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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS NORTHERN GROUP AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-00-0962

DECISION NO. 66400

OPINION AND ORDER
PHASE II (ARSENIC TREATMENT
COST RECOVERY MECHANISM)

11 DATES OF HEARING: October 3 and 18, 2002; June 26, 2003

12 PLACE OF HEARING: Phoenix, Arizona

13 ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes

14 APPEARANCES: Mr. Norman James, FENNEMORE CRAIG, on behalf
15 of Arizona Water Company;

16 Mr. Daniel W. Pozefksy, Attorney, on behalf of the
17 Residential Utility Consumer Office;

18 Ms. Kay Bigelow, City Attorney, on behalf of the City
19 of Casa Grande;

20 Mr. Walter W. Meek, on behalf of the Arizona Utility
21 Investors Association, Inc.; and

22 Mr. David Ronald, Staff Attorney, Legal Division, on
23 behalf of the Utilities Division of the Arizona
24 Corporation Commission.

BY THE COMMISSION:

I. INTRODUCTION

Arizona Water Company's ("Arizona Water" or "Company") Northern Group serves approximately 16,000 customers under five different sets of rate schedules (Sedona, Pinewood, Rimrock, Lakeside, and Overgaard). In November 2000, Arizona Water filed an application with the Arizona Corporation Commission ("Commission") for rate increases for the five Northern Group systems. In its application, Arizona Water also sought approval to reorganize these systems into two

1 divisions with consolidated rate schedules, and to establish an accounting mechanism to track capital
2 costs and operating expenses related to arsenic treatment and removal to be recovered by the
3 Company upon filing of a notice letter. Arizona Water's request for recovery of arsenic treatment
4 costs arises from rules established by the United States Environmental Protection Agency ("EPA")
5 that require maximum contaminant levels ("MCL") for arsenic in potable water to be reduced from
6 50 parts per billion ("ppb") to 10 ppb, effective January 2006.

7 In August 2001, Arizona Water requested that a separate phase of its rate case be established
8 for purposes of developing an appropriate methodology for recovery of costs associated with the new
9 arsenic MCL requirements. The Company's bifurcation request was not opposed by Staff or the
10 Residential Utility Consumer Office ("RUCO"). By Procedural Order issued October 12, 2001,
11 Arizona Water's request was granted, and the parties were directed to engage in discussions, and file
12 periodic reports, regarding methodologies that may be utilized to deal with cost recovery of arsenic
13 treatment costs.

14 In Decision No. 64282 (December 28, 2001), the Commission approved a rate increase for
15 Arizona Water's Northern Group of approximately 16 percent. In that Decision, the Commission
16 affirmed the need for Phase II to address arsenic treatment cost recovery and ordered that this docket
17 would remain open for an additional 180¹ days to allow the parties to develop a proposed procedure
18 for the recovery of such costs. In addition, the Commission stated that it would "consider Arizona
19 Water's rate consolidation proposal in the context of the parties' ongoing discussions regarding
20 recovery of arsenic MCL capital costs" (Decision No. 64282, at 21).

21 Arizona Water, Staff, and RUCO continued discussions on the Phase II issues (arsenic
22 treatment cost recovery and rate consolidation) and filed a Final Joint Report on May 30, 2002. At
23 the parties' request, a Procedural Conference was conducted on July 16, 2002. On July 23, 2002, a
24 Procedural Order was issued establishing deadlines for filing testimony, publication of notice, and
25 setting a hearing for October 3, 2002 to address issues that remain unresolved from the parties'
26 negotiations. Arizona Water published notice in the *Sedona Red Rock News* and the *White Mountain*

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28 ¹ At the request of Arizona Water, the timeline for consideration of these "Phase II" issues was extended, without
objection, until May 1, 2003.

1 *Independent* in accordance with that directive.

2 The Phase II hearing was conducted on October 3 and 18, 2002. A single set of simultaneous
3 briefs were filed on December 6, 2002 by the Company, Staff, and RUCO.

4 On April 8, 2003, a Recommended Opinion and Order was issued by the Administrative Law
5 Judge. The Recommended Order was discussed at the Commission's April 22, 2003 Open Meeting
6 during which the Commission directed the Hearing Division to conduct additional proceedings
7 regarding the inclusion of potential leasing options for Arizona Water's arsenic treatment facilities.
8 The Commission also directed the Company to investigate all possible loans and grants that may be
9 available for financing installation of arsenic treatment facilities. At the Open Meeting, Arizona
10 Water, Staff and RUCO all expressed an interest in discussing the issue of leasing options prior to a
11 hearing being held.

12 On April 25, 2003, a Procedural Order was issued stating that the parties would be afforded
13 the opportunity to engage in settlement discussions on the leasing issues raised by Arizona Water.
14 Settlement discussions were to be completed by May 30, 2003², and a hearing date of June 26, 2003
15 was established in the event that consensus was not achieved regarding the issues discussed at the
16 April 22, 2003 Open Meeting.

17 On April 28, 2003, the Arizona Utility Investors Association, Inc. ("AUIA") filed an
18 Application for Late-Filed Intervention. AUIA's intervention was subsequently granted.

19 On June 18, 2003, Arizona Water, Staff, RUCO, and AUIA filed testimony regarding the
20 additional issues discussed during the April 22, 2003 Open Meeting. The hearing on these issues was
21 held, as scheduled, on June 26, 2003. Additional post-hearing briefs were filed by the parties on
22 August 15, 2003.

23 **II. DISCUSSION**

24 The parties are in general agreement that some form of streamlined cost recovery is
25 appropriate to enable Arizona Water to recover costs associated with arsenic treatment compliance.
26 There is recognition by Staff that the EPA's new MCL standards will require Arizona Water, as well
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28 ² By Procedural Order issued June 6, 2003, the settlement deadline was extended until June 9, 2003.

1 as other affected water companies, to incur significant costs to come into compliance with the revised
2 standards. For example, Staff witness Gordon Fox testified that a large number of Arizona water
3 utilities will be adversely affected by the MCL requirements to the extent that arsenic removal costs
4 could harm their financial integrity. Mr. Fox added that "a stream-lined procedure could reduce the
5 overwhelming administrative preparation and processing anticipated by the normal rate case and
6 financing cases anticipated..." (Ex. S-1, at 3-4). Staff witness Steve Olea agreed that, without some
7 form of streamlined cost recovery procedure, the magnitude of the costs required for arsenic MCL
8 compliance could affect the financial integrity of a number of companies, including Arizona Water
9 (Tr. 149, 172).

