

OPEN MEETING



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ORIGINAL

MEMORANDUM RECEIVED

2010 APR 13 A 10: 20 Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

APR 13 2010

FROM: Utilities Division

DATE: April 13, 2010

DOCKETED BY	<i>MS</i>
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RE: IN THE MATTER OF THE APPLICATION OF APPALOOSA WATER COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY TO IMPLEMENT ITS ARSENIC COST RECOVERY MECHANISM (DOCKET NOS. W-03443A-08-0177 AND W-03443A-08-0313)

I. Introduction

Pursuant to Decision No. 71236, Appaloosa Water Company ("Appaloosa" or "Company") filed an application on December 22, 2009, with the Arizona Corporation Commission ("Commission") fulfilling the compliance requirements set forth in the above-referenced Decision to implement an Arsenic Cost Recovery Mechanism ("ACRM").

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. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes fixed and/or volumetric charges.

II. Background

On March 26, 2008, Appaloosa filed with the Commission a financing application seeking authorization of a \$200,000 Water Infrastructure Financing Authority of Arizona ("WIFA") loan in order to finance construction of an arsenic treatment facility. On June 19, 2008, the Company filed a rate increase application with the Commission. On December 5, 2008, by Procedural Order, the finance and rate case dockets were consolidated. On August 6, 2009, the Commission issued Decision No. 71236 establishing new rates for the Company, granting approval of its financing application, and authorization for the Company to implement an ACRM to recover costs associated with its arsenic treatment facility.

On December 22, 2009, the Company filed the required loan documentation for a \$200,000 loan from WIFA in order to begin implementation of its ACRM. The Company is requesting that the arsenic surcharge recovers the principal and interest payments on its WIFA loan and related income taxes. The Company is not currently seeking recovery of new or additional operating and maintenance expenses.

AMWING

III. Calculation of Arsenic Surcharge

Decision No. 71236 ordered that, upon the Company's filing of the appropriate WIFA loan documentation, Staff shall calculate the arsenic cost recovery mechanism surcharge and file the appropriate surcharge amount to be collected from Appaloosa's customers according to their meter size. Staff has calculated the ACRM surcharge necessary to recover debt service cost and the associated income taxes. Staff's calculation utilized the Company's customer billing determinants to compute the appropriate ACRM surcharge based on meter size. Staff's ACRM surcharge is calculated to be collected as a monthly surcharge in addition to the customary monthly minimum charge and does not include a volumetric component.

To compute the ACRM surcharge, Staff utilized loan data provided by WIFA. This data updates the information provided by the Company in its loan documentation filing.

Based on the \$200,000 WIFA loan and a 3.675 percent interest rate, the Company would need an additional \$10,256.41 and \$4,337.87 annually for principal and interest, respectively, for a total of \$14,594.28 for debt service on the loan. Grossing up the annual debt service total to account for \$4,253.29 in additional income taxes yields a total annual ACRM requirement of \$18,847.57.

The ACRM surcharge recommended by Staff is a monthly surcharge of \$5.84 for a customer with a 3/4-inch meter. The average residential customer bill with median usage of 6,253 gallons will increase by \$5.84 or 15.6 percent from \$37.50 to \$43.34 for the typical 3/4-inch meter customer, as shown on schedule DRE-2.

Staff's recommended ACRM surcharge produces \$18,847.57 annually utilizing the test year billing determinants. This is the necessary amount to recover the Company's annual debt service and the associated income taxes.

Staff recommends approval of the ACRM surcharges presented on schedule DRE-1.

IV. Conclusions and Recommendations

Staff concludes that the Company has duly filed the loan documentation as required by Decision No. 71236.

Staff concludes that authorization of a permanent ACRM surcharge that includes the debt service costs on the financing of the Company's arsenic treatment facility and associated income taxes is appropriate.

Staff recommends approval of an ACRM surcharge comprised of the monthly customer components presented in ACRM Schedule DRE-2.

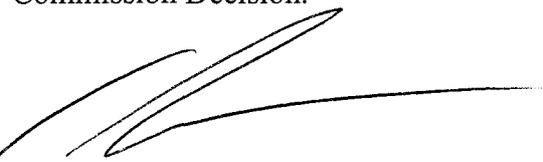
THE COMMISSION

April 13, 2010

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Staff further recommends that the Company file with the Commission an arsenic remedial surcharge tariff consistent with ACRM Schedule DRE-1.

