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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

Arizona Corporation Commission

DOCKETED

MAY 27 2011

DOCKETED BY nr

IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY FOR
AUTHORITY TO IMPLEMENT ARSENIC
COST RECOVERY MECHANISM FOR ITS
VERDE VALLEY SYSTEM

DOCKET NO. W-01445A-08-0440
DECISION NO. 72375
ORDER

Open Meeting
May 24 and 25, 2011
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. Pursuant to Decision Nos. 66400 and 71845, Arizona Water Company (“Company,” “Applicant” or “AWC”) filed an application on October 12, 2010, with the Arizona Corporation Commission (“Commission”) requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism (“ACRM”) for its Pinewood, Rimrock and Sedona water systems (collectively, “Verde Valley System”) in its Northern Group.

Background

2. On January 23, 2001, the Environmental Protection Agency (“EPA”) reduced the drinking water maximum contaminant level of arsenic from 50 parts per billion (“ppb”) to 10 ppb.

3. All community water systems and non-transient non-community water systems need to comply with the new federal rule by the January 23, 2006, deadline.¹

¹ Qualified small water systems are allowed up to three two-year extensions.

1 4. In August 2008, AWC filed an application with the Commission for an adjustment
2 to its rates and charges for all 17 of its water systems.

3 5. The rate application included a request for an ACRM for Sedona that conforms
4 with the ACRM authorized in Decision No. 66400 (October 14, 2003) for AWC's Northern
5 Group.

6 6. On August 25, 2010, the Commission issued Decision No. 71845 approving an
7 ACRM for the Sedona water system.

8 Company's Current Application

9 7. On October 12, 2010, AWC filed an application to implement Step One of its
10 ACRM for its Verde Valley System.

11 8. The Company established the Verde Valley System by combining the Pinewood,
12 Rimrock, and Sedona water systems.

13 9. In conformity with Decision Nos. 66400 and 71845, AWC seeks a surcharge to
14 recover a return on its arsenic remediation investment, depreciation expense and related income
15 taxes. The Company is not seeking recovery of new or additional Operating and Maintenance
16 expenses at this time.

17 10. The Company's filing proposes to apply an ACRM surcharge to customers in the
18 Pinewood/Rimrock water system as well as those in the Sedona water system.

19 11. The Company's application asserts that it limited application of the proposed
20 ACRM commodity rate surcharges to Sedona customers in order to gradually bring the commodity
21 rates for Sedona closer to those of Pinewood and Rimrock, consistent with the Company's
22 consolidation plan approved in Decision No. 71845. The Company's consolidation plan
23 anticipates full consolidation of rates among all of its water systems in Arizona in a subsequent
24 rate case.

25 12. AWC proposes a \$90,075 annual ACRM surcharge revenue requirement.

26 13. For the Sedona system, AWC requests a Step-One ACRM surcharge of \$0.28 on
27 the monthly customer charge and \$0.0418 per 1,000 gallons on the commodity rate.

28 ...

1 14. The Company estimates (based on 9,297 gallons used on the 5/8-inch meter) that
2 the average residential customer bill would increase by approximately \$0.67, from \$39.75 to
3 \$40.42 (1.7 percent) for the Sedona System.

4 15. For the Pinewood/Rimrock system, AWC requests a Step-One ACRM surcharge of
5 \$0.28 on the monthly minimum customer charge and no surcharge on the commodity rate.

6 16. The Company estimates (based on 3,208 gallons used on the 5/8-inch meter) that
7 the average residential customer bill would increase by approximately \$0.28, from \$34.15 to
8 \$34.43 (0.8 percent) for the Pinewood/Rimrock system.

9 Residential Utility Consumer Office ("RUCO") Analysis

10 17. On December 07, 2010, RUCO filed its report on its audit of AWC's Verde Valley
11 System Step-One ACRM surcharge request.

12 18. RUCO recommends adoption of the Company's application as filed.