10 Arizona Water's Northern Group has three water "systems" that rely on groundwater
11 containing levels of arsenic in excess of the new MCL standards: Sedona, Valley Vista, and Rimrock
12 (Ex. A-2). Regarding the magnitude of arsenic-related costs, and their potential impact on Arizona
13 Water, the Company estimates that the capital costs (i.e., the cost to construct new facilities for
14 arsenic treatment) for the Sedona system (including Valley Vista - which is already encompassed
15 within the Sedona system for ratemaking purposes) will be approximately \$2.4 million, compared to
16 a total rate base of \$6.3 million. For the Rimrock system, the arsenic treatment capital costs are
17 projected to be \$1.3 million, compared to a total rate base of only \$1 million. Arizona Water
18 estimates its total capital costs will approach \$30 million, on a company-wide basis³.

19 In addition to the capital costs, Arizona Water projects that operation and maintenance
20 ("O&M") costs associated with the new arsenic treatment plant facilities will be approximately
21 \$544,000 and \$531,000 annually for the Sedona and Rimrock systems, respectively. Based on the
22 operating income authorized in Phase I of this case, the annual arsenic treatment O&M costs would
23 represent 90 percent of the Sedona system required operating income, and more than 5 times the
24 required operating income for the Rimrock system (Decision No. 64282, Ex. C; Ex. A-2). Staff's
25 engineering witness, Marlin Scott, agreed that, based on an EPA publication of estimated costs, the
26 Company's capital and O&M projections are reasonable (Tr. 255-256).

27 _____
28 ³ Company witness Ralph Kennedy testified that arsenic compliance capital costs for the Company's Eastern and Western
Groups are estimated to be approximately \$12 million and \$13.5 million, respectively (Ex. A-1, at 8).

1 These estimated costs point out the magnitude of the problem that faces Arizona Water with
2 respect to compliance with the new arsenic MCL requirements. There is no debate by the parties that
3 some form of abbreviated cost recovery procedure is justified given the extraordinary nature of the
4 expected costs, and in order to ensure that the arsenic treatment compliance costs do not compromise
5 the Company's financial integrity and ongoing viability.

6 Company witness Kennedy stated that the parties agree that a step increase procedure, called
7 an Arsenic Cost Recovery Mechanism ("ACRM"), should be approved by the Commission to allow
8 the Company a return on the arsenic MCL capital costs for completed facilities, once such facilities
9 are placed in service and actually serving customers. Under this proposal, two or three increases
10 would be permitted for facilities placed in service between 2003 and January 2006. These capital
11 costs would be recovered through a separately identified surcharge on customer bills.

12 There remains disagreement, however, regarding specific aspects of the proposed recovery
13 mechanism. Each of these points of disagreement is discussed below.

14 **A. Recovery of O&M Expenses**

15 As indicated above, the parties are in agreement that the ACRM should permit recovery of
16 capital costs⁴ expended to construct arsenic treatment plant, once that plant is operational and serving
17 customers (Ex. S-3, at 3; RUCO Ex. 1, at 7).

18 The issue of O&M cost recovery is the most significant disputed issue in this proceeding.
19 During the initial Phase II hearing, Arizona Water clarified that it does not intend to seek recovery of
20 estimated O&M expenses but, instead, would seek recovery of actual recorded expenses or specific
21 known and measurable expenses related to an operating lease of arsenic treatment facilities (Tr. 29-
22 30). The Company also argued that leasing arsenic treatment facilities may have a lower cost than
23 constructing and operating company-owned plant.

24 Although Staff initially opposed recovery of any O&M costs through the ACRM, following
25 subsequent discussions with the Company, Staff modified its position and now recommends

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28 ⁴ According to Arizona Water, the specific capital-related costs that would be recovered are the return on the original (actual) cost of constructing the facilities, additional federal and state income taxes relating to the revenue increase, property taxes, and the depreciation expense associated with the new plant.

1 inclusion of the following specific direct O&M costs: "media replacement or regeneration costs,
2 media replacement or regeneration service costs, and waste media or regeneration disposal costs"⁵
3 (Ex. S-8, at 3). Pursuant to the agreement between Staff and the Company, the "recoverable O&M
4 expenses" will be based on invoices from the contractor providing the services and will be treated the
5 same whether the arsenic treatment facility is constructed by Arizona Water or leased from a third
6 party (Ex. A-3, at 7-8).

7 Under the agreement between Staff and the Company, the recoverable O&M expenses will
8 result from services provided to Arizona Water by third party contractors (Id.; Tr. 362-364).
9 Company witness Ralph Kennedy explained that none of the services listed above are currently being
10 provided by the Company and thus such expenses are not reflected in the Company's rates. Mr.
11 Kennedy stated that Arizona Water intends to contract for these services because of the technical
12 nature of the services and in order to avoid liability regarding disposal of the hazardous waste created
13 by arsenic removal (Id. at 373). The agreement would preclude recovery through the ACRM of other
14 types of O&M expenses which, according to Staff witness Gordon Fox, will make Staff's audit
15 process much easier to complete and prevent any double recovery of expenses (Tr. 397-400).

16 The agreement between Staff and the Company seeks to place the costs of leased treatment
17 facilities on the same level with plant owned and operated by Arizona Water. In order to accomplish
18 this goal, Staff and the Company agreed that all potential lessors of arsenic treatment facilities must
19 agree to break out lease payments into the following three separate components: 1) the lessor's
20 equipment construction costs; 2) recoverable O&M costs (as defined above); and 3) other O&M costs
21 (Ex. A-3, at 7). The lessor will also be required to identify the interest rate embedded in the lease
22 payment (Id.).

23 The so-called "recoverable O&M expenses" are eligible for recovery through the ACRM as
24 follows: 1) costs that have been incurred and deferred in the 12 months prior to the ACRM filing; and
25 2) costs that will continue to be incurred after the ACRM filing. Under the agreement, the deferred
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27 ⁵ In this context, "media" refers to the material that is used to filter and trap the arsenic. The material must periodically be
28 disposed of and replaced by fresh "media" (Tr. 350). These specific O&M costs are identified by Staff and the Company
as the "recoverable O&M costs" (Ex. A-3, at 7).

