

**Arizona Water Company (Northern Group) – Request for a Sedona/Rimrock System ACRM Surcharge, ACC Docket No. W-01445A-00-0962**

On May 15, 2007, Arizona Water Company ("Arizona Water" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or Commission") for authority to implement an arsenic cost recovery mechanism ("ACRM") surcharge for the Sedona and Rimrock Systems in the Company's Northern Group. Arizona Water's application sought approval to implement a step-one surcharge, which would allow the Company to recover the capital costs associated with recently constructed arsenic removal plant and equipment. The new arsenic removal plant is needed to reduce the level of arsenic in drinking water in order to comply with the U.S. Environmental Protection Agency's "EPA") revised arsenic standard of not more than 10 parts per billion (the EPA's prior standard was 50 parts per billion). Arizona Water is permitted to file for a step-two increase after one full year in order to recover the operating expenses associated with the Company's arsenic removal plant. RUCO reviewed Arizona Water's filing and conducted an on-site inspection to insure that the arsenic removal plant is in service. RUCO filed an audit report on July 3, 2007, recommending that the Commission approve Arizona Water's request.

32 ACC Staff filed its report and submitted a Recommended Opinion and Order ("ROO") on the Company's request for an ACRM surcharge. The ACC Staff engineer assigned to the case stated that one of the Company's arsenic removal facilities located in Sedona was unable to handle the output of a new well being constructed and classified the facility as non-used and useful. The facility and the accumulated depreciation associated with it was removed from the Company-proposed rate base. ACC Staff also recommended a slightly higher depreciation rate for the arsenic removal facilities. ACC Staff's changes resulted in a small decrease in rates for Sedona customers and a small increase in rates for Rimrock customers. At the regularly scheduled Open Meeting on August 22, 2007, the five ACC Commissioners voted 5 to 0 to adopt the ROO.