



0000004100

BEFORE THE ARIZONA CORPORATION COMMISSION

21b

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

JUN 29 2004

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

DOCKETED BY *ne*

IN THE MATTER OF THE APPLICATION OF
AJO IMPROVEMENT COMPANY FOR A RATE
INCREASE.

DOCKET NO. WS-01025A-03-0350

DECISION NO. 67092

OPINION AND ORDER

DATE OF PUBLIC COMMENT:	March 18, 2004
PLACE OF PUBLIC COMMENT:	Ajo, Arizona
DATE OF HEARING:	April 1, 2004
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Jane L. Rodda
IN ATTENDANCE:	Mike Gleason
APPEARANCES:	Mr. Michael Patten, Roshka, Heyman & DeWulf, PLC, attorneys for Ajo Improvement Company;
	Mr. Robert Geake, Vice President and General Counsel, Arizona Water Company; and
	Mr. David Ronald, Staff Attorney on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

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

FINDINGS OF FACT

1. Ajo Improvement Company ("AIC" or "Company") is certificated by the Commission to provide electric, water and wastewater service to customers in and around the unincorporated

1 community of Ajo, Pima County, Arizona.

2 2. AIC provides water service to approximately 1,119 customers and sewer service to
3 approximately 1,089 customers.

4 3. On May 28, 2003, AIC filed an application with the Commission to increase its water
5 revenues approximately \$111,123 (or an increase of 17.3 percent over test year ended December 31,
6 2002 revenues), and an increase in sewer revenues of approximately \$156,315 (or 163.7 percent
7 over test year revenues).

8 4. The Company's current water rates were set in Decision No. 54709 (October 10,
9 1985). Its current wastewater rates were set in Decision No. 55233 (October 16, 1986).

10 5. On June 25, 2003, Commission Utilities Division Staff ("Staff") notified the Company
11 that its application did not meet the sufficiency requirements of A.A.C R14-2-103.

12 6. On June 10 and 12, 2003, AIC filed amendments to its application.

13 7. On July 14, 2003, Staff notified the Company that its application met the sufficiency
14 requirements of A.A.C. R14-2-103, and classified the Company as a Class B utility.

15 8. By Procedural Order dated August 11, 2003, the Commission set the matter for
16 hearing at its offices in Phoenix, Arizona, set a public comment meeting in Ajo, Arizona, and
17 established deadlines for pre-filing written testimony.

18 9. On September 15, 2003, the Commission granted intervention to Arizona Water
19 Company ("AWC"), a wholesale water customer of AIC.

20 10. On October 15, 2003, pursuant to the September 15, 2003 Procedural Order, AIC filed
21 an Affidavit of Proof of Mailing that it had mailed notice of the hearing to its customers on October
22 2, 2003.

23 11. On January 9, 2004, Staff filed the Direct Testimony and Exhibits of Crystal Brown
24 and John Chelus. On February 6, 2004, AWC filed the Direct Testimony and Exhibits of Sheryl
25 Hubbard.

26 12. On February 27, 2004, the Company filed the Rebuttal Testimony of Dan Neidlinger.

27 13. Upon agreement of the parties, and by Procedural Order dated March 12, 2004, the
28 deadline for filing Surrebuttal Testimony and exhibits was extended to March 17, 2004. Staff and

1 AWC filed Surrebuttal Testimony on March 17, 2004.

2 14. On March 18, 2004, a public comment meeting was held at the Ajo Community
3 Center, Ajo, Arizona. Several customers spoke, generally expressing concern about the size of the
4 proposed increase.

5 15. On March 18, 2004, after being approached by the Company, Staff filed a Notice of
6 Proposed Settlement Discussions.

7 16. On March 31, 2004, Staff filed a Notice of Stipulation ("Stipulation") which set out
8 the terms of a settlement reached between Staff, the Company and AWC, concerning the revenue
9 requirement and rate design.