1 costs will be recovered through a twelve-month surcharge, while recurring costs will be recovered
2 through an adjustment in base rates. However, Arizona Water will not be entitled to recover interest
3 or financing charges associated with the deferred balance (Ex. A-3, at 8-9⁶; Ex. S-8, at 3-5).

4 With respect to timing, the deferral of recoverable O&M expenses will begin upon operation
5 of the arsenic treatment facility, and will continue until the Company makes an ACRM filing seeking
6 recovery of the deferred recoverable O&M expenses. Arizona Water contends that this treatment
7 addresses Staff's concern that recoverable O&M expenses should be known and measurable rather
8 than estimates. Arizona Water has also agreed to Staff's insistence that the deferral period should be
9 limited to a twelve-month period beginning the later of either the in-service date of the treatment
10 facility or the twelve-month period prior to the month in which the ACRM request is filed. Although
11 the Company has the discretion to choose when to request recovery of each facility's deferred
12 recoverable O&M expenses, it can file only two ACRM filings per water system before the
13 Company's next general rate case for the Northern Group. Recovery of expenses is within the
14 Company's control either through the filing of an ACRM or a full rate application.

15 AUIA supports the agreement reached by Staff and Arizona Water, although AUIA questions
16 the need for "dissecting" a lease into separate O&M and capital-related components (AUIA Ex. 1, at
17 5). AUIA witness Walter Meek testified that Staff's and RUCO's concern with identifying specific
18 O&M costs for arsenic treatment facilities may threaten leasing as a least-cost option for Arizona
19 Water and other affected water utilities in Arizona (Id. at 6).

20 RUCO opposes inclusion of O&M expenses in the ACRM. RUCO witness Marylee Diaz
21 Cortez testified that inclusion of O&M costs in the ACRM audit process would expand the expedited
22 process into a virtual full rate case (Tr. 89-90). Ms. Diaz Cortez also stated that expansion of the
23 ACRM to include O&M would broaden the scope of the process to the point that there would be no
24 assurance that the rates are fair and reasonable (Tr. 91). RUCO argues that the Company should be
25 required to file a full rate case if it seeks to recover O&M costs related to arsenic treatment.

26 With respect to arsenic treatment lease costs, RUCO believes the ACRM should exclude any
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28 ⁶ An example of the computation of recoverable O&M expenses and capital-related costs under the Staff/Company proposed modified ACRM is set forth in Exhibit RJK-1 to Mr. Kennedy's testimony (Ex. A-3).

1 O&M costs whether the Company leases or operates the facilities itself. Ms. Diaz Cortez testified
2 that RUCO's recommendation could be accomplished by requiring lease payments to be broken out
3 into capital costs and O&M costs, and allowing the Company to recover a return on, and depreciation
4 of, the incremental arsenic plant. However, under RUCO's recommendation, all O&M costs
5 associated with the arsenic treatment facilities would require examination in a full rate case prior to
6 being afforded recovery (RUCO Ex. 2, at 6-7)⁷.

7 After considering the arguments regarding the O&M recovery issue, we believe the modified
8 ACRM proposed by Staff and the Company is a reasonable compromise of the positions previously
9 advocated by those parties. In addition to providing a mechanism for recovery of capital costs
10 incurred by Arizona Water, which costs are not opposed even by RUCO, the modified ACRM offers
11 the Company an opportunity to recover limited verifiable O&M costs in a timely manner. The
12 proposed ACRM also treats leasing and owning arsenic treatment facilities on an equal basis, thereby
13 affording Arizona Water the flexibility to negotiate the least-cost means of complying with federal
14 arsenic limit mandates. However, the recovery of O&M expenses is confined to specific and
15 narrowly defined costs in order to enable Staff and other parties to more easily audit expenditures
16 incurred by the Company for the treatment facilities. The Company also retains the opportunity to
17 file a general rate application.

18 **B. Number of Step Increases**

19 The parties also disagree regarding the number of step increases that should be permitted prior
20 to the Company's next full rate case in 2007. Arizona Water proposed that it should be entitled to
21 three step increases, while Staff and RUCO recommend that each affected system be limited to two
22 step increases (Ex. A-1, at 10; Ex. S-1, at 11, RUCO Ex. 1, at 5). Arizona Water argues that the
23 ability to request three step increases will allow the Company greater flexibility and will enable it to
24 better match operating income with debt service costs. Arizona Water also contends that three step
25 increases will be preferable for customers because the increases will be implemented in smaller
26 increments. The Company claims smaller increases will be even more important if the Commission

27 _____
28 ⁷ RUCO also raised the argument that the modified ACRM exceeds the scope of the Commission's legal authority with respect to approval of automatic adjustment mechanisms. RUCO's legal arguments are addressed below.

1 disallows Arizona Water's proposed consolidation of the Sedona and Rimrock systems (see Rate
2 Consolidation discussion below).

3 Staff and RUCO believe that the ACRM should be limited to two steps in order to reduce the
4 number of increases imposed on customers (Ex. S-1, at 11; RUCO Ex. 1, at 5). RUCO claims that
5 limiting the increases to two steps will help mitigate the possibility of "rampant rate changes without
6 the proper full rate analysis" (RUCO Ex. 1, at 5). Staff contends that the ACRM process is a
7 variance from normal ratemaking procedures and it is intended to benefit customers. According to
8 Mr. Fox, the Company always has the option of filing a full rate case if it determines that the step
9 increases are insufficient to recover its costs. In addition, Staff argues that allowing multiple step
10 increase filings will undermine the administrative efficiency goals inherent in establishment of the
11 ACRM (Ex. S-1, at 11).

12 We agree with Staff and RUCO that the number of step increases under the ACRM should be
13 limited to two. Phase I of this docket authorized Arizona Water to increase rates by an average of 16
14 percent (Decision No. 64282). That Decision represents what is essentially the "first step" increase in
15 this proceeding. Two additional step increases prior to the Company's filing of a full rate case in
16 2007 should be sufficient to allow Arizona Water an opportunity to recover a significant percentage
17 of the arsenic treatment costs it expects to incur over the next three years. However, the ACRM
18 process is not a substitute for a full rate review which will be conducted after all of the Company's
19 arsenic treatment costs are known and measurable. As Staff points out, Arizona Water is not
20 precluded from seeking a full rate review prior to its anticipated 2007 rate filing if the Company
21 believes such a review would more accurately reflect its costs.

