

ORIGINAL OPEN MEETING



MEMORANDUM

Arizona Corporation Commission

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JAN 25 2008 P 3:55

TO: THE COMMISSION

JAN 25 2008

FROM: Utilities Division

DOCKETED BY

me

DATE: January 25, 2008

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, INC., AN ARIZONA CORPORATION FOR AUTHORITY TO IMPLEMENT ARSENIC COST RECOVERY MECHANISM FOR ITS SAN MANUEL WATER SYSTEM IN ITS EASTERN GROUP (DOCKET NO. W-01445A-02-0619)

Introduction

Pursuant to Decision Nos. 66400 and 66849, Arizona Water Company ("Company", "Applicant" or "AWC") filed an application on August 20, 2007, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism ("ACRM") for its San Manuel Water System in its Eastern Group.

AWC requests a Step-One ACRM surcharge of \$4.51 on the monthly customer charge and \$0.5026 per 1,000 gallons on the commodity rate for San Manuel. The Company estimates (based on 8,407 gallons used on the 5/8-inch meter), the average residential customer bill would increase by approximately \$8.73 from \$34.27 to \$43.00 (25.5 percent).

Background

On January 23, 2001, the Environmental Protection Agency ("EPA") reduced the drinking water maximum contaminant level of arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems need to comply with the new federal rule by the January 23, 2006 deadline.

In August 2002, AWC filed an application with the Arizona Corporation Commission for a rate increase in its Eastern Division. The rate application included a request for an ACRM for AWC's Eastern Group that conforms with the ACRM authorized in Decision No. 66400 (October 14, 2003) for its Northern Group. On March 19, 2004, the Commission issued Decision No. 66849 approving an ACRM for the Eastern Group.

On September 4, 2007, AWC filed an application to implement Step One of its ACRM for its San Manuel Water System. In conformity with Decision Nos. 66400 and 66849 AWC seeks a surcharge to recover a return on its arsenic remediation investment, depreciation expense and related income taxes. The Company is not seeking recovery of new or additional Operating and Maintenance expenses at this time.

Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 66400 and 66849)

Decision Nos. 66400 and 66849 conditioned approval of an ACRM surcharge on the following criteria:

1. AWC shall file the schedules to show the actual cost of construction of arsenic related facilities and that the projected rate of return with the ACRM does not exceed authorized levels. AWC shall also file any relevant data requested by Staff to support the ACRM increase.
2. AWC shall file a full rate application no later than September 30, 2007, based on a 2006 test year.¹
3. AWC shall identify as a separate line item on customer bills the charges attributable to federally mandated arsenic reduction costs. At least four times annually, the bills shall include in bold print or distinguishing ink color that the ACRM costs are the result of federal mandates by the United States Environmental Protection Agency.
4. The ACRM schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return exceeding that authorized in Decision No. 66849.

Residential Utility Consumer Office (“RUCO”) Analysis

On November 20, 2007, RUCO filed its report on its audit of AWC’s San Manuel Water System Step-One ACRM surcharge request. RUCO recommends adoption of the Company’s application as filed.

Staff Analysis

ACRM Filing Requirements

Decision No. 66400 requires AWC to file ten schedules as follows: balance sheet, income statement, earnings test, rate review, arsenic revenue requirement, surcharge calculation, adjusted rate base schedule, construction work in progress ledger, three-factor allocation and typical bill analysis.

AWC filed the following schedules for the San Manuel Water System:

¹ A Procedural Order, dated December 29, 2006, subsequently revised this condition to reflect a filing date no later than September 30, 2008 and a test year ending December 31, 2007.

