

OPEN MEETING ITEM

COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
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ARIZONA CORPORATION COMMISSION

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DATE: July 16, 2004
DOCKET NOS: W-03875A-03-0737 and W-03875A-03-0870
TO ALL PARTIES:

Enclosed please find the recommendation of Assistant Chief Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Opinion and Order on:

MOUNTAIN GLEN WATER SERVICE, 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:

JULY 26, 2004

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 Open Meeting to be held on:

AUGUST 3 AND 4, 2004

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 Secretary's Office at (602) 542-3931

Arizona Corporation Commission
DOCKETED
JUL 15 2004

BRIAN C. McNEIL
EXECUTIVE SECRETARY

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
MOUNTAIN GLEN WATER SERVICE, INC. FOR
A PERMANENT RATE INCREASE.

DOCKET NO. W-03875A-03-0737

IN THE MATTER OF THE APPLICATION OF
MOUNTAIN GLEN WATER SERVICE, INC. FOR
FINANCING APPROVAL.

DOCKET NO. W-03875A-03-0870

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARING:	May 25, 2004
PLACE OF HEARING:	Show Low, Arizona
ADMINISTRATIVE LAW JUDGE:	Dwight D. Nodes
APPEARANCES:	Beatrice and Mel Parker, on behalf of Mountain Glen Water Service, Inc.; and
	David Ronald, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On October 6, 2003, Mountain Glen Water Service, Inc. ("Mountain Glen," "Company" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase in Docket No. W-03875A-03-0737.

On November 5, 2003, pursuant to A.A.C. R14-2-103, the Commission's Utilities Division ("Staff") issued a notice of sufficiency which classified the Company as a Class D utility.

On December 4, 2003, the Applicant filed with the Commission an application in Docket No. W-03875A-03-0870 requesting approval of financing to purchase arsenic removal equipment.

On January 13, 2004, Staff filed a Motion to Consolidate the above-captioned proceedings

1 and requested a 45-day extension of the rate case time-frame in order to consider additional data for
2 both cases.

3 By Procedural Order issued January 20, 2004, Staff's Motion to Consolidate was granted and
4 the above-captioned dockets were consolidated.

5 On March 4, 2004, Staff filed its Staff Report in the consolidated dockets. Staff
6 recommended approval of the applications, subject to certain modifications, including the approval of
7 a surcharge mechanism to fund the proposed loan associated with purchase of arsenic treatment
8 equipment.

9 On April 16, 2004, a Procedural Order was issued setting this matter for hearing in order to
10 obtain additional information regarding Staff's arsenic surcharge recommendation. Staff was
11 directed to be prepared to respond to questions regarding: timing of imposition of the proposed
12 surcharge; the procedural format for implementation of the proposed surcharge; whether the
13 surcharge would be assessed to customers in each of the Applicant's systems; whether less expensive
14 options have been considered by the Company, including, but not limited to, drilling new wells,
15 blending water, leasing of arsenic treatment facilities, and purchase of water from alternative sources;
16 whether Staff's recommendation includes consideration of operation and maintenance costs
17 associated with arsenic treatment facilities; whether step increases of the proposed surcharge were
18 considered; whether an alternative rate design may be appropriate for recovering the arsenic
19 surcharge costs; and whether implementation of the surcharge mechanism, in the proposed format,
20 would be compliant with Arizona "fair value" requirements.

21 On May 25, 2004, a hearing was held in the consolidated dockets in Show Low, Arizona.
22 During the hearing, testimony was given by Staff and Company witnesses on various issues,
23 including Staff's proposed arsenic treatment surcharge mechanism.

24 * * * * *

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

27 **FINDINGS OF FACT**

- 28 1. Mountain Glen is engaged in the business of providing water utility service to

1 approximately 269 customers in an area northwest of Show Low in Navajo County. The Company's
2 service area includes the communities of Linden, Pinedale, and Clay Springs.

