

ORIGINAL

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

OPEN MEETING ITEM



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RECEIVED

Executive Director

ARIZONA CORPORATION COMMISSION

2015 MAR 31 A 8:25

DATE: MARCH 31, 2015

DOCKET NOS.: W-01917A-14-0312 AND W-01917A-14-0313

AZ CORP COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

DRAGOON WATER COMPANY, INC.
(RATES / FINANCING)

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:

APRIL 9, 2015

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:

APRIL 14, 2015 and APRIL 15, 2015

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

MAR 31 2015

DOCKETED BY	RC
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Jodi Jerich
JODI JERICH
 EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 SUSAN BITTER SMITH - Chairman
4 BOB STUMP
5 BOB BURNS
6 DOUG LITTLE
7 TOM FORESE

8 IN THE MATTER OF THE APPLICATION OF
9 DRAGOON WATER COMPANY, INC. FOR
10 AUTHORITY TO INCUR LONG-TERM DEBT.

DOCKET NO. W-01917A-14-0312

11 IN THE MATTER OF THE APPLICATION OF
12 DRAGOON WATER COMPANY, INC. FOR AN
13 INCREASE IN ITS WATER RATES.

DOCKET NO. W-01917A-14-0313

DECISION NO. _____

14 ORDER

15 Open Meeting
16 April 14 & 15, 2015
17 Phoenix, Arizona

18 **BY THE COMMISSION:**

19 * * * * *

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

22 FINDINGS OF FACT

23 Procedural History

24 1. On August 22, 2014, Dragoon Water Company, Inc. ("Dragoon" or "Company") filed
25 with the Commission a Finance Application (Docket No. W-01917A-14-0312) and a Rate
26 Application (Docket No. W-01917A-14-0313).

27 2. On September 15, 2014, Dragoon filed "Revisions to Rate Application."

28 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.¹

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 ¹ 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.²

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.³

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.⁴

25 _____
26 ² 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.

³ Staff Report DMH-1 at 5.

⁴ *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 4.⁵

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.⁶

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.⁷ 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:⁸

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 ⁵ *Id.*

⁶ *Id.* at 4.

⁷ Staff Report at 4.

28 ⁸ *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.⁹

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 \$18,648.¹⁰ 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.¹¹ 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 \$132,935.¹² 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

⁹ *Id.*

¹⁰ Amended Rate Application at ISP-19a.

¹¹ *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.

¹² *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.¹³ 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.¹⁴ 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 \$181,406.¹⁵

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 2.19.¹⁶ 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 \$21,999.¹⁷

26 ¹³ Finance Application at 2.

27 ¹⁴ *Id.* at Attachment 1.

28 ¹⁵ Staff Report MJR-1.

¹⁶ *Id.* at 8.

¹⁷ *Id.* MJR-1.

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

3 36. The Company's Rate Application indicates a FVRB of \$158,252.¹⁸ Staff made four
4 adjustments to the Company's proposed rate base that resulted in a net increase of \$23,152, to
5 \$181,406.¹⁹ 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 \$6,703.²⁰

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").²¹

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 \$111,969.²² 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 \$8,315.²³ Staff's recommended
23 adjustments are described below:

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

25 ¹⁸ Amended Rate Application at P-22a.

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

27 ²⁰ 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 ²¹ Amended Rate Application at P-6.

²² *Id.* at P-19a.

²³ 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").²⁴

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 ²⁴ Staff Report DMH-1at 5-6.

1 and balances to obtain a normal or more realistic relationship between revenues, expenses and rate
 2 base.²⁵ 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 \$6,755.²⁶ 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.²⁷ Staff believes that this level of revenue is sufficient to

23 ²⁵ A.C.C. R14-2-103.

24 ²⁶

	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
26 Office	\$1,330	\$2,761	\$684	\$861	\$723	\$1,272	\$1,244	\$3,614*
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 ²⁷ 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:²⁸

