

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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2009 MAR 12 P 2:02

TO: THE COMMISSION

MAR 12 2009

AZ CORP COMMISSION  
DOCKET CONTROL

FROM: Utilities Division

DOCKETED BY

DATE: March 12, 2009

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY TO IMPLEMENT ARSENIC COST RECOVERY MECHANISM FOR ITS WHITE TANK SYSTEM IN ITS WESTERN GROUP (DOCKET NO. W-01445A-04-0650)

I. Introduction

Pursuant to Decision Nos. 66400 and 68302, Arizona Water Company ("Company", "Applicant" or "AWC") filed an application on August 12, 2008, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism ("ACRM") for its White Tank Water District in its Western Group.

The Commission established the ACRM to aid the Company in its efforts to comply with the United States Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb effective January 23, 2006. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes both fixed and volumetric charges.

Pursuant to Decision No. 68302, AWC's Step-One ACRM filing includes the schedules the Commission requires as a condition for approval to implement an ACRM.

II. Background

On September 8, 2004, AWC filed an application with the Commission for a permanent rate increase for AWC's Western Group serving approximately 20,000 customers in five separate water districts including the White Tank water district. Decision No. 68302, issued on November 14, 2005, established permanent rates for all five districts. In that decision, the Commission authorized an ACRM consistent with that authorized for AWC's Northern Group in Decision No. 66400<sup>1</sup>.

<sup>1</sup> Issued on October 14, 2003.

### **III. Company's Current Application**

#### **White Tank District Step-One**

In conformity with Decision No. 66400, AWC's Step-One ACRM application seeks a surcharge to recover a return on its arsenic remediation investment and related depreciation and income tax expenses. The Step-One application seeks no recovery of new or additional Operating and Maintenance expenses. AWC requests a Step-One ACRM surcharge composed of a \$4.79 monthly customer charge for a customer with a 5/8- x 3/4-inch meter<sup>2</sup> and a \$0.3198 per 1,000 gallons commodity rate to provide \$220,531 of additional annual revenue. The Company's filing estimates that its proposed surcharge would increase the typical bill for a 5/8- x 3/4-inch residential customer, based on average usage of 15,648 gallons, by \$9.79 (19.9 percent) from \$49.31 to \$59.10.<sup>3</sup>

### **IV. Authorization for an Arsenic Cost Recovery Mechanism (Decision No. 66400)**

Decision Nos. 66400 and 68302 conditioned approval of an ACRM surcharge on the Company complying with all requirements discussed in the Order including:

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.<sup>4</sup>
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 68302.

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<sup>2</sup> The monthly customer charge increases for larger meters.

<sup>3</sup> Staff's calculation shows the increase is \$9.80 (19.2 percent) from \$51.00 to \$60.80 (ACRM Schedule DRR-2).

<sup>4</sup> 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 of December 31, 2007. AWC filed a rate application on August 22, 2008, 2008.

## **V. Residential Utility Consumer Office (“RUCO”) Analysis**

On December 30, 2008, the RUCO filed its report on its audit of AWC’s White Tank District Step-One ACRM surcharge request. RUCO agrees with the Company’s Step-One ACRM request, and it recommends adoption of the Step-One ACRM surcharges requested in the Company’s application.

## **VI. Staff Analysis**

### **A. Filing Requirements**

Decision Nos. 66400 and 68302 require AWC to file ten ACRM 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. The Company’s ACRM Step-One filing for the White Tank District includes the following ten schedules:

1. Balance Sheet – as of December 31, 2007.
2. Income Statement – period ending December 31, 2007.
3. Earnings Test – an “Earnings Test” calculation verifying that the proposed ACRM surcharge revenue would not result in excess earnings in the White Tank District.
4. Rate Review – a rate review filing for the White Tank Water System.
5. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for Step-One.
6. Surcharge Calculation – a detailed surcharge calculation presenting the monthly customer charges by meter size and the commodity rate per thousand gallons.
7. Rate Base – A schedule showing the elements of the rate base at December 31, 2007, and showing the effects of the arsenic plant investment for the White Tank District.
8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the construction work in progress accounts in the White Tank District.
9. Three factor allocation schedule – a schedule showing the components of the three factor allocation attributable to each of the water districts within AWC.

10. Typical Bill Analysis – ACRM Step-One – a typical bill analysis showing the effects on residential customers at the average residential usage of 15,648 gallons for the White Tank District.

