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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

Arizona Corporation Commission

**DOCKETED**

APR - 7 2009

DOCKETED BY 

IN THE MATTER OF IN THE MATTER OF )  
THE APPLICATION OF ARIZONA WATER )  
COMPANY, TO IMPLEMENT STEP TWO )  
OF ITS ARSENIC COST RECOVERY )  
MECHANISM FOR ITS RIMROCK )  
DISTRICT )

DOCKET NO. W-01445A-00-0962

DECISION NO. 70962

ORDER

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

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. Pursuant to Decision Nos. 64282 and 66400, 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-Two of the Arsenic Cost Recovery Mechanism ("ACRM") for its Rimrock Water District.

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.

...

1           3. Pursuant to Decision No. 66400, AWC's Step-Two ACRM filing includes the  
2 schedules the Commission requires as a condition for approval to implement an ACRM.

3 **Background**

4           4. On November 22, 2000, AWC filed an application with the Commission for a  
5 permanent rate increase for AWC's Northern Group serving approximately 16,000 customers in  
6 five separate water districts including the Rimrock water district. Decision No. 64282, issued on  
7 December 28, 2001, established permanent rate increases for all five districts. In that decision, the  
8 Commission affirmed the need for Staff, the Company, and the Residential Utilities Consumer  
9 Office ("RUCO") to address an appropriate methodology for the recovery of costs associated with  
10 arsenic treatment (i.e., Phase II). The culmination of these negotiations, testimony, and public  
11 hearings resulted in the issuance of Decision No. 66400 on October 14, 2003.

12           5. On May 17, 2007, AWC filed an application with the Commission requesting  
13 authorization to implement Step-One of the ACRM for its Rimrock Water District. On August 28,  
14 2007, the Commission issued Decision No. 69883 granting AWC the authority to implement Step-  
15 One of its ACRM.

16           6. The Step-One surcharge added \$6.08 to the monthly customer charge for a  
17 customer with a 5/8-inch meter and \$1.0237 per thousand gallons to the commodity rate. The  
18 average residential customer bill (with usage of 6,000 gallons on a 5/8-inch meter) increased by  
19 approximately \$12.22 (or 39.3 percent) from \$31.10 to \$43.32.

20 **Company's Current Application**

21           7. AWC's Step-Two ACRM application seeks to recover eligible arsenic related  
22 O&M costs, depreciation expense, lease expense, income taxes and updated values of arsenic  
23 related net plant included in the Step-One surcharge. The Company's present application proposes  
24 to replace the Step-One ACRM surcharge (\$6.08 monthly customer charge for 5/8-inch meter  
25 customers<sup>1</sup> and \$1.0237 per thousand gallons commodity rate) with two components, a permanent  
26 Step-Two surcharge and a temporary Step-Two ACRM surcharge. The permanent portion of the

27 \_\_\_\_\_  
28 <sup>1</sup> The monthly customer charge increases for larger meters.

1 Step-Two surcharge would increase the monthly minimum customer charge for a customer with a  
2 5/8-inch meter by \$0.66 from \$6.08 to \$6.74 and would increase the commodity rate per thousand  
3 gallons by \$0.0705 from \$1.0237 to \$1.0942. The permanent portion of the Step-Two surcharge  
4 would increase the average customer bill (with usage of 6,165 gallons on a 5/8-inch meter) over  
5 the Step-One level by \$1.10 (2.5 percent) from \$43.90 to \$45.00 and over the base rate level by  
6 \$13.49 (42.8 percent) from \$31.51 to \$45.00. The permanent Step-Two surcharge will remain in  
7 effect until rates are authorized in a future rate case.

