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BEFORE THE ARIZONA CORPORATION COMMISSION
DOCKETED

OCT 06 2003

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COMMISSIONERS

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

DOCKET NO. SW-01303A-03-0375

DECISION NO. 66386

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
SUN CITY WASTEWATER DISTRICT, FOR AN
ACCOUNTING ORDER AUTHORIZING THE
DEFERRAL OF COSTS ASSOCIATED WITH THE
SEWER TREATMENT AND TRANSPORTATION
SERVICE AGREEMENT WITH THE CITY OF
TOLLESON, AS AMENDED ON APRIL 22, 2003.

ORDER

Open Meeting
September 30 and October 1, 2003
Phoenix, Arizona

BY THE COMMISSION:

On June 5, 2003, Arizona-American Water Company ("Arizona-American" or "Company") filed an application requesting an accounting order authorizing the deferral of costs associated with April 22, 2003 amendments to a sewer treatment and transportation services agreement between the Company and the City of Tolleson for Arizona-American's Sun City wastewater district ("Tolleson Agreement"), and requesting that a public hearing be scheduled on the application.

The Company currently has a rate case pending in Docket Nos. SW-01303A-02-0867, et al., which includes a request to increase rates for its Sun City wastewater district as well as other divisions of the Company. A hearing is scheduled to commence in those consolidated dockets on December 4, 2003.

The Residential Utility Consumer Office ("RUCO") and the Town of Youngtown ("Youngtown") requested and were granted intervention in this matter.

Because the Company requested a hearing, a Procedural Conference was held on July 18, 2003 to discuss the procedural schedule for this case. The Company, Youngtown, RUCO and the Commission's Utilities Division Staff ("Staff") entered appearances. At the Procedural Conference, the parties generally agreed that the manner and timing of recovery of the costs in question is one of

1 The Sun City wastewater district's current rates and charges for utility service were approved by the
2 Commission in Decision No. 60172 (May 7, 1997), based on a test year ending March 31, 1995.

3 3. Arizona-American currently has a rate case pending before the Commission in Docket
4 Nos. WS-01303A-02-0867 et al., in which the Company is requesting an increase in revenues for its
5 Sun City wastewater district, as well as in other divisions of the Company. A hearing on those
6 consolidated applications is scheduled to commence on December 4, 2003.

7 4. On or about June 21, 1985, the Company's predecessor in interest, Sun City Sewer
8 Company, entered into the agreement referred to herein as the Tolleson Agreement, which is a sewer
9 treatment and transportation services agreement with the City of Tolleson.¹ That agreement governs
10 the collection and treatment of wastewater from the Company's Sun City wastewater district, which
11 is all treated at the Tolleson Wastewater Treatment Plant.

12 5. On April 22, 2003, the Company and the City of Tolleson signed a third amendment
13 to the Tolleson Agreement, a copy of which was attached to the Company's application. The third
14 amendment increases one of the three existing rate components to the Tolleson Agreement, and adds
15 a fourth rate component. The application states that the increase to the existing rate component is
16 necessary because the costs being incurred for repairing and/or replacing existing equipment and
17 facilities have increased substantially since 1985. The application further states that the new, fourth
18 rate component is necessary to provide for Arizona-American's payment of its pro-rata share of the
19 capital improvement projects and facilities additions described in the third amendment to the
20 Tolleson Agreement.

21 6. The Company requests authorization to record all increased costs incurred under the
22 increased existing rate component, and all costs incurred under the new rate component, as deferred
23 debits in Arizona-American Account No. 236305.186898 (NARUC Account No. 186.2 - Other
24 Deferred Debits).

25 7. The Company states in the application that deferral is necessary because such amounts
26 are not currently being recovered in rates, and it wishes to preserve the opportunity to recover the
27

28 ¹ The 1985 agreement was subsequently amended by two amendments on June 21, 1987, and was supplemented by a
Refinancing Supplement Sewage Treatment and Transportation Services Agreement dated May 1, 1998.

1 costs in a future rate proceeding. The Company asserts that the costs in question are reasonable and
2 prudent and being incurred in order to ensure continued wastewater service to its customers in the
3 Sun City wastewater district.

