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**Docket Control**

Arizona Corporation Commission  
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**July 19, 2005**

**Re: Arizona-American Water Company  
ACRM Case  
Docket Nos. W-01303A-05-0280  
WS-01303A-02-0867  
W-1303A-02-0869  
WS-01303A-02-0870**

Dear Sir or Madam:

Enclosed for filing are an original and 19 copies of:

- Responsive Testimony Of Thomas M. Broderick

This filing is made in accordance with the May 6, 2005, Procedural Order in this matter.

Very truly yours,

Craig A. Marks  
Corporate Counsel

Cc: Service List  
ALJ Teena Wolfe

Enclosures

AZ CORP COMMISSION  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR AUTHORITY TO IMPLEMENT ARSENIC COST RECOVERY MECHANISMS FOR ITS AGUA FRIA WATER, SUN CITY WEST WATER, HAVASU WATER, AND TUBAC WATER DISTRICTS

DOCKET NO. W-1303A-05-0280

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS SUN CITY WEST WATER AND WASTEWATER DISTRICTS.

DOCKET NO. WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WATER DISTRICT AND ITS HAVASU WATER DISTRICT.

DOCKET NO. W-1303A-02-0869

**RESPONSIVE TESTIMONY OF  
THOMAS M. BRODERICK  
JULY 20, 2005**

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM WATER DISTRICT, ITS AGUA FRIA WATER DISTRICT, AND ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT.

DOCKET NO. WS-01303A-02-0870

**RESPONSIVE TESTIMONY  
OF  
THOMAS M. BRODERICK  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
JULY 20, 2005**

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## EXECUTIVE SUMMARY

Thomas M. Broderick testifies that:

1. He is responding to the July 1, 2005 testimonies of Commission Staff witness Crystal S. Brown and RUCO witness Marylee Diaz Cortez, both of which recommend approval of the Arsenic Cost Recovery Mechanism in Sun City West, Havasu and Agua Fria water districts.
2. The Company accepts, with some clarifications sought, the 10 recommendations of Ms. Brown and those of Marlin Scott, Jr. contained in a memorandum attached to Ms. Brown's testimony.
3. The Company believes it is fair for the Commission to approve an Arsenic Impact Fee in its Havasu District. The Company acknowledges RUCO's opposition to this Fee, but continues to seek its approval, as modified by Staff.

1       **I.       INTRODUCTION**

2       **Q.       PLEASE STATE YOUR NAME.**

3       A.       My name is Thomas M. Broderick.  
4

5       **Q.       ARE YOU THE SAME THOMAS M. BRODERICK WHO PREVIOUSLY**  
6       **SUBMITTED TESTIMONY IN THIS CASE ON APRIL 15, 2005?**

7       A.       Yes.  
8

9       **Q.       WHAT IS THE PURPOSE OF YOUR RESPONSIVE TESTIMONY IN THIS**  
10       **CASE?**

11       A.       On July 1, 2005, the Staff of the Arizona Corporation Commission ("Staff") responded to  
12       my testimony through the testimony of Crystal S. Brown. The Residential Utility  
13       Consumer Office also responded that day to my testimony through the testimony of  
14       Marylee Diaz Cortez. Through this testimony, I respond to their testimonies.  
15

16       **II.       RESPONSE TO STAFF TESTIMONY**

17       **Q.       HOW DO YOU RESPOND TO STAFF'S RECOMMENDATIONS?**

18       A.       I will discuss each recommendation in greater detail, however, the Company accepts,  
19       subject to a few clarifications, the ten recommendations in Ms. Brown's testimony and  
20       the recommendations contained in the attached memorandum of Marlin Scott, Jr.  
21

