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BEFORE THE ARIZONA CORPORA

Arizona Corporation Commission
DOCKETED
OCT 27 2015
DOCKETED BY

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF QUAIL CREEK WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-02514A-14-0343

DECISION NO. 75306

OPINION AND ORDER

DATE OF HEARING: August 11, 2015

PLACE OF HEARING: Tucson, Arizona

ADMINISTRATIVE LAW JUDGE: Jane L. Rodda

APPEARANCES: Jay Shapiro, Shapiro Law Offices, on behalf of Quail Creek Water Company, Inc.; and

Brian Smith, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

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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 September 19, 2014, Quail Creek Water Company, Inc. ("QCW" or "Company") filed an Application with the Commission for a rate increase ("Application").

2. On October 20, 2014, the Commission's Utilities Division ("Staff") notified the Company that its Application met the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103, and classified the Company as a Class B utility. The Application was

supported by the Direct Testimony of: Steven Soriano, QCW's Vice President and General Manager; Ray Jones, the owner/principal of ARICOR Water Solutions LC, a consultant specializing in water resource issues, regulatory strategies, rate case filing and water and wastewater utility management and operations;[1] and Thomas Bourassa, a CPA and rate case consultant.

3. By Procedural Order dated October 29, 2014, the matter was set for hearing on June 30, 2015, and a procedural schedule was established.

4. On November 21, 2014, QCW filed a Stipulated Request to Modify the Procedural Schedule on account of a schedule conflict. By Procedural Order dated November 24, 2014, the procedural schedule was modified, and the hearing was set for August 11, 2015. The time clock was extended 60 days to accommodate the parties' requested hearing date.[2]

5. On January 14, 2015, QCW filed a Notice of Filing Certification of Publication and Proof of Mailing, indicating that the notice of the hearing in this matter was published in *The Daily Territorial* on January 5, 2015, and that on the same date the Company mailed the notice to its customers.

6. On May 6, 2015, Staff filed the Direct Testimony of John Cassidy relating to cost of capital and rate base and operating revenues and expenses, and of Mike Thompson relating to engineering evaluations. On May 13, 2015, Staff filed Mr. Cassidy's Direct Testimony addressing rate design.

7. On June 2, 2015, QCW filed the Rebuttal Testimony of Mr. Jones and Mr. Bourassa.

8. On July 1, 2015, Staff filed the Surrebuttal Testimony of Mr. Cassidy, and James Armstrong.

9. On July 8, 2015, Staff filed a Notice of Errata that corrected the rate design tables included in Mr. Cassidy's Surrebuttal Schedule JAC-1.

10. On July 27, 2015, QCW filed the Rejoinder Testimony of Mr. Soriano, Mr. Jones and Mr. Bourassa.

11. On August 4, 2015, a pre-hearing conference convened to discuss hearing procedures.

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[1] Ex A-9 Jones Dir at 1.
[2] The deadline for a final order was extended from October 15, 2015 to December 14, 2015.

12. The hearing convened as scheduled on August 11, 2015, before a duly authorized Administrative Law Judge ("ALJ") at the Commission's offices in Tucson, Arizona. By the time of the hearing, the parties had reached agreement on all issues, except rate design. In addition to the pre-filed testimony of both parties, they introduced Joint Exhibits consisting of an issues matrix that describes the issues and their resolutions, schedules supporting the agreed rate base, revenue, and cost of capital proposal, and two rate designs. Mr. Bourassa and Mr. Soriano testified for the Company in support of the joint proposal; Mr. Armstrong testified in support of the joint proposal for Staff. The ALJ took the matter under advisement pending the parties' submission of electronic copies of their work papers, with billing determinants, to the Hearing Division.

Background

13. QCW provides water service to approximately 2,011 customers in the Quail Creek and Stone House developments, which are located in the Town of Sahaurita, in Pima County.[3]

14. QCW's current rates were set in Decision No. 61611 (April 1, 1999). At that time, the Company utilized a 1997 test year and had 67 customers.

15. In its current Application, QCW utilized a test year ended December 31, 2013 ("test year").

16. QCW is an affiliate of Robson. Robson provides accounting and administrative services to a group of separate, but affiliated, utilities including Ridgeview Utility Company, SaddleBrooke Utility Company, Lago Del Oro Water Company, Picacho Water Company, Picacho Sewer Company, Pima Utility Company, Mountain Pass Utility Company, Santa Rosa Water Company, and Santa Rosa Utility Company.[4]

17. Under the Robson management model, each of the affiliated utilities is a separate legal entity that stands alone from a financial and rate-making perspective.[5] The shareholders of each utility share some commonality, but each company has its own ownership structure, and there is no

[3] The Quail Creek development is being developed by Robson Ranch Quail Creek, LLC, ("RRQC") an affiliate of Robson Communities, Inc. ("Robson"). The Stone House development is being developed by Stone House Development, Inc., a 50/50 joint venture between Diamond Ventures, Inc. and Robson. The Stone House development is managed by Diamond Ventures, Inc. and operated as a Diamond Ventures development. Ex A-7 Soriano Dir at 1.

