OPEN MEETING ITEM

ARIZONA CORPORATION COMMISSION

ORIGINAL

Arizona Corporation Commission
DOCKETED
JUL 12 2010
DOCKETED BY

DATE: JULY 12, 2010

DOCKET NO.: W-01445A-08-0440

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Opinion and Order on:

ARIZONA WATER COMPANY
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JULY 21, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JULY 27, 2010 AND JULY 28, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE AND FOR CERTAIN RELATED APPROVALS BASED THEREON.

DOCKET NO. W-01445A-08-0440

DECISION NO. _____

OPINION AND ORDER

DATES OF HEARING:	August 28, (Pre-Hearing Conference); August 31, September 1, 2, 3, 4, 8, 9, 10, and 11, 2009
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Dwight D. Nodes
APPEARANCES:	Mr. Norman D. James and Mr. Jay L. Shapiro, FENNEMORE CRAIG, on behalf of Arizona Water Company; Ms. Michele L. Van Quathem, RYLEY, CARLOCK & APPLEWHITE, on behalf of Abbott Laboratories; Mr. Nicholas J. Enoch, LUBIN & ENOCH, PC, on behalf of IBEW Local 387; Ms. Michelle Wood, on behalf of the Residential Utility Consumer Office; and Mr. Wesley Van Cleve and Ms. Ayesha Vohra, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

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BY THE COMMISSION:

I. INTRODUCTION and PROCEDURAL HISTORY

On August 22, 2008, Arizona Water Company ("AWC" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for adjustments to its rates and charges for all 17 of its water systems, using a test year ending December 31, 2007.

On September 22, 2008, the Commission's Utilities Division ("Staff") issued a Letter of Insufficiency.

On September 29, 2008, AWC filed a Response to Insufficiency Letter.

On October 15, 2008, Staff filed a Letter of Sufficiency indicating that the Company's rate application met the sufficiency requirements of the Arizona Administrative Code ("A.A.C."). Based on the revenues set forth in the application, AWC is classified as a Class A utility pursuant to A.A.C. R14-2-103.

On October 17, 2008, Staff filed a Request for a Procedural Conference due to the complexity of the application and Staff resources.

On October 23, 2008, a Procedural Order was issued scheduling a procedural conference for November 3, 2008.

On October 24, 2008, the Residential Utility Consumer Office ("RUCO") filed an Application to Intervene.

On November 3, 2009, the procedural conference was held as scheduled. During the conference, Staff proposed a 90-day extension of the normal time clock deadlines for processing the application, based on the large number of separate water systems included in the application and the limited Staff resources available. Although the Company opposed any extension of the deadline, the time clock deadline was extended by 60 days to allow Staff additional time for processing the application.

By Procedural Order issued November 4, 2008, a hearing was scheduled to commence on August 31, 2009, RUCO's intervention request was granted, various filing dates were established for testimony, and the Company was directed to mail to customers and publish notice of the application and hearing in accordance with the Procedural Order.

On November 14, 2008, AWC filed a Notice of Technical Correction of Record in which it stated that, contrary to a statement in the November 4, 2008, Procedural Order, the Company opposed any extension of the time clock rules.

On December 11, 2008, Local Union 387, International Brotherhood of Electrical Workers, AFL-CIO, CLC ("IBEW") filed an Application to Intervene.

On February 5, 2009, AWC filed a Joint Stipulation and Motion requesting that the Company be permitted to provide notice of the application and hearing in accordance with a form of notice agreed to by AWC, Staff, and RUCO.

On February 6, 2009, a Procedural Order was issued granting AWC's request, and directing the Company to publish and mail to customers the notice attached to the Procedural Order. The Procedural Order also granted IBEW's intervention request.

On May 6, 2009, Staff filed a Motion for Extension of Time Regarding Rate Design Testimony. With the agreement of the other parties, Staff requested a two-week extension of the previously scheduled deadlines for filing rate design testimony.

On May 7, 2009, Abbott Laboratories ("Abbott") filed an Application to Intervene.

On May 20, 2009, a Procedural Order was issued granting Staff's request for an extension of time for filing rate design testimony, as well as Abbott's intervention request.

On June 3, 2009, Staff filed a Motion for Extension of Time Regarding Cost of Service Testimony. Staff indicated that its May 6, 2009 Motion should have included a request for extension of time for cost of service testimony in addition to rate design testimony.

On June 5, 2009, AWC filed a Response to Staff's Motion indicating that it agreed cost of service and rate design should be filed concurrently.

On June 5, 2009, IBEW filed a Joinder in Staff's Motion for Extension of Time.

On June 11, 2009, a Procedural Order was issued granted Staff's Motion for Extension of Time.

With its Application, AWC filed the direct testimony of William Garfield, Joel Reiker, Joseph Harris, Fredrick Schneider, and Thomas Zepp.

On June 12, 2009, Staff filed the direct testimony of Elijah Abinah, Alexander Igwe, Brian

Bozzo, David Parcell, and Katrin Stukov; RUCO filed the direct revenue requirement testimony of William Rigsby and Timothy Coley; and Abbott filed the direct testimony of Stephen Chasse.

On June 23, 2009, Staff filed the revised direct testimony of Ms. Stukov.

On June 24, 2009, Staff filed an errata to the revised direct testimony of Ms. Stukov.

On June 24, 2009, Commissioner Newman filed a letter requesting information regarding AWC's billing practices.

On June 25, 2009, IBEW filed the direct testimony of Edwin Junas, Jr.

On June 26, 2009, Staff filed the direct testimony of Steve Olea; and RUCO filed the direct rate design testimony of Rodney Moore.

On June 30, 2009, Staff filed the direct rate design testimony of Jeffrey Michlik.

On July 10, 2009, AWC filed the rebuttal testimony of Mr. Garfield, Mr. Reiker, Mr. Harris, Mr. Schneider, and Dr. Zepp.

On July 24, 2009, AWC filed the rate design and cost of service rebuttal testimony of Mr. Garfield, Mr. Reiker, and Mr. Harris. The Company separately filed a letter responding to Commissioner Newman's inquiry.

On August 7, 2009, Staff filed the surrebuttal testimony of Mr. Igwe, Mr. Bozzo, Mr. Parcell, and Ms. Stukov; and RUCO filed the surrebuttal testimony of Mr. Rigsby and Mr. Coley.

On August 11, RUCO filed an errata to Mr. Coley's surrebuttal testimony.

On August 12, 2009, Staff filed the surrebuttal rate design testimony of Mr. Michlik; RUCO filed the surrebuttal rate design testimony of Jodi Jerich and Mr. Moore; and Abbott filed the surrebuttal testimony of Dan Neidlinger.

On August 17, 2009, IBEW filed the surrebuttal testimony of Mr. Junas.

On August 21, 2009, AWC filed the rejoinder testimony of Mr. Garfield, Mr. Reiker, Mr. Schneider, and Dr. Zepp.

On August 26, 2009, Staff filed certain errata schedules for Mr. Igwe's testimony, and IBEW filed an errata to Mr. Junas' surrebuttal testimony.

On August 26, 2009, AWC filed the rate design and cost of service rejoinder testimony of Mr. Reiker and Mr. Harris.

On August 28, 2009, RUCO filed an errata to Ms. Jerich's surrebuttal testimony.

On August 28, 2009, a prehearing conference was conducted to discuss scheduling of witnesses and other procedural matters.

The hearing commenced on August 31, 2009, and continued on September 1, 2, 3, 4, 8, 9, 10, and 11, 2009.

On August 31, 2009 and September 1, 2009, respectively, the Greater Casa Grande Chamber of Commerce and the Central Arizona Regional Economic Development Foundation filed public comment letters opposing Staff's proposed rate design related to AWC's Casa Grande System.

On September 3, 2009, AWC provided, under seal, minutes of the Company's Board of Directors meetings and annual shareholders meetings from 2006 through 2009.

On September 8, 2009, Staff filed an Alternative Rate Design for the Consolidated Casa Grande System.

On September 10, 2009, in response to a request by Chairman Mayes, AWC filed various rate consolidation scenarios and information.

On October 2, 2009, AWC filed a Request for Extension of Time for briefs to be filed.

On October 14, 2009, RUCO filed a Motion to Continue Briefing Deadlines.

On October 14, 2009, initial briefs were filed by Staff, IBEW, and Abbott.

On October 16, 2009, initial briefs were filed by AWC and RUCO.

On October 19, 2009, AWC late-filed additional information requested during the hearing related to the Company's cost-cutting measures, vehicles provided to officers of the Company, a reclaimed water study for the City of Casa Grande, and updated charts for Mr. Garfield's testimony.

On October 30, 2009, reply briefs were filed by AWC, Staff, RUCO, and IBEW.

On November 2, 2009, RUCO filed an Appendix in Support of its Reply Brief.

Between the filing of the Application and the submission of reply briefs, the Commission received approximately 35 customer public comment contacts in opposition to the Company's proposed rate filing.

II. APPLICATION

AWC is a certificated provider of potable water service to approximately 83,000 residential,

commercial and industrial customers under 17 separate systems in various areas of Arizona. The Company's systems are currently organized under three groups, Northern, Eastern, and Western. The Northern Group includes the Lakeside, Overgaard, Sedona, Pinewood, and Rimrock systems; the Eastern Group includes the Superstition, Bisbee, Sierra Vista, San Manuel, Oracle, Winkelman, and Miami systems; and the Western Group includes the Casa Grande, Stanfield, White Tank, Ajo, and Coolidge systems. (Ex. S-24, at 3.) The current rates for the Northern Group were established in Decision No. 64282 (December 28, 2001); the Eastern Group's rates were approved in Decision No. 66849 (March 19, 2004); and the Western Group's rates were set in Decision No. 68302 (November 14, 2005).

In its Application, the Company proposed the use of a test year ending December 31, 2007 for all 17 of its systems, with a proposed total Company increase of $13,533,260 (31.2 percent) over test year revenues of $43,361,490. However, taking into account the revenues produced by the existing arsenic cost recovery mechanisms ("ACRMs"), the actual increase would be $8,121,753 (18.7 percent) over test year revenues.[1] AWC's proposal would produce an overall rate of return of 9.2 percent on its proposed original cost rate base ("OCRB") of $144,979,452, which the Company accepts as its fair value rate base ("FVRB"). On an individual system basis, in accordance with its final schedules, AWC's rate proposal is as follows:

	Current Revenues	Proposed Increase	Current Surcharges	Net Increase	Percentage Increase
Superstition	$11,940,259	$ 4,375,050	$2,474,101	$1,900,949	15.9%
Bisbee	1,723,153	342,838		342,838	19.9%
Sierra Vista	1,461,708	9,386		9,386	0.6%
San Manuel	812,422	384,649	193,478	191,171	23.5%
Oracle	1,126,259	18,513		18,513	1.6%
Winkelman	98,724	30,378		30,378	30.8%
Miami	1,850,773	(17,016)		(17,016)	-0.9%
Casa Grande	10,934,520	4,854,909	1,902,034	2,952,875	27.0%
Stanfield	131,941	10,165	11,382	(1,217)	-0.9%
White Tank	1,245,240	318,394	231,069	87,325	7.0%
Ajo	471,088	85,229		85,229	18.1%
Coolidge	2,214,937	467,580		467,580	21.1%
Lakeside	2,588,849	196,768	(35,711)	232,479	9.0%

[1] Upon approval of new rates, AWC's current ACRM surcharges would be eliminated and recovered instead through its base rates and operating expenses.

Overgaard	1,685,650	(64,611)	1,550	(63,061)	-3.7%
Sedona	3,521,358	2,149,143	390,233	1,758,910	50.0%
Pinewood	1,046,742	118,503	7,420	111,083	10.8%
Rimrock	507,869	253,382	235,950	17,432	3.4%
	$43,361,490	$13,533,260	$5,411,507	$8,121,753	18.7%

AWC is also seeking to consolidate several of its systems as an initial step toward full consolidation of its systems in a future rate application. Under AWC's proposal, the following systems would be fully consolidated in this case: Superstition and Miami; Lakeside and Overgaard; Pinewood and Rimrock; and Casa Grande and Coolidge. AWC proposes that the following systems be partially consolidated in this case (have the same customer charge but different commodity rates): Bisbee and Sierra Vista; Sedona and Pinewood/Rimrock; and Casa Grande/Coolidge and Stanfield. Under this proposal, all of the systems would be fully consolidated in a subsequent rate case. (Ex. A-5, at 14-16.)

As set forth in its final schedules, Staff recommends an overall revenue increase of $9,890,929 over its adjusted test year revenues of $43,362,605, for a total revenue requirement of $53,253,594. Staff's recommended revenue requirement produces total operating income of $11,769,247, for an 8.1 percent rate of return on Staff's proposed OCRB of $145,298,638. The overall revenue increase recommended by Staff is $3,641,156 less than that proposed by the Company.

With respect to system consolidation, Staff recommends full consolidation for certain systems, and partial consolidation of certain other systems. Staff also suggests that the issue of full rate consolidation should be explored in a future rate case.[2]

RUCO proposes a total company revenue requirement of $50,862,959, representing an increase of $7,500,356 (17.3 percent) over RUCO's proposed test year revenue of $43,361,925. Although RUCO's primary proposal is that no consolidation of systems be approved, it offered an alternative that includes a single monthly charge for all systems with individual commodity rates for each of AWC's systems.

IBEW and Abbott did not propose specific revenue requirement adjustments, although IBEW

[2] The various rate consolidation proposals advanced by AWC, Staff, and RUCO are discussed below in the Rate Design section.

supports AWC's proposed increase and rate consolidation proposal. Abbott offered testimony and recommendations only with respect to the industrial class rate design for the Company's Casa Grande system.

III. RATE BASE ISSUES

A. Plant in Service

The primary rate base disputes between AWC and Staff center around the treatment of specific plant that Staff contends was not in service during the test year, based on Staff's site inspections and documents provided by the Company. Although several of Staff's recommended plant disallowances were resolved during the hearing, other rate base issues remain in dispute related to plant that Staff believes should be retired; plant that was placed in service after the test year; and plant that is being held for future use. RUCO also proposed adjustments regarding certain plant items that it claims were not in use during the test year or were being held for future use.

1. Plant Currently "In-Use"

In forming its recommendations regarding the inclusion or exclusion of specific plant items in rate base, Staff relied on site visits to all 17 of AWC's systems and reviewed documentation provided by the Company regarding whether particular pieces of plant were listed by the Company as "not in service or inactive." According to Staff witness Katrin Stukov, if an item was listed by the Company as not in service or inactive, it was treated by Staff as not used and useful and therefore not properly includable in rate base. (Ex. A-14, at 5.)

Based on additional information provided during the hearing, Ms. Stukov agreed that the previously disallowed Sedona Golf Resort well and the Miami System Bandy Heights boosters were properly in use and providing service to customers in the test year, and should therefore be included in rate base. (Tr. 1181-1193.) However, Staff continues to recommend disallowance of the Cottonwood Lane Well No. 14 ("Well No. 14"), as well as three fences and a block building that are "protecting" plant items that were not in service during the test year.[3]

. . .

[3] The three fences are located in the Superstition, White Tanks, and Sedona systems. The block building is located in the Sedona system.

a. Cottonwood Lane Well No. 14

With respect to Well No. 14, Staff contends that the well should be disallowed because it was originally identified by the Company as Arizona Department of Water Resources ("ADWR") Well No. 55-613443, rather than the correct ADWR Well No. 55-616598. Staff claims that because the Company's error was identified at such a late date in the proceeding, Staff was unable to verify that ADWR Well No. 55-616598 is actually owned by AWC and in-service.

The Company asserts that Ms. Stukov verified that the Cottonwood Well No. 14 was in-service when she conducted her site visit in January 2009. However, the ADWR number posted at the well was incorrect, as reflected in a photograph taken by Ms. Stukov. When she informed the Company of the discrepancy, AWC determined that the posted well number was associated with an unrelated third-party well in a different area of the state and provided information to Staff with the corrected number. In his rejoinder testimony, Mr. Reiker stated that the Company provided the corrected well number to Staff to remedy the error.

At the hearing, the Staff witness agreed that Well No. 14 was used and useful, based on her site inspection, and appeared to agree that the documentation provided by the Company had resolved the numbering error. (Tr. 1184-85.) However, Staff argues in its brief that because it did not have an opportunity to conduct a subsequent site inspection, the well should be excluded from rate base.

Although we commend Staff's thoroughness, we believe in this instance AWC has provided adequate support, through testimony and documentation, that the well number error has been corrected and that Cottonwood Well No. 14 should be included in rate base. We note, however, that it should not be left to Staff's inspections and audits to discover such errors. AWC should undertake efforts prior to its next rate filing to ensure that plant items for which it seeks rate base recognition are properly identified.

b. Fences and Block Building

AWC seeks inclusion in rate base of three fences and a 12-foot by 8-foot block building, each of which is used by the Company to secure wells or miscellaneous materials that were not in service during the test year, and are therefore not in rate base. AWC contends that even if the pieces of plant being protected by the structures are not in service, the surrounding fences are used and useful

because they are necessary to protect wells and equipment from access, and provide a measure of liability protection to the Company. (Ex. A-22, at 9-10.) Mr. Reiker also testified that the small block building located at the Sedona system's Sunup well site is being used for storage at a rate that is significantly less than the market rate for storage facilities in the Sedona area. (*Id.* at 10.)

Staff opposes rate base recognition of the fences and building on the basis that they are used for protecting plant assets that are not in service. Staff contends that although AWC is obligated to protect the public from harm, and is properly protecting its assets, Staff does not believe the cost of structures protecting plant not in service should be borne by ratepayers. (Ex. S-16, at 12.)

We understand Staff's argument to be essentially that but for the existence of plant that has been retired or is otherwise not in service, no protective structures would be necessary. We believe that under the facts of this case, the Company has provided an adequate basis for including the fencing and small block building in rate base. As Mr. Reiker explained, the block building is being used for storage of pipe and other equipment that are used on a routine basis and the use of an existing building offers a low-cost means of securing those parts. The fencing at issue also serves a useful purpose by protecting existing wells from vandalism or theft. In addition, the fencing offers liability protection to keep the public from being injured. Although we are recognizing the specific protective structures in this case, under other facts and circumstances we may reach a different conclusion.[4] The three fences and block building shall therefore be included in AWC's rate base.

2. Plant to be Retired

In his rebuttal testimony, Company witness Reiker proposed to retire certain pieces of plant that were identified by Staff witness Stukov as being not in service. (Ex. A-20, at 13.) Mr. Reiker acknowledged that it was only after Staff's audit that the Company discovered these inactive pieces of plant had been included as plant-in-service on AWC's books and had not been retired. (Tr. 516.) As a result of Staff's investigation, AWC suggested that the plant should be retired rather than simply being removed from rate base as Staff recommended. AWC's proposed treatment would remove the plant's original cost from both plant in service and accumulated depreciation which, taken as a whole,

[4] For example, a fence surrounding a piece of undeveloped land being held for future use would likely not be considered a severable asset for which rate base inclusion should be accorded.

would result in a higher rate base compared to Staff's recommended accounting treatment. RUCO agreed with the Company's proposal to treat the plant as retired. (Ex. R-22; Tr. 912-13, 966-68.)

Staff witness Bozzo testified that when plant is found to be not in service, it should be removed from rate base along with the depreciation accumulated through the end of the test year. (Ex. S-16, at 4.) Staff contends that because the Company included the plant as in-service in its application, and the plant in question was not retired during the test year or the following year, it should be treated as plant not in service rather than retired plant. (*Id.*) Staff further argues that AWC took no steps to retire the plant until its rejoinder testimony and the plant would not be retired from the Company's books until the end of 2009. Given these facts, Staff recommends treating the plant as disallowed rather than retired.

Company witness Reiker stated that he responded to Staff's discovery requests with notations indicating that certain plant "needs to be retired" and assumed Staff would recognize that the plant items had reached the end of their useful lives, were no longer in service, and should be accorded retirement status on the Company's books for ratemaking purposes. (Ex. A-22, at 7.) Mr. Reiker asserts that adopting Staff's proposed treatment for these items would be punitive in nature and would suggest that the Company knowingly included these items in its application despite their not-in-service status. (*Id.* at 8-9.)

We agree with AWC and RUCO that the plant items in question identified by Staff as not in service, and for which AWC subsequently found to be at the end of their useful lives, should be treated as retired plant with removal of the original cost from both plant in service and accumulated depreciation.

Although we believe it is appropriate to adopt AWC's position on this issue, in order to set rates that are based on the most accurate reflection of actual plant status, we share Staff's frustration with the Company's erroneous inclusion in its application of a number of plant items that were identified by Ms. Stukov as being not in service. It seems likely that, but for Staff's thorough audit of AWC's facilities, books, and records, the Company's rate base would have continued to be inflated by the amount of the plant found by Staff to be not in service. At a minimum, AWC should have been more careful in preparing its application to ensure that ratepayers were not being asked to pay

the costs of plant that is no longer in service.

Moreover, given Staff's responsibility to monitor and audit hundreds of utility companies in the state, it is simply unacceptable that AWC had less knowledge of certain of its own systems' assets than the Staff engineer who, quite impressively, was able to identify inconsistencies with the Company's application based on brief site visits and a review of Company records. We expect AWC to be much more diligent in preparing future rate applications. Failure to do so may result in remedial actions by the Commission including, but not necessarily limited to, assessing penalties and the cost of Staff resources devoted to reconciling the Company's application with its plant devoted to the provision of service to customers.

3. Plant Held for Future Use

In its application, AWC seeks to include in rate base a number of plant items that it concedes were not being used to serve customers during the test year, but were instead being "mothballed" for use at some future date depending on various factors. As set forth in the testimony of Company witness Fredrick Schneider, the following plant and their estimated in-service dates are as follows (Ex. A-10, at 22-27):

- Superstition Ranch Wells No. 1 and No. 2 – will be placed in service "once the housing market improves"
- Queen Creek Pump Station 5 Pumps and Panel – project expected to be completed in 2010
- Miami Well No. 23 – repairs planned for use of the well in 2011
- Casa Grande Well No. 34 – completion of project expected in 2012
- Casa Grande Well No. 12 – completion of project expected in 2010
- Stanfield Table Top Well No. 3 – plan to move pressure tank to new location estimated to be completed in 2010
- Stanfield Table Top Well No. 3 – liquid chlorinator and building designated not in service and not operational during Staff site inspection
- White Tank Mar West Well No. 5 Pressure Tank/Booster Pumps – 5,000 gallon pressure tank and booster pumps project estimated to be completed in 2012
- White Tank Well Nos. 7 and 8 Hypochlorinator Cabinets – no longer used to house chlorinator equipment but for storage of miscellaneous parts
- Coolidge Well No. 1 – estimated in-service date of 2010
- Coolidge Well No. 11 – plan to move forward with this project "when earnings and the housing market improve"
- Lakeside Well No. 1 – estimated project completion in 2012

As is evident from a review of the list above, AWC is requesting inclusion in its rate base (and thus recovery from customers through rates) of a number of projects that have, at best, estimated completion dates that are several years past the end of the test year in this case. For several other projects, the anticipated in-service dates are up to five years past the test year; while in the case of a few projects completion dates are contingent upon entirely subjective future events, such as the "improvement" in the Company's earnings and/or the housing market.

AWC claims that inclusion of plant held for future use is appropriate because the disputed projects do not require acquisition and construction before they can be placed in service, or are plant items that can be readily returned to service. (Exs. A-15 and A-16.) The Company also argues that in a number of other jurisdictions, public service commissions allow recognition of plant held for future use, albeit under various circumstances such as "definite plan tests," "future use tests," "timing tests," or other similar criteria. AWC contends that of the 20 states it researched, 15 allow recognition of plant held for future use in rate base under some variation of the tests listed above. The other 5 states in the Company's sampling specifically exclude plant held for future use based on state statutes or policies that bar inclusion of plant in rate base if it is not currently providing service to ratepayers. (AWC Initial Brief, at 19-22.) AWC asserts that the Commission should allow the identified plant held for future use because: the Company identified definite future plans for the plant; it explained why the future plant is necessary for future service to customers; the projects will commence in the near future; and there are no statutes in Arizona that prevent inclusion of such plant in rate base.

AWC also advances in this case the novel argument that the applicable standard for considering whether plant is properly includable in rate base is a "used *or* useful" rather than "used *and* useful." Company witness Joel Reiker testified that, as set forth in Arizona Administrative Code ("A.A.C.") R14-2-103.A.3.h, a company's OCRB is defined as "the depreciated original cost, prudently invested, of the property (exclusive of contributions and/or advances in aid of construction) at the end of the test year, used or useful, plus a proper allowance for working capital and including all pro forma adjustments." (Ex. A-22, at 13.) Mr. Reiker contends that because "Staff has not shown that the items in question were imprudent investments or that they are not *"useful,"* rate base treatment should be accorded the plant in question. (*Id.* at 14, emphasis added.) Mr. Reiker also

stated that the Commission previously allowed rate base inclusion of plant held for future use, even though the plant items were not in use at the end of the test year.[5] (*Id.*)

Staff and RUCO oppose rate base recognition of these projects. Staff argues that, by its very nature, plant held for future use is not used and useful and therefore not properly included in rate base. Staff points out that many of the plant items have uncertain future in-service dates, some as long as five years after the test year, and the Commission has never before approved such a request. With respect to the other states cited by the Company, Staff asserts that the Commission is under no obligation to follow decisions by other jurisdictions; the Arizona Commission has unique Constitutional obligations to set just and reasonable rates, unlike other state regulatory commissions; and the Commission's own rules require that plant be used and useful as a condition of rate base inclusion. RUCO similarly claims that the plant held for future use should be excluded from rate base because such plant is not used and useful in the provision of utility service, and because the use of the disputed plant is based on future speculative events.