22       **Staff Recommendation No. 1**

23       **Q.       STAFF RECOMMENDED:**

1 *Authorization of the requested ACRM.*

2 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

3 A. The Company accepts this recommendation.

4  
5 **Staff Recommendation No. 2**

6 **Q. STAFF RECOMMENDED:**

7 *Arizona-American file a plan with the Commission's Docket Control by December*  
8 *31, 2005, that describes how the Company will attain and maintain a capital*  
9 *structure (equity, long-term debt and short-term debt) with equity representing*  
10 *between 40 percent and 60 percent of total capital. Staff will address the plan in*  
11 *the Company's Paradise Valley Water Company rate proceeding (Docket No. W-*  
12 *O1303A-O5-0405).*

13 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

14 A. The Company agrees to file this plan. The Company shares Staff's goal of reaching an  
15 equity ratio of at least 40 percent and will file a capital-structure plan by December 31,  
16 2005. The Company is presently in the midst of a capital-intensive, multi-year  
17 expenditure program in Arizona, of which arsenic removal is but one component.

18 Arizona American Water summarized its capital expense program in our recent Paradise  
19 Valley rate-case filing, so it is sensible for the Commission to further address a capital-  
20 structure plan in that case. The Company's plan will, of course, comply with Condition  
21 No. 12 in Decision No.65453 (RWE acquisition case), which requires the Company to  
22 maintain a minimum common equity ratio of 35 percent or restrict dividends, and if the  
23 ratio falls below 30%, then infuse capital.

1 Since the test year, the Company has added \$25 million more debt and lost nearly \$4  
2 million of its equity. The Company's capital structure has been influenced by a number  
3 of conditions, most of which are not within its control:

- 4 • Regulatory lag, high capital expenses and the three-year rate moratorium imposed as  
5 a condition of the RWE acquisition, have contributed to low and even negative  
6 earnings in some districts; and
- 7 • The moratorium has also prevented the Company from recovering previously  
8 approved amortizations to rate base of regulatory contributions and advances that are  
9 part of the Company's capital structure.

10 Staff's testimony seems to suggest (page 12, lines 8 – 14) that the Company may be  
11 trying to earn more return by lowering its cost of capital. However, as Staff has  
12 recognized in other rate proceedings, modern financial theory holds that a company  
13 cannot lower its cost of capital simply by increasing the proportion of debt in its capital  
14 structure. In fact, our overall cost of capital has increased due to higher debt and equity  
15 costs.

16  
17 To help halt destruction of equity, the ACRM must be successfully implemented. To  
18 help restore equity the Company will timely file up to six new rate cases shortly after the  
19 moratorium expires in early 2006 and we will continue to seek prompt recovery of the  
20 costs of multi-phase, discretionary capital projects such as community-supported fire-  
21 flow improvements in the Company's Paradise Valley Water and Sun City Water

1 Districts. Finally, the Company will be striving to reduce future capital expenditures,  
2 further hold down expenses, and take other steps to reduce regulatory lag.

3  
4 As a result of these efforts, Arizona American Water recently announced a partnership  
5 with the Maricopa Water District to construct a badly needed West Valley surface-water  
6 treatment plant. This plant will treat Arizona American Water's allocation of Central  
7 Arizona Project water. The Company will shortly seek several Commission approvals  
8 needed to begin construction of the plant.

9  
10 **Staff Recommendation No. 3**

11 **Q. STAFF RECOMMENDED:**

12 *The Company should file by April 1st each year subsequent to any year that it has*  
13 *ACRM collections a report with the Utilities Division Director showing its ending*  
14 *capital structure (equity, long-term debt, and short-term debt) by month for the*  
15 *prior year.*

16 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

17 A. The Company accepts this recommendation

18  
19 **Staff Recommendation No. 4**

20 **Q. STAFF RECOMMENDED:**

21 *The rate base calculation (Schedule 7) for the Havasu water district be modified*  
22 *to explicitly show a deduction for Arsenic Impact Fee collections.*

23 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

1 A. The Company accepts this recommendation. Attached are revised illustrative Schedules  
2 3, 5, 6, and 7 for the Havasu Water District reflecting that and all other revisions to  
3 schedules recommended by Commission Staff (and RUCO for that matter). These  
4 include deducting from rate base in Schedule 7 actual amounts collected via the Havasu  
5 Arsenic Impact Fee, and modifying and better identifying adjustments to actual period  
6 financial results in Schedule 3, the earnings test schedule. The actual Step 1 filings in  
7 2006 will reflect these changes. Please note that the Company made a correction to rate  
8 base to reflect three years amortization of regulatory contributions and advances as per  
9 Decision No. 63584. The earlier Schedules erred by containing only two years.

