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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

Arizona Corporation Commission

DOCKETED

APR 23 2015

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF DRAGON WATER COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT.

DOCKET NO. W-01917A-14-0312

IN THE MATTER OF THE APPLICATION OF DRAGON WATER COMPANY, INC. FOR AN INCREASE IN ITS WATER RATES.

DOCKET NO. W-01917A-14-0313

DECISION NO. 75037

ORDER

Open Meeting
April 14 & 15, 2015
Phoenix, Arizona

BY THE COMMISSION:

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

- 1. On August 22, 2014, Dragoon Water Company, Inc. ("Dragoon" or "Company") filed with the Commission a Finance Application (Docket No. W-01917A-14-0312) and a Rate Application (Docket No. W-01917A-14-0313).
2. On September 15, 2014, Dragoon filed "Revisions to Rate Application."
3. On September 19, 2014, the Commission's Utilities Division ("Staff") notified the Company that its Rate Application did not meet the sufficiency requirements outlined in Arizona Administrative Code ("A.A.C.") R14-2-103.
4. On October 10, 2014, Dragoon filed a "Report Regarding Water Loss" in response to the directive in its last rate case, Decision No. 65132 (August 22, 2002).

1           5.     On October 14, 2014, Dragoon filed a Response to Insufficiency Letter and a second  
2 amended Rate Application.

3           6.     On October 22, 2014, in Docket No. W-01917A-14-0313, Dragoon filed an Affidavit  
4 of Mailing the Customer Notice of the Rate Application indicating that it mailed notice of the Rate  
5 Application to its customers on August 28, 2014.

6           7.     On October 31, 2014, Dragoon filed its third amended Rate Application.

7           8.     On November 10, 2014, Staff notified the Company that its amended Rate Application  
8 met the sufficiency requirements of A.A.C. R14-2-130.B, and classified the Company as a Class D  
9 Utility.

10          9.     On November 19, 2014, in Docket No. W-01917A-14-0312, Dragoon filed an  
11 Affidavit of Customer Notice indicating that notice of the Finance Application was mailed to its  
12 customers on November 4, 2014.

13          10.    On November 19, 2014, Dragoon filed a Motion to Consolidate the Finance and Rate  
14 Applications on the grounds that they are interrelated. There was no opposition to consolidation.

15          11.    By Procedural Order dated December 1, 2014, the Finance and Rate Applications  
16 were consolidated.

17          12.    On January 20, 2015, the Company filed a "Notice of Change of Authorized  
18 Representative," reporting that it had replaced its rate case consultant.<sup>1</sup>

19          13.    On January 20, 2015, Staff filed a Request for Extension of Time in which to file its  
20 Staff Report. Staff did not believe it could complete its Staff Report by January 26, 2015, because of  
21 the change in rate consultants and the need to receive responses to outstanding Data Requests. Staff  
22 requested a two-week extension to file its Staff Report.

23          14.    An extension of time to file the Staff Report until February 9, 2015, was granted by  
24 Procedural Order dated January 26, 2015. At the same time, the deadline to issue a final Order in this  
25 matter was extended until May 26, 2015.

26 \_\_\_\_\_  
27 <sup>1</sup> Mathew Rowell and Desert Mountain Analytical Services were replaced with Ms. Sonn Ahlbrecht, CPA, of Facilitation,  
28 PLLC.

1           15.    On February 9, 2015, Staff filed its Staff Report, recommending approval of Staff-  
2 recommended rates and approval of long-term financing in the amount of \$13,194. The Staff Report  
3 directed that any response should be filed by February 20, 2015.

4           16.    On February 13, 2015, Staff filed a Notice of Errata that clarified Staff's  
5 recommended service line charges.

6           17.    On February 20, 2015, Dragoon filed "Comments to Staff Report" which addressed  
7 Staff's recommendations concerning the Letter of Good Standing, the loan repayment terms, the  
8 Technical Assistance Grant, and Best Management Practices ("BMPs").

9           18.    The Commission received five comments submitted by customers in opposition to the  
10 amount of the rate increase.

#### 11 **Background**

12           19.    Dragoon's current rates were set in Decision No. 65132 (August 22, 2002). In that  
13 Decision, the Commission also authorized Dragoon to borrow \$78,684 from the Water Infrastructure  
14 Finance Authority ("WIFA") to finance the replacement of a well pump and several capital  
15 improvement projects, including meter, service line and main replacements.<sup>2</sup>

16           20.    Dragoon is a "C" corporation, all the shares of which are owned by the Sullivan Trust.  
17 In the test year ended December 31, 2013, ("test year") Dragoon provided water utility service to  
18 approximately 121 customers in and around the unincorporated community of Dragoon located east  
19 of Benson in Cochise County, Arizona.

20           21.    The Commission's Compliance Section database indicates Dragoon has no delinquent  
21 Commission compliance items.<sup>3</sup>

22           22.    Dragoon is not located in an Arizona Department of Water Resources ("ADWR")  
23 Active Management Area ("AMA"). ADWR indicates that the Company is compliant with  
24 departmental requirements governing water providers and/or community water systems.<sup>4</sup>

25 \_\_\_\_\_  
26 <sup>2</sup> Decision No. 65132 at 4-5. According to the Rate Application, the current WIFA loan is a consolidation of previously  
27 authorized WIFA loans. In addition to Decision No. 65132, the Commission authorized Dragoon to borrow from WIFA  
28 to finance system improvements in Decision No. 60499 (November 25, 1998) and Decision No. 60716 (March 3, 1998).  
At the end of the test year, the WIFA loan had an outstanding balance of \$88,595. See Amended Rate Application at P-23.

<sup>3</sup> Staff Report DMH-1 at 5.

<sup>4</sup> *Id.*

1           23.     The Arizona Department of Environmental Quality (“ADEQ”) reported that Dragoon  
2 had no major deficiencies and was delivering water that meets water quality standards required by 40  
3 CFR 141 (National Primary Drinking Water Regulations) and A.A.C., Title 18, Chapter 4.<sup>5</sup>

4           24.     Dragoon’s system operates with two wells, Well No. 1 with a production capacity of  
5 55 gallons per minute (“GPM”) and Well No. 2 with a capacity of 200 GPM; two storage tanks  
6 (40,000 gallons and 15,000 gallons); and four pressure tanks. Staff concludes that Dragoon has  
7 adequate production and storage capacities to support its existing customer base and reasonable  
8 growth.<sup>6</sup>

9           25.     At the time it filed the Rate Application, the Company reported that it is current on all  
10 property and sales taxes. Dragoon has approved Curtailment Plan and Backflow Protection Tariffs on  
11 file with the Commission.

12          26.     From January 1, 2012 through February 1, 2015, two customer complaints were made  
13 against the Company.<sup>7</sup> Staff states that all complaints were resolved and closed.

14          27.     In Decision No. 65132, the Commission ordered Dragoon to reduce its water loss to  
15 less than 15 percent by December 31, 2003, and in the event Dragoon was unable to reduce water  
16 losses to 10 percent or less, to file with its next rate case, an explanation of why such reduction was  
17 not cost effective. Dragoon’s October 10, 2014 filing, contains its explanation of why it believes  
18 water loss reduction to less than 10 percent is not cost effective.