We agree with Staff and RUCO that plant held for future use is not properly includable in AWC's rate base. The Commission has typically allowed rate base recognition of post-test year plant sparingly, and then only in circumstances where such plant is fully built and providing service within a limited period of time following the test year. However, AWC's position seeks to extend the general prohibition against post-test year plant by several levels. Not only does the Company request the inclusion of plant with estimated in-service dates of three to five years after the test year, it asks the Commission to put in rate base certain plant that will be needed only upon the occurrence of future, speculative events, some of which would be subject to the Company's subjective interpretation. Clearly, it is inappropriate to require ratepayers to pay rates that are based on capital plant expenditures not reasonably necessary for the provision of service.

Nor are we persuaded by AWC's interpretation of the Commission's rules regarding OCRB. Whether one reads the rule cited by the Company with the commonly understood "used *and* useful" conjunctive, or accepts its claim that the plant need only be either "used *or* useful," the result would be the same. AWC concedes that the plant held for future use was not used during the test year, or at

[5] *Arizona-American Water Co.*, Decision No. 68858 (July 28, 2006), at 12-13.

any time through the close of the evidentiary record. Even if we were to accept, for the sake of argument, that plant must only be "useful" to qualify for rate base inclusion, the question remains: Useful to whom? Must it be useful to the Company, to ratepayers, to someone else, or for some other purpose?

At the hearing, Company witness Schneider testified that plant should be considered "useful" if it had been in service previously, and was taken out of service but could be returned to service quickly, and "there is a plan to place that [plant] back in service." (Tr. 403.) He conceded, however, that no such definition of "useful" appears in the Commission's rules or in any Order issued previously by the Commission. (*Id.* at 405-06.)

We do not believe that such a definition is appropriate for determining the Company's rate base in this proceeding. Rather, we find that the commonly understood definition of plant that may be included in OCRB is one that requires such plant to be both used *and* useful during the test year for the provision of service to customers. To conclude otherwise could result in rates that are not just and reasonable, as required by the Arizona Constitution, because captive utility customers would be forced to pay rates that included plant that is not being used to serve them but which plant could be placed back into service at some as yet uncertain point in time, and entirely at the discretion of the Company. Nor is existence of a "plan" for future use sufficient to overcome the underlying defect in AWC's position because, as pointed out above, the decisions of when, or even if, plant will be returned to service remains entirely within the Company's discretion.

Finally, we disagree with AWC's reliance on the prior Arizona-American case to support its argument. In that case, Staff, and ultimately the Commission, found that the disputed back-up pumps should be included in rate base because the pumps and related equipment were used for back-up purposes during the test year; and, due to the large size of the pumps, they were useful to ratepayers as a necessary means of promptly returning the well to service until replacements could be obtained. The pumping equipment in that case was therefore not treated as plant held for future use, but instead was determined to be "used and useful" and properly included in rate base. (Decision No. 68858, at 12-13.) As such, the facts in that case are clearly distinguishable.

Accordingly, we adopt Staff's recommendation for the exclusion of plant held for future use.

B. Post-Test Year Plant

There remain three post-test year plant items in dispute between various parties, the Highway 179 Project; the Valley Vista Well; and the Pinewood Electrical Panel. With respect to AWC's Highway 179 Project, Staff agrees that the costs should be included in rate base; however, RUCO proposes inclusion of only 65 percent of the project's costs. Regarding the Sedona system's Valley Vista Well, Staff supports inclusion in rate base but RUCO opposes including the well. Both Staff and RUCO oppose rate base recognition of AWC's Pinewood Electrical Panel at this time.

1. Valley Vista Well (Well No. 13)

According to Company witness Schneider, AWC constructed the Valley Vista Well in 2006 and 2007, with construction being completed in April 2007, and final capital investments being made in August 2007. (Tr. 331; Ex. A-33.) Mr. Schneider stated that the well was placed in service in May 2008, upon receipt of the Arizona Department of Environmental Quality's ("ADEQ") Approval of Construction ("AOC"). (Ex. A-14; Tr. 331.) He indicated that the well was needed to provide additional capacity for the Sedona System, which is heavily reliant on the Sedona Golf Course Well. (Tr. 390.)

Although Staff agrees that the well is properly included in AWC's rate base, RUCO proposes exclusion of the well because of RUCO's claim that it was not placed in service during the test year, and because of inconsistencies in the Company's statements as to when the well became operational. RUCO also contends that even if the well was placed in service in May 2008, it produced only 2 acre-feet of water in 2008, or less than one percent of rated operational capacity. RUCO therefore proposes that the well not be included in AWC's rate base because it was not used and useful for the provision of service to customers.

We agree with the Company and Staff that the Valley Vista Well should be included in rate base in this proceeding. Documentation submitted by AWC shows that construction of the well began in October 2006 and that it was completed in April 2007. (Ex. A-33.) The evidence also shows that the Company's final capital investment in the well occurred in August 2007. All of these events occurred well before the end of the test year, and final approval of the well is shown by the AOC issued by ADEQ on May 23, 2008, less than 6 months after the end of the test year. (Ex. A-14.)

Further, the Company's witness testified that the well was needed to meet current system demand, a fact confirmed by Staff's engineering witness, Ms. Stukov. (Tr. 1215.) Contrary to RUCO's claim in its brief that the well has a 750 gallon per minute ("gpm") pump, the record shows that the well currently has a 75 gpm pump, and although the well has a rated capacity of 300 gpm, Ms. Stukov confirmed that the well was producing only 50 to 60 gpm until arsenic treatment facilities could be upgraded to handle higher flows. (*Id.* at 1206-16.)

We find that the documentation provided by the Company, as well as the testimony offered by both the Company and Staff, support a finding that the Valley Vista Well is used and useful for the provision of service to customers and is necessary to provide adequate capacity to meet the needs of AWC's customers.

2. Highway 179 Project

Beginning in 2003, the Arizona Department of Transportation ("ADOT") began work on a Highway 179 safety corridor to address safety concerns, as well as mobility and preservation of scenic, aesthetic, historical, environmental and other community values. (Ex. A-17.) Due to the project, AWC paid approximately $1.9 million to ADOT in June 2007 for relocation of water lines and construction of a utility bridge. (Ex. R-5.)

According to Company witness Reiker, AWC "was required under the threat of eminent domain to pay the full cost of this project [to ADOT] in June of the test year, and did not have the option of postponing or otherwise forgoing the investment." (Ex. A-20, at 21.) He explained that the Company had no control over the project or its completion date. (*Id.* at 22.) Staff does not oppose inclusion of the Highway 179 costs in rate base.

RUCO proposes to exclude 92 percent of the project's costs on the basis that only 8 percent of the project was completed as of July 2008, 6 months after the end of the test year. Although RUCO witness Coley initially proposed exclusion of 35 percent of the project costs, he subsequently amended his position based on an updated data response. (Ex. R-18, at 19-20; Tr. 927-929.) RUCO argues that the Highway 179 Project was undertaken by ADOT, in part, for issues not related to safety but rather for scenic reasons. In addition, RUCO contends that AWC's decision to relocate the water lines was simply a business decision, rather than a safety mandate, based on Mr. Reiker's

testimony that there was a threat of condemnation by ADOT of the Company's water lines. Based on these arguments, RUCO proposes a 92 percent disallowance of AWC's capital costs related to the project.

We agree with the Company and Staff that the Highway 179 Project costs should be included in rate base. RUCO attempts to dispel the notion that the project was undertaken by ADOT for safety purposes. However, as the document submitted by the Company shows, the project was intended by ADOT to improve safety, mobility, and for other scenic, historical, and environmental considerations. (Ex. A-17.) Moreover, the reasons for ADOT's decision to undertake the project are of no import to the issue faced by the Company. Rather, the safety considerations are related to AWC's customers, not whether ADOT's motives were for safety or scenic reasons, or for some altogether different purpose. Once ADOT decided to move forward with the project, and it became clear that AWC's lines needed to be relocated to avoid disruption, it was incumbent upon the Company to take measures to protect the health and safety of its customers by relocating certain of its lines.

RUCO's next argument is that AWC's line relocation was purely a business decision to avoid condemnation of its lines by ADOT. RUCO fails to explain what the consequences of such a condemnation would be for the Company and its customers. If condemnation of the water lines was to have occurred because they were in the path of ADOT's construction project, AWC would likely have been required to build new lines or face the possibility that service to its customers would be impacted. It appears the Company made a reasonable decision to pay the relocation costs to ADOT, which had sole responsibility for the project.

Finally, RUCO asserts that 92 percent of the line relocation costs should be disallowed because ADOT had completed only 8 percent of the project as of 6 months after the test year. It is clear from the record that AWC paid the entirety of its obligation during the test year, and that the Company had no control over the pace of the project or its completion date. Simply put, AWC's facilities were in the path of a construction project that was mandated by a state agency, and the Company acted reasonably under the circumstances to ensure that its customers continued to receive uninterrupted service.

RUCO's proposed exclusion is therefore denied.

3. Pinewood Electrical Panel

During the test year, AWC spent just over $40,000 to replace an old electrical panel in its Pinewood System. (Ex. A-13, at 3.) As explained by Company witness Schneider, the Company completed the panel replacement during the test year, but was informed by Arizona Public Service Company ("APS") that the line leading to the site was in disrepair and would need to be replaced. AWC responded that the line repair was the responsibility of APS, and a dispute ensued that delayed the placement of the panel into service. Eventually, APS paid for the line repair and AWC placed the electrical panel into service on July 10, 2009. (Tr. 339-340.) The Company seeks to include the capital costs of the panel, plus depreciation, into rate base in this case based on its contention that the in-service date was delayed by the actions of a third party (APS) over which AWC had no control. The Company argues that, but for APS's claim that AWC was responsible for the line repairs, the Pinewood electrical panel would have been providing service well before the end of the test year.

Staff and RUCO oppose rate base inclusion of the Pinewood electrical panel on the basis that the panel was not placed into service until more than 18 months after the test year, and therefore the panel was not used and useful within a reasonable period of time. Staff also cites to a prior Commission Order that found plant added after the test year must be used and useful and in-service within 90 days of the rate application being found sufficient. Staff points out that AWC's application was deemed sufficient on October 15, 2008, and the Pinewood panel was placed in service almost 9 months later.

Although we appreciate the Company's frustration with not being able to energize the electrical panel in a timely manner, we agree with Staff and RUCO that the in-service date is too far removed from the test year to warrant inclusion in rate base. The Company raises valid points with respect to the presence of potential safety issues with the old panel that necessitated replacement, and that it was essentially held hostage by the actions of a third party. However, we presume APS believed it had a valid claim at the time it raised concerns over the line replacement and AWC's inability to resolve the issue until more than 18 months after the test year is an unfortunate event that does not rise to the level of justifying a significant departure from traditional regulatory treatment of such plant.

C. Contributions in Aid of Construction ("CIAC")

Among a number of pieces of plant, AWC initially sought to include in rate base as plant held for future use two wells that were funded by developer contributions. These wells are the Ranch 160 Well No. 2 in the Superstition System and Well No. 11 in the Coolidge System. (Ex. A-20, at 16.)

Staff recommended exclusion of the wells from rate base, and also proposed to remove the CIAC associated with those wells ($1,324,341). (Ex. S-15, at 12.) In his rebuttal testimony, Mr. Reiker opposed Staff's recommendation and stated that the CIAC should remain in rate base. (Ex. A-20, at 16.) Staff continued to oppose inclusion of the wells and, as discussed above, we agreed with Staff that the wells held for future use are not properly included in rate base.

During the course of the proceeding, AWC ultimately agreed to remove the wells from rate base and agreed further with Staff's recommendation to remove the associated CIAC. On this point, it appears that the Company and Staff are now in accord, although the Company appears to argue on brief that the wells should be treated as construction work in progress ("CWIP").

RUCO, however, opposes the removal of CIAC recommended by AWC and Staff. According to Mr. Coley, reducing CIAC associated with CWIP would be inconsistent with prior Commission decisions, including Decision No. 70011 (November 27, 2007), wherein the Commission rejected an argument raised by UNS Gas Company to treat certain plant as either CWIP or post-test year plant, or alternatively to not deduct contributions and advances associated with the plant from rate base. (Ex. R-23.) RUCO also cites to the Commission's administrative rule (A.A.C. R14-2-103, Appendix B) which indicates that CIAC is to be treated as a deduction to rate base. (Ex. R-24.)

We believe Staff's position on this issue reflects the proper accounting treatment to be accorded the CIAC in question. Contrary to the Company's arguments, Staff's recommendation to remove the CIAC from rate base is based on the fact that the two wells were treated as plant held for future use, and thus not used and useful. Therefore, the disallowance of the wells from rate base requires the removal of corresponding CIAC. However, if the plant is later placed into service, and is found to be used and useful and included in rate base, the CIAC associated with the plant would at that time be included as a deduction to rate base.

If we were to accept AWC's apparent suggestion that the wells should be treated as CWIP,

the CIAC would, consistent with a number of prior cases, be deducted from rate base.[6] Indeed, the Company's final schedules indicate that it has accounted for the wells as plant held for future use, rather than CWIP. (*See*, AWC Final Sched. JMR-RJ2.) For these reasons, we find that the prior cases relied upon by RUCO are distinguishable because they addressed contributions or advances related to plant that was not yet built, or plant that was accounted for as CWIP. In the instant case, AWC's agreement with Staff that the wells should be disallowed from rate base as plant held for future use is a distinguishing fact that justifies removal from rate base of the associated CIAC.

We therefore adopt Staff's recommendation on this issue.

D. Working Capital

Working capital represents shareholders' "necessary investment in materials and supplies, and the cash required to meet current obligations and maintain minimum bank balances." A working capital allowance is included in a company's rate base to compensate investors for capital supplied to meet day-to-day operating expenses. The cash component of working capital is typically determined by a lead/lag study, which generally measures the company's receipt of revenues against its payment obligations.

AWC prepared a lead/lag study to support its proposed working capital allowance of $1,876,007. The Company's total working capital proposal includes amounts for cash working capital, materials and supplies inventories, required cash balances, and prepayments and special deposits. (Ex. S-15, at 14.) Staff witness Bozzo stated that the cash working capital component is the only issue in dispute, and specifically the Company's decision to include an equity component in the calculation. (*Id.*) Mr. Bozzo indicated that the cost of equity is not a normal or appropriate item to be included in a lead/lag study, and unlike debt obligations that must be paid, "equity does not have to be paid in a certain amount." (Ex. S-16, at 18.) Staff therefore recommends that the cost of equity be removed from consideration of the Company's cash working capital requirement. (*Id.*)

AWC contends that equity is properly included in the lead/lag study to balance Staff's inclusion of a cost of debt component in the equation. Mr. Reiker testified that, although the

[6] *See, UNS Gas, Inc.*, Decision No. 71623 (April 14, 2010), at 8-10; *Arizona-American Water Co.*, Decision No. 71410 (December 8, 2009), at 26-28; *H2O Water Co.*, Decision No. 71414 (December 8, 2009), at 4-8; *UNS Electric, Inc.*, Decision No. 70360 (May 27, 2008), at 10-11; *UNS Gas, Inc.*, Decision No. 70011 (November 27, 2007) (Ex. R-23.)

Company is indifferent as to whether operating income is included in the lead/lag calculation, if one component is included (*i.e.*, the cost of debt), the cost of equity should also be considered. (Ex. A-20, at 17-18; Tr. 625-26.)

RUCO initially joined Staff in opposing inclusion of equity in the lead/lag calculation. (Ex. R-18, at 24.) On the witness stand, RUCO witness Coley testified that although the entire cost of equity should not be included, he considered the Company's quarterly dividend payments to be "an actual cash outlay" and therefore RUCO agreed the dividend payments should be included in the lead/lag study. (Tr. 920-21.) Ultimately, AWC agreed with RUCO's amended position and included in its final schedules only the dividend payments in the lead/lag calculation.

Because AWC's position on this issue is that working capital should include what it claims are fixed dividend payments, it is necessary to address the Company's dividend policy as part of the overall cash working capital discussion.

1. AWC's Payment of Dividends

During the hearing, it was ascertained that AWC pays to its controlling holding company, Utility Investment Company ("UIC"), more than $1 million per quarter ($1,070,000 or approximately $4.3 million annually) in dividends. Although AWC's president, William Garfield, is on AWC's board of directors, he did not know the identity of UIC's shareholders. He stated that UIC controls AWC in Arizona and another water company in California, San Gabriel Water Company. (*See generally*, Tr. 787-820.) The current level of dividend payments has been in effect since 2007, and has not been increased or decreased since that time.

Mr. Garfield testified that in February 2009, 18 employees were laid off (8 bargaining unit and 10 other employees). He also stated that the Company's 2008 and 2009 capital budgets were reduced substantially, from $18.9 million to $5 million. (*Id.* at 789-93.) During the period of 2007 to 2009, AWC continued to pay quarterly dividends of more than $1 million, without interruption. Moreover, according to Mr. Garfield, AWC's Board of Directors never discussed the possibility of reducing or terminating temporarily the dividend payments during formal or informal discussions. (*Id.*)

Mr. Garfield also acknowledged that five of the Company's top executives continue to receive

a car for both work and personal use, including insurance and gasoline expense reimbursement. (*Id.* at 796-99.) He indicated that the Company "[has] asked employees for their ideas how [sic] to save costs," but he decided to "maintain corporate, company officers' vehicles." (*Id.* at 798-99.)

2. Conclusion on Cash Working Capital

Against this background, we consider whether AWC's cash working capital requirement should include a component to reflect capital outlays for dividend payments. In its post-hearing brief, AWC makes the argument that its cash dividend payouts are just as known and measurable as the debt obligations included in Staff's recommendation, and therefore the dividends should be included in the lead/lag calculation.

We disagree. As Staff witness Bozzo succinctly points out, "equity is not a certain debt or obligation." (Ex. S-16, at 18.) Contrary to the Company's assertions, debt and equity are not equivalents for purposes of determining working capital. The Company's debt obligations are contractually based and must be paid to avoid default liability. Contrarily, equity costs, such as dividend payments, are not subject to mandatory payment schedules and may be discontinued or reduced at the discretion of the Company's Board of Directors.

It is indeed ironic that AWC cites in its brief to testimony elicited by Chairman Mayes and the administrative law judge regarding the Company's dividend policies, as support for AWC's claim that dividend payments are known and measurable. As the discussion above points out, AWC's Board of Directors has consistently, quarter after quarter, year after year, without interruption, passed resolutions to maintain full dividend payments to its controlling holding company at the same time AWC was slashing employees and its capital improvement budgets, and continuing to pay for vehicles, insurance and fuel for its top executives. Yet, the Company now also seeks to place the additional burden on ratepayers of funding AWC's dividends, through the cash working capital component, even though the unilateral decisions to continue full dividend payments were within the sole discretion of AWC's Board.

Staff's recommendation on cash working capital is adopted

E. Fair Value Rate Base Summary

The Company did not prepare schedules showing the elements of Reconstruction Cost New Rate

Base ("RCND") for the districts. Instead, the Company requested that the Original Cost Rate Base ("OCRB") be treated as its FVRB for the systems. Based on the discussion of rate base issues set forth above, we find the total Company FVRB to be $144,460,870, and the FVRB for each of the districts to be as follows:

Superstition	Bisbee	Sierra Vista	San Manual	Oracle	Winkelman	Miami	Casa Grande
$42,702,540	$4,614,736	$2,498,644	$2,055,473	$2,391,244	$326,067	$7,576,718	$39,892,560

White Tank	Ajo	Coolidge	Lakeside	Overgaard	Sedona	Pinewood
$4,373,445	$1,113,517	$4,232,395	$7,020,853	$3,315,721	$17,417,238	$1,830,696

Rimrock	Stanfield
$2,319,258	$779,765

IV. OPERATING INCOME

A. Test Year Operating Revenues

1. Adjusted TY Operating Revenue

In its final schedules, the Company reported adjusted test year revenues of $43,361,490. Neither Staff nor RUCO appear to dispute the Company's claimed test year revenues, although they propose slightly different test year revenue amounts of $43,362,606 and $43,362,509, respectively. Because there was no dispute on this issue between the parties, and since the discrepancies are so slight, we will adopt test year revenues of $43,362,606.

B. Operating Expenses

1. Labor Expense Normalization

According to RUCO witness Rigsby, AWC paid over 28,000 hours of overtime wages during the test year. Mr. Rigsby stated that the overtime hours for the 2007 test year were much higher than the levels experienced in 2005, 2006, and 2008. As a result, RUCO proposed the use of a four-year average of overtime expenses, for the period 2005 through 2008, to normalize overtime costs. (Ex. R-27, at 11-12.)

After AWC witness Reiker pointed out that a portion of the overtime costs were capitalized, rather than expensed, RUCO modified its proposal to exclude the capitalized overtime, but continues to advocate a four-year normalized average for overtime expenses. (Ex. A-20, at 41; Ex. R-28, at 4.)

As a result of these modifications, RUCO's proposal would reduce the Company's labor expenses, including payroll taxes, 401(K) expense, and insurance expense, by $182,023 on a total company basis. (Ex. R-29.)

AWC opposes RUCO's proposed adjustments, claiming that once the capitalized costs were removed, RUCO failed to provide any documented basis for why a normalization of overtime costs was necessary. The Company cites a recent Chaparral City Water Company case (Decision No. 71308, October 21, 2009) to support its argument that the test year is presumed to be normal, subject to modification only for known and measurable changes. AWC asserts that RUCO did not produce any evidence to support its position, aside from unfounded assumptions.

We agree with RUCO's proposed adjustment. Although precise quantification of reduced labor costs are not in the record, the testimony of Mr. Garfield at the hearing suggests that labor costs, both capitalized and expensed, have been reduced substantially since the end of the test year. (Tr. 789-93.) As described in the discussion above, Mr. Garfield testified that in February 2009, AWC laid off or eliminated 18 employees and slashed its capital projects budget dramatically. Indeed, based on the Company's testimony, it is likely that RUCO's proposed labor normalization adjustment vastly understates the known and measurable ongoing labor costs that will be incurred for the foreseeable future. However, since RUCO's proposal contains the only objective quantification of labor adjustments in the record, we will adopt RUCO's labor normalization adjustment and reduce test year operating expenses by $182,023.

2. Transmission and Distribution Expense Normalization

Staff recommended that the Company's test year transmission and distribution expenses, contained in subaccounts 663 and 673 for the Casa Grande and Superstition systems, be normalized over a three-year period from 2005 through 2007. (Ex. S-24, at 18.) According to Staff witness Igwe, the Company recorded higher than normal costs in those accounts for the test year and the accounts showed significant increases between 2006 and 2007. (*Id.*) Mr. Igwe indicated that AWC's Casa Grande System experienced a major repair during the test year and he concluded that it is unlikely the Company will incur similar costs to the transmission and distribution accounts for the Casa Grande and Superstition systems on an ongoing basis. Staff therefore recommends a three-year

normalization of subaccounts 663 and 673 for Casa Grande and Superstition. (*Id.* at 19.)

AWC opposes Staff's recommended adjustments, and claims Staff failed to satisfy its burden of showing that the test year expenses for these accounts were abnormal. The Company argues that Staff offered no basis for the recommended adjustments other than to cite to the major repair incident on the Casa Grande System. The Company also claims that Staff's proposal is inconsistent with its recommendation for AWC to reduce water losses on several systems, measures that the Company suggests will cause greater expense levels for subaccounts 663 and 673 in the future. The Company again cites to the recent Chaparral City case (Decision No. 71308) to support its contention that test year expenses are presumed reasonable.

We agree with Staff that the 663 and 673 subaccounts for the Casa Grande and Superstition systems experienced substantial increases between 2006 and the 2007 test year. Although the Company relies on *Chaparral City* for the proposition that test year expenses should only rarely be disturbed, based on supportable evidence, that case should not be read so narrowly. In *Chaparral City*, Staff's recommended normalization adjustments for chemical expenses, and repairs and maintenance expenses, were denied, at least in part, because Staff did not adequately support its assumption that higher test year expenses were abnormal. (Decision No. 71308, at 22-23.)

In this case, however, Staff observed marked increases to the subaccounts and raised questions about the basis for those increases. Apparently, the only justification identified by the Company was a major repair to the Casa Grande System, in which case similar expenses are not likely to be repeated on a consistent basis. Despite the Company's claim to the contrary, it bears the burden of proving the reasonableness of its test year expenses and it is not appropriate to automatically shift that burden to another party when the party seeks a justification for expenses incurred during the test year that are inconsistent with prior years. We believe Staff's three-year normalization recommendation, which normalization includes the higher test year amounts, provides a reasonable smoothing of the subaccounts. Staff's recommendation is therefore adopted.

3. Tank Maintenance Expense Normalization

Staff recommends that the Commission adopt a tank maintenance expense of $568,314, based on a three-year average of the Company's actual tank maintenance expenses for 2005 through 2007.

(Ex. S-25, at 9-10.) Although AWC currently employs a tank maintenance accrual account for tank maintenance expenses, Staff witness Igwe indicated that the Company's accrual account methodology results in excessive costs that are more accurately represented through normalization of actual expenses. Mr. Igwe testified that AWC's proposed cumulative tank maintenance expenses of $630,229 is far in excess of its actual 7-year average of $383,104, 5-year average of $419,573, and 3-year average of $568,314. (*Id.* at 10; Tr. 1639-42.)