**B. Filing Requirements Compliance**

Staff performed an examination of AWC's White Tank District Step-One ACRM surcharge filing for the White Tank District and concludes that it conforms to the requirements specified in Decision Nos. 66400 and 68302. Staff found that AWC's filing includes the required schedules. 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 White Tank District that would exceed that authorized in Decision No. 68302.

**C. Examination of Company Schedules and Utility Plant in Service**

Staff performed a field inspection on December 22, 2008, and verified that the White Tank District's arsenic treatment facilities related to the Step-One ACRM surcharge request are in service and providing water that meets the new arsenic standard.

Staff examined and verified AWC's claimed costs pertaining to the Step-One arsenic remediation. Staff's agrees with the Company's \$220,531 Step-One ACRM surcharge revenue requirement calculation. Staff also concurs with the amount of the Company's proposed monthly customer surcharges and commodity rate surcharges as presented in ACRM Schedule DRR-1. However, as noted above, Staff's review of Schedule 10, Typical Bill Analysis, revealed errors in the Company's calculation for the average 5/8- x 3/4-inch meter customer using 15,648 gallons. Staff calculated that the average residential customer bill would increase by \$9.80 (19.2 percent) from \$51.00 to \$60.80 (ACRM Schedule DRR-2). Staff recommends that the Step-One ACRM surcharge remain in effect until superseded by a Step-Two ACRM surcharge or rates are authorized in a future rate case whichever occurs first.

**VII. Conclusions and Recommendations**

Staff concludes that the Company filed the ACRM schedules required by Decision Nos. 66400 and 68302.

Staff concludes that the Step-One White Tank District arsenic plant is in service and providing water that meets the new EPA arsenic standard.

Staff further concludes that AWC has already complied with the requirement to file a permanent rate application for its White Tank Water District no later than September 30, 2008.

Staff further concludes that authorization of a Step-One ACRM surcharge to recover a return on arsenic remediation investment and related depreciation and income tax expenses to remain in effect until superseded by Step-Two ACRM surcharges or rates are authorized in a future rate case, whichever occurs first, is appropriate.

Staff further concludes that \$220,531 is the Step-One ACRM surcharge revenue requirement, and that the Earnings Test shows that it would not result in a rate of return in the White Tank District exceeding that authorized in Decision No. 68302.

Staff recommends that the Company file with the Commission an arsenic remedial surcharge tariff consistent with ACRM Schedule DRR-1 within 30 days of the effective date of a Decision in this matter.

Staff further recommends that AWC notify its White Tank District customers of the arsenic cost recovery surcharge tariffs approved within 30 days of the effective date of a Decision in this matter.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:GLF:lhm\CHH

ORIGINATOR: Gordon L. Fox

ARIZONA WATER COMPANY  
 DOCKET NO. W-01445A-04-0650  
 ACRM STEP-1 TARIFF

ACRM Schedule DRR-1

WHITE TANK

<u>MONTHLY USAGE CHARGE</u>	<u>Decision No. 68302</u>	<u>Dollar Increase Step 1 ACRM</u>	<u>Combined Base and Step 1 Tariffs</u>	<u>Percent Increase Step 1 ACRM</u>
5/8" x 3/4" Meter	\$ 16.05	\$ 4.79	\$ 20.84	29.84%
1" Meter	31.10	9.29	40.39	29.87%
2" Meter	82.85	24.72	107.57	29.84%
3" Meter	155.40	46.37	201.77	29.84%
4" Meter	401.25	119.75	521.00	29.84%
6" Meter	802.50	239.50	1,042.00	29.84%
8" Meter	1,284.00	383.20	1,667.20	29.84%
10" Meter	1,845.75	550.85	2,396.60	29.84%
<b>Gallons included in minimum</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<u>Commodity Rates</u>				
<u>5/8 x 3/4-Inch Meter</u>				
0 to 3,000 Gallons	1.6000	\$ 0.3198	1.9198	19.99%
3,001 to 10,000 Gallons	2.2500	\$ 0.3198	2.5698	14.21%
10,001 Gallons and over	2.5500	\$ 0.3198	2.8698	12.54%
<u>1-Inch Meter</u>				
0 to 30,000 Gallons	2.2500	0.3198	2.5698	14.21%
30,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>2-Inch Meter</u>				
0 to 183,000 Gallons	2.2500	0.3198	2.5698	14.21%
183,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>3-Inch Meter</u>				
0 to 401,000 Gallons	2.2500	0.3198	2.5698	14.21%
401,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>4-Inch Meter</u>				
0 to 1,145,000 Gallons	2.2500	0.3198	2.5698	14.21%
1,145,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>6-Inch Meter</u>				
0 to 2,359,000 Gallons	2.2500	0.3198	2.5698	14.21%
2,359,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>8-Inch Meter</u>				
0 to 3,817,000 Gallons	2.2500	0.3198	2.5698	14.21%
3,817,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>10-Inch Meter</u>				
0 to 5,518,000 Gallons	2.2500	0.3198	2.5698	14.21%
5,518,001 Gallons and over	2.5500	0.3198	2.8698	12.54%

