

FREQUENTLY ASKED QUESTIONS

Arizona Water Company – Western Group General Rate Case
(Docket No. W-01445A-19-0278)

What utility services does Arizona Water Company (“AWC”) provide to its customers?

AWC is a public service corporation providing public water utility service to approximately 92,000 customers in 22 communities across the State of Arizona. AWC’s Western Group serves around 34,000 customers in the Pinal Valley (Casa Grande, Coolidge and Stanfield), White Tank, and Ajo service areas.

How are AWC’s rates for public water utility service determined?

Rates for AWC’s water utility services are set by the Arizona Corporation Commission (“ACC”). The ACC sets rates based on the recovery of operating expenses and an appropriate rate of return on the fair value of AWC’s utility plant in service for the benefit of its customers.

When were the last rate increases for the Western Group?

The Western Group’s current rates were approved by the ACC in September 2016, based on actual costs from 2014.

Why has AWC filed a general rate case with the ACC?

The current rates are inadequate for AWC to recover its cost to serve customers, including the significant capital investment needed to replace aging and failing infrastructure, and to build additional treatment facilities required to comply with the federal Safe Drinking Water Act. AWC also seeks partial consolidation of rates for the overall benefit of customers in the Pinal Valley, White Tank, and Ajo service areas.

What rate relief is AWC seeking from the ACC?

AWC seeks an increase of about \$10.1 million, or 37.85%, over test year revenues. Of the \$10.1 million, about \$3 million is currently collected in customer rates. The net increase sought, or the increase customers will see on their bills, is \$7.2 million or 27%. AWC also seeks approval of various adjustor mechanisms to recover the actual costs for electricity, purchased water, nitrate and arsenic removal, and pipe replacement.

What is driving the need for the rate increase?

AWC’s Western Group has experienced increases in operating costs since the current rates and charges were set using 2014 costs. In addition, AWC requires substantial capital investment in utility plant to comply with stringent state and federal mandates

for clean and safe drinking water. New rates will allow AWC to recover its reasonable costs of service, including an opportunity to earn a reasonable rate of return on its capital investment.

What types of cost increases has AWC experienced since the current rates were set using historical costs from 2014?

Since 2014, AWC's costs for property taxes, insurance, labor, technology, power, depreciation, and administration have increased. The new rates approved for the Western Group will be based on Arizona Water Company's 2018-2019 operating costs with appropriate adjustments for known and measurable changes.

What is the impact of the proposed rate increase on average residential customer's bill in the Pinal Valley, White Tank, and Ajo service areas?

For Pinal Valley, the average increase based on 7,100 gallons of usage would be \$9.99 per month, with the typical bill rising from \$38.27 to \$48.26 per month. For White Tank, the average increase, based on 9,200 gallons of usage would be \$1.91 per month, with the typical bill rising from \$56.32 to \$58.22 per month. For Ajo, the average increase, based on 3,500 gallons of usage would be \$1.78 per month, with the typical bill rising from \$42.94 to \$44.72. The increases noted above are averages based on average customer usage. The estimated rate impacts for each customer will vary with monthly water usage. If you would like more information on how the proposed rate increase will affect your bill, please contact your local office.

What is the timeline of the rate case?

A rate case typically takes about a year from the time it is filed to when new rates go into effect.

When will AWC's proposed rates take effect?

AWC estimates that new rates are expected to take effect in or around the first quarter of 2021.

Can interested persons intervene in the rate case?

Yes. In order to intervene, an application must be filed with the ACC in the rate case docket. The deadline to file an application to intervene is March 20, 2020.

How does the Arizona Corporation Commission rate case process work?

AWC submits an application to the ACC. The application is reviewed by the ACC's trained staff of accounting, engineering, and legal professionals. The case goes to a hearing presided over by one of the ACC's Administrative Law Judges ("ALJ"). During the hearing, testimony and evidence are discussed and witnesses cross-examined. After the hearing concludes, the ALJ issues a Recommendation Opinion and Order.

The Commissioners will take some time review the ALJ's order and then make a decision about the rate case and AWC's requested rate increase at a Public Open Meeting.

How can I contact the ACC?

For inquiries regarding the rate case, please contact the ACC's Consumer Services Section at 1-800-222-7000 (toll free) or visit <https://www.azcc.gov>.

Where can I find a copy of AWC's rate case application?

A link to AWC's rate case application can be found here:
<https://docket.images.azcc.gov/E000004085.pdf>