Staff is critical of the Company's accrual account methodology because the costs are based on projected costs, which in this case is a tank maintenance schedule using projected costs from 2008 to 2022, including an inflation factor of 2.67 percent that was derived from a normalization of the Consumer Price Index ("CPI") for the years 2002 through 2007. (Tr. 1795.) Staff points out that the inflation rate for the first seven months of 2009 was negative 0.6 percent, compared to the Company's projected rate of 5.7 percent. (Tr. 1636; Ex. R-3.) Staff argues that if AWC's accrual method is approved in this case, the Company will have less incentive to manage costs on a year-to-year basis, because actual tank maintenance expenses tend to fluctuate dramatically year-to-year.

AWC opposes Staff's recommendation, claiming that it would cause the Company to over-recover in some years and under-recover in other years. The Company states that the purpose of its tank maintenance program is to prolong the life of its more than 100 storage tanks under a schedule that entails repainting the exteriors every 7 years, and recoating the tank interiors every 14 years. (Ex. A-9, at 24-25.) According to Company witness Reiker, due to the significant variations in tank maintenance costs from year to year, the Commission authorized an annual reserve accrual methodology that had been proposed by the Company in each of its last three rate cases. As described by Mr. Reiker, the pre-determined amount authorized by the Commission is debited to maintenance account 672-Storage Tanks; and credited to reserve account 265-Tank Maintenance; with actual costs related to painting and maintenance debited to account 265. Mr. Reiker indicated that this accounting method has operated efficiently for over 30 years and should not be disturbed. (Ex. A-20, at 26-31.) AWC contends that there is no basis for discontinuing the longstanding accrual method policy because, if maintenance estimates turn out to be too high, the account would be adjusted downward in the following rate case. The Company asserts that Staff's 3-year normalization

recommendation will result in a lack of sufficient funds to fully, properly and routinely maintain its storage tanks.

We agree with Staff that a 3-year normalization of tank maintenance expenses is appropriate in this case. As Mr. Igwe indicated, Staff could have proposed longer normalization periods, such as 5 or 7 years – both of which would have been substantially below Staff's 3-year average recommendation of $568,314. Indeed, Staff's normalization proposal would allow AWC to recover over $140,000 more than the Company actually incurred during the test year. Despite the Company's claims, we do not believe there is any valid basis for treating tank maintenance expenses differently from other properly incurred costs. Although we recognize that these costs tend to be cyclical in nature, that fact alone does not justify requiring ratepayers to support the Company's accrual account methodology that would allow recovery in this case based solely on estimates adjusted by an inflation factor.

Nor are we persuaded by the Company's contention that the Commission has expressly approved the methodology currently being used by AWC. In the prior Northern Group case, the issue was not raised by Staff and there was no discussion in the Commission's Order. In both the Eastern and Western Group cases, the Staff engineer apparently employed the "Richardson Process Plant Construction Estimating Standards," found that the amount was comparable to the cost claimed by the Company, and therefore recommended that AWC's proposed cost should be allowed. (*See*, Ex. A-20, at 27-28.) However, in none of those prior decisions was there a finding by Staff as to the reasonableness of the methodology used by the Company; rather, Staff used its own methodology and did not litigate the issue due to the comparable results. In any event, the Commission had no reason to address the tank maintenance issue, and thus clearly did not endorse AWC's accrual accounting methodology in the prior cases cited by the Company.

For these reasons, we adopt Staff's recommendation on this issue.

4. Desert Wells Pump Station Maintenance Expense Normalization

The Desert Wells station pumps 900 gpm, at 700 to 800 pounds per square inch ("psi") of pressure, in order to deliver water approximately 26 miles to the Town of Superior. Company witness Schneider stated that delivery of water at such high pressure requires special pumps and

motors that must be rebuilt every 7 to 8 years, at a cost of $100,000 to $150,000. He indicated that the Commission, in Decision No. 66849, allowed the Company an expense amount of $41,908 in an accrual account to be used for maintaining the Desert Wells pumps. (Ex. A-9, at 26.)

In this case, AWC seeks to maintain the current amount for recovery in the existing accrual account, and to allow the Company to charge the cost of maintaining and repairing the pipeline between the Desert Wells pump and Superior to the Desert Wells maintenance accrual account. Mr. Schneider indicated that this pipeline, which is the only source of water for Superior, is constructed of aging steel pipe, sits above ground, and is prone to corrosion on the bottom. He stated that the Company eventually plans to replace the pipeline with underground pipe, a project that is projected to take more than 20 years. (*Id.*)

Staff recommends that the Desert Wells expenses be normalized for actual expenses incurred for the Desert Wells pump station over a three-year period, from 2005 through 2007. According to Mr. Igwe, Staff's normalization calculation results in an expense recommendation of $53,249, an amount that is $11,340 higher than that proposed by the Company. However, Staff recommends that the accrual account be discontinued. (Ex. S-25, at 15-17.) Staff argues that its normalization approach smoothes out fluctuating maintenance costs. Staff asserts that the accrual account treatment currently used by AWC for these expenses tends to shift the risk of managing the costs to ratepayers while, at the same time, eliminating the Company's responsibility to manage its operations within the cost levels approved by the Commission.

We will adopt Staff's recommendation for a three-year normalized expense of $53,249 for this item, rather than the current accrual account used by AWC. As Staff points out, the amount of its proposed expense is actually higher than the amount sought by the Company, and reflects an average of the costs expected to be incurred. It appears that AWC's primary concern with Staff's recommendation is that the Commission could, in a subsequent rate case, set the expense level much lower in the event that the Company were to incur an abnormally low amount of expenses in some subsequent test year. Given Staff's recommendation to adopt a three-year normalization in this case, at a level that is over $11,000 higher than that requested by AWC, the Company's fears would seem unfounded.

We therefore adopt Staff's recommendation on this issue.

5. Depreciation and Amortization Expense

Staff recommends adoption of CIAC amortization rates for calculating depreciation and amortization expense that differ from those proposed by the Company. According to Mr. Igwe, Staff had no alternative to calculating CIAC amortization based on each system's average depreciation rate, because AWC was unable to break out the balance of test year CIAC into specific plant accounts. (Ex. S-25, at 18.) Mr. Igwe stated that the Company improperly assumed that its proposed CIAC amortization rate is constant at 2 percent for each system's plant accounts, irrespective of the CIAC balance. Mr. Igwe claims that the amortization rate varies as the composition of plant balances vary from system to system. Staff asserts that the Company erroneously assumed that the amortization rate approved for the Eastern Group systems has not changed since the last case, and the Company also improperly assumed that the Northern and Western Groups have identical plant account balances in CIAC. (*Id.* at 19.) Staff offered to accept plant depreciation rates for amortizing CIAC if AWC provided a break-out of test year CIAC into the related plant accounts per system. Absent such a demonstration by the Company, Staff contends that its methodology is superior to the Company's and should be adopted. (*Id.* at 20.)

AWC claims that Staff's recommended amortization rate does not reflect the actual useful life of contributed plant. In his rejoinder testimony, Mr. Reiker stated that Staff's position is inconsistent with the two most recent decisions for the Eastern and Western Groups (Decision Nos. 66849 and 68302), in which the Commission adopted a composite 2.00 percent CIAC amortization rate. (Ex. A-22, at 25.) Mr. Reiker testified that he performed a calculation of depreciation rates from CWIP ledgers for developer-funded (contributed) plant that resulted in a depreciation rate of 1.999 percent. (Tr. 571-72.) AWC argues that the methodology adopted by the Commission in the last two cases should be approved again in this case.

We agree with the Company that the proposed CIAC amortization rate of 2.00 percent should be adopted in this case. As the Company witness indicated, the CIAC amortization rate should reflect plant accounts that include contributions (*i.e.*, transmission and distribution mains, fire sprinkler caps, services, meters, and hydrants). Based on the Company's testimony and supporting

documents, the proposed 2.00 percent rate is reasonable and shall be adopted.

6. Rate Case Expense

AWC seeks to recover $500,000 for rate case expense, amortized over three years. Mr. Reiker stated that the estimated rate case expense was based on a comparison of amounts actually incurred in the three most recent rate cases, as well as the number and complexity of the issues. (Ex. A-18, at 24-25.) The Company argues that its rate case expense is justified given the fact that it was required to file its application with all 17 of its systems, each requiring the determination of an individual revenue requirement; the involvement of 5 parties, each filing testimony; and the necessity of filing final schedules and extensive briefing.

Staff does not oppose the Company's rate case expense, but RUCO proposes a reduction, to $300,000 amortized over 3 years. RUCO witness Rigsby stated in his direct testimony that $300,000 was RUCO's best estimate of rate case expense "at this point in time," and indicated that RUCO would update its recommendation in its final schedules. (Ex. R-27, at 20-21.) In its final schedules, RUCO maintained its $300,000 recommendation for rate case expense.

RUCO failed to address the issue of rate case expense in its brief and has therefore waived its opposition to the Company's position on this issue. (See Tr. 1802.) However, even if we were to consider RUCO's proposed reduction to rate case expense, we believe AWC justified the level of expense it has requested. The Company's application involves 17 systems, each requiring its own analysis, schedules, and revenue requirement determination. In addition, several intervenors actively participated in the case, one of which advocated for a specific rate design treatment due to its unique characteristics. The Company was also required to respond to various alternative rate consolidation proposals through additional testimony and analysis. Given the overall volume of the case, and the complexity of issues presented, we find that the Company's rate case expense proposal to recover $500,000, amortized over three years, should be adopted.

7. Operating Income Summary

Based on the discussion of operating income issues set forth above, we find the total Company test year adjusted operating expenses to be $37,613,987, which based on total Company adjusted test year revenues of $43,362,606, results in a total Company test year adjusted operating

income of $5,748,620. On an individual system basis, operating expenses, revenues, and operating income are as follows:

	Op. Expenses	Revenues	Op. Income
Superstition	$9,982,513	$11,939,904	$1,957,392
Bisbee	1,554,511	1,723,474	168,963
Sierra Vista	1,188,114	1,461,897	273,783
San Manuel	855,140	812,359	(42,781)
Oracle	910,742	1,126,215	215,473
Winkelman	84,906	98,722	13,816
Miami	1,699,029	1,850,678	151,649
Casa Grande	9,999,810	10,934,894	935,084
Coolidge	1,929,535	2,214,953	285,418
Stanfield	171,460	131,926	(39,534)
White Tank	1,008,429	1,244,736	236,307
Ajo	424,770	470,994	46,224
Lakeside	2,008,672	2,588,944	580,272
Overgaard	1,274,536	1,686,342	411.806
Sedona	3,023,531	3,521,124	497,593
Pinewood	935,209	1,047,463	112,254
Rimrock	563,080	507,981	(55,099)
Total Company	$37,613,987	$43,362,606	$5,748,620

V. COST OF CAPITAL

AWC recommends that the Commission determine the Company's cost of common equity to be 12.40 percent, with an overall weighted average cost of capital ("WACC") recommendation of 9.20 percent. Staff recommends a cost of common equity of 10.0 percent, with an overall weighted cost of capital determination of 8.10 percent. RUCO proposes adoption of a cost of common equity of 8.33 percent, with an overall weighted cost of capital of 7.81 percent.

A. Capital Structure

All parties agree that AWC's actual capital structure as of December 31, 2008 should be used for determining the Company's cost of capital in this proceeding. (AWC Final Sched. A-1; Ex. S-22, at 14-15; Ex. R-32, at 2-3.) The capital structure as of that date consisted of 45.85 percent equity, 49.35 percent long-term debt, and 4.8 percent short-term debt. We agree that it is appropriate to use AWC's actual test year capital structure as of December 31, 2008 for the purpose of determining the Company's cost of capital in this proceeding.

B. Cost of Debt

All parties in the case also agreed that the Company's cost of debt as of December 31, 2008, should be used to establish the cost of capital in this case. (*Id.*) As of that date, AWC's cost of short-

term debt was 3.0 percent, and its long-term debt was 6.83 percent. Since there is no dispute regarding this issue, we will adopt the cost of debt set forth above for purposes of establishing the debt component of AWC's weighted cost of capital in this proceeding.

C. Cost of Common Equity

Determining a company's cost of common equity for purposes of setting its overall cost of capital requires an estimate based on a number of factors. There is no fool-proof methodology for making this determination, and the expert witnesses rely on various analyses to support their respective recommendations.

1. AWC

In determining its recommended cost rate for common equity. the Company's cost of capital consultant, Dr. Zepp, used the discounted cash flow ("DCF") model and the capital asset pricing model ("CAPM") to estimate AWC's equity cost with data for 6 publicly traded water utilities: American States Water; Aqua America; California Water Service; Connecticut Water Service; Middlesex Water Company; and SJW Corporation. (Ex. A-41, at 5.)

Dr. Zepp estimated the cost of equity using the constant growth DCF model, which he asserts requires the best available estimates of growth rates that investors expect in the future. He relied primarily on growth estimates published by *Zacks*, *Thompson First Call*, and *Value Line*. (*Id.* at 26-29.) Dr. Zepp's initial DCF estimates for the sample group ranged from 11.8 to 11.9 percent, based on early 2008 data, while later data from May 2009 produced higher equity cost results of 12.4 to 12.5 percent, due to higher dividend yields. (Ex. A-42, at 9.)

Dr. Zepp determined CAPM estimates using a risk-free rate based on long-term U.S. Treasury bonds. He also conducted a CAPM analysis using the average of betas published by *Value Line*. The estimates from his CAPM analyses produced results of 11.9 to 12.5 percent for the sample utility group. (Ex. A-41, at 32-34.)

Dr. Zepp testified that AWC faces a number of risks that must be considered in setting a fair rate of return for the Company. According to Dr. Zepp, AWC is more risky than larger publicly traded water companies, such as those in the sample group, because: AWC must raise capital on its own for plant construction, given its position as a closely held entity; the Company faces

deteriorating earnings and a need to build significant additional infrastructure; its operations consist of a number of small separate water systems; and due to the Commission's use of historic test years with limited out of period adjustments, the inability to recover costs outside of rate cases, and the Commission's imposition of inverted tier rates that encourage conservation. (*Id.* at 16-21.) Dr. Zepp claims that due to these risks, AWC's cost of equity should be increased by at least 50 basis points above the sample group of companies.

AWC is critical of the recommendations of both Staff and RUCO, arguing that both cost of equity recommendations understate the appropriate equity cost for AWC. Dr. Zepp prepared a cost of equity analysis based on what he contends is the methodology employed by Staff in prior AWC cases, and approved by the Commission. His analysis produced an 11.2 percent cost of equity result based on what he termed Staff's "normal" methodology. (Ex. A-42, at 14.) Dr. Zepp claims that Staff witness Parcell's methodology appears to be "specifically intended to depress the cost of equity," as evidenced by a comparison of the 11.2 percent calculated under Staff's "normal" method and Mr. Parcell's recommendation in this case of a 10.0 percent cost of equity. (*Id.* at 15.)

AWC's criticism of RUCO's cost of equity recommendation centers on the Company's assertion that RUCO's proposal is roughly equal to the current cost of debt and is therefore unreasonable. Dr. Zepp contends that Mr. Rigsby's analysis is improper because he: used only three companies in his sample water group; failed to recognize that his gas utility sample has less market risk than the water sample group; used estimates of internal growth in his DCF, and failed to use *Value Line's* end-of-year equity; substituted personal opinion in estimating external growth in the DCF; relied on CAPM estimates below the cost of debt; used geometric, rather than arithmetic annual averages in his CAPM; failed to compute a current risk premium for his CAPM; used total returns on Treasury securities to estimate historic market risk premium; and used a 5-year Treasury note yield as the risk-free rate in the CAPM. (*Id.* at 17-20, 23-24, 28-29, 30-31, and 43-48.) Dr. Zepp calculated a revised cost of equity, after correcting for Mr. Rigsby's "errors," of 11.5 to 11.9 percent or 12.0 to 12.4 percent if AWC's greater risk is recognized. (*Id.* at 45-49.)

As noted above, Dr. Zepp testified that, in order to establish a fair rate of return for AWC, at least 50 basis points should be added to the Company's cost of equity estimates to account for the

additional risk associated with investing in AWC (Ex. A-41, at 13-23). The Company asserts that an additional risk premium is required to compensate for, among other things, its small size and the rate-setting system in Arizona. The Company also contends that investment risk is heightened by the capital and operating costs it is expected to incur due to the lack of automatic adjustor mechanisms and ongoing arsenic treatment requirements. AWC argues that, in accordance with the fair and adequate rate of return requirements under decisions such as *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, (1944); *Bluefield Waterworks & Improvement Co. v. Public Serv. Comm'n of West Virginia*, 262 U.S. 679 (1923); and *Duquesne Light Co. v. Barasch*, 488 U.S. 299 (1989), the Commission must recognize that the cost of equity recommendations put forth by Staff and RUCO would fail to adequately compensate the Company with a reasonable rate of return on its investment.

2. RUCO

RUCO witness William Rigsby proposes adoption of a return on equity ("ROE") of 8.33 percent based on his analysis using DCF and CAPM methodologies. Mr. Rigsby employed a single-stage DCF analysis, as opposed to the multi-stage version used by Dr. Zepp. (Ex. R-32, at 7-27.) RUCO contends that Mr. Rigsby's 8.33 percent ROE recommendation is appropriate given the state of interest rates and the economy in general. (Ex. R-33, at 5.) Mr. Rigsby's proxy group of companies includes 3 publicly traded water companies and 10 natural gas companies.

Mr. Rigsby stated that in using the traditional DCF model, it is assumed that dividends grow in perpetuity and that the dividend payout rate remains at a constant rate. (Ex. R-32, at 7-9.) For purposes of estimating his dividend growth rate, Mr. Rigsby reviewed *Value Line* dividend growth estimates for his water and gas company sample group and found that those rates increased steadily, from 3.05 percent in 2008, to 6.35 percent by the end of 2014. He concluded that a growth rate of 6.0 percent for AWC is appropriate in this case. (*Id.* 23-24.) Mr. Rigsby stated that the DCF cost of equity estimates for his water and gas company proxy groups is 9.32 and 11.42 percent, respectively. (*Id.* at 27.)

With respect to its CAPM analysis, RUCO asserts that the use of a 5-year Treasury instrument is proper because it is comparable to the 3-to-5 year time frame in which utilities in Arizona seek rate

relief. He also indicated that the use of both geometric and arithmetic means of historical returns is more reasonable than the Company's exclusive reliance on arithmetic returns. (*Id.* at 31-32.) Similar to the arguments made by Staff (see below), RUCO contends that it is appropriate to use both means in the CAPM analysis, because investors have access to both forms of information regarding historical returns. Mr. Rigsby added that he believes the geometric mean provides "a truer picture of the effects of compounding on the value of an investment when return variability exists." (Ex. R-33, at 8.)

Mr. Rigsby's CAPM analysis produced a range of 6.04 to 7.43 percent for his water company proxy group, and a range of 5.26 to 6.39 percent for his gas company proxy group. To arrive at his 8.33 percent cost of equity recommendation, Mr. Rigsby calculated the mean of the overall range of his DCF and CAPM results (5.26 to 11.42 percent.) (Ex. A-32, at 33-34.)

3. Staff

Staff witness David Parcell presented Staff's ROE recommendation in this case. In developing his recommendation, Mr. Parcell utilized DCF, CAPM, and comparable earnings ("CE") analyses. He indicated that because neither AWC nor UIC, its parent company, are publicly traded, it is not possible to directly apply cost of equity models. In his analysis, Mr. Parcell employed three comparable groups of companies as a proxy for AWC. (Ex. S-22, at 16.) The first sample group was comprised of a group of 4 water utilities that are reported in the Standard Edition of *Value Line*. The second proxy group consists of a group of 8 water utilities covered in *AUS Utility Reports*. The final group consists of the same proxy group employed by Dr. Zepp. (*Id.*)

Mr. Parcell's DCF analysis produced an average (mean and median) range of 7.8 percent to 12.0 percent for the three proxy groups' cost of equity, and a "high" (using the highest growth rates) DCF range of 9.9 to 12.0 percent on an average basis and 10.0 to 10.7 percent on a median basis. (*Id.* at 20.) Mr. Parcell explained that he gave less weight to the extreme lower and upper ends of the ranges and concluded that 9.0 to 10.5 percent reflects the proper DCF cost of equity estimate for AWC. (*Id.*)

Mr. Parcell's CAPM model produced a cost of equity range of 8.2 percent to 8.6 percent for the sample groups. (*Id.* at 24.) Mr. Parcell also utilized a CE analysis, which he described as a

method designed to measure the returns expected to be earned on the original cost book value of similar risk companies. According to Mr. Parcell, his CE analysis was based on market data using market-to-book ratios, and is therefore a market test that should not be subject to criticisms leveled at other analyses that are based on past earned returns. He also claims that the CE uses prospective returns and is therefore not backward-looking. (*Id.* at 24-26.) Based on his CE analysis, Mr. Parcell concluded that the cost of equity for the proxy companies is "no more than 9.5 percent to 10.5 percent." (*Id.* at 27.)

Based on the results of the three methodologies, Mr. Parcell found an overall range of 8.2 percent to 10.5 percent ROE for the proxy companies, and concluded that the appropriate cost of equity rate for AWC is in the range of 9.5 percent to 10.5 percent. He recommended that the Commission adopt the mid-point of the range (10.0 percent) as the ROE in this case. (*Id.* at 29.)

Mr. Parcell also addressed how he believes the current financial crisis impacts the cost of equity for AWC. He stated that because the economic conditions affect almost all segments of the economy, and AWC is a regulated utility that sells a relatively inelastic product, the Company is largely insulated from the adverse economic conditions. Mr. Parcel added that: (1) there is no justification for increasing returns awarded to regulated utilities at the same time that other businesses are experiencing lower profits; (2) unlike unregulated firms, AWC has the opportunity to pass on higher costs to customers in its next rate case; and (3) a number of measures are being undertaken by the United States and other governments to make credit more accessible and restore confidence in financial markets. (*Id.* at 29-30.)

With respect to the arguments raised by the Company regarding the current recession's damage to the values of investor assets, Mr. Parcell responded that "[i]t is unfair, and inconsistent with regulatory principles, to use the impacts of a severe recession and the resultant impact on corporate earnings in an attempt to justify a higher cost of capital for a regulated utility." (Ex. S-23, at 4.) With respect to criticism of his cost of capital methodologies, Mr. Parcell indicated that the Commission has accepted the same recommendations in prior cases. In response to his CAPM results specifically, Mr. Parcell testified that the reason the CAPM results are lower than normal is due to current lower Treasury bond yields and a lower risk premium reflective of the decline in stock

prices in 2008 and early 2009. He pointed out, however, that the DCF results tend to be higher than normal due to higher yields based on stock price declines, and that "[i]t would not be proper to disregard the lower CAPM results while not discounting the higher DCF results." (*Id.* at 6.)

Regarding the Company's criticism of the use of geometric means in the CAPM, Staff cites to Mr. Parcell's surrebuttal testimony, wherein he indicated that investors have access to both arithmetic and geometric returns in making investment decisions, and that many mutual fund investors rely on geometric returns in evaluating historic and prospective returns of funds. (*Id.* at 6-7.) Staff also points to Mr. Parcell's testimony indicating that the Commission found it appropriate in the last UNS Electric case to use a geometric or compound growth rate in using the CAPM model. (*Id.*)

4. Conclusion on Cost of Equity

Based on the record presented through the testimony, exhibits, and arguments, we believe that Staff's recommended cost of equity capital range of 9.5 percent to 10.5 percent is reasonable. We agree with Mr. Parcell's testimony that the lower CAPM results are reflective of the combination of lower bond yields and a lower risk premium associated with a decline in stock prices, and that the same stock market decline tends to produce higher DCF results. We also continue to believe, consistent with our findings in several prior cases, that it is appropriate to consider the geometric returns in calculating a comparable company CAPM because to do otherwise would fail to give recognition to the fact that investors have access to such information for purposes of making investment decisions.

As noted above, Mr. Parcell's DCF analysis produced a range of 9.0 percent to 10.5 percent for the proxy groups' cost of equity, his CAPM model produced a cost of equity range of 8.2 percent to 8.6 percent for the sample groups, and his CE analysis produced a result for the proxy companies of no more than 9.5 to 10.5 percent. Based on his conclusion that AWC has an estimated ROE of 9.5 to 10.5 percent, Mr. Parcell recommended setting the Company's ROE at the mid-point of the range, or 10.0 percent.

In his testimony, Mr. Parcell raises valid arguments with respect to the effect of current economic conditions on all aspects of the economy, and on society in general. Indeed, the Commission's obligation to consider the effect of rates on ratepayers in balancing the interests of the

parties was recently confirmed by the Arizona Court of Appeals[7]. We find that, in upholding our obligation under Article 15, §3 of the Arizona Constitution to set just and reasonable rates, that it is appropriate to consider the effect of the proposed rates on customers, including the effect of current economic conditions. Although Mr. Parcell recommended adoption of the 10.0 percent midpoint in his cost of equity range, as we found in the recent UNS Gas case (Decision No. 71623, April 14, 2010, at 42), it is equally appropriate to set the ROE at the low end of the range as a means of reflecting economic conditions and the effect of those conditions on ratepayers.

As we also indicated in the UNS Gas Decision, "relative to a number of unregulated industries, the utility industry is insulated from the vagaries of the marketplace to the extent that it does not face direct competition for its product and there is a high degree of inelasticity in the need for utility services." (*Id.*) We do not believe AWC has demonstrated in this case that its risk is significantly greater compared to other comparable companies; nor has it shown that its risks have increased substantially since its last rate case.

We believe that adoption of an estimated ROE of 9.50 percent will allow the Company to attract capital at a reasonable rate, and strikes a reasonable balance between its proposal for an estimated 12.4 percent ROE, Staff's 10.0 percent recommendation, and RUCO's 8.33 percent proposal. We also believe that adoption of an estimated cost of equity at the low point of Staff's ROE range, 9.50 percent, provides at least some minimal recognition of the devastating effects of current economic conditions on AWC's customers.

