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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

KRISTIN K. MAYES, Chairman
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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT AND TUBAC WATER DISTRICT.

DOCKET NO. W-01303A-08-0227

~~SW-01303A-08-0227~~

DECISION NO. 71410

NOTICE OF COMPLIANCE FILING

In compliance with Decision No. 71410 Arizona-American Water Company hereby files the attached Water Loss reports for both the Havasu Water District and Mohave Water District. Also included is the Company's plan to reduce water loss to less than 10 percent for these districts.

RESPECTFULLY SUBMITTED on July 30, 2010.

Sandra L. Murrey

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Arizona Corporation Commission
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JUL 30 2010

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1 Original and 13 copies **filed**
2 on July 30, 2010, with:

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

8
9 Copies of the foregoing **emailed**
10 on July 30, 2010 to:

11
12 Brian K. Bozzo
13 Compliance and Enforcement Manager
14 Utilities Division
15 1200 West Washington Street
16 Phoenix, AZ 85007

Arizona American Water
 Eastern Division - Mohave Water District
 Unaccounted For Water - Rolling 12 Months

Description	Quantity of Water (Kgal)												
	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	TOTAL
Production													
Water Treatment	0	0	0	0	0	0	0	0	0	0	0	0	0
Wells	235,717	234,661	216,559	209,611	187,149	168,737	174,407	150,057	172,393	182,200	204,293	220,422	2,356,206
Purchased Water	0	0	0	0	0	0	0	0	0	0	0	0	0
In-Plant Usage	0	0	0	0	0	0	0	0	0	0	0	0	0
Mixing Chemicals - Field	0	0	0	0	0	0	0	0	0	0	0	0	0
Well Pumped Waste	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Production	235,717	234,661	216,559	209,611	187,149	168,737	174,407	150,057	172,393	182,200	204,293	220,422	2,356,206

Sales													
Residential	142,556	164,883	142,907	131,787	109,974	110,892	113,599	84,146	85,840	109,954	115,622	122,089	1,434,249
Commercial	35,279	40,588	36,406	36,719	31,559	25,906	27,863	23,764	23,580	31,338	33,935	36,901	383,838
Industrial	0	0	0	0	0	0	0	0	0	0	0	0	0
Fire Service	0	0	0	0	0	0	0	0	0	0	0	0	0
OPA	9,606	11,565	10,550	9,052	7,200	8,318	5,808	3,388	3,846	6,313	6,612	8,028	90,286
Resale	0	0	0	0	0	0	0	0	0	0	0	0	0
Miscellaneous	0	76,868	0	0	0	0	0	41,644	1,890	7,201	6,908	6,745	141,256
Total Sales	187,441	293,904	189,863	177,558	148,733	145,116	147,270	152,942	115,156	154,806	163,077	173,763	2,049,629

Total Non-Revenue Water	48,276	(59,243)	26,696	32,053	38,416	23,621	27,137	(2,885)	57,237	27,394	41,216	46,659	306,577
Ratio Non-Revenue Water	20%	-25%	12%	15%	21%	14%	16%	-2%	33%	15%	20%	21%	13.01%

Authorized Unbilled/Consumption													
Flushing Mains	6,268	1,686	4,683	2,909	1,865	7,691	794	2,462	566	1,424	915	38	31,301
Identified Fire Usage	169	0	0	0	16	0	0	0	0	404	41	24	654
Vandalism	452	584	491	78	704	137	27	464	0	239	7	0	3,183
Street Cleaning	0	0	0	0	0	0	0	0	0	0	0	0	0
Draining Storage Tanks	0	0	0	0	0	10	0	0	0	0	0	0	10
Online Analyzers & Chlorinators	0	0	0	0	0	0	0	0	0	0	0	0	0
Field Meter Testing	38	0	0	0	0	0	0	0	0	0	0	0	38
Fire Hydrant Maintenance	0	0	0	0	0	0	0	0	0	0	0	0	0
Flushing Sewer Mains	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-Revenue Usage	6,927	2,270	5,174	2,987	2,585	7,838	821	2,926	566	2,067	963	62	35,186
Ratio Unsold & Authorized vs Produced	18%	-26%	10%	14%	19%	9%	15%	-4%	33%	14%	20%	21%	11.52%

Identified Leakage	3,409	1,974	3,548	3,724	3,579	5,429	9,983	5,172	6,919	7,771	6,466	11,718	69,692
Tank Overflows	0	0	0	0	0	0	0	0	0	0	0	0	0