Staff further recommends that Appaloosa Water Company notify its customers of the arsenic cost recovery surcharge tariffs approved herein within 30 days of the effective date of the Commission Decision.



Steven M. Olea
Director
Utilities Division

SMO:DRE:lhv\AV

ORIGINATOR: Darak R. Eaddy

CALCULATION OF SURCHARGE AMOUNT

Surcharge Inclusive of AWWA Meter Multiplier

Loan Amount		\$	200,000
Total Yearly Interest and Principal Payments Based on a 20-year WIFA Loan and a 3.675% Interest Rate.		\$	14,594.28
Total Yearly Interest and Principal Payments Based on a 20-year WIFA Loan and a 3.675% Interest Rate. Inclusive of associated income taxes		\$	18,847.57
Total Equivalent Annual Bills			4,842
5/8" x 3/4" Meter Surcharge Amount	(\$14,274 / 4,842)	\$	3.89
3/4" Meter Surcharge Amount	(\$14,274 / 4,842) * 1.5	\$	5.84
1" Meter Surcharge Amount	(\$14,274 / 4,842) * 2.5	\$	9.73
1 1/2" Meter Surcharge Amount	(\$14,274 / 4,842) * 5	\$	19.46
2" Meter Surcharge Amount	(\$14,274 / 4,842) * 8	\$	31.14
3" Meter Surcharge Amount	(\$14,274 / 4,842) * 16	\$	62.28
4" Meter Surcharge Amount	(\$14,274 / 4,842) * 25	\$	97.31
6" Meter Surcharge Amount	(\$14,274 / 4,842) * 50	\$	194.63

Meter Size	Number of Customers ¹	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	-	1	-	-	\$ 3.89	\$ 46.71	\$ -
3/4" Meter	189	1.5	284	3,402	5.84	70.07	13,242.35
1" Meter	48	2.5	120	1,440	9.73	116.78	5,605.23
1 1/2" Meter	-	5	0	0	19.46	233.55	-
2" Meter	-	8	0	0	31.14	373.68	-
3" Meter	-	16	0	0	62.28	747.36	-
4" Meter	-	25	0	0	97.31	1,167.76	-
6" Meter	-	50	0	0	194.63	2,335.51	-
TOTAL	237		403.5	4842			\$ 18,847.57

¹ As of Test Year.

TYPICAL BILL ANALYSIS
General Service 3/4 - Inch Meter
WITH MONTHLY ARSENIC SURCHARGE

Average Number of Customers: 189

<u>Staff Recommend</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	9,938	\$46.02	\$51.86	\$5.84	12.7%
Median Usage	6,253	\$37.50	\$43.34	\$5.84	15.6%

Present & Proposed Rates (Without Taxes)
General Service 3/4 - Inch Meter
WITH MONTHLY ARSENIC SURCHARGE

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$25.00	\$30.84	23.4%
1,000	26.50	32.34	22.0%
2,000	28.00	33.84	20.9%
3,000	29.50	35.34	19.8%
4,000	31.50	37.34	18.5%
5,000	33.50	39.34	17.4%
6,000	35.50	41.34	16.5%
7,000	37.50	43.34	15.6%
8,000	40.40	46.24	14.5%
9,000	43.30	49.14	13.5%
10,000	46.20	52.04	12.6%
15,000	60.70	66.54	9.6%
20,000	75.20	81.04	7.8%
25,000	89.70	95.54	6.5%
50,000	162.20	168.04	3.6%
75,000	234.70	240.54	2.5%
100,000	307.20	313.04	1.9%
125,000	379.70	385.54	1.5%
150,000	452.20	458.04	1.3%
175,000	524.70	530.54	1.1%
200,000	597.20	603.04	1.0%

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
SANDRA KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION)
OF APPALOOSA WATER COMPANY, AN)
ARIZONA CORPORATION, FOR)
AUTHORITY TO IMPLEMENT ITS)
ARSENIC COST RECOVERY)
MECHANISM)

DOCKET NOS. W-03443A-08-0177
W-03443A-08-0313

DECISION NO. _____

ORDER

Open Meeting
April 27 and 28, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. Pursuant to Decision No. 71236, Appaloosa Water Company (“Appaloosa” or “Company”) filed an application on December 22, 2009, with the Arizona Corporation Commission (“Commission”) fulfilling the compliance requirements set forth in the above-referenced Decision to implement an Arsenic Cost Recovery Mechanism (“ACRM”).

