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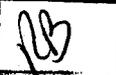
BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission

DOCKETED

JUN 29 2006

DOCKETED BY 

IN THE MATTER OF THE APPLICATION)
OF ARIZON-AMERICAN WATER)
COMPANY, AN ARIZONA)
CORPORATION, FOR AUTHORITY TO)
IMPLEMENT AN ARSENIC COST)
RECOVERY MECHANISM FOR ITS AGUA)
FRIA WATER DISTRICT)

DOCKET NOS. W-01303A-05-0280
WS-01303A-02-0867
WS-01303A-02-0869
WS-01303A-02-0870

DECISION NO. 68825

ORDER

Open Meeting
June 27 and 28, 2006
Phoenix, Arizona

BY THE COMMISSION:

INTRODUCTION

Pursuant to Decision No. 68310, Arizona American Water Company (“Company”, “Applicant” or “Arizona-American”) filed an application on April 21, 2006, with the Arizona Corporation Commission (“Commission”) requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism (“ACRM”). The Company filed a revised application on June 8, 2006. The average residential customer bill would increase by approximately \$2.73 from \$23.91 to \$26.64 (11.4 percent) under the Company’s Step One filing.

On January 23, 2001, the Environmental Protection Agency (“EPA”) reduced the drinking water maximum contaminant level of arsenic from 50 parts per billion (“ppb”) to 10 ppb. All community water systems and non-transient non-community water systems needed to comply with the new federal rule by the January 23, 2006 deadline.

On November 22 and December 13, 2002, the Company filed applications with the Commission for fair value determinations of its utility plant and for permanent rate increases for

1 five of its districts (Sun City West Water and Wastewater, Sun City Water and Wastewater,
2 Havasu and Mohave Water, Agua Fria Water and Wastewater, and Tubac Water). On June 30,
3 2004, the Commission issued Decision No. 67093 establishing permanent rate increases for these
4 five districts.

5 On February 15, 2005, the Commission issued Decision No. 67593 granting the
6 Company's request to reopen the record in Decision No. 67093 for the limited purpose of serving
7 as evidentiary basis for future ACRM filings for the affected Arizona-American water districts.

8 By Procedural Order issued March 29, 2005, Arizona-American was directed to file a new
9 application indicating the relief sought regarding the ACRM, and to consolidate the new
10 application with those existing dockets from Decision No. 67093 that would be affected by the
11 specific relief request in its filing.

12 On April 15, 2005, the Company filed the above captioned application (Docket No.
13 W-01303A-05-0280) for authority to implement ACRMs for its Agua Fria Water, Sun City West
14 Water, Havasu Water, and Tubac Water Districts.

15 On May 4, 2005, the Company filed a Motion to Delete the Tubac Water District from its
16 application.

17 By Procedural Order issued May 6, 2005, the Company's request to delete the Tubac Water
18 District from its application was approved.

19 On November 14, 2005, the Commission issued Decision No. 68310 granting Arizona-
20 American Water Company's application for authority to implement an Arsenic Cost Recovery
21 Mechanism and a Havasu District Arsenic Impact Fee ("AIF") Tariff subject to the terms and
22 conditions contained in the Decision.

23 On May 8, 2006, The Residential Utility Consumer Office ("RUCO") filed its Report on its
24 audit of the ACRM filing. RUCO filed a revised Report on June 2, 2006. The revised Report
25 recommends a surcharge of \$1.37 to the monthly minimum charge and \$0.1598 per 1,000 gallons
26 to the commodity rate. The Company's revised filing requests identical surcharge amounts.

27 On May 30, 2006, the Company filed a response to the proposed order regarding
28 implementation of an ACRM for the Havasu Water District. That response requests to modify the

1 requirement set forth in Decision No. 68310 for the Company to file a rate case no later than April
2 30, 2008, based on a 2007 test year by extending the filing date by 31 days to May 31, 2008.