WHITE TANK  
TYPICAL BILL ANALYSIS

RESIDENTIAL 5/8" X 3/4 -INCH METER

	[A]	[B]	[C]	[D]
Line No.	Gallons Consumption	WHITE TANK Present Rates	WHITE TANK Proposed Rates	WHITE TANK Percent Increase
1	0	\$16.05	\$20.84	29.8%
2	1,000	17.65	22.76	29.0%
3	2,000	19.25	24.68	28.2%
4	3,000	20.85	26.60	27.6%
5	4,000	23.10	29.17	26.3%
6	5,000	25.35	31.74	25.2%
7	6,000	27.60	34.31	24.3%
8	7,000	29.85	36.88	23.5%
9	8,000	32.10	39.45	22.9%
10	9,000	34.35	42.02	22.3%
11	10,000	36.60	44.59	21.8%
12	11,000	39.15	47.46	21.2%
13	12,000	41.70	50.33	20.7%
14	13,000	41.70	53.20	27.6%
15	14,000	44.25	56.07	26.7%
16	15,000	46.80	58.94	25.9%
17	20,000	62.10	73.29	18.0%
18	25,000	74.85	87.64	17.1%
19				
20				
21				
22	Average Residential Consumption	15,648	15,648	
23				
24	Average Residential Bill	<b>\$51.00</b>	<b>\$ 60.80</b>	<b>19.2%</b>
25				
26	Minimum Rate	\$ 16.05	\$ 20.84	
27				
28				
29				
30	Commodity (per M Gallon)			
31	0-3,000 Gallons	\$ 1.6000	\$ 1.9198	
32	3,001 - 10,000 Gallons	\$ 2.2500	\$ 2.5698	
33	Over 10,000 Gallons	\$ 2.5500	\$ 2.8698	
34				
35	Gallons In Minimum	0	0	
36	Gallons In 1st Block	3,000	3,000	
37	Gallons In 2nd Block	10,000	10,000	
38	Gallons In 3rd Block	999,999	999,999	

**MEMORANDUM**

DATE: October 7, 2008

TO: Dennis Rogers  
Public Utilities Analyst V

FROM: Marlin Scott, Jr. *MSJ*  
Utilities Engineer

RE: Arizona Water Company – Western Group  
White Tank System – Step 1 ACRM Surcharge  
Stanfield System – Step 1 ACRM Surcharge  
Casa Grande System – Step 2 ACRM Surcharge  
Docket No. W-01445A-04-0650

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**Introduction**

Pursuant to Decision No. 68302 (effective November 14, 2005), Arizona Water Company – Western Group (“Company”) has filed an application for approval to implement its Step 1 Arsenic Cost Recovery Mechanism (“ACRM”) surcharge for its White Tank System, Step 1 ACRM surcharge for its Stanfield System and Step 2 ACRM surcharge for the Casa Grande System. The White Tank, Stanfield and Casa Grande Systems have water sources that exceed the new arsenic standard of 10 parts per billion (“ppb”).

Staff members, Marlin Scott, Jr, Katrin Stukov and Brian Bozzo, field inspected the arsenic treatment facilities on September 25, 2008, accompanied by Company representatives; Fred Schneider, James Wilson, Joel Rieker, Joe Harris, and Raymond Murrieta. The purpose of this field inspection was to verify that the arsenic treatment facilities related to the Step 1 and Step 2 ACRM surcharge requests were in service and providing water that now meets the new arsenic standard.