13 ACRM Filing Requirements

14 19. Decision Nos. 71845 and 66400 require AWC to file ten schedules as follows:
15 balance sheet, income statement, earnings test, rate review, arsenic revenue requirement, surcharge
16 calculation, adjusted rate base schedule, construction work in progress ledger, three-factor
17 allocation and typical bill analysis.

18 20. AWC filed the following schedules for the Verde Valley System:

- 19 a. Balance Sheet – a balance sheet for its Verde Valley System which is the
20 most current balance sheet at the time of the filing – December 31, 2009.
- 21 b. Income Statement – a most current income statement for its Verde Valley
22 System - period ending December 31, 2009.
- 23 c. Earnings Test Schedule – an "Earnings Test" schedule for the twelve
24 months ending December, 2009 for its Verde Valley System.
- 25 d. Rate Review Schedule – a Verde Valley System schedule including the
26 effects of the proposed increase.
- 27 e. Arsenic Revenue Requirement Calculation – a Verde Valley System arsenic
28 revenue requirement calculation for step one.
- f. Surcharge Calculation – separate, detailed surcharge calculations for both
 the Minimum Charge and Commodity Charge for the Verde Valley System.

- 1 g. Adjusted Rate Base Schedule – a Verde Valley System schedule showing
2 the effects of the arsenic plant investment.
- 3 h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the
4 arsenic construction work in progress accounts for the Verde Valley System.
- 5 i. Three factor allocation schedule – a schedule showing the factors
6 attributable to all the districts within the Northern Group.
- 7 j. Typical Bill Analysis – ACRM Step 1 – a separate typical bill analysis
8 showing the effects on residential customers at the average residential usage
9 for the Verde Valley System.

8 Staff Analysis

9 21. Staff performed a field inspection and verified that the Sedona arsenic treatment
10 facilities related to the Step 1 ACRM surcharge request are in service and providing water that
11 meets the new arsenic standard.

12 22. Staff performed an examination of AWC’s Verde Valley System Step-One ACRM
13 surcharge filing and concludes that, although the Company’s posting of amounts to the CWIP
14 ledger accurately reflect the Company’s records, reconcile to the invoices submitted, and are
15 mathematically correct, the filing does not conform to Decision No. 71845.

16 23. Staff recommends a Step-One ACRM surcharge for only the Sedona system, for the
17 reasons explained below, comprised of a \$0.40 monthly customer charge (5/8-inch meter)² and a
18 \$0.0418 per 1,000 gallons commodity rate to correspond with its recommended arsenic surcharge
19 revenue requirement of \$90,075.

20 24. Staff calculates that these ACRM surcharges would increase the monthly bill for the
21 Sedona average residential customer using 9,297 gallons by \$0.79, from \$39.75 to \$40.54 (2.0
22 percent).

23 25. Staff concludes that the surcharge should not apply to Pinewood/Rimrock
24 customers, and it should not impact their monthly bills.

25 26. Staff recommends approval of its recommended ACRM surcharges as presented in
26 Schedule GTM-1.

27 _____
28 ² The ACRM monthly minimum surcharge increases by meter size.

1 27. Staff recommends that the Company file with the Commission an arsenic cost
2 recovery surcharge tariff consistent with Schedule GTM-1 within 30 days of the effective date of
3 the Commission Decision in this matter.

4 28. Staff recommends that AWC notify its Sedona customers of the arsenic cost
5 recovery surcharge tariff approved herein within 30 days of the effective date of the Commission
6 Decision in this matter.

7 Conclusions and Recommendations

8 29. Decision No. 71845 authorized AWC to implement a new ACRM for the Sedona
9 system subject to compliance with the conditions established in Decision No. 66400.

10 30. Decision No. 71845 made no reference to granting an ACRM for the
11 Pinewood/Rimrock system.

12 31. Decision No. 71845 established monthly minimum charges for the Sedona water
13 system identical to those in the Pinewood/Rimrock system.

14 32. Decision No. 71845 established commodity rates for the Sedona water system that
15 differ from the Pinewood/Rimrock system, and that Decision makes no mention of a Verde Valley
16 System.