3 The Company has communicated to Staff a desire for the same extended filing date for the
4 Agua Fria Water District.

5

6 **Decision No. 68310 Requirements for Approval of the Arsenic Cost Recovery Mechanism**

- 7 1. Arizona-American shall comply with all requirements discussed in this Order as a
8 condition of approval of the Arsenic Cost Recovery Mechanism.
- 9 2. Arizona-American shall file a plan with Docket Control by December 31, 2005, that
10 describes how the Company expects to attain and maintain a capital structure (equity,
11 long-term debt, and short-term debt) with equity representing between 40 and 60
12 percent of total capital.
- 13 3. Arizona-American shall file, by April 1st of each year subsequent to any year in
14 which it collects surcharges under an ACRM, a report with the Utilities Division
15 Director showing the Company's ending capital structure by month for the prior year.
- 16 4. Arizona-American shall modify the rate base calculation for the Havasu Water
17 District to explicitly show a deduction for Arsenic Impact Fee collections.
- 18 5. That as part of the Earnings Test schedule filed in support of the ACRM, Arizona-
19 American shall incorporate adjustments conforming to Decision No. 67093.
- 20 6. Arizona-American shall file the schedules discussed in its application, as modified by
21 Staff's recommendations herein. Microsoft Excel or compatible electronic versions
22 of the filings and all work papers should be filed concurrently with all ACRM filings.
- 23 7. Arizona-American shall file permanent rate applications for its Sun City West, Agua
24 Fria, and Havasu districts by no later than April 30, 2008, based on a 2007 test year.
- 25 8. For the Havasu District, Arizona-American shall file with Docket Control by January
26 31st of each year, an annual calendar year status report, until the AIF Tariff is no
27 longer in effect. The status report shall contain a list of all customers that have paid
28 the AIF, the amount each customer has paid, the amount of money spent from the
AIF, and a list of all facilities that have been installed with funds from the AIF Tariff.
9. Arizona-American shall file the schedules and information described above, as well
as any additional relevant data requested by Staff, as part of any request for an
Arsenic Cost Recovery Mechanism step increase.
10. The Commission is concerned about the impact on the bills of customers served by
the Havasu system from the implementation of the ACRM. Consequently, we direct
Staff and the Company to open a new proceeding to examine other forms of
mitigation of the ACRM for the Havasu system, including the use of hook-up fees for
adjacent systems.

1 Staff Analysis

2 **ACRM Schedules**

3 The Company's Agua Fria filing includes the following schedules.

- 4 1. Balance Sheet – as of December 31, 2005
- 5 2. Income Statement – period ending December 31, 2005.
- 6 3. Income Statement Adjustments (Earnings Test) – to conform to Decision No. 67093.
- 7 4. Rate Review – a rate review filing for the Agua Fria Water District.
- 8 5. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for Step
- 9 One.
- 10 6. Surcharge Calculation – a detailed surcharge calculation.
- 11 7. Rate Base – a schedule showing the elements and the calculation of the rate base,
- 12 including the deduction for Arsenic Impact Fee Contributions as of April 1, 2006.
- 13 8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the construction
- 14 work in progress account.
- 15 9. 4-Factor Allocation for December 2005 – a schedule showing the allocation factors
- 16 for all of the Arizona-American Districts.
- 17 10. Typical Bill Analysis – ACRM Step-1 – A typical bill analysis showing the effects on
- 18 residential customers at various consumption levels as well as the Average
- Residential change at 8,520 gallons.

19 Staff concluded that the filed schedules conform with the methodologies originally
20 required by Decision No. 66400 and that were subsequently adopted by Decision No. 68310. Staff
21 concluded that the Company's Step-One ACRM filing for its Agua Fria Water District is complete
22 and in accordance with Decision No. 68310.

23 The ACRM schedules provide for the calculation of a surcharge based on financial records
24 and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would
25 not result in a rate of return exceeding that authorized in Decision No. 67093.

26 Authorization of the Company's requested ACRM in Decision No. 68310 was conditioned
27 upon on three other items.

28 ...

- 1 1. Arizona-American Water Company shall file a plan with Docket Control by
2 December 31, 2005 that describes how the Company expects to attain an maintain a
3 capital structure (equity, long-term debt, and short-term debt) with equity
4 representing between 40 and 60 percent of total capital. The Applicant docketed an
5 equity plan on November 30, 2005.
- 6 2. For the Havasu District, Arizona-American Water Company shall file with Docket
7 Control by January 31st of each year, an annual calendar year status report, until the
8 AIF Tariff is no longer in effect. The status report shall contain a list of all customers
9 that have paid the AIF, the amount each customer has paid, the amount of money
10 spent from the AIF, and a list of all facilities that have been installed with funds from
11 the AIF Tariff. The Applicant docketed an AIF compliance report on February 2,
12 2006.
- 13 3. The Commission is concerned about the impact on the bills of customers served by
14 the Havasu system from the implementation of the ACRM. Consequently, we direct
15 Staff and the Company to open a new proceeding to examine other forms of
16 mitigation of the ACRM for the Havasu system, including the use of hook-up fees for
17 adjacent systems. Compliance with this condition is met by Docket No. W-01303A-
18 05-0890.