**Discussion****White Tank System – Step 1 ACRM**

The Company is requesting a Step 1 ACRM surcharge for its White Tank System arsenic treatment facility located at Monte Vista Site. A brief discussion of the arsenic treatment facility at this site is as follows:

1. This site treats water from Wells #2, #4 and #8. A 1,000 gallon per minute ("gpm") coagulation-filtration ("C/F") treatment process plant reduces the composite arsenic level from 16 ppb to 3 ppb. This arsenic treatment facility was placed into operation in May 2008.

#### Stanfield System – Step 1 ACRM

The Company is requesting a Step 1 ACRM surcharge for its Stanfield System arsenic treatment facility located at Well Site #1. A brief discussion of the arsenic treatment facility at this well site is as follows:

1. This site treats water from Wells #1 and #3. A 350 gpm Ion Exchange treatment process plant reduces the composite arsenic level from 11 ppb to 3 ppb. This arsenic treatment facility was placed into operation in April 2008 and is leased from Basin Water.

#### Casa Grande System – Step 1 ACRM

On February 20, 2008, Staff provided a memorandum stating that the Company's Casa Grande System was inspected on February 14, 2008, for the Step 1 ACRM surcharge filing for arsenic treatment facilities at three sites; Well #29-Mission Royale Plant, Well #19-Henness Road Plant, and Well #10-Cottonwood Lane Plant. All the treatment facilities were purchased from Layne-Western and are C/F treatment methods that were placed into operation in 2007. A brief discussion of each site is as follows:

##### *Well #29 – Mission Royale Plant*

1. This site treats water from Well #29. The C/F treatment process is a 1,500 gpm plant that reduces the arsenic level from 12 ppb to 4 ppb. This arsenic treatment facility was placed into operation in August 2007.

##### *Well #19 – Henness Road Plant*

2. This site treats water from Wells #19, #21, #22, #24 and #30. The C/F treatment process is a 4,500 gpm plant that reduces the composite arsenic level from 12 ppb to 6 ppb. This arsenic treatment facility was placed into operation in July 2007.

##### *Well #10 – Cottonwood Lane Plant*

3. This site treats water from Wells #10, #14, #17, #23, #25 and #26. The C/F treatment process is a 5,800 gpm plant that reduces the composite arsenic level from 18 ppb to 3 ppb. This arsenic treatment facility was placed into operation in October 2007.

Casa Grande System – Step 2 ACRM

For the Step 2 – ACRM filing, the Company reported two additional arsenic treatment facility sites, Well #28-Arizona City and Well #27-Lake in the Desert. Both of the treatment facilities are C/F treatment methods that were placed into operation in 2008. A brief discussion of each site is as follows:

*Well #28 – Arizona City Plant*

4. This site treats water from Well #28. The C/F treatment process is a 1,500 gpm plant that reduces the arsenic level from 47 ppb to 7 ppb. This arsenic treatment facility was placed into operation in May 2008.

*Well #27 – Lake in the Desert Plant*

5. This site treats water from Well #27. The C/F treatment process is a 400 gpm plant that reduces the arsenic level from 10 ppb to 7 ppb. This arsenic treatment facility was placed into operation in July 2008.

**Conclusion**

Based on its field inspection, Staff has verified that the arsenic treatment facilities for the White Tank System Step 1 – ACRM, the Stanfield System Step 1 - ACRM and the Casa Grande System Step 2 – ACRM are in service and providing water that meets the new arsenic standard.

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES  
Chairman

GARY PIERCE  
Commissioner

PAUL NEWMAN  
Commissioner

SANDRA D. KENNEDY  
Commissioner

BOB STUMP  
Commissioner

IN THE MATTER OF THE APPLICATION  
OF ARIZONA WATER COMPANY, AN  
ARIZONA CCORPORATION, FOR  
AUTHORITY TO IMPLEMENT ARSENIC  
COACT RECOVERY MECHANISM FOR  
ITS WHITE TANK SYSTEM IN ITS  
WESTERN GROUP

DOCKET NO. W-01445A-04-0650

DECISION NO. \_\_\_\_\_

ORDER

Open Meeting  
March 31 and April 1, 2009  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**A. Introduction**

1. Pursuant to Decision Nos. 66400 and 68302, Arizona Water Company (“Company”, “Applicant” or “AWC”) filed an application on August 12, 2008, with the Arizona Corporation Commission (“Commission”) requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism (“ACRM”) for its White Tank Water District in its Western Group.