3 2. Mountain Glen's current rates and charges were approved in Decision No. 62905
4 (September 18, 2000).

5 3. On October 6, 2003, the Company filed an application requesting authority to increase
6 its rates and charges for water service.

7 4. On November 5, 2003, Staff filed notice that the Company's application had met the
8 Commission's sufficiency requirements in accordance with A.A.C. R14-2-103.

9 5. On November 14, 2003, the Applicant filed certification that it had provided notice to
10 its customers by direct mailing of the proposed increase in rates and charges. On December 18,
11 2003, a petition signed by 22 customers was filed opposing the requested rate increase.

12 6. On December 4, 2003, Mountain Glen filed an application requesting authorization to
13 borrow \$640,710 from the Water Infrastructure Financing Authority ("WIFA") to purchase and/or
14 construct arsenic removal equipment for wells owned by the Company.

15 7. On January 13, 2004, Staff filed a Motion to Consolidate the above-captioned
16 proceedings and requested an extension of the rate case time-frame in order to consider additional
17 data for both cases.

18 8. By Procedural Order issued January 20, 2004, Staff's Motion to Consolidate was
19 granted and the above-captioned dockets were consolidated.

20 9. During the test year ending December 31, 2002, the Applicant served 269 customers,
21 all of whom are residential users served by 5/8" X 3/4" meters.

22 10. Average and median usage during the test year were 7,886 and 5,277 gallons per
23 month, respectively.

24 11. On March 4, 2004, Staff filed its Staff Report regarding Mountain Glen's rate and
25 financing applications after conducting an investigation. Staff's recommendation would reduce the
26 Company's proposed base rate increase for an average customer from 23.9 percent to 11.8 percent.

27 12. Staff also proposed approval of the Company's financing application in order to
28 provide Mountain Glen with a means of implementing an arsenic surcharge mechanism to pay for the

1 capital costs needed to purchase or install arsenic control facilities for compliance with the new
 2 federal standards for arsenic content.

3 13. On April 16, 2004, a Procedural Order was issued setting a hearing date for May 25,
 4 2004 and directing the Company to notify its customers of the hearing.

5 14. On May 6, 2004, Mountain Glen filed certification that notice of the hearing date and
 6 Staff's recommendation in this consolidated rate and financing proceeding had been mailed to all
 7 customers on April 26, 2004.

8 15. The hearing was held as scheduled on May 25, 2004, in Show Low, Arizona. One
 9 customer appeared at the hearing to state opposition to a proposed arsenic surcharge mechanism.

10 16. At the hearing, Mountain Glen indicated that it does not oppose Staff's revenue
 11 requirement recommendation.

12 17. The current water rates and charges for Mountain Glen, as well as Staff's proposed
 13 rates (as agreed to by the Company), are as follows:

	<u>Present Rates</u>	<u>Proposed Rates Staff</u>
<u>MONTHLY USAGE CHARGE:</u>		
5/8" x 3/4" Meter	\$18.60	\$20.25
3/4" Meter	27.90	30.38
1" Meter	53.10	50.63
1 1/2" Meter	75.60	101.25
2" Meter	89.10	162.00
3" Meter	188.10	303.75
4" Meter	278.10	506.25
6" Meter	368.10	1,012.50
<u>COMMODITY RATES</u>		
0-5,000 Gallons (per 1,000 Gallons)	\$2.55	\$2.70
5,001-20,000 Gallons (per 1,000 Gallons)	2.55	3.30
over 20,000 Gallons (per 1,000 Gallons)	2.55	3.80
<u>SERVICE LINE AND METER INSTALLATION CHARGES</u>		
5/8" x 3/4" Meter	\$410.0	\$550.00
3/4" Meter	440.00	580.00
1" Meter	535.00	675.00
1 1/2" Meter	570.00	710.00

