

ORIGINAL
OPEN MEETING



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MEMORANDUM
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Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

FEB 21 2008

DATE: February 21, 2008

DOCKETED BY	me
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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)

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.

On January 25, 2008, the Utilities Division Staff ("Staff") filed its Memorandum and Proposed Order recommending implementation of the ACRM. The Proposed Order was deliberated by the Commission at the February 12, 2008 Open Meeting. At this Open Meeting the Commission directed Staff to file a Proposed Amendment for Commission consideration at its February 28, 2008 Open Meeting.

The Proposed Amendment was to have the ACRM implemented in two phases, March 1, 2008 and October 1, 2008, rather than all at once. The first phase was to implement the monthly minimum portion of the ACRM. The second phase was to implement the commodity portion of the ACRM along with any amount that would have been collected if the ACRM had been implemented without phasing, plus interest.

Attached is the Proposed Amendment that would modify the Proposed Order such that the ACRM would be phased. Phase One would implement a monthly minimum ACRM charge of \$4.51 for 5/8"x 3/4" meters (larger meter sizes have larger increases as shown on the attached Phased in ACRM Schedule DRR-1) on March 1, 2008.

Phase Two would begin on October 1, 2008, with a combination of charges. The basic Phase Two ACRM would add a charge of \$0.5026 per 1,000 gallons to the existing \$1.7040 commodity rate for a commodity rate of \$2.2066. To collect, over seven months, the lost revenue and interest (Staff used 8.7 percent, the approved rate of return from the last rate case) due to phasing, Phase Two would add an additional amount of \$0.5109 (\$0.5026 + interest of \$0.0083) per 1,000 gallons. Therefore, the total increase in the commodity rate for Phase Two would be \$1.0135 per 1,000 gallons for a total new commodity rate of \$2.7175 per 1,000 gallons.

THE COMMISSION

February 21, 2008

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On May 1, 2009, the commodity rate would be reduced by \$0.5109 per 1,000 gallons for a new commodity rate of \$2.2066 per 1,000 gallons, since all the lost revenue and interest would have been collected at that point.

Also attached to this Memorandum is Phased in Schedule DRR-2. This schedule is a typical bill analysis for the two phases for usage ranging from zero gallons per month to 25,000 gallons per month for 5/8" x 3/4" meter customers.



Ernest G. Johnson

Director

for Utilities Division

EGJ:DRR:lh\CH

ORIGINATOR: Dennis Rogers

Service List for: Arizona Water Company (San Manuel Water System)
Docket No. W-01445A-02-0619

Mr. Robert W. Geake
Vice President and General Counsel
Arizona Water Company
Post Office Box 29006
Phoenix, Arizona 85038-9006

Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Mr. Norman D. James
Mr. Jay L. Shapiro
Fennemore Craig
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012

Ms. Kay Bigelow
Casa Grande City Attorney's Office
510 East Florence Boulevard
Casa Grande, Arizona 85222

Mr. Scott S. Wakefield
Chief Counsel
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, Arizona 85012

Mr. Robert Skiba
Post Office Box 1057
Oracle, Arizona 85623

Mr. Thomas H. Campbell
Mr. Michael T. Hallam
Lewis & Roca, LLP
40 North Central Avenue
Phoenix, Arizona 85004

Mr. Philip A. Edlund
Vice President
Superstition Mountain, LLC
8777 North Gainey Center Drive, Suite 205
Scottsdale, Arizona 85258

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

PHASE ONE
No Commodity Charges March 1, 2008 to October 1, 2008

San Manuel	Residential, Commercial, Irrigation, Resale and Miscellaneous Customers				TIER ONE			TIER TWO			TIER THREE			
	Current Monthly Usage Charge	Monthly 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	Old Commodity Rate	New Commodity Rate	Upper Limit
						\$	\$	\$	\$	\$	\$	\$	\$	\$
5/8" x 3/4" Meter	\$ 19.94	1.0	\$ 4.51	\$ 24.45	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
1"	\$ 42.51	2.1	\$ 9.61	\$ 52.12	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
2"	\$ 234.67	11.8	\$ 53.08	\$ 287.75	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
3"	\$ 358.76	18.0	\$ 81.14	\$ 439.90	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
4"	\$ 453.35	22.7	\$ 102.54	\$ 555.89	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
6"	\$ 538.19	27.0	\$ 121.73	\$ 659.92	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
8"	\$ 854.56	42.9	\$ 193.28	\$ 1,047.84	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
10"	\$ 1,228.50	61.6	\$ 277.86	\$ 1,506.36	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite

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

PHASE TWO
Original Commodity Charges plus foregone Revenues from March 1, 2008 to September 31, 2008
From October 1, 2008 to April 30, 2009.

San Manuel	Residential, Commercial, Irrigation, Resale and Miscellaneous Customers				TIER ONE			TIER TWO			TIER THREE			
	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 2 Commodity Surcharge	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
						\$	\$	\$	\$	\$	\$	\$	\$	\$
5/8" x 3/4" Meter	\$ 19.94	1.0	\$ 4.51	\$ 24.45	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
1"	\$ 42.51	2.1	\$ 9.61	\$ 52.12	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
2"	\$ 234.67	11.8	\$ 53.08	\$ 287.75	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
3"	\$ 358.76	18.0	\$ 81.14	\$ 439.90	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
4"	\$ 453.35	22.7	\$ 102.54	\$ 555.89	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
6"	\$ 538.19	27.0	\$ 121.73	\$ 659.92	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
8"	\$ 854.56	42.9	\$ 193.28	\$ 1,047.84	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
10"	\$ 1,228.50	61.6	\$ 277.86	\$ 1,506.36	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite

Commodity Rate Computation:

1. Original \$0.5026
 2. Make up \$0.5026
 3. Interest = \$1,588.85 = \$0.0083/1,000 gallons
- Totals \$ 1.0135 per 1,000 gallons

TYPICAL BILL ANALYSIS

Line No.	[A] Gallons Consumption	[B] SAN MANUEL Current Rates	[C] SAN MANUEL Phase-1 Rates	[D] SAN MANUEL Percent Increase	[E] SAN MANUEL Phase-2 Rates	[F] SAN MANUEL Percent Increase	[G] SAN MANUEL Phase-2 Percent Increase Over Current
1	0	\$ 19.94	\$24.45	22.6%	\$24.45	0.0%	22.62%
2	1,000	21.64	26.15	20.8%	27.17	3.9%	25.52%
3	2,000	23.35	27.86	19.3%	29.89	7.3%	28.00%
4	3,000	25.05	29.56	18.0%	32.60	10.3%	30.14%
5	4,000	26.76	31.27	16.9%	35.32	13.0%	32.01%
6	5,000	28.46	32.97	15.8%	38.04	15.4%	33.65%
7	6,000	30.16	34.67	15.0%	40.76	17.5%	35.11%
8	7,000	31.87	36.38	14.2%	43.47	19.5%	36.41%
9	8,000	33.57	38.08	13.4%	46.19	21.3%	37.58%
10	9,000	35.28	39.79	12.8%	48.91	22.9%	38.64%
11	10,000	36.98	41.49	12.2%	51.63	24.4%	39.60%
12	11,000	39.11	43.62	11.5%	54.34	24.6%	38.95%
13	12,000	41.24	45.75	10.9%	57.06	24.7%	38.36%
14	13,000	43.37	47.88	10.4%	59.78	24.8%	37.83%
15	14,000	45.50	50.01	9.9%	62.50	25.0%	37.35%
16	15,000	47.63	52.14	9.5%	65.21	25.1%	36.91%
17	20,000	49.76	54.27	9.1%	67.93	25.2%	36.52%
18	25,000	51.89	56.40	8.7%	70.65	25.3%	36.15%
27	Average Residential Consumption	8,407	8,407		8,407		
29	Average Residential Bill	\$ 34.27	\$ 38.78	13.2%	\$ 47.30	22.0%	38.03%
36	Minimum Rate		\$ 24.45		\$ 24.45		
40	Commodity (per M Gallon)		\$ 1.7040		\$ 2.7175		
41	0-10,000 Gallons		2.1300		3.1435		
42	10,001 - 25,000 Gallons		2.5560		3.5695		

PROPOSED AMENDMENT

Page 4, Line 13:

After the word "request", REPLACE "is" with "are".

Page 4, Line 25:

INSERT new heading: **Commission Discussion**

After new heading, INSERT:

Based on discussions at the February 12, 2008 Open Meeting, we will modify Staff's first three recommendations by requiring Arizona Water Company to implement its ACRM in two phases. Phase One would implement a monthly minimum ACRM charge of \$4.51 for 5/8" x 3/4" meters (larger meter sizes have larger increases as shown on the attached Phased in ACRM Schedule DRR-1) on March 1, 2008.

Phase Two would begin on October 1, 2008, with a combination of charges. The basic Phase Two ACRM would add a charge of \$0.5026 per 1,000 gallons to the existing \$1.7040 commodity rate for a commodity rate of \$2.2066. To collect, over seven months, the lost revenue and interest (interest of 8.7 percent, the approved rate of return from the last rate case) due to phasing, Phase Two would add an additional amount of \$0.5109 (\$0.5026 + interest of \$0.0083) per 1,000 gallons. Therefore, the total increase in the commodity rate for Phase Two would be \$1.0135 per 1,000 gallons for a total new commodity rate of \$2.7175 per 1,000 gallons.

On May 1, 2009, the commodity rate would be reduced by \$0.5109 per 1,000 gallons for a new commodity rate of \$2.2066 per 1,000 gallons, since all the lost revenue and interest would have been collected at that point.

Page 5, Line 18:

After "ACRM", INSERT ", in phases".

Page 5, Line 25:

Between "attached" and "ACRM", INSERT "Phased in".

Page 5, Line 27:

Between the words "customers" and "of", INSERT ", in a form acceptable to Staff,".

After the word "herein", DELETE the remainder of the sentence and REPLACE with:

"as follows:

- a. for the March 1, 2008 increase in the monthly minimum, notice shall be provided as soon as possible, but no later than March 30, 2008;
- b. for the October 1, 2008 increase in the commodity rate, notice shall be provided between September 1, 2008 and September 30, 2008;
- c. for the May 1, 2009 decrease in the commodity rate, notice shall be provided between April 1, 2009 and April 30, 2009."

Page 6, Line 1:

INSERT new ordering paragraph:

"IT IS FURTHER ORDERED that Arizona Water Company shall submit, to Docket Control, new tariff pages covering the ACRM for its San Manuel System as follows:

- a. for the March 1, 2008 increase in the monthly minimum, the ACRM tariff page shall be filed as soon as possible, but no later than March 14, 2008;
- b. for the October 1, 2008 increase in the commodity rate, the ACRM tariff page shall be filed between September 1, 2008 and September 15, 2008;
- c. for the May 1, 2009 decrease in the commodity rate, the ACRM tariff page shall be filed between April 1, 2009 and April 15, 2009."