2. The Commission established the ACRM to aid the Company in its efforts to comply with the United States Environmental Protection Agency’s (“EPA”) new arsenic maximum contaminant level of 10 particles per billion (“ppb”) which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb effective January 23, 2006. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes both fixed and volumetric charges.

3. Pursuant to Decision No. 68302, AWC's Step-One ACRM filing includes the schedules the Commission requires as a condition for approval to implement an ACRM.

**B. Background**

4. On September 8, 2004, AWC filed an application with the Commission for a permanent rate increase for AWC's Western Group serving approximately 20,000 customers in five separate water districts including the White Tank water district. Decision No. 68302, issued on November 14, 2005, established permanent rates for all five districts. In that decision, the Commission authorized an ACRM consistent with that authorized for AWC's Northern Group in Decision No. 66400<sup>1</sup>.

**C. Company's Current Application – White Tank District Step-One**

5. In conformity with Decision 66400, AWC's Step-One ACRM application seeks a surcharge to recover a return on its arsenic remediation investment and related depreciation and income tax expenses. The Step-One application seeks no recovery of new or additional Operating and Maintenance expenses. AWC requests a Step-One ACRM surcharge composed of a \$4.79 monthly customer charge for a customer with a 5/8- x 3/4-inch meter<sup>2</sup> and a \$0.3198 per 1,000 gallons commodity rate to provide \$220,531 of additional annual revenue. The Company's filing estimates that its proposed surcharge would increase the typical bill for a 5/8" x 3/4-inch residential customer, based on average usage of 15,648 gallons, by \$9.79 (19.9 percent) from \$49.31 to \$59.10.<sup>3</sup>

**D. Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 66400 and 68302)**

6. Decision Nos. 66400 and 68302 conditioned approval of an ACRM surcharge on the Company complying with all requirements discussed in the Order including:

- a. 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.

...  
...

<sup>1</sup> Issued on October 14, 2003.

<sup>2</sup> The monthly customer charge increases for larger meters.

<sup>3</sup> Staff's calculation shows the increase is \$9.80 (19.2 percent) from \$51.00 to \$60.80 (ACRM Schedule DRR-2).

- 1 b. AWC shall file a full rate application no later than September 30, 2007, based on a  
2 2006 test year.<sup>4</sup>
- 3 c. AWC shall identify as a separate line item on customer bills the charges attributable to  
4 federally mandated arsenic reduction costs. At least four times annually, the bills  
5 shall include in bold print or distinguishing ink color that the ACRM costs are the  
6 result of federal mandates by the United States Environmental Protection Agency.
- 7 d. The ACRM schedules provide for the calculation of a surcharge based on financial  
8 records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an  
9 amount that would not result in a rate of return exceeding that authorized in Decision  
10 No. 68302.

11 **E. Residential Utility Consumer Office ("RUCO") Analysis**

12 7. On December 30, 2008, the RUCO filed its report on its audit of AWC's White  
13 Tank District Step-One ACRM surcharge request. RUCO agrees with the Company's Step-One  
14 ACRM request, and it recommends adoption of the Step-One ACRM surcharges requested in the  
15 Company's application.

16 **F. Staff Analysis**

17 **Filing Requirements**

18 8. Decision Nos. 66400 and 68302 require AWC to file ten ACRM schedules as  
19 follows: balance sheet, income statement, earnings test, rate review, arsenic revenue requirement,  
20 surcharge calculation, adjusted rate base schedule, construction work in progress ledger, three-  
21 factor allocation and typical bill analysis. The Company's ACRM Step-One filing for the White  
22 Tank District includes the following ten schedules:

- 23 a. Balance Sheet – as of December 31, 2007.
- 24 b. Income Statement – period ending December 31, 2007.
- 25 c. Earnings Test – an "Earnings Test" calculation verifying that the proposed ACRM  
26 surcharge revenue would not result in excess earnings in the White Tank District.
- 27 d. Rate Review – a rate review filing for the White Tank Water System.
- 28 ...

<sup>4</sup> 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 of December 31, 2007. AWC filed a rate application on August 22, 2008.