10 17. On April 1, 2004, the hearing convened as scheduled at the Commission's Phoenix
11 offices. Each party presented witnesses who testified in support of the Stipulation.

12 18. In the test year ended December 31, 2002 ("Test Year"), AIC's Water Department
13 earned total revenues of \$641,644, which produced an adjusted operating loss of \$43,767, for a
14 negative rate of return on an adjusted rate base of \$115,786. The Wastewater Department earned
15 revenues totaling \$95,505 in the Test Year, resulting in an adjusted operating loss of \$78,326, for a
16 negative rate of return on an adjusted rate base of \$219,254.

17 19. Prior to entering into the Stipulation, the Company proposed an increase in total
18 revenue for its Water Department of \$111,125, to \$752,769, to produce Operating Income of \$9,275
19 (based on the Company's Application), and a rate of return of 10 percent, based on a Company-
20 proposed rate base of \$92,745. For the Wastewater Department, the Company proposed an increase
21 in gross revenue of \$156,318, to \$251,823, which would result in operating income of \$21,782, and
22 a 10 percent rate of return on a Company-proposed rate base of \$217,822.

23 20. For the Water Department, Staff recommended a \$68,833, or 10.73 percent, revenue
24 increase from \$641,644 to \$710,477, which based on Staff's recommended expenses, would produce
25 Operating Income of \$10,187, for an 8.8 percent rate of return on a Fair Value Rate Base ("FVRB")
26 of \$115,786. For the Wastewater Department, Staff recommended a \$135,071, or 141.43 percent,
27 revenue increase from \$95,505 to \$230,576. Staff's recommended revenue increase would produce
28 an Operating Income of \$19,291, and an 8.8 percent rate of return on an adjusted FVRB of

1 \$219,254.

2 21. AWC purchases treated water from AIC through one delivery point to serve AWC's
3 nearly 700 customers. AIC and AWC have an agreement under which no more than half of AWC's
4 actual daily consumption can be taken between 7:00 a.m. and 7:00 p.m. Prior to entering into the
5 Stipulation, AWC was concerned that neither the Company's nor Staff's proposed rate designs
6 recognized the service limitations under which AWC receives water or excluded any of the costs
7 that are not attributable to the service to AWC.

8 22. Prior to the Stipulation, the AIC argued that Staff's proposed cost of equity of 8.5
9 percent is unreasonably low; that Staff utilized a federal income tax rate significantly lower than the
10 actual rate paid by AIC; that Staff's proposed inverted block rates are not needed to encourage
11 conservation; that the inverted block rates are not cost-based; that seasonal water rates are
12 preferable; and that the rates proposed by AWC do not adequately cover the total costs of providing
13 it with treated water.

14 23. Under the terms of the Stipulation, AIC agreed to Staff's proposed revenue
15 requirements, and agreed to rate design schedules, a copy of which are attached as Exhibit A hereto
16 and incorporated herein. AWC stipulated only to the water rates that affected it, and did not express
17 opinion one way or the other on the revenue requirement or wastewater rates. AIC and AWC agreed
18 that the stipulations relating to the income tax calculations and to the rate of return are only
19 applicable to this particular case for purposes of settlement.

20 24. AIC's current rates, the Company-proposed rates, and the stipulated rates and charges
21 for treated water are as follows:

	<u>Present Rates</u>	<u>Proposed Company</u>	<u>Stipulated Rates</u>
<u>MONTHLY USAGE CHARGE:</u>			
Treated Water			
5/8" x 3/4" Meter	\$ 9.00	\$ 9.25	\$ 9.45
3/4" Meter	--	--	9.45
1" Meter	15.00	15.75	15.75
1 1/2" Meter	25.00	26.25	26.25
2" Meter	50.00	52.50	52.50
3" Meter	100.00	105.00	105.00