[4] Ex A-7 Soriano Dir at 2.

[5] Ex A-8 Soriano RJ at 1.

parent/subsidiary relationship. The utilities are operated, administered and managed by Robson. Mr. Soriano testified that by sharing operating personnel, the utilities are able to enjoy economies of scale that otherwise would not be available to a utility as small as QCW. Another Robson affiliate provides construction and project management for the utilities. For QCW, that affiliate is RRQC. The Company argues that the Robson shared services model allows the utilities to maintain relatively small operating staffs and rely on larger, more sophisticated affiliated entities to provide services that the utilities could not otherwise afford, and results in lower administrative and management costs.

18. Under the Robson model utility plant is constructed by the affiliate, and when ready to be put into service is transferred to the utility at cost.[6] In the past, including at times relevant to this rate case, if the utility did not have sufficient cash to purchase the plant at the time the plant was put in service, the utility would defer payment to the affiliate until the funds were available. This practice of not paying for plant at the time it was transferred to the utility created accounting issues related to the purchase price and accumulated depreciation balances when it came time to file a rate case.[7]

19. QCW's customer base is approximately 95 percent residential, with a small number of commercial and irrigation customers. Approximately 93 percent of the residential customers are served by 5/8 x ¾ inch meters, with the remaining residential customers served by 1 inch and 2 inch meters. Commercial and irrigation customers are served by meters ranging from 5/8 x ¾ inches to 4 inches.[8]

20. The QCW water system contains three active drinking water wells, one inactive well, a water plant, and 184 fire hydrants. The water plan contains one 15,000 gallon hydro-pneumatic pressure tank, two 750,000 gallon storage tanks, an emergency back-up generator with an automatic transfer switch, and a booster pump station.[9] QCW has a looped distribution system with two pressure zones. The system is designed to use gravity storage in the lower zone and a backup

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[6] Ex A-8 Soriano RJ at 4.

[7] *See* Docket No. W-01944A-13-0215 and Decision No. 74564 (June 23, 2014) (Lago Del Oro rate case). *See also* Ex S-8 Soriano RJ at 4-5. In the future, the Robson affiliated utilities plan to pay for assets transferred from affiliates in a more timely fashion which should resolve these accounting issues that have complicated rate cases.

[8] Ex A-9 Jones Dir at 3.

[9] Ex S-4 Thompson Dir MST-1 (Engineering Report) at 4.

generator for the booster station serving the upper pressure zone. According to the Company, the system is designed to provide a 1,250 gallon per minute ("GPM") fire flow.[10]

21. The QCW system has a total production capacity of approximately 2,100 GPM, and a total storage capacity of approximately 1,530,000 gallons. Staff concludes that QCW has adequate production and storage capacity to serve its current customer base and reasonable growth.[11]

22. Staff states that the wells, tanks, pumps and visible pipe appear to be in proper working order, properly maintained, and in good condition. Staff did not observe any leaks.[12]

23. In the test year ended December 31, 2013, QCW reported 170,255,000 gallons pumped and 157,088,000 gallons sold, resulting in a water loss of 7.73 percent, which Staff states is within acceptable limits.[13]

24. QCW is located in the Tucson Active Management Area ("AMA") as a regulated tier 1 municipal provider in the Arizona Department of Water Resource's ("ADWR") Modified Non-Per Capita Conservation Program ("NPCCP"). Mr. Jones testified that as part of the Program, QCW reviewed its water system and proposed Best Management Practices ("BMPs) for implementation in the QCW service area. On June 24, 2010, ADWR approved a Meter Repair and/or Replacement Program BMP. In addition, to the BMPs required by ADWR, QCW voluntarily implemented additional BMPs, including: Customer High Water Use Inquiry Resolution; Customer High Water Use Notification; Leak Detection Program; and Water Waste Investigation and Information. Further, QCW implemented a Public Education Program as required by the NPCCP through which QCW provides water conservation education by means of a note on the water bill during most months and through pamphlets available at the Company's office or by mail when requested.

25. In pre-filed testimony, Staff recommended that QCW file with Docket Control, as a compliance item in this docket within 90 days of the effective date of the Decision in this proceeding, the seven (7) BMPs that were approved by ADWR in the form of tariffs that substantially conform to

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[10] Ex A-9 Jones Dir at 3.
[11] Ex S-4 Thompson Dir MST-1 at 7.
[12] Ex S-4 Thompson Dir MST-1 at 5.
[13] Ex S-4 Thompson Dir MST-1 at 7. According to Staff, non-account water should be 10 percent or less and never more than 15 percent.

the templates created by Staff for the Commission's review and consideration.[14]

26. ADWR's Water Provider Compliance Report dated April 14, 2015, indicates that the QCW water system is in compliance with departmental requirements governing water providers and/or community water systems.[15]

