

NEW APPLICATION



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1200 West Washington Street
Phoenix, Arizona 85007

Name Craig A. Marks
Phone 623 445 2442
Fax 623 445 2451
E-Mail Craig.Marks@amwater.com

October 5, 2005

**Re: Arizona-American Water Company
Application for Accounting Order**

Dear Sir or Madam:

W-01303A-05-0704

On September 16, 2005, Arizona-American Water Company docketed the attached letter in Docket No. W-01303A-05-0405. It asked that the Commission issue an accounting order to approve the deferral of capital costs associated with discretionary public-safety/fire-flow improvements in the Company's Paradise Valley Water District. The effective date of the requested order would be October 6, 2005. As detailed in the request, the Company is incurring significant carrying costs on these improvements. Also attached is an October 3, 2005, newspaper article that discusses the value of the fire/flow improvements.

To expedite action on this request, Commission Staff has requested that it be separately docketed. Please open a separate docket as *Arizona-American Water Company's Application for Accounting Order*. I enclose an original and thirteen copies of this letter and the attachments.

Thank you.

Very truly yours,

Craig A. Marks
Corporate Counsel

Cc: Diane Targovnic
Dan Pozefsky
ALJ Dwight Nodes

Enclosures

Arizona American Water

101 Corporate Center
19820 N. 7th Street -
Suite 201
Phoenix, Arizona 85024
USA

T +1 623 445 2400
F +1 623 445 2451
I www.amwater.com

September 16, 2005

Arizona Corporation Commission – Docket Control
1200 West Washington Street
Phoenix, AZ 85007

RE: DOCKET NO. W-01303A-05-0405
ARIZONA AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT RATE CASE

PUBLIC SAFETY SURCHARGE UPDATE

On June 3, 2005 Arizona American Water Company (“Arizona American” or “Company”) filed an application for an increase in rates in its Paradise Valley district, including the direct testimony of David P. Stephenson. As explained on page 20, lines 8 – 15 of this testimony, Arizona American is requesting approval of a multi-step Public Safety Surcharge (“PSS”) for the purpose of recovering the capital costs related to the Company’s discretionary public safety / fire flow improvement program in Paradise Valley. Capital expenditures eligible for inclusion in the PSS are limited to projects that were specifically identified and publicly endorsed by the Town of Paradise Valley in a recent public participation process. These projects improve fire flows, produce no significant additional revenues, and do not reduce operating expenses.

In addition to the Company’s request for the PSS, Arizona American requested that the Commission issue an accounting order in this proceeding approving the deferral of capital costs (depreciation and gross return) related to eligible capital expenditures placed into service in Paradise Valley prior to each surcharge Step going into effect. Herein are further details useful to approving this request.

Arizona American requests that the Commission issue a ruling on the proposed accounting order at the earliest possible convenience. In anticipation of such a ruling, attached hereto, Arizona American files an updated schedule of eligible capital expenditures that have been completed since January 1, 2005 and are now serving

customers (See Exhibits PSS-1 and PSS-2). According to the attached schedule, Arizona American has recently placed \$2,930,358 in public safety/fire flow projects into service and will incur carrying costs of approximately \$37,624 per month, beginning on October 6, 2005. Invoices supporting charges to plant additions are being compiled and will be provided to the parties in this docket.

The Company requests an effective date of October 6, 2005, for the accounting order approving the deferral of capital costs related to public safety/fire flow improvement projects in Paradise Valley. On October 6, 2005, the Company would begin deferring costs each month in the amount of \$37,624 until Step 1 of the PSS is effective, likely sometime Summer 2006. At that time, the entire deferral would begin recovery over a one-year period as a component of the PSS. The Company requests the Commission approve now an on-going continuing deferral order such that if the Company again later places into service eligible plant well ahead of a step increase in PSS it can resume the deferral of carrying costs. Were this to occur again in the future, the Company would provide materials in support of the deferral amount simultaneous with resuming specific deferral amounts.

If the parties have any questions regarding the Company's request, please contact Arizona American at (623) 445-2420.

Sincerely,

Thomas Broderick

ARIZONA AMERICAN WATER
 PARADISE VALLEY OPERATING DISTRICT
 PUBLIC SAFETY SURCHARGE (PSS)

EXHIBIT PSS-1

EFFECTIVE DATE October 2005

2005/2006 ELIGIBLE NET ADDITIONS - STEP 1 (Deferrals Only)

PROJECT NUMBER	DESCRIPTION	ADDITIONS	RETIREMENTS	NET ADDITIONS
2005/2006 Projects				
1.	23020003 Jackrabbit/Invergordon 12" Main	\$2,040,605	\$9,091	\$2,031,514
2.	23020501 16" WM McDonald Main Extension	737,617	3,335	\$734,282
3.	23020101 Fire Hydrants	152,136	1,000	\$151,136
4.				
		<u>2,930,358</u>	<u>13,426</u>	<u>2,916,932</u>