1	4" Meter	200.00	210.00	210.00
2	6" Meter	300.00	300.00	300.00
3	<u>COMMODITY RATES -</u>			
4	<u>TREATED WATER</u>			
5	For 5/8 & 3/4 inch meters – per			
6	1,000 Gallons	2.54	3.14	
7	First 3,000 Gallons			2.50
8	3,001-10,000 Gallons			2.90
9	In excess of 10,000 Gallons			3.30
10	1 Inch meter – per 1,000 Gallons	2.54	3.14	
11	First 25,000 Gallons			2.90
12	Over 25,000 Gallons			3.30
13	1 1/2 inch meters	2.54	3.14	
14	First 42,000 Gallons			2.90
15	Over 42,000 Gallons			3.30
16	2 inch meters	2.54		
17	First 63,000 Gallons			2.90
18	Over 63,000 Gallons			3.30
19	3 inch meters	2.54		
20	First 120,000 Gallons			2.90
21	Over 120,000 Gallons			3.30
22	4 inch meters	2.54		
23	First 290,000 Gallons			2.90
24	Over 290,000 Gallons			3.30
25	6 inch meters	2.54		
26	First 290,000 Gallons			2.90
27	Over 290,000 Gallons			3.30
28	Commodity Rates for Public Water			2.80
29	Systems (During Off-Peak hours) –			
30	Treated Water for 1,000 Gallons			
31	(Applies to 4 inch meters and			
32	larger)			
33	<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
34	(Refundable pursuant to A.A.C. R14-2-40-5)			
35	5/8" x 3/4" Meter	100.00	400.00	400.00
36	3/4" Meter	--	--	450.00
37	1" Meter	150.00	500.00	500.00

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

1 ½" Meter	200.00	750.00	750.00
2" Meter	250.00	1,300.00	1,300.00
3" Meter	250.00	1,300.00	2,000.00
4" Meter	Cost	Cost	3,000.00
6" Meter	Cost	Cost	6,035.00
<u>SERVICE CHARGE:</u>			
Establishment	25.00	25.00	25.00
Establishment (After Hours)	--	40.00	40.00
Meter Test (If Correct)	Cost **	Cost**	Cost **
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	***	***	***
Re-connection of Service (regular hours)	10.00	50.00	25.00
Re-connection of Service (after hours)	--	65.00	40.00
NSF Check	10.00	20.00	20.00
Deferred Payment	1.5%	1.5%	1.5%
Meter Reread (If Correct)	10.00	10.00	10.00
Late Charge	1.5%	1.5%	1.5%

* Per Commission rule A.A.C. R-14-2-403(B).
 ** Cost includes materials, labor and overheads
 *** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

25. The rates for untreated water and for the Wastewater Department as originally proposed and agreed to by the parties are attached as Exhibit A to the May 18, 2004 Recommended Order. After Commission discussion at the June 15, 2004 Open Meeting on the possibility of phased-in rates for the Wastewater Department, the Staff and AIC filed stipulated phased-in rates for Commission consideration, attached as Exhibit B.

26. The parties have agreed to Staff's recommended adjusted Original Cost Rate Base of \$115,786 for the Water Department and \$219,254 for the Wastewater Department. Staff's adjustments to rate base, as reflected in the testimony of Ms. Brown, are reasonable and should be adopted. The Company has waived Reconstruction Cost New less Depreciation ("RCND") and consequently, its Original Cost Rate Base is deemed to be its Fair Value Rate Base.

1 27. Under the stipulated rates, the median monthly water bill for the 5/8 inch meter would
2 increase from \$20.18 to \$21.01, or 4.11 percent, and the average monthly water bill would increase
3 from \$23.51 to \$24.81, or 5.53 percent.

4 28. Under the stipulated rates, if not phased-in, the typical residential wastewater bill
5 would increase from \$6.08 to \$15.65, an increase of \$9.57, or 157.4 percent.

6 29. At the June 15, 2004 Open Meeting, the Commission discussed the possibility of
7 phased-in rates for the Wastewater Department. After the Open Meeting, Staff and AIC met and
8 discussed a phased-in plan for Wastewater Department rates. The rates and schedules for phased-in
9 rates agreed to by Staff and AIC as one method for phasing-in rates if the Commission determines
10 phased-in rates are appropriate, are attached as Exhibit B.