27. The Arizona Department of Environmental Quality ("ADEQ") inspected the QCW water system on October 23, 2012, and found no major deficiencies in the operation, maintenance, or certified operator status at that time. According to ADEQ, the QCW system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and A.A.C., Title 18, Chapter 4.[16]

28. Staff states that the Utilities Division Compliance Section database showed no delinquent Commission compliance items for QCW.[17] Staff's search of the Consumer Services database revealed no complaints filed in 2012 through 2015. The Commission received approximately 15 written or emailed customer comments in opposition to the Application, and four customers appeared in person to provide comments at the commencement of the hearing. A common complaint from several of the commenters was the perceived inequity of the proposal to charge residential customers with a 1 inch meter a higher monthly charge than residential customers with a 5/8 x ¾ inch meter.[18]

Rate Request

29. In its Application, the Company reported test year gross revenues of $844,719, and an adjusted operating income of $118,963, which was a 3.23 percent rate of return on the Company's proposed fair value rate base ("FVRB") of $3,678,863.[19] In its Application, QCW states that it filed the current rate request because it has added nearly 2,000 customers and dramatically increased its investment in plant facilities since its last rate case. It claims that the impact of the investment, together with the impact of increasing expenses and regulatory requirements, have resulted in rates

[14] Ex S-4 Thompson Dir MST-1 at 14.
[15] Ex S-4 Thompson Dir MST-1 at 10.
[16] Ex S-4 Thompson Dir MST-1 at 8 citing ADEQ CSR dated November 20, 2014.
[17] Ex S-4 Thompson MST-1 at 10.
[18] Two customers providing in-person comments also provided written comments.
[19] Application at 3.

that no longer cover the cost of service, including a return on the fair value of the plant and facilities.[20]

30. The Company initially requested an increase in revenues of $411,785, an increase of 48.75 percent, to produce a 10.0 percent rate of return on the FVRB. In its Rejoinder Testimony, the Company revised its request for an increase in revenues of $402,921, or 47.70 percent, over adjusted test year revenues. Under the Company's Rejoinder position, it would have Operating Income of $367,495, a 10 percent rate of return on an adjusted FVRB of $3,674,950.[21]

31. In Direct Testimony, Staff recommended a revenue increase of $288,454, or 34.15 percent, over test year revenues of $844,719. Staff's recommendations produced Operating Income of $303,675 and 9.5 percent rate of return on an adjusted FVRB of $3,196,580.[22] In Rebuttal Testimony, Staff offered a revised recommendation which resulted in a revenue increase of $283,295, or 33.54 percent, over test year revenues. Staff's Rebuttal recommendations would provide Operating Income of $300,479, a 9.4 percent rate of return on Staff's adjusted FVRB.[23]

32. Prior to the hearing, the disputed issues included:

(a) How to treat the drilling costs associated with Well #16, an unproductive well, as well as the appropriate Accumulated Depreciation balance and Depreciation Expense associated with Well # 16;

(b) The calculation of Accumulated Deferred Income Taxes ("ADIT");

(c) Which depreciation rate to utilize for the 15 months before the Decision in the last rate case;

(d) The depreciation methodology for certain plant accounts;

(e) The Accumulated Depreciation balance;

(f) The cost of equity;

(g) The adoption of BMP Tariffs;

(h) Whether QCW should adopt a Code of Conduct for affiliate transactions;

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[20] Ex A-7 Soriano Dir at 4.
[21] Ex A-5 Bourassa RJ at Sch A-1.
[22] Ex S-3 Cassidy Dir at Sch A-1.
[23] Ex S-6 Cassidy Surr at Sch A-1

(i) The use of accrual accounting;

(j) Accounting for early retirement of plant;

(k) Rebalancing QCW's capital structure; and

(l) Rate Design.

Joint Proposal

33. By the time of the hearing, the parties had resolved all of the issues in dispute, execpt for rate design. At the hearing, both sides supported a revenue requirement totaling $1,191,789, an increase of $347,070, or 41.09 percent, over test year revenues of $844,719.[24] The joint proposal would result in Operating Income of $332,892, a 9.5 percent rate-of-return on a FVRB of $3,504,123.

34. Prior to reaching their joint proposal, the major issue affecting rate base was how to treat the costs of developing Well # 16. Well # 16 was an existing well acquired by RRQC when it purchased the Quail Creek development. RRQC rehabilitated and developed Well #16 on QWC's behalf. QWC connected Well #16 to its system in 2009 and tested the well in September and October of that year. In October 2009, the Company determined that Well #16 produced too much sand to be operationally useful and took the well out of service. In early 2010, the Company began to develop Well #12 as an alternate water supply to Well #16, and Well #12 was ultimately placed into service in May 2012.[25] Although Well #16 was transferred to QCW in 2009, the utility did not reimburse RRQC for the costs of the well until 2011.[26]

35. Well # 16 is disconnected physically and electrically from the water system, and the pump and motor have been removed. Staff concludes that Well # 16 is not used and useful. The dispute between the parties was not whether Well #16 is used and useful, as the Company agrees with Staff, but how to book the costs of developing the well.