Accordingly, we adopt a 9.50 percent ROE in this proceeding for AWC, which results in an overall weighted average cost of capital of 7.87 percent.

D. Cost of Capital Summary

	Percentage	Cost	Weighted Avg. Cost
Common Equity	45.85%	9.50%	4.36%
Short-Term Debt	4.80%	3.00%	0.14%
Long-Term Debt	49.35%	6.83%	3.37%
Weighted Avg. Cost of Capital			7.87%

[7] *Gold Canyon Sewer Co. v. Ariz. Corp. Comm'n*, Memorandum Decision, May 20, 2010, Docket No.1 CA-CC 09-0001 et al., (Ct. App. Div. One), at 18-20.

VI. AUTHORIZED REVENUE INCREASE

Based on the discussion herein, the authorized total Company revenue increase is $9,153,659, and the revenue increases for each of the 17 systems are authorized as follows:

Superstition

Based on our findings herein, we determine that the Superstition system's gross revenue should increase by $2,285,458

Fair Value Rate Base	$42,702,540
Required Fair Value Rate of Return	7.87%
Required Operating Income	3,360,689
Operating Income Available	1,957,392
Operating Income Deficiency	1,403,297
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 2,285,458

Bisbee

Based on our findings herein, we determine that the Bisbee system's gross revenue should increase by $316,309.

Fair Value Rate Base	$4,614,736
Required Fair Value Rate of Return	7.87%
Required Operating Income	363,180
Operating Income Available	168,963
Operating Income Deficiency	194,217
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 316,309

Sierra Vista

Based on our findings herein, we determine that the Sierra Vista's gross revenue should be decreased by $125,632.

Fair Value Rate Base	$2,498,644
Required Fair Value Rate of Return	7.87%
Required Operating Income	196,643
Operating Income Available	273,783
Operating Income Deficiency	(77,140)
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ (125,632)

San Manuel

Based on our findings herein, we determine that the San Manuel system's gross revenue should increase by $333,131.

Fair Value Rate Base	$2,055,473
Required Fair Value Rate of Return	7.87%
Required Operating Income	161,766

Operating Income Available	(42,781)
Operating Income Deficiency	204,546
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 333,131

Oracle

Based on our findings herein, we determine that the Oracle system's gross revenue should decrease by $44,433.

Fair Value Rate Base	$2,391,244
Required Fair Value Rate of Return	7.87%
Required Operating Income	188,191
Operating Income Available	215,473
Operating Income Deficiency	(27,283)
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ (44,433)

Winkelman

Based on our findings herein, we determine that the Winkelman system's gross revenue should increase by $19,292.

Fair Value Rate Base	$326,067
Required Fair Value Rate of Return	7.87%
Required Operating Income	25,661
Operating Income Available	13,816
Operating Income Deficiency	11,845
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 19,292

Miami

Based on our findings herein, we determine that the Miami system's gross revenue should increase by $724,154.

Fair Value Rate Base	$7,576,718
Required Fair Value Rate of Return	7.87%
Required Operating Income	596,288
Operating Income Available	151,649
Operating Income Deficiency	444,639
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 724,154

Casa Grande

Based on our findings herein, we determine that the Casa Grande system's gross revenue should increase by $3,590,261.

Fair Value Rate Base	$39,892,560
Required Fair Value Rate of Return	7.87%
Required Operating Income	3,139,544
Operating Income Available	935,084
Operating Income Deficiency	2,204,460

Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 3,590,261

Stanfield

Based on our findings herein, we determine that the Stanfield system's gross revenue should increase by $164,333.

Fair Value Rate Base	$779,765
Required Fair Value Rate of Return	7.87%
Required Operating Income	61,368
Operating Income Available	(39,534)
Operating Income Deficiency	100,902
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 164,333

White Tank

Based on our findings herein, we determine that the White Tank system's gross revenue should increase by $175,702.

Fair Value Rate Base	$4,373,391
Required Fair Value Rate of Return	7.87%
Required Operating Income	344,190
Operating Income Available	236,307
Operating Income Deficiency	107,883
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 175,702

Ajo

Based on our findings herein, we determine that the Ajo system's gross revenue should increase by $67,441.

Fair Value Rate Base	$1,113,517
Required Fair Value Rate of Return	7.87%
Required Operating Income	87,634
Operating Income Available	46,224
Operating Income Deficiency	41,409
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 67,441

Coolidge

Based on our findings herein, we determine that the Coolidge system's gross revenue should increase by $77,637.

Fair Value Rate Base	$4,232,395
Required Fair Value Rate of Return	7.87%
Required Operating Income	333,089
Operating Income Available	285,418
Operating Income Deficiency	47,671
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 77,637

Lakeside

Based on our findings herein, we determine that the Lakeside system's gross revenue should decrease by $45,164.

Fair Value Rate Base	$7,020,853
Required Fair Value Rate of Return	7.87%
Required Operating Income	552,541
Operating Income Available	580,272
Operating Income Deficiency	(27,731)
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ (45,164)

Overgaard

Based on our findings herein, we determine that the Overgaard system's gross revenue should decrease by $245,694.

Fair Value Rate Base	$3,315,721
Required Fair Value Rate of Return	7.87%
Required Operating Income	260,947
Operating Income Available	411,806
Operating Income Deficiency	(150,859)
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ (245,694)

Sedona

Based on our findings herein, we determine that the Sedona system's gross revenue should increase by $1,422,033.

Fair Value Rate Base	$17,417,238
Required Fair Value Rate of Return	7.87%
Required Operating Income	1,370,737
Operating Income Available	497,593
Operating Income Deficiency	873,144
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 1,422,033

Pinewood

Based on our findings herein, we determine that the Pinewood system's gross revenue should increase by $51,827.

Fair Value Rate Base	$1,830,696
Required Fair Value Rate of Return	7.87%
Required Operating Income	144,076
Operating Income Available	112,254
Operating Income Deficiency	31,822
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 51,827

. . .

Rimrock

Based on our findings herein, we determine that the Rimrock system's gross revenue should increase by $387,004.

Fair Value Rate Base	$2,319,258
Required Fair Value Rate of Return	7.87%
Required Operating Income	182,526
Operating Income Available	(55,099)
Operating Income Deficiency	237,625
Gross Revenue Conversion Factor	1.6286
Gross Revenue Increase	$ 387,004

VII. RATE DESIGN

AWC currently has 22 individual public water systems that are grouped, for ratemaking purposes, into 17 "systems" (*i.e.*, each of the 17 systems has its own rate schedule with individual monthly service charges and commodity rates). (Ex. S-12, at 7-8.) Although the systems are organized into three "groups" (Northern, Eastern, and Western), for accounting and ratemaking purposes the Company currently must treat each of the systems as an individual entity. AWC points out that many of its systems are small, and if considered as stand-alone companies, two of the systems would be considered Class D utilities and three of the systems would be considered Class C companies under the Commission's rules. (Ex. A-1, at 28.)

A. Cost of Service Study

In preparation for this case, AWC prepared a cost of service study to support its rate consolidation proposal. According to the Company, it used the cost of service study to evaluate and minimize inter-system subsidies. Company witness Reiker testified that, under AWC's proposed rate design, residential customers would pay rates that are equal to or less than cost of service, including customers in systems for which consolidation is sought. (Ex. A-21, at 5.) The Company contends that if its plan is adopted, residential customers in one system would not subsidize residential customers in another system.

AWC points out that Staff witness Steve Olea testified that Staff accepted the Company's cost of service study as reasonable, subject to some adjustments that AWC accepted. (Ex. S-10, at 5-9; Ex. A-21, at 4-5.) The Company contends that RUCO also accepted the cost of service study, and followed it for purposes of preparing RUCO's own proposed rate design. (Tr. 850-52.) AWC states

that there is no dispute between the parties that the Company's cost of service study is reasonable for purposes of designing rates in this case.

B. Rate Consolidation

In this proceeding, various rate consolidation proposals have been offered by the Company, Staff, and RUCO. The parties' consolidation positions are discussed below.

1. AWC

AWC seeks authority in this case to consolidate fully several of its systems for regulatory, accounting, and ratemaking purposes, as an initial first step toward full consolidation. The Company intends to seek, in a future case, full consolidation of all of its systems under a single, state-wide tariff. Under the Company's proposal, the following consolidation steps would be made in this proceeding

a. Casa Grande, Coolidge, and Stanfield

As described in the testimony of Company witness Harris, AWC proposes to fully consolidate the Casa Grande and Coolidge systems, which are already physically interconnected. The Company proposes to partially consolidate the Stanfield system by having a common monthly service charge with Casa Grande and Coolidge, but with the Stanfield system having different commodity rates until a subsequent case. Mr. Harris indicated that all three of these systems share a common regional water source, as well as common management and operating personnel. He also stated that AWC expects that the Stanfield system will ultimately be interconnected with the Casa Grande system. (Ex. A-5, at 14.)

b. Superstition and Miami

Mr. Harris noted that AWC's former Apache Junction and Superior systems were consolidated into a new Superstition system in Decision No. 66849. The Company now seeks to consolidate the Miami system into the Superstition, with common monthly service charges and commodity rates. AWC claims that the systems share resources and related sources of supply, management and operation personnel. (*Id.* at 15.)

c. Bisbee and Sierra Vista

AWC seeks to consolidate the Bisbee and Sierra Vista systems in two phases. In the first

phase, the monthly minimum charges would be set at the same rate, while in the second phase (through a subsequent rate case application) the commodity rates would become fully consolidated. Mr. Harris indicated that these two systems share a common regional water supply, as well as management and operating personnel. (*Id.*)

d. Sedona, Pinewood, and Rimrock

The Company proposes to establish common monthly minimum charges for the Sedona, Pinewood, and Rimrock systems in this case, and the same commodity rates for the Rimrock and Pinewood systems. Under AWC's proposal, full consolidation with the Sedona system would be sought by the Company in a future case. Mr. Harris stated that all three systems share a common regional water supply, and management and operating personnel. (*Id.*)

e. Lakeside and Overgaard

AWC requests full consolidation of the Lakeside and Overgaard systems in this proceeding. Mr. Harris indicated that these systems share a common regional water supply, as well as management and operating employees. He also stated that the monthly service charges and commodity rates are already nearly the same. (*Id.* at 15-16.)

f. Common Benefit Claims

AWC asserts that its consolidation proposal will benefit customers, the water systems, and the Company. According to Mr. Harris, consolidation would result in the following benefits: mitigate future rate impacts between systems by smoothing out the effects of capital projects in a given system; improve the affordability of service by spreading costs over a larger customer base; promote value of service equity by ensuring that all customers pay the same price; and simplify administrative and regulatory processes and proceedings, which would reduce ratemaking and other costs. (*Id.* at 13.)

2. IBEW's Position

IBEW did not present an independent revenue requirement proposal, but it supports AWC's proposed rate increase. IBEW witness Edwin Junas stated that the rate increase is necessary to ensure that AWC is able to offer competitive employment packages and to retain existing employees. (IBEW Ex. 1, at 4.) Mr. Junas also testified in support of the Company's rate consolidation proposal

because the systems are functionally interrelated, and employees travel frequently between systems. (*Id.* at 10.) He indicated that consolidation for rate purposes would more closely align with the Company's integrated operations, and could alleviate the burden and costs associated with constantly tracking work done by individual employees on separate systems. (Tr. 182-184.)

3. RUCO's Proposal

RUCO's primary position regarding rate design is that each of AWC's systems should continue to have separate rates. RUCO's Director, Jodi Jerich, submitted surrebuttal testimony indicating that RUCO continues to support separate rates based on traditional cost of service principles, in accordance with RUCO's adherence to the idea that users should pay the cost of utility service. (Ex. R-35, at 4.)

However, Ms. Jerich's testimony stated that, if the Commission finds that consolidation "is in the public interest," RUCO would not object to adoption of its "Option F," which would set the monthly minimum charge at the same level for all 17 systems, as long as the increase for the average residential customer in any system does not exceed $5.00 per month. (*Id.* at 4, 15.) Ms. Jerich outlined a total of six alternatives for consideration (Options A through F), as follows:

a. Option A

Option A is a traditional rate design in which there is no consolidation and each of the 17 systems is treated as separate with individual rate bases, operating expenses and rates. (*Id.* at 13-14.)

b. Option B

Option B is the Company's proposed consolidation approach that, as described above, provides for some systems to be consolidated fully in this case, with others being partially consolidated. Ms. Jerich stated that, although this option may prevent rate shock, it would combine some smaller systems with larger systems resulting in "cross subsidization" that is inequitable to customers in larger systems. (*Id.* at 14.)

c. Option C

Option C would allow full consolidation on a group basis. Under this option, all systems in the Northern Group would be combined into a single rate structure, and the Eastern and Western Groups would do the same. Ms. Jerich claims that adoption of Option C would cause rate shock to

customers in the Winkelman and Sierra Vista systems. (*Id.*)

d. Option D

Option D would consolidate all 17 systems at once into a single rate design. Under this approach, all of AWC's systems would have the same minimum monthly charge and commodity rates following this Decision. Ms. Jerich indicated that Option D would have the "same problems as Options B and C," and would not address the issue of rate shock to Winkelman customers. (*Id.* at 15.)

e. Option E

Option E would set the minimum monthly charge at the same level for each system, but would establish individual commodity rates on a system-by-system basis. Ms. Jerich asserts that this option would encourage conservation through individual commodity rates, and would therefore send appropriate price signals while honoring cost of service principles. She indicated that the disadvantage to this approach would be the rate shock that would be experienced by customers in the Miami and Stanfield systems. (*Id.*)

f. Option F

As described above, Option F is RUCO's preferred consolidation option. It differs from Option E only to the extent that there would be a $5.00 per month cap on the increase to the average residential customer for each of the 17 systems. Ms. Jercich asserts that RUCO supports this option because it would avoid rate shock, allow the monthly minimum charge to be the same for all residential customers across AWC's systems, and would preserve cost of service principles through the commodity rates. Ms. Jerich added that Option F would send proper conservation price signals, and would require the Company to continue to maintain separate books and records to allow Staff and RUCO to more easily audit the Company's costs on a system-by-system basis. (*Id.* at 23-24.)

4. Staff's Recommendation

Staff recommends full consolidation in this case of several of AWC's systems, and partial consolidation of others, as initial steps towards possible full consolidation of the Company's systems in a future proceeding. Staff suggests that although full consolidation of all systems could occur in the future, the Commission should adopt Staff's recommendation because it would achieve the most

benefit from consolidation while mitigating rate shock. The specifics of Staff's recommendation are as follows:

a. Eastern Group

Full Consolidation
Staff recommends full consolidation of the Superstition (Apache Junction and Superior) and Miami systems (same monthly minimum and commodity rates).

Partial Consolidation
Staff recommends partial consolidation for the Bisbee and Sierra Vista systems (same monthly minimum and different commodity rates).

No Consolidation
Staff recommends that the San Manuel, Oracle, and Winkelman systems continue to maintain separate monthly minimum and commodity charges.

b. Western Group

Partial Consolidation
Staff recommends that the Casa Grande, Coolidge, and Stanfield systems all have the same monthly minimum charge, and that the Casa Grande and Coolidge systems have the same commodity charges. However, Staff proposes that the Stanfield system would have a different commodity rate for the second and third tiers.

No Consolidation
Staff recommends that the White Tank and Ajo systems continue to maintain separate monthly minimum and commodity rates.

c. Northern Group

Full Consolidation
Staff recommends full consolidation of the monthly minimum and commodity charges for the Lakeside and Overgaard systems.

Full Consolidation
Staff also recommends full consolidation of the monthly minimum and commodity charges between the Sedona, Pinewood, and Rimrock systems.

Staff contends that its recommendation best recognizes the concept of gradualism by mitigating the rate impact on the Company's customers. Staff further recommends that AWC be required to file, as a compliance matter, a detailed timeline for when the Company could achieve interconnection of systems, where technically and financially feasible, as well as a single rate

structure for all systems.

5. Analysis and Discussion

We find that rate consolidation based on AWC's proposal should be adopted in this proceeding. The Company's consolidation plan provides an appropriate first step towards the possibility of a future single tariff pricing structure while, at the same time, mitigating the harshest rate impact on those systems that would experience substantial increases if consolidation were to be adopted all at once. As described in the testimony of Company witness Harris, the following systems would be consolidated fully in this case: Superstition and Miami; Lakeside and Overgaard; Pinewood and Rimrock; and Casa Grande and Coolidge. The following systems would be partially consolidated, with common minimum monthly charges but independent commodity rates: Bisbee and Sierra Vista; Sedona and Pinewood/Rimrock; and Casa Grande/Coolidge and Stanfield. (Ex. A-5, at 12-16.)

Although Staff's consolidation recommendation is similar to the Company's proposal, we agree with AWC that its plan offers a better means of lessening the rate impact on customers in several individual systems. Company witness Reiker testified that AWC utilized its cost of service study in developing its rate consolidation proposal and that no residential customers would be required to pay rates that reflect less than the cost of service, even in systems that would be consolidated under AWC's plan. (Ex. A-21, at 5.)

We note that Staff witness Abinah agreed that rate consolidation is appropriate based on a variety of factors such as public health and safety (smaller systems tend to experience more frequent water quality issues due to lack of funds); proximity and location (single-tariff pricing is more conducive to customer understanding when they are located in the same general area); community of interest (consideration should be given to whether customers in nearby systems have commonality in schools, hospitals, parks, churches, and similar facilities); economies of scale/rate case expense (more efficient processing of rate cases by companies and the Commission); price shock/mitigation (capital investments needed for small systems could be spread over a larger customer base thus lessening the impact on any one system); and public policy (opportunity for efficient consolidation of small troubled water companies into a larger company structure, despite lack of proximity to existing

systems, as a means of lessening the severity of rate increases needed to invest in needed repairs). (Ex. S-12, at 5-7.)

Although Staff supports the concept of rate consolidation, upon consideration of the type of criteria described above, we agree with AWC that the relatively minor differences in the Company's proposal would help mitigate the overall impact on customers in certain systems. For example, the Company's proposed phased consolidation of the Sedona, Pinewood, and Rimrock systems would result in rate increases of approximately 5 to 10 percent for Pinewood customers, compared to Staff's full consolidation recommendation which would cause residential Rimrock and Pinewood customers to experience rate decreases of 18 to 35 percent. As Mr. Reiker explained, such significant reductions could undermine the conservation principles contained within the Commission's inverted tier rate design policy by sending customers conflicting price signals. (Ex. A-21, at 12.) He indicated that rate reductions of that magnitude could be especially problematic for Rimrock and Pinewood given water supply issues affecting the area. (*Id.*; Tr. 635.)

Another difference between the Company and Staff recommendations relates to the Stanfield system. Under AWC's proposal, the Casa Grande and Coolidge systems would be fully consolidated, and the Stanfield system would share the same monthly minimum charge with those systems. However, the Company proposes that Stanfield's commodity rates would be set independently in this case, with a request for full consolidation in the next case. Staff is in agreement with the consolidation of the Casa Grande and Coolidge systems, but recommends that the first tier of all three systems' residential commodity charges be set at the same level, with only the second and third tiers for Stanfield set at different rates. (Ex. S-26, at 4.) AWC points out that its consolidation proposal, which would allow all three Stanfield tiers to be set independently from Casa Grande and Coolidge, would result in almost no change to overall bills for Stanfield customers. According to Mr. Reiker, Staff's recommendation would result in a rate decrease of 18 to 20 percent for Stanfield customers, thereby sending improper price signals to those customers. (Ex. A-21, at 12.)

As discussed above, RUCO proposes that all 17 of AWC's systems should have a single monthly minimum charge, but completely independent commodity rates, as long as no residential customers experienced an overall rate increase of more than $5.00 per month. RUCO justifies its

proposal with its assertion that traditional ratemaking should be maintained whereby those customers that use utility service should pay based on cost of service. (Ex. R-35, at 4.) According to Company witness Harris, RUCO's proposal is not a true consolidation because AWC would be required to continue to file rate cases for each of its 17 systems and would also need to maintain independent books and records for each system, thus eliminating the administrative and regulatory benefits of consolidation. (Ex. A-8, at 4-5.)

Ms. Jerich described RUCO's proposal as a "first step" (Tr. 1575-76), but expressed concerns with full consolidation for two primary reasons; full consolidation could discourage conservation in some systems, and concerns with adequate regulatory oversight if the Company is not required to maintain separate books and records for each of the 17 systems. (Tr. 1539.) Ms. Jerich indicated that RUCO does not necessarily oppose full consolidation, but would consider such a proposal based on those concerns. (*Id.* at 1540-41.)

With respect to RUCO's consolidation proposal, we believe the Company correctly observes that it is really not a true consolidation. Under RUCO's Option F, its preferred plan, the monthly minimum charge would be set at the same level for all 17 systems, with separate commodity rates for each system, and a cap on the average customer's monthly increase of $5.00 per month. RUCO's proposal, although seemingly simplistic on its face, would not result in the advancement of administrative or regulatory efficiencies because AWC would continue to be required to maintain its books on an individual system basis, and would be required to file separate rate cases for each system. RUCO's proposal would also deny consolidation of two systems, Casa Grande and Coolidge, that have been physically interconnected for more than two years and which have partially adjoining service territories.

The record indicates that AWC currently operates 22 distinct public water systems, but through prior consolidation by the Commission, maintains only 17 systems for ratemaking and recordkeeping purposes. Ms. Jerich conceded that there is no evidence that the prior consolidations have resulted in any improprieties or problems auditing the consolidated systems. (Tr. 1552-54) Indeed, the Staff engineer, Ms. Stukov, agreed that Staff's inspection of plant facilities in the previously consolidated systems would not have been different if those water systems were not

consolidated. She also pointed out that, regardless of ratemaking consolidation, the Company is required to report water use data on a system-by-system basis. (*Id.* at 1174-75.) With respect to RUCO's concern about conservation disincentives associated with rate consolidation, we believe a properly designed inverted tier rate structure can address that issue. However, given the incremental consolidation proposal adopted in this Decision, we need not decide the issue of full system consolidation at this time.

The Company points out that consolidation provides a number of benefits to customers, including: an ability to mitigate the rate impact of capital investments in a single system, especially smaller systems, by spreading such costs over a greater number of customers; allowing for greater operational efficiencies, as well as efficiencies in the administrative and regulatory processes; and helping ensure affordability of service in all systems. (Ex. A-5, at 13.) Although the claimed efficiencies have not been specifically quantified in the record before us, we believe the basis for the full and partial consolidations proposed by AWC in this case has been substantiated adequately. We make no finding, at this time, regarding the issue of whether full system consolidation should ultimately be approved. Rather, we expect the Company to provide detailed supporting testimony and documentation in a future case, or cases, to justify a single-tariff pricing proposal. Regardless of the ultimate disposition of the single-tariff issue in a subsequent case, we find that adoption of the Company's plan is an appropriate step in the process.

C. Other Rate Design Issues

As set forth in its application, AWC proposes adoption of an inverted block rate design for residential and commercial customers. Almost 90 percent of the Company's customers are residential and served by 5/8-inch by ¾-inch meters. Under AWC's plan, those customers would be served by rates that include a monthly minimum charge and a three-tier commodity rate with break points at 3,000 and 10,000 gallons per month. Mr. Reiker indicated that the Company's proposed rate design is based on the cost of service study it prepared for this case. He stated the first tier (0 to 3,000 gallons)[8] was set at a discount of approximately 25 percent compared to the middle block

[8] The first block is often referred to as a "lifeline" rate because it provides a discount for water used at a low level that is considered necessary for basic necessities.

(3,001 to 10,000 gallons), and the third block (10,001 gallons and above) was set at a premium of approximately 25 percent above the middle block rate. (Ex. A-18, at 34-36.)

For residential customers served by larger meters, as well as commercial customers served by 5/8-inch by ¾-inch meters, a two-tier structure is proposed with a break point at 10,000 gallons per month. For industrial customers and customers purchasing water for resale, AWC proposes a flat commodity rate. (*Id.* at 36.) According to AWC, it would not be appropriate to adopt a tiered commodity rate for industrial users because the proposed flat commodity rate for those customers would be set at a level that is higher than the cost to serve, and therefore the single tier commodity rate already reflects the rate that would typically be a second-tier rate under an inverted structure. (Ex. A-20, at 48.) Mr. Reiker pointed out that the two largest industrial customers on AWC's system, Abbott and Frito Lay, comprise approximately 80 percent of the Company's total industrial sales, and those two customers have undertaken significant conservation measures without a tiered rate structure. (*Id.*; Ex. A-21, at 10-11.)

AWC asserts that its proposed rate design is consistent with Commission policies regarding conservation goals and is based on the Company's cost of service study, which study is not disputed by either Staff or RUCO. The Company claims that RUCO does not oppose AWC's rate design, but Staff disagrees with several parts of the Company's rate design. The disputed rate design issues are discussed below.

1. Industrial Rate Design

a. Staff's Recommendation

Staff contends that, as described above, it is in general agreement with AWC regarding the partial and full rate consolidation proposal. However, Staff insists that it is not appropriate to employ a single block commodity rate for industrial customers because, according Staff witness Michlik, "[a] flat rate not only provides no price incentive to conserve water, but it does not recognize the value associated with the use of large amounts of this scarce resource." (Ex. S-27, at 5.) He stated that AWC's proposed rate structure would send inconsistent messages between classes; that, for residential customers, water is a valuable and scarce resource but, for industrial customers, the use of more water will cost the same on a per gallon basis. (*Id.* at 6.)