19          28.     Staff utilized Dragoon’s annual utility reports from 2003 to 2010 to determine its  
20 water losses over the period as follows:<sup>8</sup>

Year	Calculated Water Loss (%)
2003	33.36
2004	8.49
2005	8.63
2006	8.96
2007	25.07
2008	11.88
2009	16.63

21  
22  
23  
24  
25  
26  
27 <sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 4.

<sup>7</sup> Staff Report at 4.

28 <sup>8</sup> *Id.* DMH-1 at 4.

2010	-57.31
2011	-16.27
2012	-18.83
2013	24.2

29. In the past ten years, according to its annual utility reports, Dragoon has reported water losses above and below the 10 percent threshold, and in several years reported negative water losses which Staff believes calls into question the validity of the water use data. Staff states that it appears that Dragoon has not been recording its water use data correctly.<sup>9</sup>

30. Dragoon's Rate Application reflects adjusted test year revenues of \$93,321 and adjusted test year operating expenses of \$111,969, resulting in an operating loss of \$18,648.<sup>10</sup> The Company reported a net interest expense of \$2,190, associated with its existing WIFA loan for a net loss of \$20,838. Dragoon claims that currently it is not meeting the Debt Service Coverage Ratio ("DSC") required by WIFA, and experienced negative free cash flow during the test year.<sup>11</sup> Dragoon states further that since the Company's last rate case in 2001, more than \$230,000 was invested for necessary plant improvements, of which \$104,684 was funded by debt, \$1,200 was funded with Contributions in Aid of Construction ("CIAC"), and approximately \$55,000 was funded by Advances in Aid of Construction ("AIC"). The Company asserts that the current rate case is necessary in order to provide it with a positive cash flow, provide its owners with an adequate rate-of-return on its rate base, and to provide a DSC that meets WIFA requirements.

31. In its Rate Application, the Company requested an increase in revenues of \$39,614, or 42.4 percent, from \$93,321 in the test year to \$132,935.<sup>12</sup> After adjusted operating expenses totaling \$121,190, Dragoon would have operating income of \$11,745, a rate-of-return of 7.42 percent on the Company's proposed Fair Value Rate Base ("FVRB") of \$158,252. Based on this revenue level, the Company's proposed rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer with a median use of 3,500 gallons, by \$24.59, or 55.32 percent, from \$44.45 to \$69.04.

32. The Company's Finance Application seeks approval of a loan in an amount up to

<sup>9</sup> *Id.*

<sup>10</sup> Amended Rate Application at ISP-19a.

<sup>11</sup> *Id.* at P-3. Dragoon's existing WIFA loan had an outstanding balance of \$76,735 as of January 1, 2015. Staff Report at 8.

<sup>12</sup> *Id.* at P-6.

1 \$26,000 from Southwestern Utility Management Company, Inc. ("SUM"), its management company.  
 2 According to the Finance Application, on September 13, 2013, the Company's primary well pump at  
 3 Well No. 2 failed and the Company did not have sufficient resources to make the needed repairs and  
 4 pay for water hauling.<sup>13</sup> The cost of repairs totaled \$45,922. SUM advanced \$26,000 to assist with  
 5 the repair, and Dragoon executed a Promissory Note at 6 percent interest that called for the advance  
 6 to be repaid within one year.<sup>14</sup> The Company states that its financial condition prevented it from  
 7 repaying the full amount of the note and that \$13,194 remains outstanding. The Finance Application  
 8 was filed to seek Commission approval for a long-term loan in order to repay SUM. The Finance  
 9 Application does not specify the terms of the proposed loan, but in response to the Staff Report, the  
 10 Company requests a term of approximately 28 months based on a \$5.00/month 5/8 x 3/4-inch meter  
 11 equivalent surcharge.

12 33. Staff's audit and recommended adjustments indicate test year revenues of \$93,321,  
 13 adjusted test year operating expenses of \$85,006, and operating income of \$8,315, a 4.58 percent  
 14 rate-of-return on Staff's recommended FVRB of \$181,406.<sup>15</sup>

15 34. Staff recommends permanent rates that would produce total operating revenue of  
 16 \$107,058, an increase of \$13,737, or 14.72 percent, over test year revenue of \$93,321, which after  
 17 adjusted operating expenses of \$88,024, would provide operating income of \$19,034, a 10.49 percent  
 18 rate of return on Staff's recommended FVRB of \$181,406.

19 35. Staff further recommends approving a loan with a principal amount of \$13,194, a term  
 20 of five years, and interest rate of 4.69 percent. Staff recommends authorizing an infrastructure  
 21 improvement surcharge to generate additional annual revenues of \$3,668 annually to repay SUM and  
 22 provide the Company with an uncommitted cash flow of \$12,000 and a DSC of 2.19.<sup>16</sup> Including the  
 23 surcharge, Staff recommends total revenues of \$110,726, an increase of \$17,405 (\$13,737 + \$3,668)  
 24 or an 18.65 percent increase over test year revenues, which after adjusted operating expenses of  
 25 \$88,727, would yield operating income of \$21,999.<sup>17</sup>

26 <sup>13</sup> Finance Application at 2.

27 <sup>14</sup> *Id.* at Attachment 1.

28 <sup>15</sup> Staff Report MJR-1.

<sup>16</sup> *Id.* at 8.

<sup>17</sup> *Id.* MJR-1.

1 **Rate Application**  
2 **Rate Base**

3 36. The Company's Rate Application indicates a FVRB of \$158,252.<sup>18</sup> Staff made four  
4 adjustments to the Company's proposed rate base that resulted in a net increase of \$23,152, to  
5 \$181,406.<sup>19</sup> Specifically, Staff recommends the following adjustments: (1) decreasing plant by  
6 \$7,291 to conform to the plant balances in the last rate case; (2) decreasing Accumulated  
7 Depreciation by \$36,855, from \$491,981 to \$455,126, to reflect Staff's depreciation expense for the  
8 years 2001-2013, and subtracting the Accumulated Depreciation associated with plant retirements;  
9 (3) increasing the amount of Customer Deposits from \$0 to \$2,610; and (4) calculating a cash  
10 working capital allowance of \$6,703 based on the formula method, which decreased reported cash  
11 working capital by \$3,802, from \$10,505 to \$6,703.<sup>20</sup>

12 37. The Company waived the right to a Reconstruction Cost New Rate Base, and accepts  
13 that its FVRB will be equivalent to its Original Cost Rate Base ("OCRB").<sup>21</sup>

14 38. Dragoon did not object to any of Staff's rate base adjustments. We find that Staff's  
15 adjustments are reasonable. Due to adjustments we make to certain operating expenses as described  
16 herein, cash working capital increases from Staff's formula calculation by \$136, with the result that  
17 we adopt a FVRB of \$181,542.

