whichever is greater, for all meter sizes.

COMMODITY RATES:
(Residential, Commercial, Industrial)
(Per 1,000 gallons)

5/8 x 3/4-inch Meter

0 to 4,000 gallons	$1.08
4,001 to 10,000 gallons	2.08
Over 10,000 gallons	3.09

3/4-inch Meter

0 to 4,000 gallons	1.08
4,001 to 10,000 gallons	2.08
Over 10,000 gallons	3.09

1-inch Meter

0 to 27,000 gallons	2.08
Over 27,000 gallons	3.09

1 1/2-inch Meter

0 to 70,000 gallons	2.08
Over 70,000 gallons	3.09

2-inch Meter
(All Classes Except Standpipe)

0 to 122,000 gallons	2.08
Over 122,000 gallons	3.09

3-inch Meter
(All Classes Except Standpipe)

0 to 262,000 gallons	2.08
Over 262,000 gallons	3.09

4-inch Meter
(All Classes Except Standpipe)

0 to 423,000 gallons	2.08
Over 423,000 gallons	3.09

6-inch Meter
(All Classes Except Standpipe)

0 to 873,000 gallons	2.08
Over 873,000 gallons	3.09

8-inch Meter
(All Classes Except Standpipe)

0 to 1,414,000 gallons	2.08
Over 1,414,000 gallons	3.09

Standpipe

0 to 4,000 gallons	1.08
4,000 to 23,000 gallons	2.08
Over 23,000 gallons	3.09

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

	Service Line Charge	Meter Installation Charge	Total Charges
5/8 x 3/4-inch Meter	$ 445.00	$155.00	$ 600.00
3/4-inch Meter	445.00	255.00	700.00
1-inch Meter	495.00	315.00	810.00
1-1/2-inch Meter	550.00	525.00	1,075.00
2-inch Meter	N/A	N/A	N/A
2-inch Meter Turbine	830.00	1,045.00	1,875.00
2-inch Meter Compound	830.00	1,890.00	2,720.00
3-inch Meter	N/A	N/A	N/A
3-inch Meter Turbine	1,045.00	1,670.00	2,715.00
3-inch Meter Compound	1,165.00	2,545.00	3,710.00
4-inch Meter	N/A	N/A	N/A
4-inch Meter Turbine	1,490.00	2,670.00	4,160.00
4-inch Meter Compound	1,670.00	3,645.00	5,315.00
6-inch Meter	N/A	N/A	N/A
6-inch Meter Turbine	2,210.00	5,025.00	7,235.00
6-inch Meter Compound	2,330.00	6,920.00	9,250.00
8-inch Meter	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	$20.00
Establishment (After Hours)	30.00
Reconnection (Delinquent)	20.00

Reconnection (Delinquent and After Hours)	30.00
Meter Test (If Correct)	25.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 Months)	**
NSF Check	$15.00
Deferred Payment (Per Month)	1.50%
Meter Re-Read (If Correct)	$15.00
After hours service charge (Per A.A.C. R14.2-403D)	Cost
Late Charge per month (Per A.A.C. R14-2-409G(6))	1.50%

* Per A.A.C. R14-2-403.B.
** Months off system times the minimum, per R14-2-403.D.

<u>Standpipe Water Service Refundable Key Charge</u>

First Key	$ 30.00
Second Key/Replacement Key	5.00

<u>Arsenic Impact Hook-up Fee</u>

5/8 x 3/4-inch Meter	$1,135.00
3/4-inch Meter	1,703.00
1-inch Meter	2,838.00
1-1/2-inch Meter	5,675.00
2-inch Meter	9,080.00
3-inch Meter	18,160.00
4-inch Meter	28,375.00
6-inch Meter or larger	56,750.00

<u>Offsite Facilities Hook-up Fee</u>

5/8 x 3/4-inch Meter	$250.00
3/4-inch Meter	250.00
1-inch Meter	250.00
1-1/2" Meter	250.00
2-inch Meter	250.00
3-inch Meter	250.00
4-inch Meter	250.00
6-inch Meter or larger	250.00

In addition to the collection regular rates, the Utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax. Per Commission Rule (R14-2-409.D.5).
All advances and/or contributions are to include labor, materials, overheads, and all applicable taxes.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after August 1, 2011.

IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall notify its customers of the revised schedules of the rates and charges authorized herein by means of either an insert in its next regularly scheduled billing or by a separate mailing, in a form acceptable to Staff.

IT IS FURTHER ORDERED that Las Quintas Serenas Water Company's Standpipe Water Service Refundable Key Charge Tariff attached as Exhibit A is approved.

IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall continue to use the Depreciation Table attached as Exhibit B, on a going forward basis.

IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall file as part of its Annual Report an affidavit attesting that it is current on payment of its property taxes in Arizona.

IT IS FURTHER ORDERED that within 90 days of the effective date of this Decision, Las Quintas Serenas Water Company shall submit its Best Management Practices, as a compliance item in this docket, in the form of tariffs that substantially conform to the templates created by Staff (and available on the Commission's Website) for the Commission's review and consideration.