36. QCW recorded the retirement of Well #16 on February 28, 2013.[27] In preparing its Application, the Company determined that pursuant to The National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USoA"), the appropriate

[24] Ex J-2 at Sch A-1.

[25] Ex A-10 Jones Reb at 4.

[26] QCW charged $251,984 associated with the costs to drill Well #16 in NARUC Plant Account 307 (Wells and Springs) and booked $258,221 to NARUC Plant Account 311 (Pumping Equipment).

[27] Ex S-2 Cassidy Dir at 14.

treatment of the costs of drilling Well #16 would be to include them in the development costs of Well #12. Thus, in its Application, the Company adjusted Account 307 to include these Well #16 costs.[28] The Company asserts that this treatment is consistent with NARUC USoA which requires the cost of "test wells and nonproductive wells drilled as part of a project resulting in a source of water within the same supply area" to be included in the cost of the final production well.[29]

37. In pre-filed testimony, Staff disputed including the development costs of Well #16 in Plant-in-Service because Staff believed that the NARUC Guidelines relied upon by the Company do not apply to the non-regulated developer affiliates.[30] Because QCW did not pay RRQC for Well #16 until two years after it was put in service and found nonproductive, Staff argued that NARUC Guidelines should not apply retroactively to a capital project undertaken by the unregulated affiliate. Moreover, Staff believed the controlling accounting treatment for Well #16 was found in NARUC Guidelines for Cost Allocations and Affiliate Transactions, which provides that assets sold to a regulated utility by a non-regulated affiliate are to be transferred at the lower of cost or market.[31]

38. In their joint proposal, the parties agree that it is appropriate to record the costs of drilling Well #16 ($249,432), in Account 307 with the costs of Well #12, and to offset the drilling costs by $45,796 for the intervening depreciation costs. The net impact on Plant-in-Service is $203,636. Including this cost in Plant-in-Service results in $8,306 of annual Depreciation Expense.

39. The parties also agree that the Company will place the costs of the retired Well # 16 pumping equipment into Plant-Held-for-Future-Use, which is not recognized for rate making treatment. To the extent the Company is able to place this equipment into service in connection with a future well, the Company may request recovery of the cost in a future rate case.

40. Arizona has adopted the NARUC USoA. Because there is always a chance that drilling a new well might be unsuccessful, the NARUC USoA adopts the "successful wells method" for booking development costs. Under the NARUC USoA, the cost of an unsuccessful well is charged to Construction Work in Progress until a successful well is drilled. The costs of the well are

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[28] Ex A-2 Bourassa Dir Sch B-2 at 3.17.
[29] Ex A-1 Jones Dir at 8.
[30] Ex S-2 Cassidy Dir at 14.
[31] Ex S-2 Cassidy Dir at 15.

not recognized in rate base until a successful well is drilled. Well #12 was successfully developed subsequent to the non-productive Well #16; thus, Well # 16 development costs are appropriately included in the cost of Well #12. The transfer of ownership of Well #16 does not impact this treatment in this case. Even though QCW did not pay its affiliate for Well #16 until several years after the utility took control of the asset, ownership transferred at the time the utility accepted the obligations of operating the well. The joint proposal accounts for the depreciation of the well from the date of transfer. Consequently, the parties' joint proposal comports with NARUC Guidelines and is reasonable. Allowing utilities to include the costs of drilling wells that ultimately do not yield a productive well in the costs of a subsequent successful well project encourages utilities to seek productive new water sources.

41. In pre-filed testimony, the parties' ADIT balances differed by $8,128.[32] Staff acknowledged that its ADIT calculation should be revised, but claimed that it needed additional information from the Company.[33] The parties were able to reconcile their ADIT calculations and agreed on an ADIT balance of $966,182 in their joint proposal.

42. In pre-filed testimony, the parties' Accumulated Depreciation balances differed by $216,392.[34] By agreeing to use Staff's recommended 5 percent depreciation rate for the 15 months prior to the last rate case Decision; resolving the treatment of the Well # 16 development costs; accurately reflecting plant retirements; and resolving the issue of the appropriate depreciation methodology,[35] the parties were able to agree on an Accumulated Depreciation balance.

43. In its Application, QCW proposed that, going forward, account specific depreciation rates by individual NARUC category be used.[36] Staff recommended that such NARUC account specific depreciation rates be adopted as set forth in the Engineering Report.[37] The parties jointly agreed to the adoption of such rates prior to the hearing.[38] The parties' resolution of the issue is

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[32] Ex A-5 Bourassa RJ at 8.
[33] Ex S-6 Cassidy Surr at 6.
[34] Ex A-5 Bourassa RJ at 5.
[35] The Company, like the other Robson affiliate utilities, uses the broad group method of depreciation and may continue to utilize that methodology.
[36] Ex A-1 Bourassa Dir at 8; Schedule C-2 at 2.
[37] Ex S-4 Thompson Dir MST-1 at 11.
[38] Ex J-2 Sch C-2 at 2.

reasonable and shall be adopted."