1	2" Meter	970.00	1,110.00
	3" Meter	1,350.00	1,490.00
2	4" Meter	2,155.00	2,295.00
	6" Meter	4,165.00	4,305.00
3	<u>SERVICE CHARGE:</u>		
4			
5	Establishment	\$30.00	\$30.00
	Establishment (After Hours)	40.00	45.00
6	Reconnection (Delinquent)	35.00	35.00
	Reconnection (Delinquent) after hours	35.00	45.00
7	Meter Test (If Correct)	40.00	40.00
	Deposit	*	*
8	Deposit Interest	*	*
	Reestablishment (Within 12 Months)	**	**
9	NSF Check	15.00	15.00
10	Deferred Payment	1.50%	1.50%
	Meter Reread (If Correct)	10.00	15.00
11	Late Payment Penalty	N/A	N/A
12	Main Extension	Cost	Cost

13 * Per Commission rule A.A.C. R-14-2-403(B).

14 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

15 18. Pursuant to the Staff Report, Mountain Glen's fair value rate base ("FVRB") is
 16 determined to be \$137,834, which is the same as its original cost rate base. Staff's adjusted FVRB
 17 reflects a reduction of \$9,905 from the Company's proposed rate base, due to various adjustments to
 18 plant in service and accumulated depreciation.

19 19. Staff increased the Company's test year operating expenses by \$6,295, from \$123,378
 20 to \$129,673. Staff's test year operating expense adjustments are comprised of increases in salary
 21 expenses of \$1,240, repairs and maintenance expenses of \$1,678, office supplies expenses of \$189,
 22 outside services expenses of \$5,000, rate case expenses of \$2,000, miscellaneous expenses of \$19, tax
 23 expenses of \$574, and decreases in depreciation and income tax expenses of \$3,303 and \$1,102,
 24 respectively.

25 20. Mountain Glen's current water rates and charges produced operating revenues of
 26 \$128,006 and adjusted operating expenses of \$129,673, which resulted in a net adjusted operating
 27 loss of \$1,667 during the test year, for no return on the Company's FVRB.
 28

1 21. The water rates and charges recommended by Staff, and agreed to by the Company,
2 would produce adjusted operating revenues of \$146,853 and adjusted operating expenses of
3 \$133,228, resulting in net operating income of \$13,625, or a 9.88 percent rate of return on FVRB.

4 22. Staff's recommended rates would increase the average monthly metered customer
5 water bill by 11.8 percent, from \$38.71 to \$43.28 (\$4.57). The median monthly metered customer
6 bill would increase by 8.1 percent, from \$32.06 to \$34.67 (\$2.61), under Staff's proposed rates.

7 23. According to the Staff Report, Mountain Glen is in good standing with the
8 Commission's Corporations Division and has no outstanding compliance issues. The Company is
9 current on its property and sales taxes.

10 24. Mountain Glen is not located in an Active Management Area ("AMA") and is not
11 subject to any AMA reporting and conservation requirements. According to the Arizona Department
12 of Environmental Quality ("ADEQ"), the Company is currently delivering water that meets the water
13 quality standards under the Arizona Administrative Code.

14 25. Staff's recommendations, as described in the Staff Report and through testimony at the
15 hearing, are as follows:

- 16
- 17 a) that the recommended rates set forth in the Staff Report, as described
 hereinabove, be approved by the Commission;
- 18
- 19 b) that Mountain Glen be ordered to adopt the individual depreciation rates
 set forth in the Engineering section of the Staff Report;
- 20
- 21 c) that the Service Line and Meter Installation charges, as set forth in the
 Engineering section of the Staff Report, be approved;
- 22
- 23 d) that the Company's proposed Curtailment Plan tariff be approved, subject
 to the requirement that the tariff be filed by the Company within 30 days
 of the Decision in this matter;
- 24
- 25 e) that the Commission approve Staff's proposed surcharge tariff
 methodology, as described in the Staff Report, and require Mountain Glen
26 to submit a financing application for implementation of the surcharge
 within 30 days after closing of the WIFA loan associated with funding the
27 Company's arsenic treatment plan. Under Staff's recommendation, Staff
 would review both the calculation of the proposed surcharge and the
28 reasonableness of the compliance methodology chosen by the Company