18 **Operating Income**

19 39. Dragoon's Rate Application indicated a test year operating loss of \$18,648 based on  
20 adjusted test year revenues of \$93,321 and adjusted operating expenses of \$111,969.<sup>22</sup> Staff did not  
21 adjust test year revenues, but made eight adjustments that reduced operating expenses by \$26,963,  
22 from \$111,969 to \$85,006, and resulted in operating income of \$8,315.<sup>23</sup> Staff's recommended  
23 adjustments are described below:

24 (a) Staff decreased Repairs and Maintenance Expense by \$5,086 to normalize the cost

25 <sup>18</sup> Amended Rate Application at P-22a.

26 <sup>19</sup> Staff Report at 4-5, and schedule MJR-2. Staff used \$158,254 as the Company's proposed rate base.

27 <sup>20</sup> The formula method, used for Class D and E utilities, recognizes one-eighth of the operating expenses excluding depreciation, taxes and purchased power and expenses plus one-twenty-fourth of purchased power and water expenses.

28 <sup>21</sup> Amended Rate Application at P-6.

<sup>22</sup> *Id.* at P-19a.

<sup>23</sup> Staff Report at MJR-3.

1 of repairs and maintenance to the average of the five years from 2008 to 2012. Staff's review of the  
2 Company's annual reports filed with the Commission indicate that the cost for repairs and  
3 maintenance varied greatly from year to year, and believed that using a five-year average would  
4 produce a more representative amount for ratemaking purposes.

5 (b) Staff decreased Office Supplies and Expense by \$2,370, from \$3,614 to \$1,244. As  
6 with the previous item, Staff believes a five-year average produces an appropriate representative level  
7 because of variability in recent years.

8 (c) Staff decreased Outside Services by \$12,600, from \$38,919 to \$26,319, to remove  
9 "draws" that were not substantiated by invoices or a contract for services; all other allowed outside  
10 services were substantiated with invoices or contracts.

11 (d) Staff decreased Water Testing Expense by \$181, from \$1,703 to \$1,522, in order  
12 to reflect the Staff Engineer's estimate of participating in the ADEQ Monitoring Assistance Program  
13 ("MAP").<sup>24</sup>

14 (e) Staff increased Miscellaneous Expense by \$2,052, from \$4,939 to \$6,991, in order  
15 to normalize the expenses over five years because of yearly variations.

16 (f) Staff decreased Depreciation Expense by \$16,586, from \$33,364 to \$16,778, to  
17 reflect Staff's recommended depreciation rates applied to Staff's recommended depreciable plant  
18 balances.

19 (g) Staff increased Property Tax Expense by \$1,858, from \$3,230 to \$5,088, to reflect  
20 Staff's application of the modified version of the Arizona Department of Revenue's ("ADOR")  
21 property tax methodology which the Commission has consistently adopted in recent years.

22 (h) Staff increased Income Tax Expense by \$5,949, from negative \$4,816 to positive  
23 \$1,133, to allow for Staff's calculation of income taxes based on test year operating income.

24 40. Dragoon did not object to Staff's adjustments to operating income.

25 41. In general, with slight modification, we find that Staff's adjustments are appropriate  
26 and reasonable. The Commission's rules provide for pro forma adjustments to actual test year results  
27

28 <sup>24</sup> Staff Report DMH-1at 5-6.

1 and balances to obtain a normal or more realistic relationship between revenues, expenses and rate  
 2 base.<sup>25</sup> When it appears that actual test year expenses will not reflect the level of expenses in the  
 3 period when new rates will be in effect, it is appropriate to make pro forma adjustments. In this case,  
 4 Staff's use of a five-year average for certain expenses that historically show wide fluctuations is  
 5 reasonable. The Company did not object to the approach. It appears, however, that Staff utilized the  
 6 years 2008-2012 to derive its recommended adjusted expense amounts for Repairs and Maintenance  
 7 Expense, Office Supplies and Expense, and Miscellaneous Expense. We believe that in calculating  
 8 the average, it is appropriate to utilize the test year (2013 in this case) as one of the inputs, and thus,  
 9 for these expenses, we utilize the expense levels reported for years 2009 through 2013. As a result,  
 10 we adopt an adjusted Repairs and Maintenance Expense of \$5,353, Office Supplies and Expense of  
 11 \$1,272, and Miscellaneous Expense of \$6,755.<sup>26</sup> These modifications have an effect on Income Tax  
 12 Expense, resulting in a decrease of \$360 from Staff's recommendation. Consequently, we find  
 13 Dragoon's adjusted test year operating expenses to be \$85,733.

14 42. Based on adjusted test year revenues of \$93,321, and adjusted test year expenses of  
 15 \$85,733, Dragoon had test year operating income of \$7,588, which is a 4.18 percent rate-of-return on  
 16 a FVRB of \$181,542.

### 17 **Staff's Revenue Requirement**

18 43. Staff recommends total operating revenue from permanent rates of \$107,058, an  
 19 increase of \$13,737, or 14.72 percent over test year revenue. Staff's rates result in operating income  
 20 of \$19,034, a rate-of-return on FVRB of 10.49 percent, and a cash flow of \$12,000 (prior to the debt  
 21 service on the proposed loan). Under Staff's recommended permanent rates, Dragoon would have a  
 22 DSC of 2.36 for its existing WIFA loan.<sup>27</sup> Staff believes that this level of revenue is sufficient to

23 <sup>25</sup> A.C.C. R14-2-103.

24 <sup>26</sup>

	2009	2010	2011	2012	2013	Average	Staff	Company
25 Repairs	\$2,765	\$6,026	\$2,453	\$6,379	\$9,143	\$5,353	\$4,057	\$9,143
Office	\$1,330	\$2,761	\$684	\$861	\$723	\$1,272	\$1,244	\$3,614*
26 Misc.	\$12,345	\$8,376	\$5,054	\$3,060	\$4,939	\$6,755	\$6,991	\$4,939
Total	\$16,440	\$17,163	\$8,191	\$10,300	\$14,805	\$13,380	\$12,242	\$17,696

27 \*Dragoon included WIFA loan fees of \$2,891 in its adjusted test year Office Supplies and Expense (Amended  
 Application at P-19b), but the Commission has consistently included these fees as part of interest expense and not a part  
 of operating expenses.

28 <sup>27</sup> Staff Report at 8.

1 cover operating expenses and to manage contingencies, but is not sufficient to provide debt service  
 2 on the Company's proposed loan. As discussed below, Staff recommends that the Commission  
 3 authorize a loan surcharge to produce the additional revenues that Staff believes are necessary to  
 4 cover the proposed debt service and provide adequate cash flow.

5 44. Dragoon did not object to Staff's recommended permanent rates.