44. Based on the foregoing, the parties jointly propose the following FVRB:[39]

Gross Utility Plant in Service	$7,825,043
Less: Accumulated Depreciation	2,638,759
Net Utility Plant in Service	5,186,284
Less:	
Advances in Aid of Construction	--
Contributions in Aid of Construction	820,205
Accumulated Amortization of CIAC	(284,447)
Customer meter Deposits	180,221
Customer Security Deposits	--
Accumulated Deferred Income Tax	966,182
Plus:	
Deferred Regulatory Assets	--
Deferred Tax Assets	--
Allowance for Working Capital	--
Total Rate Base	$3,504,122

45. The parties' proposed FVRB is reasonable and should be adopted.

46. In the test year, QCW had total revenues of $844,719, and adjusted operating expenses of $719,039, resulting in Operating Income of $125,680, a 3.58 percent rate of return on the adjusted FVRB.[40]

47. The Company's actual test year capital structure consisted of 100 percent equity.

48. In its Application the Company proposed using its actual capital structure and estimated its cost of equity at 10.0 percent. Mr. Bourassa, the Company's cost of capital witness, performed his analysis using a Discounted Cash Flow ("DCF") methodology, a Risk Premium Model

[39] Ex J-2 Schedule B-1. The Company agreed that its Original Cost Rate Base is deemed to be its FVRB.
[40] Ex J-2 at Sch C-1.

("RPM") and a modified Capital Asset Pricing Model ("MCAPM"). His DCF analysis indicated a return on equity ("ROE") in the range of 9.4 percent to 9.6 percent; his RPM analysis indicated an ROE of 10.6 percent; and his MCAPM analysis indicated ROEs in the range of 9.5 percent to 11.4 percent. Mr. Bourassa testified that his ROE estimates before considering the risk associated with investing in QCW were in the range of 9.8 percent to 10.3 percent with a midpoint of 10.1 percent. After considering the business and financial risk associated with QCW compared to the proxy group used in his analysis, Mr. Bourassa recommended a cost of equity of no less than 10.0 percent.[41]

49. Staff also recommended utilizing the Company's actual capital structure. In Direct Testimony, Staff recommended a cost of capital of 9.5 percent based on the average of its constant-growth DCF model (8.6 percent) and a multi-stage DCF model (9.1 percent), plus a 60 basis point upward "economic assessment adjustment."[42] In Surrebuttal Testimony, Staff updated its DCF models and revised its estimate of the cost of equity to 9.4 percent.[43]

50. At the hearing, QCW and Staff jointly recommended employing the Company's actual capital structure of 100 percent equity and a cost of equity of 9.5 percent. In addition, Mr. Soriano testified that in the future, the Company would give careful consideration to rebalancing its capital structure by adding debt when circumstances warrant the need for additional capital.[44]

51. The jointly proposed cost of equity of 9.5 percent is supported by the evidence presented in this proceeding. We find that when applied to the FVRB, a 9.5 percent cost of capital results in fair and reasonable rates. By agreeing to the parties' proposal to utilize the actual capital structure consisting of 100 percent equity, we do not foreclose the possibility of utilizing a hypothetical capital structure in a future rate case.

52. Based on their agreement concerning rate base, operating expenses and cost of capital, the parties propose a revenue increase of $347,070, or 41.09 percent, over test year revenues. The proposed revenue level and adjusted operating expenses produce Operating Income of $382,892, and a rate of return of 9.5 percent.

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[41] Ex A-2 Bourassa CoC Dir at 3.
[42] Ex S-1 Cassidy CoC Dir.
[43] Ex S-5 Cassidy Surr.
[44] Hearing Transcript ("Tr.") at 63-64.

53. QCW has not had a rate increase in fifteen years. The Company's management has indicated that it expects to file more regular rate applications for its affiliated companies which should result in more gradual increases in the future.[45] Under the circumstances of this case, the jointly proposed revenue increase is fair and reasonable.

Rate Design

54. QCW's current rates and those proposed by the Company and Staff are as follows:[46]

	Present Rates	Proposed Rates Company	Staff
MONTHLY USAGE CHARGE:			
5/8" x ¾" Meter	$15.00	$20.30	$19.01
¾" Meter	20.00	27.07	28.51
1" Meter	25.00	33.84	47.51
1 ½" Meter	50.00	67.68	95.03
2" Meter	80.00	108.28	152.04
3" Meter	150.00	203.03	304.08
4" Meter	250.00	338.38	475.13
6" Meter	500.00	676.75	950.25
Commodity Rates– Per 1,000 Gallons			
5/8 x ¾ inch meter - all classes - all gallons	$2.80		
5/8 x ¾ inch meter - residential			
1 to 4,000 gallons		$3.33	$3.18
4,001 to 10,000 gallons		4.43	4.18
Over 10,000 gallons		5.53	5.60
5/8 x ¾ inch meter - non-residential			
1 to 10,000 gallons		4.43	4.18
Over 10,000 gallons		5.53	5.60
¾ inch meter - all classes - all gallons	2.80		
¾ inch meter - residential			
1 to 4,000 gallons		3.33	3.18
4,001 to 10,000 gallons		4.43	4.18
Over 10,000 gallons		5.53	5.60
¾ inch meter – non-residential			

[45] Tr. at 3-4.
[46] Ex J-2 Sch H-3; Ex J-3; and Ex S- 6 Cassidy Sur at JAC-1.

