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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

JUL 28 2006

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IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY FOR APPROVAL OF TARIFF
REVISIONS TO IMPLEMENT A HOOK-UP
FEE IN ITS ANTHEM WATER DISTRICT

DOCKET NO. W-01303A-06-0284

DECISION NO. 68857

ORDER

Open Meeting
July 25 and 26, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona-American Water Company ("Arizona-American" or "the Company") is certificated to provide water service as a public service corporation in the State of Arizona.

2. On April 26, 2006, Arizona-American Water Company ("Arizona-American" or "the Company") filed an application for approval of tariff revisions to implement a hook-up fee that would apply to new connections in its Anthem Water District.

3. On May 8, 2006, the Company filed a letter agreeing to waive the 30-day time clock to allow Staff time to complete its review of the filing.

4. The Anthem Water District serves the Community of Anthem which is located north of Phoenix and adjacent to Interstate 17 in Maricopa County. As of April 30, 2006, there were a total of approximately 7,200 water connections in the Anthem Water District. The

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1 Company expects to add approximately another 2,100 connections by the end of 2007 at which
2 time the area served will be almost fully developed.¹

3 5. Arizona-American modeled its proposed Water Facilities Hook-up Fee tariff for the
4 Anthem Water District after a hook-up fee tariff that is in effect for the Company's Agua Fria
5 Water District. The proposed fees, which are significantly higher than those approved for Agua
6 Fria, would start at \$3,000 for a 5/8- x 3/4-inch water meter and increase volumetrically.²
7 Arizona-American is asking to implement a hook-up fee for the Anthem Water District to reduce
8 the need for future rate relief. Since funds collected from the hook-up fees are treated as
9 contributions for rate making purposes these funds directly offset rate base. The Company's
10 current rates are based on a 2001 test year rate base of \$9,269,095. Later this year, Arizona-
11 American expects to file for an approximate 44 percent water rate increase which would be based
12 on a 2005 test year rate base of over \$31 million. The Company expects this rate base number to
13 exceed \$72 million by the end of 2008. This later increase in rate base is due in large part to the
14 Company's need to make major refunds of advances paid by the developer for prior plant
15 construction. While the proposed hook-up fees will not reduce the revenue requirement for the
16 pending case, the Company believes the proposed fees will help mitigate potential rate increases in
17 subsequent cases.

18 6. The purpose of hook-up fees is to equitably apportion the costs of constructing
19 additional off-site facilities to provide water production, delivery, storage and pressure among new
20 service connections. "Off-site Facilities" means wells, storage tanks and related appurtenances
21 necessary for proper operation, including engineering and design costs. Offsite facilities may also
22 include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for
23 proper operation if these facilities are not for the exclusive use of only one applicant and will
24 benefit the entire water system. The determination of a reasonable hook-up fee amount is based on
25 the off-site plant that will be needed to meet future growth divided by the ultimate number of
26 connections that can be served by the required plant. In the case of the Anthem Water District,

27 ¹ Arizona-American provided the following forecast for new connections in the Anthem Water District: 1065 (2006),
28 1014 (2007), 17 (2008), 16 (2009) and 15 (2010).

² Rates approved for the Agua Fria District start at \$1,150 for a 5/8- x 3/4-inch meter and increase volumetrically.

1 most of the plant that will be needed to serve customers has already been constructed with full
2 development expected by the end of 2007.³ The large increase in rate base in the next three years
3 is related to the need to make major refunds of advances for plant that has already been
4 constructed.⁴

5 7. Staff has recommended that Arizona-American's application to implement a hook-up
6 fee tariff applicable to the Anthem Water District be denied for the following reasons:

- 7 • The Company's tariff is not designed to recover the costs of future off-site plant
8 needed to meet growth. The fee amounts were not based on future off-site plant
9 additions or its capacity.
- 10 • The additional revenue collected from the proposed hook-up fees would have
11 limited impact and would not eliminate the need for future rate relief. Assuming
12 the proposed fees were implemented on July 1, 2006, Staff estimates that the
13 Company would collect \$9.4 million in fees through the end of 2008. This amount
14 offsets only about 15 percent of the \$63 million rate base increase expected over the
15 next three years.
- 16 • A Capacity Reservation Charge ("CRC") of \$765 per Equivalent Residential Unit⁵
17 is currently applied to all new connections. The CRC is similar to hook-up fees in
18 that as the name implies the charge covers the cost of facilities needed to serve new
19 growth. If the hook-up fees as proposed by the Company were implemented, Staff
20 is concerned that new customers would feel they are being charged twice for the
21 same facilities.

22 8. In the event the Commission decided that additional charges similar to those
23 proposed in this filing were appropriate to help mitigate the need for future rate increases, Staff has
24 recommended that they not be referred to as hook-up fees. Staff has suggested that name and tariff
25 descriptions be used that are less confusing and misleading. An appropriate name for such a tariff
26 might be "Rate Base Reduction Tariff". Attached in Staff's Memorandum is the Rate Base
27 Reduction Tariff that Staff has suggested the Commission approve in lieu of the proposed Water
28 Facilities Hook-Up Fee.

³ According to the Company, new connections and plant additions are expected to be minimal after 2007.

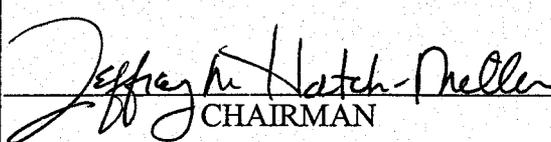
⁴ The Company expects to add \$6.4 million in new plant in the next three years.

⁵ Equivalent Residential Unit ("ERU") is that portion of a residential or commercial unit that uses an equivalent amount of water as a typical single-family home. ERUs for various facilities (i.e., apartments, commercial uses, schools, parks, etc.) are listed in the tariff.

1 IT IS FURTHER ORDERED that Arizona-American shall file the Rate Base Reduction
2 Tariff as discussed herein in Docket Control within 30 days of the effective date of this decision.

3 IT IS FURTHER ORDERED that this decision shall become effective immediately.

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

6 
7 CHAIRMAN


8 COMMISSIONER

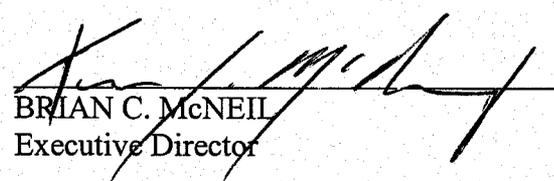
9 Commissioner Spitzer resigned
effective 7-21-2006

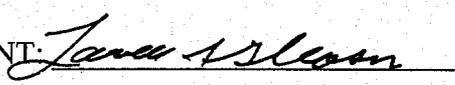
10 COMMISSIONER

COMMISSIONER


11 COMMISSIONER

12 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto, set my hand and caused the official seal of this
15 Commission to be affixed at the Capitol, in the City of
16 Phoenix, this 28th day of July, 2006.


17 BRIAN C. McNEIL
Executive Director

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19 DISSENT: 

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21 DISSENT: _____

22 EGJ:DWS:lhmdr
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1 SERVICE LIST FOR: Arizona-American Water Company
2 DOCKET NO.W-01303A-05-0588

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