6 **Rate Design**

7 45. Dragoon's current and the Company's and Staff's proposed rates and charges are as  
 8 follows:<sup>28</sup>

	Present Rates	Proposed Rates	
		<u>Company</u>	<u>Staff</u>
<b><u>MONTHLY USAGE CHARGE:</u></b>			
5/8" x 3/4" Meter	\$32.00	\$53.10	\$36.00
3/4" Meter	48.00	79.65	54.00
1" Meter	80.00	132.75	90.00
1 1/2" Meter	160.00	265.50	180.00
2" Meter	256.00	424.80	288.00
3" Meter	512.00	849.80	576.00
4" Meter	800.00	1,327.50	900.00
6" Meter	1,600.00	2,655.00	1,800.00
Excess of Minimum – Per 1,000 Gallons			
<b>5/8" x 3/4" Meters</b>			
0 to 3,000 gallons	\$3.25	\$4.16	\$4.00
3,001 to 10,000 gallons	5.40	6.91	7.00
Over 10,000 gallons	6.80	8.32	8.50
<b>3/4" Meters</b>			
0 to 3,000 gallons	\$3.25	\$4.16	\$4.00
3,001 to 10,000 gallons	5.40	6.91	7.00
Over 10,000 gallons	6.80	8.32	8.50
<b>1" Meters</b>			
0 to 3,000 gallons	\$3.25	\$4.16	
3,001 to 10,000 gallons	5.40	6.91	
Over 10,000 gallons	6.80	8.32	

26 <sup>28</sup> Amended Rate Application at P-11, Staff Report, MJR-4. The Company did not originally propose a surcharge to repay  
 27 the proposed loan, and thus, its proposed rates were intended to cover the debt service of its proposed loan. Subsequently,  
 28 the Company did not object to Staff's approach of having permanent rates and a surcharge for the SUM debt. Thus, it  
 appears, the Company accepts Staff's recommended permanent rates, but requests a \$5.00/month surcharge for the 5/8 x  
 3/4-inch meters and \$12.50/month for the 1 inch meters. See Comments to Staff Report.

1	First 15,000 gallons			\$7.00
	Over 15,000 gallons			8.50
2	<b>1 ½" Meters</b>			
3	0 to 3,000 gallons	\$3.25	\$4.16	
	3,001 to 10,000 gallons	5.40	6.91	
4	Over 10,000 gallons	6.80	8.32	
5	First 25,000 gallons			\$7.00
6	Over 25,000 gallons			8.50
7	<b>2" Meters</b>			
8	0 to 3,000 gallons	\$3.25	\$4.16	
	3,001 to 10,000 gallons	5.40	6.91	
9	Over 10,000 gallons	6.80	8.32	
10	First 45,000 gallons			\$7.00
	Over 45,000 gallons			8.50
11	<b>3" Meters</b>			
12	0 to 3,000 gallons	\$3.25	\$4.16	
13	3,001 to 10,000 gallons	5.40	6.91	
	Over 10,000 gallons	6.80	8.32	
14	First 90,000 gallons			\$7.00
15	Over 90,000 gallons			8.50
16	<b>4" Meters</b>			
17	0 to 3,000 gallons	\$3.25	\$4.16	
	3,001 to 10,000 gallons	5.40	6.91	
18	Over 10,000 gallons	6.80	8.32	
19	First 120,000 gallons			\$7.00
20	Over 120,000 gallons			8.50
21	<b>6" Meters</b>			
22	0 to 3,000 gallons	\$3.25	\$4.16	
	3,001 to 10,000 gallons	5.40	6.91	
23	Over 10,000 gallons	6.80	8.32	
24	First 300,000 gallons			\$7.00
	Over 300,000 gallons			8.50
25	Bulk Water – all gallons	\$7.50	\$8.32	\$8.50
26				
27	...			
28	...			

SERVICE CHARGES:

1				
2	Establishment	\$55.00	\$55.00	\$55.00
3	Establishment (After Hours)	65.00	NA	NA
4	Reestablishment (Within 12 Months)	**	**	**
5	Reestablishment (After Hours)	\$50.00	NA	NA
6	Reconnection (Delinquent)	65.00	65.00	65.00
7	Reconnection (After Hours)	75.00	N/A	N/A
8	After Hours Service Charge (flat rate)	N/A	35.00	35.00
9	Meter Test (If Correct)	50.00	50.00	50.00
10	Deposit	*	*	*
11	Deposit Interest – Per year	6.00%	*	*
12	NSF Check	\$15.00	\$30.00	\$20.00
13	Deferred Payment (per month)	1.5%	1.5%	1.5%
14	Meter Reread (If Correct)	\$15.00	\$25.00	\$20.00
15	Late Payment Penalty – per month	1.5%	1.5%	1.5%
16	Charge for moving meter	***	***	

Monthly Service Charge for Fire Sprinkler:

17	4" or Smaller	****	****
18	6"	****	****
19	8"	****	****
20	10"	****	****
21	Larger than 10"	****	****

- \* Residential: 2 times estimated average monthly bill; Commercial: 2 ½ times estimated maximum monthly bill per Commission Rule A.A.C. R-14-2-403(B).
- \*\* Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
- \*\*\* Cost per Tariff definition.
- \*\*\*\* 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

METER AND SERVICE LINE INSTALLATION CHARGES

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

	Current	Company Proposed			Staff Recommended		
		Service Line	Meter	Total	Service Line	Meter	Total
5/8" x 3/4" Meter	\$450.00	\$445.00	\$155.00	\$600.00	\$445.00	\$155.00	\$600.00
3/4" Meter	475.00	445.00	255.00	700.00	445.00	255.00	700.00
1" Meter	550.00	495.00	315.00	810.00	495.00	315.00	810.00
1-1/2" Meter	775.00	550.00	525.00	1,075.00	550.00	525.00	1,075.00
2" Turbine Meter	1,375.00	830.00	1,045.00	1,875.00	830.00	1,045.00	1,875.00
2" Compound Meter	1,375.00	830.00	1,890.00	2,720.00	830.00	1,890.00	2,720.00
3" Turbine Meter	1,975.00	1,045.00	1,670.00	2,715.00	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,975.00	1,165.00	2,545.00	3,710.00	1,165.00	2,545.00	3,710.00
4" Turbine Meter	3,040.00	1,490.00	2,670.00	4,160.00	1,490.00	2,670.00	4,160.00
4" Compound Meter	3,040.00	1,670.00	3,645.00	5,315.00	1,670.00	3,645.00	5,315.00
6" Turbine Meter	5,675.00	2,210.00	5,025.00	7,235.00	2,210.00	5,025.00	7,235.00

6"Compound Meter	5,635.00	2,330.00	6,920.00	9,250.00	2,330.00	6,920.00	9,250.00
Over 6"	N/A	Cost	Cost	Cost	Cost	Cost	Cost

46. The current rate structure includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all meter sizes with break-over points at 3,000 gallons and at 10,000 gallons for all meter sizes. The commodity rate per 1,000 gallons is \$3.25 for usage up to 3,000 gallons, \$5.40 for usage between 3,001 and 10,000 gallons, and \$6.80 for usage over 10,000 gallons. No gallons are included in the monthly minimum charge for any meter size.

47. The Company proposes a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all meter sizes with break-over points at 3,000 and 10,000 gallons for all meter sizes.