4 8. On August 20, 2003, the Company, Youngtown, RUCO and Staff filed a Stipulated
5 Agreement in this docket, which is attached hereto as Exhibit A.

6 9. The Stipulated Agreement states that the parties are in agreement that Arizona-
7 American should be allowed to defer costs being incurred under the Tolleson Agreement as amended
8 by the third amendment, and that such costs should be recorded in a deferral account pursuant to an
9 accounting order. In addition, the Stipulated Agreement states that the agreement of the parties is
10 expressly conditioned upon the requested accounting order not providing the Company any relief
11 with respect to the ultimate recovery of such costs through rates.

12 10. The parties state that in reaching the Stipulated Agreement, they are not taking any
13 position, nor should any position be implied as being taken by any of the parties, concerning the
14 prudence of the costs being incurred under the Tolleson Agreement as amended by the third
15 amendment for ratemaking purposes, the manner in which such costs should be recovered and/or the
16 time at which the Commission should consider recovery of such costs by Arizona-American through
17 rates. The parties specifically agree in the Stipulated Agreement that the manner and timing of
18 recovery, if any, of any deferred costs will be addressed in the pending consolidated rate case docket,
19 although Staff, Youngtown and RUCO expressly reserve the right to argue that the pending
20 consolidated rate case docket is not the appropriate time or docket to determine the manner of
21 recovery, if any, of the deferred costs.

22 11. While issuance of an accounting order authorizing deferral of the costs being incurred
23 under the amended Tolleson Agreement will not assure the Company that those costs will be
24 recovered in rates, without such an accounting order, the Company would be foreclosed from
25 possible future recovery of such costs as a regulatory asset.

26 12. The terms of the Stipulated Agreement provide a reasonable and appropriate
27 resolution of the issues raised in the application.

28 13. The Company should also be required to prepare and retain accounting records

1 sufficient to permit detailed review, in a rate proceeding, of all deferred costs related to the April 22,
2 2003 third amendment to the Tolleson Agreement.

3 **CONCLUSIONS OF LAW**

4 1. Arizona-American Water Company is a public service corporation within the meaning
5 of Article XV of the Arizona Constitution.

6 2. The Commission has jurisdiction over Arizona-American Water Company and the
7 subject matter of the application.

8 3. The cost deferral authorization granted herein does not constitute a finding or
9 determination that those costs are reasonable, appropriate, or prudent.

10 4. It is in the public interest to allow Arizona-American Water Company to record all
11 increased costs incurred under the increased existing rate component, and all costs incurred under the
12 new rate component, as both are described in the third amendment to the Tolleson Agreement, dated
13 April 22, 2003, as deferred debits in its Account No. 236305.186898 (NARUC Account No. 186.2 –
14 Other Deferred Debits).

15 **ORDER**

16 IT IS THEREFORE ORDERED that Arizona-American Water Company is hereby authorized
17 to record, for accounting purposes, all increased costs incurred under the increased existing rate
18 component, and all costs incurred under the new rate component, as both are described in the third
19 amendment to the Tolleson Agreement, dated April 22, 2003, as deferred debits in Arizona-American
20 Water Company's Account No. 236305.186898 (NARUC Account No. 186.2 – Other Deferred
21 Debits).

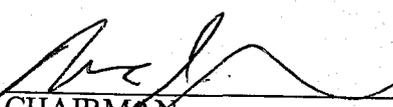
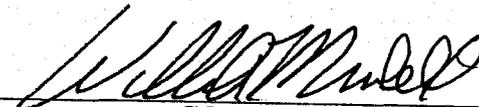
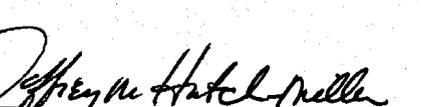
22 IT IS FURTHER ORDERED that the cost deferral authorization granted herein does not
23 constitute a finding or determination that the deferred costs are reasonable, appropriate, or prudent;
24 and that this Decision shall not be construed as providing Arizona-American Water Company any
25 relief through rates with respect to the ultimate recovery of the above-authorized cost deferrals.

