



NOTICE OF SYSTEM IMPROVEMENT BENEFITS SURCHARGE

Arizona Water Company has completed a variety of water system improvements to maintain safe, adequate and reliable water service to its customers. Many of these improvements involve replacing aging water distribution system infrastructure such as water mains and service connections. Replacing aging infrastructure improves water quality, flow and reliability including fire protection, and helps conserve water by reducing the number of water system leaks and breaks. Recently, Arizona Water Company completed improvement projects at a cost of \$570,000 in its Cochise division, including:

<u>Description of Improvement Project</u>	<u>Total Cost</u>
• Installed 1,778 feet of 6-inch water main, 23 service connections and a public fire hydrant on Bowers and Marie Streets.	\$123,000
• Installed 770 feet of 6-inch water main and 11 service connections on Ocotillo Street.	\$83,500
• Installed 1,459 feet of 4-inch water main and 17 service connections on Ledge Avenue, Quality Road and alleys.	\$134,000
• Installed 850 feet of 8-inch water main, 75 feet of 6-inch water main, 11 service connections and 2 public fire hydrants on Cole Avenue.	\$174,500
• Installed 287 feet of 6-inch water main and 3 service connections on Church Street.	\$55,000

On July 30, 2014, the Arizona Corporation Commission issued Decision No. 74590 in Docket No. W-01445A-11-0310 authorizing a System Improvement Benefits surcharge to recover a portion of these improvement costs.

What is a System Improvement Benefits surcharge? The Arizona Corporation Commission approved the System Improvement Benefits mechanism in Decision No. 73938, dated June 27, 2013. The System Improvement Benefits mechanism is a surcharge on customers' water bills to recover a portion of the costs associated with distribution system improvements that have been completed and placed in service. Eligible costs are limited to projects that replace existing aging and failing infrastructure. The System Improvement Benefits mechanism also includes important customer protections, such as limiting surcharge revenues to no more than five percent of total revenues in any year, and an Efficiency Credit equal to five percent of the System Improvement Benefits mechanism revenues.

What are the benefits of the System Improvement Benefits mechanism? Replacing aging and failing infrastructure improves water quality, flow and reliability including fire protection, and helps conserve water by reducing the number of water system leaks and breaks. The System Improvement Benefits mechanism also protects customers by gradually spreading over time the costs of replacing aging and failing water system infrastructure, thereby avoiding drastic increases in water bills.

Why is the new System Improvement Benefits surcharge different than the original surcharge? The original surcharge consisted of an \$0.86 charge, related to the plant listed above, as well as a monthly efficiency credit of \$0.04 for a net monthly surcharge of \$0.82. The Residential Utility Consumer Office appealed the legality of the System Improvement Benefits mechanism, and on August 18, 2015, the Arizona Court of Appeals issued an opinion which set aside the Arizona Corporation Commission's approval of the System Improvement Benefits mechanism. On October 27, 2015, the Arizona Corporation Commission issued Decision No.

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75304 that ordered the System Improvement Benefits mechanism and all compliance requirements specifically associated with the System Improvement Benefits mechanism be stayed pending the outcome of further court proceedings. The Arizona Supreme Court issued a ruling on August 8 that vacated the decision of the Arizona Court of Appeals, and held that the System Improvement Benefits mechanism "complies with the Arizona Constitution's mandate that the Commission determine the fair value of a utility's property when setting rates." The System Improvement surcharge will now also include a true-up charge of \$0.68 related to the period of time the System Improvement Benefits surcharge was stayed.

How much is the surcharge? On December 5, 2016, the Arizona Corporation Commission issued Decision No. 75832 approving the following monthly System Improvement Benefits surcharge and Efficiency Credit for each listed customer meter size:

<u>Meter Size</u>	<u>Monthly Gross Surcharge</u>	<u>Monthly Efficiency Credit</u>	<u>Monthly Net Surcharge</u>
5/8 x 3/4-inch	\$1.54	-\$0.04	\$1.50
1-inch	\$3.84	-\$0.10	\$3.74
1 1/2-inch	\$7.69	-\$0.20	\$7.49
2-inch	\$12.30	-\$0.32	\$11.98
3-inch	\$24.59	-\$0.64	\$23.95
4-inch	\$38.43	-\$1.00	\$37.43
6-inch	\$76.85	-\$2.00	\$74.85
8-inch	\$122.97	-\$3.20	\$119.77
10-inch	\$176.76	-\$4.60	\$172.16

How can I get more information? You can get more information on the System Improvement Benefits mechanism, Arizona Water Company's infrastructure improvement plan, and the System Improvement Benefits surcharge by calling our local office in Bisbee at (520) 432-5321, or in Sierra Vista at (520) 458-5660.