Unaccounted For Water													
Gallons	37,940	(63,487)	17,974	25,342	32,252	10,354	16,333	(10,983)	49,752	17,556	33,787	34,879	201,699
Percentage	16.10%	-27.05%	8.30%	12.09%	17.23%	6.14%	9.36%	-7.32%	28.86%	9.64%	16.54%	15.82%	8.56%

Negative numbers indicate quantity or percentage above production or 100%

Arizona American Water
Eastern Division - Havasu Water District
Unaccounted For Water - Rolling 12 Months

Description	Quantity of Water (Kgal)												TOTAL
	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	
Production													
Water Treatment	0	0	0	0	0	0	0	0	0	0	0	0	0
Wells	25,913	27,692	25,624	25,569	20,118	21,163	17,967	16,363	18,178	19,318	21,679	24,231	263,815
Purchased Water	0	0	0	0	0	0	0	0	0	0	0	0	0
In-Plant Usage	0	0	0	0	0	0	0	0	0	0	0	0	0
Mixing Chemicals - Field	0	0	0	0	0	0	0	0	0	0	0	0	0
Well Pumped Waste	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Production	25,913	27,692	25,624	25,569	20,118	21,163	17,967	16,363	18,178	19,318	21,679	24,231	263,815

Sales													
Residential	19,601	20,846	19,890	16,683	12,539	12,943	13,996	10,329	10,526	13,605	13,856	15,122	179,936
Commercial	2,676	3,304	3,168	2,806	2,330	2,565	2,718	2,217	2,157	2,896	3,013	3,308	33,158
Industrial	0	0	0	0	0	0	0	0	0	0	0	0	0
Fire Service	0	0	0	0	0	0	0	0	0	0	0	0	0
OPA	0	0	0	0	0	0	0	0	0	0	0	0	0
Resale	0	0	0	0	0	0	0	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Sales	22,277	24,150	23,058	19,489	14,869	15,508	16,714	12,546	12,683	16,501	16,869	18,430	213,094

Total Non-Revenue Water	3,636	3,542	2,566	6,080	5,249	5,655	1,253	3,817	5,495	2,817	4,810	5,801	50,721
Ratio Non-Revenue Water	14%	13%	10%	24%	26%	27%	7%	23%	30%	15%	22%	24%	19.23%

Authorized Unbilled/Consumption													
Flushing Mains	1,037	1,177	1,022	1,022	3,803	1,341	30	318	0	0	56	0	9,806
Identified Fire Usage	0	0	0	0	21	4	6	0	0	1	0	8	40
Vandalism	0	0	0	44	2	0	0	0	0	12	0	0	58
Street Cleaning	0	0	0	0	0	0	0	0	0	0	0	0	0
Draining Storage Tanks	0	0	0	0	0	0	0	0	0	0	0	0	0
Online Analyzers & Chlorinators	0	0	0	0	0	0	0	0	0	0	0	0	0
Field Meter Testing	0	0	0	0	0	0	0	0	0	0	0	0	0
Fire Hydrant Maintenance	0	0	0	0	0	0	0	0	0	0	0	0	0
Flushing Sewer Mains	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Water Losses	1,037	1,177	1,022	1,066	3,826	1,345	36	318	0	13	56	8	9,904
Ratio Unsold & Authorized vs Produced	10%	9%	6%	20%	7%	20%	7%	21%	30%	15%	22%	24%	15.47%

Identified Leakage	2,223	1,055	671	944	822	451	328	609	334	525	740	334	9,036
Tank Overflows	0	0	0	0	0	0	0	0	0	0	0	0	0

Unaccounted For Water													
Gallons	376	1,310	873	4,070	601	3,859	889	2,890	5,161	2,279	4,014	5,459	31,781
Percentage	1.45%	4.73%	3.41%	15.92%	2.99%	18.23%	4.95%	17.66%	28.39%	11.80%	18.52%	22.53%	12.05%

Negative numbers indicate quantity or percentage above production or 100%



Non-revenue Water Program Mohave & Lake Havasu Plan

Introduction

The Mohave and Havasu Districts currently have a Non-revenue water (NRW) ratio of 13.01% and 19.23% respectively. The Arizona Corporation Commission (ACC) has ordered that these districts reduce NRW to below 10% in each district prior to June 30, 2010 or before the next rate increase application or CC&N expansion is filed. If the NRW is above 10% after June 30, 2010 Arizona American Water must come up with a plan to reduce the water loss to below 10% or explain why doing so is not feasible or cost effective. Currently the Mohave and Havasu Districts employ water auditing as a routine business practice using a method that has clearly defined terms and meaningful performance indicators. The Non-revenue Water ("NRW") program assists the District in indentifying where water losses are occurring and also expresses, by volume and percentage, how much water is lost.

