

OPEN MEETING ITEM



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**COMMISSIONERS**  
BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH



ARIZONA CORPORATION COMMISSION

2014 FEB 25 P 4 51

ORIGINAL

DATE: FEBRUARY 25, 2014

DOCKET NO.: W-01583A-13-0117 AZ CORP COMMISSION DOCKET CONTROL

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 Recommended 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:

MARCH 6, 2014

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:

MARCH 11, 2014 and MARCH 12, 2014

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

FEB 25 2014

DOCKETED BY

JODI JERICHI  
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

BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

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 ITS WATER RATES AND  
CHARGES FOR WATER UTILITY SERVICE.

DOCKET NO. W-01583A-13-0117

DECISION NO. \_\_\_\_\_

OPINION AND ORDER

DATE OF HEARING: December 19, 2013  
PLACE OF HEARING: Tucson, Arizona  
ADMINISTRATIVE LAW JUDGE: Belinda A. Martin  
APPEARANCES: Mr. Lawrence V. Robertson, Jr., and Mr. Robert J. Metli, of Munger Chadwick, on behalf of Las Quintas Serenas Water Company; and  
Ms. Robin Mitchell, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

**BY THE COMMISSION:**

PROCEDURAL HISTORY

On April 26, 2013, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase, which included the Direct Testimony of the Company's Administrative Manager, Omar Mejia, and its rate consultant, Thomas Bourassa. On May 15 and May 22, 2013, Las Quintas filed amendments to the application (collectively, the "Application").

On May 24, 2013, 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 June 18, 2013, a Procedural Order was issued setting a hearing on the Application for December 10, 2013, and establishing other procedural deadlines.

1 On June 20, 2013, Staff filed a Request to Modify Procedural Schedule, noting that Staff's  
2 witnesses were participating in a hearing scheduled to begin on December 9, 2013, in another matter  
3 and requested that the hearing in this matter be re-scheduled for December 19, 2013. Staff stated that  
4 it had contacted the Company regarding the request and the Company did not object to the  
5 modification. A Procedural Order docketed June 28, 2013, granted Staff's Request.

6 On July 31, 2013, Las Quintas filed an Affidavit of Publication stating that the notice of  
7 hearing had been published on July 17, 2013, in the *Green Valley News and Sun*, and that the  
8 Company mailed a copy of the notice to its customers on July 17, 2013. In response to the notice, the  
9 Commission received three customer opinions opposed to, and one opinion in support of, the  
10 Company's requested rate increase.

11 A Procedural Order docketed on September 6, 2013, discussed calendar and deadline issues  
12 resulting from the change in hearing date and requested that the parties file any objections to a one  
13 month extension of the time clock. The parties did not object and a Procedural Order docketed  
14 October 3, 2013, extended the time clock to March 18, 2014.

15 On October 7, 2013, Staff filed the Direct Testimony of Christine Payne, John Cassidy and  
16 Dorothy Hains.

17 On November 1, 2013, Las Quintas filed the Rebuttal Testimony of Thomas Bourassa.  
18 Staff filed the Surrebuttal Testimony of Christine Payne, John Cassidy and Dorothy Hains on  
19 November 22, 2013, and docketed a Notice of Errata correcting certain schedules in the Surrebuttal  
20 Testimony of Christine Payne on December 3, 2013.

21 On December 4, 2013, Las Quintas filed the Rejoinder Testimony of Thomas Bourassa.  
22 The hearing convened on December 19, 2013. Las Quintas and Staff were present and  
23 represented by counsel. No members of the public were present to provide public comment. At the  
24 conclusion of the hearing, the matter was taken under advisement pending the submission of Staff's  
25 Final Schedules.

26 On January 3, 2013, Staff submitted its Final Schedules and on January 6, 2013, Staff  
27 docketed a Notice of Errata.

28 \* \* \* \* \*

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

3 **FINDINGS OF FACT**

4 **BACKGROUND**

5 1. Las Quintas is an Arizona C corporation engaged in the business of providing water  
 6 service to approximately 875 residential customers, 14 commercial customers, 152 standpipe  
 7 customers and four fire sprinkler service customers in the Town of Sahuarita, in Pima County.

8 2. The Commission granted Las Quintas a Certificate of Convenience and Necessity in  
 9 Decision No. 30888 (May 6, 1958). By 1985, the Anamax Corporation was Las Quintas' majority  
 10 shareholder.<sup>1</sup> In 2000, Phelps Dodge Corporation acquired Anamax Corporation, directing the  
 11 Sahuarita operations through its subsidiary Phelps Dodge Sierrita, Inc., which, in turn, held the  
 12 controlling interest in Las Quintas. In March 2007, Freeport – McMoRan Copper & Gold (“FCX”)  
 13 purchased Phelps Dodge Corporation, including Phelps Dodge Sierrita, Inc.—which is now held as  
 14 Freeport – McMoRan Sierrita, Inc. (“FMS”). FMS currently holds 59.06 percent of Las Quintas’  
 15 shares.<sup>2</sup>

16 3. In Decision No. 58839 (November 2, 1994), the Commission authorized Las Quintas  
 17 to charge a \$250 Off-Site Hook-Up Fee (“HUF”). Decision No. 68718 (June 1, 2005), authorized  
 18 Las Quintas to borrow up to \$1,580,446 from the Water Infrastructure Finance Authority of Arizona  
 19 (“WIFA”) to construct arsenic treatment facilities and in Decision No. 68863 (July 28, 2006), the  
 20 Commission approved an Arsenic Impact HUF for new service connections. In Decision No. 69830  
 21 (March 22, 2007), the Commission authorized a second WIFA loan of \$400,714 to pay for additional  
 22 storage and a back-up generator. WIFA combined the two loans and the Company’s total monthly  
 23 payment is \$18,087.11. At hearing, Las Quintas provided a copy of a letter from WIFA dated  
 24 November 26, 2013, stating that WIFA agreed to defer the Debt Service Reserve portion of the  
 25 monthly payment (\$3,014.52) for six months or until the Commission issues its Decision on the  
 26 Application.<sup>3</sup>

27 <sup>1</sup> Decision No. 54760 (November 13, 1985), page 2.

28 <sup>2</sup> Direct Testimony of John Cassidy (“Cassidy Direct”), Exhibit JAC-A.

<sup>3</sup> Hearing Exhibit A-9.

1 4. Las Quintas' current rates and charges were set by the Commission in Decision No.  
2 72498 (July 25, 2011).

3 5. The Company's water system consists of three active wells with a capacity of 1,530  
4 gallons per minute, three storage tanks with a combined capacity of 490,000 gallons, four booster  
5 pumps, seven pressure tanks and the arsenic treatment facility. Staff determined that Las Quintas'  
6 facilities are adequate to serve the present customer base and reasonable growth.