48. As proposed by the Company, the monthly charge for a 5/8 x 3/4-inch meter residential bill, with a median usage of 3,500 gallons, would increase by \$24.59, 55.32 percent, from \$44.45 to \$69.04.<sup>29</sup>

49. Staff recommends a rate structure for permanent rates that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters, and a two-tier commodity rate for larger meters. Staff also recommends break-over points that increase by meter size.

50. Under Staff's recommended rate design for permanent rates the typical monthly residential bill for a 5/8 x 3/4-inch meter customer with a median usage of 3,500 gallons would increase by \$7.05, or 15.86 percent, from \$44.45 to \$51.50 (prior to a loan surcharge).<sup>30</sup>

51. The Company proposes increases to all its service line and meter installation charges. Staff concurs with the Company-proposed increases to the service line and meter installation charges.

52. The Company proposes to increase its Non-Sufficient Funds ("NSF") charge by \$15, to \$30, and to increase the "Meter Re-read (if Correct)" charge by \$10, to \$25. Staff recommends an NSF charge of \$20 and a Meter Re-read charge of \$20, because they fall within the ranges generally supported by Staff.<sup>31</sup>

<sup>29</sup> Staff Report at 6.

<sup>30</sup> The Company did not originally propose a loan surcharge, and its proposed rates were intended to cover the debt service costs of the new loan.

<sup>31</sup> Staff Report at 7.

1           53.     The Company proposes, and Staff recommends, removing the specific After Hours  
2 charges for Establishment (currently \$65), Re-establishment (currently \$50), and Reconnection  
3 (currently \$75), and to replace it with a separate \$35 “after-hours service charge” to be applied in  
4 addition to the normal charge for each service. Staff agrees with the Company that an additional fee  
5 for service provided after normal business hours is appropriate when such service is at the customer’s  
6 request, to compensate the utility for additional expenses incurred from providing after-hours service.

7 **Finance Application**

8           54.     Dragoon submitted a copy of the repair invoice for the Well No. 2 pump which  
9 indicates a total cost of \$45,922.37.<sup>32</sup> Staff evaluated the information provided by the Company and  
10 obtained during its field visit, to conclude that the cost for the pump replacement work is reasonable  
11 and that the capital improvements at Well No. 2 were appropriate.<sup>33</sup>

12           55.     Staff recommends that the Commission authorize Dragoon to borrow \$13,194 (the  
13 unpaid balance of the original \$26,000 short-term loan), and that the loan be amortized over 5 years  
14 at an interest rate of 4.688 percent, which is the rate for the Company’s existing WIFA loan.<sup>34</sup>

15           56.     As of December 31, 2013, Dragoon’s capital structure consisted of 51 percent long-  
16 term debt and 49 percent equity. With the addition of a \$13,194 5-year amortizing loan at 4.688  
17 percent per annum, Staff calculated a pro forma capital structure that would reflect 10.56 percent  
18 short-term debt, 53.15 percent long-term debt and 36.29 percent equity.

19           57.     Staff calculated that with the addition of the proposed \$13,194 loan, and Staff’s  
20 recommended permanent rates, that the Company would have a DSC of 2.01, but an uncommitted  
21 cash flow of only \$9,152.<sup>35</sup> Staff believes that an uncommitted cash flow of \$9,152 is not adequate  
22 under current circumstances to support the Company’s operations. Thus, Staff recommends an  
23 infrastructure improvement surcharge associated with the new loan to allow the Company an  
24 opportunity to achieve an uncommitted cash flow of \$12,000. Staff’s calculates that assuming Staff’s  
25 recommended permanent rates, Dragoon would need additional annual revenues of \$3,668 to meet  
26

27 <sup>32</sup> Staff Report DMH-1 at 7.

28 <sup>33</sup> *Id.*

<sup>34</sup> Staff Report at 8.

<sup>35</sup> *Id.* MJR-7.

1 the debt service obligations of the new loan, plus incremental taxes.<sup>36</sup> Staff's recommended \$107,058  
 2 revenue from permanent rates combined with revenues of \$3,668 from an infrastructure improvement  
 3 surcharge would provide total revenue of \$110,726, and adjusted operating expenses of \$88,727,  
 4 resulting in operating income of \$21,999, and a DSC of 2.19.<sup>37</sup>

5 58. Staff recommends a monthly surcharge of \$2.75 for the 5/8 x 3/4-inch meters, with the  
 6 charge for larger meters to be based upon standard meter multipliers as shown on schedule MJR-8 of  
 7 the Staff Report.<sup>38</sup> Staff further recommends that the infrastructure improvement surcharge become  
 8 effective with other rates authorized in this proceeding, and that it automatically cease upon full  
 9 payment of the SUM loan balance.<sup>39</sup>

10 59. The infrastructure surcharge combined with Staff's recommended permanent rates  
 11 would increase the typical monthly residential bill for a 5/8 x 3/4-inch meter customer with a median  
 12 usage of 3,500 gallons by \$9.80, or 22.04 percent, from \$44.45 to \$54.25.<sup>40</sup>

13 60. Dragoon did not object to Staff's recommended infrastructure improvement surcharge,  
 14 but argues that Staff's recommended five year payback period is too long.<sup>41</sup> Dragoon asserts that  
 15 when its pump failed in September 2013, Dragoon's customers would have been without water for an  
 16 extended period of time without SUM's financial support.<sup>42</sup> Dragoon argues that SUM's practice of  
 17 providing short-term loans to the utilities it manages is a huge benefit to the companies as well as  
 18 their customers. Dragoon maintains that SUM should not have to wait five years to be repaid in full,  
 19 and that it would have a chilling effect on SUM's future willingness to extend loans to small water  
 20 companies facing emergency water outages. Dragoon suggests a monthly surcharge in the amount of  
 21 \$5.00 for the typical 5/8 x 3/4-inch meter customer, which it claims would allow it to repay SUM in 28  
 22 months.<sup>43</sup>

23 . . .

24 <sup>36</sup> *Id.*

25 <sup>37</sup> *Id.* at 8, MJR-1 and MJR-6.1.

26 <sup>38</sup> The monthly charge for the 1-inch meters would be \$6.87.

27 <sup>39</sup> *Id.* at 9.

28 <sup>40</sup> *Id.* at 8 and MJR 5.2.

<sup>41</sup> Dragoon's Comments to Staff Report at 2.

<sup>42</sup> *Id.*

<sup>43</sup> Dragoon's recommended \$5.00/month 5/8 x 3/4 -inch meter surcharge results in a \$499.06 monthly payment to SUM and would collect revenues of \$7,565 annually. Comments to Staff Report, Attachment 2 at 2.