17 33. The Company's filing proposes to apply an ACRM surcharge to customers in the
18 Pinewood/Rimrock water system as well as those in the Sedona water system, based on the
19 Company's assertion that the Commission adopted its rate consolidation plan.

20 34. Contrary to that assertion, in Decision No. 71845, we stated, "We make no finding,
21 at this time, regarding the issue of whether full system consolidation should ultimately be
22 approved. Rather we expect the Company to provide detailed supporting testimony and
23 documentation in a future case, or cases, to justify a single-tariff pricing proposal."³

24 35. The Company's proposal to charge a commodity surcharge in the Sedona system
25 but not in the Pinewood/Rimrock system does not conform to the authorized provisions of
26 ...

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³ Decision No. 71845, p. 53, lines 13-16.

1 Decision No. 66400. No provision of Decision No. 66400 allows discriminatory application of the
2 commodity rate portion of the ACRM surcharge by customer location.

3 36. We conclude that the Step-One ACRM surcharge is only applicable to the
4 customers in the Sedona water system.⁴

5 37. The authorized ACRM provides for the calculation of a surcharge based on
6 financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an
7 amount that would not result in a rate of return for the Sedona water system that exceeds that
8 authorized in Decision No. 71845.⁵

9 38. Staff and the Company agree that \$90,075 is the appropriate amount for the ACRM
10 revenue requirement. We find this conclusion to be reasonable and we adopt it.

11 39. Decision No. 66400 specifies that the ACRM rate design generate 50 percent of the
12 ACRM surcharge revenue requirement from monthly customer charges and 50 percent from
13 commodity rates.

14 40. We find that Staff's recommended surcharge rates, as presented in the attached
15 Schedule GTM-1 and applicable only to the customers of the Sedona system, are reasonable and
16 should be adopted.

17 41. We find that Staff's conclusions and recommendations as discussed in Findings of
18 Fact Nos. 21 through 25 are reasonable and should be adopted.

19 CONCLUSIONS OF LAW

20 1. The Company is a public service corporation within the meaning of Article XV,
21 Section 2 of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

22 2. The Commission has jurisdiction over the Company and of the subject matter of the
23 application.

24 3. Approval of the filing does not constitute a rate increase as contemplated by A.R.S.
25 § 40-250.

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27 _____
28 ⁴ An ACRM was also authorized for the Superstition system that is not part of the proposed Verde Valley System.

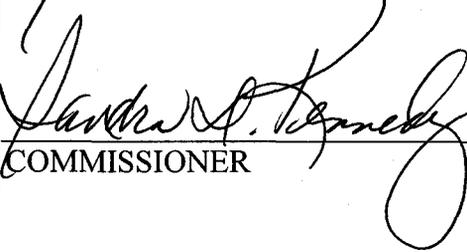
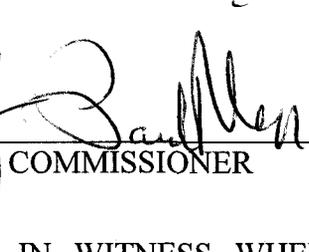
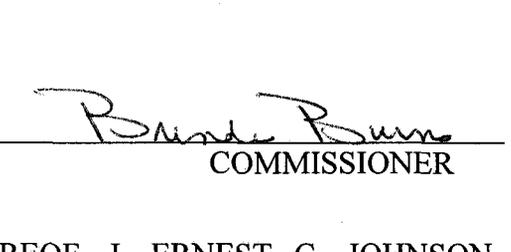
⁵ The authorized rate of return is 7.87 percent.

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

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

		
CHAIRMAN	COMMISSIONER	
		
COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 27th day of MAY, 2011.


