

ORIGINAL

OPEN MEETING AGENDA ITEM



0000054392

BEFORE THE ARIZONA CORPORATION COMMISSION

12

COMMISSIONERS

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

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AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF  
LAS QUINTAS SERENAS WATER CO. AN  
INCREASE IN ITS WATER RATES.

DOCKET NO. W-01583A-04-0178

IN THE MATTER OF THE APPLICATION OF  
LAS QUINTAS SERENAS WATER CO. FOR  
AUTHORITY TO INCUR LONG-TERM  
INDEBTEDNESS TO FINANCE WATER  
SYSTEM IMPROVEMENTS AND ASSURE  
COMPLIANCE WITH NEW ARSENIC  
RULES.

DOCKET NO. W-01583A-05-0326

IN THE MATTER OF THE APPLICATION OF  
LAS QUINTAS SERENAS WATER  
COMPANY FOR AN OPINION AND ORDER  
TO (I) RE-OPEN THE RECORD IN THE  
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 ARSENCI COST RECOVERY  
MECHANISM AS AN AUTHORIZED RATE  
SURCHARGE.

DOCKET NO. W-01583A-05-0340

EXCEPTIONS

Arizona Corporation Commission Staff ("Staff") hereby files exceptions to the Proposed Order issued April 26, 2006. Staff takes no issue with the vast majority of the findings in the Proposed Order. But Staff does believe that the Commission should not pre-approve the installation of chlorinator units as part of the overall arsenic treatment.

Staff understands that the Company, Las Quintas Serenas Water Company ("LQS"), testified that the chlorination units aid in the treatment of arsenic and that the manufacturer recommended chlorination to convert the arsenic compounds to a more-readily-absorbed form. But chlorination may not be needed to treat the arsenic. In other words, the primary purpose to chlorinate may not be to aid in arsenic treatment. Ms. Dorothy Hains for Staff testified that chlorination is not required for

1 the system LQS proposes in this case. *See Hains Direct Test.* at 5. In fact, the purpose of  
2 chlorination is usually to ensure adequate and reliable water service. Staff does not believe the  
3 evidence presented by LQS justifies inclusion of the chlorination units for arsenic treatment, or for  
4 inclusion in the arsenic recovery mechanism, whether it is labeled an Arsenic Cost Recovery  
5 Mechanism ("ACRM") or an Arsenic Recovery Surcharge Mechanism ("ARSM").

6 Certainly, chlorination could be a reasonable and prudent investment to include in new  
7 permanent rates. What Staff believes, however, is that because chlorination may not be primarily-  
8 related to arsenic treatment, and because the ACRM/ARSM is only to collect costs directly related to  
9 arsenic, then chlorination costs should not be part of the ACRM/ARSM or approved as part of the  
10 financing for arsenic treatment. But Staff is willing to revisit the issue of whether chlorination costs  
11 should be included in the ACRM/ARSM when LQS applies for its arsenic surcharge in a subsequent  
12 application. In other words, Staff proposes here to take another look at how the chlorination is being  
13 used and where in the system chlorination is being introduced. Where the chlorination is added  
14 within the treatment system and how it is utilized are key factors in determining whether chlorination  
15 aids significantly in treating arsenic, in addition to addressing general health and safety concerns.  
16 Staff believes that the final determination on the chlorination issue can best be addressed when LQS  
17 files its application for a surcharge, as described in Finding of Fact No. 57. Staff offers this proposal  
18 as a compromise despite its belief that the chlorination, based on the evidence presented, is not for  
19 arsenic treatment.

20 Therefore, Staff is recommending the following two amendments to the Proposed Order:

21 1. Staff believes Finding of Fact No. 40 should be modified as follows:

22 DELETE the following sentence, on page 10, lines 23 to 24:

23 "but that chlorinator units, which are recommended by the manufacturer and assist in  
the treatment process, are appropriately included."

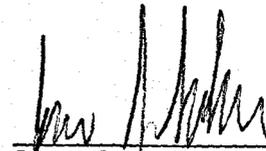
24 AND INSERT "Whether the chlorinator units are actually needed for arsenic  
25 treatment is in question. Therefore, Staff shall make this determination at the time it  
completes its inspection of the plant as part of the review of the Las Quintas Serenas  
Water Company arsenic surcharge filing."

26 2. Staff also believes that an additional ordering paragraph should be added to reflect Staff's  
27 proposal to consider the chlorination units at the time when LQS files its application for the arsenic  
28 surcharge.

1 INSERT, the following ordering paragraph at page 16 at line 16:  
2 "IT IS FURTHER ORDERED that Staff shall examine whether the costs for  
3 chlorination proposed by Las Quintas Serenas Water Company should be included as  
4 part of the review of the Company's arsenic surcharge filing."

5 Staff respectfully requests that its two recommended modifications to the Proposed Order be  
6 adopted by the Commission.

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RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of May, 2006.



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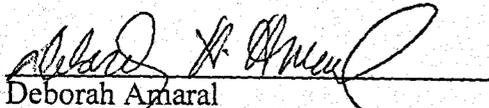
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