11 30. Exhibit B reflects Wastewater Department rates and phased-in schedules as follows:
12 This method for phased-in rates provides for three equal increases of \$3.34 as follows: (1) The first
13 phase-in would increase the current rate by \$3.34 from \$6.08 to \$9.42 on July 1, 2004; (2) the
14 second phase-in would increase rates by \$3.34 from \$9.42 to \$12.76 and would occur on the 1st day
15 of the month following the 3rd month after AIC's notification to the Director of the Utilities Division
16 that ADEQ has determined that its Wastewater Department meets the standards required by the
17 Arizona Administrative Code; (3) the third phase-in would increase rates by \$3.34 from \$12.76 to
18 \$16.10 and would occur 6 months after the second phase-in goes into effect.

19 31. The relatively large percentage increase in the wastewater rates is a result of
20 significant capital improvements made to AIC's wastewater improvement plant. At the
21 Commission's June 15, 2004 Open Meeting, the Company and Staff confirmed that the capital
22 improvements were required to comply with Arizona Aquifer Protection Permit requirements.
23 Phelps Dodge, AIC's parent company, paid for the improvements which exceeded \$1.8 million. The
24 Company wrote off all but \$200,000 of the capital improvements and did not seek to have them
25 included in rate base.

26 32. The Arizona Department of Environmental Quality ("ADEQ") has determined that the
27 water system is currently delivering water that meets the water quality standards required by
28 Arizona Administrative Code, Title 18, Chapter 4.

1 33. The U. S. Environmental Protection Agency has reduced the maximum contaminant
2 level (“MCL”) in drinking water from 50 micrograms per liter ($\mu\text{g/l}$) to 10 $\mu\text{g/l}$. The date for
3 compliance with the new MCL is January 23, 2006. The most recent lab analysis by the Company
4 indicated that the arsenic level in the source supply is 75 $\mu\text{g/l}$. AIC has the treatment facilities in
5 place to bring the level down to 22 $\mu\text{g/l}$. This level of treatment is adequate to reach the current
6 MCL of 50 $\mu\text{g/l}$, but will fall short of meeting the new standard of 10 $\mu\text{g/l}$. The Company will be
7 required to implement a plan to address this issue, which could mean installing additional treatment
8 facilities or locating better sources of water to achieve 10 $\mu\text{g/l}$ or less.

9 34. Staff recommends that the Company, within six (6) months from the effective date of
10 a Decision in this case, submit a report to the Commission’s Utilities Division describing what steps
11 the Company is planning to take in order to reduce the arsenic level in its water to a concentration of
12 below 10 $\mu\text{g/l}$.

13 35. AIC is not within any Active Management Area, and is not subject to reporting and
14 conservation rules.

15 36. A curtailment tariff is an effective tool to allow a water company to manage its
16 resources during periods of shortages due to pump breakdowns, droughts or other unforeseeable
17 events. Since AIC does not have a curtailment tariff, Staff believes this rate application provides an
18 opportune time to prepare and file such a tariff. Staff recommends that the Company file a
19 curtailment tariff within 45 days of the date of the effective date of any Decision pursuant to the
20 application. The tariff shall be submitted to the Director of the Utilities Division for his review and
21 certification. Staff also recommends that the tariff generally conform to the sample tariff posted on
22 the Commission website or available upon request from Staff.

23 37. ADEQ reported that the wastewater system is in non-compliance with the state aquifer
24 protection rules for the following: a) exceedance of total fluoride on April 28, 2003, monitoring
25 point 15494; b) exceedance of total arsenic on April 28, 2003, monitoring point 15494; c) missing
26 data for daily average flow, all weekends, 2nd quarter of 2003; and d) exceedance of freeboard, 2nd
27 quarter of 2003, monitoring point 15498.