8 8. The temporary portion of the Step-Two surcharge provides for recovery of deferred  
9 O&M expenses and expires 12 months after implementation. The temporary portion of the  
10 Company's proposed Step-Two ACRM surcharge would add \$0.70 to the monthly customer  
11 charge for 5/8-inch meter customers and \$0.1139 per thousand gallons to the commodity rate. The  
12 combined permanent and temporary Step-Two ACRM surcharge would result in a \$7.44 (\$6.74 +  
13 \$0.70) monthly customer charge and a \$1.2081 (\$1.0942 + \$0.1139) commodity rate per thousand  
14 gallons. The combined permanent and temporary portions of the Step-Two surcharge would  
15 increase the average customer bill (with usage of 6,165 gallons on a 5/8-inch meter) over the Step-  
16 One level by \$2.50 (5.7 percent) from \$43.90 to \$46.25<sup>2</sup> and over the base rate level by \$14.89  
(47.2 percent) from \$31.51 to \$46.40.

17 **Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 66400 and 69883)**

18 9. Decision Nos. 66400 and 69883 conditioned approval of an ACRM surcharge on  
19 the Company complying with all requirements discussed in the Order including:

- 20 a. AWC shall file schedules to show the actual cost of construction of arsenic related  
21 facilities and that the projected rate of return with the ACRM does not exceed  
22 authorized levels. AWC shall also file any relevant data requested by Staff to support  
23 the ACRM increase.
- 24 b. In addition to the ten schedules described under "Filing Requirements Compliance",  
25 AWC shall provide any additional relevant data requested by staff including Microsoft  
26 Excel or compatible electronic versions of the ACRM filings and all work papers.
- 27 c. AWC shall file a full rate application no later than September 30, 2007, based on a  
28 2006 test year.<sup>3</sup>

<sup>2</sup> Schedule 10 of the Company's filing erroneously presents customer bill amounts.

<sup>3</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 d. AWC shall identify as a separate line item on customer bills the charges attributable to  
2 federally mandated arsenic reduction costs. At least four times annually, the bills  
3 shall include in bold print or distinguishing ink color that the ACRM costs are the  
4 result of federal mandates by the United States Environmental Protection Agency.
- 5 e. AWC shall continue to monitor the availability of grants and low-cost financing  
6 sources for arsenic treatment facilities in order to mitigate the rate impact on its  
7 customers.
- 8 f. The ACRM schedules provide for the calculation of a surcharge based on financial  
9 records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an  
10 amount that would not result in a rate of return exceeding that authorized in Decision  
11 No. 64282.

12 **Authorization for a Step-One Arsenic Cost Recovery Mechanism (Decision No. 69883)**

13 10. Decision No. 69883 granted approval a surcharge under Step-One of the provisions  
14 of the ACRM established in Decision No. 66400, it did not place any additional conditions to those  
15 specified in Decision No. 66400 for implementation of a surcharge.

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

17 11. On December 30, 2008, RUCO filed its report on its audit of AWC's Rimrock  
18 Water District Step-Two ACRM surcharge request. RUCO took no exception to the Company's  
19 filing stating that the ACRM Step-Two two surcharges should be approved as filed.

20 **Staff Analysis**

21 **Filing Requirements**

22 12. Decision No. 66400 requires AWC to file ten ACRM schedules as follows: balance  
23 sheet, income statement, earnings test, rate review, arsenic revenue requirement, surcharge  
24 calculation, adjusted rate base schedule, construction work in progress ledger, three-factor  
25 allocation and typical bill analysis. The Company's ACRM Step-Two filing includes the  
26 following ten schedules:

- 27 a. Balance Sheet – a balance sheet for its Rimrock Water District which is the most  
28 current balance sheet at the time of the filing - December 31, 2007.
- b. Income Statement – a most current income statement for its Rimrock Water District -  
period ending December 31, 2007.
- c. Earnings Test – an "Earnings Test" calculation verifying that the proposed ACRM  
surcharge revenue would not result in excess earnings in the Rimrock Water District.

