



BEFORE THE ARIZONA CORPORATION COMMISSION

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DOUG LITTLE  
Interim Chairman  
BOB STUMP  
Commissioner  
BOB BURNS  
Commissioner  
TOM FORESE  
Commissioner

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 )  
FURNISHED BY ITS WESTERN GROUP )  
AND FOR CERTAIN RELATED )  
APPROVALS. )

DOCKET NO. W-01445A-10-0517  
75412  
DECISION NO. \_\_\_\_\_  
ORDER

Arizona Corporation Commission  
**DOCKETED**  
JAN 19 2016

Open Meeting  
January 12, 2016  
Phoenix, Arizona

DOCKETED BY

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. Pursuant to Decision Nos. 73144 and 66400, Arizona Water Company (“Company” or “AWC”) filed an application on August 14, 2015, with the Arizona Corporation Commission (“Commission”) requesting authorization to implement Step-One of the Arsenic Cost Recovery Mechanism (“ACRM”) for its Pinal Valley water system in its Western Group.

2. The Commission established the ACRM to aid the Company in its efforts to comply with the United States Environmental Protection Agency’s (“EPA”) new arsenic maximum contaminant level (“MCL”) of 10 particles per billion (“ppb”) which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes both fixed and volumetric charges.

1           3.       Decision No. 73144 authorized the Company to continue its ACRM as previously  
2 established in Decision No. 66400. Decision No. 73144 also allowed that the Company may exclude  
3 from the ACRM surcharge any industrial class customer that does not receive water from AWC's  
4 potable water distribution system<sup>1</sup>. The instant application for a Step-One ACRM includes the  
5 schedules the Commission required in Decision No. 66400 as a condition for approval of an ACRM.

6           Background

7           4.       Arizona Water Company provides water utility service, pursuant to Certificates of  
8 Convenience and Necessity granted by the Commission, to approximately 87,000 customers in 19 water  
9 systems. The Company serves customers in the counties of Cochise, Coconino, Gila, Maricopa, Navajo,  
10 Pima, Pinal, and Yavapai Counties. AWC is organized into three groups: the Northern Group, the  
11 Eastern Group, and the Western Group.

12  
13           5.       The Western Group includes the Pinal Valley water system. The Pinal Valley water  
14 system serves approximately 28,900 customers. Valley Farms Well No. 2, located in the Pinal Valley  
15 water system, has exceeded the maximum contaminant level ("MCL") of 10 parts per billion ("ppb")  
16 since 2011. The current application requests a Step-One ACRM for the Valley Farms Well No. 2  
17 Arsenic Treatment Plant ("ATP").

18           6.       The Environmental Protection Agency ("EPA") reduced the drinking water standard  
19 for arsenic from 50 ppb to 10 ppb effective January 23, 2006. The arsenic concentration in the  
20 Company's Valley Farms Well No. 2 located in the Pinal Valley water system has exceed the MCL since  
21 2011, when the well was shut down. The Company's engineers determined that treatment using  
22 adsorptive media is the best available technology to treat the arsenic levels at Valley Farms Well No. 2  
23 and construction for the treatment facility began in September 2014. The facility was placed into service  
24 on July 8, 2015.

25           7.       The ATP is not included in the Company's rate base which was used in establishing  
26 the current rates for the Company. The ACRM surcharge allows the Company to recover on the ATP

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1 Page 5, part 7.2 of the settlement agreement

1 until such time as it is included in rate base in a future rate application. The standard for recovery is  
2 established through previous decisions issued by the Commission.

3 **Company's Current Application**

4 8. AWC requests a Step-One ACRM fixed monthly surcharge of \$0.15<sup>2</sup> and an ACRM  
5 commodity charge of \$0.016 per 1,000 gallons for all customers, (with the exception of any Industrial  
6 class customers who do not receive potable water from the Company's potable water distribution  
7 system) to provide \$139,614 of additional annual revenue. The Company's filing estimates that its  
8 proposed surcharge would increase the average residential customer bill with a usage of 7,781 gallons  
9 by approximately \$.28 (00.95 percent) from \$29.61 to \$29.89.

10 **Staff Analysis**

11 9. Decision No. 73144 established permanent rates effective May 1, 2012 based on a test  
12 year ending December 31, 2010. Decision No. 73144, included a settlement agreement in which the  
13 parties agreed to continue the ACRM and amend the General Service Tariff to provide limited exception  
14 to the ACRM surcharge to exclude Industrial class customers who do not receive potable water from  
15 the water distribution system. Decision No. 73144 authorized a rate of return of 8.44 per cent, rate base  
16 of \$46,638,551 and a Gross Revenue Conversion Factor ("GRCF") of 1.6585 along with recommended  
17 depreciation rates.

18 10. Continuation of the ACRM as authorized in Decision No. 73144 required the Company  
19 to file schedules as required in Decision No. 66400. Pursuant to Decision No. 66400, AWC's Step-One  
20 ACRM filing includes the schedules the Commission requires as a condition for approval to implement  
21 an ACRM.