	Present Rates	Proposed Rates	
		<u>Company</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
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			
5/8" x 3/4" Meters			
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
3/4" Meters			
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
1" Meters			
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 ²⁸ 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	1 ½" Meters			
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	2" Meters			
	0 to 3,000 gallons	\$3.25	\$4.16	
8	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	3" Meters			
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	4" Meters			
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	6" Meters			
	0 to 3,000 gallons	\$3.25	\$4.16	
22	3,001 to 10,000 gallons	5.40	6.91	
	Over 10,000 gallons	6.80	8.32	
23	First 300,000 gallons			\$7.00
24	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
	Establishment (After Hours)	65.00	NA	NA
3	Reestablishment (Within 12 Months)	**	**	**
	Reestablishment (After Hours)	\$50.00	NA	NA
4	Reconnection (Delinquent)	65.00	65.00	65.00
	Reconnection (After Hours)	75.00	N/A	N/A
5	After Hours Service Charge (flat rate)	N/A	35.00	35.00
6	Meter Test (If Correct)	50.00	50.00	50.00
	Deposit	*	*	*
7	Deposit Interest – Per year	6.00%	*	*
	NSF Check	\$15.00	\$30.00	\$20.00
8	Deferred Payment (per month)	1.5%	1.5%	1.5%
9	Meter Reread (If Correct)	\$15.00	\$25.00	\$20.00
	Late Payment Penalty – per month	1.5%	1.5%	1.5%
10	Charge for moving meter	***	***	

Monthly Service Charge for Fire Sprinkler:

11	4" or Smaller	****	****
12	6"	****	****
13	8"	****	****
	10"	****	****
14	Larger than 10"	****	****

- 15 * 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).
- 16 ** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
- 17 *** Cost per Tariff definition.
- 18 **** 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
22 5/8" x 3/4" Meter	\$450.00	\$445.00	\$155.00	\$600.00	\$445.00	\$155.00	\$600.00
23 3/4" Meter	475.00	445.00	255.00	700.00	445.00	255.00	700.00
24 1" Meter	550.00	495.00	315.00	810.00	495.00	315.00	810.00
24 1-1/2" Meter	775.00	550.00	525.00	1,075.00	550.00	525.00	1,075.00
25 2" Turbine Meter	1,375.00	830.00	1,045.00	1,875.00	830.00	1,045.00	1,875.00
25 2" Compound Meter	1,375.00	830.00	1,890.00	2,720.00	830.00	1,890.00	2,720.00
26 3" Turbine Meter	1,975.00	1,045.00	1,670.00	2,715.00	1,045.00	1,670.00	2,715.00
26 3" Compound Meter	1,975.00	1,165.00	2,545.00	3,710.00	1,165.00	2,545.00	3,710.00
27 4" Turbine Meter	3,040.00	1,490.00	2,670.00	4,160.00	1,490.00	2,670.00	4,160.00
27 4" Compound Meter	3,040.00	1,670.00	3,645.00	5,315.00	1,670.00	3,645.00	5,315.00
28 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 \$69.04.²⁹

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).³⁰

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.³¹

²⁹ Staff Report at 6.

³⁰ 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.

³¹ 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 \$45,922.37.³² 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.³³

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.³⁴

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 \$9,152.³⁵ 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 ³² Staff Report DMH-1 at 7.

³³ *Id.*

³⁴ Staff Report at 8.

28 ³⁵ *Id.* MJR-7.

1 the debt service obligations of the new loan, plus incremental taxes.³⁶ 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 2.19.³⁷

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.³⁸ 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.³⁹

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 \$54.25.⁴⁰

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.⁴¹ 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.⁴² 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.⁴³

23 . . .

24 _____
 25 ³⁶ *Id.*

³⁷ *Id.* at 8, MJR-1 and MJR-6.1.

³⁸ The monthly charge for the 1-inch meters would be \$6.87.

³⁹ *Id.* at 9.

⁴⁰ *Id.* at 8 and MJR 5.2.

⁴¹ Dragoon's Comments to Staff Report at 2.

⁴² *Id.*

⁴³ 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;⁴⁴

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) Dagoon be authorized to engage in any transaction and to exercise any
20 documents necessary to effectuate the authorizations granted;

21 (i) Dagoon 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) Dagoon 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 ⁴⁴ 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;⁴⁵

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.⁴⁶ 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 ⁴⁵ The templates created by Staff are available on the Commission's website at
28 <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

⁴⁶ 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.⁴⁷ 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.⁴⁸ 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.⁴⁹

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 \$22,680,⁵⁰ 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 ⁴⁷ Dragoon Comments to Staff Report at 3.

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

28 ⁴⁹ Dragoon Comments to Staff Report at 4.

