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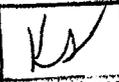
**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

Arizona Corporation Commission

**DOCKETED**

NOV 14 2005

DOCKETED BY 

IN THE MATTER OF THE APPLICATION )  
OF ARIZONA-AMERICAN WATER )  
COMPANY, INC.'S REQUEST FOR AN )  
ACCOUNTING ORDER AUTHORIZING )  
THE DEFERRAL OF COSTS ASSOCIATED )  
WITH PUBLIC SAFETY/FIRE FLOW )  
IMPROVEMENTS IN ITS PARADISE )  
VALLEY WATER DISTRICT )

DOCKET NO. W-01303A-05-0704  
DECISION NO. 68303  
PUBLIC SAFETY/FIRE FLOWS  
ACCOUNTING ORDER

Open Meeting  
November 8 and 9, 2005  
Phoenix, Arizona

**BY THE COMMISSION:**

On June 3, 2005, Arizona-American Water Company ("Arizona-American" or "Company") filed a rate application, Docket No. W-01303A-05-0405, with the Arizona Corporation Commission ("Commission") 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 Paradise Valley water district. Within that application was a request for an accounting order authorizing the deferral of capital costs incurred by the Company's Paradise Valley system related to public safety associated with fire flows.

A hearing on the rate application is scheduled to commence on March 27, 2006.

Pursuant to Staff's request to aid the Company in its request for expedited action, on October 5, 2005, the Company filed a request to bifurcate its rate application and to separate the accounting order portion from the rate application. The Company requests an accounting order authorizing the deferral of capital costs by the Company's Paradise Valley system related to public safety associated with fire flows.

1 The Town of Paradise Valley ("Town") has requested the fire-flow improvements since  
 2 they are needed to reduce the risk to life and property. Mr. Thomas M. Martinsen, the town  
 3 manager of the Town has requested expedited review. Town residents' safety and the protection  
 4 of their property are highly dependent on this program.

5 \* \* \* \* \*

6 Having considered the Company's application and Staff's memorandum dated October 20,  
 7 2005, the Commission finds, concludes, and orders that:

8 FINDINGS OF FACT

9 1. Arizona-American is a Class-A regulated water and wastewater utility which serves  
 10 approximately 131,000 customers throughout the state of Arizona pursuant to various Certificates  
 11 of Convenience and Necessity granted by the Commission to the Company and its predecessors in  
 12 interest.

13 2. The Company's deferral request in this docket pertains only to the Company's  
 14 Paradise Valley water district, where the Company provides service to approximately 5,000  
 15 customers in portions of Paradise Valley, Scottsdale and unincorporated Maricopa County.

16 3. The Company seeks an accounting order in this proceeding authorizing the deferral  
 17 of capital costs and expenses it expects to incur before these costs can be recognized in rates. An  
 18 accounting order is a rate-making mechanism whereby a regulatory commission provides specific  
 19 deferral authorization to treat costs in a manner that differs from generally accepted accounting  
 20 principles. Such a deferral mechanism, pursuant to an authorized accounting order, is permitted  
 21 under National Association of Regulatory Commissioners ("NARUC") Uniform System of  
 22 Accounts ("USOA") guidelines.

23 4. Arizona-American seeks an accounting order authorizing it to defer capital costs,  
 24 specifically depreciation expense and "gross return" related to public safety/fire flow improvement  
 25 facilities placed into service in Paradise Valley.

26 5. The Town has requested the fire-flow improvements since the improvements are  
 27 needed to reduce the risk to life and property.

28 ...

1           6.       The Company proposes to include capital expenditures for projects that a) improve  
2 fire flows, b) produce no significant additional revenues, and c) do not materially reduce operating  
3 expenses. Records will be maintained to segregate the cost of eligible capital investments and  
4 capital investments that would otherwise be made during the due course of the Paradise Valley on-  
5 going operations.