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. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes fixed and/or volumetric charges.

Background

3. On March 26, 2008, Appaloosa filed with the Commission a financing application seeking authorization of a \$200,000 Water Infrastructure Financing Authority of Arizona (“WIFA”) loan in order to finance construction of an arsenic treatment facility. On June 19, 2008, the Company filed a rate increase application with the Commission. On December 5, 2008, by Procedural Order, the finance and rate case dockets were consolidated. On August 6, 2009, the Commission issued Decision No. 71236 establishing new rates for the Company, granting approval of its financing application, and authorization for the Company to implement an ACRM to recover costs associated with its arsenic treatment facility.

4. On December 22, 2009, the Company filed the required loan documentation for a \$200,000 loan from WIFA in order to begin implementation of its ACRM. The Company is requesting that the arsenic surcharge recovers the principal and interest payments on its WIFA loan and related income taxes. The Company is not currently seeking recovery of new or additional operating and maintenance expenses.

Calculation of Arsenic Surcharge

5. Decision No. 71236 ordered that, upon the Company’s filing of the appropriate WIFA loan documentation, Staff shall calculate the arsenic cost recovery mechanism surcharge and file the appropriate surcharge amount to be collected from Appaloosa’s customers according to their meter size. Staff has calculated the ACRM surcharge necessary to recover debt service cost and the associated income taxes. Staff’s calculation utilized the Company’s customer billing determinants to compute the appropriate ACRM surcharge based on meter size. Staff’s ACRM surcharge is calculated to be collected as a monthly surcharge in addition to the customary monthly minimum charge and does not include a volumetric component.

6. To compute the ACRM surcharge, Staff utilized loan data provided by WIFA. This data updates the information provided by the Company in its loan documentation filing.

7. Based on the \$200,000 WIFA loan and a 3.6.75 percent interest rate, the Company would need an additional \$10,256.41 and \$4,337.87 annually for principal and interest, respectively, for a total of \$14,594.28 for debt service on the loan. Grossing up the annual debt

1 service total to account for \$4,253.29 in additional income taxes yields a total annual ACRM
2 requirement of \$18,847.57.

3 8. The ACRM surcharge recommended by Staff is a monthly surcharge of \$5.84 for a
4 customer with a 3/4-inch meter. The average residential customer bill with median usage of 6,253
5 gallons will increase by \$5.84 or 15.6 percent from \$37.50 to \$43.34 for the typical 3/4-inch meter
6 customer.

7 9. Staff's recommended ACRM surcharge produces \$18,847.57 annually utilizing the
8 test year billing determinants. This is the necessary amount to recover the Company's annual debt
9 service and the associated income taxes.

10 10. Staff recommends approval of the ACRM surcharges presented below:

11 **MONTHLY ARSENIC SURCHARGE**

12	5/8 x 3/4-Inch Meter	\$ 3.89
	3/4-Inch Meter	\$ 5.84
13	1-Inch Meter	\$ 9.73
	1 1/2-Inch Meter	\$ 19.46
14	2-Inch Meter	\$ 31.14
	3-Inch Meter Surcharge	\$ 62.28
15	4-Inch Meter Surcharge	\$ 97.31
16	6-Inch Meter Surcharge	\$197.63

17 11. The Company has duly filed the loan documentation as required by Decision
18 No. 71236.

19 12. An ACRM surcharge comprised of the monthly customer components is presented
20 in ACRM Schedule DRE-2.

21 13. The Company is required to file with the Commission an arsenic remedial
22 surcharge tariff consistent with ACRM Schedules DRE-1.

23 14. Appaloosa Water Company is required to notify its customers of the arsenic cost
24 recovery surcharge tariffs approved herein within 30 days of the effective date of the Commission
25 Decision.

26 **CONCLUSIONS OF LAW**

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

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IT IS FURTHER ORDERED that Appaloosa Water Company shall notify its customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of 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, ERNEST G. JOHNSON, 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 _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:DRE:lhmvAV

1 SERVICE LIST FOR: Appaloosa Water Company
2 DOCKET NOS. W-03443A-08-0177 and W-03443A-08-0313

3 Mr. Joe Cordovana
4 Owner
5 Appaloosa Water Company
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7 Chino Valley, Arizona 86323

8 Mr. Steven M. Olea
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Ms. Janice Alward
14 Chief, Legal Division
15 Arizona Corporation Commission
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