What follows is the Districts plan to reduce non account water to below 10%.

Plan

For the purposes of this plan, NRW is defined as all water produced minus all water sold. The difference between water produced and sold is NRW. The Commission uses a similar formula but calls its calculation "Non Account Water".

The Havasu Water system is comprised of approximately 1600 water customers and the Mohave water system serves approximately 16,500 water customers with both being served via 2" through 16" water mains of various materials and varying vintages. In 2006, Hughes supply was contracted to conduct a leak survey throughout the Havasu system and there were no notable leaks detected. Leaks or breaks in our service areas rise to the surface and are physically detected very quickly. Because water tends to rise to surface quickly in the Havasu service area, our immediate focus on resolving the NRW variances concentrated on production meter accuracy, billing accuracy re placement of stuck meters and the reporting of water loss due to breaks. The 12-month rolling average NRW calculation for this district is 13.2% through the November 2009 period.

Non-revenue Water Program

The NRW program was supplemented in April 2009 with the launch of a UFW Committee whose purpose is to solve NRW variances. This Committee is made up of 8 supervisory and operations persons with the experience and knowledge to investigate and resolve water loss issues.

Our primary focus is to reduce the variance between net system delivery (NSD) and net water sales (NWS) as non-revenue water (NRW) to a level below ten percent. There are many uses that are authorized and unbilled (AUB), i.e. main flushing, fire fighting, etc., we believe these components are significant enough to be one of our areas of focus at this time.

The Mohave and Havasu districts are committed to implementing best management practices to minimize and reduce lost and unaccounted for water. Our effort is being driven not only by the emphasis



Non-revenue Water Program Mohave & Lake Havasu Plan

on water conservation, but also for economic reasons. Some of the components of unaccounted-for water (UFW) include meter inaccuracies, undocumented main flushing, undocumented unmetered water use, and undocumented water leakage. Past and present programs have addressed the areas of meter accuracy and unmetered water use. The following paragraphs detail the Company's plan activities to mitigate water loss in the Mohave and Havasu districts.

Production Meter Location Verification

In order to ensure we are accurately measuring production we must first ensure that all production meters are located properly. Recording production from the incorrect location can affect NRW numbers in a positive or negative manner. By January 31, 2010 the Operations Manager for the Mohave and Havasu districts will field verify that production meters are located properly and are accurately measuring production. An example of an improperly located production meter would be a meter that has a downstream pump-to-waste discharge point. In this case the production meter would be overstating production and would be improperly located. The Operations Manager will ensure all production meters are located properly and will ensure improperly located production meters are properly located immediately.

Production Meter Testing

The Mohave and Havasu districts implemented a program to test and calibrate each production meter in all of its service area on an annual basis. The first component of any good NRW program is to be certain that you are reporting the amount of water you are producing correctly, and our concentrated efforts in this area to test and calibrate production meters and identify meters that require repair or replacement is the foundation upon which further efforts are built. The Mohave and Havasu districts have completed this program for 2009 and 2010 where all the production meters were tested, calibrated and/or repaired/replaced. This ongoing program will be repeated each year with an emphasis on production meter replacement standardizing with Endress + Hauser meters.

The results of this testing provided that some of our production meters were not recording volumes accurately. Those production meters were either repaired and calibrated or replaced. It is an ongoing process to ensure that all our production meters are recording accurately.

Periodic Sales Meter Change-Outs

The Mohave and Havasu districts has a periodic meter change-out program that replaces meters aged 15 years and older in its water service areas. Based on our internal testing and industry publications, we recognize that meters tend to under register water sales as they age. A new or replacement meter improves accuracy of reported water consumption. This is an ongoing activity and we have set a goal of 10 % of aged meters are to be replaced annually. Under this program, the oldest meters in the district will be changed out first. At the conclusion of the initial 15-year period, each meter will be replaced on an ongoing basis when their age reaches 15 years old. In addition, manual read meters are being replaced by automated radio read meters at the time of their change out.