22 **C. Deadline for Filing Rate Application**

23 Staff and RUCO originally proposed that ACRM approval should be conditioned on a
24 requirement that Arizona Water file a general rate application by no later than May 2007, based on a
25 2006 test year. Although Arizona Water initially opposed the rate case filing deadline proposed by
26 Staff and RUCO, the Company now agrees that a rate application deadline is appropriate, consistent
27 with the Arizona Supreme Court's discussion in *Arizona Community Action Assoc. v. Arizona*
28 *Corporation Comm'n*, 123 Ariz. 228, 559 P.2d 184 (1979). However, the Company asserted at the

1 hearing that a September 30, 2007 deadline for filing the general rate application is more appropriate
2 in order to enable the Company to compile the information needed to prepare the required rate
3 schedules (Tr. 44).

4 During the hearing, Staff agreed that extending the required filling date until September 30,
5 2007 would be acceptable, based on a 2006 test year (Tr. 274). RUCO's witness also testified that
6 delaying the deadline by the few months proposed by the Company "alleviated a lot of our concerns"
7 (compared to RUCO's initial belief that the Company opposed any filing deadline) (Tr. 140).

8 Since there does not appear to be any remaining disagreement on this point, Arizona Water
9 shall be required, as a condition of approval of the ACRM, to file a general rate application for its
10 Northern Group by no later than September 30, 2007, based on a 2006 test year.

11 **D. Rate Design for ACRM**

12 Staff and the Company agree that a pre-determined rate design method should be established
13 for recovery of arsenic costs recovered under the ACRM. However, Arizona Water proposes that
14 capital costs should be recovered through a monthly surcharge based on meter size, and a commodity
15 surcharge should be assessed to recover O&M costs. Staff, on the other hand, recommends that 50
16 percent of the capital costs should be recovered through a surcharge on the monthly minimum rate,
17 with the other 50 percent recovered by a surcharge on the commodity rate (Ex. S-1, at 9). RUCO has
18 not proposed a specific rate design because it contends that the design of rates should be addressed on
19 a system-by-system basis (RUCO Ex. 1, at 5-6).

20 We believe that Staff's recommendation results in an appropriate balancing of the cost burden
21 between the monthly minimum charge and the commodity rate (see Ex. S-1, at 9). We do not agree
22 that RUCO's proposal to leave the rate design issue undecided is appropriate. Given the fact that the
23 Company's Northern Group has recently undergone a thorough review of individual system
24 characteristics (Decision No. 64282), and the fact that the ACRM in this case affects only two of
25 those systems (Sedona and Rimrock), we find that it is more efficient and appropriate to establish rate
26 design features in this initial approval rather than attempting to determine a proper design when the
27 individual step increases are implemented. Accordingly, Staff's recommendation to split ACRM
28 costs between the monthly minimum charge and commodity charges, with increasing responsibility

1 based on meter size, should be adopted in the implementation of the ACRM approved in this
2 proceeding.

3 **E. Rate Consolidation**

4 As indicated above, the Commission left open for review in Phase II the Company's request
5 to consolidate the Sedona, Pinewood, and Rimrock systems and its Lakeside and Overgaard systems.
6 In Decision No. 64282, the Commission indicated that Arizona Water's rate consolidation proposal
7 would be considered in the context of developing a procedure for the recovery of arsenic treatment
8 costs (Decision No. 64282, at 18-21).

9 Arizona Water's Northern Group has three water systems that rely on groundwater containing
10 levels of arsenic in excess of the new MCL standards: Sedona, Valley Vista, and Rimrock (Ex. A-2).
11 As previously described, each of these systems is expected to incur significant costs for the treatment
12 of arsenic to achieve compliance with the EPA requirements. Since the Sedona and Valley Vista
13 systems are already consolidated for ratemaking purposes, Arizona Water is requesting a limited two-
14 step consolidation process in this proceeding. In the first step, the Company proposes consolidating
15 the Sedona and Rimrock systems for purposes of adopting a single set of monthly minimum charges,
16 and applying that surcharge to both systems over the period of 2003 through 2006. In its next general
17 rate case, the Company would develop a single commodity charge to be assessed to both systems.

18 In support of its consolidation proposal, Arizona Water points out that the 5/8" x 3/4"
19 minimums for Sedona and Rimrock are currently \$15.70 and \$16.10, respectively (Ex. A-1, RJK2-5,
20 Sched. 5). The Company states that a consolidated Sedona/Rimrock minimum of \$15.76 would
21 produce the same level of revenue, and the addition of a consolidated arsenic surcharge of \$7.40
22 would result in a minimum monthly charge of \$23.16 for Sedona and Rimrock on a consolidated
23 basis. According to Arizona Water, without consolidation Sedona's capital surcharge would be \$5.22
24 and Rimrock's would be \$21.64, resulting in monthly minimum charges of \$20.92 and \$37.74,
25 respectively. On a percentage basis, arsenic treatment costs would cause a 245 percent increase in
26 rates for Rimrock customers and a 44 percent increase for Sedona, if the systems are not
27 consolidated. However, if the systems are consolidated, the estimated revenue requirement for both
28 systems would increase by 53 percent (Ex. A-1, at 15-16; Tr. 36-42).

1 Arizona Water cites two decisions by regulatory agencies in other states to support its
2 contention that rate consolidation is a recognized regulatory principle when faced with significant
3 rate increases. In *Indiana American Water Company*, Cause 40703 (December 11, 1997), the Indiana
4 Utility Regulatory Commission approved "single tariff pricing" (i.e., rate consolidation) to mitigate
5 significant rate increases for customers of smaller water systems as a result of costs associated with
6 the Safe Drinking Water Act. In *Pennichuck Water Works, Inc.*, Order No. 22,883 (March 25, 1998),
7 the Public Utilities Commission of New Hampshire recognized that "single tariff pricing" is
8 appropriate when stand alone rates for customers in small systems produce results that are "well
9 beyond the zone of 'just and reasonable'".... because "the systems are simply too small to absorb the
10 magnitude of investments mandated by environmental enactments." Consistent with the
11 determinations by those regulatory commissions, the Company claims that it makes no sense to delay
12 consideration of consolidation until the next rate case, as Staff advocates, because of the disparate
13 impact on customers in the Rimrock system.