1. Balance Sheet – a balance sheet for its San Manuel Water System which is the most current balance sheet at the time of the filing - June 30, 2007.
2. Income Statement – a most current income statement for its San Manuel Water System - period ending June 30, 2007.
3. Earnings Test Schedule – an “Earnings Test” schedule for the twelve months ending June, 2007 for its San Manuel Water System.
4. Rate Review Schedule – a San Manuel Water System schedule including the effects of the proposed increase.
5. Arsenic Revenue Requirement Calculation – a San Manuel Water System arsenic revenue requirement calculation for step one.
6. Surcharge Calculation – separate, detailed surcharge calculations for both the Minimum Charge and Commodity Charge for the San Manuel Water System.
7. Adjusted Rate Base Schedule – a San Manuel Water System schedule showing the effects of the arsenic plant investment.
8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic construction work in progress accounts for the San Manuel Water System.
9. Three factor allocation schedule – a schedule showing the factors attributable to all the districts within the Eastern Group.
10. Typical Bill Analysis – ACRM Step 1 – A separate typical bill analysis showing the effects on residential customers at the average residential usage for the San Manuel Water System.

Staff performed an examination of AWC’s San Manuel Water System Step-One ACRM surcharge filing for the San Manuel Water System and concludes that it conforms to the requirements specified in Decision Nos. 66400 and 66849.

The ACRM schedules, as filed, provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return on the San Manuel Water System that would exceed that authorized in Decision No. 66849.

Examination of Company Schedules and Utility Plant in Service

Staff's examination of the Company's posting of amounts to the CWIP ledger showed that the postings accurately reflect the Company's records, reconcile to the invoices submitted and are mathematically correct.

Staff performed a field inspection and verified that the San Manuel Water System's arsenic treatment facilities related to the Step 1 ACRM surcharge request are in service and providing water that meets the new arsenic standard

Recommendations

Staff recommends approval of the ACRM surcharges presented on Schedule DRR-1.

Staff further recommends that the Company file with the Commission an arsenic removal surcharge tariff consistent with ACRM Schedule DRR-1.

Staff further recommends that Arizona Water San Manuel Water System notify its customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of the Commission Decision.

Staff further recommends that in the event that the Applicant fails to file a permanent rate application for its Eastern Group by September 30, 2008, based on a 2007 test year, the Arsenic Cost Recovery Mechanism surcharge then in place shall be automatically discontinued.



Ernest G. Johnson
Director
Utilities Division

EGJ:DRR:lhm\CH

ORIGINATOR: Dennis Rogers

ARIZONA WATER COMPANY
 DOCKET NO. W-01445A-02-0619
 San Manuel Water System

ACRM Schedule DRR-1

Residential, Commercial, Irrigation, Resale and Miscellaneous Customers

	Monthly		TIER ONE		TIER TWO			TIER THREE			
	Current Monthly Usage Charge	Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
<u>San Manuel</u>											
5/8" x 3/4" Meter	\$ 19.94	1.0	\$ 4.51	\$ 24.45	\$ 0.5028	\$ 1.7040	\$ 2.2066	10,000	\$ 2.1300	\$ 2.5560	25,000
1"	\$ 42.51	2.1	\$ 9.61	\$ 52.12	\$ 0.5026	\$ 1.7040	\$ 2.2066	10,000	\$ 2.1300	\$ 2.5560	25,000
2"	\$ 234.67	11.8	\$ 53.08	\$ 287.75	\$ 0.5028	\$ 1.7040	\$ 2.2066	10,000	\$ 2.1300	\$ 2.5560	25,000
3"	\$ 358.76	18.0	\$ 81.14	\$ 439.90	\$ 0.5026	\$ 1.7040	\$ 2.2066	10,000	\$ 2.1300	\$ 2.5560	25,000
4"	\$ 453.35	22.7	\$ 102.54	\$ 555.89	\$ 0.5026	\$ 1.7040	\$ 2.2066	10,000	\$ 2.1300	\$ 2.5560	25,000
6"	\$ 538.19	27.0	\$ 121.73	\$ 659.92	\$ 0.5026	\$ 1.7040	\$ 2.2066	10,000	\$ 2.1300	\$ 2.5560	25,000
8"	\$ 854.56	42.9	\$ 193.28	\$ 1,047.84	\$ 0.5026	\$ 1.7040	\$ 2.2066	10,000	\$ 2.1300	\$ 2.5560	25,000
10"	\$ 1,228.50	61.5	\$ 277.86	\$ 1,506.36	\$ 0.5026	\$ 1.7040	\$ 2.2066	10,000	\$ 2.1300	\$ 2.5560	25,000