Staff argues that the Commission has established a policy in prior cases of using tiered rates to promote efficient water usage. Staff asserts that because the industrial class is comprised of high usage customers, and because it is in the State's best interests to ensure that water is used efficiently, tiered rates should be adopted for all customer classes, including the industrial class.

Mr. Michlik conceded that, as set forth in AWC's cost of service study, the industrial class for the Casa Grande system currently provides a class rate of return of more than 52 percent; the industrial class would provide a return of 46 percent under the Company's revenue requirement; under Staff's rate design, the Casa Grande industrial class rate of return would increase to more than 90 percent; and that the industrial class is providing a substantial subsidization of the other classes in Casa Grande. (Tr. 1693-97.)

Although Staff continues to advocate for adoption of its industrial rate design, including the use of a two-tier block, on the final day of the hearing Staff offered an "alternative" recommendation that carved out individual rate designs for Abbott and Frito Lay. (Tr. 1689-90; Ex. S-28.) Mr. Michlik testified that the Staff alternative was developed in response to concerns raised by AWC and Abbott regarding the rate impact of Staff's primary rate design on Abbott and Frito Lay, and because those two customers are taking steps to reduce their water usage. (*Id.* at 1690.) Under Staff's alternative, Abbott and Frito Lay would pay a monthly minimum charge of $700, with a two-tier commodity charge. For Abbott, the break point between the first and second tiers would be at 32,000,000, whereas for Frito Lay, the break point would be set at 11,000,000. (Ex. S-28, at 2.)

b. AWC's Position

AWC contends that Staff's recommended rate design would exacerbate the disparity that already exists between the rates of return that are recovered from the various customer classes. According to the Company, Staff's rate design would produce a rate of return, on average, of approximately 54 percent from the industrial class, 18 percent from the commercial class, and 6 percent from the residential class. AWC claims that the disparity from Staff's rate design is even more significant for the Casa Grande system, in which the industrial class would produce a rate of return of more than 90 percent, compared to 4.7 percent from the residential class in that system. The Company asserts that Staff's recommendation deviates significantly from cost of service principles,

and by shifting additional revenue responsibility to the industrial class, would make it difficult for the Company to earn its authorized rate of return.

AWC also opposes Staff's recommended inverted block rate design for industrial customers. Mr. Reiker cited to the American Water Works Association ("AWWA") Manual in testifying that a single block rate for industrial customers is proper because a uniform rate sends a usage-based price signal because, "'[a]lthough the unit price is constant, customer bills will increase with increased water usage.'" (Ex. A-23, at 8.) The Company also points out that its two largest customers, Abbott and Frito Lay, have already reduced their usage and intend to undertake additional reductions, irrespective of the imposition of inverted tier rates. Therefore, according to the Company, there is no basis for adopting an inverted block structure for the industrial class.

c. Abbott Laboratories' Position

Abbott also opposes Staff's industrial class rate design. Abbott presented the testimony of its Manager of Facilities and Utilities for the Casa Grande manufacturing plant, Stephen Chasse, to describe Abbott's operations and water usage policies. He testified that Abbott employs approximately 450 employees at a plant that operates 24 hours a day, 365 days a year, for manufacturing a variety of infant formula and adult nutritional products that are distributed primarily in the western United States. (Abbott Ex. 1, at 2-3.) Mr. Chasse stated that Abbott is served by one of three wells owned by AWC in Casa Grande through a dedicated 7-mile pipeline that was constructed by Abbott and contributed to AWC. He explained that AWC chlorinates the water sent to Abbott, but Abbott undertakes additional reverse osmosis treatment at the plant to meet its stringent water quality requirements. (*Id.*) Mr. Chasse indicated that, although Abbott treats its own water supply, it is still required to pay a portion of AWC's arsenic treatment costs for the Casa Grande system.

Mr. Chasse described Abbott's efforts to reduce the amount of water used at its plant. He stated that Abbott has substantial financial and environmental incentives to reduce usage given the cost of the commodity itself, as well as the associated treatment costs and costs of wastewater treatment. (*Id.* at 4.) Mr. Chasse indicated that Abbott is engaged in a partnership with the University of Arizona and Project WET to promote water conservation in the community. He stated that Abbott's corporate goal is to reduce its overall water usage by 40 percent by 2011, compared to 2004

levels, with the Casa Grande plant being considered a high priority site in the effort. (*Id.*) Mr. Chasse also claims that the other large manufacturing plant in Casa Grande, Frito Lay, has invested in equipment to make its operations more water efficient. Mr. Chasse added that Abbott's Casa Grande plant reduced its water purchases from AWC from 403 million gallons in 2006, to 339 million gallons in 2008. (*Id.* at 3.)

Abbott also presented the testimony of its consultant, Dan Neidlinger, regarding the rate design proposals presented by AWC and Staff and. Mr. Neidlinger stated that Abbott agrees with AWC's industrial rate design, which RUCO has also accepted, because it would move rates closer to cost of service based on AWC's cost of service study. (Abbott Ex. 2, at 2.) He claims that Staff's recommended rate design would move the industrial class' revenue responsibility further from cost of service than currently exists. (*Id.* at 4-5.) Mr. Neidlinger claims that Staff's rate design would be inconsistent with the concept of gradualism, which he described as having the goal of moving rates closer to cost of service while minimizing, to the extent possible, large rate adjustments. He asserts that Staff's recommendation fails on both fronts because it would impose larger than average rate increases on commercial and industrial customers and, at the same time, move both customer classes further from cost of service. (*Id.* at 5.)

Abbott also argues that the Company's cost of service study demonstrates that the inequitable rates of return between the classes violate A.R.S. § 40-334(B), which provides that "[n]o public service corporation shall establish or maintain unreasonable differences as to rates, charges, service, facilities or in any other respect, either between localities or between classes of service." Abbott asserts that the existing disparity in AWC's rates of return evidences a departure from the language of the cited statute and that adoption of Staff's recommended rate design would exacerbate the problem that already exists. Abbott points out that both it and Frito Lay have average water consumption that is 36 times greater than any other customers served by six-inch meters and, according to Mr. Neidlinger, are customers that warrant special treatment due to their unique characteristics. (Tr. 678-79.)

Abbott contends that although AWC's proposed rate design would result in an industrial class rate of return that is more than double the industrial cost of service, the Company's proposal is much

more equitable than Staff's recommendation. Abbott also agrees with AWC that a flat rate for the industrial class is appropriate because the Company's commodity rate is already higher than the cost of service. Abbott cites Mr. Reiker's testimony to support its argument that an inverted tier rate design is not necessary to encourage conservation efforts for AWC's industrial class because Abbott and Frito Lay have substantial ongoing cost incentives to reduce their water usage. (Ex. A-20, at 48.)

Abbott additionally claims that Staff's recommended break point for the industrial class (950,000 gallons) is far too low because of the two large customers. Mr. Neidlinger testified at the hearing that Abbott's average usage per month is just under 24,000,000 gallons, meaning that approximately 96 percent of its usage would be billed at the higher block rate under Staff's rate design. (Tr. 686.) He stated that rate tiers should not be implemented to punish customers for using water efficiently, but to discourage wasteful usage. (*Id.* at 687.) Abbott contends that if the Commission desires an inverted block rate design for the industrial class, it should adopt a structure in line with Staff's alternative rate design that was presented at the hearing. (Ex. S-28, see discussion below). Abbott argues that Staff's proposed alternative is much more reasonable than its primary recommendation, but would still result in industrial class rates of return higher than under AWC's rate design. Therefore, Abbott continues to support the Company's proposal.

d. Conclusion

We agree with Staff that the conservation of water in Arizona is a necessary and important goal for the Commission to advance as part of its ratemaking authority. We also agree that the policy of implementing inverted tier rates is a useful tool for achieving conservation goals, and we are encouraged that all parties are in agreement that inverted block rates are appropriate for establishing rates for AWC in this proceeding. However, we believe that the Company and Abbott have demonstrated through the record evidence that the application of an inverted tier structure for all classes, in all cases, does not necessarily yield an appropriate or reasonable result. It is notable that RUCO, which represents the interests of residential customers, is also supportive of AWC's proposed rate design that would move industrial customers slightly closer to cost of service.

As discussed above, there is no dispute that AWC's cost of service study reflects that the Company's industrial class currently pays rates that are set well above cost of service, and provide

rates of return in excess of the residential and commercial classes. Although the residential class tends to be the largest beneficiary of the relative difference in rates of return between customer classes, some amount of subsidization is inherent in setting just and reasonable rates and, as the Staff witness properly pointed out, it is not appropriate (or likely even possible) to set rates on a strictly cost of service basis. Indeed, all parties have recognized that it is proper to establish a discounted residential class commodity rate for the first tier to allow a reduced cost for basic needs such as drinking, cooking, and cleaning.

Other worthwhile and important ratemaking goals include minimization of rate shock to individual customer classes, or even individual customers, and the pursuit of rate gradualism. "Rate shock" and "gradualism" are concepts that are somewhat subjective in nature, and largely dependent on the viewpoint of those affected by given rate changes. In the context of this case, however, we believe that the Company's industrial rate design furthers these goals by mitigating the increases for the industrial class and, at the same time, moving those customers slightly closer to, rather than farther from, their actual cost of service.

During the hearing, the effect of Staff's recommended rate design on AWC's two largest customers became evident. It is equally apparent that, absent special consideration of AWC's industrial customers, especially Abbott and Frito Lay, subsidization by the industrial customers would continue to increase and the disparity in cost of service-based rates would be exacerbated. It is commendable that Staff developed an alternative rate structure for Abbott and Frito Lay in recognition of the impact that Staff's recommendation would have on those customers. However, we find that AWC's rate design better addresses the issues that were identified in this case with respect to cost of service and efficient use of water. The record reflects that for many industrial customers a single block rate is an adequate incentive for encouraging conservation because, assuming the flat commodity charge is set at a proper level, companies have significant financial incentives to reduce usage. For companies like Abbott, efforts to reduce operating costs by using less water were being undertaken prior to AWC's rate application, and Abbott's witness indicated that those efforts are ongoing and will increase.

Given the particular facts and circumstances of this case, we believe that adoption of AWC's

industrial class rate design is preferable to Staff's primary or alternative recommendation.

2. Percentage of Revenue Collected Through Commodity Rates

Another rate design issue raised by AWC relates to the amount of the revenue requirement that is assigned to commodity charges and the minimum monthly charge, as well as disparities between the discounts given to first block rates and premiums for upper tier rates. On the first point, the Company claims that Staff's recommendation would increase the percentage of the revenue increase collected through commodity charges by more than 3 percent, thus shifting approximately $1.6 million of revenues to commodity charges which are more susceptible to the risk of not being collected by the Company. With respect to the distribution between tiers, the Company asserts that its rate design is based on the principles typically employed by Staff (*i.e.*, that the first tier is discounted approximately 25 percent compared to the middle tier; and the third tier is priced at a 25 percent premium over the middle tier). Citing Staff's Final Schedules, the Company contends that, as recommended by Staff, the percentage discounts to the first tier would be as much as 70 percent for Stanfield, and more than 40 percent for other systems including Superstition, Sedona, Lakeside, Overgaard, Pinewood, and Rimrock. AWC also claims that the third tier premium is more than 30 percent for several systems.

According to AWC, the combination of these rate design recommendations by Staff would make collection of the revenue requirement more difficult because inverted block rates create the risk of revenue erosion, and the assignment of more revenue responsibility to commodity charges, as well the increased discounts and premiums between Staff's recommended tiers, will exacerbate the problem. (Ex. A-21, at 13-14.) According to the Company, the additional tier discounts and premiums are not necessary as evidenced by AWC's prior Western Group rate case. The Company claims that, in Decision No. 68302, the Commission adopted rates that included an average discount to the first block of approximately 22 percent, and an average premium to the upper block of less than 14 percent; yet, the rate structure approved in that prior decision resulted in lower residential water usage. (Ex. A-18, at 18-19.) AWC asserts that there is no basis for adopting the rate design shifts that are recommended by Staff in this proceeding.

At the hearing, Mr. Michlik explained that Staff develops its rate design with the goal of

rewarding low usage customers with discounted commodity charges, and imposing higher charges for usage in the upper tier, as a means of recognizing the Company's need to acquire additional sources if demand increases. (Tr. 1744-45.) From the testimony, it appears that Staff typically starts with a 25 percent discount and premium structure, but the ultimate percentage assignments in this case varied from system to system as Staff "spread the tiers out." (*Id.* at 1747.)

We find that the Company provided a reasonable basis for accepting its proposed rate design parameters with respect to the percentage of revenues assigned to commodity charges, and with respect to discounts and premiums between tiers. It is well understood that designing rates is as much, if not more, of an art than a science, but we believe there should some consistency in the distribution of revenue recovery between rate tiers. AWC presented sufficient evidence that, at least in this case, its methodology reasonably assigns revenue responsibility between the monthly minimum and commodity charges, and between the proposed rate tiers. We will therefore use the Company's proposed rate design as a guideline in developing the rates adopted in this Decision.

3. Construction Water Sales and Water Sold for Resale

The final rate design issue that remains in dispute between the Company and Staff is whether the Company should continue to be permitted to assess a monthly minimum service charge for construction water sales and sales of water for resale. Company witness Reiker stated that, as shown by AWC's cost of service study, the Company incurs fixed costs associated with serving such customers. (Ex. A-21, at 11.) The Company argues that Staff's elimination of monthly minimum charges for these sales would jeopardize its ability to recover the costs of providing the services, such as meter reading, billing, and other costs. AWC contends that Staff did not provide a basis for limiting the Company's cost recovery to only commodity charges for these services.

Staff claims that a monthly minimum charge should apply only to customers that own a permanent meter and, in most cases, bulk water customers do not have a permanent meter installed on their lines. (Ex. S-27, at 7.) Mr. Michlik acknowledged that the Commission approved a monthly minimum charge for bulk sale customers in AWC's prior rate case, as well as in other cases. However, he stated that Staff has evaluated the issue and now intends in future cases to recommend that monthly minimum charges for bulk water sales be eliminated. (*Id.*)

We agree with the Company that it incurs fixed costs associated with the provision of service to bulk water sales customers, for construction or resale. Whether a meter is permanent or temporary is not the issue, but rather whether AWC should be permitted to charge these customers for fixed administrative costs that are not related to the amount of water sold. Absent recovery of at least some fixed costs through monthly minimum charges, there is a possibility that the Company would not recover its costs and that other permanent customers would ultimately be required to pay for costs placed on the system by transient bulk water customers. We see no reason to depart from the existing policy and we therefore adopt the Company's position on this issue.

VIII. OTHER ISSUES

A. Adjustment Mechanisms

In this case, AWC seeks approval of three separate adjustment mechanisms: a purchased power adjustment mechanism ("PPAM"); a purchased water adjustment mechanism ("PWAM"); and a purchased fuel adjustment mechanism ("PFAM"). Alternatively, the Company requests adoption of an attrition adjustment mechanism ("AAM").[9]

1. AWC

As described in Mr. Reiker's testimony, the Company requests extension of the PPAM that is currently in place for the Northern Group to its Eastern and Western groups. Mr. Reiker claims that purchased power is a significant portion of AWC's operating expenses, representing approximately 18 percent of test year expenses. (Ex. A-18, at 27-28.) He indicated that the Company's two largest electric providers, APS and Salt River Project ("SRP"), have implemented a number of rate increases in recent years, with the likelihood of additional future increases.

AWC's proposed PWAM would be implemented in the Superstition and White Tank systems, the two systems in which the Company purchases water. For Superstition, Mr. Reiker indicated that AWC's purchased water expenses are incurred for water obtained from the City of Mesa. He claims that the expenses vary from month to month because the Company pays reserve capacity charges in

[9] Although it did not offer evidence on this subject, IBEW argues in its reply brief that AWC's adjustment mechanisms should be approved by the Commission, claiming that the Commission would continue to maintain oversight of the Company's cost containment efforts. IBEW asserts that there is no substantial reason to deny the adjustors, which would offer the Company a measure of revenue stability, and could mitigate further labor force reductions and avoid the threat of the Company being unable to provide safe and reliable service. (IBEW Reply Brief, at 1-4.)

addition to a portion of Mesa's operation and maintenance expenses. Mr. Reiker stated that purchased water represented approximately 17 percent of test year expenses for the Superstition system. For the White Tank system, Mr. Reiker explained that AWC purchases water from Arizona-American, and that purchased water constituted approximately 30 percent of test year expenses for the White Tank system. He indicated that Arizona-American recently sought a rate increase, and those increased costs would not be reflected in the rates established in this proceeding. (*Id.*)

The third leg of AWC's adjustment mechanism trifecta is the proposed PFAM, an adjustor that would enable the Company to recover automatically changes in gasoline and diesel prices for its approximately 140 vehicles. AWC contends that increased fuel expenses in recent years have not been recovered from ratepayers, but have instead been borne by the Company. Due to the volatility in fuel expenses, the Company seeks establishment of the PFAM in this case. (Ex. A-1, at 23-24.)

In the event the Commission rejects the three specific adjustment mechanisms, AWC requests approval of an AAM, to compensate for "earnings attrition." (Ex. A-18, at 30.) Mr. Reiker described earnings attrition as "the inability of revenues and earnings to keep up with increases in capital costs that result from plant additions and the replacement of plant at increasingly higher costs." (*Id.*) He stated that attrition also results from increased operating expenses due to inflation. As envisioned by the Company, the AAM would be a surcharge tied to the CPI, or another price deflator. (*Id.* at 32.) According to Mr. Reiker, the AAM is based on a similar mechanism adopted by the Florida Public Service Commission, and the annual attrition revenue adjustment would be recovered through a commodity rate surcharge, and calculated in the same manner as the ACRM commodity surcharge. (*Id.*)

The Company offered the testimony of its president, William Garfield, to present AWC's rationale for the requested adjustor mechanisms. (Ex. A-1.) According to Mr. Garfield, ideally, the Commission would permit utilities to make annual adjustment filings that would allow rate adjustments for increased costs and capital investments. Absent such a mechanism, Mr. Garfield stated that the Commission "can, and must authorize certain adjuster mechanisms, such as PWAMs, PPAMs, PFAMs, or the AAM." (*Id.* at 24.) Mr. Garfield excoriated the Commission's regulatory process, describing "the failings of the rate setting process;" stating that "the Commission's rate

making process is fundamentally flawed;" claiming that "[r]atemaking in Arizona falls short of providing utilities, like the Company, a reasonable opportunity to earn their authorized rate of return;" criticizing the Commission's continuing "to set rates of returns below market rates and ignor[ing] the need for justifiable cost adjusters;" and labeling the Commission's rate regulations an "archaic process." (*Id.* at 7, 8, 10, 11 and 19.) Mr. Garfield was also critical of the Commission's prior decisions that eliminated adjustment mechanisms for two of AWC's three groups, calling the decisions "arbitrary" and without "adequate justification." (*Id.* at 15-16.) He continued that "[a]djuster mechanisms help maintain the cost of service where it should be placed – on the ratepayers. Under the current framework, increased costs of service have been borne by the Company, unfairly and improperly shifting the cost of service from the ratepayers to the Company." (*Id.* at 18.) Mr. Garfield also took the opportunity to criticize the Commission's handling of the ACRM[10] implementation process, claiming that the ACRMs should have been approved on an expedited basis (30 to 60 days) instead of the four to six months that several of the filings took to be approved. He further complained that the ACRMs failed to allow recovery of certain operating and maintenance costs associated with the arsenic treatment facilities.[11] (*Id.* at 7-10.)

Mr. Garfield praised the regulatory environment in California, which he claims allows prospective test years and employs various adjustment mechanisms that enable utility companies to earn authorized rates of return. He concluded with the observation that:

> If the rate setting process fails again and again to yield the desired financial results, i.e., rates of return commensurate with returns from similar enterprises with corresponding levels of risk, then I would conclude that such a rate setting process is deficient and the Company will not be permitted a reasonable opportunity to earn a reasonable rate of return on its investment, unless something changes in this case, of course.

(*Id.* at 32.)

In its brief, the Company argues that adjustment mechanisms are well-established ratemaking

[10] The ACRM (arsenic cost recovery mechanism) is a temporary adjustment mechanism that was approved by the Commission for AWC, and numerous other water utilities in Arizona, in order to address significant capital investment requirements, and certain operating expenses, associated with the USEPA's mandate to reduce the maximum allowable arsenic content in water.

[11] Mr. Garfield's dissatisfaction with the ACRM is curious given that it was a process requested and agreed to by AWC, and was approved by the Commission out of concern for the substantial compliance costs faced by AWC.

tools that help keep revenues stable in the face of changing costs that are beyond the Company's control, and without the need for costly and time-consuming rate case proceedings. AWC indicates that the opposition by Staff and RUCO to adjustors is troubling, and the Company cites a litany of reasons why its proposals should be adopted, including: Commission approval of adjustors for other utilities; past use of adjustors for power and purchased water by AWC; benefits to ratepayers if costs decrease; AWC does not control the costs of electricity, water, or gasoline; AWC has been forced to delay critical infrastructure upgrades and improvements; adjustors will enhance the Company's financial health by stabilizing earnings and mitigating revenue erosion; the interval between rate applications would be lengthened; adjustors are subject to Commission review; the Commission is under budget constraints; and the Company continues to have an obligation to serve. (*Id.* at 13-20; Ex. A-2, at 2-7.)

The Company asserts that there is no sound policy or evidentiary reason for rejecting the adjustment mechanisms. AWC claims that such mechanisms are used widely by regulatory commissions, including by commissions that regulate the companies used by the parties in their cost of equity models. According to the Company, the California Public Utilities Commission ("CPUC") recently authorized water utilities to implement a revenue adjustment mechanism to ensure stable revenues and earnings in connection with use of tiered rates. (Ex. A-48.) AWC also cites to a publication by the National Regulatory Research Institute ("NRRI"), as well as a NARUC Resolution, recognizing the use of adjustment mechanisms for water companies. (Ex. A-2, Attach. WMG-RB1, WMG-RB2.)

2. RUCO

RUCO opposes approval of any of the Company's proposed adjustment mechanisms. RUCO cites the two prior AWC cases in which the Commission denied adjustors for the Company (Decision Nos. 68302 and 66849). RUCO claims that the same rationale applied by the Commission, that automatic recovery mechanisms raise the specter of piecemeal regulation and provide a disincentive for efficient commodity acquisition, are equally applicable in this case.

RUCO points out that purchased fuel represents only 1.3 percent of the Company's total operating expenses, and purchased water just over 4 percent of operating expenses. (Tr. 460-62; 84-

85.) With respect to purchased power expenses, RUCO witness Rigsby testified that, although electricity costs represent a larger percentage of operating expenses, the costs are still substantially less, as a percentage of total expenses, than the commodities for which adjustors have been approved for gas and electric customers. He also stated that there is less volatility in electricity prices incurred by AWC, compared to the wholesale commodity purchases made by gas and electric companies. (Tr. 1018-19.) Therefore RUCO proposes denial of AWC's adjustor proposals.

3. Staff

Staff also opposes the adoption of the proposed adjustors in this case. Staff cites AWC's prior Western Group rate case in which the Commission stated "[a]djustment mechanisms should ... be used only in extraordinary circumstances to mitigate the effect of uncontrollable price volatility or uncertainty in the marketplace." (Decision No. 68302, at 45-46.) Staff argues that the Commission also denied approval of adjustment mechanisms in AWC's most recent rate case, involving the Eastern Group (Decision No. 66849), and the Company did not raise any new arguments in this case that were not considered previously.

Staff witness Igwe explained that the Commission has identified several factors that should be considered in determining whether it is appropriate to implement an adjustment mechanism. Citing to Decision No. 68302, he listed the key points that the Commission found in rejecting adjustors for AWC: (1) purchased power and purchased water do not result in a significant impact on the cost of service for water utility companies, as they do not represent the largest costs; (2) costs of purchased power and water are not volatile; (3) adjustment mechanisms do not provide utilities the incentive to seek cost reducing alternatives or practices; (4) adjustment mechanisms do not provide sufficient safeguards to limit volatility to ratepayers; (5) adjustment mechanisms could result in piecemeal ratemaking without consideration of all other components of a full rate proceeding; and (6) adjustment mechanisms are burdensome and not administratively efficient, and the related cost of administration could exceed potential benefits. (Ex. S-24, at 25-26.) Mr. Igwe stated that the Commission has not approved adjustment mechanisms for water utilities in recent years. (*Id.* at 27.)

Staff also argues that, compared to gas and electric companies that may experience extreme fluctuations in commodity prices in a short period of time, water companies are relatively insulated

from wide swings in the cost of purchased power and water because they are typically retail customers for those purchases. Staff disputes AWC's claim that, without approval of the requested adjustment mechanisms, the Company's rates will be insufficient to yield a reasonable return on its investment. Staff asserts that purchased power, water and fuel costs are normal business expenses and the Company's proposal appears to provide benefits to AWC exclusively at the expense of ratepayers. With respect to the NRRI publication cited by AWC, Staff contends that the Company's interpretation of the document is misplaced. According to Mr. Igwe, the NRRI publication's reference to a recovery mechanism related to infrastructure repairs and replacements, rather than the normal business expenses for which AWC seeks adjustment mechanisms in this case. (Ex. S-25, at 2-3.)

Regarding AWC's backstop AAM request, Staff points out that the Company failed to provide any detailed testimony or explanation as to how such a mechanism would function. Staff argues that an AAM has not been approved for any other utility in the state and that, according to the Company's witness, other states have only considered adoption of such a mechanism. (Tr. 97.) Staff concluded that the AAM proposal represents an extraordinary mechanism that is outside the normal realm of ratemaking and the AAM, as well as the other requested adjustment mechanisms, should be denied.