10  
11 **Staff Recommendation No. 5**

12 **Q. STAFF RECOMMENDED:**

13 *The Earnings Test schedule filed in support of the ACRM should incorporate*  
14 *adjustments conforming with Decision No. 67093. For example, the acquisition*  
15 *adjustment should be removed from rate base and the amortization of the*  
16 *adjustment should be removed from the income statement. The actual period*  
17 *results, adjustments, and adjusted period should be clearly shown on each*  
18 *Earnings Test Schedule. The earnings test places a cap on the ACRM surcharge*  
19 *based on the existing authorized rate of return.*

20 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

21 A. The Company accepts this recommendation. Please note, however, that the “acquisition  
22 premium” cited by Ms. Brown was not included in rate base amounts in the schedules  
23 filed on April 15, 2005. However, amortization of the utility plant acquisition adjustment  
24 was included in expenses, but has now been removed in Schedule 3-Revised, which  
25 depicts how this Schedule will appear at the time of Step 1 filings.

1  
2 The Company understands Staff's (and RUCO's) statements regarding the earnings test  
3 to mean that any district over-earning (before considering ACRM revenues and  
4 recoverable costs) will not be eligible for an ACRM step increase until such time as the  
5 district is no longer over-earning. If over-earning ceases prior to the effective date of  
6 new permanent rates for a district, then an ACRM Step increase request can be filed (or  
7 even re-filed) and be eligible for ACRM recovery subject to a limit of two step increases.

8  
9 **Staff Recommendation No. 6**

10 **Q. STAFF RECOMMENDED:**

11 *Microsoft Excel or compatible electronic versions of the filings and all work*  
12 *papers be concurrently provided to Staff with all ACRM filings.*

13 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

14 A. The Company accepts this recommendation

15  
16 **Staff Recommendation No. 7**

17 **Q. STAFF RECOMMENDED:**

18 *The Company should file the schedules discussed in its application except as*  
19 *modified in the above recommendations. In addition, Staff reserves the right for*  
20 *further discovery as it deems necessary related to the ACRM filings.*

21 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

22 A. The Company accepts this recommendation. Furthermore, to facilitate any additional pre-  
23 review, during the period leading up to our Step 1 filings we will timely respond to any

1 additional data requests concerning any facility, despite the July 19, 2005, deadline for  
2 discovery in this case.

3  
4 **Staff Recommendation No. 8**

5 **Q. STAFF RECOMMENDED:**

6 *The Company should file an application for a permanent rate increase for its*  
7 *Agua Fria, Sun City West and Havasu water districts no later than April 30,*  
8 *2008, using 2007 as the test year.*

9 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

10 A. The Company accepts this recommendation, clarified as follows: the Company accepts  
11 Commission Staff's recommendation that the Havasu rate application shall also be filed  
12 on or before April 30, 2008. However, the Company seeks clarification of the following  
13 statement by Ms. Brown, "Yes, Staff recommends that Arizona-American file its Havasu  
14 rate application at the same date as the other two districts." (Brown, page 9, lines 13-14.)  
15 The Company believes that this means it can file these three rate cases on the same or  
16 *different* dates, so long as each case is filed before April 30, 2008. The Company has  
17 common and unique cost drivers behind each district's upcoming rate requests and the  
18 Company prefers to avoid a requirement for "simultaneous" (Brown, page 9, line 13)  
19 filings of these three (or any other) districts for a number of reasons. Tubac and Paradise  
20 Valley are also likely to have ACRM's and those will be on different schedules.

