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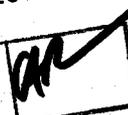
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Arizona Corporation Commission
DOCKETED

JUN 14 2005

DOCKETED BY 

June 14, 2005

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

Re: In the Matter of the Application of Las Quintas Serenas Water Company
(Docket No. W-01583A-05- 0340)

Dear Ms. Ryan:

Enclosed for filing in the above-captioned proceedings are the original and sixteen (16) copies of a Motion to Amend Application In the Matter of the Application of Las Quintas Serenas Water Company.

Also enclosed are two additional copies of the Motion to Amend Application to be conformed and returned to our office.

Please let me know if you have any questions, and thank you for your assistance.

Sincerely,

Lawrence V. Robertson, Jr.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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Jeff Hatch-Miller
Chairman

2005 JUN 14 P 3:44

William A. Mundell
Commissioner

Marc Spitzer
Commissioner

AZ CORP COMMISSION
DOCUMENT CONTROL

Mike Gleason
Commissioner

Kristin K. Mayes
Commissioner

IN THE MATTER OF THE APPLICATION OF)
LAS QUINTAS SERENAS WATER CO. FOR AN)
OPINION AND ORDER TO (i) REOPEN IN)
RECENT RATE CASE SO AS 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.)

Docket No. W-01583A-05-0340

**MOTION TO AMEND
APPLICATION**

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333 NORTH WILMOT, SUITE 300
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Pursuant to A.A.C. R14-3-106(K), Las Quintas Serenas Water Co. ("LQS"), by and through its undersigned counsel, hereby moves to amend its May 9, 2005 Application in the above-captioned proceeding. A copy of the Application, as proposed to be amended, is attached hereto as Appendix "A." This motion is supported by the following Memorandum of Points and Authorities.

MEMORANDUM OF POINTS AND AUTHORITIES

On page 3, line 3.5 of the May 9, 2005 Application, LQS' undersigned counsel stated that the amount of new capital costs LQS would incur in order to enable it to comply with the New Arsenic Rules was approximately \$995,625. In Footnote 2 (on page 3) of the Application, the undersigned stated that the additional amount of capital improvements unrelated to the New Arsenic Rules, which Westland Resources, Inc. had recommended LQS incur at this time, was approximately \$793,750.

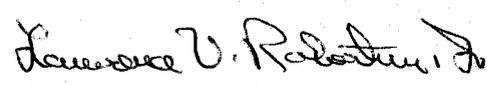
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During a meeting with representatives of LQS and Westland Resources, Inc. on June 8, 2005, the undersigned was advised that his allocation of the capital improvements set forth in the March 24, 2005 Water System and Arsenic Master Plan (developed by Westland for LQS) as between those related to compliance with the New Arsenic Rules and those otherwise desirable for system integrity was incorrect. Rather, the approximate amount of the arsenic related capital improvements is approximately \$1,648,750 and not \$995,625. Similarly, the amount of non-arsenic related capital improvements is approximately \$140,625 and not \$793,750. However, the estimated total amount of capital improvements recommended by Westland in the aforesaid Water System and Arsenic Master Plan of \$1,789,375 is not changed by reason of the above-described reallocations.

Accordingly, LQS is hereby proposing to amend its May 9, 2005 Application in the above-captioned proceeding to (i) substitute the amount of \$1,648,750 for the amount of \$995,625 as the latter appears at page 3, line 3.5 of the Application; and (ii) substitute the amount of \$140,625 for the amount of \$793,750 as the latter appears in Footnote 2 on page 3 of the Application. In this regard, the undersigned has advised Jason Gellman of the Commission's Legal Division of the above-described development and the intended filing of the instant Motion to Amend Application.

Dated this 14th day of June, 2005



Lawrence V. Robertson, Jr.
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Attorney for Las Quintas Serenas Water Co.

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1 The original and 15 copies of the above
2 Motion to Amend Application were filed on
the 14th day of June, 2005 with:

3
4 Arizona Corporation Commission's
5 Docket Control
6 1200 West Washington
7 Phoenix, Arizona 85007

8 A copy of the above Motion to Amend
9 Application was hand-delivered
10 on the 14th day of June , 2005 to:

11 Ernest Johnson, Director
12 Utilities Division - ACC
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Christopher Kempley
16 Jason Gellman
17 Chief Counsel - ACC
18 1200 West Washington
19 Phoenix, Arizona 85007

20 Steve Olea, Assistant Director
21 Utilities Division -ACC
22 1200 West Washington
23 Phoenix, Arizona 85007

24 OK

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APPENDIX "A"

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.

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

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

II.

CIRCUMSTANCES OCCASIONING APPLICATION

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

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

Further, the Commission noted that its Staff

"...has calculated a preliminary estimate of arsenic removal costs for LQS's system using ADEQ Arsenic Master Plan ("AMP"). Staff's estimate includes \$186,992 in capital costs, \$124,122 for annual operations and maintenance costs, and \$28,409 in engineering costs. However, we make no finding in this Decision as to the reasonableness of 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.

On March 24, 2005, Westland Resources, Inc. ("Westland") presented to LQS a Water System and Arsenic Master Plan ("Plan").¹ The Plan estimates that LQS will be required to incur approximately ~~\$1,648,750~~ ~~995,625~~ in new capital costs in order to enable it to comply with the New Arsenic Rules. In that regard, LQS and Severn Trent estimate that LQS will also initially incur approximately \$ 21,000 in annual operation and maintenance expense in connection with such compliance. These capital costs and operation and maintenance expense are substantially in excess of the "preliminary estimate" of the Commission's Staff alluded to in Decision No. 67455. Moreover, as noted above, the rates and charges authorized in that decision do not include any amount for the recovery of such costs and expense.²

III.

RELIEF REQUESTED IN THIS APPLICATION

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

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

² In the Plan, Westland also recommends ~~\$140,625~~ ~~793,750~~ of additional capital improvements which are unrelated to the New Arsenic Rules. By means of a separate and contemporaneously filed application, LQS is requesting a rate adjustment to recover long-term debt borrowing costs associated with these capital improvements.

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

⁴ 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.

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

In addition, and also by means of the Application, LQS is requesting that the Commission exercise the authority available to it under A.R.S. 40-250 to modify and amend Decision No. 67455 so as to include as a part of LQS's authorized rates and charges an Arsenic Cost Recovery Mechanism ("ACRM"). The amount of such ACRM would be based upon and determined by the Commission's review of the evidence to be presented in the limited re-opened proceeding in Docket No. W-01583A-04-0178.⁵

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

IV.

CONCLUSION

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

⁵ See Footnote 3 above.

Dated this ____ day of May, 2005.

Lawrence V. Robertson, Jr.
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333 N. Wilmot, Ste. 300
Tucson, Arizona 85711
Attorney for Las Quintas Serenas Water
Company

The original and 15 copies of the above
Application were filed this _____ day of
May, 2005 with

Arizona Corporation Commission's
Docket Control
1200 West Washington
Phoenix, Arizona 85007

A copy of the above
Application was hand-delivered
this ___ day of May, 2005 to:

Ernest Johnson, Director
Utilities Division - ACC
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Phoenix, Arizona 85007

Christopher Kempley
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