1 prior to making a recommendation to the Commission with respect to
2 approval of the specific surcharge amount sought by the Company;

- 3 f) that the arsenic surcharge mechanism described above would become
4 effective with the Company's first billing cycle four months after the
5 closing of the WIFA loan, the surcharge would be shown as a separate line
6 item on the customer bills as an "arsenic surcharge," and that the debt
7 service component of the surcharge collections would be deposited in a
8 separate interest-bearing account and disbursements from the account
9 would be made only for arsenic treatment capital expenditures associated
10 with servicing the WIFA loan;
- 11 g) that the Company be ordered to file a yearly arsenic account report, by
12 August 31 of each year, showing the beginning and ending balances,
13 earned interest, total deposits, and total expenditures;
- 14 h) that the Company be ordered to file a new rate case within 48 months of
15 the effective date of the Decision in this case, in order to establish
16 permanent rates that incorporate the necessary arsenic treatment facilities,
17 and that if the Company fails to file a rate case within 60 months of the
18 effective date of the Decision in this case, the surcharge will automatically
19 cease;
- 20 i) that the method of disposition of any excess funds in the arsenic fund over
21 debt service obligations (measured at earlier of the date rates become
22 effective in the Company's next rate case or 60 months following the
23 effective date of rates established in this case), shall be determined by the
24 Commission in a future Order. Disposition of any such excess funds may
25 include refunding to customers, accounting for the funds as a contribution
26 in aid of construction, or any other method determined by the Commission
27 to be in the public interest;
- 28 j) that the Commission approve Mountain Glen's request for authorization to
obtain financing in accordance with the terms and conditions described in
the application and the Staff Report, and that the Commission approve an
arsenic surcharge mechanism to enable the Company to meet both
principal and interest payments on the proposed WIFA loan;
- k) that the Commission order Mountain Glen to file data regarding its Linden
West system, within 6 months of this Decision, indicating the quantity of
water pumped, gallons sold, and water loss percentage for the past 12
month period, as well as a description of actions taken by the Company to
reduce water loss to 10 percent or less (the Linden West non-account
water was calculated to be 12.9 percent during the test year);
- l) that the Company be authorized to execute any documents necessary to
effectuate the authorizations granted, and be required to provide to the
Director of the Utilities Division copies of all executed financial

1 documents within 60 days after the loan agreement is signed; and

- 2 m) that, in addition to collection of its regular rates and charges, Mountain
3 Glen be ordered to collect from its customers their proportionate share of
4 any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).

5 26. Current U.S. Environmental Protection Agency ("EPA") rules permit maximum
6 contaminant levels ("MCL") for arsenic of no more than 50 parts per billion ("ppb") in water.
7 However, effective January 23, 2006, the EPA's new rules require the arsenic MCL to be reduced to
8 no more than 10 ppb. As a result, a number of small water companies, especially in Arizona, will be
9 dramatically affected with respect to costs associated with reducing arsenic content in their water
10 sources.

11 27. According to Staff's engineering report, Mountain Glen's four systems have arsenic
12 contents ranging from 6.9 to 16 ppb. The Clay Springs and Pinedale wells have arsenic
13 concentrations of 6.9 and 7.3 ppb, respectively. The Linden West system has an arsenic content of
14 9.9 ppb. However, the majority of the Company's customers (145 service connections) are located in
15 the Linden East system and are served by two well sources that have a composite arsenic MCL level
16 of 16 ppb. None of Mountain Glen's systems are physically interconnected, although the Company
17 has uniform rates for all four of the systems.