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:GTM:sms/WVC

1 SERVICE LIST FOR: Arizona Water Company
DOCKET NO. W-01445A-08-0440

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ARIZONA WATER COMPANY
DOCKET NO. W-01445A-08-0440
Verde Valley System

Residential Customers	TIER ONE				TIER TWO				TIER THREE					
	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
Sedona														
5/8" x 3/4" Meter	\$ 23.10	1.0	\$ 0.40	\$ 23.50	\$ 0.0418	\$ 1.5317	\$ 1.5735	3,000	\$ 1,9147	\$ 1,9565	10,000	\$ 2,3910	\$ 2,4328	Infinite
1"	\$ 55.75	2.4	\$ 0.97	\$ 56.72	\$ 0.0418	\$ 1.9147	\$ 1.9565	10,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
2"	\$ 184.81	8.0	\$ 3.20	\$ 186.01	\$ 0.0418	\$ 1.9147	\$ 1.9565	125,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
3"	\$ 369.62	16.0	\$ 6.40	\$ 376.02	\$ 0.0418	\$ 1.9147	\$ 1.9565	298,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
4"	\$ 577.54	25.0	\$ 10.00	\$ 587.54	\$ 0.0418	\$ 1.9147	\$ 1.9565	493,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
6"	\$ 1,155.07	50.0	\$ 20.00	\$ 1,175.07	\$ 0.0418	\$ 1.9147	\$ 1.9565	1,500,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
8"	\$ 1,848.12	80.0	\$ 32.00	\$ 1,880.12	\$ 0.0418	\$ 1.9147	\$ 1.9565	2,262,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
10"	\$ 2,656.67	115.0	\$ 46.00	\$ 2,702.67	\$ 0.0418	\$ 1.9147	\$ 1.9565		\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite

Commercial Customers	TIER ONE				TIER TWO				TIER THREE					
	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
Sedona														
5/8" x 3/4" Meter	\$ 23.10	1.0	\$ 0.40	\$ 23.50	\$ 0.0418	\$ 1.9147	\$ 1.9565	10,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
1"	\$ 55.75	2.4	\$ 0.97	\$ 56.72	\$ 0.0418	\$ 1.9147	\$ 1.9565	40,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
2"	\$ 184.81	8.0	\$ 3.20	\$ 188.01	\$ 0.0418	\$ 1.9147	\$ 1.9565	125,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
3"	\$ 369.62	16.0	\$ 6.40	\$ 376.02	\$ 0.0418	\$ 1.9147	\$ 1.9565	298,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
4"	\$ 577.54	25.0	\$ 10.00	\$ 587.54	\$ 0.0418	\$ 1.9147	\$ 1.9565	493,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
6"	\$ 1,155.07	50.0	\$ 20.00	\$ 1,175.07	\$ 0.0418	\$ 1.9147	\$ 1.9565	925,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
8"	\$ 1,848.12	80.0	\$ 32.00	\$ 1,880.12	\$ 0.0418	\$ 1.9147	\$ 1.9565	1,500,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite
10"	\$ 2,656.67	115.0	\$ 46.00	\$ 2,702.67	\$ 0.0418	\$ 1.9147	\$ 1.9565	2,262,000	\$ 2,3910	\$ 2,4328	Infinite	\$ 2,3910	\$ 2,4328	Infinite

Industrial Customers	TIER ONE				TIER TWO				TIER THREE					
	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
Sedona														
5/8" x 3/4" Meter	\$ 21.74	1.0	\$ 0.40	\$ 22.14	\$ 0.0418	\$ 1.6801	\$ 1.7219	Infinite	\$ -	\$ -	N/A	\$ -	\$ -	N/A
1"	\$ 54.36	2.4	\$ 0.94	\$ 55.30	\$ 0.0418	\$ 1.6801	\$ 1.7219	Infinite	\$ -	\$ -	N/A	\$ -	\$ -	N/A
2"	\$ 173.96	7.5	\$ 3.01	\$ 176.97	\$ 0.0418	\$ 1.6801	\$ 1.7219	Infinite	\$ -	\$ -	N/A	\$ -	\$ -	N/A
3"	\$ 347.92	15.1	\$ 6.02	\$ 353.94	\$ 0.0418	\$ 1.6801	\$ 1.7219	Infinite	\$ -	\$ -	N/A	\$ -	\$ -	N/A
4"	\$ 543.62	23.5	\$ 9.41	\$ 553.03	\$ 0.0418	\$ 1.6801	\$ 1.7219	Infinite	\$ -	\$ -	N/A	\$ -	\$ -	N/A
6"	\$ 1,087.25	47.1	\$ 18.83	\$ 1,106.08	\$ 0.0418	\$ 1.6801	\$ 1.7219	Infinite	\$ -	\$ -	N/A	\$ -	\$ -	N/A
8"	\$ 1,739.60	75.3	\$ 30.12	\$ 1,769.72	\$ 0.0418	\$ 1.6801	\$ 1.7219	Infinite	\$ -	\$ -	N/A	\$ -	\$ -	N/A
10"	\$ 2,500.67	108.3	\$ 43.30	\$ 2,543.97	\$ 0.0418	\$ 1.6801	\$ 1.7219	Infinite	\$ -	\$ -	N/A	\$ -	\$ -	N/A