4. Conclusion

We agree with Staff and RUCO that the requested adjustment mechanisms should be denied. In the Company's two prior rate applications, we considered virtually the same arguments as were presented in this case, and declined to allow AWC's proposed adjustment mechanisms. We see no valid reason to depart from the rationale set forth in those decisions, for the reasons clearly delineated in Staff's testimony. As was stated in Decision No. 68302, at pages 45-46:

> There is a danger of piecemeal regulation inherent in adjustment mechanisms. Because they allow automatic increases in rates without a simultaneous review of the utility's unrelated costs, adjustment mechanisms have a built-in potential of allowing a utility to increase rates based on certain isolated costs when its other costs are declining, or when overall revenues are increasing faster than costs due to customer growth. Adjustment mechanisms should therefore be used only in extraordinary circumstances to mitigate the effect of uncontrollable price volatility or uncertainty in the marketplace.

Notwithstanding Mr. Garfield's claims to the contrary, we do not believe that the expenses for which AWC seeks adjustment mechanisms are of sufficient magnitude to warrant extraordinary ratemaking treatment. Nor is there such extreme volatility for AWC's purchased power, water, or fuel costs to justify approval of adjustors for what are essentially normal business expenses for a water utility. We are no more persuaded by the Company's AAM proposal, which apparently would allow automatic rate increases whenever certain price and inflation factors change. Even if the record contained adequate details to allow implementation, we would not be inclined to approve a mechanism that would appear to be inconsistent with our constitutional obligation to set just and reasonable rates, based on consideration of the interests of both the Company and its customers. Considering all of the evidence presented on this issue, we will not adopt the propose adjustment mechanisms.

5. Northern Group Conservation Adjustment

AWC also proposes a "conservation adjustment" to test year revenues for its Northern Group to recognize the downward impact on revenues that the Company claims will be experienced by the imposition of tiered rates for the systems in that Group. Currently, the Northern is the only one of AWC's three Groups that does not have inverted tier rates. The Company's proposed adjustment would increase revenues for the Northern Group systems by a combined amount of $308,701. (Ex. A-19, Sched. C-2.)

In support of its proposal, AWC witness Reiker presented a multiple regression analysis of water consumption by residential customers in the Casa Grande System which shows residential consumption would decline by 8.7 percent, after controlling for the effects of temperature and precipitation. (Ex. A-18, at 18-19.) The Company asserts that the results are not surprising given that the intent of imposing inverted tier rates is to encourage conservation. The Company criticizes Staff for opposing AWC's proposal, claiming that Staff's opposition is not supported by evidence and that Staff fails to recognize the revenue losses that are likely to be experienced by the Company as the result of inverted tier rates.

Staff argues that there is no dispute that the intent of inverted tier rates is to promote efficient water use. However, Staff points out that AWC's other Groups have had inverted tier rates for years,

yet the Company has not proposed a similar adjustment prior to this case. Staff also contends that most other private water companies have similar tiered rate structures. Mr. Igwe claimed that Staff is not aware of any other cases in which the Commission has granted a "conservation adjustment" where inverted tier rates have been approved. Staff asserts that the Company's proposal is speculative and should be denied. (Ex. S-24, at 21-22.)

Although AWC seeks to deny that its proposed adjustment is similar to a decoupling mechanism (AWC Reply Brief, at 58), its own witness conceded that it is "a form of decoupling." (Tr. 565-67.) In effect, the Company is asking the Commission to accept an analysis conducted on one of its systems and extrapolate an amount of revenue, to the dollar, based on an assumption of future customer behavior. Aside from the imprecision inherent in such a calculation, we do not believe that it is appropriate at this time to entertain the type of proposal advanced by AWC in this proceeding. In prior gas company cases, we have declined to accept decoupling proposals.[12] We have, however, opened generic dockets to consider gas and electric decoupling mechanisms,[13] and we reserve judgment as to whether decoupling methodologies would be appropriate with respect to conservation-related declining water company revenues. We therefore decline to adopt AWC's proposed adjustment in this case.

B. Engineering Issues

As part of its investigation of rate applications, the Commission's Engineering Staff prepares an Engineering Report that addresses a description and analysis of each water system; water usage on each system; system growth; compliance with ADEQ and ADWR requirements; depreciation rates; and recommendations to the Commission. (Ex. S-13, at 2.) In this case, Staff witnesses Katrin Stukov and Brian Bozzo conducted Staff's investigation and analysis of AWC's systems, and Ms. Stukov prepared the Engineering Report. Staff reached the following conclusions:

1. ADEQ or, where applicable, the Maricopa County Environmental Services Department ("MCESD"), reported that AWC's community water systems have no deficiencies and are delivering water that meets water quality standards pursuant to the requirements of A.A.C. Title 18, Chapter 4;
2. 8 of the Company's community water systems have water loss rates above

[12] *Southwest Gas Corp.*, Decision No. 70665 (December 24, 2008), at 34-42; *Southwest Gas Corp.*, Decision No. 68487 (February 23, 2006), at 31-34.
[13] *See*, Docket Nos. E-00000J-08-0314 and G-00000C-08-0314.

Staff's recommended threshold of 10 percent: Pinetop Lakes (15.4 percent); Pinewood (26 percent); Rimrock (11 percent); Superior (18.4 percent); Winkelman (12 percent); San Manuel (10.7 percent); Bisbee (16 percent); and Tierra Grande (12.6 percent);

3. All of AWC's water systems have adequate storage capacities to serve their respective customers, as well as a reasonable level of growth;
4. With the exception of Valley Vista, AWC's other water systems have adequate production capacity to serve existing customers and a reasonable level of growth;
5. With the exception of the Superior and Oracle systems, AWC's systems are in compliance with ADWR requirements governing community water systems. ADWR has determined that management plans filed by AWC for Superior and Oracle are not in compliance with potential lost and unaccounted for water;
6. The Forest Towne system is not a community water system subject to ADEQ and ADWR monitoring requirements; and
7. AWC has approved curtailment plan and backflow prevention tariffs.

Based on its analysis and the conclusions reached in the Engineering Report, Staff made the following recommendations regarding engineering issues that remain in dispute:

1. For the 8 community water systems that have water loss rates above 10 percent, AWC should be required to evaluate the systems and prepare a report for corrective measures demonstrating how it plans to reduce water losses to less than 10 percent, and the water losses should be reduced to less than 10 percent by no later than December 31, 2010. However, if AWC finds that reducing water loss for a given system to less than 10 percent is not cost-effective, the Company should submit a detailed cost analysis and explanation demonstrating why reductions to less than 10 percent are not cost effective. In no case, should system water loss be allowed to remain above 15 percent. AWC should be required to file the corrective measures or cost effectiveness report with Docket Control, as a compliance item in this docket, by June 30, 2011; and
2. AWC should be required to file by December 31, 2010, with Docket Control, as a compliance item in this docket, documentation from ADWR showing that the Superior and Oracle management plans are compliant with ADWR requirements.

(Ex. S-13, Eng. Report Summary.) The disputed issues related to the Engineering Report recommendations are discussed below.

1. Non-Account Water

a. Staff

Staff contends that 10 percent is the industry standard with respect to acceptable water losses on a system. Staff argues that despite AWC's claim of employing an aggressive, state-of-the-art leak detection program, 8 of its 22 community water systems remain above 10 percent, with 4 of the

systems above 15 percent. Staff also asserts that the Company should have submitted an evaluation with its rate application to explain how it intends to bring all of its systems under a 10 percent loss ratio, or describe why it would not be feasible to do so.

Staff disputes AWC's contention that compliance with Staff's recommendation would cost approximately $35 million. Staff claims that the Company's compliance estimate is based on faulty assumptions about the percentage of infrastructure that would need to be replaced in the non-compliant systems. Staff contends that AWC did not provide a detailed analysis of the costs of infrastructure replacement or a comprehensive water loss assessment to support its position. Staff believes that preparation of plans to achieve incremental compliance with the sub-10 percent standard is called for, rather than making an assumption that most or all of a system's infrastructure would need to be replaced to meet Staff's recommendation. Ms. Stukov stated that AWC has not provided sufficient information in this proceeding to alter Staff's recommendation. She offered suggestions regarding the types of considerations that should be evaluated regarding water loss mitigation, including: categorization of types of losses (*e.g.*, leaks vs. unauthorized consumption); volume lost in each category; where losses are occurring; why losses are occurring; proactive water loss reduction plans; unit production costs of lost water and additional capacity costs; and short and long-term detailed cost analyses of implementing water loss reduction plans, including benefits of water saved. (Ex. S-14, at 4-5.)

Staff disagrees with AWC's assertion that filing the recommended water loss reports are unreasonable or arbitrary, and would require extensive time that would detract from the Company's efforts to reduce losses. (Ex. A-10, at 6.) Staff suggests that compilation and submission of a comprehensive report should not be onerous for AWC because: the Company already tracks water losses and creates monthly loss reports; the Company's operators monitor leaks and breaks on a daily basis under its leak monitoring program; and AWC is well aware of system repairs, and tracks such repairs.

According to Staff, AWC also insists that a distribution system improvement charge ("DSIC")

mechanism[14] should be implemented if the Company is ordered to comply with Staff's water loss remediation recommendations. Staff indicates that although a DSIC mechanism may be appropriate to consider as a means of addressing the costs for mitigating water losses, the Company did not offer a specific plan in this case that would enable Staff to alter its current recommendation.

b. AWC

In response to Staff's water loss recommendations, AWC argues that Staff failed to take into account the costs associated with compliance. The Company claims that Staff improperly attempts to shift the burden to explain why some systems have non-account water above 10 percent; what the Company has done to address the issue; why the 10 percent loss rate has not been achieved for all systems; and what actions will be taken to meet Staff's 10 percent standard. AWC asserts that Staff did not meet its burden of proof "to demonstrate that its conclusions are based on competent and substantial evidence, and to show that its recommendations, if adopted, would further the public interest." (AWC Reply Brief, at 63.) According to AWC, the record demonstrates that: it has not ignored the non-account water issue and the Company has explained that it has a comprehensive water loss management program; prior loss reduction efforts have been successful; the Company agreed to share its information with Staff; non-account water in a few systems cannot be reduced further without costly capital improvements, and why improvements are not justifiable or prudent; and cost recovery must be addressed before major system improvements could be undertaken.

The Company disagrees with Staff that 10 percent is the "industry standard" for water losses. AWC witnesses Harris and Schneider conceded that in prior cases, Staff has advocated, and the Commission has adopted, a 10 percent threshold for imposing remedial actions by water utilities. (Tr. 278-79; 348.) Mr. Schneider testified that the "AWWA uses more of a system efficiency [standard]" in water loss evaluations. (*Id.* at 348.) The Company argues therefore that 10 percent is not the industry standard, "nor should it be the Commission's standard." (AWC Reply Brief, at 66.) AWC suggests that the non-account water of a specific system should be evaluated based on the system's age, location, topography, plant configuration, system pressure, and local weather, among other

[14] As described by Company witness Harris, a DSIC is a charge on monthly customer bills that provides capital for infrastructure replacement needs. Mr. Harris indicated that eight states, all in the northeast and midwest areas of the United States, currently have DSICs in place to fund replacement of aging infrastructure. (Ex. A-10, at 5-6.)

factors. (Ex. A-10, at 12-15.)

AWC also points to the success it has achieved in reducing non-account water since the test year. According to Mr. Schneider's testimony, non-account water was reduced in Pinewood from 26 percent during the test year to 22.6 percent as of May 2009; losses on the Superior system were reduced from 18.6 percent to 10.7 percent as of May 2009; and San Manuel losses were reduced from 10.7 to 10.2 percent. (*Id.* at 15-20.) The Company claims that its efforts have been successful despite difficult system configurations, soil conditions and presence of aging infrastructure in certain systems. AWC argues that all factors must be considered in considering the reasons for individual system losses, and Staff's "one size fits all" approach is unreasonable. According to the Company, despite its substantial and ongoing efforts to reduce system losses, some systems present specific challenges that make reductions to Staff's recommended levels very difficult, cost prohibitive, or both.

With respect to the costs that would be incurred to comply with Staff's recommendations, AWC asserts that aging infrastructure of some systems (*e.g.*, Bisbee), adverse soil conditions, and unusually thick roads, make water main replacement the only viable option for additional leak reduction efforts. The Company states that a massive main replacement effort would be extremely costly, and in addition to an inability by AWC to obtain debt funding, there would likely be substantial opposition by customers to such costly projects. In the event the Commission agrees that water losses should be reduced to the levels contained in Staff's recommendations, the Company claims that the Commission should provide a funding mechanism, such as a DSIC, to allow the undertaking of the necessary infrastructure repairs.

Finally, AWC suggests that there is no evidence that all of the reporting requirements contained in Staff's recommendation would have any beneficial impact on the Company's non-account water. The Company argues that, aside from the resource constraints faced by AWC, as well as Staff and the Commission, the evidence in the record of this case shows that further loss reductions on certain systems would be cost prohibitive and would not be prudent. AWC asserts that it intends to continue to monitor water losses aggressively for all of its systems, and it has offered to share the data it collects with Staff. However, the Company opposes being required to "produce a bunch of

information in a format different than that already provided by the Company in its administration of a comprehensive non-account water management program that is already working to the greatest extent possible." (AWC Reply Brief, at 71.)

c. Conclusion

We agree with Staff that the non-account water standards adopted in a number of prior cases is an appropriate measurement of water losses that may be deemed acceptable or unacceptable. Although AWC claims not to accept Staff's guidelines as the industry standard, the Company's witness offered only a vague reference to the AWWA considering such matters on a case-by-case basis. We believe the standard proposed by Staff, that AWC would be required reduce its water loss rates for each of its systems to no more than 10 percent, or submit a detailed cost analysis and explanation demonstrating why a reduction to less than 10 percent is not cost-effective, is reasonable and reflects an ability and intent to allow for the type of individual evaluation suggested by the Company, considering the facts and circumstances faced by systems that are unable to meet the 10 percent standard.

The other part of the equation is whether 15 percent is an absolute upper limit on water loss ratios under any and all circumstances. Although we have agreed with Staff in the past on that issue, and continue to believe 15 percent system losses are excessive, there may be some rare and unusual circumstances where reduction efforts could be cost-prohibitive. However, an argument in support of maintaining ongoing system losses above 15 percent would be subject to substantial scrutiny, and the proponent of such a position would bear an extremely high burden to show why losses could not be reduced below that level. In this case, AWC claims that, for certain of its systems, achieving water loss rates below 15 percent would be cost prohibitive. Without a detailed analysis of the costs and benefits, we are unable to determine if the Company's assertions are accurate. However, AWC will have the opportunity to persuade Staff and the Commission through the submission of documentation in support of its argument.

One of the Company's arguments is that the reporting requirements recommended by Staff are excessive and burdensome, and that Staff should simply accept the data retained by the Company in its current form. It is not clear from the record whether Staff has, to this point, reviewed the

records kept by the Company regarding water loss, and whether that data is in a form acceptable to Staff. However, if AWC has already undertaken the type of analysis it claims was adequate to determine the cost prohibitive nature of compliance, including a detailed cost estimate of reducing losses to within Staff's recommended guidelines, providing adequate documentation should not be overly burdensome. In any event, we agree with Staff that detailed supporting documentation is necessary to evaluate the costs and benefits for each of the systems to achieve water loss ratios consistent with the standards we adopt in this Decision.

With respect to AWC's suggestion that the Commission must grant an adjustment mechanism for infrastructure improvements, we do not believe the record supports the adoption of such a mechanism at this time. The idea of a DSIC-type surcharge was raised during the course of the proceeding, but no specifics of how such a mechanism would work were presented by the Company and we have no basis in the record upon which to structure a DSIC surcharge. Moreover, it is not clear that a DSIC would be appropriate for AWC which, on a system-wide basis, has infrastructure that is substantially newer than the companies for which DSICs have been approved by regulatory commissions in northeast and midwest states. While an infrastructure funding mechanism may be reasonable for certain of AWC's aging systems, or for systems that face other unique challenges, we make no finding, at this time, on those issues.

The record reflects that AWC has made progress in the monitoring of leaks and reduction of non-account water for various troubled systems, and the Company is commended for those efforts. However, given that water is such a valuable commodity in Arizona, particularly in some of the areas in which AWC operates, we believe Staff's recommendations represent a reasonable and measured balancing of the competing goals of ensuring that scarce resources are protected with the need to keep utility rates as low as possible. Therefore, with a slight modification, we will adopt Staff's recommendation.

In accordance with Staff's recommendation, as modified, AWC should reduce the non-account water for each of its systems to less than 10 percent by July 1, 2011. For those systems that have not achieved a water loss rate of less than 10 percent by July 1, 2011, AWC should be required to evaluate the systems and prepare a report demonstrating how the Company plans to reduce water

losses to less than 10 percent. If the Company contends that reducing water losses to less than 10 percent is not cost effective, it should submit a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. Absent extraordinary circumstances, and with compelling supporting documentation, no system should be permitted to maintain non-account water above 15 percent. The water loss report should be filed with Docket Control, as a compliance item, by no later than December 31, 2011.

2. ADWR Compliance

As discussed above, at the time of the hearing, and through briefing, AWC's Superior and Oracle systems were not in compliance with ADWR lost and unaccounted for water requirements. Staff recommends that the Company be required to meet ADWR requirements for those systems. According to the Company's witness, AWC was required to submit additional best management practices ("BMPs") in order "to demonstrate to DWR that we are making progress in reducing the water loss in those systems." (Tr. 426-27.) Mr. Schneider stated that the required information was submitted to ADWR and the Company was waiting for a subsequent report regarding its compliance. He testified that the non-compliant status did not present any health or safety issues for customers. (*Id.*) The ADWR reports attached to his testimony indicate that ADWR "anticipates a complete and satisfactory resolution regarding this matter in the near future." (Ex. A-10, FKS-RB-1 and FKS-RB-2.)

In accordance with Staff's recommendation, AWC should file by December 31, 2010, with Docket Control, as a compliance item in this docket, documentation from ADWR indicating that the Company's Superior and Oracle management plans are in compliance with ADWR requirements.

C. Best Management Practices

During the course of the hearing, through questions posed to Mr. Garfield, Chairman Mayes raised the issue of imposing additional BMPs requirements on the Company, and whether a surcharge or other funding mechanism would be appropriate. (Tr. 828-38.) Mr. Olea testified that although Staff was not recommending imposition of additional BMPs above the ADWR requirements, Staff would not oppose requiring additional BMPs or some type of funding mechanism, if the chosen BMPs were appropriate for the system on which they were implemented. (Tr. 1060-63.)

In its brief, AWC explained that BMPs refer to conservation measures that must be adopted

by large municipal water providers, pursuant to a 2007 amendment to A.R.S. §45-566.01. (AWC Initial Brief, at 104-105.) According to the Company, under the amended statute, municipal providers, as well as AWC, are required to implement an education program, a metering program, and one or more additional BMPs selected from an ADWR list. The Company claims that six of its systems are subject to the requirements: Casa Grande, Apache Junction, Coolidge, White Tank, Oracle, and Superior. Two other systems in the Pinal AMA, Stanfield and Tierra Grande, are exempted due to their size. (*Id.*)

AWC states that although it appears Chairman Mayes contemplated additional BMP requirements for systems within AMAs, as well as a funding mechanism, none of the parties addressed the issue, "given the hearing's length and complexity." (*Id.*) As a result, the Company asserts that there is not sufficient evidence upon which to base an informed decision, and it would be inappropriate to consider the issue at this time. AWC suggests that the Commission could convene a second phase of the case to consider the issues. (*Id.* at 106.)

We agree that the record in this case is not developed sufficiently on the issue of funding mechanisms for BMPs. However, we may require in future proceedings that AWC should implement additional BMPs as a means of achieving greater conservation in the Company's services areas.

D. CAP Hook-Up Fees

Staff points out that, in Decision No. 68302, the Commission approved a Central Arizona Project ("CAP") hook-up fee for AWC's Casa Grande, Coolidge, and White Tank systems, subject to the condition that the issue would be revisited in the Company's subsequent rate filing. (Decision No. 68302, at 58.) According to Company witness Reiker, due to the slowdown in the housing market, uncertainty regarding future growth, and the short time that the hook-up fees have been in place, the Company proposes that the evaluation of the CAP hook-up fees should be deferred to the next rate case for the Western Group. (Ex. A-18, at 5-6.) Staff agreed with the Company's request and recommended that AWC be permitted to continue collecting the existing CAP hook-up fees for the Casa Grande, Coolidge, and White Tank systems until the Company's next Western Group rate case, or by December 31, 2012, whichever comes first. (Ex. S-24, at 28-29.)

Staff's recommendation is reasonable and shall be adopted. Accordingly, AWC should be

permitted to continue collecting the existing CAP hook-up fees for the Casa Grande, Coolidge, and White Tank systems until the Company's next Western Group rate case, or by December 31, 2012, whichever comes first.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On August 22, 2008, AWC filed with the Commission an application for increases in its rates and charges for water utility service for all 17 of its systems, using a test year ending December 31, 2008.

2. On September 22, 2008, Staff filed a Letter of Insufficiency stating that AWC's rate application did not meet the sufficiency requirements as outlined in A.A.C R14-2-103 and listing the items Staff required to deem the application sufficient for processing.

3. On September 29, 2008, the Company filed its Response to the Insufficiency Letter.

4. On October 15, 2008, Staff filed a letter stating that, with the revisions docketed on September 29, 2008, the above-captioned application met the sufficiency requirements outlined in A.A.C. R14-2-103.

5. On October 23, 2008, a Procedural Order was issued scheduling a procedural conference for November 23, 2008.

6. On October 24, 2008, RUCO filed an Application to Intervene.

7. On November 3, 2009, the procedural conference was held as scheduled. During the conference, Staff proposed a 90-day extension of the normal time clock deadlines for processing the application, based on the large number of separate water systems included in the application and the limited Staff resources available. Although the Company opposed any extension of the deadline, the time clock deadline was extended by 60 days to allow Staff additional time for processing the application.

8. By Procedural Order issued November 4, 2008, a hearing was scheduled to commence on August 31, 2009, RUCO's intervention request was granted, various filing dates were

established for testimony, and the Company was directed to mail to customers and publish notice of the application and hearing in accordance with the Procedural Order.

9. On November 14, 2008, AWC filed a Notice of Technical Correction of Record in which it stated that, contrary to a statement in the November 4, 2008, Procedural Order, the Company opposed any extension of the time clock rules.

10. On December 11, 2008, IBEW filed an Application to Intervene.

11. On February 5, 2009, AWC filed a Joint Stipulation and Motion requesting that the Company be permitted to provide notice of the application and hearing in accordance with a form of notice agreed to by AWC, Staff, and RUCO.

12. On February 6, 2009, a Procedural Order was issued granting AWC's request, and directing the Company to publish and mail to customers the notice attached to the Procedural Order. The Procedural Order also granted IBEW's intervention request.

13. On May 6, 2009, Staff filed a Motion for Extension of Time Regarding Rate Design Testimony. With the agreement of the other parties, Staff requested a two-week extension of the previously scheduled deadlines for filing rate design testimony.

14. On May 7, 2009, Abbott Laboratories filed an Application to Intervene.

15. On May 20, 2009, a Procedural Order was issued granting Staff's request for an extension of time for filing rate design testimony, as well as Abbott's intervention request.

16. On June 3, 2009, Staff filed a Motion for Extension of Time Regarding Cost of Service Testimony. Staff indicated that its May 6, 2009 Motion should have included a request for extension of time for cost of service testimony in addition to rate design testimony.

17. On June 5, 2009, AWC filed a Response to Staff's Motion indicating that it agreed cost of service and rate design should be filed concurrently.

18. On June 5, 2009, IBEW filed a Joinder in Staff's Motion for Extension of Time.

19. On June 11, 2009, a Procedural Order was issued granted Staff's Motion for Extension of Time.

20. With its Application, AWC filed the direct testimony of William Garfield, Joel Reiker, Joseph Harris, Fredrick Schneider, and Thomas Zepp.

21. On June 12, 2009, Staff filed the direct testimony of Elijah Abinah, Alexander Igwe, Brian Bozzo, David Parcell, and Katrin Stukov; RUCO filed the direct revenue requirement testimony of William Rigsby and Timothy Coley; and Abbott filed the direct testimony of Stephen Chasse.

22. On June 23, 2009, Staff filed the revised direct testimony of Ms. Stukov.

23. On June 24, 2009, Staff filed an errata to the revised direct testimony of Ms. Stukov.

24. On June 24, 2009, Commissioner Newman filed a letter requesting information regarding AWC's billing practices.

25. On June 25, 2009, IBEW filed the direct testimony of Edwin Junas, Jr.

26. On June 26, 2009, Staff filed the direct testimony of Steve Olea; and RUCO filed the direct rate design testimony of Rodney Moore.

27. On June 30, 2009, Staff filed the direct rate design testimony of Jeffrey Michlik.

28. On July 10, 2009, AWC filed the rebuttal testimony of Mr. Garfield, Mr. Reiker, Mr. Harris, Mr. Schneider, and Dr. Zepp.

29. On July 24, 2009, AWC filed the rate design and cost of service rebuttal testimony of Mr. Garfield, Mr. Reiker, and Mr. Harris. The Company separately filed a letter responding to Commissioner Newman's inquiry.

30. On August 7, 2009, Staff filed the surrebuttal testimony of Mr. Igwe, Mr. Bozzo, Mr. Parcell, and Ms. Stukov; and RUCO filed the surrebuttal testimony of Mr. Rigsby and Mr. Coley.