18 28. Under a "worst case scenario," Staff estimates that Mountain Glen would incur capital
19 costs of \$786,392 to treat arsenic, based on the ADEQ Arsenic Mater Plan¹. If it is ultimately
20 determined that Mountain Glen must borrow that full amount from WIFA to finance arsenic control
21 equipment, Staff calculated that a surcharge of \$22.66 per customer per month would be required to
22 provide sufficient revenues for the Company to service the WIFA loan debt (Ex. S-1, at 3; Ex. AXR-
23 4). This arsenic surcharge calculation is based on the assumption that the Company would obtain a
24 20-year loan from WIFA at a 6 percent interest rate in the amount of \$786,392. Under Staff's
25 proposal, the surcharge would be applicable to all of the Company's customers because the systems
26

27 ¹ ADEQ's Master Arsenic Plan was developed to assist small water companies in finding cost-effective solutions tailored
28 to their individual arsenic compliance needs. The Arsenic Decision and Costing Tool, which is found on ADEQ's
website at <http://www.adeq.state.az.us>, allows small companies to input specific system data and receive information
regarding arsenic treatment alternatives.

1 are served pursuant to uniform rates.

2 29. Staff requests that the Commission approve in this proceeding the Company's
3 financing application for authority to borrow up to \$783,392 from WIFA. Staff envisions that, once
4 Mountain Glen has determined a cost-effective means of complying with the arsenic standards, the
5 Company would obtain a loan from WIFA in that amount and would then submit to the Commission
6 within 30 days a tariff filing to convert the amount borrowed into a monthly surcharge based on
7 Staff's methodology (See, Tr. 82; Ex. S-1, at AXR-4). Staff witness Steve Olea testified that, in the
8 course of its review of the proposed tariff filing, Staff would check to make sure the Company's
9 calculations were correct and also that the method chosen by the Company is the most cost-effective
10 means of compliance with the arsenic standards (Tr. 83). Mr. Olea stated that, prior to closing the
11 loan, he expects WIFA would also look carefully at Mountain Glen's chosen arsenic treatment plan
12 to ensure that the most efficient means of compliance is undertaken (Tr. 90)².

13 30. Under Staff's proposal, once Staff has completed its accounting and engineering
14 evaluation of the Company's tariff submission, a recommendation would be prepared by Staff in the
15 form of a Recommended Order for the Commission's consideration at an Open Meeting. Thus, prior
16 to approving any specific surcharge amounts, the Commission would have the opportunity to assess
17 the reasonableness of the compliance methodology chosen by the Company and the proposed
18 surcharge calculation.

19 31. Mr. Olea also explained that this is the first proceeding in which Staff has
20 recommended an arsenic surcharge mechanism for a small water company. He indicated that Staff
21 has been working closely with both WIFA and ADEQ to develop the most effective way of assisting
22 small water companies with arsenic compliance. Staff expects that if its recommendation is
23 approved, the surcharge mechanism will be used as a model for other small companies to follow in
24 developing arsenic treatment plans (Id.).

25 32. After reviewing the entirety of the record in this matter, we agree that Staff's proposed
26 rates and charges and other recommendations, as described hereinabove, are reasonable and should be

27 _____
28 ² Mountain Glen has received a grant from WIFA for \$35,000 to employ an engineer (subject to WIFA approval) to evaluate the most efficient method of complying with the new arsenic standards (Tr. 40-41).

1 approved, subject to the qualifications discussed below. Our approval of Staff's recommendations
2 includes the concept of an arsenic surcharge mechanism methodology developed by Staff in this case,
3 as set forth in detail in the attachments to the Staff Report. However, we make no finding at this time
4 regarding the reasonableness of any specific costs related to arsenic treatment because the Company
5 has not yet determined the most cost-effective means of complying with the new federal arsenic
6 standards. As described in Staff's recommendations, prior to implementing the surcharge
7 mechanism, the Company must submit a request for financing and for implementation of a surcharge
8 in accordance with Staff's proposed methodology.

