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NEVADA, TEXAS, WYOMING,  
DISTRICT OF COLUMBIA

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May 11, 2005

Arizona Corporation Commission  
**DOCKETED**

Colleen Ryan, Supervisor  
Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

MAY 12 2005

DOCKETED BY

Re: Motion to Re-Open Proceeding ("Motion") in order that the Commission may consider and act upon, if it determines such action to be appropriate, the requests for relief set forth in LQS's contemporaneously filed Application Of Las Quintas Serenas Water Co. For An Opinion And Order To (i) Re-Open Record In Recent Rate Case So As To Consider Evidence In Support Of An Arsenic Cost Recovery Mechanism, And (ii) Modify Rate Case Decision In Order To Add An Arsenic Cost Recovery Mechanism As An Authorized Rate And Charge

Application Of Las Quintas Serenas Water Co. For An Opinion And Order To (i) Re-Open Record In Recent Rate Case So As To Consider Evidence In Support Of An Arsenic Cost Recovery Mechanism, And (ii) Modify Rate Case Decision In Order To Add An Arsenic Cost Recovery Mechanism As An Authorized Rate And Charge

Motion to Re-Open Proceeding ("Motion") in order that the Commission may consider and act upon, if it determines such action to be appropriate, the requests for relief set forth in LQS's contemporaneously filed Application Of Las Quintas Serenas Water Co. For An Opinion And Order To (i) Re-Open Record In Recent Rate Case So As To Consider Evidence Relating To Long-Term Debt Borrowing Costs Associated With Implementation Of Capital Improvements Program, and (ii) Modify Rate Case Decision In Order To Authorize Recovery Of Long-Term Debt Borrowing Costs Within Authorized Rates and Charges

Application Of Las Quintas Serenas Water Co. For An Opinion And Order To (i) Re-Open Record In Recent Rate Case So As To Consider Evidence Relating To Long-Term Debt Borrowing Costs Associated With Implementation Of Capital Improvements Program, and (ii) Modify Rate Case Decision In Order To Authorize Recovery Of Long-Term Debt Borrowing Costs Within Authorized Rates and Charges

Colleen Ryan, Supervisor  
May 11, 2005  
Page 2

Dear Ms. Ryan:

Enclosed for filing are the original(s) and fifteen (15) copies of each of the above-referenced Applications and Motions. As you will note, two different subject matters are involved and one Application and one Motion relate to each. In addition, the enclosed Applications also bear a functional relationship to an Application filed last week on behalf of Las Quintas Serenas Water Co., which has been assigned Docket No. W-01583A-05-0326.

Hopefully, this combination of Applications and Motions in separate dockets will satisfactorily address the impediment to filing that we discussed last week. Please call me in the event you have any questions, and thank you for your assistance.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence V. Robertson, Jr." with a stylized flourish at the end.

Lawrence V. Robertson, Jr.

LVR:cl

enclosures

ORIGINAL

RECEIVED  
BEFORE THE ARIZONA CORPORATION COMMISSION

2005 MAY 12 P 4: 52

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4 Jeff Hatch-Miller  
5 Chairman  
6 William A. Mundell  
7 Commissioner  
8 Marc Spitzer  
9 Commissioner  
10 Mike Gleason  
11 Commissioner  
12 Kristin K. Mayes  
13 Commissioner

AZ CORP COMMISSION  
DOCUMENT CONTROL

14  
15 IN THE MATTER OF THE APPLICATION OF )  
16 LAS QUINTAS SERENAS WATER CO. FOR A ) DOCKET NO. W-01583A-04-0178  
17 RATE INCREASE )  
18 )  
19 ) MOTION TO RE-OPEN  
20 ) PROCEEDING  
21 )  
22 )  
23 )  
24 )  
25 )  
26 )  
27 )  
28 )

