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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
JEFF HATCH-MILLER
Commissioner
WILLIAM A. MUNDELL
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

Arizona Corporation Commission

DOCKETED

FEB 27 2008

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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: 70169

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 average residential customer bill would increase by approximately \$6.70 from \$27.04 to \$33.74
2 (24.8 percent). The Superior system would increase \$6.10 from \$25.77 to 31.87 (23.7 percent).

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

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

12 On August 8, 2007, AWC filed an application to implement Step One of its ACRM for its
13 Superstition Water District which is a combination of its Apache Junction and Superior water
14 systems. In conformity with Decision Nos. 66400 and 66849, AWC seeks a surcharge to recover a
15 return on its arsenic remediation investment, depreciation expense and related income taxes. The
16 Company is not seeking recovery of new or additional Operating and Maintenance expenses at this
17 time.

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

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

- 21 1. AWC shall file the schedules to show the actual cost of construction of arsenic related
22 facilities and that the projected rate of return with the ACRM does not exceed
23 authorized levels. AWC shall also file any relevant data requested by Staff to support
24 the ACRM increase.
- 25 2. AWC shall file a full rate application no later than September 30, 2007, based on a
26 2006 test year.^[1]
- 27 3. AWC shall identify as a separate line item on customer bills the charges attributable to
28 federally mandated arsenic reduction costs. At least four times annually, the bills shall

^[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 include in bold print or distinguishing ink color that the ACRM costs are the result of
2 federal mandates by the United States Environmental Protection Agency.

- 3 4. The ACRM schedules provide for the calculation of a surcharge based on financial
4 records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an
5 amount that would not result in a rate of return exceeding that authorized in Decision
6 No. 66849.

6 **Residential Utility Consumer Office ("RUCO") Analysis**

7 On November 14, 2007, RUCO filed its report on its audit of AWC's Superstition Water
8 District Step-One ACRM surcharge request. RUCO recommends adoption of the Company's
9 application as filed.

11 **Staff Analysis**

12 **ACRM Filing Requirements**

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

17 AWC filed the following combined schedules for the Apache Junction and Superior water
18 systems which it describes as the "Superstition District".

- 19 1. Balance Sheet – a combined Superstition District balance sheet which is the most
20 current balance sheet at the time of the filing - June 30, 2007.
- 21 2. Income Statement – a combined Superstition District most current income statement -
22 period ending June 30, 2007.
- 23 3. Earnings Test Schedule – a combined Superstition District "Earnings Test" schedule.
- 24 4. Rate Review Schedule – a combined Superstition District schedule including the
25 effects of the proposed increase.
- 26 5. Arsenic Revenue Requirement Calculation – combined Superstition District arsenic
27 revenue requirement calculations for step one.
- 28 6. Surcharge Calculation – separate, detailed surcharge calculations for each of the
Apache Junction and Superior systems.

- 1 7. Adjusted Rate Base Schedule – a combined Superstition District schedule showing the
2 effects of the arsenic plant investment.
- 3 8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic
4 construction work in progress accounts for the Superstition District.
- 5 9. Three factor allocation schedule – a schedule showing the factors attributable to all the
6 districts within the Eastern Group.
- 7 10. Typical Bill Analysis – ACRM Step 1 – A separate typical bill analysis showing the
8 effects on residential customers at the average residential usage for each of the Apache
9 Junction and Superior water systems.

10 Staff performed an examination of AWC’s Superstition Water District Step-One ACRM
11 surcharge filing as reflected by the revised schedules docketed on October 12, 2007, for the
12 combined Apache Junction and Superior water systems and concludes that it conforms to the
13 requirements specified in Decision Nos. 66400 and 66849.

14 The ACRM schedules, as filed, provide for the calculation of a surcharge based on
15 financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an
16 amount that would not result in a rate of return on both of the Apache Junction and Superior
17 systems combined exceeding that authorized in Decision No. 66849.

