

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 29, 2001

RE: WATER TASK FORCE OF THE ARIZONA CORPORATION COMMISSION
(DOCKET NO. W-00000C-98-0153)
(DECISION NO. 62993)

On November 3, 2000, the Commission issued Decision No. 62993. This decision approved Staff's recommendations regarding the Commission's Water Task Force. The Commission directed Staff to work with interested parties to develop policy statements, some of which are due by June 30, 2001. Staff has had a number of meetings with interested parties to discuss the issues and resolve parties' concerns on many occasions, as noted below. The reports addressing specific subjects reflect a consensus of the working groups. In only one working group did Staff disagree with a portion of the group's resolution of an issue, which is also discussed below. The reports address the following issues:

Finding of Fact No. 9 from Decision No. 62993 ordered Staff to develop a policy statement regarding Certificates of Convenience and Necessity for water systems. Attachment A to this memorandum is a proposal for this policy developed in a meeting with interested parties.

Finding of Fact No. 11 ordered Staff to develop a policy statement regarding acquisition adjustments and rate of return premiums for water systems. Attachment B to this memorandum is a proposal for this policy, which was developed based on several meetings with interested parties

Finding of Fact No. 29 ordered Staff to develop a policy statement regarding tiered rates. Attachment C to this memorandum is Staff's proposal for this policy, which was developed after several meetings with interested parties.

Finding of Fact No. 31 ordered Staff to develop a policy statement regarding recovery of costs related to the Central Arizona Project. Attachment D is Staff's proposal for this policy, which was developed after several meetings with interested parties. Staff is in agreement with this proposal, except for the portion which deals with the definition of the term "use." The attached policy defines "use" as those methods considered as "use" by the Arizona Department of Water Resources (ADWR). The current regulations of ADWR allow a water company to be in compliance with its requirements as long as the water system uses its CAP water anywhere within the same Active Management Area (AMA) in which the water system is located. This approach is contrary to the position the Commission took in a recent Vail Water Company (Vail) rate case.

THE COMMISSION

June 29, 2001

Page 2

In Decision No. 62450, the Commission approved Vail's cost recovery of its CAP costs with specific mandates regarding Vail's long-term plans for the CAP water. At present Vail is using its CAP water in an "in lieu recharge project". Vail's CAP water is being used by a farm in Red Rock in lieu of the farm using groundwater. Because the farm in Red Rock is in the same AMA (Tucson AMA) as Vail, Vail gets credit for this use by the farm and therefore, is in compliance with ADWR requirements, even though the farm is approximately 60 miles from Vail. Staff believes that the water being recharged in Red Rock will never actually directly benefit the aquifer in Vail and therefore, never benefit the customers of Vail. This was the basis for the Staff recommendations that were adopted by the Commission in Decision No. 62450. The Commission ordered Vail to submit, within 10 years of the Decision, a plan to use its CAP water directly in its certificated area. Decision No. 62450 also ordered Vail to actually begin using its CAP water within its certificated area within 15 years of the Decision.

For these reasons, Staff recommends that the Commission slightly, but significantly, modify the definition of "use" contained in Attachment D by adding the condition that the water system would have to use its CAP water within its certificated area.

Staff recommends that these policy statements be discussed at an Open Meeting at the Commission's convenience.

Deborah R. Scott
Director
Utilities Division

DRS:SMO:

ORIGINATOR: Steven M. Olea