Pursuant to A.A.C. R14-3-106(K) and A.R.S. §40-252, Las Quintas Serenas Water Co. ("LQS"), by and through its undersigned attorney, hereby submits this Motion to Re-Open Proceeding ("Motion") in order that the Commission may consider and act upon, if it determines such action to be appropriate, the requests for relief set forth in LQS's contemporaneously filed Application Of Las Quintas Serenas Water Co. For An Opinion And Order To (i) Re-Open Record In Recent Rate Case So As To Consider Evidence In Support Of An Arsenic Cost Recovery Mechanism, And (ii) Modify Rate Case Decision In Order To Add An Arsenic Cost Recovery Mechanism As An Authorized Rate And Charge ("Application"), a copy of which is attached hereto as Appendix "A" and incorporated herein by reference. This Motion is supported by the following Memorandum of Points and Authorities.

Arizona Corporation Commission  
DOCKETED  
MAY 12 2005

DOCKETED BY *APC*

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**MEMORANDUM OF POINTS AND AUTHORITIES**

The circumstances which have occasioned LQS' filing of the Application are discussed therein in detail, and in the interest of brevity are incorporated in this Memorandum of Points and Authorities by reference and as background.

A.R.S. §40-252 authorizes the Commission

“ . . . at any time. . . [to] rescind, alter or amend any order or decision made by it . . . ” [emphasis added]

In this instance, as stated in the Application, LQS is requesting that the Commission rescind, alter or amend the Commission's Decision No. 67455, which was issued in LQS' recently concluded rate case, in order to add an Arsenic Cost Recovery Mechanism (“ACRM”) as a part of LQS' authorized rates and charges for water service. In that regard, as noted in the Application, LQS is also requesting that the Commission re-open the proceeding in Docket No. W-01583A-04-0178 in order to receive evidence LQS wishes to submit in support of a proposed ACRM.

Given the proximity in point of time between the January 4, 2005 date on which Decision No. 67455 was issued and when an evidentiary hearing could be conducted and a decision on the proposed ACRM rendered, LQS believes that the Commission would be in a position to satisfy the requirements of the Scates case incident to an exercise of its authority pursuant to A.R.S. §40-252.

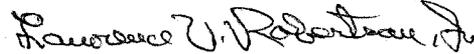
WHEREFORE, LQS hereby requests that the Commission enter an appropriate order (i) re-opening Docket No. W-01583A-04-0178 for the purpose of considering the Application and the relief therein requested by LQS, as well as receiving evidence relating thereto, and (ii) exercising its authority pursuant to A.R.S. §40-252 to rescind, alter or amend Decision No.

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1 67455 so as to include an ACRM as a part of LQS' authorized rates and charges for water  
2 service.

3 Dated this 9<sup>th</sup> day of May, 2005.

4 Respectfully submitted,

5 

6  
7 Lawrence V. Robertson, Jr.  
8 Munger Chadwick, PLC  
9 333 N. Wilmot, Ste. 300  
10 Tucson, Arizona 85711  
11 Attorney for Las Quintas Serenas Water  
12 Company

13 The original and 15 copies of the above  
14 Application were filed this 10<sup>th</sup> day of  
15 May, 2005 with

16 Arizona Corporation Commission's  
17 Docket Control  
18 1200 West Washington  
19 Phoenix, Arizona 85007

20 A copy of the above  
21 Application was hand-delivered  
22 this 10<sup>th</sup> day of May, 2005 to:

23 Ernest Johnson, Director  
24 Utilities Division - ACC  
25 1200 West Washington  
26 Phoenix, Arizona 85007

27 Christopher Kempley  
28 Chief Counsel - ACC  
1200 West Washington  
Phoenix, Arizona 85007

Steve Olea, Assistant Director  
Utilities Division - ACC  
1200 West Washington  
Phoenix, Arizona 85007

APPENDIX "A"

MUNGER CHADWICK, P.L.C.  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

Jeff Hatch-Miller  
Commissioner  
William A. Mundell  
Commissioner  
Marc Spitzer  
Commissioner  
Mike Gleason  
Commissioner  
Kristin K. Mayes  
Commissioner