14 Staff and RUCO oppose Arizona Water's proposed rate consolidation on the basis that it
15 would cause customers in one system to subsidize those served by another system. Mr. Fox stated
16 that independent systems should have rates and charges that are independently cost based to the
17 greatest extent possible (Ex. S-1, at 12). He added that price should reflect cost in order to efficiently
18 allocate resources. Staff witness Olea testified that, although Staff recognizes societal goals
19 sometimes require subsidization, Staff believes the issue of rate consolidation should not be
20 considered until the Company's next full rate case when all arsenic costs are known (Ex. S-3, at 7-8).
21 Ms. Diaz Cortez agrees with Staff that rate consolidation should not be permitted in this proceeding.
22 She testified that, because the Rimrock system is the biggest "cost causer" with respect to arsenic
23 compliance, customers in that system should bear the costs of treatment without subsidization by
24 customers in the Sedona system (RUCO Ex. 1, at 6).

25 Arizona Water's proposal to consolidate the Sedona and Rimrock systems for ratemaking
26 purposes is denied. Staff's recommendation which is supported by RUCO, will eliminate the need
27 for customers in the Sedona system to subsidize Rimrock customers, and will more accurately reflect
28 a proper allocation of costs to the systems that cause the Company to incur such costs. Maintaining

1 the individual identity of each of the systems for ratemaking purposes is consistent with our directive
2 to Arizona Water in Decision No. 64282, and prior to that in Decision No. 58120 (December 23,
3 1992), to preserve individual system data and rates.

4 **F. Earnings Test**

5 Arizona Water and Staff agree that some form of "earnings test" should be employed for
6 evaluating the ACRM step increases. Under an earnings test, the Company would be permitted rate
7 increases only to the extent that the resulting operating income does not result in a return on rate base
8 in excess of the authorized return of 9.64 percent (Ex. A-1, at 11-12; Tr. 196-197). The Company
9 points out that imposition of an earnings test is necessary to ensure that any future step increases
10 relate back to the Commission's "fair value" rate base. Although the step increases will cause
11 adjustments to the Company's authorized rate base, those adjustments will be based on the actual cost
12 of the additional plant constructed to treat arsenic, and will be consistent with the step increase
13 procedure discussed by the Arizona Supreme Court in *Arizona Community Action, supra*.

14 Although the parties agree on the necessity of an earnings test, they disagree as to the
15 methodology that should be used for applying the test. Arizona Water argues that the earnings test
16 should be applied to the relevant rate unit (i.e., the system for which the step increase is being
17 sought). The Company claims that under a consolidated Sedona/Rimrock system, the earnings test
18 would be applied to the consolidated rate base, income statement and other relevant financial data for
19 only those systems to determine whether earnings exceed the authorized return. Arizona Water
20 contends that its proposal represents the most reasonable approach because rates are currently set on a
21 system-by-system basis.

22 Staff recommends that the earnings test should be applied to the entire Northern Group for
23 purposes of evaluating Arizona Water's earnings. Mr. Fox points out that the Commission has
24 authorized the Company to make rate applications for its 18 systems only in three separate Groups
25 (Northern, Eastern and Western). Therefore, Staff contends it is inappropriate to permit the Company
26 to use earnings on an individual system basis for purposes of establishing proposed step increases
27 (Ex. S-1, at 7-9). RUCO did not take a position on the earnings test issue.

28 We agree with the Company that the earnings test should be applied on a system basis, rather

1 than a Group basis. Staff's position fails to take into account that the rate increases approved in
2 Phase I of this proceeding were based on the rate base and operating income of each individual
3 system in the Northern Group. In Decision No. 64282, we cited to Arizona Water's prior Order in
4 Decision No. 58120 (December 23, 1992) which stated that, although the Company could develop a
5 "three-group concept" for filing purposes (as an efficiency measure), the individual system data and
6 rates were to be preserved (Decision No. 64282, at 21). Consistent with this concept, we believe it is
7 appropriate for Arizona Water's earnings test to be evaluated on a system-by-system basis.

8 **G. Step Increase Filing Requirements**

9 Arizona Water agrees that in any application for a step increase under the ACRM, it will file a
10 set of schedules that includes the following information: (1) the most current balance sheet at the time
11 of the filing; (2) the most current income statement; (3) an earnings test schedule (in accordance with
12 the discussion above); (4) a rate review schedule (including the incremental and pro forma effects of
13 the proposed increase); (5) a revenue requirement calculation; (6) a surcharge calculation; (7) an
14 adjusted rate base schedule; (8) a CWIP ledger (for each project showing accumulation of charges by
15 month and paid vendor invoices); (9) calculation of the three factor formula (as requested by Staff);
16 and (10) a typical bill analysis under present and proposed rates.

17 RUCO does not oppose the Company's proposal regarding the filing requirements. RUCO's
18 witness stated the Company should be required to file all of the information included in Mr.
19 Kennedy's Exhibit RJK2-5, and that the Company should provide its "billing determinants" (i.e.,
20 information filed in a rate case as Schedule H-4 consisting of historical consumption and bill counts
21 for each meter size and rate class) (RUCO Ex. 1, at 9).

22 Staff generally agrees with the schedules Arizona Water proposes to submit in its step
23 increase request. Mr. Fox indicated that Staff's modifications to the Company's schedules were
24 "fairly small" and he agreed that additional schedules would not likely be needed. However, Staff
25 reserved the right to serve data requests on the Company to clarify the filings or seek additional
26 information related to the step increase application (Tr. 199-201).

27 It appears that the parties are in agreement regarding the information and schedules that will
28 be required as part of an application for a step increase under the ACRM. Arizona Water should file

1 any step increase requests in Phase II of this docket with the schedules identified in Mr. Kennedy's
2 testimony. Staff is not precluded from requesting additional relevant information from the Company
3 in the form of data requests or additional schedules as may be required for evaluation of the request.
4 Intervenors shall also be permitted to seek information regarding the Company's filing through data
5 requests. Arizona Water shall respond to all such data requests within 10 days of service.

6 **H. Procedural Format for Approval of Step Increases**

7 There appears to be some disagreement as to the scope of review for step increase
8 applications filed by Arizona Water. On the one hand, the Company believes that the expedited
9 nature of the ACRM process requires that the review of the proposed step increases must necessarily
10 limit the scope of the proceeding in which the proposal is evaluated. On the other hand, both Staff
11 and RUCO contend that the expedited ACRM process "is not intended to deprive any party of any of
12 its rights" (Ex. S-3, at 6). RUCO asserts that the right to address any relevant issue has not been
13 waived (RUCO Ex. 1, at 9).