- 1 d. Rate Review – a rate review for the Rimrock Water District based on the 12 months  
2 ending December 31, 2007, reflecting adjustments to comply with the requirement of  
3 Decision No. 66400 to make adjustments conforming to Decision No. 64282.
- 4 e. Arsenic Revenue Requirement Calculation – a Rimrock Water District arsenic revenue  
5 requirement calculation for Step-Two.
- 6 f. Surcharge Calculation – a detailed surcharge calculation presenting the monthly  
7 minimum charges by meter size and customer class and the commodity rate per  
8 thousand gallons for all customers in the Rimrock Water District.
- 9 g. Rate Base – a schedule presenting the elements of rate base at December 31, 2007 and  
10 showing the effects of the arsenic plant investment for the Rimrock Water District.
- 11 h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic  
12 construction work in progress accounts for the Rimrock Water District.
- 13 i. Three factor allocation schedule – a schedule showing the components of the four  
14 factor allocation attributable to each of the water districts within AWC.
- 15 j. Typical Bill Analysis – ACRM Step-Two – a separate typical bill analysis showing the  
16 effects on residential customers at the average residential usage for the Rimrock Water  
17 District.

### 15 Staff Findings

16 13. Staff found no deficiencies related to the Company’s ACRM filing.

17 14. Staff concludes that the filed schedules provide for the calculation of a surcharge  
18 based on financial records and an Earnings Test Schedule to limit the ACRM Step-Two revenue to  
19 an amount that would not result in a rate of return exceeding the rate authorized in Decision No.  
20 64282.

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

24 16. Staff performed a field inspection and verified that the Rimrock Water District’s  
25 arsenic treatment facilities related to the Step-Two ACRM surcharge request are in service and  
26 providing water that meets the new arsenic standard.

27 17. AWC has already complied with the requirement to file a permanent rate  
28 application for its Rimrock Water District no later than September 30, 2008.

**1 Staff's Conclusions and Recommendations**

2 18. Staff concurs with AWC's \$231,420 (\$209,608 permanent component and \$21,812  
3 temporary component) Step-Two ACRM surcharge revenue requirement.

4 19. Staff concludes that the Company has duly filed an ACRM application as required  
5 by ACC Decision Nos. 66400 and 69883.

6 20. Staff further concludes that authorization of a permanent Step-Two ACRM  
7 surcharge that supplants the Step-One ACRM surcharge and that includes costs for the updated net  
8 arsenic related plant and associated depreciation expense as well as the costs for eligible arsenic  
9 related O&M costs, lease expense and income taxes to remain in effect until new rates are  
10 established in a future rate case is appropriate.

11 21. Staff further concludes that authorization of a temporary ACRM Step-Two  
12 surcharge that provides for recovery of deferred O&M expenses should cease 12 months after  
13 implementation.

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

16 23. Staff recommends approval of a permanent Step-Two ACRM surcharge, which  
17 supplants the previously approved Step-One ACRM surcharge, comprised of the monthly  
18 customer components presented on ACRM Schedule GTM-1 and the commodity rate components  
19 presented on ACRM Schedule GTM-2.

20 24. Staff further recommends that the Company file with the Commission an arsenic  
21 remedial surcharge tariff consistent with ACRM Schedules GTM-1 and GTM-2 that separately  
22 show the permanent and temporary portions.

23 25. Staff further recommends that AWC notify its Rimrock Water District customers of  
24 the arsenic cost recovery surcharge tariffs approved herein within 30 days of the effective date of  
25 the Commission Decision.

26 26. Staff found that the average customer bill (with usage of 6,165 gallons on a 5/8-  
27 inch meter) at the ACRM Step-One level is \$43.90. The permanent portion of the Step-Two

28 ...

1 surcharge increases the bill by \$1.10 to \$45.00 and the temporary portion of the Step-Two  
2 surcharge adds \$1.40 for a \$46.40 bill until it expires in 12 months.

3 \* \* \* \* \*

4 CONCLUSIONS OF LAW

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

7 2. The Commission has jurisdiction over the Company and of the subject matter of the  
8 application.