1 to 10,000 gallons		4.43	4.18
Over 10,000 gallons		5.53	5.60
1 inch meter – all classes - all gallons	2.80		
1 inch meter - all classes			
1 to 17,000 gallons		4.43	4.18
Over 17,000 gallons		5.53	5.60
1 ½ inch meter – all classes – all gallons	2.80		
1 ½ inch meter - all classes			
1 to 33,000 gallons		4.43	4.18
Over 33,000 gallons		5.53	5.60
2 inch meter - all classes - all gallons	2.80		
2 inch meter - all classes			
1 to 53,000 gallons		4.43	4.18
Over 53,000 gallons		5.53	5.60
3 inch meter - all classes - all gallons	2.80		
3 inch meter – all classes			
1 to 100,000 gallons		4.43	4.18
Over 100,000 gallons		5.53	5.60
4 inch meter – all classes – all gallons	2.80		
4 inch meter – all classes			
1 to 167,000 gallons		4.43	4.18
Over 167,000 gallons		5.53	5.60
6 inch meter – all classes			
1 to 334,000 gallons		4.43	4.18
Over 334,000 gallons		5.53	5.60
Standpipe – all gallons	2.80	5.53	5.60

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

		Parties' Proposed		
	Current	Service Line	Meter	Total
5/8" x ¾" Meter	$350.00	$385.00	$135.00	$520.00
¾" Meter	400.00	415.00	205.00	620.00
1" Meter	470.00	465.00	265.00	730.00
1 ½" Meter	695.00	520.00	475.00	995.00
2" Turbine Meter	1,225.00	800.00	995.00	1,795.00
2" Compound Meter	1,820.00	800.00	1,840.00	2,640.00
3" Turbine Meter	1,735.00	1,015.00	1,620.00	2,635.00

3" Compound Meter	2,410.00	1,135.00	2,495.00	3,630.00
4" Turbine Meter	2,700.00	1,430.00	2,570.00	4,000.00
4" Compound Meter	3,455.00	1,610.00	3,545.00	5,155.00
6" Turbine Meter	5,115.00	2,150.00	4,925.00	7,075.00
6" Compound Meter	6,650.00	2,270.00	6,820.00	9,090.00

		Proposed	
OTHER CHARGES:	Current	Company	Staff
Establishment	$25.00	$25.00	$25.00
Establishment (After Hours)	45.00	Remove	Eliminate
Reconnection (Delinquent)	25.00	$25.00	$25.00
Meter Test (If Correct)	25.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	**	**	**
NSF Check	$15.00	$15.00	$15.00
Deferred Payment – per month	1.5%	1.5%	1.5%
Meter Reread (If Correct)	$15.00	$15.00	$15.00
Late Payment Penalty	***	***	***
After Hours Service Charge	NT	$50.00	$50.00

		Proposed	
Monthly Service Charge for Fire Sprinklers	Current	Company	Staff
4" meter or smaller	****	****	****
6 inch meter	****	****	****
8 inch meter	****	****	****
10 inch meter	****	****	****
Larger than 10 inches	****	****	****

* Per Commission rule A.A.C. R14-2-403(B).

** Number of months off the system times the monthly minimum per Commission Rules A.A.C. R14-2-403(D)

*** 1.5% per month or a minimum of $3.50

**** 1% of monthly minimum for a comparable sized meter connection, but no less than $5.00 per month (requires separate service line)

55. Both QCW's and Staff's proposed rates are designed to produce the jointly proposed revenue requirement. Staff's rates are based on the typical American Water Works Association ("AWWA") meter size multipliers. The Company utilized the existing meter size multiplier which is less than the usual AMMA multiplier to scale its proposed monthly meter charges.[47]

56. Under the Company's proposed rates, the average residential 5/8 x ¾ inch meter customer using 5,725 gallons a month would see a bill increase of $10.22, or 32.93 percent, from $31.03 to $41.25. The average residential 1 inch meter customer using 5,965 gallons a month would

[47] Staff used the 2.5 multiplier for the 1 inch meter rate, while the Company utilized the current 1.67 multiplier. Tr. at 35-41.

see a bill increase of $18.54, or 44.46 percent, from $41.70 to $60.24.[48]

57. Under Staff's proposed rates, the average the average residential 5/8 x ¾ inch meter customer using 5,725 gallons a month would see a bill increase of $8.93, or 28.77 percent, from $31.03 to $39.96. The average residential 1 inch meter customer using 5,965 gallons a month would see a bill increase of $30.77, or 73.78 percent, from $41.70 to $72.47.[49]

58. Several QCW residential customers with 1 inch meters protested the proposal that would increase their monthly minimum more than the increase for 5/8 x ¾ inch meter residential customers because they believed that all residential users should be treated the same regardless of the size of their meter.