- 1 e. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for Step-  
2 One.
- 3 f. Surcharge Calculation – a detailed surcharge calculation presenting the monthly  
4 customer charges by meter size and the commodity rate per thousand gallons.
- 5 g. Rate Base – A schedule showing the elements of the rate base at December 31, 2007,  
6 and showing the effects of the arsenic plant investment for the White Tank District.
- 7 h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the construction  
8 work in progress accounts in the White Tank District.
- 9 i. Three factor allocation schedule – a schedule showing the components of the three  
10 factor allocation attributable to each of the water districts within AWC.
- 11 j. Typical Bill Analysis – ACRM Step-One – a typical bill analysis showing the effects  
12 on residential customers at the average residential usage of 15,648 gallons for the  
13 White Tank District.

#### Staff Conclusions and Recommendations

13 9. Staff concluded that there are no deficiencies related to the Company’s ACRM  
14 filing as required by Decision Nos. 66400 and 68302.

15 10. Staff further concluded based on its field inspection on December 22, 2008, that the  
16 White Tank District’s arsenic treatment facilities related to the Step-One ACRM surcharge request  
17 are in service and providing water that meets the new EPA arsenic standard.

18 11. Staff further concludes that AWC has already complied with the requirement to file  
19 a permanent rate application for its White Tank Water District no later than September 30, 2008.

20 12. Staff concludes that authorization of a Step-One ACRM surcharge to recover a  
21 return on arsenic remediation investment and related depreciation and income tax expenses to  
22 remain in effect until superseded by Step-Two ACRM surcharges or rates are authorized in a  
23 future rate case, whichever occurs first, is appropriate.

24 13. Staff further concluded that AWC supported the costs it claimed pertaining to its  
25 Step-One arsenic remediation, that the Company correctly calculated its Step-One ACRM  
26 surcharge revenue requirement at \$220,531 and that the Earnings Test shows that it would not  
27 result in a rate of return in the White Tank District exceeding that authorized in Decision No.  
28 68302.

1 14. Staff further concluded that the Company correctly calculated the monthly  
2 customer charge and commodity rate components of the Step-One ACRM surcharge and  
3 recommends adoption those rates as presented in ACRM Schedule DRR-1.

4 15. Staff recommends that the Company file with the Commission an arsenic remedial  
5 surcharge tariff consistent with ACRM Schedule DRR-1 within 30 days of the effective date of  
6 this Decision.

7 16. Staff further recommends that AWC notify its White Tank District customers of the  
8 arsenic cost recovery surcharge tariffs approved with 30 days of the effective date of this Decision.

9 \* \* \* \* \*

10 CONCLUSIONS OF LAW

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

13 2. The Commission has jurisdiction over the Company and of the subject matter of the  
14 application.

15 3. Approval of an arsenic cost recovery mechanism is consistent with the  
16 Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and  
17 applicable case law.

18 4. It is in the public interest to approve the Company's request for implementation of  
19 the Step-One ACRM surcharge as discussed herein.

20 ORDER

21 IT IS THEREFORE ORDERED that the application by Arizona Water Company for the  
22 implementation of a Step-One Arsenic Cost Recovery Mechanism for its White Tank District is  
23 approved as discussed herein.

24 IT IS FURTHER ORDERED that the application by Arizona Water Company for its White  
25 Tank District for approval of a Step-One arsenic cost recovery mechanism surcharge tariff shall be  
26 accordance with the attached ACRM Schedule DRR-1.

27 IT IS FURTHER ORDERED that Arizona Water Company shall notify its customers of  
28 the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of  
this Decision.

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IT IS FURTHER ORDERED that Arizona Water Company file with the Commission Docket Control, within 30 days of the effective date of this Decision, revised tariffs consistent with this decision.

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

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

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

\_\_\_\_\_  
MICHAEL P. KEARNS  
INTERIM EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:DRR:lhм\CHH

1 SERVICE LIST FOR: Arizona Water Company  
2 DOCKET NO. W-01445A-04-0650

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17 Phoenix, Arizona 85007

18 Mr. Ernest G. Johnson  
19 Director, Utilities Division  
20 Arizona Corporation Commission  
21 1200 West Washington Street  
22 Phoenix, Arizona 85007

23 Ms. Janice M. Alward  
24 Chief Counsel, Legal Division  
25 Arizona Corporation Commission  
26 1200 West Washington Street  
27 Phoenix, Arizona 85007