28 38. Staff recommends that any permanent rates and charges, if not phased-in, in this

1 matter shall become effective on the first day of the month after the Director of the Utilities Division
2 receives notice from ADEQ that AIC's Wastewater Department meets the standards required by the
3 A.A.C.

4 39. AIC is current on its property and sales taxes.

5 40. We agree that the residential wastewater rates should be phased-in as agreed to by the
6 Company and as set forth in Exhibit B, resulting in an ultimate authorized rate of return of 13% on
7 the Wastewater FVRB of \$219,254.

8
9 **CONCLUSIONS OF LAW**

10 1. AIC is a public service corporation within the meaning of Article XV of the Arizona
11 Constitution and A.R.S. §§ 40-282 and 40-285.

12 2. The Commission has jurisdiction over AIC and of the subject matter of the
13 application.

14 3. Notice of the application was given in accordance with the law.

15 4. The stipulated rates and charges as set forth and approved herein, and attached as
16 Exhibit A and Exhibit B, are reasonable.

17 5. The recommendations set forth in Findings of Fact Nos. 32, 34 and 36 are reasonable
18 and should be adopted.

19 **ORDER**

20 IT IS THEREFORE ORDERED that the rates and charges set forth in Exhibit A for Water
21 Department Services and Exhibit B for Wastewater Department phased-in rates are approved and Ajo
22 Improvement Company shall file on or before June 30, 2004, a tariff that complies with the rates and
23 charges approved herein.

24 IT IS FURTHER ORDERED that the new rates and charges for the Water Department shall
25 be effective for all service provided on and after July 1, 2004, and that the rates and charges for the
26 Wastewater Department shall be phased-in and become effective under the following schedule. This
27 method for phased-in rates provides for three equal increases of \$3.34 as follows: (1) The first phase-
28 in would increase the current rate by \$3.34 from \$6.08 to \$9.42 on July 1, 2004; (2) the second phase-

1 in would increase rates by \$3.34 from \$9.42 to \$12.76 and would occur on the 1st day of the month
2 following the 3rd month after Ajo Improvement Company's notification to the Director of the Utilities
3 Division that ADEQ has determined that its Wastewater Department meets the standards required by
4 the Arizona Administrative Code; (3) the third phase-in would increase rates by \$3.34 from \$12.76 to
5 \$16.10 and would occur 6 months after the second phase-in goes into effect.

6 IT IS FURTHER ORDERED that within 30 days of the effective date of this Order, Ajo
7 Improvement Company shall notify its customers of the rates and charges authorized herein and the
8 effective date of same.

9 IT IS FURTHER ORDERED that Ajo Improvement Company shall provide Staff a copy of
10 the notice that it sends to customers within 60 days of the effective date of this Order.

11 IT IS FURTHER ORDERED that Ajo Improvement Company shall, within six (6) months
12 from the effective date of this Decision, submit a report to the Commission's Utilities Division
13 describing what steps the Company is planning to take in order to reduce the arsenic level in its water
14 to a concentration that will meet the new requirement.

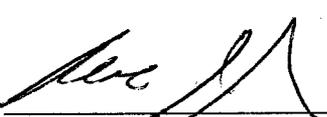
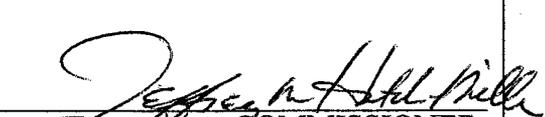
15 ...
16 ...
17 ...
18 ...
19 ...
20 ...
21 ...
22 ...
23 ...
24 ...
25 ...
26 ...
27 ...
28 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

IT IS FURTHER ORDERED that Ajo Improvement Company shall file with the Director of the Utilities Division, for his review and certification, a curtailment tariff within 45 days of the date of the effective date of this Decision.

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, BRIAN C. McNEIL, Executive Secretary 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 29th day of June, 2004.