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

19 Staff’s examination of the Company’s posting of amounts to the CWIP ledger showed that
20 the initial postings contained errors, and that the Company had posted correcting entries resulting
21 in correct amounts included in the application.

22 The ten schedules (revised October, 14, 2007 version) accurately reflect the Company’s
23 records and are mathematically correct.

24 Staff performed a field inspection and verified that the Superstition District’s arsenic
25 treatment facilities related to the Step 1 ACRM surcharge request are in service and providing
26 water that meets the new arsenic standard. The Apache Junction and Superstition water systems
27 are each receiving arsenic remedial treatment, however, the systems have yet to be interconnected.

28 ...

1 **Recommendations**

2 Staff recommends approval of the ACRM surcharges presented on Schedule DRR-1 and
3 that AWC be directed to notify its customers of the arsenic cost recovery surcharge tariff approve
4 herein with 30 days of the effective date of a Decision.

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

7 Staff recommends that Arizona Water Superstition District notify its customers of the
8 arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of this
9 Decision.

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

13 * * * * *

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

16 FINDINGS OF FACT

17 1. Pursuant to Decision Nos. 66400 and 66849, the Company seeks an arsenic cost
18 removal mechanism surcharge tariff in this proceeding authorizing a monthly surcharge per
19 customer to aid the Company in it efforts to comply with the Environmental Protection Agency's
20 ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went
21 into effect on January 23, 2006.

22 2. Pursuant to Decision Nos. 66400 and 66849, Arizona Water Company filed the
23 required schedules prior to the implementation of the ACRM.

24 CONCLUSIONS OF LAW

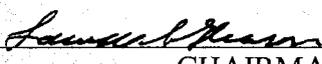
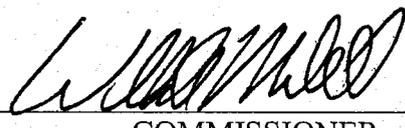
25 1. The Company is a public water service corporation within the meaning of Article
26 XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

27 2. The Commission has jurisdiction over the Company and of the subject matter of the
28 application.

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

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

5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7
8  CHAIRMAN  COMMISSIONER

9
10  COMMISSIONER  COMMISSIONER  COMMISSIONER

12
13 IN WITNESS WHEREOF, I DEAN S. MILLER, Interim
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of
16 this Commission to be affixed at the Capitol, in the City of
17 Phoenix, this 27th day of February, 2008.

18 
19 DEAN S. MILLER
20 Interim Executive Director

21 DISSENT: _____

22 DISSENT: _____

23 EGJ:DRR:lhml\CH
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2 DOCKET NO. W-01445A-02-0619

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ACRM Schedule DRR-1

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619
"SUPERSTITION DISTRICT"