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

12 4. It is in the public interest to approve the Company's request for implementation of  
13 the Step-Two ACRM.

14 ORDER

15 IT IS THEREFORE ORDERED that the application by Arizona Water Company's  
16 Rimrock Water District for the implementation of Step-Two of its Arsenic Cost Recovery  
17 Mechanism is approved as discussed herein.

18 IT IS FURTHER ORDERED that the application by Arizona Water Company for its  
19 Rimrock Water District for approval of Step-Two of its arsenic cost recovery mechanism  
20 surcharge tariff shall be in accordance the permanent and temporary monthly minimum charges  
21 and commodity rates presented on the attached ACRM Schedules GTM-1 and GTM-2.

22 IT IS FURTHER ORDERED that upon approval of the permanent Step-Two surcharge, the  
23 Step-One surcharge amounts are absorbed into the permanent Step-Two amount and the Step-One  
24 surcharge will cease.

25 IT IS FURTHER ORDERED that the recovery of deferred O&M expenses will cease after  
26 the 12-month recovery period.

27 ...  
28 ...

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

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

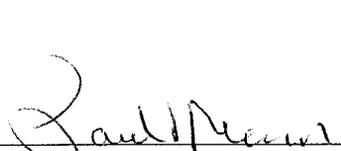
5  
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7 

8 CHAIRMAN



COMMISSIONER

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11 COMMISSIONER

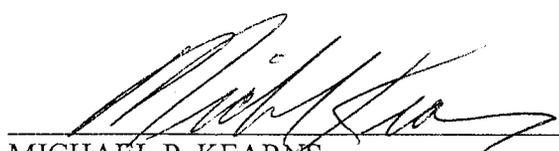


COMMISSIONER



COMMISSIONER

12  
13 IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim  
14 Executive Director of the Arizona Corporation Commission,  
15 have hereunto, set my hand and caused the official seal of this  
16 Commission to be affixed at the Capitol, in the City of  
17 Phoenix, this 7<sup>th</sup> day of APRIL, 2009.

18 

19 MICHAEL P. KEARNS  
20 EXECUTIVE DIRECTOR

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

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

23 EGJ:GM:lhM\RM  
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- 1 SERVICE LIST FOR: Arizona Water Company
- 2 DOCKET NO. W-01445A-00-0962
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ACRM Schedule GTM-1

ARIZONA WATER COMPANY  
DOCKET NO. W-01445A-00-0962  
Rimrock Water System

Monthly Customer Charges - Staff  
(ACRM STEP 2)

[A] [B] [C] [D] [E] [F] [G] [H] [I] [J]  
 ([B] \* \$6.74) - [C] [B] \* \$6.74 [B] + [E] [F] + [G] [A] + [F] + [G] [A] + [F]