### 7 RATE APPLICATION

#### 8 **SUMMARY**

9 6. Las Quintas' test year is the twelve-month period ending September 30, 2012. During  
10 the test year, Las Quintas reported adjusted revenues of \$582,421 and adjusted operating expenses of  
11 \$525,275, resulting in an adjusted operating income of \$57,146. This provided Las Quintas with a  
12 3.55 percent rate of return on an adjusted original cost rate base of \$1,610,793, which is the same as  
13 its fair value rate base ("FVRB").

14 7. Las Quintas proposes an increase of \$106,171 in revenues, or 18.23 percent, for a total  
15 revenue requirement of \$688,592, resulting in \$138,672 of operating income and a rate of return of  
16 8.61 percent on its FVRB.

17 8. Staff also calculated the Company's test year revenues at \$582,421. Staff  
18 recommended test year operating expenses of \$508,467, resulting in an adjusted operating income of  
19 \$73,954 and a 4.59 percent rate of return on an adjusted test year rate base of \$1,610,793.

20 9. Staff recommends a revenue requirement of \$646,748, an increase of \$64,327, or  
21 11.04 percent, over test year revenues. Combined with Staff's recommended operating expenses of  
22 \$522,716, this provides the Company with an operating income of \$124,031, for a 7.7 percent rate of  
23 return on Staff's proposed \$1,610,793 FVRB.

24 10. The remaining contested issues in this proceeding are the professional services  
25 expense, rents expense, the cost of equity, revenues and rate design.

26 ...

27 ...

28 ...

1 **RATE BASE**

2 11. Las Quintas and Staff agreed on rate base components as follows:

3	Plant in Service	\$ 3,675,408
4	Less: Accumulated Depreciation	<u>1,481,565</u>
	Net Plant in Service	2,193,843
5	Deductions:	
	CIAC	\$ 603,155
6	Less: Accumulated Amortization	<u>153,297</u>
7	Net CIAC	449,858
8	Service Line and Meter Advances (Meter Deposits)	\$ 10,697
	AIAC	82,962
9	ADIT	<u>39,533</u>
10	<b>Total FVRB</b>	<b>\$ <u>1,610,793</u></b>

11 12. We find the proposed FVRB to be reasonable and we adopt it.

12 **INCOME STATEMENT**13 **Revenues**

14 13. Las Quintas and Staff agree on test year revenue of \$582,421. We find the test year  
15 revenue to be reasonable and we adopt it.

16 **Expenses**

17 14. Las Quintas proposed adjusted test year operating expenses of \$525,275. Staff  
18 proposed a \$16,951 decrease to expenses due to adjustments to contractual services – professional  
19 expense, rents expense, depreciation expense, property taxes and income taxes, resulting in  
20 recommended adjusted test year operating expenses of \$508,467. Staff also made recommendations  
21 regarding Las Quintas' contractual services – maintenance expense.

22 15. Las Quintas objected to Staff's adjustments to contractual services – professional  
23 expense and rents expense.

24 **CONTRACTUAL SERVICES – MAINTENANCE**

25 16. During the test year, Las Quintas recorded contractual services – maintenance  
26 expenses of \$1,199. Las Quintas stated that in the past it received assistance from FMS employees  
27 for, among other things, meter reading, technical assistance and administrative assistance on an as-  
28 needed basis without charge.

1           17.     Mr. Mejia testified that in 2012 or 2013, FMS began charging Las Quintas for FMS'  
2 employees' services.<sup>4</sup> As a result of FMS' decision, the Company proposed a pro forma adjustment  
3 of \$40,457, for a total expense of \$41,656 to cover the costs of the FMS employees' services. Mr.  
4 Mejia testified that Las Quintas compared FMS' charges for the various services provided against  
5 those of other third party contractors and found that FMS' rates were lower.<sup>5</sup>

6           18.     In Staff's direct testimony, Staff noted that because FMS and Las Quintas are  
7 affiliated, any transactions between the two require greater scrutiny to protect ratepayers and ensure  
8 that investors are getting an equitable rate of return on their investment.<sup>6</sup>

9           19.     Staff concluded that the Company's proposed contractual services – maintenance  
10 expense is reasonable, but recommended that Las Quintas keep detailed timesheets reflecting the  
11 names, dates and services performed by FMS employees on Las Quintas' behalf. The timesheets  
12 should be available for Staff's review upon request. Staff also recommended that the Company issue  
13 a Request for Proposal for labor costs that may be less than the salaries for FMS employees.<sup>7</sup>

14           20.     We believe Staff's recommendations are reasonable and direct that as part of its next  
15 rate case, Las Quintas must submit the timesheets for FMS employees who provided services to the  
16 Company and include documentation demonstrating that the cost of the services performed by FMS  
17 employees are comparable to those of third party contractors.

18           CONTRACTUAL SERVICES – PROFESSIONAL

19           21.     In the Application, the Company proposed adjusted test year expenses for contractual  
20 services – professional of \$11,274. A portion of this expense related to engineering services from  
21 Westland Resources to evaluate a plan for installation of additional storage and booster pump station;  
22 however, Las Quintas did not move forward with the project. Staff removed \$2,836 for engineering  
23 consulting costs incurred for the abandoned project as a non-recurring expense. Staff observed that  
24 such costs can be capitalized when the plant is built.<sup>8</sup>

25  
26 <sup>4</sup> Transcript of December 19, 2013, Hearing, page 27. (Hereinafter, "Tr. at \_\_.")

27 <sup>5</sup> Direct Testimony of Omar Mejia ("Mejia Direct"), page 3; Tr. at 27 – 28.

28 <sup>6</sup> Direct Testimony of Christine L. Payne ("Payne Direct"), page 12.

<sup>7</sup> Payne Direct, page 16.

<sup>8</sup> Payne Direct, page 17; Surrebuttal Testimony of Christine L. Payne ("Payne Surrebuttal"), page 7.

1           22.    Las Quintas objected to Staff's adjustment arguing that a utility will expend money  
 2 each year exploring potential plant improvements, some of which may never be built, making  
 3 capitalization of the engineering costs impossible. Although the specific projects may change each  
 4 year, the need for engineering research and evaluation does not and a company can expect to incur  
 5 similar costs each year.<sup>9</sup> Las Quintas asserted this is a recurring expense because the Company is  
 6 always investigating wear and tear on the system, looking for system efficiencies or correcting  
 7 problems to ensure it is providing safe, efficient and reliable service. The Company observed that its  
 8 total proposed engineering expense is reasonable because the amount has been normalized over three  
 9 years at a level that Las Quintas believes will occur going forward.<sup>10</sup> In this case, Las Quintas stated  
 10 that the expenditures for engineering benefited ratepayers because the Company found it did not need  
 11 to make another investment that might result in a higher rate increase.<sup>11</sup>

12           23.    We agree with Las Quintas that on-going engineering costs incurred with an eye  
 13 toward ensuring safe, efficient and reliable service may be an appropriate expense, even when  
 14 unrelated to specific plant, provided the costs are reasonable. In this case, we believe that the  
 15 Company's proposed \$11,274 expense for contractual services – professional is reasonable and we  
 16 adopt it.