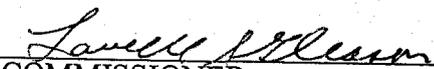
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that Arizona-American Water Company shall prepare and retain
2 accounting records sufficient to permit detailed review, in a rate proceeding, of all deferred costs
3 recorded as authorized above.

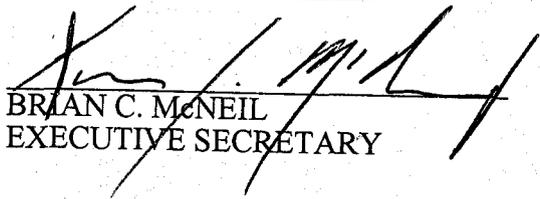
4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7 
8 CHAIRMAN  COMMISSIONER  COMMISSIONER

9
10 
11 COMMISSIONER

12
13
14 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
15 Secretary of the Arizona Corporation Commission, have
16 hereunto set my hand and caused the official seal of the
17 Commission to be affixed at the Capitol, in the City of Phoenix,
18 this 6th day of October, 2003.

19 
20 BRIAN C. McNEIL
21 EXECUTIVE SECRETARY

22 DISSENT _____

23 DISSENT _____

24 TW:mj

1 SERVICE LIST FOR:

ARIZONA-AMERICAN WATER COMPANY

2 DOCKET NO.

SW-01303A-03-0375

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HEARING

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

2003 AUG 20 P 2: 54

- MARC SPITZER, Chairman
- JIM IRWIN
- WILLIAM A. MUNDELL
- JEFF HATCH-MILLER
- MIKE GLEASON

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, SUN CITY WASTEWATER DISTRICT, FOR AN ACCOUNTING ORDER AUTHORIZING THE DEFERRAL OF COSTS ASSOCIATED WITH ITS SEWER TREATMENT AND TRANSPORTATION SERVICE AGREEMENT WITH THE CITY OF TOLLESON, AS AMENDED ON APRIL 22, 2003

DOCKET NO. W-01303A-03-0375
STIPULATED AGREEMENT

RECEIVED

AUG 20 2003

ARIZONA CORPORATION COMMISSION
HEARING DIVISION

Pursuant to the July 21, 2003 Procedural Order in this docket, Arizona-American Water Company ("Arizona-American" or the "Company"), Utilities Division Staff ("Staff"), RUCO and the Town of Youngtown ("Youngtown") (collectively hereinafter referred to as the "Parties") hereby submit this Stipulated Agreement concerning the relief sought by Arizona-American in this docket. Specifically, pursuant to the terms and conditions set forth hereinbelow, the Parties have agreed that the Company should be allowed to defer costs associated with the Sewer Treatment and Transportation Services Agreement ("Tolleson Agreement"), as amended most recently by the Third Amendment To Sewage Treatment and Transportation Services Agreement Between the City of Tolleson and Arizona-American Water Company on April 22, 2003 ("Third Amendment"). In support thereof, the Parties state as follows:

1. On June 15, 2003 Arizona-American filed an application seeking issuance of an accounting order that would authorize the Company to defer costs associated with

1 the Tolleson Agreement, specifically the increased charges to Arizona-American arising
2 out of the Third Amendment.

3 2. Rate Component Three – the replacement and contingencies reserve – has
4 been increased from \$1,500 to \$20,000 per month up to an aggregate balance of
5 \$200,000, increased from \$90,000 under the Third Amendment. This reserve funding is
6 to be used by Tolleson to replace and repair facilities with a useful life of no more than
7 ten years.

8 3. The Third Amendment also creates a new rate component – Rate
9 Component Four – that provides for Arizona-American's payment of its pro rata share of
10 a multi-year capital improvement program being undertaken by the City of Tolleson.
11 Arizona-American's share of the costs of these improvements is currently estimated to be
12 \$9.8 million.

