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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

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

JOINT REPORT

On November 22, 2000, Arizona Water Company ("Arizona Water") filed with the Arizona Corporation Commission ("the Commission") an application for increases in its rates and charges for its Northern Group water systems (Sedona, Rimrock, Pinewood, Lakeside and Overgaard). Included in Arizona Water's application was a request that the Commission establish a procedure that would allow Arizona Water to recover the additional capital costs and operating expenses resulting from the construction and operation of facilities to treat and remove arsenic. This request was necessitated by the promulgation of a new maximum contaminant level ("MCL") for arsenic by the United States Environmental Protection Agency (the "EPA").

On August 29, 2001, Arizona Water filed a motion requesting the issuance of a procedural order authorizing a separate phase of its rate application for the express purpose of developing an appropriate methodology to allow the recovery of the additional costs caused by the new MCL for arsenic. Both the Utilities Division of the Commission ("Staff") and the Residential Utility Consumer Office ("RUCO") stipulated to bifurcation of the rate proceeding in this manner to allow the parties the time necessary to discuss and develop a procedure to recover the costs resulting from the new MCL for arsenic while permitting a decision on Arizona Water's rate application within the time period set forth in A.A.C. R14-2-103(B)(11).

On October 12, 2001, a procedural order (the "Procedural Order") was issued in this docket granting Arizona Water's motion and establishing a separate phase concerning the recovery of costs resulting from the new MCL for arsenic. In relevant part, that order provides:

> IT IS THEREFORE ORDERED that the parties shall meet and confer by November 16, 2001 to determine what, if any, methodologies and approaches may be utilized to deal with the recovery of costs associated with the construction and operation of treatment facilities.
>
> IT IS FURTHER ORDERED that the parties shall file joint reports indicating the progress of the parties by November 30, 2001 and January 30, 2002.

This Joint Report addresses the Procedural Order's November 30, 2001, requirement.

On October 31, 2001, subsequent to the issuance of the Procedural Order, the EPA announced that the new arsenic MCL would be 10 parts per billion. Arizona Water has already presented evidence in this case showing that the estimated capital costs, alone, for it to comply with an MCL of 10 parts per billion for the Sedona Division of its Northern Group water systems would be over $4 million while the total rate base for the Sedona Division is slightly over $10 million.

The parties to this case met and conferred on October 3 and November 16, 2001. At the November 16 meeting, Arizona Water presented a proposed procedure for recovery of the additional capital costs and operating expenses resulting from the construction of arsenic treatment facilities required to comply with the new MCL for arsenic. Also at the November 16 meeting, Staff representatives indicated that a Special Open Meeting was tentatively scheduled for December 14, 2001, at which the Commissioners would discuss possible methods and approaches to deal with the industry-wide problem of arsenic treatment costs.

The parties will continue to meet and confer in an effort to reach an agreement and to otherwise comply with the Procedural Order.

RESPECTFULLY SUBMITTED this 30th day of November, 2001.

David Ronald

David M. Ronald, Esq., Arizona Corporation Commission

David Ronald for

Norman James, Esq., attorney for Arizona Water Company

David Ronald for

Daniel W. Pozefsky`, Esq., Residential Utility Consumer Office

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