17           RENTS EXPENSE

18           24.    Decision No. 69380 authorized a \$400,714 WIFA loan to cover the costs of installing  
 19 a 400,000 gallon storage tank and a back-up generator to support the arsenic treatment system in the  
 20 event of a prolonged power outage. The Commission found that the back-up generator was necessary  
 21 for system reliability. According to that Decision, Staff concluded the Company's proposed cost of  
 22 \$60,000 for the purchase and installation of one 130kW generator was reasonable.<sup>12</sup> The Company  
 23 constructed the additional storage but it did not purchase the generator. Las Quintas has been using a  
 24 portable 100kW generator provided by FMS free of charge for a number of years, but FMS recently  
 25

26 <sup>9</sup> Rebuttal Testimony of Thomas Bourassa – Rate Base, Income Statement, and Rate Design (“Bourassa Rebuttal – Rate  
 27 Base”), page 12; Rejoinder Testimony of Thomas Bourassa – Rate Base, Income Statement, and Rate Design (“Bourassa  
 28 Rejoinder – Rate Base”), page 6; Tr. at 46, 70 – 71.

<sup>10</sup> Tr. at 71 – 72.

<sup>11</sup> Tr. at 72.

<sup>12</sup> Decision No. 69380, page 6.

1 required the Company to lease it at a cost of \$1,650 per month.<sup>13</sup> Based on this, the Company  
 2 proposed an annual rental expense for the generator of \$19,800, for total test year rents expenses of  
 3 \$30,868.

4 25. Las Quintas stated that it uses the portable generator in emergencies to support its  
 5 arsenic treatment equipment and other plant at its well sites as needed. The Company's electric  
 6 service is provided by Trico Electric Cooperative, Inc. ("Trico") and Las Quintas' electric rates are  
 7 based on a time of day structure, meaning that if Trico needs additional load to support high peak  
 8 demand, it can cut power to Las Quintas' system during peak demand periods to ensure continued  
 9 service to its other customers.<sup>14</sup> The Company did not provide data demonstrating how frequently it  
 10 had to use the generator.

11 26. Staff recommended decreasing the rental expense for the generator from \$19,800 to  
 12 \$3,810—a decrease of \$15,990. Staff did not base this recommendation on the cost of leasing a  
 13 generator, but researched the prices for purchasing a generator on the internet and found that the  
 14 market value of a used 100kW generator ranged from \$14,675 to \$31,268.<sup>15</sup> Based on a projected  
 15 cost of \$30,000 for a used 100kW generator, Staff determined that the annual return on the generator  
 16 based on Staff's recommended rate of return, plus depreciation, would be \$3,810. Staff concluded it  
 17 would be better for the Company to purchase two permanent generators—one for each of the two  
 18 larger wells—than to continue to pay what Staff believed to be an unreasonable amount for rental.<sup>16</sup>  
 19 Staff did not provide its research data to support its calculations.<sup>17</sup>

20 27. Las Quintas disputed Staff's cost estimates based solely on used generator prices  
 21 found on the internet. The Company claimed that Staff's estimate is incomplete because it did not  
 22 include a number of necessary add-ons that would drive up the cost of the equipment, did not include  
 23 installation costs and did not include information about a used generator's condition.<sup>18</sup> The Company

24 <sup>13</sup> Mr. Mejia testified that he did not know the reasons behind FMS' decision to no longer provide the generator free of  
 25 charge. Tr. at 17.

<sup>14</sup> Tr. at 28.

26 <sup>15</sup> Surrebuttal Testimony of Dorothy Hains ("Hains Surrebuttal"), page 1.

<sup>16</sup> Hains Surrebuttal, page 2; Payne Direct, pages 12 – 13.

27 <sup>17</sup> Exhibit TJB-RB-RB3 attached to the Bourassa Rebuttal – Rate Base, is Staff's response to the Company's request for  
 28 copies of documents supporting Staff's cost ranges. Staff provided Las Quintas with a table listing the prices for six  
 different used generators, but there are no supporting documents attached to the Exhibit.

<sup>18</sup> Bourassa Rebuttal – Rate Base, pages 12 – 14.

1 acknowledged that it would be preferable to purchase and install a permanent generator at each of the  
2 two larger well sites, but stated that even at the prices projected by Staff, it would cost over \$60,000.  
3 Las Quintas asserted that it does not have the money to purchase either a portable generator or  
4 permanent generators.<sup>19</sup>

5 28. To support its position that Staff's recommendation is inadequate, Las Quintas  
6 provided quotes from various local vendors showing that the cost to purchase a new portable  
7 generator sufficient to meet the Company's needs would range from \$59,294 to \$78,877.<sup>20</sup> The  
8 Company claimed that the annual cost to lease a similar portable generator from a third party  
9 contractor is between \$25,764 and \$51,516.<sup>21</sup> Las Quintas provided to Staff a copy of an invoice  
10 listing a monthly charge of \$1,650, or \$19,800 a year, and claimed that this amount is less than what  
11 a third party vendor would charge for the generator's rental and contended that its \$19,800 rental  
12 expense is reasonable.

13 29. Although Staff did not provide any evidence directly refuting the Company's evidence  
14 supporting Las Quintas' position that the amount of the lease was reasonable, Las Quintas was not  
15 authorized in Decision No. 69380 to enter into a lease, but rather to finance acquisition of the  
16 generator. For the reasons stated below, we do not believe that there is sufficient evidence to support  
17 including the cost of the lease in operating expenses or that it is reasonable for ratepayers to bear the  
18 burden of the cost of the lease.

19 30. First, Las Quintas did not provide a copy of the lease, or testimony about the lease's  
20 terms, or any calculations to demonstrate that long-term rental of the equipment is the most cost-  
21 effective method of obtaining the needed back-up power supply. The Company did not submit any  
22 documentation about the type, cost and age of the leased generator.

23 31. Additionally, it appears that the Company intends to continue with this arrangement  
24 but to do so may create an obligation in the nature of a capital lease, which would require  
25 Commission approval. Las Quintas also did not provide an explanation as to why Las Quintas'  
26 parent did not supply the generator as equity or why the Company had not offered to buy the

27 <sup>19</sup> Bourassa Rebuttal – Rate Base, page 14.

28 <sup>20</sup> Bourassa Rebuttal – Rate Base, Exhibit TJB-RB-RB3.

<sup>21</sup> Bourassa Rebuttal – Rate Base, Exhibit TJB-RB-RB1.

1 generator from FMS.

2 32. Further, Decision No. 63890 authorized over \$400,000 for the purchase of additional  
 3 storage and a generator, but ultimately the generator was not purchased, allegedly due to lack of  
 4 funds. There is no evidence demonstrating how the authorized funds were expended that resulted in  
 5 the loan amount being insufficient. If there were not sufficient funds, either Las Quintas or its parent  
 6 company should have supplied the funds needed to complete the project, but they did not.