 BRIAN C. McNEIL
 EXECUTIVE SECRETARY

DISSENT 

DISSENT _____
JR:mj

1 SERVICE LIST FOR: AJO IMPROVEMENT COMPANY

2 DOCKET NO.: WS-01025A-03-0350

3

4 Fred Menzer
5 Ajo Improvement Company
6 New Cornelia Branch
7 PO Drawer
8 Ajo, Arizona 85321

9 Michael Patten
10 Roshka Heyman & DeWulf, PLC
11 One Arizona Center
12 400 East Van Buren Street, Suite 800
13 Phoenix, Arizona 85004

14 Dan Neidlinger
15 Neidlinger & Associates
16 3020 North 17th Drive
17 Phoenix, Arizona 85015

18 Robert W. Geake
19 Vice President and General Counsel
20 Arizona Water Company
21 P.O. Box 29006
22 Phoenix, Arizona 85038-9006

23 Christopher Kempley, Chief Counsel
24 Legal Division
25 ARIZONA CORPORATION COMMISSION
26 1200 West Washington Street
27 Phoenix, Arizona 85007

28 Ernest Johnson, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

21

22

23

24

25

26

27

28

DISSENT
Commissioner Mike Gleason
Ajo Improvement Company – Application for a Rate Increase
WS-01025A-03-0350

I respectfully dissent. This Order approves significant rate increases for both the water and wastewater systems. While I find there is sufficient evidence to approve a rate increase, I disagree with the decision to phase-in the rate increase for the wastewater system. The phase-in attempts to ease the rate shock of the new rates by incrementally increasing the customers' bills. However, in the end, the phase-in creates the absurd result of even higher rates. The phase-in ultimately brings a greater monthly burden to the ratepayers than a rate increase without it.

1. **The phase-in results in a 165% rate increase.**

The proposed Order originally recommended a lesser rate increase and did not include a rate phase-in. Without the phase-in, the wastewater rate would have been \$15.65. However, the phase-in raises the wastewater rate to \$16.10. A higher permanent rate in exchange for less high rates for the first six months is not in the ratepayers' interest.

2. **The phase-in raises the Applicant's rate of return from 8.8% to 13%.**

This Order approves an unacceptably high rate of return for the wastewater system. The administrative law judge rejected the company's request for a 10% rate of return and recommended an 8.8% rate of return for both the water and wastewater systems. The 8.8% rate of return was properly calculated using the utility's weighted cost of capital after an examination of the utility's cost of debt, cost of equity and its debt/equity ratio. After the time for testimony was over, after the hearing had concluded and after the time for Exceptions had expired, a proposal to phase-in the rates came from the bench at the Open Meeting. The Commission simply increased the rate of return to correspond to the desired phase-in rate without regard for the rate of return analysis

conducted in the testimony, discussed at the hearing and reviewed by the administrative law judge.

3. **Customers may see higher bills to pay for compliance with new EPA arsenic levels.**

Beginning January 23, 2006, the EPA will require water systems to provide drinking water containing arsenic levels less than 10 ppb. Ajo Improvement Company currently provides drinking water with arsenic levels at 22 ppb and conforms to the current EPA standard of 50 ppb. To comply with the new standards, the Commission found that *“the Company will be required to implement a plan to address this issue, which could mean installing additional treatment facilities or locating better sources of water to achieve 10 ppb or less.”* Without predetermining the outcome, it is possible Ajo customers may be faced with higher water bills to pay for these improvements. It is not in the ratepayers’ interest to phase-in wastewater rates resulting in an artificially high rate of \$16.10 only to be faced with the possibility of another rate hike to pay for arsenic remediation.

4. **This is not the appropriate case for a phase-in.**

In my opinion, there are rate increases where a rate phase-in may be appropriate: 1) when the rate increase is extremely large; 2) when the phase-in period is for a sizeable period of time; and 3) when there is no further expected rate increase for the ratepayer in the near future. This rate case does not meet this three prong analysis.

For the reasons listed above, I dissent.