Non-revenue Water Program Mohave & Lake Havasu Plan

Zero Consumption Meter Edit Report

AAW produces a report of all meters that have recorded zero consumption for a period of 3 consecutive months or more. This report is forwarded to the local field office. Under the NRW program all premises showing up on the zero consumption report will be physically inspected by a Field Customer Service Representative (FCSR) and, if necessary, the meter will be changed if found to be stuck.

Low Usage Meter Edit Report

AAW produces a report of all meters that have registered low usage. Low usage is defined as being 50% below that of the past month. This report is forwarded on a monthly basis to the local field office. Under the NRW program all premises showing up on the Low Usage report will be reviewed by a FCSR and, if necessary, the meter will be changed if found to be under registering.

Leak and Break Response Time Monitoring

The Operations manager will review service orders each month to determine the amount of time that is elapsing between a leak service order being created and subsequently closed. At no time should this time interval span longer than five days, and only this duration for small leaks (e.g. ball valve leaks, etc.). If the time interval between leak service order creation and repair becomes too long the Operations Manager will readjust work priorities to get leak repairs made in a timely fashion.

Large Sales Meter Testing

Each year the Mohave and Havasu districts will test all customer sales meters sized 3-inch and larger in its service area beginning in the fourth quarter of 2009. Since inaccuracies in these large meters could create a large component of under-reporting of sales, these sales meters will have annual testing and recalibration, rather than being included in the 15 year replacement timetable for smaller meters.

Automatic Meter Reading

Automatic Meter Reading ("AMR") is the remote collection of consumption data from customers' water meters using telephony, radio frequency, power-line and satellite communication. Arizona American began implementation of a new AMR program in 2008 in which its meters replaced under the periodic meter change-out program and other meters needing replacement (i.e. stuck and damaged meters) are replaced with meters with AMR transmitters installed in them. The Mohave and Havasu districts have been employing AMR technology for new construction installations and replacement since 2008. The program's goal is to ensure 100% accuracy of each meter read, and to increase the productivity of the meter reading work force.

The Mohave and Havasu districts have historically used direct read meters that required each water meter to be manually read by a meter reader each month. Under this program, the Mohave and Havasu districts will upgrade to new encoder (AMR) meters with radio frequency technology that are read with a hand held automatic data collection system, allowing the Division to increase its meter read accuracy and efficiency, reductions in estimated bills and administrative adjustments, and a decrease in the



Non-revenue Water Program Mohave & Lake Havasu Plan

number of special reads (repeat visits). The AMR program should also increase consumption accuracy which directly affects the NWS component of the NRW calculation. The program was launched in 2008 and in 2009 and continues.

Employee Incentive Program

Recognizing that employees are the Company's "eyes and ears" to our systems and our customers, Arizona American Water initiated the following program to reduce water loss, prevent unnecessary repairs, and promote system security. The Recovered Water Incentive Program was designed to encourage employees to identify and report incidents of water theft or water loss. Employees are encouraged to question contractors or others working in areas served by Arizona American Water and who might be taking water from hydrants or other unmetered locations. While employees are encouraged to be inquisitive, they are told to not put themselves in a situation where their personal safety is at risk.

Program Specifics: Up to four \$25 gift certificates are awarded each month to employees who find and report incidents of water theft, tampering or vandalism involving Arizona American Water equipment (including meters) or facilities, or illegal or undocumented services or hook-ups. If an employee reports an unauthorized customer hook-up to a hydrant or an inactive account with consumption, he/she is eligible to receive a \$25 gift card.

Internal Data Consistency

Customer billing issues may also affect non revenue water. Company employees are working to ensure that internal data sources are used consistently and any inconsistencies are researched and corrected. This generally involves verifying meter sizes, verifying the application of the correct tariff, verifying the number of meter dials coded in the billing system, and verifying that the correct district / system ID / meter route fields are used. For example, if a meter has more reading dials than is coded into the billing system, then the meter reader could under-read the meter. If the customer account is coded to a tariff for an incorrect geographic area or is coded to an incorrect district /system ID / meter route, this can result in water sales attributed to one district while water production is attributed to another district, thereby causing an understatement of NRW in the former district and an overstatement of NRW in the latter district. This is an on-going activity being enhanced through additional system reporting which more easily highlights inconsistencies.

Acoustic Leak Detection

Our previous efforts to detect and mitigate water leaks have included water audits including a leak detection survey employing mobile acoustic technology. One investigation included a leak survey completed in 2006 in the Havasu service area. This survey identified very few leaks that were not already known or obvious. The leaks consisted of loose fittings inside meter boxes; minor water services which required repair. The leak survey consultant's final conclusion was that this system had little potential for water loss through leakage at that time.