13 Staff agrees with the Company revised Agua Fria filing. The revised filings recognizeS
14 arsenic treatment plant/ rate base of \$8,556,946¹ and a \$1,176,973 ACRM revenue requirement. A
15 rate design that generates 50 percent of the revenue requirement from minimum monthly charges
16 and 50 percent from commodity rates, as specified by the Commission for ACRM surcharges,
17 results in a surcharge of \$1.37 to the monthly minimum charge per equivalent billing unit (5/8-inch
18 meter) and \$0.1598 per 1,000 gallons to the commodity rate. These ACRM surcharges would
19 increase the monthly bill for the average residential customer using 8,250 gallons by \$2.73 from
20 \$23.91 to \$26.64 (11.4 percent).

21 Staff concludes that the Company's request for an extension of time from April 30, 2008
22 (per Decision No. 68310), to May 31, 2008, in order to file a more complete permanent rate
23 application for its Aqua Fria Water District based on a 2007 test year is reasonable and in the
24 public interest.

25 Staff recommends that Company file with the Commission an arsenic removal surcharge
26 tariff consistent with ACRM Schedule DRR-1.

27
28 ¹ Staff and the Company calculated arsenic treatment plant/rate bases of \$8,558,191 and \$8,558,951, respectively,
insignificantly less than RUCO by \$755 and \$2,005, respectively.

1 Staff recommends that Arizona-American Agua Fria Water District notify its customers of
2 the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of
3 this Decision.

4 Staff recommends that in the event that the Applicant fails to file a permanent rate
5 application for its Agua Fria Water system by May 31, 2008, based on a 2007 test year, the
6 Arsenic Cost Recovery Mechanism surcharge then in place shall be automatically discontinued.

7 * * * * *

8 Having considered the entire record herein and being fully advised in the premises, the
9 Commission finds, concludes, and orders that:

10 FINDINGS OF FACT

11 1. Pursuant to Decision No. 68310, the Company seeks an arsenic cost removal
12 mechanism surcharge tariff in this proceeding authorizing a monthly surcharge per customer to aid
13 the Company in its efforts to comply with the Environmental Protection Agency's ("EPA") new
14 arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on
15 January 23, 2006.

16 2. Pursuant to Decision No. 68310, Arizona-American filed the required schedules
17 prior to the implementation of the ACRM.

18 3. The Company's revised filing reflects application of the correct AFUDC rates and
19 all conforming adjustments should be adopted.

20 4. Arizona-American shall file permanent rate applications for its Sun City West,
21 Agua Fria, and Havasu districts by no later than May 31, 2008, based on a 2007 test year.

22 CONCLUSIONS OF LAW

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

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

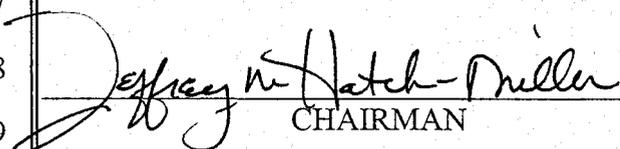
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1 IT IS FURTHER ORDERED that in the event that Arizona-American fails to file a new
2 rate case application by May 31, 2008, the Arsenic Cost Recovery Mechanism surcharge then in
3 place shall be automatically discontinued.

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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9 CHAIRMAN

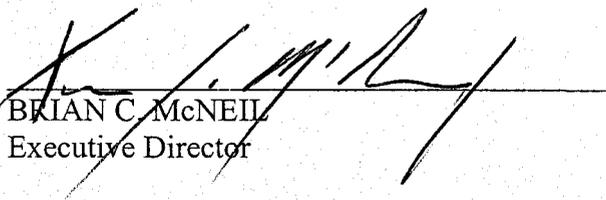
COMMISSIONER

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12 COMMISSIONER

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 29th day of June, 2006.

18
19 
20 BRIAN C. McNEIL
Executive Director

21 DISSENT: _____

22
23 DISSENT: _____

24 EGJ:DRR:lhmdR
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2 DOCKET NOS. W-01303A-05-0280, et al.

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