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BEFORE THE ARIZONA CORPORATION CO.

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COMMISSIONERS

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2005 AUG 31 P 4: 28

AZ CORP COMMISSION
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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 WATER WEST, HAVASU WATER AND TUBAC WATER DISTRICTS.

DOCKET NO. W-01303A-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-01303A-02-0869

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, ITS AGUA FRIA WATER BY ITS ANTHEM WATER DISTRICT, AND ITS ANTHEM/AGUA FRIA WASTERWATER DISTRICT.

DOCKET NO. WS-01303A-02-0870

STAFF'S CLOSING BRIEF

1 **I. The proposed ACRM should be approved.**

2 Staff recommends that the Commission approve the Arsenic Cost Recovery Mechanism
3 (ACRM) proposed by Arizona-American. Arizona-American's witness, Mr. Broderick, testified that
4 the proposed ACRM "is modeled verbatim on what was approved for Arizona Water." (Tr. at 40).
5 The Commission approved an ACRM for Arizona Water in Decision No. 66400 (October 14,
6 2003)(Northern Group) and Decision No. 66849 (March 19, 2004)(Eastern Group). Arizona Water is
7 also seeking an ACRM in its Western Group rate case (Docket No. W-01445A-04-0650). The
8 Commission approved an Accounting Order to defer the costs relating to the ACRM for the Western
9 Group in Decision No. 67518 (January 20, 2005). In these decisions, the Commission found that
10 ACRMs are an appropriate way to deal with the difficult cost recovery problems posed by the federal
11 government's unfunded arsenic mandate.

12 The Commission's order should take the form of an order amending, under A.R.S. § 40-252,
13 Arizona-American's recent rate case order, Decision No. 67093 (June 30, 2004). This was the course
14 of action contemplated by the Commission when it approved re-opening the record in the rate case.
15 (See Decision No. 67593 at 6). This is also similar to the Commission's action in Decision No.
16 66400. In that case, the Commission divided Arizona Water's Northern Group rate case into two
17 phases. In the first phase, the Commission approved the new rates for the Northern Group. The
18 second phase was limited to considering the ACRM. Decision No. 66400 was the decision issued at
19 the end of phase two. In order to satisfy fair value requirements, the order should refer to the recent
20 fair value finding in Decision No. 67093.

21 Arizona-American agreed to all of the Staff conditions. (Ex. A-6). This includes the
22 requirement to submit a capital plan, and the 40% equity goal. (Tr. at 42-43).

23 **II. The Commission should approve the proposed Hook-up Fee.**

24 RUCO objects to the proposed arsenic hook-up fee for the Havasu district. Arizona-
25 American proposed this hook-up fee in response to suggestions at a community meeting in the
26 district. Further, the fee will substantially reduce the rate impact of the necessary arsenic facilities in
27 the district.

28

1 RUCO's objection is based on its argument that rates and fees should be based on the
2 principle of "cost causation". (Tr. at 71). But Broderick testified that the fee was appropriate
3 because the arsenic facility in Havasu will serve new customers, as well as existing customers. (Tr.
4 at 39-40). Broderick testified that the new facility in Havasu was sized to accommodate these new
5 customers. (Id.) This will allow the facility to achieve economies of scale. (Id.). Staff's witness,
6 Ms. Brown, testified that the "portion related to growth is paid for by the new customers." (Tr. at 92-
7 93). Thus, the proposed arsenic hook-up fee for the Havasu district is fully consistent with the "cost
8 causation" principle cited by RUCO. Indeed, this principle is the basis for the Commission's long-
9 standing view that growth should pay for growth. Here, approving the proposed hook-up fee will
10 allow growth to pay for growth. Accordingly, the proposed arsenic hook-up fee should be approved.

11 Lastly, Broderick agreed to certain additional tariff language which would cause the proposed
12 tariff to more closely match the Arizona-American's existing Agua Fria district hook-up fee tariff.
13 (Tr. at 46-47).

14 **III. Engineering and Implementation Issues.**

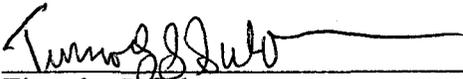
15 Staff agrees with RUCO that there should be "no predetermination of prudence." (Tr. at 73).
16 Staff also agrees with RUCO that the analysis of the ACRM step filings will likely be done quickly.
17 (Id.) But RUCO and Staff both agree that the review will still be thorough. (Tr. at 73 and 95). Staff
18 will fully review the prudence of all items submitted in the ACRM step filings. The prudence review
19 will be based on the information Arizona-American had at the time it made the decision under
20 review. (Chelus, Tr. at 86). Arizona-American did not test the media it selected (Severn Trent
21 granular iron media) in Arizona. (Keenan, Tr. at 110). Staff is disappointed by this omission. Such
22 testing would have been comparatively inexpensive. But this concern is somewhat ameliorated by
23 the performance guarantee Arizona-American negotiated with Severn Trent. (Tr. at 102). Further,
24 the treatment vessels will have the capability of using different types of media.

25 **IV. Conclusion.**

26 Staff recommends the Commission approve Arizona-American's proposed ACRM with the
27 condition described in Staff's pre-filed testimony. (Ex. S-1). Staff also recommends that the
28

1 Commission approve the proposed arsenic impact hook-up fee for the Havasu district. No
2 determination of prudence should be made at this time.

3 **RESPECTFULLY SUBMITTED** this 31st day of August, 2005.

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13 The original and thirteen (13) copies
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16 Docket Control
17 Arizona Corporation Commission
18 1200 West Washington Street
19 Phoenix, Arizona 85007

20 Copies of the foregoing were mailed this
21 21st day of Aug 2005 to:

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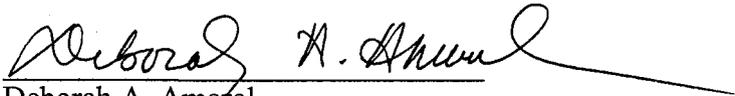
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