14 We agree with Staff and RUCO that the parties to this proceeding have not waived their right
15 to address relevant issues that may arise in the course of any future step increase filing. We also
16 agree that any party has the right to request intervention in a subsequent step increase "phase" of this
17 proceeding and to assert all rights afforded to an intervenor. Certainly parties should have the ability
18 to analyze thoroughly all schedules submitted by the Company in connection with its request, and to
19 seek additional relevant information related to the filing. However, we do not expect that parties
20 should be entitled to relitigate the issues that have been decided in this Decision. In other words, the
21 subsequent step increase filings should not be considered an opportunity to make a collateral attack
22 on this Decision.

23 Staff indicated that its review of such filings will likely take at least 30 days, but the review
24 will be completed as soon as possible (Tr. 201). If necessary, a short hearing may be required to
25 examine unresolved issues. If no hearing is held, Staff will issue a recommendation for the
26 Commission's consideration. If a hearing is conducted by the Hearing Division, a Recommended
27 Order will be issued by an Administrative Law Judge for the Commission's consideration.

28

1 **I. Recovery of Property Taxes**

2 Staff witness Gordon Fox testified that, although it is unclear whether Arizona Water is
3 recommending that property tax expenses should be recovered through the ACRM as part of the
4 capital cost component, Staff believes it is inappropriate for property taxes to be included in the
5 ACRM (Tr. 385-386). Mr. Fox stated that, due to the lag in property tax assessments by the Arizona
6 Department of Revenue ("DOR"), the Company would not incur property tax liability on the new
7 arsenic treatment plant for a substantial period after the plant is placed in service. Therefore, Staff
8 recommends that recovery of property taxes associated with the treatment facilities should be
9 addressed in Arizona Water's 2007 rate case filing, when the impact of such taxes will be fully
10 realized by the Company (Id.).

11 Arizona Water did not present any testimony on this issue. Nor did the Company cross-
12 examine Mr. Fox regarding his direct testimony. However, in a footnote to its post-hearing brief,
13 Arizona Water expressed "disagreement" with Staff's recommendation because it is "predicated on a
14 misunderstanding of the computation and billing cycle for property taxes, while ignoring the lag
15 inherent in the ratemaking process" (Company Brief at 9, footnote 6).

16 Staff's description of the lag between construction of new plant and assessment by DOR is
17 uncontroverted in the record. There is no basis for Arizona Water to complain after the close of the
18 hearing that Staff's position is flawed when the Company did not attempt to rebut Staff's
19 recommendation or challenge Staff's witness on this issue during the hearing. Accordingly, we agree
20 with Staff's recommendation that property taxes should not be included in the Company's ACRM
21 filings.

22 **J. Availability of Grants and Loans**

23 During the April 22, 2003 Open Meeting, Arizona Water was directed to investigate the
24 availability of grants and low-cost loans for financing the construction of arsenic treatment facilities.
25 Mr. Kennedy testified that, although the Water Infrastructure Finance Authority ("WIFA") has eight
26 potential sources of funding, Arizona Water is not eligible for seven of those options due to factors
27 such as population size, geographic location, and income restrictions (Ex. A-3, at 11-12). With
28 respect to the eighth WIFA alternative (application for a WIFA loan), Mr. Kennedy indicated that

1 although Arizona Water could be eligible for such a loan, additional investigation is needed to
2 determine whether WIFA's standard administrative requirements would be workable for the
3 Company and if loans to Arizona Water would be the best use of WIFA's limited arsenic treatment
4 facilities financing pool (Id.).

5 Mr. Kennedy also testified that, prior to the Commission's directive at the Open Meeting, the
6 Company applied for eligibility to participate in the EPA's Treatment Technology Demonstration
7 program. Under this program, the EPA plans to build up to 12 full-scale demonstration plants, two of
8 which will be built in Arizona Water's Northern Group. One of the demonstration plants will be built
9 in the Company's Rimrock system and the other in the Valley Vista system, which is within the
10 Sedona system. Mr. Kennedy indicated that, at the conclusion of the demonstration project the
11 Company may acquire the facility at a significant cost savings (Id. at 11).

12 It appears that Arizona Water has, to date, made reasonable efforts to investigate the
13 availability of grants and loans for arsenic treatment facilities. We expect the Company to continue
14 to monitor the availability of all grants and financing sources in order to mitigate the rate impact on
15 its customers.

16 **III. LEGAL AUTHORITY FOR APPROVAL OF ACRM**

17 At the close of the October 2002 hearing, the Administrative Law Judge directed the parties to
18 include a discussion in their post hearing briefs regarding the Commission's legal authority for
19 approving step increases under the ACRM process. Arizona Water, Staff, and RUCO all agree that
20 the step increase process contemplated by the ACRM is within the Commission's constitutional and
21 statutory authority, and is permitted under applicable case law.

22 The parties agree that the proposed ACRM step increase procedure is based on an approach
23 employed by Arizona Public Service Company for construction work in progress ("CWIP") that was
24 discussed by the Arizona Supreme Court in *Arizona Corporation Comm'n v. Arizona Public Service*
25 *Co.*, 113 Ariz. 368, 555P.2d 326 (1976) and *Arizona Community Action Assoc. v. Arizona*
26 *Corporation Comm'n*, 123 Ariz. 228, 559 P.2d 184 (1979). In *Arizona Public Service*, the Court
27 stated that the Commission has discretion to consider matters subsequent to the test year, as long as
28 the ratemaking method used by the Commission complies with the "fair value" mandate of the

1 Arizona Constitution⁸. The Court concluded that it was in "the public interest to have stability in the
2 rate structure within the bounds of fairness and equity rather than a constant series of rate hearings."
3 *Arizona Public Service*, 113 Ariz. At 371, 555 P.2d at 329. The Court in *Arizona Community Action*
4 upheld the Commission's authority to allow post-test year increases for CWIP in determining a
5 company's "fair value" rate base. Although the Court rejected the methodology used to determine
6 the step increases (due to the Court's concern that the step increases were based entirely on the utility
7 company's return on common equity falling below a specified level), it found the Commission's
8 CWIP allowance "within two years from the effective date of the Step II increase" to be "entirely
9 reasonable." *Arizona Community Action*, 123 Ariz. at 230-231, 559 P.2d at 186-187.