31. On August 11, RUCO filed an errata to Mr. Coley's surrebuttal testimony.

32. On August 12, 2009, Staff filed the surrebuttal rate design testimony of Mr. Michlik; RUCO filed the surrebuttal rate design testimony of Jodi Jerich and Mr. Moore; and Abbott filed the surrebuttal testimony of Dan Neidlinger.

33. On August 17, 2009, IBEW filed the surrebuttal testimony of Mr. Junas.

34. On August 21, 2009, AWC filed the rejoinder testimony of Mr. Garfield, Mr. Reiker, Mr. Schneider, and Dr. Zepp.

35. On August 26, 2009, Staff filed certain errata schedules for Mr. Igwe's testimony, and IBEW filed an errata to Mr. Junas' surrebuttal testimony.

36. On August 26, 2009, AWC filed the rate design and cost of service rejoinder testimony of Mr. Reiker and Mr. Harris.

37. On August 28, 2009, RUCO filed an errata to Ms. Jerich's surrebuttal testimony.

38. On August 28, 2009, a prehearing conference was conducted to discuss scheduling of witnesses and other procedural matters.

39. The hearing commenced on August 31, 2009, and continued on September 1, 2, 3, 4, 8, 9, 10, and 11, 2009.

40. On August 31, 2009 and September 1, 2009, respectively, the Greater Casa Grande Chamber of Commerce and the Central Arizona Regional Economic Development Foundation filed public comment letters opposing Staff's proposed rate design related to AWC's Casa Grande System.

41. On September 3, 2009, AWC provided, under seal, minutes of the Company's Board of Directors meetings and annual shareholders meetings from 2006 through 2009.

42. On September 8, 2009, Staff filed an Alternative Rate Design for the Consolidated Casa Grande System.

43. On September 10, 2009, in response to a request by Chairman Mayes, AWC filed various rate consolidation scenarios and information.

44. On October 2, 2009, AWC filed a Request for Extension of Time for briefs to be filed.

45. On October 14, 2009, RUCO filed a Motion to Continue Briefing Deadlines.

46. On October 14, 2009, initial briefs were filed by Staff, IBEW, and Abbott.

47. On October 16, 2009, initial briefs were filed by AWC and RUCO.

48. On October 19, 2009, AWC late-filed additional information requested during the hearing related to the Company's cost-cutting measures, vehicles provided to officers of the Company, a reclaimed water study for the City of Casa Grande, and updated charts for Mr. Garfield's testimony.

49. On October 30, 2009, reply briefs were filed by AWC, Staff, RUCO, and IBEW.

On November 2, 2009, RUCO filed an Appendix in Support of its Reply Brief.

50. Between the filing of the Application and the submission of reply briefs, the

Commission received approximately 35 customer public comment contacts in opposition to the Company's proposed rate filing.

51. AWC's total Company fair value rate base for all of its systems is $144,460,870.

52. The fair value rate base of the Superstition system is $42,702,540.

53. The fair value rate base of the Bisbee system is $4,614,736.

54. The fair value rate base of the Sierra Vista system is $2,498,644.

55. The fair value rate base of the San Manuel system is $2,055,473.

56. The fair value rate base of the Oracle system is $2,391,244.

57. The fair value rate base of the Winkelman system is $326,067.

58. The fair value rate base of the Miami system is $7,576,718.

59. The fair value rate base of the Casa Grande system is $39,892,560.

60. The fair value rate base of the Stanfield system is $779,765.

61. The fair value rate base of the White Tank system is $4,373,445.

62. The fair value rate base of the Ajo system is $1,113,517.

63. The fair value rate base of the Coolidge system is $4,232,395.

64. The fair value rate base of the Lakeside system is $7,020,853.

65. The fair value rate base of the Overgaard system is $3,315,721.

66. The fair value rate base of the Sedona system is $17,417,238.

67. The fair value rate base of the Pinewood system is $1,830,696.

68. The fair value rate base of the Rimrock system is $2,319,258.

69. A fair value rate of return for AWC's systems of 7.87 percent is reasonable and appropriate.

70. BMSC had total Company test year revenues of $43,362,606, total Company test year adjusted operating expenses of $37,613,987, and total Company test year adjusted operating income of $5,748,620. Adjusted test year revenues, expenses, and operating income on an individual system basis were as follows: $11,939,904, $9,982,513, and $1,957,392, respectively, for Superstition; $1,723,474, $1,554,511, and $168,963, respectively, for Bisbee; $1,461,897, $1,188,114, and $273,783, respectively, for Sierra Vista; $812,359, $855,140, and ($43,781), respectively, for San

Manuel; $1,126,215, $910,742, and $215,473, respectively, for Oracle; $98,722, $84,906, and $13,816, respectively, for Winkelman; $1,850,678, $1,699,029, and $151,649, respectively, for Miami; $10,934,894, $9,999,810, and $$935,084, respectively, for Casa Grande; $131,926, $171,460, and ($39,534), respectively, for Stanfield; $1,244,736, $1,008,429, and $236,307, respectively, for White Tank; $470,994, $424,770, and $46224, respectively, for Ajo; $2,214,953, $1,929,535, and $285,418, respectively, for Coolidge; $2,588,944, $2,088,672, and $580,272, respectively, for Lakeside; $1,686,342, $1,274,536, and $411,806, respectively, for Overgaard; $3,521,124, $3,023,531, and $497,593, respectively, for Sedona; $1,046,463, $935,209, and $112,254, respectively, for Pinewood; and $507,981, $563,080, and ($55,099), respectively, for Rimrock.

71. AWC's rate consolidation proposal is, with full rate consolidation of the Superstition and Miami systems; Lakeside and Overgaard systems; Pinewood and Rimrock systems; and Casa Grande and Coolidge systems; as well as partial consolidation of the Bisbee and Sierra Vista systems; Sedona and Pinewood/Rimrock systems; and Stanfield and Casa Grande/Coolidge systems; just and reasonable.

72. AWC's proposed rate design, as adopted herein, is just and reasonable.

73. The gross revenues of the Superstition system should increase by $2,285,458.

74. Under the rates adopted herein, including full consolidation with the Miami system, an average usage (6,278 gallons per month) Superstition (Superior) residential customer on a 5/8 x 3/4-inch meter would experience an increase of $7.36, approximately 27.94 percent, from $26.35 to $33.72.

75. Under the rates adopted herein, including full consolidation with the Miami system, an average usage (7,438 gallons per month) Superstition (Apache Junction) residential customer on a 5/8 x 3/4-inch meter would experience an increase of $9.84, approximately 36.20 percent, from $27.18 to $37.02.

76. The gross revenues of the Bisbee system should increase by $316,309.

77. Under the rates adopted herein, including partial consolidation with the Sierra Vista system, an average usage (5,215 gallons per month) Bisbee residential customer on a 5/8 x 3/4-inch meter would experience an increase of $3.27, approximately 10.95 percent, from $29.85 per month to

$33.12 per month.

78. The gross revenues of the Sierra Vista system should decrease by $125,632.

79. Under the rates adopted herein, including partial consolidation with the Bisbee system, an average usage (8,924 gallons per month) Sierra Vista residential customer on a 5/8 x 3/4-inch meter would experience a decrease of $0.96, an approximately 3.21 percent decrease, from $29.79 per month to $28.83 per month.

80. The gross revenues of the San Manuel system should increase by $333,131.

81. Under the rates adopted herein, an average usage (8,744 gallons per month) San Manuel system residential customer on a 5/8 x 3/4-inch meter would experience an increase of $14.19, approximately 40.73 percent, from $34.84 to $49.03 per month.

82. The gross revenues of the Oracle system should decrease by $44,433.

83. Under the rates adopted herein, an average usage (5,605 gallons per month) Oracle system residential customer on a 5/8 x 3/4-inch meter would experience a decrease of $1.82, an approximately 3.84 percent decrease, from $47.25 to $45.43 per month.

84. The gross revenues of the Winkelman system should increase by $19,292.

85. Under the rates adopted herein, an average usage (9,549 gallons per month) Winkelman system residential customer on a 5/8 x 3/4-inch meter would experience an increase of $7.22, approximately 30.33 percent, from $23.80 per month to $31.02 per month.

86. The gross revenues of the Miami system should increase by $724,154.

87. Under the rates adopted herein, including full consolidation with the Superstition system, an average usage (5,995 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Miami system would experience a rate decrease of $1.36 per month, an approximately 3.96 percent decrease, from $34.26 to $32.91.

88. The gross revenues of the Casa Grande system should increase by $3,590,261.

89. Under the rates adopted herein, including full consolidation with the Coolidge system and partial consolidation with the Stanfield system, an average usage (8,843 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Casa Grande system would experience a rate increase of $7.77 per month, approximately 35.06 percent, from $22.17 to $29.94.

90. The gross revenues of the Stanfield system should increase by $164,333.

91. Under the rates adopted herein, including partial consolidation with the Casa Grande/Coolidge system, an average usage (9,162 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Stanfield system would experience a rate increase of $1.99 per month, approximately 5.15 percent, from $38.55 to $40.53.

92. The gross revenues of the White Tank system should increase by $175,702.

93. Under the rates adopted herein, an average usage (15,648 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the White Tank system would experience a rate increase of $5.65 per month, approximately 11.08 percent, from $51.00 to $56.65.

94. The gross revenues of the Ajo system should increase by $67,441.

95. Under the rates adopted herein, an average usage (5,185 gallons per month) 5/8-inch x ¾-inch residential customer in the Ajo system would experience a rate increase of $6.22 per month, approximately 13.36 percent, from $46.56 to $52.78.

96. The gross revenues of the Coolidge system should increase by $77,637.

97. Under the rates adopted herein, including full consolidation with the Casa Grande system and partial consolidation with the Stanfield system, an average usage (8,134 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Coolidge system would experience a rate increase of $3.11 per month, approximately 25.61 percent, from $25.61 to $28.72.

98. The gross revenues of the Lakeside system should decrease by $45,164.

99. Under the rates adopted herein, including full consolidation with the Overgaard system, an average usage (4,312 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Lakeside system would experience a rate decrease of $4.14 per month, approximately -11.40 percent, from $36.35 to $32.21.

100. The gross revenues of the Overgaard system should decrease by $245,694.

101. Under the rates adopted herein, including full consolidation with the Lakeside system, an average usage (2,765 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Overgaard system would experience a rate decrease of $6.23 per month, an approximately 20.31 percent decrease, from $30.70 to $24.27.

102. The gross revenues of the Sedona system should increase by $1,422,033.

103. Under the rates adopted herein, including partial consolidation with the combined Pinewood/Rimrock system, an average usage (10,264 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Sedona system would experience a rate increase of $8.99 per month, approximately 27.46 percent, from $32.74 to $41.73.

104. The gross revenues of the Pinewood system should increase by $51,827.

105. Under the rates adopted herein, including full consolidation with the Rimrock system and partial consolidation with the Sedona system, an average usage (2,407 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Pinewood system would experience a rate increase of $2.52 per month, approximately 8.76 percent, from $28.74 to $31.26.

106. The gross revenues of the Rimrock system should increase by $387,004.

107. Under the rates adopted herein, including full consolidation with the Pinewood system and partial consolidation with the Sedona system, an average usage (6,165 gallons per month) residential customer on a 5/8 x 3/4-inch meter in the Rimrock system would experience a rate increase of $15.16 per month, approximately 48.12 percent, from $31.51 to $46.68.

108. It is just and reasonable to allow AWC to continue to collect monthly minimum charges for bulk water sales, including construction sales and water sold for resale.

109. The CAP Hook-Up Fee Tariff Schedule for the Company's Casa Grande, Coolidge, and White Tank systems shall be permitted to continue until the AWC's next Western Group rate case, or December 31, 2012, whichever comes first.

110. During the test year, eight of the Company's community water systems have water loss rates above Staff's recommended threshold of 10 percent: Pinetop Lakes (15.4 percent); Pinewood (26 percent); Rimrock (11 percent); Superior (18.4 percent); Winkelman (12 percent); San Manuel (10.7 percent); Bisbee (16 percent); and Tierra Grande (12.6 percent).

111. It is reasonable to require AWC to reduce the non-account water for each of its systems to less than 10 percent by July 1, 2011. For those systems that have not achieved a water loss rate of less than 10 percent by July 1, 2011, AWC should evaluate the systems and prepare a report demonstrating how the Company plans to reduce water losses to less than 10 percent. If the

Company contends that reducing water losses to less than 10 percent is not cost effective, it should submit a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. Absent extraordinary circumstances, and with compelling supporting documentation, no system should be permitted to maintain non-account water above 15 percent. The water loss report should be filed with Docket Control, as a compliance item, by no later than December 31, 2011.

112. ADEQ or, where applicable, MCESD, has determined that AWC's community water systems have no deficiencies and are delivering water that meets water quality standards pursuant to the requirements of A.A.C. Title 18, Chapter 4.

113. All of AWC's water systems have adequate storage capacities to serve their respective customers, as well as a reasonable level of growth.

114. With the exception of Valley Vista, AWC's other water systems have adequate production capacity to serve existing customers and a reasonable level of growth.

115. With the exception of the Superior and Oracle systems, AWC's systems are in compliance with ADWR requirements governing community water systems. ADWR has determined that management plans filed by AWC for Superior and Oracle are not in compliance with potential lost and unaccounted for water. AWC should file by December 31, 2010, with Docket Control, as a compliance item in this docket, documentation from ADWR indicating that the Company's Superior and Oracle management plans are in compliance with ADWR requirements.

116. The Forest Towne system is not a community water system subject to ADEQ and ADWR monitoring requirements.

117. AWC has approved curtailment plan and backflow prevention tariffs.

118. Because an allowance for the property tax expense of AWC is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure AWC

shall annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the company is current in paying its property taxes in Arizona.

CONCLUSIONS OF LAW

1. AWC is a public service corporation pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over AWC and the subject matter of the application.

3. Notice of the proceeding was provided in conformance with law.

4. The fair value of AWC's Superstition system's rate base is $42,702,540, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

5. The fair value of AWC's Bisbee rate base is $4,614,736, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

6. The fair value of AWC's Sierra Vista rate base is $2,498,644, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

7. The fair value of AWC's San Manuel system's rate base is $2,055,473, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

8. The fair value of AWC's Oracle system's rate base is $2,391,244, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

9. The fair value of AWC's Winkelman system's rate base is $326,067, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

10. The fair value of AWC's Miami system's rate base is $7,576,718, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

11. The fair value of AWC's Casa Grande system's rate base is $39,892,560, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

12. The fair value of AWC's Stanfield system's rate base is $779,765, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

13. The fair value of AWC's White Tank system's rate base is $4,373,391, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

14. The fair value of AWC's Ajo system's rate base is $1,113,517, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

15. The fair value of AWC's Coolidge system's rate base is $4,232,395, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

16. The fair value of AWC's Lakeside system's rate base is $7,020,853, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

17. The fair value of AWC's Overgaard system's rate base is $3,315,721, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

18. The fair value of AWC's Sedona system's rate base is $17,417,238, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

19. The fair value of AWC's Pinewood system's rate base is $1,830,696, and applying a 7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

20. The fair value of AWC's Rimrock system's rate base is $2,319,258, and applying a

7.87 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

21. The rates and charges approved herein are reasonable.

22. It is reasonable and in the public interest to allow the CAP Hook-Up Fee Tariff Schedule for the Company's Casa Grande, Coolidge, and White Tank systems to continue until the AWC's next Western Group rate case, or December 31, 2012, whichever comes first.

23. It is reasonable and in the public interest to require AWC to reduce the non-account water for each of its systems to less than 10 percent by July 1, 2011. For those systems that have not achieved a water loss rate of less than 10 percent by July 1, 2011, AWC should evaluate the systems and prepare a report demonstrating how the Company plans to reduce water losses to less than 10 percent. If the Company contends that reducing water losses to less than 10 percent is not cost effective, it should submit a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. Absent extraordinary circumstances, and with compelling supporting documentation, no system should be permitted to maintain non-account water above 15 percent. The water loss report should be filed with Docket Control, as a compliance item in this docket, by no later than December 31, 2011.

24. It is reasonable and in the public interest to require AWC to file by December 31, 2010, with Docket Control, as a compliance item in this docket, documentation from ADWR indicating that the Company's Superior and Oracle management plans are in compliance with ADWR requirements.

ORDER

IT IS THEREFORE ORDERED that Arizona Water Company is hereby authorized and directed to file with the Commission, on or before July 30, 2010, the schedules of rates and charges attached hereto and incorporated herein as Exhibit A, which shall become effective for all service rendered on or after July 1, 2010.

IT IS FURTHER ORDERED that Arizona Water Company shall notify its affected customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing in a form and manner acceptable to the Commission's Utilities Division Staff.

IT IS FURTHER ORDERED that Arizona Water Company shall continue to collect monthly minimum charges for bulk water sales, including construction sales and water sold for resale.

IT IS FURTHER ORDERED that Arizona Water Company is authorized to continue its CAP Hook-Up Fee Tariff for the Company's Casa Grande, Coolidge, and White Tank systems until the Company's next Western Group rate case, or December 31, 2012, whichever comes first.

IT IS FURTHER ORDERED that Arizona Water Company shall reduce the non-account water for each of its systems to less than 10 percent by July 1, 2011. For those systems that have not achieved a water loss rate of less than 10 percent by July 1, 2011, AWC should evaluate the systems and prepare a report demonstrating how the Company plans to reduce water losses to less than 10 percent. If the Company contends that reducing water losses to less than 10 percent is not cost effective, it should submit a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. Absent extraordinary circumstances, and with compelling supporting documentation, no system should be permitted to maintain non-account water above 15 percent. The water loss report should be filed with Docket Control, as a compliance item in this docket, by no later than December 31, 2011.

IT IS FURTHER ORDERED that Arizona Water Company shall file by December 31, 2010, with Docket Control, as a compliance item in this docket, documentation from ADWR indicating that the Company's Superior and Oracle management plans are in compliance with ADWR requirements.

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IT IS FURTHER ORDERED that Arizona Water Company shall annually file as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

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

BY 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 the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

SERVICE LIST FOR: ARIZONA WATER COMPANY

DOCKET NO.: W-01445A-08-0440

Robert W. Geake
ARIZONA WATER COMPANY
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EXHIBIT "A"

Arizona Water - Ajo
Docket No. W-01445A-08-0440

Monthly Minimum

Residential, Commercial, Construction Water, Sales for Resale		Rates
	5/8 x 3/4 inch	$25.16
	1 inch	$62.90
	2 inch	$201.27
	3 inch	$402.54
	4 inch	$628.97
	6 inch	$1,257.94
	8 inch	$2,012.70
	10 inch	$2,893.25
Industrial		
	5/8 x 3/4 inch	$25.16
	1 inch	$65.60
	2 inch	$201.27
	3 inch	$402.54
	4 inch	$628.97
	6 inch	$1,257.94
	8 inch	$2,012.70
	10 inch	$2,893.25
Private Fire		
	All sizes	$24.19

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$4.8189
	3,000 - 10,000 Gallons	$6.0236
	Over 10,000 Gallons	$7.5292
1 inch	0 - 10,000 Gallons	$6.0236
	Over 10,000 Gallons	$7.5292
2 inch	0 - 90,000 Gallons	$6.0236
	Over 90,000 Gallons	$7.5292

3 inch	0 - 200,000 Gallons	$6.0236
	Over 200,000 Gallons	$7.5292
4 inch	0 - 325,000 Gallons	$6.0236
	Over 325,000 Gallons	$7.5292
6 inch	0 - 725,000 Gallons	$6.0236
	Over 725,000 Gallons	$7.5292
8 inch	0 - 1,200,000 Gallons	$6.0236
	Over 1,200,000 Gallons	$7.5292
10 inch	0 - 2,000,000 Gallons	$6.0236
	Over 2,000,000 Gallons	$7.5292
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$6.0236
	Over 10,000 Gallons	$7.5292
1 inch	0 - 30,000 Gallons	$6.0236
	Over 30,000 Gallons	$7.5292
2 inch	0 - 100,000 Gallons	$6.0236
	Over 100,000 Gallons	$7.5292
3 inch	0 - 200,000 Gallons	$6.0236
	Over 200,000 Gallons	$7.5292
4 inch	0 - 325,000 Gallons	$6.0236
	Over 325,000 Gallons	$7.5292
6 inch	0 - 725,000 Gallons	$6.0236
	Over 725,000 Gallons	$7.5292
8 inch	0 - 1,200,000 Gallons	$6.0236
	Over 1,200,000 Gallons	$7.5292
10 inch	0 - 2,000,000 Gallons	$6.0236
	Over 2,000,000 Gallons	$7.5292
Industrial		
	All meters & all gallons	6.0236
Coin Machine		
		36.5818
Construction Water		
2 inch	0 - 100,000 Gallons	$6.0236
	Over 100,000 Gallons	$7.5292
3 inch	0 - 200,000 Gallons	$6.0236
	Over 200,000 Gallons	$7.5292
4 inch	0 - 325,000 Gallons	$6.0236
	Over 325,000 Gallons	$7.5292
Sales for Resale		
	All meters & all gallons	6.0236

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - Bisbee / Sierra Vista
Docket No. W-01445A-08-0440

Monthly Minimum

Residential, Commercial, Construction Water, Sales for Resale		Rates
	5/8 x 3/4 inch	$13.36
	1 inch	$33.39
	2 inch	$106.84
	3 inch	$213.68
	4 inch	$333.88
	6 inch	$667.77
	8 inch	$1,068.42
	10 inch	$1,535.86
Industrial		
	5/8 x 3/4 inch	$24.80
	1 inch	$62.01
	2 inch	$198.42
	3 inch	$396.84
	4 inch	$620.07
	6 inch	$1,240.14
	8 inch	$1,984.22
	10 inch	$2,852.31
Private Fire		
	All sizes	$23.85

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$3.4256
	3,000 - 10,000 Gallons	$4.2820
	Over 10,000 Gallons	$5.3526
1 inch	0 - 10,000 Gallons	$4.2820
	Over 10,000 Gallons	$5.3526
2 inch	0 - 80,000 Gallons	$4.2820
	Over 80,000 Gallons	$5.3526

3 inch	0 - 175,000 Gallons	$4.2820
	Over 175,000 Gallons	$5.3526
4 inch	0 - 290,000 Gallons	$4.2820
	Over 290,000 Gallons	$5.3526
6 inch	0 - 625,000 Gallons	$4.2820
	Over 625,000 Gallons	$5.3526
8 inch	0 - 1,000,000 Gallons	$4.2820
	Over 1,000,000 Gallons	$5.3526
10 inch	0 - 1,200,000 Gallons	$4.2820
	Over 1,200,000 Gallons	$5.3526
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$4.2820
	Over 10,000 Gallons	$5.3526
1 inch	0 - 25,000 Gallons	$4.2820
	Over 25,000 Gallons	$5.3526
2 inch	0 - 85,000 Gallons	$4.2820
	Over 85,000 Gallons	$5.3526
3 inch	0 - 175,000 Gallons	$4.2820
	Over 175,000 Gallons	$5.3526
4 inch	0 - 290,000 Gallons	$4.2820
	Over 290,000 Gallons	$5.3526
6 inch	0 - 625,000 Gallons	$4.2820
	Over 625,000 Gallons	$5.3526
8 inch	0 - 1,000,000 Gallons	$4.2820
	Over 1,000,000 Gallons	$5.3526
10 inch	0 - 1,200,000 Gallons	$4.2820
	Over 1,200,000 Gallons	$5.3526
Industrial		
	All meters & all gallons	$5.3526
Coin Machine		
		N/A
Construction Water		
2 inch	0 - 85,000 Gallons	$4.2820
	Over 85,000 Gallons	$5.3526
3 inch	0 - 175,000 Gallons	$4.2820
	Over 175,000 Gallons	$5.3526
4 inch	0 - 290,000 Gallons	$4.2820
	Over 290,000 Gallons	$5.3526
Sales for Resale		
	All meters & all gallons	$5.6109

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - Casa Grande / Coolidge
Docket No. W-01445A-08-0440

Monthly Minimum

Residential, Commercial, Construction Water, Sales for Resale		Rates
	5/8 x 3/4 inch	$15.81
	1 inch	$39.52
	2 inch	$126.45
	3 inch	$252.91
	4 inch	$395.17
	6 inch	$790.34
	8 inch	$1,264.54
	10 inch	$1,817.78
Industrial		
	5/8 x 3/4 inch	$9.60
	1 inch	$23.05
	2 inch	$57.62
	3 inch	$96.03
	4 inch	$192.06
	6 inch	$336.11
	8 inch	$336.11
	10 inch	$1,104.37
Private Fire		
	All sizes	$22.91

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$1.3718
	3,000 - 10,000 Gallons	$1.7145
	Over 10,000 Gallons	$2.1433
1 inch	0 - 10,000 Gallons	$1.7145
	Over 10,000 Gallons	$2.1433
2 inch	0 - 125,000 Gallons	$1.7145
	Over 125,000 Gallons	$2.1433
3 inch	0 - 325,000 Gallons	$1.7145
	Over 325,000 Gallons	$2.1433
4 inch	0 - 500,000 Gallons	$1.7145
	Over 500,000 Gallons	$2.1433