59. The building codes in QCW's service area require that homes above a certain square footage have sprinkler systems for fire protection.[50] To provide sufficient water pressure and volume to accommodate the fire flow requirements, a 1 inch meter is required for these homes.[51]

60. It is not discriminatory to have a higher meter charge for the 1 inch meters because these larger meters place a potential greater demand on the system. Furthermore, these customers receive the benefit of increased flow for fire protection. Although an argument can be made to increase the 1 inch meter monthly charge to the typical AWWA multiplier as Staff has proposed, current rates were set using a lower multiplier, and in this situation, for this company, principals of equity and gradualism support utilizing the Company's proposal to continue using the lower multiplier for the 1 inch meters. The result of using the Company's proposed rate design increases the rates for the 5/8 x ¾ inch meter customers more than under Staff's proposed rate design, but the impact on the 5/8 x ¾ inch meter class is small and outweighed by the significant burden on the 1 inch residential class under the typical meter multiplier.[52]

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[48] Ex J-4.
[49] Ex J-4.
[50] Tr. at 59.
[51] Tr. at 35 and 59-60.
[52] The average 5/8 x ¾ inch residential meter customer would see a monthly bill that is $1.29 lower under Staff's rates than under the Company's, but the average 1 inch meter residential customer would see a bill $12.49 higher under Staff's rates than under those proposed by the Company.

Other Issues

61. In the joint proposal Staff agreed to withdraw its recommendation to require BMP Tariffs. QCW has approved BMPs on file with ADWR. The Company argues that having to convert these BMPs to tariffs is an administrative burden.[53] In other recent cases where the utility is required to have BMPs on file with ADWR, and the utility objects to filing BMP tariffs, the Commission has opted not to require the conversion of the BMPs to tariffs. The parties' consensual resolution of this issue is reasonable.

62. Staff has agreed to withdraw its recommendations that QCW be ordered to (1) develop and sign a code of conduct that would be binding on the Company and its regulated and non-regulated affiliates; (2) ensure that 2015 Annual Reports reflect proper accrual accounting; (3) isolate facts and financial implications of any future early plant retirements; and (4) require QCW to file a financing application to obtain a more balanced capital structure before its next rate case.

63. QCW has agreed to file a compliance report on or before June 15, 2016, attesting that the Company: (1) has entered into a written contract with its affiliate governing the construction of plant for QCW, which contract shall provide that the Company will pay its affiliate for all plant constructed within one year of the plant being placed into service and recorded on the Company's books; (2) that plant constructed by affiliates is being booked on an accrual basis at the time it is placed into service; and (3) has made all necessary adjustments to its books and records to reflect the adjustments adopted in this case. In addition, QCW has agreed to track retirements in sufficient detail to allow material early retirements, if any, to be identified and reviewed in future rate cases.

64. The Company's agreement concerning accounting procedures, as described in the joint proposal, addresses Staff's concerns as expressed in pre-filed testimony. Staff is satisfied that the agreement meets Staff's needs and allows the Commission to adequately monitor the Company's assets and financial condition.[54]

65. Based on the evidence and totality of circumstances affecting this proceeding, the parties' joint proposal is fair and reasonable and in the public interest.

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[53] Tr. at 61.
[54] Tr. at 80-81.

CONCLUSIONS OF LAW

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

2. The Commission has jurisdiction over QCW and the subject matter of the Application.

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

4. QCW's FVRB is $3,504,122.

5. Under the circumstances of this proceeding, a rate of return on FVRB of 9.5 percent is fair and reasonable.

6. The rates and charges authorized herein are just and reasonable and should be approved.

ORDER

IT IS THEREFORE ORDERED that Quail Creek Water Company, Inc. shall file with Docket Control, as a compliance item in this docket, by October 30, 2015, revised rate schedules that comply with the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$20.30
¾" Meter	27.07
1" Meter	33.84
1 ½" Meter	67.68
2" Meter	108.28
3" Meter	203.03
4" Meter	338.38
6" Meter	676.75