10 In this case, the Commission determined the "fair value" rate bases for each of the Northern
11 Group systems in Decision No. 64282. Additional notice and a hearing were held regarding the
12 development of appropriate procedures that should be implemented for effecting the subsequent step
13 increases contemplated by the ACRM process. In addition, the parties have agreed that Arizona
14 Water must file a general rate application for its entire Northern Group in 2007, based on a 2006 test
15 year. Thus, unlike the Court's concern in *Arizona Community Action*, Arizona Water's step increases
16 would not be tied to the Company's return on equity but would, instead, require the Company to file
17 a thorough justification through filing of detailed schedules based on actual costs for construction of
18 the arsenic treatment facilities. Moreover, prior to receiving any step increases under the ACRM
19 process, Arizona Water's return on rate base for the affected systems could not exceed its authorized
20 return on "fair value" rate base of 9.64 percent.

21 The Commission's authority to approve step rate increases is also supported by *Scates v.*
22 *Arizona Corporation Comm'n*, 118 Ariz. 531, 578 P.2d 612 (App. 1978). In *Scates*, the court
23 determined that the Commission did not have the authority to increase rates without any
24 consideration of the impact of the overall rate of return on the company's rate base. However, the
25 court indicated that there may be "exceptional situations" where the Commission could authorize
26

27 ⁸ The "fair value" requirement was affirmed more recently in *US West Communications, Inc. v. Arizona Corporation*
28 *Comm'n*, 201 Ariz. 242, 34 P.3d 351 (2001) and *Residential Utility Consumer Office v. Arizona Corporation Comm'n*,
199 Ariz. 588, 20 P.3d 1169 (App. 2001).

1 partial increases outside of a general rate case. *Scates*, 118 Ariz. at 537, 578 P.2d at 618. The court
2 stated that it was not deciding “whether the Commission could have referred to previous submissions
3 with some updating or whether it could have accepted summary financial information.” *Id.* As
4 indicated above, the ACRM step increases specifically require that Arizona Water file updated
5 financial information to verify the actual expenditures incurred for installing arsenic treatment plant,
6 as well as schedules verifying that the requested step increase will not result in a return in excess of
7 the Company’s “fair value” rate base return.

8 Prior to the June 26, 2003 hearing, as well as in its post-hearing brief, RUCO made the
9 argument that the case law in Arizona prohibits the inclusion of O&M costs through an adjustment
10 mechanism. RUCO claims that the modified ACRM proposed by Staff and the Company exceeds the
11 type of abbreviated procedure contemplated in the *Arizona Community Action* decision because that
12 case approved only rate base updates, not O&M adjustments. RUCO also argues that including
13 media-related O&M expenses results in the type of piecemeal ratemaking that is prohibited by the
14 *Scates* decision. RUCO suggests that inclusion of O&M expenses in the ACRM presents
15 “matching” problems and that allowing only media-related expenses is an arbitrary distinction.
16 RUCO contends that the modified ACRM creates disconnects between changes that will or will not
17 be recognized. RUCO also asserts that leasing can be put on equal footing with purchasing simply by
18 allowing all the capital costs of the lease to be included in the ACRM. According to RUCO, it can
19 support an ACRM process only if O&M expenses are excluded.

20 We disagree with RUCO’s contention that inclusion of the recoverable O&M expenses
21 violates the tenets of the *Scates* decision. As the Arizona court explained in that decision, automatic
22 adjustment mechanisms may be approved in the context of a general rate proceeding as long as the
23 expenses are specific and narrowly defined. The modified ACRM proposed by Staff and Arizona
24 Water satisfies the *Arizona Community Action* and *Scates* requirements because it is an automatic
25 adjustment mechanism that is being considered in a rate proceeding which includes a “fair value”
26 analysis of the Company’s utility plant. Moreover, the expenses that are eligible for recovery under
27 the ACRM adjustor mechanism are narrowly defined costs that will be incurred by direct payments to
28 third party contractors. We believe these components satisfy the requirements delineated in both the

1 *Scates and Arizona Community Action* decisions.

2 **IV. CONCLUSION**

3 Our approval of the modified ACRM process agreed to by Staff and Arizona Water, as
 4 outlined in this Order, recognizes that Arizona Water faces significant costs in the next several years
 5 to comply with the EPA's new arsenic MCL standards. The impact on Arizona Water, as well as
 6 many other smaller water companies, will be significant, as has been recognized by both Staff and
 7 RUCO. It is commendable that the parties worked diligently to develop a concept for prompt
 8 recovery of arsenic treatment costs in a manner that satisfies constitutional and statutory
 9 requirements, as well as court decisions regarding step increases. Absent the implementation of an
 10 ACRM mechanism, the only viable alternative would be a series of rate applications and the
 11 possibility that interim rate relief would be required to maintain the Company's financial integrity
 12 until rate relief could be granted.

13 The ACRM modifications proposed by Staff and the Company represent a reasonable
 14 compromise of the disputed issues regarding recovery of O&M expenses. As explained above, the
 15 agreement between Staff and Arizona Water will enable the Company to recover a portion of
 16 additional O&M expenses associated with arsenic treatment facilities, whether those facilities are
 17 constructed and operated by Arizona Water or by a third party pursuant to a lease agreement.
 18 However, the recovery of O&M expenses is confined to specific and narrowly defined costs in order
 19 to enable Staff and other parties to more easily audit expenditures incurred by the Company for the
 20 treatment facilities.

21 We believe this Decision properly balances the need for Arizona Water to remain financially
 22 sound with the avoidance of significant rate shock to customers who are affected by the arsenic
 23 requirements. We trust that all parties will work cooperatively in implementing this Decision to
 24 ensure that the ACRM approved herein provides an effective means of addressing the issue of arsenic
 25 reduction.

26 * * * * *

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

FINDINGS OF FACT

1
2 1. Arizona Water is an Arizona corporation engaged in the business of providing water
3 utility service to the public in portions of Arizona pursuant to authority granted by the Commission.

4 2. Arizona Water's Northern Group serves approximately 16,000 customers under five
5 different sets of rate schedules (Sedona, Pinewood, Rimrock, Lakeside, and Overgaard).

6 3. In November 2000, Arizona Water filed an application with the Commission for rate
7 increases for the five Northern Group systems.

8 4. In August 2001, Arizona Water requested that a separate phase (Phase II) of its rate
9 case be established for purposes of developing an appropriate methodology for recovery of costs
10 associated with the EPA's new arsenic MCL requirements.

