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MEMORANDUM

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2012 JUL 20 P 4: 16

**TO:** Docket Control

**FROM:** Steven M. Olea  
Director  
Utilities Division

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

**Date:** July 20, 2012

**RE:** ARIZONA WATER COMPANY'S APPLICATION FOR AUTHORITY TO IMPLEMENT STEP-2 OF THE ARSENIC COST RECOVERY MECHANISM IN ITS VERDE VALLEY SYSTEM (DOCKET NO. W-01445A-08-0440)

On August 25, 2010, the Arizona Corporation Commission ("Commission") issued Decision No. 71845 in a general rate proceeding for Arizona Water Company's ("Company") 18 water systems. In that Decision, the Commission authorized the Company to implement an Arsenic Cost Recovery Mechanism ("ACRM") for its Sedona system, which is now part of the Verde Valley system, in compliance with the conditions established in Decision No. 66400. The Verde Valley system is comprised of the Pinewood, Rimrock and Sedona water systems in its Northern Group.

An ACRM is a two-step mechanism. Decision No. 72375, dated May 27, 2011, denied the Company's request to implement a Step-one ACRM surcharge to each of the three water systems in its Verde Valley system and instead authorized a Step-one ACRM surcharge only for the Sedona water system.

In its current filing, dated June 22, 2012, a request to implement a Step-two ACRM surcharge, the Company, in conflict with the Commission's finding in Decision No. 72375, is again requesting to apply the surcharge to each of the three water systems that comprise the Verde Valley system. The application, as filed, does not contain the Sedona-specific information necessary for processing consistent with Decision No. 72375. Accordingly, Staff advises the Company to file an amended application which provides the appropriate filing requirements to support development of a Sedona system only Step-two ACRM surcharge.

NLS/JMM:kdh

Originator: Jeffery Michlik

Arizona Corporation Commission

**DOCKETED**

**JUL 20 2012**

DOCKETED BY

JM

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

Mr. Jay Shapiro  
Fennemore Craig  
3003 N. Central Ave., Ste. 2600  
Phoenix, AZ 85012

Mr. Robert W. Geake  
Vice President and General Counsel  
Arizona Water Company  
3805 N. Black Canyon Highway  
Phoenix, Arizona 85015-5351

Mr. Robert W. Geake  
Vice President and General Counsel  
Arizona Water Company  
Post Office Box 29006  
Phoenix, Arizona 85038-9006