1 If Staff does mean that the Havasu rate application must be filed on the same date as the  
2 Sun City West and Aqua Fria Water Districts, then Arizona American Water objects to  
3 this portion of the Staff's recommendation.  
4

5 **Staff Recommendation No. 9**

6 **Q. STAFF RECOMMENDED:**

7 *Approval of Havasu's Arsenic Impact Fee ("AIF") Tariff as modified by Staff and*  
8 *reflected in Staffs attached Tariff Schedule - Arsenic Impact Hook-up Fee.*

9 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

10 A. The Company accepts this recommendation. However, Staff is silent as to the effective  
11 date of this tariff. The Company requests that this tariff be effective immediately upon an  
12 order in this hearing.  
13

14 **Staff Recommendation No. 10**

15 **Q. STAFF RECOMMENDED:**

16 *Havasu be required to file a calendar year status report each January 31st with*  
17 *Docket Control for the prior twelve (12) month period, beginning January 31,*  
18 *2006, until the AIF Tariff is no longer in effect. This status report should contain*  
19 *a list of all customers that have paid the AIF Tariff, the amount each has paid,*  
20 *the amount of money spent from the account, the amount of interest earned on the*  
21 *AIF Tariff account, and a list of all facilities that have been installed with the AIF*  
22 *Tariff funds during the 12 month period.*

23 **HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

24 A. The Company accepts this recommendation  
25

1 **Q. DID STAFF DISCUSS DESIGN, ENGINEERING, CONSTRUCTION, OR ANY**  
2 **OTHER TECHNICAL ASPECTS OF THE ARSENIC FACILITIES IN**  
3 **TESTIMONY?**

4 A. No. Apparently, Staff either has no technical issues or intends to present them at the time  
5 of the ACRM Step 1 filings, after each project is complete. If it is the latter, I am  
6 concerned about how long the Commission might take to process the Company's various  
7 Step 1 filings. The Arizona Water precedent establishes an expectation of 45 to 90 days  
8 from filing to effectiveness. The Company earlier presented direct testimony concerning  
9 its planned facilities including where they were needed, the types of treatment selected  
10 and detailed capital and operating budgets. Further, the Company has provided Staff, in  
11 response to several data requests, with extensive supporting engineering and design data  
12 to review. In response to a recent Staff data request, the Company further justified the  
13 need for its Agua Fria arsenic treatment facilities, even if Maricopa Water District is able  
14 to construct the recently proposed surface water treatment plant.

15  
16 **III. RESPONSE TO RUCO TESTIMONY**

17 **Q. PLEASE ADDRESS RUCO'S RECOMMENDATIONS.**

18 A. RUCO recommended approval of the ACRM request, but recommended denial of the  
19 Arsenic Impact Fee for Havasu. I disagree.

20  
21 **Q. WHY DOES RUCO SEEK DENIAL OF THE HAVASU ARSENIC IMPACT FEE?**

1 A. RUCO wants to be sure that the ACRM would be reduced via rate base reductions in  
2 amounts equal to the actual funds raised through the hook-up fee. Accordingly, I have  
3 revised Schedule 7 to show how those collections will reduce rate base, and revised  
4 Schedule 5 to show how those collections will slightly reduce the ACRM revenue  
5 requirement. Revised Schedule 5 shows for Havasu that the estimated ACRM monthly  
6 minimum surcharge declines by 4 cents to \$10.03 per month and the ACRM commodity  
7 surcharge declines by 0.5 cent to \$1.0383 per 1000 gallons after including the anticipated  
8 contribution of the Arsenic Impact Fee. The numbers shown in Revised Schedules 5 and  
9 7 are of course estimates and the Company will reduce arsenic related rate base in  
10 Havasu for actual collections under the Arsenic Impact Fee tariff at the time of each step  
11 filing.

