

FREQUENTLY ASKED QUESTIONS

Arizona Water Company – Northern Group General Rate Case
(Docket No. W-01445A-24-0117)

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

AWC is a public service corporation providing public water utility service to over 106,000 customers in 24 communities across the State of Arizona. AWC’s Northern Group serves approximately 21,700 customers across eight public water systems: Forrest Towne, Lakeside, Overgaard, Pinetop Lakes, Sedona, Pinewood, Rimrock, and Valley Vista.

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 Northern Group?

The Northern Group’s current rates were approved by the ACC in August 2019, based on actual costs from 2017.

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.

What rate relief is AWC seeking from the ACC?

AWC seeks an increase of about \$7.46 million, or 48%, over test year revenues. Of the \$7.46 million, about \$1.19 million is collected in customer rates through surcharges¹. The net increase sought, or the increase customers will see on their bills, is \$6.27 million or 40%. AWC also seeks approval of various adjustor mechanisms to recover the actual costs for electricity, renewable water supplies, forever chemicals and arsenic removal, and pipe replacement.

¹ Including the approved Arsenic Cost Recovery Mechanism (“ACRM”) surcharge (August 22, 2022), and the approved System Improvement Benefits (“SIB”) Step 1 surcharge (January 24, 2024) and the SIB Step 2 surcharge pending the ACC approval.

What is driving the need for the rate increase?

AWC's Northern Group has experienced increases in operating costs since the current rates and charges were set using 2017 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 2017?

Since 2017, AWC's costs for property taxes, insurance, labor, technology, power, depreciation, and administration costs have increased. The new rates approved for the Northern Group will be based on Arizona Water Company's 2023 operating costs with appropriate adjustments for known and measurable changes.

What is the impact of the proposed rate increase on an average residential customer's bill in the Northern Group service areas?

The average increase based on 4,250 gallons of usage would be \$15.59 per month, with the typical bill rising from \$43.62 to \$59.21 per month. Please note that \$3.78 out of the \$43.62, is for customer surcharges¹, and those surcharges will be reset to zero when the new rates are effective. The 48.61% average bill increase shown on the customer notice does not include those surcharges. When the surcharges are included, the average bill increase will be 35.75%.

The increase noted above is an average 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 third quarter of 2025.

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 October 1, 2024.

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 to 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/E000036380.pdf?i=1723592490869>