7 33. Because the Commission authorized debt to purchase a generator, we find it is more  
 8 appropriate to calculate the amount of the expense using the annual operating income and  
 9 depreciation expense attributable to the purchase of one new portable generator. Using the average  
 10 of the high and low price quotes provided by the Company and the adopted weighted average cost of  
 11 capital, as discussed below, we find that a reasonable rental expense for the generator is as follows:

12	Estimated purchase price:	\$ 69,086
13	Annual amount in lieu of operating income:	\$ 5,797
14	Annual amount in lieu of depreciation expense:	\$ 2,301
	Total amount of rental expense – generator:	<u>\$ 8,098</u>

15 34. In addition to the lease for the generator, Las Quintas also has an annual rents expense  
 16 of \$11,068 for its office space, for a total approved rental expense of \$19,166, which is an \$11,702  
 17 decrease to the Company’s proposed rents expense.

18 35. Based on our discussion, we find that test year operating revenues were \$582,421 and  
 19 test year operating expenses were \$516,007, for a test year operating income of \$66,414.

20 **COST OF CAPITAL**

21 36. The parties’ positions on the cost of capital components are summarized as follows:

	<u>Debt</u>	<u>Cost of Debt</u>	<u>Equity</u>	<u>Cost of Equity</u>	<u>WACC</u>
22 Las Quintas <sup>22</sup>	72.8%	7.16%	27.2%	12.5%	8.61%
23 Staff <sup>23</sup>	72.8%	7.2%	27.2%	9.1%	7.7%

24 37. The cost of capital is the opportunity cost represented by anticipated returns that

27 <sup>22</sup> Rejoinder Testimony of Thomas Bourassa – Cost of Capital (“Bourassa Rejoinder – Cost of Capital”), Rejoinder  
 Schedule D-1.

28 <sup>23</sup> Cassidy Direct, Schedule JAC-1; Surrebuttal Testimony of John Cassidy (“Cassidy Surrebuttal”), page 4.

1 investors forego by choosing one investment over another, or, in other words, the return that investors  
2 expect from a venture. The weighted average cost of capital ("WACC") is the average of the cost  
3 rates on all issued securities adjusted to reflect their relative amounts in the company's capital  
4 structure. Thus, the WACC for a particular company is determined based on the cost of its debt and  
5 the cost of its equity, multiplied by the proportion of the debt and equity that comprise its total  
6 capital.

### 7 Capital Structure

8 38. In its previous rate case, Las Quintas' proposed capital structure consisted of 67.9  
9 percent debt and 32.1 percent equity. Because of the Company's highly leveraged financial position,  
10 the Commission adopted Staff's recommended hypothetical capital structure of 60.0 percent debt and  
11 40.0 percent equity to provide Las Quintas with additional financial assistance due its higher financial  
12 risk than that of the sample companies. Staff testified that, at the time of the previous rate case, Staff  
13 was not aware FMS was Las Quintas' majority shareholder, noting that it only became aware of the  
14 affiliation during its audit of the present matter.<sup>24</sup> Staff concluded that Las Quintas' actual capital  
15 structure, rather than a hypothetical one, should be used to determine WACC since its indirect parent  
16 company, FCX, is a publicly traded company with access to the financial markets.<sup>25</sup> Noting that the  
17 capital structure for Staff's sample group averaged 50.3 percent debt and 49.7 percent equity, Staff  
18 stated:

19 [T]he Company's exposure to financial risk at a level above that of the sample average  
20 utility is a consequence which could have been avoided by means of an equity infusion.  
21 Ultimately, the level of equity capital to be employed by any business entity lies within  
22 the discretion/control of the firm's management; a truism having particular relevance  
23 when setting the rates a regulated public utility may charge its customers. Accordingly,  
24 Staff did not consider use of a hypothetical capital structure in this docket, as Las Quintas  
25 ratepayers should not be expected to bear the burden of rates based on an equity  
26 investment the Company's management could have made, but elected not to do so.<sup>26</sup>

27 39. Las Quintas acknowledged that the Company has access to the capital markets  
28 indirectly through FCX, but stated that the capital markets would still view the Company as a

<sup>24</sup> Cassidy Direct, page 37 - 38.

<sup>25</sup> Cassidy Direct, page 39.

<sup>26</sup> Cassidy Direct, page 39.

1 financial risk because it is so highly leveraged.<sup>27</sup> Nevertheless, Las Quintas agreed that the  
2 Company's current capital structure is comprised of 72.8 percent debt and 27.2 percent equity and  
3 used these percentages to calculate its WACC, rather than proposing a more favorable hypothetical  
4 capital structure.

5 **Cost of Debt**

6 40. The Company proposed a 7.16 percent cost of debt, which equals the effective interest  
7 rate on the WIFA loans, inclusive of issuance costs, as of September 30, 2012. Staff agreed that the  
8 effective cost of debt is 7.16 percent, but rounded the cost of debt to 7.2 percent.

9 **Cost of Equity**

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

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

23 43. In this case, Las Quintas seeks a rate of return on rate base using a WACC of 8.61  
24 percent. Las Quintas calculated the WACC using its capital structure of 72.8 percent debt and 27.2  
25 percent equity, which is far more leveraged than its sample companies' capital structure of 52 percent  
26 debt and 48 percent equity.<sup>28</sup>

27

<sup>27</sup> Rebuttal Testimony of Thomas Bourassa – Cost of Capital ("Bourassa Rebuttal – Cost of Capital"), page 23.

28

<sup>28</sup> Direct Testimony of Thomas Bourassa – Cost of Capital ("Bourassa Direct – Cost of Capital"), page 26.

1           44.     Las Quintas proposed an overall COE of 12.5 percent. Mr. Bourassa utilized the DCF  
 2 and the CAPM, as well as the Build-Up Method, which is the sum of a risk-free return and a risk  
 3 premium, using multiple risk premiums, to calculate its proposed COE.<sup>29</sup> The Company's COE  
 4 includes an upward 170 basis point financial risk adjustment to account for the higher debt level in  
 5 Las Quintas' capital structure as compared to the sample group. Mr. Bourassa also adjusted the COE  
 6 upward by another 150 basis points to account for Las Quintas' small size relative to the sample  
 7 companies' and the additional risks that Las Quintas believes result from the particular rate-making  
 8 methods employed in Arizona.