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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
JEFF HATCH-MILLER
Commissioner
WILLIAM A. MUNDELL
Commissioner
KRISTIN K. MAYES
Commissioner
BARRY WONG
Commissioner

IN THE MATTER OF THE APPLICATION)
OF ARIZONA WATER COMPANY, INC.,)
AN ARIZONA CORPORATION FOR)
AUTHORITY TO IMPLEMENT ARSENIC)
COST RECOVERY MECHANISM FOR ITS)
SAN MANUEL SYSTEM IN ITS EASTERN)
GROUP)

DOCKET NO. W-01445A-02-0619

DECISION NO. _____

ORDER

Open Meeting
February 12 and 13, 2008
Phoenix, Arizona

BY THE COMMISSION:

INTRODUCTION

Pursuant to Decision Nos. 66400 and 66849, Arizona Water Company (“Company”, “Applicant” or “AWC”) filed an application on September 4, 2007, with the Arizona Corporation Commission (“Commission”) requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism (“ACRM”) for its San Manuel Water System in its Eastern Group.

AWC requests a Step-One ACRM surcharge of \$4.51 on the monthly customer charge and \$0.5026 per 1,000 gallons on the commodity rate for San Manuel. The Company estimates (based on 8,407 gallons used on the 5/8-inch meter), the average residential customer bill would increase by approximately \$8.73 from \$34.27 to \$43.00 (25.5 percent).

On January 23, 2001, the Environmental Protection Agency (“EPA”) reduced the drinking water maximum contaminant level of arsenic from 50 parts per billion (“ppb”) to 10 ppb. All

1 community water systems and non-transient non-community water systems need to comply with
2 the new federal rule by the January 23, 2006 deadline.

3 In August 2002, AWC filed an application with the Arizona Corporation Commission for a
4 rate increase in its Eastern Division. The rate application included a request for an ACRM for
5 AWC's Eastern Group that conforms with the ACRM authorized in Decision No. 66400
6 (October 14, 2003) for its Northern Group. On March 19, 2004, the Commission issued Decision
7 No. 66849 approving an ACRM for the Eastern Group.

8 On September 4, 2007, AWC filed an application to implement Step One of its ACRM for
9 its San Manuel Water System. In conformity with Decision Nos. 66400 and 66849 AWC seeks a
10 surcharge to recover a return on its arsenic remediation investment, depreciation expense and
11 related income taxes. The Company is not seeking recovery of new or additional Operating and
12 Maintenance expenses at this time.

13
14 **Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 66400 and 66849)**

15 Decision Nos. 66400 and 66849 conditioned approval of an ACRM surcharge on the
16 following criteria:

- 17 1. AWC shall file the schedules to show the actual cost of construction of arsenic
18 related facilities and that the projected rate of return with the ACRM does not
19 exceed authorized levels. AWC shall also file any relevant data requested by Staff
20 to support the ACRM increase.
- 21 2. AWC shall file a full rate application no later than September 30, 2007, based on a
22 2006 test year.¹
- 23 3. AWC shall identify as a separate line item on customer bills the charges attributable
24 to federally mandated arsenic reduction costs. At least four times annually, the bills
25 shall include in bold print or distinguishing ink color that the ACRM costs are the
26 result of federal mandates by the United States Environmental Protection Agency.
- 27 4. The ACRM schedules provide for the calculation of a surcharge based on financial
28 records and an Earnings Test Schedule that limit the ACRM surcharge revenue to
an amount that would not result in a rate of return exceeding that authorized in
Decision No. 66849.

¹ A Procedural Order, dated December 29, 2006, subsequently revised this condition to reflect a filing date no later than September 30, 2008 and a test year ending December 31, 2007.

1 On November 20, 2007, RUCO filed its report on its audit of AWC's San Manuel Water
2 System Step-One ACRM surcharge request. RUCO recommends adoption of the Company's
3 application as filed.

4 **Staff Analysis**

5 **ACRM Filing Requirements**

6 Decision No. 66400 requires AWC to file ten schedules as follows: balance sheet, income
7 statement, earnings test, rate review, arsenic revenue requirement, surcharge calculation, adjusted
8 rate base schedule, construction work in progress ledger, three-factor allocation and typical bill
9 analysis.

