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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	
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IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION, 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. 70963

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.

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

3 **B. Background**

4 4. On September 8, 2004, AWC filed an application with the Commission for a
5 permanent rate increase for AWC's Western Group serving approximately 20,000 customers in
6 five separate water districts including the White Tank water district. Decision No. 68302, issued
7 on November 14, 2005, established permanent rates for all five districts. In that decision, the
8 Commission authorized an ACRM consistent with that authorized for AWC's Northern Group in
9 Decision No. 66400¹.

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

11 5. In conformity with Decision 66400, AWC's Step-One ACRM application seeks a
12 surcharge to recover a return on its arsenic remediation investment and related depreciation and
13 income tax expenses. The Step-One application seeks no recovery of new or additional Operating
14 and Maintenance expenses. AWC requests a Step-One ACRM surcharge composed of a \$4.79
15 monthly customer charge for a customer with a 5/8- x 3/4-inch meter² and a \$0.3198 per 1,000
16 gallons commodity rate to provide \$220,531 of additional annual revenue. The Company's filing
17 estimates that its proposed surcharge would increase the typical bill for a 5/8" x 3/4-inch
18 residential customer, based on average usage of 15,648 gallons, by \$9.79 (19.9 percent) from
19 \$49.31 to \$59.10.³

20 **D. Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 66400 and**
21 **68302)**

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

- 24 a. AWC shall file the schedules to show the actual cost of construction of arsenic related
25 facilities and that the projected rate of return with the ACRM does not exceed
26 authorized levels. AWC shall also file any relevant data requested by Staff to support
27 the ACRM increase.

28 ¹ Issued on October 14, 2003.

² The monthly customer charge increases for larger meters.

³ 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.⁴
- 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.

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

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

14 **F. Staff Analysis**

15 **Filing Requirements**

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

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

26

27

28 ⁴ 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.

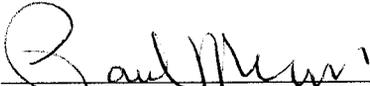
1 IT IS FURTHER ORDERED that Arizona Water Company file with the Commission
2 Docket Control, within 30 days of the effective date of this Decision, revised tariffs consistent with
3 this decision.

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

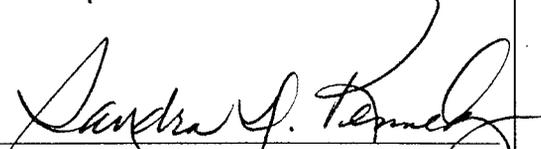
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6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7 
8 CHAIRMAN


COMMISSIONER

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10 
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 Phoenix,
17 this 7th day of APRIL, 2009.

18 
19 MICHAEL P. KEARNS
20 INTERIM EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

23 EGJ:DRR:lh\CHH
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27
28

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2 DOCKET NO. W-01445A-04-0650

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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%
Gallons included in minimum	0	0	0	
 <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%

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

Docket No. W-01445A-04-0650
 ACRM Schedule DRR-2

WHITE TANK
 TYPICAL BILL ANALYSIS

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

	[A]	[B]	[C]	[D]
Line No.	Gallons <u>Consumption</u>	WHITE TANK Present <u>Rates</u>	WHITE TANK Proposed <u>Rates</u>	WHITE TANK Percent <u>Increase</u>
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	