22 11. Decision No. 66400 requires AWC to file ten ACRM schedules as follows: balance sheet,  
23 income statement, earnings test, rate review, arsenic revenue requirement, surcharge calculation,  
24 adjusted rate base schedule, construction work in progress ledger, three-factor allocation and typical bill  
25 analysis.

26 ...

27 \_\_\_\_\_  
28 <sup>2</sup>The monthly customer charge increases for larger meters.

1 The Company's ACRM Step-One filing for the Pinal Valley water system includes the following  
2 schedules:

- 3 a. Balance Sheet – dated March 31, 2015.
- 4 b. Income Statement – period ending March 31, 2015.
- 5 c. Earning Test an "Earnings Test" calculation verifying that the proposed ACRM  
6 surcharge revenue would not result in excess earnings in the Pinal Valley water system.
- 7 d. Rate Review – a rate review filing for the Pinal Valley water system Area.
- 8 e. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for Step  
9 One.
- 10 f. Surcharge Calculation – a detailed surcharge calculation presenting the monthly  
11 customer charges by meter size and the commodity rate per thousand.
- 12 g. Rate Base – a schedule showing the elements of the rate base at December 31, 2010 and  
13 showing the effects of the arsenic plant investment for the Pinal Valley water system  
14 area.
- 15 h. Construction Work in Progress ("CWIP") Ledger – a ledger showing the construction  
16 work in progress account for the arsenic plant investment.
- 17 i. 3-Factor Allocation for December 31, 2015 – a schedule showing the allocation for each  
18 of the water districts within AWC.
- 19 j. Typical Bill Analysis – ACRM Step-1 – A typical bill analysis showing the effects on  
20 residential customers at various consumption levels including the Average Residential  
21 use of 7,781 gallons.

22 12. The ACRM schedules provide a basis for the calculation of the surcharge based on  
23 financial records and an Earnings Test Schedule which limits the ACRM surcharge when the resulting  
24 calculation would result in a rate of return exceeding that authorized in Decision No. 73144.

25 13. Staff performed an examination of AWC's Pinal Valley water system Step-One ACRM  
26 surcharge filing for the Pinal Valley water system area and concludes that it conforms to the  
27 requirements specified in Decision Nos. 66400 and 73144. Staff found that AWC's filing includes the  
28 required schedules. The ACRM schedules, as filed, provide for the calculation of a surcharge based on

1 financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount  
2 that would not result in a rate of return on the Pinal Valley water system that would exceed the  
3 authorized in Decision No. 73144.

4 14. The Company's rate base schedule ACRM-7, line 7, proposed \$955,411 as the increase  
5 to gross plant for Step-One Arsenic Removal Facilities. The Company's CWIP ledger posted amount  
6 to National Association of Regulatory Utility Commissioners ("NARUC") accounts: 332.01 - Water  
7 Treatment Equipment \$905,704.01; 390.21 - Leasehold Improvements \$5,978.26; and 325.01 - Electric  
8 Pumping Equipment \$43,728.90. Accumulated Depreciation in the amount of \$14,312 was deducted  
9 from gross plant values to arrive at the net plant value of \$941,099.

10 15. Staff performed a field inspection of the Pinal Valley water system's Valley Farms Well  
11 No. 2 site on November 25, 2015, to verify that the recently completed Arsenic Treatment Facility  
12 ("ATF") related to the subject Step-one ACRM is in service. Staff Engineer concluded that the ATF is  
13 in service and providing water that meets the current arsenic standard.

#### 14 **Staff Conclusions and Recommendations**

15 16. Staff concludes that the arsenic treatment plant costs are reasonable, the plant additions  
16 are appropriate, the plant was in service at the time of Staff's inspection and the water being delivered  
17 to customers now meets the current water quality standards.

18 17. Staff concludes that the Company's Step-One ACRM filing for its Pinal Valley water  
19 system, is complete and in accordance with Decision Nos. 73144 and 66400.

20 18. Staff recommends that the Company file with the Commission an ACRM tariff  
21 consistent with ACRM Schedules MJR-1.

22 19. Staff recommends that AWC notify its customers of the ACRM tariff approved herein  
23 within 30 days of the effective date of this Decision.

#### 24 **CONCLUSIONS OF LAW**

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

27 2. The Commission has jurisdiction over the Company and of the subject matter of the  
28 application.



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IT IS FURTHER ORDERED that Arizona Water Company file with the Commission's Docket Control, within 30 days of the effective date of this Decision, revised tariffs consistent with this decision.

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

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

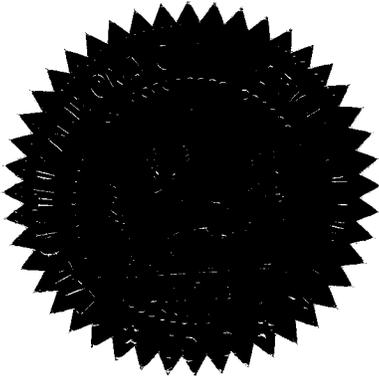
*[Signature]*  
CHAIRMAN

*[Signature]*  
COMMISSIONER

*[Signature]*  
COMMISSIONER

Vacant  
COMMISSIONER

*[Signature]*  
COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, 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 19<sup>th</sup> day of January, 2016.