Residential, Commercial, Irrigation, Resale and Miscellaneous Customers

	Current Monthly Usage Charge		Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	TIER ONE			TIER TWO			TIER THREE		
							Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
Superior															
5/8" x 3/4" Meter	\$ 12.54	\$ 3.48	1	\$ 3.48	\$ 16.02	\$ 0.4370	\$ 2.2000	\$ 2.6370	10,000	\$ 2.7500	\$ 3.1870	25,000	\$ 3.3000	\$ 3.7370	Infinite
1"	\$ 34.30	\$ 9.40	2.7	\$ 9.40	\$ 43.70	\$ 0.4370	\$ 2.2000	\$ 2.6370	10,000	\$ 2.7500	\$ 3.1870	25,000	\$ 3.3000	\$ 3.7370	Infinite
2"	\$ 120.20	\$ 33.41	9.6	\$ 33.41	\$ 153.61	\$ 0.4370	\$ 2.2000	\$ 2.6370	10,000	\$ 2.7500	\$ 3.1870	25,000	\$ 3.3000	\$ 3.7370	Infinite
3"	\$ 236.03	\$ 65.42	18.8	\$ 65.42	\$ 301.45	\$ 0.4370	\$ 2.2000	\$ 2.6370	10,000	\$ 2.7500	\$ 3.1870	25,000	\$ 3.3000	\$ 3.7370	Infinite
4"	\$ 480.25	\$ 133.28	38.3	\$ 133.28	\$ 613.53	\$ 0.4370	\$ 2.2000	\$ 2.6370	10,000	\$ 2.7500	\$ 3.1870	25,000	\$ 3.3000	\$ 3.7370	Infinite
6"	\$ 774.01	\$ 214.72	61.7	\$ 214.72	\$ 988.73	\$ 0.4370	\$ 2.2000	\$ 2.6370	10,000	\$ 2.7500	\$ 3.1870	25,000	\$ 3.3000	\$ 3.7370	Infinite
8"	\$ 926.15	\$ 257.17	73.9	\$ 257.17	\$ 1,183.32	\$ 0.4370	\$ 2.2000	\$ 2.6370	10,000	\$ 2.7500	\$ 3.1870	25,000	\$ 3.3000	\$ 3.7370	Infinite
10"	\$ 1,157.69	\$ 321.20	92.3	\$ 321.20	\$ 1,478.89	\$ 0.4370	\$ 2.2000	\$ 2.6370	10,000	\$ 2.7500	\$ 3.1870	25,000	\$ 3.3000	\$ 3.7370	Infinite

Residential, Commercial, Irrigation, Resale and Miscellaneous Customers

	Current Monthly Usage Charge		Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	TIER ONE			TIER TWO			TIER THREE		
							Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
Apache Junction															
5/8" x 3/4" Meter	\$ 12.54	\$ 3.48	1	\$ 3.48	\$ 16.02	\$ 0.4370	\$ 1.9688	\$ 2.4058	10,000	\$ 2.4610	\$ 2.8980	25,000	\$ 2.9532	\$ 3.3902	Infinite
1"	\$ 34.30	\$ 9.40	2.7	\$ 9.40	\$ 43.70	\$ 0.4370	\$ 1.9688	\$ 2.4058	10,000	\$ 2.4610	\$ 2.8980	25,000	\$ 2.9532	\$ 3.3902	Infinite
2"	\$ 120.20	\$ 33.41	9.6	\$ 33.41	\$ 153.61	\$ 0.4370	\$ 1.9688	\$ 2.4058	10,000	\$ 2.4610	\$ 2.8980	25,000	\$ 2.9532	\$ 3.3902	Infinite
3"	\$ 236.03	\$ 65.42	18.8	\$ 65.42	\$ 301.45	\$ 0.4370	\$ 1.9688	\$ 2.4058	10,000	\$ 2.4610	\$ 2.8980	25,000	\$ 2.9532	\$ 3.3902	Infinite
4"	\$ 480.25	\$ 133.28	38.3	\$ 133.28	\$ 613.53	\$ 0.4370	\$ 1.9688	\$ 2.4058	10,000	\$ 2.4610	\$ 2.8980	25,000	\$ 2.9532	\$ 3.3902	Infinite
6"	\$ 774.01	\$ 214.72	61.7	\$ 214.72	\$ 988.73	\$ 0.4370	\$ 1.9688	\$ 2.4058	10,000	\$ 2.4610	\$ 2.8980	25,000	\$ 2.9532	\$ 3.3902	Infinite
8"	\$ 926.15	\$ 257.17	73.9	\$ 257.17	\$ 1,183.32	\$ 0.4370	\$ 1.9688	\$ 2.4058	10,000	\$ 2.4610	\$ 2.8980	25,000	\$ 2.9532	\$ 3.3902	Infinite
10"	\$ 1,157.69	\$ 321.20	92.3	\$ 321.20	\$ 1,478.89	\$ 0.4370	\$ 1.9688	\$ 2.4058	10,000	\$ 2.4610	\$ 2.8980	25,000	\$ 2.9532	\$ 3.3902	Infinite