12  
13 **Q. RUCO ALSO ARGUED THAT IT WAS NOT APPROPRIATE FOR FUTURE**  
14 **CUSTOMERS TO OFFSET ARSENIC REMEDIATION COSTS THROUGH A**  
15 **HOOK-UP FEE. HOW DO YOU RESPOND?**

16 A. First, this fee was requested by a number of existing Havasu customers at public  
17 meetings and was described as a matter of fairness. Second, the Commission has  
18 approved similar hook-up fees for other water companies to recover costs for treating  
19 arsenic.<sup>1</sup> While customers paying the Impact Fee will also pay the ACRM, only the  
20 ACRM recovers operating and maintenance expenses. There also are arsenic related  
21 costs ineligible for recovery in either the ACRM or the Impact Fee, such as employee and

---

<sup>1</sup> See Decision No. 67669, dated March 9, 2005 (Valley Utilities Water Company, Inc.)

1 electricity costs, so the implementation of the Impact Fee is not really a simple matter of  
2 new customers paying twice as RUCO describes.

3  
4 Whether or not to continue the Arsenic Impact Fee beyond the expiration of the ACRM  
5 will be addressed in the next base rate case in Havasu, so it is not necessary to fully take  
6 on the theoretical rate-making issues of future customers vs. non-growth related plant  
7 additions at this time.

8  
9 **Q. WOULD THE PROPOSED HOOK-UP FEE BE A BURDEN ON NEW**  
10 **HOMEOWNERS IN THE HAVASU WATER DISTRICT?**

11 No, the issue is one of fairness for existing customers since the vast majority of new  
12 homes in this water district have values far in excess of the existing stock of housing and  
13 so the impact fee is but a tiny component of the cost of a new home. The Company's  
14 Havasu customer service manager informs me that the largest current source of new  
15 customer growth in Havasu is at a development called, "The Refuge," where homes  
16 range in price from \$250,000 to \$1,000,000. (<http://www.siennacorp.com/therefuge/>).

17 This compares to the single-family median home value in Lake Havasu City of \$98,500,  
18 as reported in the 2000 US Census. To date, the Commission has received one objection  
19 to the requested Arsenic Impact Fee, and it came from an employee (that probably also is  
20 a resident) of The Refuge. This developer objects to the impact fee on the basis that it  
21 already paid for such infrastructure as a well, a storage tank, and a water distribution  
22 system. The Company appreciates this fact and notes that the arsenic removal facility is

1 additional to the facilities cited by the Refuge and the Company has not yet made a  
2 determination of exactly which lots in this development are subject to the Impact fee,  
3 given that lots are at varying stages of development at the Refuge.

4

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A. Yes.**

Company Name: ARIZONA AMERICAN WATER COMPANY  
Docket Number: WS-01303A-02-0867, et al  
Period Ending: December 31, 2004

SCHEDULE 3 - REVISED

EARNINGS TEST  
HAVASU WATER DISTRICT

[A]	[B]	[C]	[D]
	Actual 12/31/2004	Adjustments	Adjusted 12/31/2004
Revenue:			
1. Total Operating Revenue	574,907	22,582 <sup>A</sup>	597,489
Operating Expenses:			
2. Operations and Maintenance Expense	428,159	1,742 <sup>B</sup>	429,901
3. Depreciation and Amortization	138,503	(87,179) <sup>C</sup>	51,324
4. General Taxes	29,183		29,183
5. Income Taxes	(4,426)	25,845 <sup>D</sup>	21,419
6. Total Operating Expenses	591,418		531,826
7. Operating Income/(Loss)	(16,511)		65,662
8. Rate Base O.C.L.D. (From Schedule 7 Line 13)	1,089,380		1,089,380
9. Authorized Rate of Return - O.C.L.D. (Dec. 67093)	6.50%		6.50%
10. Actual Rate of Return - O.C.L.D. (Line 7 divided by Line 8)	-1.52%		6.03%
11. Operating Margin (Line 7 divided by Line 1)	-2.87%		10.99%
12. Interest Expense	128,335	(96,743) <sup>E</sup>	31,592
13. Interest Coverage (Line 7 plus Line 5 divided by Line 12)	-0.16		2.76
14. Other Income and Deductions	-		-
15. Allocated Equity	434,663		434,663
16. Authorized Return on Equity (Dec. 67093)	9.00%		9.00%
17. Actual Return on Equity (Line 7 less Line 12 plus Line 14 divided by Line 15)	-33.32%		7.84%

Explanation of Adjustments

- A - Annualization of rate increase effective 7/04.
- B - Regulatory Expense approved in Decision No. 67093.
- C - Depreciation Expense based on actual year-end UPIS balances.
- D - Income Taxes calculated based on current State & Federal tax rates.
- E - Interest Expense based on synchronized interest.