1 **Additional Staff Recommendations**

2 61. In addition to its recommended rates and charges and approval of the financing and  
3 surcharge as discussed above, Staff recommends that:

4 (a) the permanent rates become effective the first day of the month after the Company  
5 files with Docket Control, as a compliance item in this docket, a Certificate of Compliance Letter of  
6 Good Standing issued by the Arizona Department of Revenue;

7 (b) in addition to collection of its regular rates and charges, the Company collect from  
8 its customers a proportionate share of any privilege, sales or use tax, per A.A.C. R14-2-409(D)(5);

9 (c) the Company docket a schedule of its approved rates and charges within 30 days  
10 after the effective date of this Decision;

11 (d) the Commission authorize the depreciation rates shown in Figure 6 of the  
12 Engineering Report attached to the Staff Report;<sup>44</sup>

13 (e) upon Commission approval of the infrastructure improvement surcharge, that the  
14 Company open an interest-bearing account to deposit all surcharge funds collected from customers;

15 (f) the only disbursements of funds from the surcharge account will be principal and  
16 interest payments to SUM;

17 (g) the Company notify the Commission, through Docket Control, within 15 days of  
18 the loan being paid in full;

19 (h) Dragoon be authorized to engage in any transaction and to exercise any  
20 documents necessary to effectuate the authorizations granted;

21 (i) Dragoon notify its customers of the authorized rates and charges approved in this  
22 proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next  
23 regular scheduled billing and file copies of the notice with Docket Control within 10 days of the date  
24 notice is sent to customers;

25 (j) Dragoon coordinate readings of its production and customer meters and file this  
26 data semi-annually with Docket Control, as a compliance item in this docket, with the first water use  
27

28 <sup>44</sup> Staff Report DMH-1 at 15.

1 data report to be filed by September 30, 2015;

2 (k) the Company apply to WIFA for a Planning and Design Technical Assistance  
3 Program grant which would be used for an engineering analysis to seek a solution for the Company's  
4 water loss problem;

5 (l) the Company file a plan to fund the implementation of a water loss reduction  
6 project when the Company files its next rate application with the Commission;

7 (m) the Company file with Docket Control as a compliance item in this docket and  
8 within 45 days of the effective date of a Decision in this proceeding, at least three BMPs in the form  
9 of tariffs that substantially conform to the templates created by Staff for Commission review and  
10 consideration;<sup>45</sup>

11 (n) a maximum of two BMPs may come from the "Public Awareness/Public  
12 Education and Training" categories, and that the Company may request cost recovery of the actual  
13 costs associated with the BMPs implemented in its next general rate application; and

14 (o) the Company file its next general rate case no later than June 30, 2019, using a test  
15 year ending December 31, 2018.

16 **Company Responses to Staff Recommendations**

17 62. Dragoon attached its Certificate of Compliance Letter of Good Standing with the  
18 Comments to the Staff Report that it filed on February 20, 2015.

19 63. Dragoon asserts that a new meter can cost up to \$200 and a basic leak detection  
20 program would cost \$10,000, before the cost of the repairs if a leak is detected.<sup>46</sup> The Company  
21 argues that because reducing water loss to 10 percent would only save \$494 annually in pumping and  
22 chemical costs, implementing a water reduction program either to replace meters or engage in leak  
23 detection would not be cost-effective.

24 64. Dragoon also asserts that applying for a WIFA Technical Assistance Grant to pay for  
25 an engineer to analyze the Company's water loss will cost the Company approximately \$2,000, and  
26 that if the grant is approved, the Company will have to pay between 25 percent and 50 percent of the

27 <sup>45</sup> The templates created by Staff are available on the Commission's website at  
28 <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

<sup>46</sup> October 10, 2014 Water Loss Reduction Cost Analysis.

1 cost of the study. The Company states that it will continue to address the water loss issue, but does  
 2 not want to incur “unfunded extraordinary expenses” at this time.<sup>47</sup> The Company clarifies that it  
 3 would not oppose an order that includes rates that would cover the cost of a grant application and  
 4 engineering study. The Company estimates these costs would be approximately \$20,000, which  
 5 normalized over four years, would require additional annual revenues of \$5,000 per year.

6 65. Dragoon opposes the recommendation to file BMP tariffs. Dragoon cites a recent  
 7 Commission Decision for Naco Water Company which noted that BMPs are a creation of ADWR,  
 8 that small water companies are not required to adopt them under ADWR rules, and that the  
 9 Commission has not adopted the BMP tariff requirement for companies that objected to their  
 10 imposition.<sup>48</sup> Dragoon argues that the approach adopted for Naco Water Company, which  
 11 encouraged the Company to consider implementing BMPs, should be adopted in this matter.<sup>49</sup>

#### 12 Analysis and Conclusion

13 66. We find that it is in the public interest to approve a long-term loan to repay SUM for  
 14 the monies advanced to replace the Well No. 2 pump. We do not believe, however, that under the  
 15 circumstances of this case, that an infrastructure improvement surcharge is necessary. Rather than  
 16 require this small utility to incur the administrative costs of establishing the surcharge for a relatively  
 17 small loan, we find that approving an overall revenue level of \$112,559 results in fair and reasonable  
 18 rates. This is an increase of \$19,238, or 20.61 percent, over test year revenues, which after adjusted  
 19 test year operating expenses of \$89,879, yields operating income of \$22,680,<sup>50</sup> and provides a 12.49  
 20 percent rate-of-return on a FVRB of \$181,542. Dragoon is a highly leveraged small water provider  
 21 that does not have ready access to the capital markets. A fair value rate-of-return of 12.49 percent in  
 22 the circumstances of this case is reasonable. Our analysis shows that this revenue level will allow  
 23 Dragoon to meet its operating costs and debt service obligations, including the new loan to SUM, and  
 24 produce an unencumbered cash flow of \$12,000 for contingencies and a DSC of 2.15.

25 67. Having tier breaks that increase with meter size when the monthly customer charge

26 <sup>47</sup> Dragoon Comments to Staff Report at 3.

27 <sup>48</sup> See Decision No. 74900 (January 22, 2015) (Naco Water Company Rate Case).

28 <sup>49</sup> Dragoon Comments to Staff Report at 4.

<sup>50</sup> Based on the adjusted operating expenses discussed herein and using the 6.0 percent state income tax rate in effect for 2015.

1 also increases with meter size, as proposed by Staff, is important in order to avoid over-charging the  
 2 larger meter sizes. Based on the revenue level approved herein, we authorize Dragoon to implement  
 3 the following rates and charges:

4 **MONTHLY USAGE CHARGE:**

5	5/8" x 3/4" Meter	\$38.00
	3/4" Meter	57.00
6	1" Meter	95.00
7	1 1/2" Meter	190.00
	2" Meter	304.00
8	3" Meter	608.00
	4" Meter	950.00
9	6" Meter	1,900.00

10 Excess of Minimum – Per 1,000  
 11 Gallons

11 **5/8" x 3/4" Meters**

12	0 to 3,000 gallons	\$4.25
	3,001 to 10,000 gallons	7.35
13	Over 10,000 gallons	8.95

14 **3/4" Meters**

15	0 to 3,000 gallons	4.25
	3,001 to 10,000 gallons	7.35
16	Over 10,000 gallons	8.95