*[Signature]*  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

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ARIZONA WATER COMPANY  
DOCKET NO. W-01445A-10-0517  
ACRM STEP-ONE TARIFF

Monthly Usage Charge, Residential, Commercial, Industrial <sup>1</sup>	Decision	Dollar Increase	Combined Base and Percent Increase		
	No. 73144	Step-One ACRM	Step-One Tariffs	StepOne ACRM	
<u>5/8" x 3/4" Meter</u>					
1" Meter	\$16.00	\$0.15	\$16.15	0.94%	
1 1/4" Meter	40.00	0.39	40.39	0.98%	
2" Meter	80.00	0.77	80.77	0.96%	
3" Meter	128.00	1.23	129.23	0.96%	
4" Meter	256.00	2.47	258.47	0.97%	
6" Meter	400.00	3.86	403.86	0.97%	
8" Meter	800.00	7.71	807.71	0.96%	
10" Meter	1,280.00	12.34	1,292.34	0.96%	
	1,840.00	17.74	1,857.74	0.96%	
<b>Commodity Rate Charge</b>					
<u>5/8" x 3/4" Meter</u>					
<i>Residential</i>					
Tier 1	From 0 to 3,000 gallons	1.8790	0.0160	1.8950	0.85%
Tier 2	From 3,001 to 10,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 3	Over 10,000 gallons	3.2590	0.0160	3.2750	0.49%
<i>Commercial</i>					
Tier 1	From 0 to 10,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 2	Over 10,000 gallons	3.2590	0.0160	3.2750	0.49%
<i>Industrial</i>					
Tier 1	From 0 to 10,000 gallons	1.5500	0.0160	1.5660	1.03%
Tier 2	Over 10,000 gallons	2.4800	0.0160	2.4960	0.65%
<u>1" Meter</u>					
<i>Residential, Commercial</i>					
Tier 1	From 0 to 25,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 3	Over 25,000 gallons	3.2590	0.0160	3.2750	0.49%
<i>Industrial</i>					
Tier 1	From 0 to 25,000 gallons	1.5500	0.0160	1.5660	1.03%
Tier 2	Over 25,000 gallons	2.4800	0.0160	2.4960	0.65%
<u>1 1/4" Meter</u>					
<i>Residential, Commercial</i>					
Tier 1	From 0 to 55,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 2	Over 55,000 gallons	3.2590	0.0160	3.2750	0.49%
<i>Industrial</i>					
Tier 1	From 0 to 55,000 gallons	1.5500	0.0160	1.5660	1.03%
Tier 2	Over 55,000 gallons	2.4800	0.0160	2.4960	0.65%
<u>2" Meter</u>					
<i>Residential, Commercial</i>					
Tier 1	From 0 to 95,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 3	Over 95,000 gallons	3.2590	0.0160	3.2750	0.49%

<sup>1</sup>Industrial customers exclude those not receiving potable water from the system.

ARIZONA WATER COMPANY  
DOCKET NO. W-01445A-10-0517  
ACRM STEP-ONE TARIFF

Schedule MJR-1  
page 2 of 2

*Industrial*

Tier 1	From 0 to 95,000 gallons	1.5500	0.0160	1.5660	1.03%
Tier 2	Over 95,000 gallons	2.4800	0.0160	2.4960	0.65%

3" Meter*Residential, Commercial*

Tier 1	From 0 to 195,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 3	Over 195,000 gallons	3.2590	0.0160	3.2750	0.49%

*Industrial*

Tier 1	From 0 to 195,000 gallons	1.5500	0.0160	1.5660	1.03%
Tier 2	Over 195,000 gallons	2.4800	0.0160	2.4960	0.65%

4" Meter*Residential, Commercial*

Tier 1	From 0 to 315,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 3	Over 315,000 gallons	3.2590	0.0160	3.2750	0.49%

*Industrial*

Tier 1	From 0 to 315,000 gallons	1.5500	0.0160	1.5660	1.03%
Tier 2	Over 315,000 gallons	2.4800	0.0160	2.4960	0.65%

6" Meter*Residential, Commercial*

Tier 1	From 0 to 650,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 2	Over 650,000 gallons	3.2590	0.0160	3.2750	0.49%

*Industrial*

Tier 1	All Gallons	1.5500	0.0160	1.5660	1.03%
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8" Meter*Residential, Commercial*

Tier 1	From 0 to 1,000,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 5	Over 1,000,000 gallons	3.2590	0.0160	3.2750	0.49%

*Industrial*

Tier 1	All Gallons	1.5500	0.0160	1.5660	1.03%
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10" Meter*Residential, Commercial*

Tier 1	From 0 to 1,475,000 gallons	2.1026	0.0160	2.1186	0.76%
Tier 2	Over 1,475,000 gallons	3.2590	0.0160	3.2750	0.49%

*Industrial*

Tier 1	All Gallons	1.5500	0.0160	1.5660	1.03%
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