IN THE MATTER OF THE APPLICATION )  
OF LAS QUINTAS SERENAS WATER CO. ) Docket No. W-01583A-05-\_\_\_\_  
FOR AN OPINION AND ORDER TO (I) RE- )  
OPEN RECORD IN RECENT RATE CASE )  
SO AS TO CONSIDER EVIDENCE IN )  
SUPPORT OF AN ARSENIC COST ) **APPLICATION**  
RECOVERY MECHANISM, AND (II) )  
MODIFY RATE CASE DECISION IN )  
ORDER TO ADD AN ARSENIC COST )  
RECOVERY MECHANISM AS AN )  
AUTHORIZED RATE AND CHARGE )

Pursuant to A.A.C R14-3-106(F) and A.R.S. 40-252, Las Quintas Serenas Water Co. ("LQS"), by and through its undersigned counsel, hereby makes Application For An Opinion and Order to (i) Re-Open Record In Recent Rate Case So As to Consider Evidence In Support of An Arsenic Cost Recovery Mechanism, and (ii) Modify Rate Case Decision In Order to Add An Arsenic Cost Recovery Mechanism As An Authorized Rate and Charge ("Application"). In support of its Application, LQS submits the following information.

**I.**  
**DESCRIPTION OF APPLICANT**

LQS is an Arizona public service corporation subject to regulation by the Commission as a water utility. LQS has received a certificate of convenience and necessity to provide potable water service to the public within a certificated service area in the vicinity of Sahuarita, Arizona.

1 At present, LQS provides such service to approximately 826 customer connections, as well as  
2 standpipe water service to 146 approximately additional customers.

3  
4 As a public water service provider, LQS is subject to the regulations of the United States  
5 Environmental Protection Agency (“EPA”) which have lowered the allowable concentration of  
6 arsenic in drinking water from 50 parts per billion to 10 parts per billion, effective January 23,  
7 2006 (“New Arsenic Rules”).

8 **II.**

9 **CIRCUMSTANCES OCCASIONING APPLICATION**

10 On January 4, 2005, the Commission issued Decision No. 67455 in which it established  
11 new rates and charges for water service for LQS. In its Opinion and Order, the Commission  
12 noted that

13  
14 “The most recent lab analysis indicates that the arsenic  
15 level for LQS’s wells are above the new arsenic MCL.  
16 Recent tests indicate that Well No. 5 has an arsenic MCL of  
17 11 ug/l, Well No. 6 has an arsenic MCL of 15 ug/l, and  
18 Well No. 7 has an MCL of 13 ug/l.” [page 10, lines 20.5-  
19 23.5]

20 Further, the Commission noted that its Staff

21  
22 “...has calculated a preliminary estimate of arsenic removal  
23 costs for LQS’s system using ADEQ Arsenic Master Plan  
24 (“AMP”). Staff’s estimate includes \$186,992 in capital  
25 costs, \$124,122 for annual operations and maintenance  
26 costs, and \$28,409 in engineering costs. However, we make  
27 no finding in this Decision as to the reasonableness of  
28 Staff’s estimates or any costs that may be incurred by LQS  
to meet the new arsenic MCLs. [page 10, lines 24.5-page  
11, line 2.5][emphasis added]

Consistent with the underscored statement, the rates and charges for water service authorized in  
Decision No. 67455 did not include any amount for the recovery of capital costs or operation and  
maintenance expense associated with LQS’s compliance with the New Arsenic Rules.