9 33. The above-captioned rate and financing dockets will remain open until December 31,
10 2004 in order to enable the Company, if necessary, to submit within these dockets the amended
11 request for financing authority and imposition of a surcharge, once Mountain Glen has determined the
12 appropriate arsenic treatment methodology and has ascertained the costs associated with
13 implementing that arsenic compliance plan. The Company's arsenic surcharge request must be made
14 in the above-captioned dockets in order to consider the reasonableness of the specific costs of the
15 Company's plan in the context of the FVRB determined in this Decision. Only after Staff has
16 completed its comprehensive review of such a surcharge application, including an analysis of the
17 surcharge calculation and a determination as to whether the Company's treatment plan is the most
18 efficient and cost-effective means of compliance, will we consider Staff's recommendation to
19 approve a specific arsenic surcharge for Mountain Glen. In addition, affected customers must be
20 given notice by the Company of the specific surcharge costs before we will consider approval of the
21 surcharge.

22 34. Although we are approving the concept of Staff's proposed arsenic surcharge
23 mechanism in this Decision, we wish to make clear that we are making no determination as to the
24 appropriate ratemaking treatment that should ultimately be accorded to arsenic treatment costs. If the
25 Commission determines in a later phase of this proceeding that a specific surcharge amount should be
26 assessed to Mountain Glen's customers, various ratemaking treatments may be considered in the
27 context of a subsequent rate case, including, but not limited to whether the Company and its
28 customers should share in the burdens associated with arsenic compliance costs, and whether

1 revenues derived from imposition of an arsenic surcharge should be treated as contributions rather
2 than permitting full rate base recognition of plant purchased with surcharge revenues.

3 **CONCLUSIONS OF LAW**

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

6 2. The Commission has jurisdiction over the Company and of the subject matter of the
7 rate and financing applications filed herein.

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

9 4. As discussed hereinabove, the rates and charges proposed by Staff and agreed to by
10 the Applicant are just and reasonable and should be approved.

11 5. Staff's recommendations, as set forth in Finding of Fact No. 25, are reasonable and
12 shall be adopted, subject to the clarifications discussed in Finding of Fact Nos. 32, 33, and 34
13 including the requirement that a subsequent amended request for financing approval must be
14 submitted prior to implementation of an arsenic treatment plan surcharge.

15 6. The Applicant shall comply with Staff's recommendations set forth in Finding of Fact
16 No. 25, as discussed further in Finding of Fact Nos. 32, 33, and 34.

17 7. Approval of the concept of an arsenic surcharge mechanism, as discussed hereinabove,
18 is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking
19 statutes, and applicable case law.

20 8. The record in this consolidated docket shall remain open until December 31, 2004 for
21 the purpose of receiving, if necessary, Mountain Glen's amended request for financing and for
22 establishment of an arsenic surcharge, once the costs of the Company's arsenic treatment plan are
23 known.

24 **ORDER**

25 IT IS THEREFORE ORDERED that Mountain Glen Water Services, Inc. is hereby directed
26 to file on or before July 31, 2004, revised rate schedules setting forth the following rates and charges:
27
28

RatesMONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$20.25
3/4" Meter	30.38
1" Meter	50.63
1 1/2" Meter	101.25
2" Meter	162.00
3" Meter	303.75
4" Meter	506.25
6" Meter	1,012.50

COMMODITY RATES

0-5,000 Gallons (per 1,000 Gallons)	\$2.70
5,001-20,000 Gallons (per 1,000 Gallons)	3.30
over 20,000 Gallons (per 1,000 Gallons)	3.80

SERVICE LINE AND METERINSTALLATION CHARGES

5/8" x 3/4" Meter	\$550.00
3/4" Meter	580.00
1" Meter	675.00
1 1/2" Meter	710.00
2" Meter	1,110.00
3" Meter	1,490.00
4" Meter	2,295.00
6" Meter	4,305.00

SERVICE CHARGE:

Establishment	\$30.00
Establishment (After Hours)	45.00
Reconnection (Delinquent)	35.00
Reconnection (Delinquent) after hours	45.00
Meter Test (If Correct)	40.00
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	15.00
Deferred Payment	1.50%
Meter Reread (If Correct)	15.00
Late Payment Penalty	N/A
Main Extension	Cost

* 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).