10 AWC filed the following schedules for the San Manuel Water System:

- 11 1. Balance Sheet – a balance sheet for its San Manuel Water System which is the most
12 current balance sheet at the time of the filing - June 30, 2007.
- 13 2. Income Statement – a most current income statement for its San Manuel Water
14 System - period ending June 30, 2007.
- 15 3. Earnings Test Schedule – an “Earnings Test” schedule for the twelve months
16 ending June, 2007 for its San Manuel Water System.
- 17 4. Rate Review Schedule – a San Manuel Water System schedule including the effects
18 of the proposed increase.
- 19 5. Arsenic Revenue Requirement Calculation – a San Manuel Water System arsenic
20 revenue requirement calculation for step one.
- 21 6. Surcharge Calculation – separate, detailed surcharge calculations for both the
22 Minimum Charge and Commodity Charge for the San Manuel Water System.
- 23 7. Adjusted Rate Base Schedule – a San Manuel Water System schedule showing the
24 effects of the arsenic plant investment.
- 25 8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic
26 construction work in progress accounts for the San Manuel Water System.
- 27 9. Three factor allocation schedule – a schedule showing the factors attributable to all
28 the districts within the Eastern Group.
10. Typical Bill Analysis – ACRM Step 1 – A separate typical bill analysis showing the
effects on residential customers at the average residential usage for the San Manuel
Water System.

1 Staff performed an examination of AWC's San Manuel Water System Step-One ACRM
2 surcharge filing for the San Manuel Water System and concludes that it conforms to the
3 requirements specified in Decision Nos. 66400 and 66849.

4 The ACRM schedules, as filed, provide for the calculation of a surcharge based on
5 financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an
6 amount that would not result in a rate of return on the San Manuel Water System that would
7 exceed that authorized in Decision No. 66849.

8 **Examination of Company Schedules and Utility Plant in Service**

9 Staff's examination of the Company's posting of amounts to the CWIP ledger showed that
10 the postings accurately reflect the Company's records, reconcile to the invoices submitted and are
11 mathematically correct.

12 Staff performed a field inspection and verified that the San Manuel Water System's arsenic
13 treatment facilities related to the Step 1 ACRM surcharge request ^{are} ~~is~~ in service and providing water
14 that meets the new arsenic standard.

15 **Recommendations**

16 Staff recommends approval of the ACRM surcharges presented on Schedule DRR-1.

17 Staff further recommends that the Company file with the Commission an arsenic removal
18 surcharge tariff consistent with ACRM Schedule DRR-1.

19 Staff further recommends that Arizona Water San Manuel Water System notify its
20 customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the
21 effective date of this Decision.

22 Staff further recommends that in the event that the Applicant fails to file a permanent rate
23 application for its Eastern Group by September 30, 2008, based on a 2007 test year, the Arsenic
24 Cost Recovery Mechanism surcharge then in place shall be automatically discontinued.

25 * * * * *

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

28 ...

1 IT IS FURTHER ORDERED that Arizona Water Company shall file a permanent rate
2 application for its Eastern Group by no later than September 30, 2008, based on a 2007 test year as
3 per Decision No. 66849.

4 IT IS FURTHER ORDERED that in the event that Arizona Water fails to file a new rate
5 case application by September 30, 2008, the Arsenic Cost Recovery Mechanism surcharge then in
6 place shall be automatically discontinued.

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

8
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

10
11 _____
CHAIRMAN COMMISSIONER

12
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14 COMMISSIONER COMMISSIONER COMMISSIONER

15
16 IN WITNESS WHEREOF, I DEAN S. MILLER, Interim
17 Executive Director of the Arizona Corporation Commission,
18 have hereunto, set my hand and caused the official seal of
19 this Commission to be affixed at the Capitol, in the City of
20 Phoenix, this _____ day of _____, 2008.

21 _____
22 DEAN S. MILLER
Interim Executive Director

23
24 DISSENT: _____

25 DISSENT: _____

26 EGJ:DRR:lh\CH
27
28

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2 DOCKET NO. W-01445A-02-0619

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