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September 16, 2005

AZ CORP COMMISSION
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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.

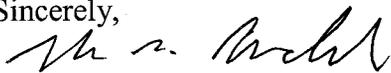
Arizona American requests that the Commission issue a ruling on the proposed accounting order at the earliest possible convenience. In anticipation of such a ruling, attached hereto, Arizona American files an updated schedule of eligible capital expenditures that have been completed since January 1, 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.				
		2,930,358	13,426	2,916,932

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		\$2,916,932	\$67,893

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		100.00%		9.34%		13.15%

2006 (STEP 1) MONTHLY DEFERRAL CALCULATION

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

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			