28

**ARIZONA WATER COMPANY**  
**DOCKET NO. W-01445A-04-0650**  
**ACRM STEP-1 TARIFF**

ACRM Schedule DRR-1

**WHITE TANK**

<u>MONTHLY USAGE CHARGE</u>	<u>Decision No. 68302</u>	<u>Dollar Increase Step 1 ACRM</u>	<u>Combined Base and Step 1 Tariffs</u>	<u>Percent Increase Step 1 ACRM</u>
5/8" x 3/4" Meter	\$ 16.05	\$ 4.79	\$ 20.84	29.84%
1" Meter	31.10	9.29	40.39	29.87%
2" Meter	82.85	24.72	107.57	29.84%
3" Meter	155.40	46.37	201.77	29.84%
4" Meter	401.25	119.75	521.00	29.84%
6" Meter	802.50	239.50	1,042.00	29.84%
8" Meter	1,284.00	383.20	1,667.20	29.84%
10" Meter	1,845.75	550.85	2,396.60	29.84%
<b>Gallons included in minimum</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<u>Commodity Rates</u>				
<u>5/8 x 3/4-Inch Meter</u>				
0 to 3,000 Gallons	1.6000	\$ 0.3198	1.9198	19.99%
3,001 to 10,000 Gallons	2.2500	\$ 0.3198	2.5698	14.21%
10,001 Gallons and over	2.5500	\$ 0.3198	2.8698	12.54%
<u>1-Inch Meter</u>				
0 to 30,000 Gallons	2.2500	0.3198	2.5698	14.21%
30,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>2-Inch Meter</u>				
0 to 183,000 Gallons	2.2500	0.3198	2.5698	14.21%
183,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>3-Inch Meter</u>				
0 to 401,000 Gallons	2.2500	0.3198	2.5698	14.21%
401,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>4-Inch Meter</u>				
0 to 1,145,000 Gallons	2.2500	0.3198	2.5698	14.21%
1,145,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>6-Inch Meter</u>				
0 to 2,359,000 Gallons	2.2500	0.3198	2.5698	14.21%
2,359,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>8-Inch Meter</u>				
0 to 3,817,000 Gallons	2.2500	0.3198	2.5698	14.21%
3,817,001 Gallons and over	2.5500	0.3198	2.8698	12.54%
<u>10-Inch Meter</u>				
0 to 5,518,000 Gallons	2.2500	0.3198	2.5698	14.21%
5,518,001 Gallons and over	2.5500	0.3198	2.8698	12.54%

Decision No. \_\_\_\_\_

WHITE TANK  
TYPICAL BILL ANALYSIS

RESIDENTIAL 5/8" X 3/4 -INCH METER

Line No.	[A]	[B]	[C]	[D]
	Gallons Consumption	WHITE TANK Present Rates	WHITE TANK Proposed Rates	WHITE TANK Percent Increase
1	0	\$16.05	\$20.84	29.8%
2	1,000	17.65	22.76	29.0%
3	2,000	19.25	24.68	28.2%
4	3,000	20.85	26.60	27.6%
5	4,000	23.10	29.17	26.3%
6	5,000	25.35	31.74	25.2%
7	6,000	27.60	34.31	24.3%
8	7,000	29.85	36.88	23.5%
9	8,000	32.10	39.45	22.9%
10	9,000	34.35	42.02	22.3%
11	10,000	36.60	44.59	21.8%
12	11,000	39.15	47.46	21.2%
13	12,000	41.70	50.33	20.7%
14	13,000	41.70	53.20	27.6%
15	14,000	44.25	56.07	26.7%
16	15,000	46.80	58.94	25.9%
17	20,000	62.10	73.29	18.0%
18	25,000	74.85	87.64	17.1%
19				
20				
21				
22	Average Residential Consumption	15,648	15,648	
23				
24	Average Residential Bill	\$51.00	\$ 60.80	19.2%
25				
26	Minimum Rate	\$ 16.05	\$ 20.84	
27				
28				
29				
30	Commodity (per M Gallon)			
31	0-3,000 Gallons	\$ 1.6000	\$ 1.9198	
32	3,001 - 10,000 Gallons	\$ 2.2500	\$ 2.5698	
33	Over 10,000 Gallons	\$ 2.5500	\$ 2.8698	
34				
35	Gallons In Minimum	0	0	
36	Gallons In 1st Block	3,000	3,000	
37	Gallons In 2nd Block	10,000	10,000	
38	Gallons In 3rd Block	999,999	999,999	