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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

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AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
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 PARADISE  
VALLEY WATER DISTRICT

DOCKET NO. W-01303A-05-0405

IN THE MATTER OF THE APPLICATION OF  
OF ARIZONA-AMERICAN WATER  
COMPANY, INC., AN ARIZONA  
CORPORATION,  
FOR APPROVAL OF AN AGREEMENT  
WITH THE PARADISE VALLEY COUNTRY  
CLUB

DOCKET NO. W-01303A-05-0910

**NOTICE OF FILING**

The Staff of the Arizona Corporation Commission ("Arizona Commission") hereby gives  
Notice of Filing the attached Exhibits to be sponsored by Staff Witness Darron Carlson. These  
Exhibits were also docketed yesterday; however, Staff inadvertently did not include Schedule DWC  
which should have been attached to the first Exhibit. That schedule has been included in this filing.

RESPECTFULLY SUBMITTED this 24<sup>th</sup> day of March, 2006.

Maureen A. Scott, Senior Staff Counsel  
Keith A. Layton, Attorney  
Arizona Corporation Commission  
Legal Division  
1200 West Washington Street  
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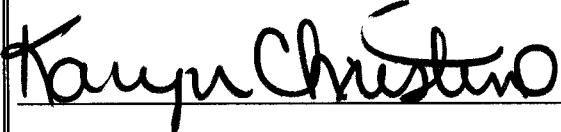
1 Original and fifteen (15) copies  
of the foregoing were filed this  
2 24<sup>th</sup> day of March, 2006 with:

3 Docket Control  
Arizona Corporation Commission  
4 1200 West Washington Street  
Phoenix, Arizona 85007

5  
6 Copies of the foregoing mailed this  
24<sup>th</sup> day of March, 2006 to:

7 Craig A. Marks  
Tom Broderick  
8 Arizona-American Water Company  
101 Corporate Center  
9 19820 North 7<sup>th</sup> Street  
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10 Phoenix, Arizona 85007

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ALTERNATIVE FIRE FLOW SURCHARGE  
DOCKET NO. W-01303A-05-0405

In its direct testimony, Staff proposed a "High-Block" surcharge of \$2.15 to be applied to all gallons in the top tier of each rate schedule to be implemented coincident with the new rates in Arizona-American Water Company's ("Company") application. Amounts collected are to be treated as Contributions in Aid of Construction ("CIAC"). In its surrebuttal testimony Staff recommended that the "High Block" surcharge collections be used to offset the fire flow projects.

The Company had proposed a two step "Public Safety" fire flow surcharge. However, in discussing Staff's proposal, the Company's rebuttal testimony indicated that it would defer the timing of the fire flow projects since the High Block surcharge would not produce adequate cash flow. Mr. Townsley's testimony indicates that "the Company has slowed the pace of these projects until the Commission's wishes are more clearly stated".

The Company has asked Staff to explore possible acceleration of the fire flow surcharge collections to assist in completing the project on a more timely basis. As an alternative, in the event the Commission believes a surcharge is appropriate, Staff suggests a second phase, which would also be used specifically for fire flow surcharges, that would take effect on October 1, 2007. The second phase would increase the High Block surcharge from \$2.15 to \$3.15 per 1,000 gallons. A new "Public Safety" surcharge for the 2<sup>nd</sup> Tier residential rate of \$1.00 per 1,000 gallons and for the 1<sup>st</sup> Tier of commercial rate of \$1.00 per 1,000 gallons would also begin October 1, 2007.

Staff estimates that the High Block surcharge of \$2.15 would generate approximately \$1.7 million annually. Implementation of the October 1, 2007 increases would generate an additional \$1.8 million annually for a total of \$3.5 million annually. See Attached Schedule DWC.

The potential benefits from a phase-in fire flow surcharge include the following:

- Encourage conservation in a water district with historically high usage.
- Increase contributions in aid of construction which will reduce future rate increases.
- Permit more timely implementation of fire safety related infrastructure.

The surcharges will have no effect on the median (11,500 gallons) or average (22,193 gallons) residential bills since the surcharge for the 2<sup>nd</sup> Tier residential starts at 25,000 gallons. Thus, the median and average residential users will not be impacted.

Notwithstanding this alternative, Staff continues to recommend a \$2.15 "High Block" surcharge be implemented when new rates take effect and for the monies collected by this surcharge to be used to offset the cost of the fire flow project.

If the Commission adopts this alternative, Staff recommends that that the Public Safety surcharge be terminated and the High Block surcharge be reduced back to \$2.15 once the Company has fully recovered its fire flow project costs.

APPROXIMATE CASH FLOW  
FIRE FLOW SURCHARGE

Assumes implementation of a top tier \$2.15 surcharge in August, 2006  
Implementation of the following revised surcharge in October, 2007:

Top Tier-all Rate Schedules	\$3.15
2nd Tier-Residential Rates	\$1.00
1st Tier-Commercial Rates	\$1.00

ESTIMATED MONTHLY CASH FLOW

	Top Tier at \$2.15	Top Tier at \$3.15	2nd Tier Res at \$1.00	1st Tier Com. at \$1.00	Cummulative
September 2006	170,000				170,000
October 2006	113,333				283,333
November 2006	113,333				396,666
December 2006	113,333				509,999
January 2007	113,333				623,332
February 2007	113,333				736,665
March 2007	113,333				849,998
April 2007	170,000				1,019,998
May 2007	170,000				1,189,998
June 2007	170,000				1,359,998
July 2007	170,000				1,529,998
August 2007	170,000				1,699,998
September 2007	170,000				1,869,998
October 2007	113,333				1,983,331
November 2007		166,666	52,800	12,000	2,214,797
December 2007		166,666	52,800	12,000	2,446,263
January 2008		166,666	52,800	12,000	2,677,729
February 2008		166,666	52,800	12,000	2,909,195
March 2008		166,666	52,800	12,000	3,140,661
April 2008		250,000	79,200	18,000	3,487,861
May 2008		250,000	79,200	18,000	3,835,061
June 2008		250,000	79,200	18,000	4,182,261
July 2008		250,000	79,200	18,000	4,529,461
August 2008		250,000	79,200	18,000	4,876,661
September 2008		250,000	79,200	18,000	5,223,861
October 2008		166,666	52,800	12,000	5,455,327
	<u>1,983,331</u>	<u>2,499,996</u>	<u>792,000</u>	<u>180,000</u>	
			<u>3,471,000</u>		

DOCKET NO. W-01303A-05-0405

Staff recommends modification of the authorized allowance for funds used in construction ("AFUDC") methodology granted in Decision No. 68303 related to the fire flow project. Staff recommends a modification to the authorized AFUDC calculation to take into account amounts collected by the surcharge. The surcharge collections should be a deduction for purposes of calculating the balance to which the AFUDC fire flow rate is applied. The modification is necessary to allow the Company to recover its capital costs only on its net investment in fire flow projects.

Staff recommends a modification of the AFUDC calculation for the accounting order in Decision No. 68303 related to the fire flow project as described herein.