DEPRECIATION

PROJECT NUMBER	DESCRIPTION	ANNUAL DEPRECIATION RATE	ADDITIONS	ANNUAL DEPRECIATION
Depreciation on 2005/2006 Additions				
5.	Main Replacements	2.34%	2,765,796	64,720
6.	Fire Hydrants	2.10%	151,136	3,174
7.	Totals		<u>\$2,916,932</u>	<u>\$67,893</u>

REVENUE REQUIREMENT RATE

	Capital	Percent	Capital Cost	Weighted Cost Rate	Revenue Multiplier	Revenue Requirement Factor	
8.	Debt	Dec. 61831	44.96%	7.30%	3.28%	1.0000	3.28%
9.	Equity	Dec. 61831	55.04%	11.00%	6.05%	1.6300	9.87%
10.	Total		<u>100.00%</u>		<u>9.34%</u>		<u>13.15%</u>

2006 (STEP 1) MONTHLY DEFERRAL CALCULATION

11.	2005/2006 (Step 1) - Eligible Net Additions	<u>\$2,916,932</u>
12.	Eligible for Deferral	<u>\$2,916,932</u>
13.	MONTHLY Revenue Requirement Rate	<u>1.10%</u>
14.	Monthly Pre-Tax Return on Net Rate Base	\$31,967
15.	Monthly Depreciation Expense on Eligible Investments	<u>5,658</u>
16.	Total Monthly Deferral	<u>\$37,624</u>

ARIZONA AMERICAN WATER
 PARADISE VALLEY OPERATING DISTRICT
 PUBLIC SAFETY SURCHARGE (PSS)

EXHIBIT PSS-2

Summary of Public Safety/Fire Flow Task Orders Completed Since Jan. 1, 2005

Project	Work Order	Account No.	Description	Amount	
Jackrabbit/Invergordon 12" Main	50073333	23020003.105260.21	CWIP Overhead-Infrastr	96.31	
		23020003.105275.21	CWIP Contr Svc-Infrastr	5,981.93	
				6,078.24	
Jackrabbit/Invergordon 12" Main	50051251	23020003.105150.31	CWIP M&S-Plant	42.60	
		23020003.105200.31	CWIP Co Labor-Plant	18,953.30	
		23020003.105250.31	CWIP Labor OH-Plant	10,832.56	
		23020003.105260.31	CWIP Overhead-Plant	962.86	
		23020003.105275.31	CWIP Contr Svc-Plant	88,177.59	
		23020003.105350.31	CWIP AFUDC Debt-Plant	3,774.25	
		23020003.105375.31	CWIP AFUDC Eqty-Plant	6,993.36	
		23020003.105390.31	CWIP Tran PY Chg - Plant	(11,221.11)	
				118,515.41	
		50069621	23020003.105260.21	CWIP Overhead-Infrastr	3,424.46
			23020003.105260.31	CWIP Overhead-Plant	57,585.20
23020003.105275.21	CWIP Contr Svc-Infrastr		10,575.71		
23020003.105275.31	CWIP Contr Svc-Plant		1,571,971.90		
23020003.105280.31	CWIP Retainage-Plant		168,698.05		
23020003.105350.31	CWIP AFUDC Debt-Plant		36,369.04		
23020003.105375.31	CWIP AFUDC Eqty-Plant		67,386.97		
		1,916,011.33			
WM McDonald Main Extension	50076717	23020003.105200.31	CWIP Co Labor-Plant	3,394.73	
		23020003.105250.31	CWIP Labor OH-Plant	1,858.55	
		23020003.105260.31	CWIP Overhead-Plant	1,634.69	
		23020501.105200.21	CWIP Co Labor-Infrastr	336.69	
		23020501.105200.31	CWIP Co Labor-Plant	2,794.53	
		23020501.105250.21	CWIP Labor OH-Infrastr	180.08	
		23020501.105250.31	CWIP Labor OH-Plant	1,466.89	
		23020501.105275.31	CWIP Contr Svc-Plant	98,745.39	
		23020501.105350.31	CWIP AFUDC Debt-Plant	617.85	
		23020501.105375.31	CWIP AFUDC Eqty-Plant	1,144.80	
		23630503.105275.31	CWIP Contr Svc-Plant	1,547.50	
				113,721.70	
		50076718	23020501.105260.21	CWIP Overhead-Infrastr	9,849.72
23020501.105275.21	CWIP Contr Svc-Infrastr		213,862.68		
23020501.105275.31	CWIP Contr Svc-Plant		392,041.09		
23020501.105350.21	CWIP AFUDC Debt-Infrastr		2,853.53		
23020501.105375.21	CWIP AFUDC Eqty-Infrastr		5,287.96		
		623,894.98			
Fire Hydrants	50051255	23020101.105150.31	CWIP M&S Plant	16,288.17	
		23020101.105200.31	CWIP Co. Labor Plant	2,905.29	
		23020101.105250.31	CWIP Labor OH Plant	1,749.58	
		23020101.105260.31	CWIP Overhead Plant	5,309.23	
		23020101.105275.21	CWIP Contr. Svc Infrs	206.47	
		23020101.105275.31	CWIP Contr. Svc Plant	118,001.42	
		23020101.105350.31	CWIP AFUDC Debt Plant	2,690.48	
		23020101.105375.31	CWIP AFUDC Equity Plant	4,985.27	
		152,135.91			
		2,930,357.57			