11 5. In Decision No. 64282, the Commission approved a rate increase for Arizona Water's
12 Northern Group of approximately 16 percent. In that Decision, the Commission affirmed the need
13 for Phase II to address arsenic treatment cost recovery and ordered that this docket would remain
14 open to allow the parties to develop a proposed procedure for the recovery of such costs, and to
15 consider the Company's rate consolidation proposal.

16 6. The Phase II hearing was conducted on October 3 and 18, 2002. Notice of the hearing
17 was given by Arizona Water in accordance with the law.

18 7. Arsenic treatment compliance costs are estimated to be \$3.7 million for the Sedona
19 and Rimrock systems, which are the only systems in the Company's Northern Group that require
20 treatment to achieve compliance with the EPA's new MCL standards.

21 8. It is appropriate for Arizona Water to recover through the ACRM capital expenses,
22 excluding property taxes, associated with arsenic treatment compliance. It is also appropriate, subject
23 to the specific guidelines set forth in the agreement between Staff and the Company as described
24 herein, to allow Arizona Water to recover through the ACRM process the following specific O&M
25 expenses: media replacement or regeneration costs; media replacement or regeneration service costs;
26 and waste media or regeneration disposal costs.

27 9. Arizona Water may seek two step increases through the ACRM process during the
28 interim period prior to its general rate application in 2007.

1 10. Arizona Water shall file a full rate application by no later than September 30, 2007,
2 based on a 2006 test year.

3 11. Under the ACRM, Arizona Water's rate design shall be based on 50 percent of the
4 capital costs being recovered through a surcharge on the monthly minimum rate, with the other 50
5 percent recovered by a surcharge on the commodity rate.

6 12. Arizona Water's proposal to consolidate the Sedona and Rimrock systems for
7 ratemaking purposes is denied. As supported by Staff and RUCO, this Commission finds that the
8 customers in the Sedona system should not subsidize the costs of Rimrock customers. Furthermore,
9 independent systems will more accurately reflect a proper allocation of costs to the systems that cause
10 the Company to incur such costs.

11 13. The "earnings test" that is to be employed during Staff's audit of ACRM step
12 increases is properly based on a system basis, rather than a Group basis, consistent with the
13 establishment of general rates on a system-by-system basis.

14 CONCLUSIONS OF LAW

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

17 2. The Commission has jurisdiction over Arizona Water and of the subject matter of the
18 issues raised in the Company's ACRM proposal and request for rate consolidation.

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

20 4. Approval of step increases under the Arsenic Cost Recovery Mechanism, as described
21 herein, is consistent with the Commission's authority under the Arizona Constitution, ratemaking
22 statutes, and applicable case law.

23 ORDER

24 IT IS THEREFORE ORDERED that Arizona Water Company's application for authority to
25 implement an Arsenic Cost Recovery Mechanism is approved, to the extent described herein.

26 IT IS FURTHER ORDERED that Arizona Water Company shall comply with all
27 requirements discussed in this Order as a condition of approval of the Arsenic Cost Recovery
28 Mechanism.

1 IT IS FURTHER ORDERED that Arizona Water Company shall file the schedules and
2 information described above, as well as any additional relevant data requested by Staff, as part of any
3 request for an Arsenic Cost Recovery Mechanism step increase.

4 IT IS FURTHER ORDERED that Arizona Water Company shall file a full rate application by
5 no later than September 30, 2007, based on a 2006 test year.

6 IT IS FURTHER ORDERED that Arizona Water Company's request to consolidate the
7 Sedona and Rimrock systems for ratemaking purposes is denied.

8 IT IS FURTHER ORDERED that Arizona Water Company, until the next rate case, shall
9 separately identify on all customer bills rendered after implementation of an ACRM step increase, the
10 charges attributable to the federally mandated arsenic reduction costs. At least four times annually
11 the customer bills shall also include a statement in bold print and/or a distinguishing ink color or print
12 type, that the ACRM costs are the direct result of a mandate by the United States Environmental
13 Protection Agency (Code of Federal Regulations Part 141.62) that require maximum contaminant
14 levels for arsenic in potable water to be reduced from 50 parts per billion to 10 parts per billion.

15 IT IS FURTHER ORDERED that Arizona Water Company shall continue to monitor the

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1 IT IS FURTHER ORDERED that Arizona Water Company shall file the schedules and
2 information described above, as well as any additional relevant data requested by Staff, as part of any
3 request for an Arsenic Cost Recovery Mechanism step increase.

4 IT IS FURTHER ORDERED that Arizona Water Company shall file a full rate application by
5 no later than September 30, 2007, based on a 2006 test year.

6 IT IS FURTHER ORDERED that Arizona Water Company's request to consolidate the
7 Sedona and Rimrock systems for ratemaking purposes is denied.

8 IT IS FURTHER ORDERED that Arizona Water Company, until the next rate case, shall
9 separately identify on all customer bills rendered after implementation of an ACRM step increase, the
10 charges attributable to the federally mandated arsenic reduction costs. At least four times annually
11 the customer bills shall also include a statement in bold print and/or a distinguishing ink color or print
12 type, that the ACRM costs are the direct result of a mandate by the United States Environmental
13 Protection Agency (Code of Federal Regulations Part 141.62) that require maximum contaminant
14 levels for arsenic in potable water to be reduced from 50 parts per billion to 10 parts per billion.

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1 availability of all grants and low-cost financing sources for arsenic treatment facilities in order to
2 mitigate the rate impact on its customers.

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

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

5
6 _____
CHAIRMAN COMMISSIONER COMMISSIONER

7
8 _____
COMMISSIONER COMMISSIONER

11 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
12 Secretary of the Arizona Corporation Commission, have
13 hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this 14th day of October, 2003.

16 _____
BRIAN C. McNEIL
EXECUTIVE SECRETARY

17 DISSENT _____

18 DISSENT _____

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SERVICE LIST FOR: ARIZONA WATER COMPANY

DOCKET NO.: W-01445A-00-0962

Norman James
FENNEMORE CRAIG
3003 N. Central Avenue, Suite 2600
Phoenix, Arizona 85012
Attorneys for Arizona Water Company

Daniel W. Pozefsky
RUCO
1110 W. Washington, Suite 200
Phoenix, Arizona 85007

Kay Bigelow
City of Casa Grande
510 East Florence Blvd.
Casa Grande, Arizona 85222

Christopher Kempley, Chief Counsel
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Ernest G. Johnson, Director
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007