17 **1" Meters**

18	First 15,000 gallons	7.35
	Over 15,000 gallons	8.95

19 **1 1/2" Meters**

20	First 25,000 gallons	7.35
	Over 25,000 gallons	8.95

21 **2" Meters**

22	First 45,000 gallons	7.35
23	Over 45,000 gallons	8.95

24 **3" Meters**

25	First 90,000 gallons	7.35
	Over 90,000 gallons	8.95

26 **4" Meters**

27	First 120,000 gallons	7.35
28	Over 120,000 gallons	8.95

**6" Meters**

1	First 300,000 gallons	7.35
2	Over 300,000 gallons	8.95
3	Bulk Water – all gallons	\$8.95

**SERVICE CHARGES:**

5	Establishment	\$55.00
6	Reestablishment (Within 12 Months)	**
	Reconnection (Delinquent)	65.00
7	After Hours Service Charge (flat rate)	35.00
	Meter Test (If Correct)	50.00
8	Deposit	*
9	Deposit Interest – Per year	**
	NSF Check	\$20.00
10	Deferred Payment (per month)	1.5%
	Meter Reread (If Correct)	\$20.00
11	Late Payment Penalty – per month	1.5%
12	Charge for moving meter	***
13	4" or Smaller	****
	6"	****
14	8"	****
	10"	****
15	Larger than 10"	****

- \* Residential: 2 times estimated average monthly bill; Commercial: 2 ½ times estimated maximum monthly bill per Commission Rule A.A.C. R-14-2-403(B).
- \*\* Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
- \*\*\* Cost, per Tariff definition.
- \*\*\*\* 2% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**METER AND SERVICE LINE INSTALLATION CHARGES**

**Refundable pursuant to A.A.C. R14-2-405**

	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>	
24	5/8" x 3/4" Meter	\$445.00	\$155.00	\$600.00
	3/4" Meter	445.00	255.00	700.00
25	1" Meter	495.00	315.00	810.00
	1-1/2" Meter	550.00	525.00	1,075.00
26	2" Turbine Meter	830.00	1,045.00	1,875.00
	2" Compound Meter	830.00	1,890.00	2,720.00
27	3" Turbine Meter	1,045.00	1,670.00	2,715.00
	3" Compound Meter	1,165.00	2,545.00	3,710.00
28	4" Turbine Meter	1,490.00	2,670.00	4,160.00

1	4" Compound Meter	1,670.00	3,645.00	5,315.00
	6" Turbine Meter	2,210.00	5,025.00	7,235.00
2	6" Compound Meter	2,330.00	6,920.00	9,250.00
	Over 6 "	Cost	Cost	Cost

3           68.     We authorize Dragoon to enter into a loan agreement with SUM in the amount of the  
4 outstanding balance of SUM's 2013 advance to Dragoon, not to exceed \$13,194, at an interest rate of  
5 5 percent, and term of four years. Monthly payments under these terms would be \$303.85.<sup>51</sup> Nothing  
6 herein shall be construed as preventing Dragoon from pre-paying portions of the loan as cash flows  
7 permits.

8           69.     The rates approved herein would increase the median 5/8 x 3/4-inch meter bill using  
9 3,500 gallons, by \$9.98, or 22.4 percent, from \$44.45 to \$54.43. The average 5/8 x 3/4-inch meter bill,  
10 using 5,400 gallons, would increase \$13.68, or 25.0 percent, from \$54.71 to \$68.39.

11           70.     Decision No. 65132 required Dragoon to file semiannual water use data. Dragoon has  
12 filed these reports in Docket Nos. W-01917A-01-0850 and W-01917A-01-0851 since 2002. The most  
13 recent report, filed December 29, 2014, shows that in 2014, Dragoon had a water loss for the year of  
14 9.02 percent, which is below Staff's recommended threshold of concern of 10.0 percent. For 2013,  
15 the compliance report and the amended Rate Application indicate an annual loss of 13.6 percent,  
16 which is vastly different than the 24.2 percent calculated by Staff using the utility annual report usage  
17 data. The discrepancy and negative water loss figures show that there is a problem with how the  
18 water use data is being reported. We are unable to draw a conclusion about the severity of Dragoon's  
19 water loss problem based on the available data. In addition, Dragoon asserts that a water loss  
20 remediation program would cost many thousands of dollars and not save the Company much money.  
21 The Company did not include independent verification to support its claim concerning the cost of a  
22 WIFA technical assistance grant, but neither is there evidence contradicting the statement. In its  
23 current highly leveraged condition, the Company does not appear to have the financial capacity at  
24 this time to undertake extensive projects, and the urgency is mitigated by the fact that the quality of  
25 water being delivered does not appear to be adversely affected. The poor water data, and an analysis  
26

27 <sup>51</sup> Staff's recommended surcharge is founded on loan terms that result in monthly payments of \$247.11. Staff Report,  
28 MJR-6.2B Although a benefit to ratepayers of Staff's approach is that the surcharge would terminate when the loan is repaid, with Staff's proposed term of five years, the ratepayers would not likely see the surcharge terminate before the next rate case.



1 applications.

2 3. Notice of the applications was provided in the manner prescribed by law.

3 4. Dragoon's test year FVRB is \$181,542; and a fair value rate-of-return of 12.49 percent  
4 is fair and reasonable under the circumstances of this proceeding.

5 5. Under the circumstances discussed herein, the rates, charges and conditions of service  
6 authorized herein are just and reasonable.

7 6. The authorizations granted herein are for lawful purposes which are within the  
8 corporate powers of the Company, are compatible with the public interest, with sound financial  
9 practices, and with the proper performance by the Company of service as a public service  
10 corporation, and will not impair the Company's ability to perform that service.

11 7. The financing approved herein is for the purposes stated in the Finance Application, is  
12 reasonably necessary for those purposes, and is not reasonably chargeable to operating expenses or to  
13 income.

14 **ORDER**

15 IT IS THEREFORE ORDERED Dragoon Water Company, Inc. shall file with Docket  
16 Control, as a compliance item in this docket, within thirty (30) days of the effective date of this  
17 Decision, revised rate schedules that comply with the rates and charges set forth below:

18 **MONTHLY USAGE CHARGE:**

19	5/8" x 3/4" Meter	\$38.00
	3/4" Meter	57.00
20	1" Meter	95.00
	1 1/2" Meter	190.00
21	2" Meter	304.00
	3" Meter	608.00
22	4" Meter	950.00
23	6" Meter	1,900.00

24 Excess of Minimum - Per 1,000  
25 Gallons

26	<b>5/8" x 3/4" Meters</b>	
	0 to 3,000 gallons	\$4.25
27	3,001 to 10,000 gallons	7.35
	Over 10,000 gallons	8.95

28 ...