13 4. Pursuant to the Third Amendment, Arizona-American is now obligated to
14 pay increased charges under Rate Component Three and charges under Rate Component
15 Four in accordance with the Third Amendment as of its execution on April 22, 2003.
16 Costs incurred by Arizona-American for Rate Component Four, as well as the increased
17 costs under Rate Component Three established by the Third Amendment are not subject
18 to recovery in rates by Arizona-American at this time. However, the Company has
19 sought such rate recovery in its pending rate applications, Commission Docket Nos. WS-
20 01303A-02-0867, et al. (consolidated).

21 5. Meanwhile, an Accounting Order authorizing the Company to defer costs
22 paid to the City of Tolleson under its agreement, as amended by the Third Amendment is
23 necessary for the Company to defer such costs for possible future recovery as approved
24 by the Commission.

25 6. During the July 18, 2003 Procedural Conference held in this docket, and as
26 reflected in the July 21, 2003 Procedural Order, the issues to be addressed in this docket

1 are limited to the question of whether Arizona-American should be allowed to defer costs
2 associated with Rate Components Three and Four of the Tolleson Agreement, as
3 amended in the Third Amendment and whether the Commission should enter an
4 Accounting Order allowing said deferral.

5 7. The Parties are in agreement that Arizona-American should be allowed to
6 defer costs being incurred under the Tolleson Agreement as amended by the Third
7 Amendment and that such costs should be recorded in a deferral account pursuant to an
8 Accounting Order issued by the Commission.

9 8. The Parties' agreement to allow the Company to defer costs associated with
10 Rate Components Three and Four pursuant to an Accounting Order issued by the
11 Commission is expressly conditioned on the Accounting Order being limited to
12 authorizing the deferral of the increased charges to Arizona-American arising out of the
13 Third Amendment without providing Arizona-American any relief with respect to the
14 ultimate recovery of such costs through rates. In reaching this Stipulated Agreement, the
15 Parties are not taking any position, nor should any position be implied as being taken by
16 any of the Parties, concerning the prudence of such costs for ratemaking purposes, the
17 manner in which such costs should be recovered and/or the time at which the
18 Commission should consider recovery of such costs by Arizona-American through rates.
19 Consistent with Administrative Law Judge Wolfe's findings in this docket, the Parties
20 specifically agree that the "manner and timing" of recovery, if any, of any deferred costs
21 will be addressed in the pending consolidated rate case docket, although Staff,
22 Youngtown, and RUCO expressly reserve the right to argue that the pending consolidated
23 rate case docket is not the appropriate time or docket to determine the manner of
24 recovery, if any, of the deferred costs.

25 9. Based on this Stipulated Agreement as outlined herein, the Parties do not
26 believe that a hearing is necessary in this matter and further request that the deadlines for

1 further filings by the Parties regarding this matter as set forth in the July 21, 2003
2 Procedural Order be vacated.

3 Based on the foregoing stipulated agreement, Arizona-American, Utilities
4 Division Staff, RUCO and the Town of Youngtown hereby request that the
5 Administrative Law Judge prepare a recommended form of opinion and order authorizing
6 issuance of the requested Accounting Order and that said recommended opinion and
7 order be placed on an open meeting agenda for the Commission at the earliest possible
8 date.

9 DATED this 20th day of August, 2003.

10 UTILITIES DIVISION STAFF

FENNEMORE CRAIG

11
12 By Timothy J. Sabo
13 Timothy J. Sabo

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12 By Jay L. Shapiro
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14 Attorneys for Arizona-American
15 Water Company

14 RUCO

TOWN OF YOUNGTOWN

15
16 By Scott Wakefield
17 Scott Wakefield
18 Daniel Pozefsky

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16 By Paul Michaud
17 Paul Michaud

18 An original and 13 copies of the
19 foregoing was hand-delivered this
20 20 day of August, 2003, to:

21 Docket Control
22 Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

1 A copy of the foregoing was
2 hand-delivered this 20 day of
3 August 2003, to

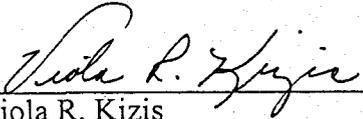
4 Teena Wolfe
5 Administrative Law Judge
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

9 A copy of the foregoing was
10 Mailed this 20 day of August 2003 to:

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