9           45.     The Company noted that at its current rates, it cannot pay dividends and has lost  
 10 money in the last few years. Most of its cash flow is directed to payment of the debt service on the  
 11 WIFA loan, but it still has difficulty meeting its debt service requirements.<sup>30</sup> The Company asserted  
 12 that Staff's COE is not sufficient to help Las Quintas overcome these challenges, nor does it provide  
 13 the Company with sufficient revenues to make dividend payments at the same rate as those  
 14 companies in the sample group.<sup>31</sup> Las Quintas contended that Staff's recommendations penalize the  
 15 Company's investors by insisting they infuse equity capital, and proposing a return on equity  
 16 insufficient to meet investor expectations.<sup>32</sup> The Company stated: "Providing a sufficient return to  
 17 [Las Quintas] on its existing investment is the solution to improving [Las Quintas'] long-term ability  
 18 to attract additional equity capital (regardless of source) and to improving the debt to equity ratio."<sup>33</sup>

19           46.     Additionally, the Company disputed Staff's assertion that FMS has not infused any  
 20 capital into Las Quintas. The Company maintained that FMS has subsidized Las Quintas' operations  
 21 for years by providing maintenance and administrative support and the generator free of charge,  
 22 saving the Company approximately \$40,000 to \$60,000 annually. Las Quintas claimed this financial  
 23 support was the equivalent of an equity infusion by aiding the Company in keeping expenses low.<sup>34</sup>

24           47.     Staff recommended a 9.1 percent COE, which Staff asserts is based on sound and  
 25

26 <sup>29</sup> Bourassa Direct – Cost of Capital, page 28.

<sup>30</sup> Bourassa Rebuttal – Cost of Capital, page 24.

27 <sup>31</sup> Bourassa Rebuttal – Cost of Capital, pages 23 – 24.

<sup>32</sup> Bourassa Rebuttal – Cost of Capital, page 23.

<sup>33</sup> Bourassa Rebuttal – Cost of Capital, pages 24 – 25.

28 <sup>34</sup> Bourassa Rebuttal – Cost of Capital, page 24.

1 accepted methodologies that have been consistently utilized by the Commission. Staff used two  
 2 versions of the DCF Model, the constant growth DCF and the multi-stage DCF. Staff recommended  
 3 against too heavy a reliance on analysts' forecasts, which it believes the Company's witness has  
 4 done, and stated that its DCF methodology gives equal weight to historic data and analysts' forecasts.  
 5 Staff's overall DCF COE is 8.7 percent and its overall CAPM COE is 8.2 percent, for an average  
 6 COE of 8.5 percent. Staff also recommended an upward economic assessment adjustment of 60 basis  
 7 points in recognition of the current strength of the equity market.<sup>35</sup>

8 48. Staff disagreed with the Company's inclusion in COE of an upward financial risk  
 9 adjustment. Staff asserted that it does not recommend the use of a financial risk adjustment because  
 10 Las Quintas has access to the capital markets through its indirect parent, FCX. Staff questioned the  
 11 Company's use of this adjustment given its current unbalanced capital structure, "when the failure to  
 12 inject additional equity feeds the need for the higher [return on equity]."<sup>36</sup>

13 49. Staff also argued that Las Quintas' firm-specific risk adjustment is not necessary in  
 14 this case because research indicates that a small company risk premium adjustment is unwarranted  
 15 for regulated utilities. Additionally, Staff noted that the Commission has previously rejected  
 16 proposals for a small firm risk premium.<sup>37</sup>

17 50. Staff rejected the Company's argument that Staff's recommended return on equity will  
 18 not provide enough revenue to pay out dividends at a rate similar to that paid by the sample group.  
 19 Staff noted that Las Quintas has had to suspend the Debt Service Reserve portion of the WIFA debt  
 20 service and stated:

21 Staff believes getting the Company to a Balanced Capital Structure Position is the  
 22 primary issue here. Staff believes that no consideration should be given to the issuance  
 23 of a dividend to Las Quintas shareholders until such time that the Company's highly  
 24 leveraged capital structure becomes more balanced, either by means of an equity infusion  
 or a refinancing wherein a portion of the WIFA loan debt is replaced by newly infused  
 equity capital.<sup>38</sup>

25 51. We agree with Staff that the greater concern is improving the Company's capital  
 26

27 <sup>35</sup> Tr. at 135.

<sup>36</sup> Cassidy Surrebuttal, page 3.

<sup>37</sup> Cassidy Direct, pages 49 – 50.

28 <sup>38</sup> Cassidy Surrebuttal, page 2.

1 structure. We note that the Company claimed FMS has subsidized Las Quintas for several years,  
 2 asserting this is similar to an equity infusion. However, for an unknown reason, FMS is no longer  
 3 providing Las Quintas with services and equipment for free and the burden of the costs is being  
 4 placed on ratepayers. We do not believe it is reasonable or equitable to require ratepayers to pay  
 5 even higher rates in order to provide investors with dividends when the investors have not contributed  
 6 any significant equity capital in recent years.

7 52. After consideration of all the testimony, evidence and arguments presented, we find  
 8 that Staff's recommendations are reasonable and we approve a WACC of 7.7 percent as follows:

	<u>Capital</u> <u>Structure</u>	<u>Cost</u>	<u>WACC</u>
9 Debt	72.8 %	7.2 %	5.2 %
10 Equity	27.2 %	9.1 %	2.5%
11 Total	100.0%		7.7%

12 **REVENUE REQUIREMENT**

13 53. Based on our discussions above, we find that Las Quintas' revenues should increase  
 14 by \$73,558, or 12.63 percent, calculated as follows:

15 FVRB	\$ 1,610,793
16 Adjusted Operating Income	66,415
17 Required Rate of Return	7.70%
18 Required Operating Income	\$ 124,031
19 Operating Income Deficiency	57,616
20 Gross Revenue Conversion Factor	1.27669
21 Gross Revenue Increase	\$ 73,558
22 Adjusted Test Year Revenue	582,421
23 Approved Annual Revenue	655,979
24 Percentage Revenue Increase	12.63%
25 ...	
26 ...	
27 ...	
28 ...	

1 **RATE DESIGN**

2 54. Set forth below are the current, Company proposed, and Staff proposed rates and  
 3 charges:

4 <b><u>MONTHLY USAGE CHARGE:</u></b>	Present	Company	Staff
	<u>Rates</u>	<u>Proposed</u>	<u>Recommended</u>
5 <b><u>All Classes</u></b>			
5 5/8 x 3/4-inch Meter	\$ 20.56	\$ 24.16	\$ 20.56
6 3/4-inch Meter	30.84	36.24	30.84
6 1-inch Meter	51.39	60.40	51.39
7 1-1/2-inch Meter	102.79	120.79	102.79
7 2-inch Meter	164.46	193.26	164.46
8 3-inch Meter	328.36	386.53	328.36
8 4-inch Meter	513.94	603.95	513.94
9 6-inch Meter	1027.88	1,207.90	1027.88
9 8-inch Meter	1655.76	1,932.64	1655.76

10 <b><u>Standpipe</u></b>	\$ 20.20	\$ 23.82	\$ 22.50
11 <b><u>Fire Sprinkler Connection</u></b>	***	***	***

12 \*\*\* 2% of the monthly minimum for an equivalent  
 13 sized meter or \$10, whichever is greater, for all  
 14 meter sizes.