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-08-0440
Verde Valley System

Construction Customers

Sedona	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	New Commodity Rate		Upper Limit	Old Commodity Rate		Upper Limit	New Commodity Rate		Upper Limit
						Rate	Commodity Rate		Rate	Commodity Rate		Rate	Commodity Rate	
2"	\$ 184.81	1.0	\$ 0.40	\$ 185.21	\$ 0.0418	\$ 1.9147	\$ 1.9565	125,000	\$ 2.3910	N/A	Infinite	N/A	N/A	N/A
3"	\$ 369.62	16.0	\$ 6.40	\$ 376.02	\$ 0.0418	\$ 1.9147	\$ 1.9565	325,000	\$ 2.3910	N/A	Infinite	N/A	N/A	N/A
4"	\$ 577.54	25.0	\$ 10.00	\$ 587.54	\$ 0.0418	\$ 1.9147	\$ 1.9565	500,000	\$ 2.3910	N/A	Infinite	N/A	N/A	N/A

Resale Customers

Sedona	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	New Commodity Rate		Upper Limit	Old Commodity Rate		Upper Limit	New Commodity Rate		Upper Limit
						Rate	Commodity Rate		Rate	Commodity Rate		Rate	Commodity Rate	
5/8" x 3/4" Meter	\$ 23.10	1.0	\$ 0.40	\$ 23.50	\$ 0.0418	\$ 2.2489	\$ 2.2907	Infinite	\$ -	N/A	N/A	N/A	N/A	N/A
1"	\$ 57.75	2.5	\$ 1.00	\$ 58.75	\$ 0.0418	\$ 2.2489	\$ 2.2907	Infinite	\$ -	N/A	N/A	N/A	N/A	N/A
2"	\$ 184.81	8.0	\$ 3.20	\$ 188.01	\$ 0.0418	\$ 2.2489	\$ 2.2907	Infinite	\$ -	N/A	N/A	N/A	N/A	N/A
3"	\$ 369.62	16.0	\$ 6.40	\$ 376.02	\$ 0.0418	\$ 2.2489	\$ 2.2907	Infinite	\$ -	N/A	N/A	N/A	N/A	N/A
4"	\$ 577.54	25.0	\$ 10.00	\$ 587.54	\$ 0.0418	\$ 2.2489	\$ 2.2907	Infinite	\$ -	N/A	N/A	N/A	N/A	N/A
6"	\$ 1,155.07	50.0	\$ 20.00	\$ 1,175.07	\$ 0.0418	\$ 2.2489	\$ 2.2907	Infinite	\$ -	N/A	N/A	N/A	N/A	N/A
8"	\$ 1,848.12	80.0	\$ 32.00	\$ 1,880.12	\$ 0.0418	\$ 2.2489	\$ 2.2907	Infinite	\$ -	N/A	N/A	N/A	N/A	N/A
10"	\$ 2,656.67	115.0	\$ 46.00	\$ 2,702.67	\$ 0.0418	\$ 2.2489	\$ 2.2907	Infinite	\$ -	N/A	N/A	N/A	N/A	N/A