Non-revenue Water Program Mohave & Lake Havasu Plan

Nevertheless, Arizona American Water has purchased and is deploying acoustic leak detection equipment. Staff has been fully trained in the use of the equipment and records the linear feet and areas where leak detection surveys have been completed. Currently this leak detection equipment is being utilized in the Mohave and Havasu districts. Under this program detected leaks are immediately repaired.

Customer Awareness and Reporting Education

The Mohave and Havasu districts will develop and distribute educational material and contact information that will allow customers to report any potential or suspected water leaks throughout the distribution system. By educating our customers we expect that leaks will be detected and repaired as quickly as possible.

Plan Summary

Arizona American Water believes this multifaceted approach is comprehensive and will accurately reveal if NRW levels can be feasibly brought below the 10% threshold.

1 quarterly in sufficient detail to facilitate a subsequent audit and reasonableness review in its next
2 Agua Fria District rate filing proceeding, and shall include with that rate filing a report detailing the
3 deferred expenses and associated savings for review in that proceeding.

4 (4) Arizona-American Water Company shall file annually, during the period prior to the
5 date of issuance of a rate order that considers the authorized deferred expenses as recoverable
6 operating expenses, an earnings test for the Agua Fria Water district, so that in the event the
7 Company would earn more than its authorized return on rate base as a result of the deferral, the
8 amount of the deferral can be reduced to bring earnings down to the authorized return.

9 (5) In accordance with this Ordering Paragraph, Arizona-American Water Company shall
10 be authorized to:

11 a. defer the sum of its White Tank Plant's Operations and Maintenance expenses
12 less the realized cost savings resulting from production shifts as a regulatory asset in Account 186,
13 Miscellaneous Deferred Debits;

14 b. accrue interest on the outstanding deferred Operations and Maintenance
15 expense balance at its prevailing short-term interest rate;

16 c. beginning on the date of issuance of a rate order that considers the authorized
17 deferred expenses as recoverable operating expenses, amortize the allowed amount of the regulatory
18 asset over a reasonable time period to be determined in that rate order, and include such amortization
19 as a recoverable expense.

20 IT IS FURTHER ORDERED that the proposed specific accounting entries, as described in
21 Findings of Fact No. 121 above, are hereby approved.

22 IT IS FURTHER ORDERED that the necessity of continuing the accounting procedures
23 approved in the prior Ordering Paragraph shall be addressed in the Company's next rate filing for its
24 Agua Fria Water district.

25 IT IS FURTHER ORDERED that Arizona-American Water Company shall, for its Mohave
26 Water district and Havasu Water district, reduce its water loss to below 10 percent by June 30, 2010
27 or before it files its next rate increase application and/or CC&N application and/or financing
28 application, whichever comes first, and shall begin water loss monitoring and take action to ensure

1 water loss remains less than 10 percent immediately. If the water loss for the twelve month period
2 ending June 30, 2010, is greater than 10 percent, the Company shall formulate a plan to reduce water
3 loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation
4 demonstrating why water loss reduction to 10 percent or less is not feasible or cost effective, and
5 shall docket in this case, no later than July 31, 2010, either the plan, the report, or notification that its
6 water loss has been reduced below 10 percent.

7 IT IS FURTHER ORDERED that Arizona-American Water Company shall, for its Paradise
8 Valley Water district monitor the system closely and take action to ensure that lost water remains less
9 than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10
10 percent, the Company shall formulate a plan to reduce water loss to less than 10 percent, or prepare a
11 report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10
12 percent or less is not feasible or cost effective, and shall docket in this case prior to the filing of its
13 next rate case either the plan, the report, or notification that its water loss has remained below 10
14 percent.

15 IT IS FURTHER ORDERED that Arizona-American Water Company shall not file a
16 permanent rate application prior to January 1, 2011, for the Mohave Wastewater District.

17 IT IS FURTHER ORDERED that Arizona-American shall work with Staff to develop and file
18 a low-income tariff for Commission consideration in this docket by December 31, 2009, for
19 Commission consideration.

20 IT IS FURTHER ORDERED that Staff shall find Arizona-American Water Company's next
21 rate application insufficient if, during its review of the filing, Staff finds the water use data submitted
22 to be inaccurate, or if the water use figures used in the Company's cost of service study are not
23 identical to those provided to Staff.

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