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 ______ day of ___________, 2011.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT ____________________

DISSENT ____________________

SERVICE LIST FOR: LAS QUINTAS SERENAS WATER COMPANY

DOCKET NO.: W-01583A-09-0589

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ARIZONA CORPORATION COMMISSION
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EXHIBIT A

TARIFF SCHEDULE
STANDPIPE WATER SERVICE REFUNDABLE KEY CHARGE

AREA OF AVAILABILITY: Standpipe water service is provided through standpipe located in the certificated water service area of Las Quintas Serenas Water Co. ("Company").

LIMITED APPLICABILITY: The refundable key charge required by this tariff is applicable only to customers of the Company who receive water service from a standpipe pursuant to an approved and executed Standpipe Water Service Application and Agreement.

REQUIRED KEY CHARGE AND REFUND CONDITIONS: An Applicant for standpipe water service from the Company shall pay the following refundable key charge at the time of application for standpipe water service:

Refundable Key Charge	
First Key	$ 30.00
Second Key (optional)	$ 5.00

Key charges are refundable only for key(s) returned to the Company within six (6) months following closure of the applicable standpipe water service customer account. Should there be an outstanding balance in the applicable standpipe water service customer account at the time of closure, the refundable charge shall be applied to the extent necessary to satisfy such outstanding account balance. Any key charge funds thereafter remaining shall be refunded to the standpipe water service customer who initially paid the charge. No refund shall be due if the standpipe key(s) provided to a standpipe water service customer is/are lost or stolen. In such event, the customer shall have the option of (i) retaining the existing standpipe water service account and paying the Company a $5 charge for a replacement key, if the customer does not already have a second key for the existing account, or (ii) closing the existing standpipe water service account, opening a new account and paying the Company a $30 charge for a key for the new account. If the customer selects option (ii), the customer shall be responsible for payment in full of all standpipe water deliveries occurring under that account.

No interest will be paid by the Company on any refundable key charges received from applicants for standpipe water service from the Company.

TERMS AND CONDITIONS: The Company's provision of standpipe water service is subject to (i) the Company's "Water Service Rules and Regulations," (ii) applicable rules and regulations and/or decisions of the Arizona Corporation Commission, (iii) this tariff, and (iv) the applicable approved and executed Standpipe Water Service Application and Agreement.

LAS QUINTAS SERENAS WATER COMPANY

P.O. Box 68
Sahuarita, Arizona 85629
Telephone: 520.625.8040 Facsimile: 520.648.3520

STANDPIPE WATER SERVICE APPLICATION AND AGREEMENT

Applicant Name: ______________________________
Resident Address: ______________________________
Mailing Address: ______________________________
Telephone Number: ______________________________
Account Number: ______________ Key Number: ______________

The Applicant, for the privilege of using the Las Quintas Serenas Water Co.'s ("Company") *standpipe*, agrees to the following terms and conditions:

1. Applicant shall pay the following charges at time of application:

	Establishment Fee (non-refundable):	$	20.00
**	Refundable Key Charge(s):		
	First Key:	$	30.00
	Second Key (optional):	$	5.00
	Total Receipt:	$	55.00

***Key Charge(s) are refundable ONLY when key(s) are returned up to six (6) months after closure of account. Should there be an existing balance at time of account closure; the charge(s) will be applied to pay debt.*

2. Applicant agrees to comply with the Arizona Corporation Commission (A.C.C.) regulations pertaining to the payment for water provided by the Company. The rate shall be the rate established from time to time, as provided for, by order of the A.C.C. The current rates are as follows:

$	10.10	Per month – minimum charge (no usage)
$	11.37	Arsenic Remediation Surcharge
$	0.95	Per 1,000 gallons from 0 to 4,000 gallons used
$	1.15	Per 1,000 gallons from 4,001 to 23,000 gallons used
$	1.35	Per 1,000 gallons over 23,001 gallons used

3. The Applicant shall abide by all rules and regulations promulgated by the Company respecting charges, deposits, billing procedures, and care and use of the equipment.

4. The Company is under no obligation to provide water to any person residing outside of its certificated service area.

5. Access to the *standpipe* is a privilege extended solely for the Applicant's convenience and can be terminated at any time being given ten (10) day's written notice.

LAS QUINTAS SERENAS WATER COMPANY

P.O. Box 68
Sahuarita, Arizona 85629
Telephone: 520.625.8040 Facsimile: 520.648.3520

6. Willful damage, vandalism, or tampering with the *standpipe* and/or metering devices can result in the immediate termination of *standpipe* operation for the Applicant as well as all other users.

7. Failure to comply with the above terms and conditions will result in the immediate termination of use of the *standpipe*.

8. No application will be considered unless all items have been completed.

9. Waiver of Liability. Applicant releases the Company, its directors, officers, employees, and agents from all responsibility or liability for any and all loss, damage, or injury to Applicant or to Applicant's property caused by Applicant's use of the standpipe or the water obtained from it.

10. Indemnification. Applicant agrees to indemnify the Company for any damage Applicant or Applicant's agents or invitees may cause to the standpipe and or to the water delivery system.

____________________________ ____________________________

Applicant's Signature Date

Approved and Accepted:

Las Quintas Serenas Water Co.

By: ____________________________ ____________________________

Date

EXHIBIT B

Table I-1. Depreciation Rates

NARUC Account 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% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.