Commodity Rates– Per 1,000 Gallons

5/8 x ¾ inch meter - all classes - all gallons

5/8 x ¾ inch meter - residential

1 to 4,000 gallons	$3.33
4,001 to 10,000 gallons	4.43
Over 10,000 gallons	5.53

5/8 x ¾ inch meter - non-residential

1 to 10,000 gallons	4.43
Over 10,000 gallons	5.53

¾ inch meter - all classes - all gallons	
¾ inch meter – residential	
1 to 4,000 gallons	3.33
4,001 to 10,000 gallons	4.43
Over 10,000 gallons	5.53
¾ inch meter – non-residential	
1 to 10,000 gallons	4.43
Over 10,000 gallons	5.53
1 inch meter – all classes - all gallons	
1 inch meter - all classes	
1 to 17,000 gallons	4.43
Over 17,000 gallons	5.53
1 ½ inch meter – all classes – all gallons	
1 ½ inch meter - all classes	
1 to 33,000 gallons	4.43
Over 33,000 gallons	5.53
2 inch meter - all classes - all gallons	
2 inch meter - all classes	
1 to 53,000 gallons	4.43
Over 53,000 gallons	5.53
3 inch meter - all classes - all gallons	
3 inch meter – all classes	
1 to 100,000 gallons	4.43
Over 100,000 gallons	5.53
4 inch meter – all classes – all gallons	
4 inch meter – all classes	
1 to 167,000 gallons	4.43
Over 167,000 gallons	5.53
6 inch meter – all classes	
1 to 334,000 gallons	4.43
Over 334,000 gallons	5.53
Standpipe – all gallons	5.53

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

	Service Line	Meter	Total
5/8" x ¾" Meter	$385.00	$135.00	$520.00
¾" Meter	415.00	205.00	620.00
1" Meter	465.00	265.00	730.00
1 ½" Meter	520.00	475.00	995.00
2" Turbine Meter	800.00	995.00	1,795.00
2" Compound Meter	800.00	1,840.00	2,640.00
3" Turbine Meter	1,015.00	1,620.00	2,635.00
3" Compound Meter	1,135.00	2,495.00	3,630.00
4" Turbine Meter	1,430.00	2,570.00	4,000.00
4" Compound Meter	1,610.00	3,545.00	5,155.00
6" Turbine Meter	2,150.00	4,925.00	7,075.00
6" Compound Meter	2,270.00	6,820.00	9,090.00

OTHER CHARGES:

Establishment	$25.00
Establishment (After Hours)	Remove
Reconnection (Delinquent)	$25.00
Meter Test (If Correct)	25.00
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	$15.00
Deferred Payment – per month	1.5%
Meter Reread (If Correct)	$15.00
Late Payment Penalty	***
After Hours Service Charge	$50.00

Monthly Service Charge for Fire Sprinklers

4" meter or smaller	****
6 inch meter	****
8 inch meter	****
10 inch meter	****
Larger than 10 inches	****

* Per Commission rule A.A.C. R14-2-403(B).
** Number of months off the system times the monthly minimum per Commission Rules A.A.C. R14-2-403(D)
*** 1.5% per month or a minimum of $3.50
**** 1% of monthly minimum for a comparable sized meter connection, but no less than $5.00 per month (requires separate service line)

IT IS FURTHER ORDERED that the authorized rates and charges shall be effective for all service provided on and after November 1, 2015.

IT IS FURTHER ORDERED that, going forward, Quail Creek Water Company, Inc. shall use the depreciation rates by individual National Association of Regulatory Commissioners account as presented in Table E of the Engineering Report attached to the Direct Testimony of Staff Witness, Michael Thompson, in this matter.

IT IS FURTHER ORDERED that Quail Creek Water Company, Inc. shall notify its customers of the rates and charges authorized herein, and their effective dates, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing or as a separate mailing.

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

IT IS FURTHER ORDERED that on or before June 15, 2016, Quail Creek Water Company, Inc. shall file with Docket Control as a compliance item in this Docket, a report that attests that Quail Creek Water Company, Inc. has entered into a written contract with its affiliate governing the construction of plant for the utility, which contract shall provide that Quail Creek Water Company, Inc. will pay its affiliate for all plant constructed within one year of the plant being placed into service and recorded on the Quail Creek Water Company, Inc.'s books; that Quail Creek Water Company, Inc. shall book plant constructed by affiliates on an accrual basis at the time it is placed into service; and that Quail Creek Water Company, Inc. has made all necessary adjustments to its books and records to reflect the adjustments adopted in this Decision.

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IT IS FURTHER ORDERED that Quail Creek Water Company, Inc. shall track plant retirements in sufficient detail to allow material early retirements, if any, to be identified and reviewed in future rate cases.

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 27th day of October 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT ______________________

DISSENT ______________________
JR:ru

SERVICE LIST FOR: QUAIL CREEK WATER COMPANY, INC.

DOCKET NO.: W-02514A-14-0343

Jay L. Shapiro
SHAPIRO LAW FIRM, P.C.
1819 E. Morten Ave., Suite 280
Phoenix, AZ 85020
Attorneys for Quail Creek Water Co.

Steven Soriano
Vice President and General Manager
Quail Creek Water Company
9532 East Riggs Road
Sun Lakes, AZ 85248

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Thomas Broderick, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007