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New water lines aid fire fight

By Wendy Miller, Independent Newspapers

Firefighters didn't have to "strain" as hard to fight two recent house fires thanks to newly upgraded water lines.

"We could have put out any fire (before the new lines) but this way we didn't have to strain," said Chuck Fitzgerald, district fire chief for Rural/Metro Fire Department and fire marshal for Paradise Valley. "It's not always a matter of water pressure but of the amount of water available, and we could have fought more fires that night if we had to."

In the early morning hours of Sept. 21, firefighters from Paradise Valley and Scottsdale were called to back-to-back fires at homes under construction near Jackrabbit and Invergordon roads in Paradise Valley.

Police believe both were deliberately set. The fires caused about \$3 million in damage.

Earlier in the year, Arizona-American Water Company completed work to replace 50-year-old 4-inch water lines along Jackrabbit with 24- and 16-inch lines. Also, it installed a 16-inch water main line down Invergordon.

They were part of an ongoing project by the water service provider to improve fire flow and domestic water supplies in Paradise Valley.

The upgrades helped contribute to the fire department's ability to spray water for more than three hours and extinguish the two fires.

Five fire engines and one ladder truck responded to the first call to a home in the framing stage in the 5700 block of North Casa Blanca Drive. The call was received at 2:10 a.m. Firefighters were dispatched from the Lincoln Drive fire station near Town Hall at 2:13 and arrived on the scene at 2:17, Fire Marshal Fitzgerald said.

Water was shot from the ladder truck's aerial gun at 500 to 750 gallons per minute for more than 90 minutes. Three hand-lines each sprayed water at 125 gpm during that same time, according to Rural/Metro Public Relations Manager Alison Cooper.

While pumping one of two fire hydrants on Casa Blanca for use, the water pressure became strong enough to burst a section of fire hose about 300 feet away from hydrant, Mr. Fitzgerald said.

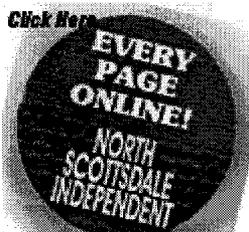
Firefighters were unable to save the framed structure. However, there was little damage to neighboring homes.

Mr. Fitzgerald had already begun demobilizing his crew and engines when a second call came in at 3:40 a.m. for a house fire in the 5500 block of North 69th Place. Firefighters were able to see the blaze from the Casa Blanca site, just blocks away, and were there in just minutes.

The five engines and one ladder truck also were used to fight the second fire, at a home being remodeled. Firefighters again used the three hand-lines at 125 gpm each for close to an hour. Only one hydrant was needed to fight the fire.

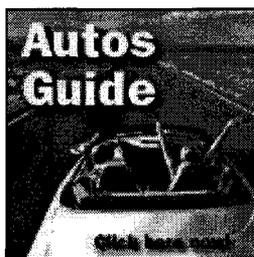
A team from the Phoenix Fire Department also responded but was not needed.

Water use did not end once the fires were extinguished. The Maricopa County Arson Task Force used between 20,000 and 30,000 gallons of water during its investigation of the fires to clean off the building pads and sift through other possible evidence, according to Steve Lutringer, network supervisor for Arizona-American.



NORTHSCOTTSDALE.BIZ





The timing of the water-line installations couldn't have been better, Mr. Lutringer said.

"I'd have to say the new line along Jackrabbit contributed to the (firefighting) success. We aren't always that lucky," he said.

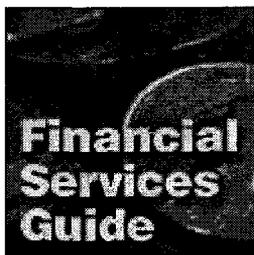
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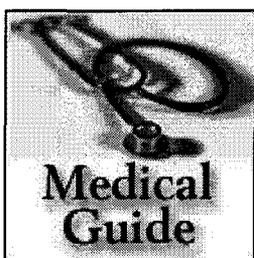
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