Numbers for illustrative purposes only.

Company Name: ARIZONA AMERICAN WATER COMPANY  
 Docket Number: WS-01303A-02-0867, et al  
 Period Ending: December 31, 2004

SCHEDULE 5 - REVISED

ARSENIC COMPLIANCE REVENUE REQUIREMENT

[A]	[B]
	Havasu Water
Arsenic Compliance Revenue Requirement:	
PLANT IN SERVICE EXPENDITURES:	
Test Year Data:	
1. Arsenic MCL Rate Base	1,718,501
2. Less: Arsenic Impact Fee Contributions	61,481
3. Net Arsenic Rate Base	1,657,020
4. Depreciation Rate	3.1%
5. Depreciation Expense	51,368
6. Depreciation Expense net of tax savings <sup>1</sup>	31,540
7. Recoverable O&M Costs	156,724
8. Recoverable O&M Costs net of tax savings <sup>2</sup>	96,230
9. Arsenic MCL Operating Income	(127,771)
10. Current Rate of Return	-7.44%
11. Required Operating Income	111,703
12. Required Rate of Return (Dec. No. 67093)	6.50%
13. Operating Income Deficiency	239,473
14. Gross Revenue Conversion Factor (Decision No. 67093)	1.63
15. Revenue Deficiency	390,014
Authorized Rates (Decision No. 67093)	
16. Minimum 5/8" Meter	\$ 11.78
17. Commodity Rate 0 to 4,000 gallons	1.0500
18. Commodity Rate 4,000 to 13,000 gallons	1.5550
19. Commodity Rate 13,000 gallons and over	1.8700
Arsenic Cost Recovery Mechanism Surcharge	
20. ACRM Minimum Surcharge 5/8" Meter	\$ 10.03
21. ACRM Commodity Surcharge	1.0383
Total (Proposed Rates)	
22. Minimum 5/8" Meter	\$ 21.81
23. Commodity Rate 0 to 4,000 gallons	2.0883
24. Commodity Rate 4,000 to 13,000 gallons	2.5933
25. Commodity Rate 13,000 gallons and over	2.9083

<sup>1</sup>38.5986% tax rate

<sup>2</sup>Includes cost of media and media disposal

Numbers for illustrative purposes only.