14 **COMMODITY RATES:**  
 15 **(Per 1,000 gallons)**

16 **(All Classes Except Standpipe)**

16 <b><u>5/8 x 3/4-inch Meter</u></b>			
16 0 to 4,000 gallons	\$ 1.08	\$ 1.50	\$ 1.80
17 4,001 to 10,000 gallons	2.08	2.50	2.85
17 Over 10,000 gallons	3.09	3.50	3.95
18 <b><u>3/4-inch Meter</u></b>			
18 0 to 4,000 gallons	\$ 1.08	\$ 1.50	\$ 1.80
19 4,001 to 10,000 gallons	2.08	2.50	2.85
20 Over 10,000 gallons	3.09	3.50	3.95
21 <b><u>1-inch Meter</u></b>			
21 0 to 27,000 gallons	\$ 2.08	\$ 2.50	\$ 2.85
22 Over 27,000 gallons	3.09	3.50	3.95
23 <b><u>1 1/2-inch Meter</u></b>			
23 0 to 70,000 gallons	\$ 2.08	\$ 2.50	\$ 2.85
24 Over 70,000 gallons	3.09	3.50	3.95
25 <b><u>2-inch Meter</u></b>			
25 0 to 122,000 gallons	\$ 2.08	\$ 2.50	\$ 2.74
26 Over 122,000 gallons	3.09	3.50	3.75
27 <b><u>3-inch Meter</u></b>			
27 0 to 262,000 gallons	\$ 2.08	\$ 2.50	\$ 2.85
28 Over 262,000 gallons	3.09	3.50	3.95

1	<b><u>4-inch Meter</u></b>			
	0 to 423,000 gallons	\$ 2.08	\$ 2.50	\$ 2.85
2	Over 423,000 gallons	3.09	3.50	3.95
3	<b><u>6-inch Meter</u></b>			
	0 to 873,000 gallons	\$ 2.08	\$ 2.50	\$ 2.85
4	Over 873,000 gallons	3.09	3.50	3.95
5	<b><u>8-inch Meter</u></b>			
	0 to 1,414,000 gallons	\$ 2.08	\$ 2.50	\$ 2.74
6	Over 1,414,000 gallons	3.09	3.50	3.75
7	<b><u>Standpipe</u></b>			
	0 to 4,000 gallons	\$ 1.08	\$ 1.50	N/A
8	4,001 to 23,000 gallons	2.08	2.50	N/A
	Over 23,000 gallons	3.09	3.50	N/A
9	0 to 4,000 gallons	N/A	N/A	\$ 1.80
10	4,001 to 10,000 gallons	N/A	N/A	2.85
	Over 10,000 gallons	N/A	N/A	3.85

11           55.     Las Quintas objected to Staff's rate design. The Company asserted Staff's failure to  
 12 include some of its proposed increase in the monthly minimum hinders revenue stability. Las  
 13 Quintas believes that customers will begin to conserve water in an effort to decrease their water bills,  
 14 resulting in less revenue for the Company than anticipated and preventing it from earning its  
 15 authorized returns.

16           56.     Staff asserted that it attempted to generate approximately 40 percent of the Company's  
 17 revenues from its monthly minimums and the remainder from the commodity rates. Staff found it  
 18 could achieve this goal by keeping the current monthly minimums and placing the additional  
 19 revenues into commodity charges. Staff argued that its rate design gives customers more control over  
 20 their water bills.<sup>39</sup>

21 **Alternative Rate Design**

22           57.     We agree with Las Quintas that a portion of the revenue increase should be allocated  
 23 to the monthly minimums in order to provide the Company with a more stable revenue stream.

24 ...

25 ...

26 ...

27

28 <sup>39</sup> Staff's rate design in its Final Schedules contained input and calculation errors that understated the revenues that would be generated by Staff's rate design by approximately \$22,000.



1	<b><u>4-inch Meter</u></b>	
	0 to 423,000 gallons	\$ 2.70
2	Over 423,000 gallons	3.70
3	<b><u>6-inch Meter</u></b>	
	0 to 873,000 gallons	\$ 2.70
4	Over 873,000 gallons	3.70
5	<b><u>8-inch Meter</u></b>	
	0 to 1,414,000 gallons	\$ 2.70
6	Over 1,414,000 gallons	3.70
7	<b><u>Standpipe</u></b>	
	0 to 4,000 gallons	\$ 1.70
8	4,001 to 23,000 gallons	2.70
	Over 23,000 gallons	3.70

9           59. Under the approved rates, customers on a 5/8 x 3/4-inch meter, using an average of  
 10 9,845 gallons per month, will experience an increase of \$6.29 per month, from \$37.04 to \$43.33 or  
 11 16.99 percent. Customers with a median use of 5,500 gallons per month will experience an increase  
 12 of \$3.60 per month, from \$28.00 to \$31.60, or 12.86 percent.

13           60. Las Quintas and Staff agree on the following Service Charges and Service Line and  
 14 Meter Installation Charges:

15	<b><u>SERVICE CHARGES:</u></b>	<u>Present</u>	<u>Company</u>	<u>Staff</u>
		<u>Charges</u>	<u>Proposed</u>	<u>Recommended</u>
16	Establishment	\$ 20.00	\$ 20.00	\$ 20.00
	Reconnection (Delinquent)	20.00	20.00	20.00
17	Service Charge (After Hours)	35.00	35.00	35.00
	Meter Test (If Correct)	25.00	25.00	25.00
18	Meter Re-Read (If Correct)	15.00	15.00	15.00
	NSF Check	15.00	15.00	15.00
19	Deposit	*	*	*
	Deposit Interest	*	*	*
20	Re-Establishment (Within 12 Months)	**	**	**
	Deferred Payment (Per Month)	1.50%	1.50%	1.50%
21	Late Charge Per Month (A.A.C. R14-2-409G(6))	1.50%	1.50%	1.50%
	Meter Installation Tampering <sup>40</sup>	N/A	At Cost	At Cost

22 \* A.A.C. R14-2-403(B).  
 23 \*\* Months off system times the minimum, R14-2-403(D).  
 24

25 <sup>40</sup> In the Company's Rejoinder Testimony and in Staff's Notice of Errata for Staff's Final Schedules correcting its  
 26 recommended service charges, both parties list a present service charge for "Meter Installation Tampering." Neither  
 27 Decision No. 72498, nor any prior rate Decision, approved a Meter Installation Tampering Charge. Additionally, in  
 28 Revised Schedule CLP-20 filed with the Notice of Errata, Staff indicates there are present services charges for "Moving  
 Customer Meter," "Illegal Hook-Up Fee," and "Transfer Fee," none of which were previously approved, nor did Las  
 Quintas request them in its Application. There is no Staff Testimony indicating why any of these charges were listed.  
 Since both the Company and Staff listed a Meter Installation Tampering charge, we will include it, but the other listed  
 charges appear to have been inadvertent and will not be adopted.