⁵⁰ 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
6	3/4" Meter	57.00
7	1" Meter	95.00
8	1 1/2" Meter	190.00
9	2" Meter	304.00
	3" Meter	608.00
	4" Meter	950.00
	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
13	3,001 to 10,000 gallons	7.35
	Over 10,000 gallons	8.95
14	3/4" Meters	
15	0 to 3,000 gallons	4.25
16	3,001 to 10,000 gallons	7.35
	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
21	Over 25,000 gallons	8.95
22	2" Meters	
23	First 45,000 gallons	7.35
	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

1	6" Meters	
	First 300,000 gallons	7.35
2	Over 300,000 gallons	8.95
3	Bulk Water – all gallons	\$8.95
4	<u>SERVICE CHARGES:</u>	
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"	****

- 17 * 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).
- 18 ** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
- 19 *** Cost, per Tariff definition.
- 20 **** 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.

22 **METER AND SERVICE LINE INSTALLATION CHARGES**
 23 **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 \$303.85.⁵¹ 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 ⁵¹ 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 that does not show significant benefit from an extensive project, lead us to conclude that the
2 expenditure of large sums to attack a problem that may or may not exist should not be required at this
3 time. Staff's recommendation to continue the semi-annual water use reports and to coordinate meter
4 reading appears to be the best course to follow at this time. Dragoon should continue to diligently
5 watch for leaks and faulty meters, and must evaluate its process for gathering and recording water use
6 data to ensure that its water use reporting is meaningful. Although we do not require Dragoon to
7 apply for a WIFA technical grant at this time, we direct the Company to consult with WIFA about
8 current policies and terms for receiving such grants, and in any future financing request for system
9 improvements should include an evaluation of the costs and benefits of utilizing a grant.

10 71. Given that this company is not within an AMA, is not required by ADWR regulations
11 to implement BMPs, and opposes the imposition of such tariffs, we do not require their
12 implementation at this time. We agree with Staff that making water conservation resources available
13 benefits the Company and its customers, and encourage the Company to find cost effective ways to
14 promote conservation.

15 72. Except as discussed herein, the rest of Staff's recommendations are reasonable and
16 should be adopted.

17 73. Because an allowance for Property Tax Expense is included in the Company's rates
18 and will be collected from its customers, the Commission seeks assurances from the Company that
19 any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has
20 come to the Commission's attention that a number of water companies have been unwilling or unable
21 to fulfill their obligations to pay the taxes that were collected from ratepayers, some for as many as
22 20 years. It is reasonable, therefore, that as a preventive measure, the Company shall annually file, as
23 part of its utility annual report an affidavit attesting that the Company is current in paying its property
24 taxes in Arizona.

25 CONCLUSIONS OF LAW

26 1. Dragoon is a public service corporation within the meaning of Article XV of the
27 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301, and 40-302.

28 2. The Commission has jurisdiction over Dragoon and the subject matter of the

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

25	5/8" x 3/4" Meters	
26	0 to 3,000 gallons	\$4.25
	3,001 to 10,000 gallons	7.35
27	Over 10,000 gallons	8.95

28 ...

1	¾" Meters	
	0 to 3,000 gallons	4.25
2	3,001 to 10,000 gallons	7.35
	Over 10,000 gallons	8.95
3		
	1" Meters	
4	First 15,000 gallons	7.35
5	Over 15,000 gallons	8.95
6		
	1 ½" Meters	
	First 25,000 gallons	7.35
7	Over 25,000 gallons	8.95
8		
	2" Meters	
9	First 45,000 gallons	7.35
	Over 45,000 gallons	8.95
10		
	3" Meters	
11	First 90,000 gallons	7.35
12	Over 90,000 gallons	8.95
13		
	4" Meters	
	First 120,000 gallons	7.35
14	Over 120,000 gallons	8.95
15		
	6" Meters	
	First 300,000 gallons	7.35
16	Over 300,000 gallons	8.95
17		
	Bulk Water – all gallons	\$8.95
18		
	<u>SERVICE CHARGES:</u>	
19		
	Establishment	\$55.00
20	Reestablishment (Within 12 Months)	**
	Reconnection (Delinquent)	65.00
21	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" *****

- * 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.

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>
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3" Turbine Meter	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,165.00	2,545.00	3,710.00
4" Turbine Meter	1,490.00	2,670.00	4,160.00
4" Compound Meter	1,670.00	3,645.00	5,315.00
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.

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

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

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN		COMMISSIONER
COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
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
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