6 inch	0 - 925,000 Gallons	$1.7145
	Over 925,000 Gallons	$2.1433
8 inch	0 - 1,500,000 Gallons	$1.7145
	Over 1,500,000 Gallons	$2.1433
10 inch	0 - 3,000,000 Gallons	$1.7145
	Over 3,000,000 Gallons	$2.1433
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$1.7145
	Over 10,000 Gallons	$2.1433
1 inch	0 - 40,000 Gallons	$1.7145
	Over 40,000 Gallons	$2.1433
2 inch	0 - 125,000 Gallons	$1.7145
	Over 125,000 Gallons	$2.1433
3 inch	0 - 325,000 Gallons	$1.7145
	Over 325,000 Gallons	$2.1433
4 inch	0 - 500,000 Gallons	$1.7145
	Over 500,000 Gallons	$2.1433
6 inch	0 - 925,000 Gallons	$1.7145
	Over 925,000 Gallons	$2.1433
8 inch	0 - 1,500,000 Gallons	$1.7145
	Over 1,500,000 Gallons	$2.1433
10 inch	0 - 3,000,000 Gallons	$1.7145
	Over 3,000,000 Gallons	$2.1433
Industrial		
	All meters & all gallons	$1.5055
Coin Machine		
		N/A
Construction Water		
2 inch	0 - 125,000 Gallons	$1.7145
	Over 125,000 Gallons	$2.1433
3 inch	0 - 325,000 Gallons	$1.7145
	Over 325,000 Gallons	$2.1433
4 inch	0 - 500,000 Gallons	$1.7145
	Over 500,000 Gallons	$2.1433
Sales for Resale		
	All meters & all gallons	$1.5055

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - Stanfield
Docket No. W-01445A-08-0440

Monthly Minimum

		Rates
Residential, Commercial, Construction Water, Sales for Resale		
	5/8 x 3/4 inch	$15.81
	1 inch	$39.52
	2 inch	$126.45
	3 inch	$252.91
	4 inch	$395.17
	6 inch	$790.34
	8 inch	$1,264.54
	10 inch	$2,529.09
Industrial		
	5/8 x 3/4 inch	$9.60
	1 inch	$40.00
	2 inch	$200.00
	3 inch	$153.65
	4 inch	$240.08
	6 inch	$480.16
	8 inch	$768.26
	10 inch	$1,536.51
Private Fire		
	All sizes	$22.91

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$2.3102
	3,000 - 10,000 Gallons	$2.8880
	Over 10,000 Gallons	$3.6103
1 inch	0 - 10,000 Gallons	$2.8880
	Over 10,000 Gallons	$3.6103
2 inch	0 - 125,000 Gallons	$2.8880
	Over 125,000 Gallons	$3.6103

3 inch	0 - 325,000 Gallons	$2.8880
	Over 325,000 Gallons	$3.6103
4 inch	0 - 500,000 Gallons	$2.8880
	Over 500,000 Gallons	$3.6103
6 inch	0 - 925,000 Gallons	$2.8880
	Over 925,000 Gallons	$3.6103
8 inch	0 - 1,500,000 Gallons	$2.8880
	Over 1,500,000 Gallons	$3.6103
10 inch	0 - 3,000,000 Gallons	$2.8880
	Over 3,000,000 Gallons	$3.6103
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$2.8880
	Over 10,000 Gallons	$3.6103
1 inch	0 - 40,000 Gallons	$2.8880
	Over 40,000 Gallons	$3.6103
2 inch	0 - 125,000 Gallons	$2.8880
	Over 125,000 Gallons	$3.6103
3 inch	0 - 325,000 Gallons	$2.8880
	Over 325,000 Gallons	$3.6103
4 inch	0 - 500,000 Gallons	$2.8880
	Over 500,000 Gallons	$3.6103
6 inch	0 - 925,000 Gallons	$2.8880
	Over 925,000 Gallons	$3.6103
8 inch	0 - 1,500,000 Gallons	$2.8880
	Over 1,500,000 Gallons	$3.6103
10 inch	0 - 3,000,000 Gallons	$2.8880
	Over 3,000,000 Gallons	$3.6103
Industrial		
	All meters & all gallons	$2.8880
Coin Machine		
		$75.9326
Construction Water		
2 inch	0 - 125,000 Gallons	$2.8880
	Over 125,000 Gallons	$3.6103
3 inch	0 - 325,000 Gallons	$2.8880
	Over 325,000 Gallons	$3.6103
4 inch	0 - 500,000 Gallons	$2.8880
	Over 500,000 Gallons	$3.6103
Sales for Resale		
	All meters & all gallons	$2.8880

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - Lakeside / Overgaard
Docket No. W-01445A-08-0440

Monthly Minimum

		Rates
Residential, Commercial, Construction Water, Sales for Resale		
	5/8 x 3/4 inch	$12.64
	1 inch	$31.61
	2 inch	$101.15
	3 inch	$202.29
	4 inch	$316.08
	6 inch	$632.17
	8 inch	$1,011.47
	10 inch - res	$1,453.99
	10 inch - comm	$2,022.94
Industrial		
	5/8 x 3/4 inch	$12.64
	1 inch	$31.61
	2 inch	$101.15
	3 inch	$202.29
	4 inch	$316.08
	6 inch	$632.17
	8 inch	$1,011.47
	10 inch	$2,022.94
Private Fire		
	All sizes	$22.58

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$4.2771
	3,000 - 10,000 Gallons	$5.1320
	Over 10,000 Gallons	$6.1580
1 inch	0 - 10,000 Gallons	$5.1320
	Over 10,000 Gallons	$6.1580
2 inch	0 - 50,000 Gallons	$5.1320
	Over 50,000 Gallons	$6.1580

3 inch	0 - 125,000 Gallons	$5.1320
	Over 125,000 Gallons	$6.1580
4 inch	0 - 200,000 Gallons	$5.1320
	Over 200,000 Gallons	$6.1580
6 inch	0 - 350,000 Gallons	$5.1320
	Over 350,000 Gallons	$6.1580
8 inch	0 - 650,000 Gallons	$5.1320
	Over 650,000 Gallons	$6.1580
10 inch	0 - 1,400,000 Gallons	$5.1320
	Over 1,400,000 Gallons	$6.1580
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$4.6988
	Over 10,000 Gallons	$5.6386
1 inch	0 - 15,000 Gallons	$4.6988
	Over 15,000 Gallons	$5.6386
2 inch	0 - 65,000 Gallons	$4.6988
	Over 65,000 Gallons	$5.6386
3 inch	0 - 125,000 Gallons	$4.6988
	Over 125,000 Gallons	$5.6386
4 inch	0 - 200,000 Gallons	$4.6988
	Over 200,000 Gallons	$5.6386
6 inch	0 - 400,000 Gallons	$4.6988
	Over 400,000 Gallons	$5.6386
8 inch	0 - 675,000 Gallons	$4.6988
	Over 675,000 Gallons	$5.6386
10 inch	0 - 1,400,000 Gallons	$4.6988
	Over 1,400,000 Gallons	$5.6386
Industrial		
	All meters & all gallons	$4.0667
Coin Machine		
		N/A
Construction Water		
2 inch	0 - 65,000 Gallons	$4.6988
	Over 65,000 Gallons	$5.6386
3 inch	0 - 125,000 Gallons	$4.6988
	Over 125,000 Gallons	$5.6386
4 inch	0 - 200,000 Gallons	$4.6988
	Over 200,000 Gallons	$5.6386
Sales for Resale		
	All meters & all gallons	$4.6988

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - Oracle
Docket No. W-01445A-08-0440

Monthly Minimum

		Rates
Residential, Commercial, Construction Water, Sales for Resale		
	5/8 x 3/4 inch	$19.83
	1 inch	$49.58
	2 inch	$158.67
	3 inch	$317.33
	4 inch	$495.83
	6 inch	$991.66
	8 inch	$1,586.65
	10 inch	$2,280.81
Industrial		
	5/8 x 3/4 inch	$19.83
	1 inch	$49.58
	2 inch	$158.67
	3 inch	$317.33
	4 inch	$495.83
	6 inch	$991.66
	8 inch	$1,586.65
	10 inch	$2,280.81
Private Fire		
	All sizes	$23.61

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$4.0922
	3,000 - 10,000 Gallons	$5.1151
	Over 10,000 Gallons	$6.3938
1 inch	0 - 10,000 Gallons	$5.1151
	Over 10,000 Gallons	$6.3938
2 inch	0 - 90,000 Gallons	$5.1151
	Over 90,000 Gallons	$6.3938
3 inch	0 - 200,000 Gallons	$5.1151
	Over 200,000 Gallons	$6.3938
4 inch	0 - 325,000 Gallons	$5.1151
	Over 325,000 Gallons	$6.3938

6 inch	0 - 675,000 Gallons	$5.1151
	Over 675,000 Gallons	$6.3938
8 inch	0 - 1,000,000 Gallons	$5.1151
	Over 1,000,000 Gallons	$6.3938
10 inch	0 - 2,300,000 Gallons	$5.1151
	Over 2,300,000 Gallons	$6.3938
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$5.1151
	Over 10,000 Gallons	$6.3938
1 inch	0 - 30,000 Gallons	$5.1151
	Over 30,000 Gallons	$6.3938
2 inch	0 - 90,000 Gallons	$5.1151
	Over 90,000 Gallons	$6.3938
3 inch	0 - 210,000 Gallons	$5.1151
	Over 210,000 Gallons	$6.3938
4 inch	0 - 340,000 Gallons	$5.1151
	Over 340,000 Gallons	$6.3938
6 inch	0 - 725,000 Gallons	$5.1151
	Over 725,000 Gallons	$6.3938
8 inch	0 - 1,100,000 Gallons	$5.1151
	Over 1,100,000 Gallons	$6.3938
10 inch	0 - 2,300,000 Gallons	$5.1151
	Over 2,300,000 Gallons	$6.3938
Industrial		
	All meters & all gallons	$5.1151
Coin Machine		
		N/A
Construction Water		
2 inch	0 - 90,000 Gallons	$5.1151
	Over 90,000 Gallons	$6.3938
3 inch	0 - 210,000 Gallons	$5.1151
	Over 210,000 Gallons	$6.3938
4 inch	0 - 340,000 Gallons	$5.1151
	Over 340,000 Gallons	$6.3938
Sales for Resale		
	All meters & all gallons	$5.1151

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - San Manuel
Docket No. W-01445A-08-0440

Monthly Minimum

		Rates
Residential, Commercial, Construction Water, Sales for Resale		
	5/8 x 3/4 inch	$21.52
	1 inch	$53.80
	2 inch	$172.18
	3 inch	$344.35
	4 inch	$538.05
	6 inch	$1,076.10
	8 inch	$1,721.76
	10 inch	$2,475.03
Industrial		
	5/8 x 3/4 inch	$21.52
	1 inch	$53.80
	2 inch	$172.18
	3 inch	$344.35
	4 inch	$538.05
	6 inch	$1,076.10
	8 inch	$1,721.76
	10 inch	$2,475.03
Private Fire		
	All sizes	$23.91

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$2.7022
	3,000 - 10,000 Gallons	$3.3775
	Over 10,000 Gallons	$4.2221
1 inch	0 - 10,000 Gallons	$3.3775
	Over 10,000 Gallons	$4.2221
2 inch	0 - 125,000 Gallons	$3.3775
	Over 125,000 Gallons	$4.2221
3 inch	0 - 325,000 Gallons	$3.3775
	Over 325,000 Gallons	$4.2221
4 inch	0 - 500,000 Gallons	$3.3775
	Over 500,000 Gallons	$4.2221

6 inch	0 - 925,000 Gallons	$3.3775
	Over 925,000 Gallons	$4.2221
8 inch	0 - 1,500,000 Gallons	$3.3775
	Over 1,500,000 Gallons	$4.2221
10 inch	0 - 3,000,000 Gallons	$3.3775
	Over 3,000,000 Gallons	$4.2221
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$3.3775
	Over 10,000 Gallons	$4.2221
1 inch	0 - 40,000 Gallons	$3.3775
	Over 40,000 Gallons	$4.2221
2 inch	0 - 125,000 Gallons	$3.3775
	Over 125,000 Gallons	$4.2221
3 inch	0 - 325,000 Gallons	$3.3775
	Over 325,000 Gallons	$4.2221
4 inch	0 - 500,000 Gallons	$3.3775
	Over 500,000 Gallons	$4.2221
6 inch	0 - 925,000 Gallons	$3.3775
	Over 925,000 Gallons	$4.2221
8 inch	0 - 1,500,000 Gallons	$3.3775
	Over 1,500,000 Gallons	$4.2221
10 inch	0 - 3,000,000 Gallons	$3.3775
	Over 3,000,000 Gallons	$4.2221
Industrial		
	All meters & all gallons	$3.3775
Coin Machine		
		N/A
Construction Water		
2 inch	0 - 125,000 Gallons	$3.3894
	Over 125,000 Gallons	$4.2370
3 inch	0 - 325,000 Gallons	$3.3894
	Over 325,000 Gallons	$4.2370
4 inch	0 - 500,000 Gallons	$3.3894
	Over 500,000 Gallons	$4.2370
Sales for Resale		
	All meters & all gallons	$3.3775

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - Sedona
Docket No. W-01445A-08-0440

Monthly Minimum

		Rates
Residential, Commercial, Construction Water, Sales for Resale		
	5/8 x 3/4 inch	$23.10
	1 inch	$57.75
	2 inch	$184.81
	3 inch	$369.62
	4 inch	$577.54
	6 inch	$1,155.07
	8 inch	$1,848.12
	10 inch - res	$2,656.67
	10 inch - Comm	$3,696.23
Industrial		
	5/8 x 3/4 inch	$21.74
	1 inch	$54.36
	2 inch	$173.96
	3 inch	$347.92
	4 inch	$543.62
	6 inch	$1,067.25
	8 inch	$1,739.60
	10 inch	$2,500.67
Private Fire		
	All sizes	$25.89

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$1.5315
	3,000 - 10,000 Gallons	$1.9144
	Over 10,000 Gallons	$2.3930
1 inch	0 - 10,000 Gallons	$1.9144
	Over 10,000 Gallons	$2.3930
2 inch	0 - 125,000 Gallons	$1.9144
	Over 125,000 Gallons	$2.3930
3 inch	0 - 325,000 Gallons	$1.9144
	Over 325,000 Gallons	$2.3930
4 inch	0 - 500,000 Gallons	$1.9144
	Over 500,000 Gallons	$2.3930

6 inch	0 - 925,000 Gallons	$1.9144
	Over 925,000 Gallons	$2.3930
8 inch	0 - 1,500,000 Gallons	$1.9144
	Over 1,500,000 Gallons	$2.3930
10 inch	0 - 3,000,000 Gallons	$1.9144
	Over 3,000,000 Gallons	$2.3930
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$1.9144
	Over 10,000 Gallons	$2.3930
1 inch	0 - 40,000 Gallons	$1.9144
	Over 40,000 Gallons	$2.3930
2 inch	0 - 125,000 Gallons	$1.9144
	Over 125,000 Gallons	$2.3930
3 inch	0 - 325,000 Gallons	$1.9144
	Over 325,000 Gallons	$2.3930
4 inch	0 - 500,000 Gallons	$1.9144
	Over 500,000 Gallons	$2.3930
6 inch	0 - 925,000 Gallons	$1.9144
	Over 925,000 Gallons	$2.3930
8 inch	0 - 1,500,000 Gallons	$1.9144
	Over 1,500,000 Gallons	$2.3930
10 inch	0 - 3,000,000 Gallons	$1.9144
	Over 3,000,000 Gallons	$2.3930
Industrial		
	All meters & all gallons	$1.6801
Coin Machine		
		$82.0324
Construction Water		
2 inch	0 - 125,000 Gallons	$1.9144
	Over 125,000 Gallons	$2.3930
3 inch	0 - 325,000 Gallons	$1.9144
	Over 325,000 Gallons	$2.3930
4 inch	0 - 500,000 Gallons	$1.9144
	Over 500,000 Gallons	$2.3930
Sales for Resale		
	All meters & all gallons	$2.2489

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - Superstition (includes Apache Junction and Superior) / Miami
Docket No. W-01445A-08-0440

Monthly Minimum

Residential, Commercial, Construction Water, Sales for Resale		Rates
	5/8 x 3/4 inch	$17.52
	1 inch	$43.80
	2 inch	$140.14
	3 inch	$280.29
	4 inch	$437.95
	6 inch	$875.90
	8 inch	$1,401.45
	10 inch	$2,014.58
Industrial		
	5/8 x 3/4 inch	$18.44
	1 inch	$65.60
	2 inch	$147.52
	3 inch	$295.04
	4 inch	$461.00
	6 inch	$922.01
	8 inch	$1,475.21
	10 inch	$2,120.61
Private Fire		
	All sizes	$26.24

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$2.2820
	3,000 - 10,000 Gallons	$2.8527
	Over 10,000 Gallons	$3.5663
1 inch	0 - 10,000 Gallons	$2.8527
	Over 10,000 Gallons	$3.5663
2 inch	0 - 125,000 Gallons	$2.8527
	Over 125,000 Gallons	$3.5663

3 inch	0 - 300,000 Gallons	$2.8527
	Over 300,000 Gallons	$3.5663
4 inch	0 - 500,000 Gallons	$2.8527
	Over 500,000 Gallons	$3.5663
6 inch	0 - 1,000,000 Gallons	$2.8527
	Over 1,000,000 Gallons	$3.5663
8 inch	0 - 1,500,000 Gallons	$2.8527
	Over 1,500,000 Gallons	$3.5663
10 inch	0 - 2,225,000 Gallons	$2.8527
	Over 2.225,000 Gallons	$3.5663
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$2.8527
	Over 10,000 Gallons	$3.5663
1 inch	0 - 30,000 Gallons	$2.8527
	Over 30,000 Gallons	$3.5663
2 inch	0 - 100,000 Gallons	$2.8527
	Over 100,000 Gallons	$3.5663
3 inch	0 - 275,000 Gallons	$2.8527
	Over 275,000 Gallons	$3.5663
4 inch	0 - 450,000 Gallons	$2.8527
	Over 450,000 Gallons	$3.5663
6 inch	0 - 925,000 Gallons	$2.8527
	Over 925,000 Gallons	$3.5663
8 inch	0 - 1,500,000 Gallons	$2.8527
	Over 1,500,000 Gallons	$3.5663
10 inch	0 - 2.,225,000 Gallons	$2.8527
	Over 2,225,000 Gallons	$3.5663
Industrial		
	All meters & all gallons	$2.7660
Coin Machine		
		$73.6012
Construction Water		
2 inch	0 - 100,000 Gallons	$2.8527
	Over 100,000 Gallons	$3.5663
3 inch	0 - 275,000 Gallons	$2.8527
	Over 275,000 Gallons	$3.5663
4 inch	0 - 450,000 Gallons	$2.8527
	Over 450,000 Gallons	$3.5663
Sales for Resale		
	All meters & all gallons	$2.7660

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - White Tank
Docket No. W-01445A-08-0440

Monthly Minimum

		Rates
Residential, Commercial, Construction Water, Sales for Resale		
	5/8 x 3/4 inch	$22.72
	1 inch	$56.80
	2 inch	$181.76
	3 inch	$363.51
	4 inch	$567.99
	6 inch	$1,135.98
	8 inch	$1,817.56
	10 inch	$2,612.75
Industrial		
	5/8 x 3/4 inch	$18.54
	1 inch	$46.34
	2 inch	$148.28
	3 inch	$296.56
	4 inch	$463.38
	6 inch	$926.75
	8 inch	$1,482.81
	10 inch	$2,131.54
Private Fire		
	All sizes	$22.69

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$1.6493
	3,000 - 10,000 Gallons	$2.0614
	Over 10,000 Gallons	$2.5769
1 inch	0 - 10,000 Gallons	$2.0614
	Over 10,000 Gallons	$2.5769
2 inch	0 - 185,000 Gallons	$2.0614
	Over 185,000 Gallons	$2.5769
3 inch	0 - 400,000 Gallons	$2.0614
	Over 400,000 Gallons	$2.5769
4 inch	0 - 800,000 Gallons	$2.0614
	Over 800,000 Gallons	$2.5769

6 inch	0 - 1,500,000 Gallons	$2.0614
	Over 1,500,000 Gallons	$2.5769
8 inch	0 - 2,500,000 Gallons	$2.0614
	Over 2,500,000 Gallons	$2.5769
10 inch	0 - 7,000,000 Gallons	$2.0614
	Over 7,000,000 Gallons	$2.5769
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$2.0614
	Over 10,000 Gallons	$2.5769
1 inch	0 - 75,000 Gallons	$2.0614
	Over 75,000 Gallons	$2.5769
2 inch	0 - 325,000 Gallons	$2.0614
	Over 325,000 Gallons	$2.5769
3 inch	0 - 700,000 Gallons	$2.0614
	Over 700,000 Gallons	$2.5769
4 inch	0 - 1,100,000 Gallons	$2.0614
	Over 1,100,000 Gallons	$2.5769
6 inch	0 - 2,200,000 Gallons	$2.0614
	Over 2,200,000 Gallons	$2.5769
8 inch	0 - 3,500,000 Gallons	$2.0614
	Over 3,500,000 Gallons	$2.5769
10 inch	0 - 7,000,000 Gallons	$2.0614
	Over 7,000,000 Gallons	$2.5769
Industrial		
	All meters & all gallons	$4.6274
Coin Machine		
		N/A
Construction Water		
2 inch	0 - 325,000 Gallons	$2.0614
	Over 325,000 Gallons	$2.5769
3 inch	0 - 700,000 Gallons	$2.0614
	Over 700,000 Gallons	$2.5769
4 inch	0 - 1,100,000 Gallons	$2.0614
	Over 1,100,000 Gallons	$2.5769
Sales for Resale		
	All meters & all gallons	$4.6274

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
8" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
8" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00

Arizona Water - Winkleman
Docket No. W-01445A-08-0440

Monthly Minimum

Residential, Commercial, Construction Water, Sales for Resale		Rates
	5/8 x 3/4 inch	$14.84
	1 inch	$37.10
	2 inch	$118.73
	3 inch	$237.46
	4 inch	$371.03
	6 inch	$742.06
	8 inch	$1,187.30
	10 inch	$1,706.74
Industrial		
	5/8 x 3/4 inch	$12.58
	1 inch	$31.44
	2 inch	$100.61
	3 inch	$201.22
	4 inch	$314.41
	6 inch	$628.81
	8 inch	$1,006.10
	10 inch	$1,446.27
Private Fire		
	All sizes	$22.83

Commodity Rates

Residential	Block	Per Thousand Gallons
5/8 x 3/4 inch	0 - 3,000 Gallons	$1.4458
	3,000 - 10,000 Gallons	$1.8074
	Over 10,000 Gallons	$2.2595
1 inch	0 - 10,000 Gallons	$1.8074
	Over 10,000 Gallons	$2.2595
2 inch	0 - 125,000 Gallons	$1.8074
	Over 125,000 Gallons	$2.2595
3 inch	0 - 325,000 Gallons	$1.8074
	Over 325,000 Gallons	$2.2595
4 inch	0 - 500,000 Gallons	$1.8074
	Over 500,000 Gallons	$2.2595

6 inch	0 - 925,000 Gallons	$1.8074
	Over 925,000 Gallons	$2.2595
8 inch	0 - 1,500,000 Gallons	$1.8074
	Over 1,500,000 Gallons	$2.2595
10 inch	0 - 3,000,000 Gallons	$1.8074
	Over 3,000,000 Gallons	$2.2595
Commercial		
5/8 x 3/4 inch	0 - 10,000 Gallons	$1.8074
	Over 10,000 Gallons	$2.2595
1 inch	0 - 40,000 Gallons	$1.8074
	Over 40,000 Gallons	$2.2595
2 inch	0 - 125,000 Gallons	$1.8074
	Over 125,000 Gallons	$2.2595
3 inch	0 - 325,000 Gallons	$1.8074
	Over 325,000 Gallons	$2.2595
4 inch	0 - 500,000 Gallons	$1.8074
	Over 500,000 Gallons	$2.2595
6 inch	0 - 925,000 Gallons	$1.8074
	Over 925,000 Gallons	$2.2595
8 inch	0 - 1,500,000 Gallons	$1.8074
	Over 1,500,000 Gallons	$2.2595
10 inch	0 - 3,000,000 Gallons	$1.8074
	Over 3,000,000 Gallons	$2.2595
Industrial		
	All meters & all gallons	$2.2696
Coin Machine		
		N/A
Construction Water		
2 inch	0 - 125,000 Gallons	$1.8074
	Over 125,000 Gallons	$2.2595
3 inch	0 - 325,000 Gallons	$1.8074
	Over 325,000 Gallons	$2.2595
4 inch	0 - 500,000 Gallons	$1.8074
	Over 500,000 Gallons	$2.2595
Sales for Resale		
	All meters & all gallons	$2.2696

Service Charges

Establishment	$16.00
Guarantee Deposit	Residential - maximum: Two (2) times average customer class bill. Non-Residential maximum: Two and one-half (2 1/2) times that customers estimated maximum monthly bill
Reconnection for Delinquency	$16.00
Re-Establishment	Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
Service Call Out	During regular working hours - No charge. After regular working hours, on Saturdays, Sundays, or holidays - $35.00
Returned Check	$25.00
Meter Re-read	No Charge, if done during regular working hours, otherwise, a $35.00 service call out
Meter Test	No charge for the first test; for the second test for the same customer within an twelve (12) month period, $50.00, or actual time and material whichever is greater

Meter and Service Line Installation Charges

Meter Size	Service Line	Meter	Total
5/8-inch	$ 445.00	$ 155.00	$ 600.00
1-inch	$ 495.00	$ 315.00	$ 810.00
2" turbine	$ 830.00	$ 1,045.00	$ 1,575.00
2" compound	$ 830.00	$ 1,890.00	$ 2,720.00
3" turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" compound	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" turbine	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" compound	$ 1,570.00	$ 3,645.00	$ 5,315.00
6" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00
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10" turbine	$ 2,210.00	$ 5,025.00	$ 7,235.00
10" compound	$ 2,330.00	$ 6,920.00	$ 9,250.00