**STANDPIPE KEY DEPOSIT:**

1	Original Key Deposit	\$ 30.00	\$ 30.00	\$ 30.00
2	Additional Set	5.00	5.00	5.00

**SERVICE LINE AND METER INSTALLATION CHARGES:**

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

	<u>Company Proposed</u>				<u>Staff Recommended</u>			
	Current	Proposed Service	Meter	Total	Proposed	Meter	Total	
	Total	Line	Installation	Recommended	Service Line	Installation	Recommended	
	<u>Charges</u>	<u>Charge</u>	<u>Charge</u>	<u>Charges</u>	<u>Charge</u>	<u>Charge</u>	<u>Charges</u>	
6	5/8" x 3/4 " Meter	\$ 600.00	\$445.00	\$155.00	\$ 600.00	\$ 445.00	\$155.00	\$ 600.00
	3/4 " Meter	700.00	445.00	255.00	700.00	445.00	255.00	700.00
7	1" Meter	810.00	495.00	315.00	810.00	495.00	315.00	810.00
	1-1/2" Meter	1,075.00	550.00	525.00	1,075.00	550.00	525.00	1,075.00
8	2" Meter Turbine	1,875.00	830.00	1,045.00	1,875.00	830.00	1,045.00	1,875.00
	2" Meter Compound	2,720.00	830.00	1,890.00	2,720.00	830.00	1,890.00	2,720.00
9	3" Meter Turbine	2,715.00	1,045.00	1,670.00	2,715.00	1,045.00	1,670.00	2,715.00
	3" Meter Compound	3,710.00	1,165.00	2,545.00	3,710.00	1,165.00	2,545.00	3,710.00
10	4" Meter Turbine	4,160.00	1,490.00	2,670.00	4,160.00	1,490.00	2,670.00	4,160.00
	4" Meter Compound	5,315.00	1,670.00	3,645.00	5,315.00	1,670.00	3,645.00	5,315.00
11	6" Meter Turbine	7,235.00	2,210.00	5,025.00	7,235.00	2,210.00	5,025.00	7,235.00
	6" Meter Compound	9,250.00	2,330.00	6,920.00	9,250.00	2,330.00	6,920.00	9,250.00
12	8" Meter	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

**ARSENIC IMPACT HOOK-UP FEE:**

13	5/8 x 3/4-inch Meter	\$ 1,135.00	\$ 1,135.00	\$ 1,135.00
14	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
15	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
16	3-inch Meter	18,160.00	18,160.00	18,160.00
	4-inch Meter	28,375.00	28,375.00	28,375.00
17	6-inch Meter or larger	56,750.00	56,750.00	56,750.00

**OFFSITE FACILITIES HOOK-UP FEE:**

18	5/8 x 3/4-inch Meter	\$ 250.00	\$ 250.00	\$ 250.00
19	3/4-inch Meter	250.00	250.00	250.00
	1-inch Meter	250.00	250.00	250.00
20	1-1/2-inch Meter	250.00	250.00	250.00
	2-inch Meter	250.00	250.00	250.00
21	3-inch Meter	250.00	250.00	250.00
	4-inch Meter	250.00	250.00	250.00
22	6-inch Meter or larger	250.00	250.00	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. A.A.C. R14-2-409(D)(5).

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

61. We find that the recommended Service Charges and Service Line and Meter Installation Charges are reasonable and we adopt them.

**MISCELLANEOUS MATTERS**

62. During Staff's investigation, Staff learned that Las Quintas provides its customers'

1 water use data to Pima County Regional Wastewater Reclamation Department ("RWRD"). RWRD  
2 uses the information to establish sewer rates for the Company's customers who receive wastewater  
3 services from RWRD.

4 63. Attached as Exhibit A to Staff's Direct Testimony is a form of tariff recommended by  
5 Staff regarding Las Quintas' sharing of information with RWRD. The form of tariff references a  
6 written agreement with RWRD that requires Commission approval "as set forth in Section 5 of the  
7 agreement."<sup>41</sup>

8 64. At hearing, however, Mr. Mejia testified that the Company does not have a written  
9 agreement with RWRD covering information sharing. He stated that the only information the  
10 Company provides is the customer's name, address, contact information and water use data and that  
11 Las Quintas does not receive any payment for providing customer information. Mr. Mejia testified  
12 that the Las Quintas' customers are aware that their water use data information is forwarded to  
13 RWRD.<sup>42</sup>

14 65. Given the circumstances, we will not require that the Company file a tariff, but we  
15 believe it is reasonable to require Las Quintas to advise all new customers in writing at the time  
16 service is established that the Company provides contact information and water use data to RWRD.

17 66. During the test year, Las Quintas recorded non-account water at 12.2 percent,  
18 exceeding Staff's recommended 10 percent threshold. Staff recommended that the Company should  
19 monitor the water system closely and take action to ensure that annual water loss is 10 percent or less.  
20 If the reported annual water loss is greater than 10 percent, Las Quintas should prepare a report  
21 containing a detailed analysis and a plan to reduce annual water loss to 10 percent or less. If the  
22 Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should  
23 submit a detailed cost/benefit analysis to support its position. In no case will annual water loss be  
24 greater than 15 percent. The water loss reduction report or detailed analysis, whichever is submitted,  
25 shall be docketed as a compliance item within 180 days of this Decision's effect date. Staff also  
26 recommended that any future rate case filed by the Company should be deemed insufficient if these

27 \_\_\_\_\_  
28 <sup>41</sup> Payne Direct, page 21, Exhibit A.

<sup>42</sup> Tr. at 30 - 34.

1 items are not properly submitted.

2 67. Staff recommends that the Company continue to use the depreciation rates by  
3 individual National Association of Regulatory Utility Commissioners category, as delineated in the  
4 attached Exhibit A.

5 68. In a Compliance Status Report dated June 18, 2013, the Arizona Department of  
6 Environmental Quality noted that Las Quintas' water system is currently delivering water that meets  
7 water quality standards required by 40 CFR 141 and A.A.C., Title 18, Chapter 4.

8 69. Las Quintas' water system is located in the Tucson Active Management Area. In an  
9 Arizona Department of Water Resources ("ADWR") Compliance Status Report dated May 7, 2013,  
10 ADWR determined that the Company is currently in compliance with departmental requirements  
11 governing water providers and/or community water systems.

12 70. Staff stated that Las Quintas has no delinquent Commission compliance items.

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

15 72. Las Quintas implemented five Commission-approved Best Management Practices as  
16 required in Decision No. 72498.

17 73. In Decision No. 72498 the Commission directed the Company to file as part of its  
18 Annual Report to the Commission's Utilities Division an affidavit attesting that the Company is  
19 current in paying its property taxes in Arizona. We believe it is reasonable to require the Company to  
20 continue filing the property tax affidavit.

21 **CONCLUSIONS OF LAW**

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

24 2. The Commission has jurisdiction over Las Quintas and the subject matter of the  
25 Application.

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

27 4. Las Quintas' FVRB is \$1,610,793.