1 IT IS FURTHER ORDERED that Mountain Glen Water Services, Inc. is hereby directed to
2 comply with Staff's recommendations as set forth in Finding of Fact No. 25, as more fully described
3 in Finding of Fact Nos. 32, 33, and 34.

4 IT IS FURTHER ORDERED that Mountain Glen Water Services, Inc. shall notify its
5 customers of the water rates and charges approved hereinabove, and their effective date, by means of
6 an insert in the Company's next monthly billing in a form approved by Utilities Division Staff.

7 IT IS FURTHER ORDERED that Mountain Glen Water Services, Inc. shall file, within 30
8 days of the effective date of this Decision, a copy of the schedule of its approved rates and charges.

9 IT IS FURTHER ORDERED that Mountain Glen Water Services, Inc. shall file an arsenic
10 removal treatment plan in this docket the earlier of December 31, 2004 or within 30 days after
11 receiving preliminary approval of a loan from WIFA for financing arsenic treatment facilities.

12 IT IS FURTHER ORDERED that the record in this consolidated docket shall remain open
13 until December 31, 2004 for the purpose of receiving, if necessary, Mountain Glen's amended
14 request for financing and for establishment of an arsenic surcharge, once the costs of the Company's
15 arsenic treatment plan are known.

16 IT IS FURTHER ORDERED that, in accordance with Staff's recommendation described
17 hereinabove, Mountain Glen Water Services, Inc. shall file in this consolidated docket, within 30
18 days after receiving preliminary approval of a loan from WIFA for financing arsenic treatment
19 facilities, an amended request for financing and for approval of an arsenic surcharge mechanism.

20 IT IS FURTHER ORDERED that the determination of any specific arsenic removal surcharge
21 shall require subsequent Commission approval in this consolidated docket following a comprehensive
22 review by Staff regarding compliance by Mountain Glen Water Services, Inc. with Staff's surcharge
23 calculation methodology and a determination and recommendation by Staff with respect to whether
24 the Company's proposed treatment plan is the most efficient and cost-effective means of compliance
25 with the new federal arsenic standards.

26 IT IS FURTHER ORDERED that Mountain Glen Water Services, Inc. shall file, within 48
27 months of the effective date of this Decision, a new rate case application which shall address
28 necessary and appropriate ratemaking treatment for arsenic treatment facilities.

1 IT IS FURTHER ORDERED that in the event Mountain Glen Water Services, Inc. fails to
2 file a new rate case application within 60 months of the date of this Decision, any arsenic treatment
3 surcharge then in place shall be discontinued.

4 IT IS FURTHER ORDERED that Mountain Glen Water Services, Inc. shall adopt the
5 depreciation rates set forth in the Engineering section of the Staff Report.

6 IT IS FURTHER ORDERED that Mountain Glen Water Services, Inc.'s proposed
7 Curtailment Plan tariff be approved, subject to the requirement that the final approved tariff be filed
8 by the Company within 30 days of the Decision in this matter.

9 IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges
10 approved herein, Mountain Glen Water Services, Inc. shall collect from its customers their
11 proportionate share of any privilege, sales or use tax pursuant to A.A.C. R14-2-409(D).

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

13 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

14
15
16 CHAIRMAN COMMISSIONER COMMISSIONER

17
18 COMMISSIONER COMMISSIONER

19 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
20 Secretary of the Arizona Corporation Commission, have
21 hereunto set my hand and caused the official seal of the
22 Commission to be affixed at the Capitol, in the City of Phoenix,
23 this ____ day of _____, 2004.

24 _____
BRIAN C. McNEIL
EXECUTIVE SECRETARY

25 DISSENT _____

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27 DISSENT _____

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SERVICE LIST FOR: MOUNTAIN GLEN WATER SERVICE, INC.

DOCKET NO.: W-03875A-03-0737 and W-03875A-03-0870

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