



0000092170

1 ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

57

2 MIKE GLEASON  
CHAIRMAN  
3 WILLIAM A. MUNDELL  
COMMISSIONER  
4 JEFF HATCH-MILLER  
COMMISSIONER  
5 KRISTIN K. MAYES  
COMMISSIONER  
6 GARY PIERCE  
COMMISSIONER

2008 DEC 30 P 4: 18

AZ CORP COMMISSION  
DOCKET CONTROL

7  
8 IN THE MATTER OF THE APPLICATION OF  
ARIZONA WATER COMPANY, AN ARIZONA  
9 CORPORATION, FOR AUTHORITY TO  
IMPLEMENT ARSENIC COST RECOVERY  
10 MECHANISM FOR ITS SEDONA SYSTEM.

Docket No. W-01445A-04-0650

11 NOTICE OF FILING

12  
13 The Residential Utility Consumer Office ("RUCO") hereby provides its Audit Report of  
14 Arizona Water Company's filing for an Arsenic Cost Recovery Mechanism ("ACRM") Step 2  
15 rate increase for its Sedona System.

16  
17 RESPECTFULLY SUBMITTED this 30<sup>th</sup> day of December, 2008.

18  
19   
20 Daniel W. Pozefsky  
Chief Counsel

21 Arizona Corporation Commission  
22 DOCKETED

23 DEC 30 2008

24 DOCKETED BY 

1 AN ORIGINAL AND THIRTEEN COPIES  
2 of the foregoing filed this 30<sup>th</sup> day  
3 of December 2008 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/  
6 mailed this 30<sup>th</sup> day of December 2008 to:

7 Dwight D. Nodes  
8 Assistant Chief Administrative Law Judge  
9 Hearing Division  
10 Arizona Corporation Commission  
11 1200 West Washington  
12 Phoenix, Arizona 85007

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

10 Teena Wolfe, Administrative Law Judge  
11 Hearing Division  
12 Arizona Corporation Commission  
13 1200 West Washington  
14 Phoenix, Arizona 85007

Casa Grande City Attorney  
City of Casa Grande  
5 10 E. Florence Blvd.  
Casa Grande, AZ 85222

13 Janice Alward, Chief Counsel  
14 Legal Division  
15 Arizona Corporation Commission  
16 1200 West Washington  
17 Phoenix, Arizona 85007

Compliance & Enforcement Manager  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

16 Ernest Johnson, Director  
17 Utilities Division  
18 Arizona Corporation Commission  
19 1200 West Washington  
20 Phoenix, Arizona 85007

By   
Ernestine Gamble

19 Robert W. Geake  
20 Vice President and General Counsel  
21 ARIZONA WATER COMPANY  
22 Post Office Box 29006  
23 Phoenix, Arizona 85038-9006  
24

TO: Stephen Ahearn, Director  
Dan Pozefsky, Chief Counsel

FROM: Rodney Moore, Public Utilities Analyst V

RE: **SEDONA** - Report on RUCO's audit of the Arizona Water Company filing for an Arsenic Cost Recovery Mechanism ("ACRM") Step 2 rate increase for its Sedona system.

---

**AUDIT OBJECTIVE:** The purpose and objective of this audit was to verify the operations and maintenance ("O&M") expenditures of the completed arsenic plant in the Sedona system, to verify the prior 12 months of deferred O&M costs and the ongoing O&M costs, verify compliance with Decision Nos. 68302 and 66400 authorizing the ACRM, and verify the accuracy of the requested ACRM surcharge.

**AUDIT PROCEDURES:** I performed the following audit procedures:

- 1) Verified that all schedules that are required by Decision No. 66400 are included in the application.
- 2) Reviewed Earnings Test for compliance, accuracy, and determined if the Company had passed the Earnings Test.
- 3) Reviewed all arsenic plant invoices, looking for such things as misallocations, unreasonable costs, non-arsenic plant costs, double billings etc.
- 4) Reviewed all arsenic O&M invoices, looking for such things as misallocations, unreasonable costs, non-arsenic O&M costs, double billings etc.
- 5) Verified accuracy of invoice totals and grand total.
- 6) Reviewed Revenue Requirement calculations for accuracy and compliance.
- 7) Reviewed rate design for accuracy of calculations, and checked the reasonableness of the billing determinants by comparing to the instant rate case.

Stephen Ahearn, Director  
Dan Pozefsky, Chief Counsel  
Page 2

**AUDIT FINDINGS:** The Sedona ACRM filing is accurate and in compliance with Decision Nos. 68302 and 66400.

**AUDIT RECOMMENDATIONS:**  
The Company's ACRM request should be approved as filed. RUCO ACRM step 2 rate increases are displayed on the attached Schedule RUCO ACRM-2.

**RUCO ADJUSTMENT TO ACRM - SEDONA WATER SYSTEM**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCO ADJUSTMENT	[C] RUCO AS ADJUSTED
<b>Arsenic Plant Revenue Requirement</b>				
1	Gross Arsenic Plant in Service/Rate Base	\$ 703,804	\$ -	\$ 703,804
2	Accumulated Depreciation Of Arsenic Plant	(7,195)	-	(7,195)
3	Arsenic Rate Base	\$ 696,609		\$ 696,609
4	Required Rate of Return (Dec. No. 68302)	9.64%		9.64%
5	Required Operating Income	\$ 67,153		\$ 67,153
6	Gross Revenue Conversion Factor (Dec. No. 68302)	1.65026		1.65026
7	Revenue Required - Return on Arsenic Treatment Plant	\$ 110,820		\$ 110,820
8	Depreciation Rate on Arsenic Treatment Plant (Co. Workpapers)	2.86%		2.86%
9	Depreciation on Arsenic Treatment Plant (Co. Workpapers)	\$ 20,129		\$ 20,129
10	Lease Charges - Capital Portion	\$ 126,000	\$ -	\$ 126,000
11	Revenue Required - Capital Costs	\$ 256,949		\$ 256,949
12	Recurring O&M	\$ 67,254	\$ -	\$ 67,254
13	Revenue Required - Recurring O&M Expenses	\$ 324,203		\$ 324,203
14	Revenue Required - Deferred O&M Expenses	\$ 67,254	\$ -	\$ 67,254
15	Total Revenue Required - Step 2	\$ 391,457		\$ 391,457

**16 COMPANY PROPOSED**

RATES	CURRENT RATES WITHOUT ACRM STEP 1	PROPOSED ACRM STEP 2 (INCLUDES STEP 1) BASE SURCHARGE	PROPOSED ACRM STEP 2 DEFERRED O&M SURCHARGE	TOTAL PROPOSED	
17	Basic Monthly Minimum Service Charge 5/8" X 3/4" Meter	\$ 15.70	\$ 1.60	\$ 0.33	\$ 17.63
18	Commodity Rates Per 1,000 Gallons All gallons	\$ 1.7000	\$ 0.1417	\$ 0.0294	\$ 1.8711
19					
20					

**RUCO PROPOSED**

RATES	CURRENT RATES FOLLOWING ACRM STEP 1	PROPOSED ACRM STEP 2 RECURRING BASE SURCHARGE	PROPOSED ACRM STEP 2 DEFERRED O&M SURCHARGE	TOTAL PROPOSED	
21	Basic Monthly Minimum Service Charge 5/8" X 3/4" Meter	\$ 15.70	\$ 1.60	\$ 0.33	\$ 17.63
22	Commodity Rates Per 1,000 Gallons All gallons	\$ 1.7000	\$ 0.1417	\$ 0.0294	\$ 1.8711
23					
24					