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



1 **4-inch Meter**  
 0 to 423,000 gallons \$ 2.70  
 2 Over 423,000 gallons 3.70

3 **6-inch Meter**  
 0 to 873,000 gallons \$ 2.70  
 4 Over 873,000 gallons 3.70

5 **8-inch Meter**  
 0 to 1,414,000 gallons \$ 2.70  
 6 Over 1,414,000 gallons 3.70

7 **Standpipe**  
 0 to 4,000 gallons \$ 1.70  
 8 4,000 to 23,000 gallons 2.70  
 Over 23,000 gallons 3.70

9 **SERVICE CHARGES:**  
 Establishment \$ 20.00  
 10 Reconnection (Delinquent) 20.00  
 Service Charge (After Hours) 35.00  
 11 Meter Test (If Correct) 25.00  
 Meter Re-Read (If Correct) 15.00  
 12 NSF Check 15.00  
 Deposit \*  
 13 Deposit Interest \*  
 Re-Establishment (Within 12 Months) \*\*  
 14 Deferred Payment (Per Month) 1.50%  
 Late Charge Per Month (A.A.C. R14-2-409G(6)) 1.50%  
 15 Meter Installation Tampering At Cost  
 \* A.A.C. R14-2-403(B).  
 16 \*\* Months off system times the minimum. A.A.C. R14-2-403(D).

17 **STANDPIPE KEY DEPOSIT:**  
 First Key \$ 30.00  
 18 Second Key/Replacement Key 5.00

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

	Service Line Charge	Meter Installation Charge	Total Charges
21 5/8 x 3/4-inch Meter	\$ 445.00	\$ 155.00	\$ 600.00
22 3/4-inch Meter	445.00	255.00	700.00
23 1-inch Meter	495.00	315.00	810.00
24 1-1/2-inch Meter	550.00	525.00	1,075.00
2-inch Meter Turbine	830.00	1,045.00	1,875.00
2-inch Meter Compound	830.00	1,890.00	2,720.00
25 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
26 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
27 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
28 8-inch Meter	At Cost	At Cost	At Cost

**ARSENIC IMPACT HOOK-UP FEE:**

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

**OFFSITE FACILITIES HOOK-UP FEE:**

6	5/8 x 3/4-inch Meter	\$ 250.00
	3/4-inch Meter	250.00
7	1-inch Meter	250.00
	1-1/2" Meter	250.00
8	2-inch Meter	250.00
	3-inch Meter	250.00
9	4-inch Meter	250.00
	6-inch Meter or larger	250.00

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

12 IT IS FURTHER ORDERED that the revised schedules of rates and charges are effective for  
 13 all service rendered on and after April 1, 2014.

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

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

19 IT IS FURTHER ORDERED that as part of its next rate application, Las Quintas Serenas  
 20 Water Company shall submit the timesheets from Freeport – McMoRan Sierrita, Inc. employees who  
 21 provided services to Las Quintas Serenas Water Company and shall provide documentation  
 22 demonstrating that the costs for the services provided by Freeport – McMoRan Sierrita, Inc.  
 23 employees are comparable to those of third party contractors.

24 IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall advise all new  
 25 customers at the time service is established that Las Quintas Serenas Water Company provides  
 26 contact information and water use data to Pima County Regional Wastewater Reclamation  
 27 Department.

28 IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall monitor its

1 water system closely and take action to ensure that annual water loss is 10 percent or less. If the  
2 reported annual water loss is greater than 10 percent, the Company should prepare a report containing  
3 a detailed analysis and a plan to reduce annual water loss to 10 percent or less. If Las Quintas  
4 Serenas Water Company believes it is not cost effective to reduce the water loss to less than 10  
5 percent, it should submit a detailed cost/benefit analysis to support its position. In no case will  
6 annual water loss be greater than 15 percent. The water loss reduction report or detailed analysis,  
7 whichever is submitted, shall be docketed as a compliance item within 180 days of this Decision's  
8 effective date.

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1 IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall continue to file  
2 as part of its Annual Report to the Commission's Utilities Division an affidavit attesting that it is  
3 current on payment of its property taxes in Arizona.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.  
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7

8 CHAIRMAN \_\_\_\_\_ COMMISSIONER \_\_\_\_\_

9  
10 COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_

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12  
13 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
14 Director of the Arizona Corporation Commission, have  
15 hereunto set my hand and caused the official seal of the  
16 Commission to be affixed at the Capitol, in the City of Phoenix,  
17 this \_\_\_\_\_ day of \_\_\_\_\_ 2014.

18 JODI JERICH  
19 EXECUTIVE DIRECTOR

20 DISSENT \_\_\_\_\_

21 DISSENT  
22 BAM:ru

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1 SERVICE LIST FOR: LAS QUINTAS SERENAS WATER COMPANY

2 DOCKET NO.: W-01583A-13-0117

3

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16 Phoenix, AZ 85007

17 Steven M. Olea, Director  
18 Utilities Division  
19 ARIZONA CORPORATION COMMISSION  
20 1200 West Washington Street  
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## EXHIBIT A

FIGURE 5

## Depreciation Rates (LQS Water)

Acct. No.	Depreciable Plant	Approved Rate (%) (Decision # 72498)	Proposed Rate (%)	Staff Recommended Rate (%)
301	Intangibles	n/a	0.00	0.00
303	Land & Land Rights	n/a	0.00	0.00
304	Structures & Improvements	3.33	3.33	3.33
305	Collecting & Impounding Reservoirs	2.50	2.50	2.50
306	Lake, River, Canal Intakes	2.50	2.50	2.50
307	Wells & Springs	3.33	3.33	3.33
308	Infiltration Galleries	6.67	6.67	6.67
309	Raw Water Supply Mains	2.00	2.00	2.00
310	Power Generation Equipment	5.00	5.00	5.00
311	Pumping Equipment	12.5	12.5	12.5
320	Water Treatment Equipment	3.33	3.33	3.33
320.1	Water Treatment Plants	3.33	3.33	3.33
320.2	Solution Chemical Feeders	20.0	20.00	20.0
330	Distribution Reservoirs & Standpipes	2.22	2.22	2.22
330.1	Storage Tanks	2.22	2.22	2.22
330.2	Pressure Tanks	5.00	5.00	5.00
331	Transmission & Distribution Mains	2.00	2.00	2.00
333	Services	3.33	3.33	3.33
334	Meters	8.33	8.33	8.33
335	Hydrants	2.00	2.00	2.00
336	Backflow Prevention Devices	6.67	n/a	6.67
339	Other Plant & Misc Equipment	6.67	6.67	6.67
340	Office Furniture & Equipment	6.67	6.67	6.67
340.1	Computers & Software	20.0	20.00	20.00
341	Transportation Equipment	20.0	20.00	20.00
342	Stores Equipment	4.00	4.00	4.00
343	Tools, Shop & Garage Equipment	5.00	5.00	5.00
344	Laboratory Equipment	10.0	10.0	10.00
345	Power Operated Equipment	5.00	5.00	5.00
346	Communication Equipment	10.00	10.00	10.00
347	Miscellaneous Equipment	10.00	10.00	10.00
348	Other Tangible Plant	---	---	---

DECISION NO. \_\_\_\_\_