1 On March 24, 2005, Westland Resources, Inc. ("Westland") presented to LQS a Water  
2 System and Arsenic Master Plan ("Plan").<sup>1</sup> The Plan estimates that LQS will be required to  
3 incur approximately \$995,625 in new capital costs in order to enable it to comply with the New  
4 Arsenic Rules. In that regard, LQS and Severn Trent estimate that LQS will also initially incur  
5 approximately \$ 21,000 in annual operation and maintenance expense in connection with such  
6 compliance. These capital costs and operation and maintenance expense are substantially in  
7 excess of the "preliminary estimate" of the Commission's Staff alluded to in Decision No.  
8 67455. Moreover, as noted above, the rates and charges authorized in that decision do not  
9 include any amount for the recovery of such costs and expense.<sup>2</sup>  
10

11  
12 **III.**

13 **RELIEF REQUESTED IN THIS APPLICATION**

14 By means of this Application, LQS is requesting that the Commission issue an Opinion  
15 and Order re-opening the evidentiary record in Docket No. W-01583A-04-0178 for the purpose  
16 of receiving evidence as to the capital costs and initial annual operation and maintenance  
17 expense it is anticipated that LQS will incur in order to comply with the New Arsenic Rules.<sup>3</sup>  
18 LQS's Board of Directors has approved the Plan, and LQS has submitted the same to the Pima  
19 County Department of Environmental Quality ("PCDEQ") for review and approval.<sup>4</sup> As noted  
20 above, a copy of the same has also been filed with the Commission. LQS anticipates that by the  
21

22 <sup>1</sup> A copy of the Plan was mailed to Brian Bozzo in the Commission's Utilities Division on March 25, 2005  
23 pursuant to Decision No. 67455 in Docket No. W-01583A-04-0178.

24 <sup>2</sup> In the Plan, Westland also recommends \$793,750 of additional capital improvements which are unrelated to the  
25 New Arsenic Rules. By means of a separate and contemporaneously filed application, LQS is requesting a rate  
26 adjustment to recover long-term debt borrowing costs associated with these capital improvements.

27 <sup>3</sup> In addition, by means of a separate motion which is contemporaneously being filed in Docket No. W-01583A-04-  
28 0178, LQS is requesting that the proceeding be re-opened by the Commission in connection with this Application.

<sup>4</sup> LQS anticipates PCDEQ will request additional data from LQS in connection with their review of the Plan, and  
LQS will provide copies of such data as is provided to the Commission as well.

1 time a hearing is scheduled in its re-opened rate case, LQS should have more refined capital  
2 costs and operation and maintenance expense figures for presentation to the Commission as part  
3 of its evidentiary case.

4  
5 In addition, and also by means of the Application, LQS is requesting that the Commission  
6 exercise the authority available to it under A.R.S. 40-250 to modify and amend Decision No.  
7 67455 so as to include as a part of LQS's authorized rates and charges an Arsenic Cost Recovery  
8 Mechanism ("ACRM"). The amount of such ACRM would be based upon and determined by  
9 the Commission's review of the evidence to be presented in the limited re-opened proceeding in  
10 Docket No. W-01583A-04-0178.<sup>5</sup>

11  
12 Finally, and as a corollary matter, LQS recently filed an application with the Commission  
13 requesting authority to incur long-term debt for the purpose of financing capital costs associated  
14 with implementation of the Plan. Inasmuch as some of these proposed borrowing costs would be  
15 associated with the proposed ACRM, it might be appropriate to consolidate that financing  
16 application with this Application (and the one referred to in Footnote 2 above) for hearing and  
17 decision.

18  
19 **IV.**

20 **CONCLUSION**

21 WHEREFORE, LQS hereby requests that the Commission issue an Opinion and Order (i)  
22 re-opening the record in Docket No. W-01583A-04-0178 for the limited purpose of receiving  
23 evidence in support of a proposed ACRM, and (ii) thereafter, if determined to be appropriate,  
24 modifying and amending Decision No. 67455 so as to include an ACRM among LQS'  
25 authorized rates and charges for water service.

26  
27 \_\_\_\_\_  
28 <sup>5</sup> See Footnote 3 above.

1 Dated this 9<sup>TH</sup> day of May, 2005.

2  
3  
4 Lawrence V. Robertson, Jr.

5 Lawrence V. Robertson, Jr.  
6 Munger Chadwick, PLC  
7 333 N. Wilmot, Ste. 300  
8 Tucson, Arizona 85711  
9 Attorney for Las Quintas Serenas Water  
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