Mike Gleason
Commissioner

**AJO IMPROVEMENT CO
CALCULATION OF WATER REVENUES
PROPOSED SETTLEMENT RATES - TREATED WATER**

DESCRIPTION	PRESENT REVENUES	PROPOSED REVENUES	INCREASE	PERCENT INCREASE
TREATED WATER:				
5/8" Meters	\$306,818	\$332,111	\$25,293	8.24%
1" Meters	14,219	16,465	2,246	15.80%
1 1/2" Meters	79	83	4	5.06%
2" Meters	54,085	65,413	11,328	20.94%
3" Meters	8,776	9,786	1,010	11.51%
4" Meters	164,957	181,717	16,760	10.16%
Total Treated Water	\$548,934	\$605,575	\$56,641	10.32%

PROPOSED RATES - TREATED:	MONTHLY SERV. CHG.	COMMODITY RATE (000)
5/8" X 3/4" Meters & 3/4" Meters:	\$9.45	
First 3,000 Gallons		\$2.50
Next 7,000 Gallons		2.90
Over 10,000 Gallons		3.30
 1" Meters:	 \$15.75	
First 25,000 Gallons		\$2.90
Over 25,000 Gallons		3.30
 1 1/2" Meters:	 \$26.25	
First 42,000 Gallons		\$2.90
Over 42,000 Gallons		3.30
 2" Meters:	 \$52.50	
First 63,000 Gallons		\$2.90
Over 63,000 Gallons		3.30
 3" Meters:	 \$105.00	
First 120,000 Gallons		\$2.90
Over 120,000 Gallons		3.30
 4" Meters :	 \$210.00	
First 180,000 Gallons		\$2.90
Over 180,000 Gallons		3.30
 6" Meters	 \$300.00	
First 290,000 Gallons		\$2.90
Over 290,000 Gallons		3.30
 Commodity Rates for Public Water Systems (During Off-Peak Hours) - Treated Water (1) Per 1,000 Gallons (In Excess of Minimum)		 \$2.80

NOTE:

(1) Applicable for Service From Meter
Sizes of 4" or Greater

**AJO IMPROVEMENT CO
CALCULATION OF WATER REVENUES
PROPOSED SETTLEMENT RATES - UNTREATED WATER**

DESCRIPTION	PRESENT REVENUES	PROPOSED REVENUES	INCREASE	PERCENT INCREASE
UNTREATED WATER:				
5/8" Meters	\$10,315	\$11,665	\$1,350	13.09%
2" Meters	28,784	33,172	4,388	15.24%
3" Meters	37,746	41,596	3,850	10.20%
4" Meters	8,789	9,276	487	5.54%
Total Treated Water	\$85,634	\$95,709	\$10,075	11.77%

PROPOSED RATES - UNTREATED:	MONTHLY SERV. CHG.	COMMODITY RATE (000)
5/8" X 3/4" Meters & 3/4" Meters:	\$9.45	
First 10,000 Gallons		\$1.70
Over 10,000 Gallons		2.04
1" Meters:	\$15.75	
First 25,000 Gallons		\$1.70
Over 25,000 Gallons		2.04
1 1/2" Meters:	\$26.25	
First 42,000 Gallons		\$1.70
Over 42,000 Gallons		2.04
2" Meters:	\$52.50	
First 63,000 Gallons		\$1.70
Over 63,000 Gallons		2.04
3" Meters:	\$105.00	
First 120,000 Gallons		\$1.70
Over 120,000 Gallons		2.04
4" Meters :	\$210.00	
First 180,000 Gallons		\$1.70
Over 180,000 Gallons		2.04
6" Meters	\$300.00	
First 290,000 Gallons		\$1.70
Over 290,000 Gallons		2.04

WATER DEPARTMENT
SERVICE LINE AND METER INSTALLATION CHARGES:
 (Refundable pursuant to A.A.C. R14-2-40-5)

