



**BEFORE THE ARIZONA CORPORATION COM**

**RECEIVED**

- 1
- 2 JEFF HATCH-MILLER  
CHAIRMAN
- 3 WILLIAM A. MUNDELL  
COMMISSIONER
- 4 MARC SPITZER  
COMMISSIONER
- 5 MIKE GLEASON  
COMMISSIONER
- 6 KRISTIN K. MAYES  
COMMISSIONER

2006 MAY 26 P 4: 20

AZ CORP COMMISSION  
DOCUMENT CONTROL

7  
8 IN THE MATTER OF THE APPLICATION OF  
9 ARIZONA-AMERICAN WATER COMPANY,  
10 INC., AN ARIZONA CORPORATION, FOR  
11 AUTHORITY TO IMPLEMENT AN ARSENIC  
12 COST RECOVERY MECHANISM FOR ITS  
13 HAVASU WATER DISTRICT.

Docket Nos. W-01303A-05-0280  
WS-01303A-02-0867  
WS-01303A-02-0869  
WS-01303A-02-0870

**RUCO'S EXCEPTIONS**

14 The Residential Utility Consumer Office ("RUCO") hereby files it exceptions to the  
15 Recommended Order filed by the Utilities Division ("Staff") on May 11, 2006. RUCO  
16 apologizes for the lateness of this filing, but it was not aware of Staff's May 11 filing until  
17 May 24 when it received the Commission's Open Meeting Agenda Notice that included the  
18 matter as Agenda Item U-6.

**BACKGROUND**

19  
20 On April 4, 2006, Arizona-American Water Company filed its application to  
21 implement an arsenic cost recovery mechanism ("ACRM") for its Havasu system. On May  
22 8, 2006, RUCO filed a Report on its audit of the application. On May 11, 2006, Staff filed  
23 its Staff Report and a proposed order.

1 RUCO's report proposed two adjustments to the application. The first adjustment  
2 related to recognition of AFUDC. RUCO's report identified an adjustment of \$7,591 to the  
3 Arsenic Plant in Service related to the AFUDC (see RUCO Schedule ACRM-1, lines 43-  
4 54). RUCO's second adjustment was to disallow \$45,655 of overhead costs that could not  
5 be directly charged to a specific task order, but were allocated to all the arsenic  
6 construction projects. RUCO objected to the inclusion of such costs in the context of the  
7 abbreviated ACRM proceeding that was to be limited to specifically identifiable arsenic  
8 plant.

9 Staff's Report and proposed order make no reference to RUCO's filing and  
10 proposed adjustments. Staff does propose an adjustment related to the debt and equity  
11 rate applied to Construction Work in Progress ("CWIP"). This adjustment substantially the  
12 same as the adjustment RUCO made and labeled as related to AFUDC.<sup>1</sup> However, the  
13 Staff Report does not address RUCO's adjustment for overhead, and makes no similar  
14 adjustment of its own.

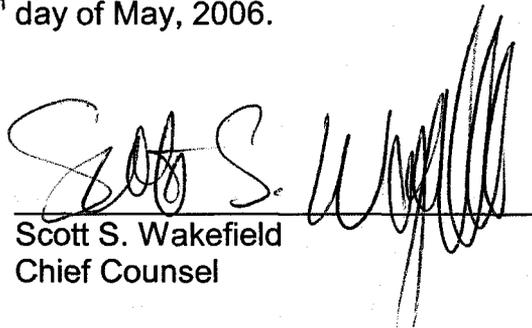
15  
16 **THE COMMISSION SHOULD AMEND THE PROPOSED ORDER TO IDENTIFY RUCO'S  
17 PARTICIPATION AND TO ADDRESS THE ISSUES RUCO RAISED**

18 The Commission is required to address all of the issues raised before it. *Post v.*  
19 *Industrial Commission*, 160 Ariz. 4, 7, 770 P.2d 308, 311 (1989). Therefore, the  
20 Commission should amend the proposed order to identify that RUCO had filed a report  
21

22  
23 <sup>1</sup> In reviewing Staff's CWIP adjustment, RUCO discovered an error in its original \$7,591 calculation of  
24 the adjustment, and concurs with Staff's proposed computation of \$26,968. Attached as Exhibit 1 is RUCO's  
revised schedule RUCO ACRM-1.

1 proposing two adjustments, and to make an explicit ruling on the issues RUCO raised.  
2 RUCO had included Exhibit 2, which is its proposed amendment that would indicate  
3 RUCO's participation in the proceeding, and adopt RUCO's adjustment related to  
4 overhead costs.

5  
6 RESPECTFULLY SUBMITTED this 26<sup>th</sup> day of May, 2006.