1	<b>¾" Meters</b>	
	0 to 3,000 gallons	4.25
2	3,001 to 10,000 gallons	7.35
	Over 10,000 gallons	8.95
3		
4	<b>1" Meters</b>	
	First 15,000 gallons	7.35
5	Over 15,000 gallons	8.95
6		
6	<b>1 ½" Meters</b>	
	First 25,000 gallons	7.35
7	Over 25,000 gallons	8.95
8		
8	<b>2" Meters</b>	
	First 45,000 gallons	7.35
9	Over 45,000 gallons	8.95
10		
10	<b>3" Meters</b>	
	First 90,000 gallons	7.35
11	Over 90,000 gallons	8.95
12		
13	<b>4" Meters</b>	
	First 120,000 gallons	7.35
14	Over 120,000 gallons	8.95
15		
15	<b>6" Meters</b>	
	First 300,000 gallons	7.35
16	Over 300,000 gallons	8.95
17		
17	Bulk Water – all gallons	\$8.95
18		
18	<b><u>SERVICE CHARGES:</u></b>	
19		
19	Establishment	\$55.00
20	Reestablishment (Within 12 Months)	**
21	Reconnection (Delinquent)	65.00
	After Hours Service Charge (flat rate)	35.00
22	Meter Test (If Correct)	50.00
	Deposit	*
23	Deposit Interest – Per year	**
	NSF Check	\$20.00
24	Deferred Payment (per month)	1.5%
25	Meter Reread (If Correct)	\$20.00
	Late Payment Penalty – per month	1.5%
26	Charge for moving meter	***
27	4" or Smaller	****
28	6"	****

1 8" \*\*\*\*\*  
 2 10" \*\*\*\*\*  
 3 Larger than 10" \*\*\*\*\*

- 4 \* Residential: 2 times estimated average monthly bill; Commercial: 2 ½ times estimated maximum monthly bill per Commission Rule A.A.C. R-14-2-403(B).
- 5 \*\* Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
- 6 \*\*\* Cost, per Tariff definition.
- 7 \*\*\*\* 2% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

8 **METER AND SERVICE LINE INSTALLATION CHARGES**  
 9 **Refundable pursuant to A.A.C. R14-2-405**

	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
10 5/8" x 3/4" Meter	\$445.00	\$155.00	\$600.00
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12 1" Meter	495.00	315.00	810.00
13 1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
14 3" Turbine Meter	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,165.00	2,545.00	3,710.00
15 4" Turbine Meter	1,490.00	2,670.00	4,160.00
4" Compound Meter	1,670.00	3,645.00	5,315.00
16 6" Turbine Meter	2,210.00	5,025.00	7,235.00
6" Compound Meter	2,330.00	6,920.00	9,250.00
17 Over 6"	Cost	Cost	Cost

18 IT IS FURTHER ORDERED that the authorized rates and charges shall be effective for all  
 19 service provided on and after the first billing cycle that commences on or after May 1, 2015.

20 IT IS FURTHER ORDERED that Dragoon Water Company, Inc. shall notify its customers of  
 21 the rates and charges authorized herein, and their effective date, in a form acceptable to the  
 22 Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing or  
 23 as a separate mailing, and shall file copies of the notice with Docket Control within 10 days of the  
 24 date the notice is sent to customers.

25 IT IS FURTHER ORDERED that, in addition to the collection of its regular rates and  
 26 charges, Dragoon Water Company, Inc. shall collect from its customers a proportionate share of any  
 27 privilege, sales or use tax per A.A.C. R14-2-409(D).

28 IT IS FURTHER ORDERED that Dragoon Water Company, Inc. shall utilize the depreciation

1 rates shown in Figure 6 of the Engineering Report attached to the Staff Report in this matter.

2 IT IS FURTHER ORDERED that Dragoon Water Company, Inc. is authorized to enter into a  
3 loan agreement with Southwestern Utility Management for the repayment of funds advanced for the  
4 pump replacement at Well No. 2 as described in the Finance Application, in the amount of the  
5 outstanding balance of such advance, but not more than \$13,194, for a term of 48 months at an  
6 interest rate of not more than 5.0 percent per annum.

7 IT IS FURTHER ORDERED that Dragoon Water Company, Inc. is authorized to engage in  
8 any transaction and to exercise any documents necessary to effectuate the authorizations granted.

9 IT IS FURTHER ORDERED that the finance authority granted herein is expressly contingent  
10 upon Dragoon Water Company Inc.'s use of the proceeds for the purposes stated in the Finance  
11 Application and approved herein.

12 IT IS FURTHER ORDERED that Dragoon Water Company, Inc. shall coordinate readings of  
13 its production and customer meters and file water use data semi-annually with Docket Control, as a  
14 compliance item in this Docket, and that the first water use data report shall be filed by September  
15 30, 2015. These compliance filings made in this docket shall replace the requirement to file the same  
16 reports in Dockets Nos. W-01917A-01-0850 and W-01917A-01-0851.

17 IT IS FURTHER ORDERED that if the water use data shows that water loss is greater than  
18 10 percent for two of the last three years immediately prior to its next rate case, Dragoon Water  
19 Company, Inc. shall file a plan to fund the implementation of a water loss reduction project or file an  
20 analysis of why such project would not be cost effective, when the Company files its next rate  
21 application with the Commission.

22 IT IS FURTHER ORDERED that Dragoon Water Company, Inc. shall consult with WIFA  
23 concerning WIFA's current policies and terms for technical assistance grants, and include an analysis  
24 of the costs and benefits of utilizing a WIFA grant for any future system improvement financing  
25 request.

26 ...  
27 ...  
28 ...

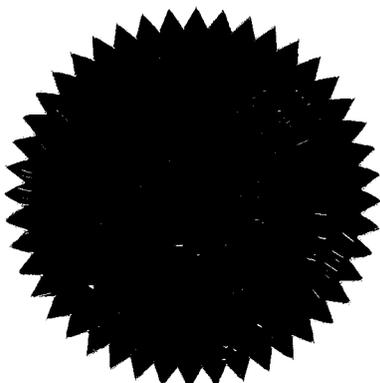
1 IT IS FURTHER ORDERED that Dragoon Water Company, Inc. shall file its next general  
2 rate case no later than June 30, 2019, using a test year ending December 31, 2018.

3 IT IS FURTHER ORDERED that Dragoon Water Company, Inc. shall file annually, as part  
4 of its Utilities Annual Report, an affidavit attesting that it is current in paying its property taxes in  
5 Arizona.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

8  
9  
10 *[Signature]* CHAIRMAN *[Signature]* COMMISSIONER  
11 *[Signature]* COMMISSIONER *[Signature]* COMMISSIONER *[Signature]* COMMISSIONER  
12



13  
14 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
15 Director of the Arizona Corporation Commission, have  
16 hereunto set my hand and caused the official seal of the  
17 Commission to be affixed at the Capitol, in the City of Phoenix,  
18 this 23rd day of April 2015.

19 *[Signature]*  
20 JODI JERICH  
21 EXECUTIVE DIRECTOR

22 DISSENT \_\_\_\_\_

23 DISSENT \_\_\_\_\_  
24 JR:ru

1 SERVICE LIST FOR: DRAGON WATER COMPANY, INC.

2 DOCKET NOS.: W-01917A-14-0312  
3 W-01917A-14-0313

4 Mr. Ken Sullivan  
5 President  
6 Dragoon Water Company  
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9 Steven Wene  
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25  
26  
27  
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