5/8" x 3/4" Meter	400.00
3/4" Meter	450.00
1" Meter	500.00
1 1/2" Meter	750.00
2" Meter	1,300.00
3" Meter	2,000.00
4" Meter	3,000.00
6" Meter	6,035.00

SERVICE CHARGE:

Establishment	25.00
Establishment (After Hours)	40.00
Meter Test (If Correct)	Cost **
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	***
Re-connection of Service (regular hours)	25.00
Re-connection of Service (after hours)	40.00
NSF Check	20.00
Deferred Payment	1.5%
Meter Reread (If Correct)	10.00
Late Charge	1.5%

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

** Cost includes materials, labor and overheads

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

Ajo Improvement Company - Wastewater Department
 Docket No. WS-01025A-03-0350
 Test Year Ended December 31, 2002

Schedule CSB-16

RATE DESIGN

	Present Rates	--Proposed Rates--	
		Company	Staff
Residential Service - Per Month	\$ 6.08	\$ 16.64	\$ 15.65
Commercial and Municipal			
Regular Service	\$ 6.08	\$ 21.91	\$ 19.60
Additional Toilets	\$ 1.53	None	None
Restaurants with Dishwashers	\$ 18.43	\$ 50.44	\$ 46.14
Additional Monthly Commercial Charges:			
Laundromats - Per Washing Machine	\$ 2.93	\$ 8.02	\$ 7.33
Wash Racks - Per Rack	\$ 2.93	\$ 8.02	\$ 7.33
Residential Equivalents (REU):			
Industrial and Commercial - Per REU	\$ 6.08	\$ 16.64	\$ 15.65
Schools - Per REU	\$ 6.08	\$ 16.64	\$ 15.65

Service Charges:	Present Rates	--Proposed Rates--	
		Company	Staff
Establishment (Regular Hours)	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	(a)	\$ 40.00	\$ 40.00
Re-establishment Within 12 Months	(b)	(b)	(b)
Re-connection of Service (Regular Hours)	\$ 10.00	\$ 50.00	\$ 25.00
Re-connection of Service (After Hours)	(a)	\$ 65.00	\$ 40.00
NSF Check Charge	\$ 10.00	\$ 20.00	\$ 20.00
Late Charge	1.50%	1.50%	1.50%
Deferred Payment Finance Charge	1.50%	1.50%	1.50%
Service Calls - After Hours Only	\$25/hr	\$40/hr	\$40/hr
Deposits	(d)	(d)	(d)
Deposit Interest	(d)	(d)	(d)

(a) No current tariff.

(b) Monthly minimum times months off system (Rule A.A.C. R14-2-603D)

(c) Per A.A.C. R14-2-603D

(d) Per A.A.C. R14-2-603B

Ajo Improvement Company
 WS-01025A-03-0350
 Wastewater Department

Rate Design

Residential Service – Per Month:	Phase 1 \$ 9.42
	Phase 2 12.76
	Phase 3 16.10
Commercial and Municipal	
Regular Service	19.60
Additional Toilets	None
Restaurants with Dishwashers	46.14
Additional Month Commercial Charges:	
Laundromats – Per Washing Machine	7.33
Wash Racks – Per Rack	7.33
Residential Equivalents (REU)	Phase 1 \$ 9.42
Industrial and Commercial – Per REU	Phase 2 12.76
Schools – Per REU	Phase 3 16.10

SERVICE CHARGE:

Establishment (Regular Hours)	\$25.00
Establishment (After Hours)	40.00
Reestablishment (Within 12 Months)	*
Re-Connection of Service (Regular Hours)	25.00
Re-connection of Service (After Hours)	40.00
NSF Check Charge	20.00
Late Charge	1.50%
Deferred Payment Finance Charge	1.50%
Service Calls – After Hours Only	\$40/hour
Deposits	**
Deposit Interest	**

* Monthly minimum times months off system (Commission rule A.A.C. R14-2-603(D)).

** Per A.A.C. R14-2-603B

EXHIBIT B

DECISION NO. 67092