Meter Size	Base Customer Charge Decision No. 64282	Equivalent Meter Size	Step 1 Customer Charge Surcharge Decision No. 69883	Combined Base and Step 1 Customer Charge	Incremental Permanent Step 2 Customer Charge Surcharge	Permanent Step 2 Customer Charge Surcharge	Permanent Step 2 Customer Charge Surcharge	Temporary Step 2 Customer Charge Surcharge	Combined Permanent and Temporary Surcharge	Combined Permanent & Temporary Base Customer Charges	Combined Permanent and Base Customer Charges
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[A] + [F]
5/8-Inch	\$ 16.10	1.0	\$ 6.08	\$ 22.18	\$ 0.66	\$ 6.74	\$ 0.70	\$ 7.44	\$ 23.54	\$ 22.84	
1-Inch	\$ 34.13	2.1	\$ 12.89	\$ 47.02	\$ 1.40	\$ 14.29	\$ 1.48	\$ 15.77	\$ 49.90	\$ 48.42	
2-Inch	\$ 99.66	6.2	\$ 37.64	\$ 137.30	\$ 4.09	\$ 41.72	\$ 4.33	\$ 46.05	\$ 145.71	\$ 141.38	
3-Inch	\$ 179.03	11.1	\$ 67.61	\$ 246.64	\$ 7.34	\$ 74.95	\$ 7.78	\$ 82.73	\$ 261.76	\$ 253.98	
4-Inch	\$ 317.81	19.7	\$ 120.02	\$ 437.83	\$ 13.03	\$ 133.05	\$ 13.82	\$ 146.86	\$ 464.67	\$ 450.86	
6-Inch	\$ 606.48	37.7	\$ 229.03	\$ 835.51	\$ 24.86	\$ 253.89	\$ 26.37	\$ 280.26	\$ 886.74	\$ 860.37	
8-Inch	\$ 847.98	52.7	\$ 320.23	\$ 1,168.21	\$ 34.76	\$ 354.99	\$ 36.87	\$ 391.86	\$ 1,239.84	\$ 1,202.97	
10-Inch	\$ 1,384.92	86.0	\$ 523.00	\$ 1,907.92	\$ 56.77	\$ 579.77	\$ 60.21	\$ 639.99	\$ 2,024.91	\$ 1,964.69	

Commodity Rate - Staff  
 (ACRM STEP 2)

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
			[A] + [B]		[B] + [D]		[E] + [F]	[A] + [E] + [F]	[A] + [E]	
Meter Size	Base <sup>1</sup> Commodity Rate Dec. No. 64282	Step 1 Commodity Surcharge Dec. No. 69883	Combined Base & Step 1 Commodity Rate	Incremental Permanent Step 2 Commodity Surcharge	Permanent Step 2 Commodity Surcharge	Temporary Step 2 Commodity Surcharge	Combined Permanent & Temporary Commodity Surcharge	Combined Permanent & Temporary & Base Surcharge	Combined Permanent and Base Surcharge	Upper Limit
5/8-Inch	\$ 2.5000	\$ 1.0237	\$ 3.5237	\$ 0.0705	\$ 1.0942	\$ 0.1139	\$ 1.2081	\$ 3.7081	\$ 3.5942	Infinite
1-Inch	\$ 2.5000	\$ 1.0237	\$ 3.5237	\$ 0.0705	\$ 1.0942	\$ 0.1139	\$ 1.2081	\$ 3.7081	\$ 3.5942	Infinite
2-Inch	\$ 2.5000	\$ 1.0237	\$ 3.5237	\$ 0.0705	\$ 1.0942	\$ 0.1139	\$ 1.2081	\$ 3.7081	\$ 3.5942	Infinite
3-Inch	\$ 2.5000	\$ 1.0237	\$ 3.5237	\$ 0.0705	\$ 1.0942	\$ 0.1139	\$ 1.2081	\$ 3.7081	\$ 3.5942	Infinite
4-Inch	\$ 2.5000	\$ 1.0237	\$ 3.5237	\$ 0.0705	\$ 1.0942	\$ 0.1139	\$ 1.2081	\$ 3.7081	\$ 3.5942	Infinite
6-Inch	\$ 2.5000	\$ 1.0237	\$ 3.5237	\$ 0.0705	\$ 1.0942	\$ 0.1139	\$ 1.2081	\$ 3.7081	\$ 3.5942	Infinite
8-Inch	\$ 2.5000	\$ 1.0237	\$ 3.5237	\$ 0.0705	\$ 1.0942	\$ 0.1139	\$ 1.2081	\$ 3.7081	\$ 3.5942	Infinite
10-Inch	\$ 2.5000	\$ 1.0237	\$ 3.5237	\$ 0.0705	\$ 1.0942	\$ 0.1139	\$ 1.2081	\$ 3.7081	\$ 3.5942	Infinite

<sup>1</sup> Excludes PPAM, currently \$0.0300 per thousand gallons (Dec. No. 69910).