6           7.       Staff's recommendation for approval of an accounting order for Arizona-American  
7 is subject to the following conditions:

- 8           a)       The deferral is limited to eligible Company expenditures in the Paradise Valley water  
9 district related to public safety/fire flow.
- 10           b)       The Company shall be required to prepare and retain accounting records sufficient to  
11 permit detailed review, in a rate proceeding, of all deferred costs related to public  
12 safety/fire flow improvement facilities.
- 13           c)       The deferral is related to projects that are revenue neutral.
- 14           d)       The deferral is related to projects that do not materially reduce operating expenses.
- 15           e)       The Company's deferral is limited to depreciation expense (at authorized  
16 depreciation rates) and a post-in-service allowance for funds used during construction  
17 ("AFUDC"), with the rate set at its cost of debt concurrent with the deferral period.
- 18           f)       The post-in-service AFUDC will automatically cease when, and if, the related plant is  
19 placed in rate base and recognized in a rate proceeding.

20           8.       While issuance of an accounting order authorizing deferral of the costs being  
21 incurred will not assure the Company that those costs will be recovered in rates, without such an  
22 accounting order, the Company would be foreclosed from possible future recovery of such costs as  
23 a regulatory asset.

24           9.       A determination regarding the recovery of the deferral will be made in the  
25 Company's instant rate case or the Company's future rate cases for the Paradise Valley water  
26 district.

#### CONCLUSIONS OF LAW

27           1.       The Company is a public water service corporation within the meaning of Article  
28 XV of the Arizona Constitution and A.R.S. §§40-250 and 40-252.

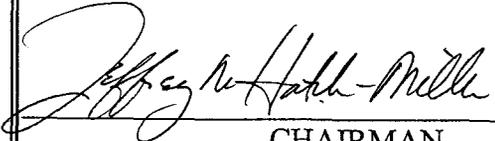
          2.       The Commission has jurisdiction over the Company and of the subject matter of the  
application.



1 IT IS FURTHER ORDERED that a determination of recovery of the deferral will be made  
2 in the Company's instant rate case or the Company's future rate cases for the Paradise Valley  
3 water district.

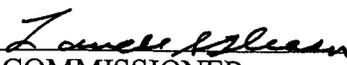
4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5  
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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8  
9 CHAIRMAN

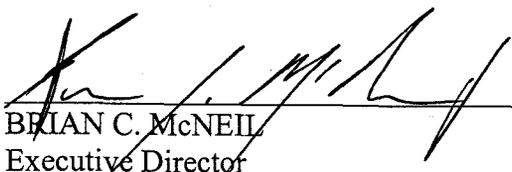
  
COMMISSIONER

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11 COMMISSIONER

  
12 COMMISSIONER

  
COMMISSIONER

13 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive  
14 Director of the Arizona Corporation Commission, have  
15 hereunto, set my hand and caused the official seal of this  
16 Commission to be affixed at the Capitol, in the City of  
17 Phoenix, this 14<sup>th</sup> day of November, 2005.

18   
19 BRIAN C. McNEIL  
20 Executive Director

21 DISSENT: \_\_\_\_\_

22  
23 DISSENT: \_\_\_\_\_

24 EGJ:JRM:rdp/  
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1 SERVICE LIST FOR: Arizona-American Water Company, Inc.  
2 DOCKET NO. W-01303A-05-0704

3 Mr. Craig A. Marks  
4 Arizona-American Water Company  
5 101 Corporate Center  
6 19820 North 7th Street, Suite 201  
7 Phoenix, Arizona 85024

8 Mr. Scott S. Wakefield  
9 RUCO  
10 1110 West Washington Street  
11 Suite 220  
12 Phoenix, Arizona 85007

13 Mr. Ernest G. Johnson  
14 Director, Utilities Division  
15 Arizona Corporation Commission  
16 1200 West Washington  
17 Phoenix, Arizona 85007

18 Mr. Christopher C. Kempley  
19 Chief Counsel  
20 Arizona Corporation Commission  
21 1200 West Washington  
22 Phoenix, Arizona 85007

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