7  
8   
9 Scott S. Wakefield  
10 Chief Counsel

11 AN ORIGINAL AND NINETEEN  
12 COPIES of the foregoing filed this  
13 26<sup>th</sup> day of May, 2006 with:

14 Docket Control  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18 COPY of the foregoing hand delivered/  
19 mailed this 26<sup>th</sup> day of May, 2006 to:

20 Teena Wolfe  
21 Administrative Law Judge  
22 Arizona Corporation Commission  
23 1200 West Washington Street  
24 Phoenix, Arizona 85007

Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Christopher Kempley, Chief Counsel  
Timothy Sabo, Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Craig A. Marks  
Corporate Counsel  
Arizona-American Water Company  
19820 N. 7<sup>th</sup> Street  
Suite 201  
Phoenix, Arizona 85024

Ernest G. Johnson, Director  
Utilities Division

Walter W. Meek  
Arizona Utility Investors Association, Inc.  
2100 North Central Avenue, Suite 210  
Phoenix, Arizona 85004

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

Thomas M. Broderick, Manager  
Government and Regulatory Affairs  
Arizona-American Water Company  
19820 N. 7<sup>th</sup> Street, Suite 201  
Phoenix, Arizona 80024

Joel M. Reiker  
Arizona-American Water Company  
19820 N. 7<sup>th</sup> Street, Suite 201  
Phoenix, Arizona 80024

David P. Stephenson  
Director of Rates and Revenues  
American Water Works Service Co., Inc.  
303 H. Street, Suite 250  
Chula Vista, California 91910

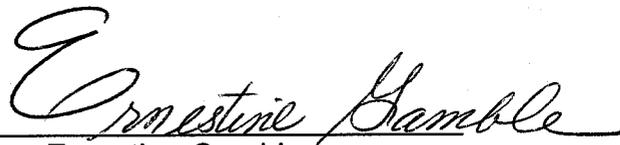
By   
Ernestine Gamble  
Secretary to Scott Wakefield

EXHIBIT 1

RUCO ADJUSTMENT TO ACRM - HAVASU WATER DISTRICT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCO ADJUSTMENT	[C] RUCO AS ADJUSTED
1	Arsenic Plant Revenue Requirement			
2	Arsenic Plant in Service/Rate Base SEE NOTE A	\$ 1,941,792	(72,762)	\$ 1,869,030
3	Depreciation rate	3.44%		3.44%
4	Depreciation expense	66,733		64,233
5	Depreciation expense net of tax savings <sup>1</sup>	40,975		39,440
6	Recoverable O&M costs	-		-
7	Recoverable O&M costs net of tax savings <sup>1</sup>	-		-
8	Arsenic Operating Income	\$ (40,975)		\$ (39,440)
9	Rate of return	-2.11%		-2.11%
10	Required Rate of Return <sup>2</sup>	6.50%		6.50%
11	Required Operating Income	126,217		121,487
12	Operating Income deficiency	167,192		160,927
13	Gross revenue conversion factor <sup>2</sup>	1.62863		1.62863
14	Revenue deficiency	\$ 272,294		\$ 262,090

<sup>1</sup> 38.5986 % tax rate per Dec. 67093

<sup>2</sup> Decision No. 67093

COMPANY PROPOSED

RATES	CURRENT RATES DEC. NO. 67093	ACRM SURCHARGE	TOTAL PROPOSED
Basic Monthly Minimum Service Charge			
5/8" Meter	\$ 11.78	\$ 5.84	\$ 17.62
Commodity Rates Per 1,000 Gallons			
0 to 4,000 gallons	\$ 1.0500	\$ 0.6547	\$ 1.7047
4,001 to 13,000 gallons	1.5550	0.6547	2.2097
13,001 gallons and over	1.8700	0.6547	2.5247

RUCO PROPOSED

RATES	CURRENT RATES DEC. NO. 67093	ACRM SURCHARGE	TOTAL PROPOSED
Basic Monthly Minimum Service Charge			
5/8" Meter	\$ 11.78	\$ 5.62	\$ 17.40
Commodity Rates Per 1,000 Gallons			
0 to 4,000 gallons	\$ 1.0500	\$ 0.6302	\$ 1.6802
4,001 to 13,000 gallons	1.5550	0.6302	2.1852
13,001 gallons and over	1.8700	0.6302	2.5002

NOTE A

RUCO Adjustment			
105260 - OVERHEAD			(45,655)
105350 - AFUDC DEBT (AFUDC Reduced Since July 2004 By Effective Rates In Dec. No. 67093)			(1,945)
105375 - AFUDC EQUITY (AFUDC Reduced Since July 2004 By Effective Rates In Dec. No. 67093)			(25,162)
TOTAL ADJUSTMENT			\$ (72,762)

EXHIBIT 2

## **RUCO's Proposed Amendment**

Page 5, Line 10

INSERT

### **RUCO's Position**

On May 8, 2006, the Residential Utility Consumer Office ("RUCO") filed a report of its audit findings on the application. RUCO proposed two adjustments. RUCO's first adjustment is substantially the same as the CWIP issue raised by Staff and addressed above. In addition, RUCO proposed an adjustment of \$45,655 in allocated overhead costs. We agree with RUCO that due to the abbreviated nature of this proceeding, it is not proper to include an allocation of overhead costs that cannot be directly identified with a specific task order related to the arsenic plant.

Page 5, Line 24

INSERT new Finding of Fact as follows:

4. RUCO's proposed adjustment, to disallow in plant balances amounts related to an allocation of overhead costs that cannot be directly identified with a specific task order related to the arsenic plant, should be adopted.

Further amendment to attached ACRM Schedule DRR-1 to conform.