SURCHARGE CALCULATION FOR ARSENIC CAPITAL & RECURRING O&M COSTS  
 HAVASU DISTRICT

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
<b>Growth</b>	<b>Customers</b>		<b>Gallons Sold (000)</b>	<b>Per Customer</b>				
1. 12/31/2003 (Year 1)	1,087		167,537	154.13				
2. 12/31/2004 (Year 2)	1,189		208,094	175.02				
3. Year 2 minus Year 1	102		40,557	20.89				
4. Percentage Change	9.38%		24.21%	13.55%				
5. Year 1 Plus Year 2			375,631					
6. Avg Gallons (Col. D, Line 5 /2)			187,816					
<b>Meter Size</b>	<b>Average Customers at 12/31/2004</b>	<b>Estimated Customers at 12/31/2005</b>	<b>Estimated Average Customers</b>	<b>Monthly Minimum</b>	<b>Minimum Multiplies</b>	<b>Equivalent Meters</b>	<b>Fixed Increment Monthly</b>	<b>Annual Total</b>
7. Resid. 5/8-inch	1,062	1,184	1,133	\$ 11.78	1.0	1,133	10.03	136,274
8. Commer. 5/8-inch	33	36	35	\$ 11.78	1.0	35	10.03	4,156
9. 1-inch	5	5	5	\$ 20.27	1.7	9	17.25	1,084
10. 1.5-inch	-	-	-	\$ 28.76	2.4	-	24.48	-
11. 2-inch	3	3	3	\$ 39.88	3.4	11	33.94	1,279
12. 3-inch	4	4	4	\$ 54.26	4.6	19	46.18	2,320
13. 4-inch	2	2	2	\$ 68.64	5.8	12	58.41	1,468
14. 6-inch	-	-	-	\$ 236.59	20.1	-	201.35	-
15. 8-inch	-	-	-	\$ 457.50	38.8	-	389.35	-
16. Multi-family 044 1"	1	1	1	\$ 259.16	22.0	23	220.55	2,771
17. Multi-family 056 2"	1	1	1	\$ 329.84	28.0	29	280.70	3,526
18. Multi-family 064 4"	1	1	1	\$ 376.96	32.0	34	320.80	4,030
19. Multi-family 065 2"	1	1	1	\$ 382.85	32.5	34	325.82	4,093
20. Multi-family 067 4"	1	1	1	\$ 394.63	33.5	35	335.84	4,219
21. Multi-family 089 1"	1	1	1	\$ 524.21	44.5	47	446.12	5,605
22. Multi-family 102 2"	1	1	1	\$ 600.78	51.0	53	511.28	6,423
23. Multi-family 129 4"	1	1	1	\$ 759.81	64.5	68	646.62	8,124
24. Multi-family 153 4"	1	1	1	\$ 901.17	76.5	80	766.92	9,635
25. Total	1,138	1,245	1,191			1,621		195,007
26. Costs To Be Recovered (Return & Recurring O&M)	\$ 390,014	\$ 390,014		Commodity Surcharge Calculation				
27. Minimum Revenue	\$ 390,014	x 50%	= \$ 195,007					
28. Commodity Revenue	\$ 390,014	x 50%	= \$ 195,007					
29. Equivalent Meters	1,621	x 12 Months	= 19,452					
30. Minimum Surcharge	(Column D, Line 27 / Column D, Line 29)		\$ 10.03					
31. Average Gallons	(Column D, Line 6)		187,816					
32. Commodity Surcharge	(Column E, Line 28 / Column E, Line 31)		\$ 1.0383					

Numbers for illustrative purposes only.

Company Name: ARIZONA AMERICAN WATER COMPANY  
 Docket Number: WS-01303A-02-0867, et al  
 Period Ending: December 31, 2004

SCHEDULE 7 - REVISED

RATE BASE - HAVASU DISTRICT

[A]	[B]	[C]	[D]	[E]	[F]	[G]
	Per Decision No. 67093	Increase	Decision Plus Increase [B] + [C]	Actual Balances 12/31/04	Increase	Actual Balances Plus Increase 12/31/04 [E] + [F]
1. New Arsenic Treatment Plant	-	1,718,501	1,718,501	1,718,501	1,718,501	1,718,501
2. Other Utility Plant in Service	2,070,165	-	2,070,165	4,773,856	-	4,773,856
3. Plant in Service	2,070,165	1,718,501	3,788,666	4,773,856	1,718,501	6,492,357
Less:						
4. Accumulated Depreciation	537,411	-	537,411	829,958	-	829,958
5. Net Plant	1,532,754	1,718,501	3,251,255	3,943,898	1,718,501	5,662,399
Less:						
6. Advances	-	-	-	2,369,777	-	2,369,777
7. Regulatory Advances	418,704	-	418,704	225,456	-	225,456
8. Contributions	-	-	-	1,009	-	1,009
9. Regulatory Contributions	280,867	-	280,867	196,606	-	196,606
10. Arsenic Impact Fee Contributions	-	61,481	61,481	-	61,481	61,481
11. Meter Advances	11,066	-	11,066	24,853	-	24,853
12. Deferred Income Tax	-	-	-	36,816	-	36,816
Add:						
13. Working Capital Allowance	-	-	-	-	-	-
14. Total Rate Base	822,117	1,657,020	2,479,137	1,089,380	1,657,020	2,746,400

Numbers for illustrative purposes only.