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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
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COMMISSIONERS

MARC SPITZER, Chairman
JIM IRWIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, SUN CITY WASTEWATER DISTRICT, FOR AN ACCOUNTING ORDER AUTHORIZING THE DEFERRAL OF COSTS ASSOCIATED WITH ITS SEWER TREATMENT AND TRANSPORTATION SERVICE AGREEMENT WITH THE CITY OF TOLLESON, AS AMENDED ON APRIL 22, 2003	DOCKET NO. SW-01303A-03-0375 **STIPULATED AGREEMENT**

Pursuant to the July 21, 2003 Procedural Order in this docket, Arizona-American Water Company ("Arizona-American" or the "Company"), Utilities Division Staff ("Staff"), RUCO and the Town of Youngtown ("Youngtown") (collectively herienafter referred to as the "Parties") hereby submit this Stipulated Agreement concerning the relief sought by Arizona-American in this docket. Specifically, pursuant to the terms and conditions set forth hereinbelow, the Parties have agreed that the Company should be allowed to defer costs associated with the Sewer Treatment and Transportation Services Agreement ("Tolleson Agreement"), as amended most recently by the Third Amendment To Sewage Treatment and Transportation Services Agreement Between the City of Tolleson and Arizona-American Water Company on April 22, 2003 ("Third Amendment"). In support thereof, the Parties state as follows:

1. On June 15, 2003 Arizona-American filed an application seeking issuance of an accounting order that would authorize the Company to defer costs associated with

the Tolleson Agreement, specifically the increased charges to Arizona-American arising out of the Third Amendment.

2. Rate Component Three – the replacement and contingencies reserve – has been increased from $1,500 to $20,000 per month up to an aggregate balance of $200,000, increased from $90,000 under the Third Amendment. This reserve funding is to be used by Tolleosn to replace and repair facilities with a useful life of no more than ten years.

3. The Third Amendment also creates a new rate component – Rate Component Four – that provides for Arizona-American's payment of its pro rata share of a multi-year capital improvement program being undertaken by the City of Tolleson. Arizona-American's share of the costs of these improvements is currently estimated to be $9.8 million.

4. Pursuant to the Third Amendment, Arizona-American is now obligated to pay increased charges under Rate Component Three and charges under Rate Component Four in accordance with the Third Amendment as of its execution on April 22, 2003. Costs incurred by Arizona-American for Rate Component Four, as well as the increased costs under Rate Component Three established by the Third Amendment are not subject to recovery in rates by Arizona-American at this time. However, the Company has sought such rate recovery in its pending rate applications, Commission Docket Nos. WS-01303A-02-0867, et al. (consolidated).

5. Meanwhile, an Accounting Order authorizing the Company to defer costs paid to the City of Tolleson under its agreement, as amended by the Third Amendment is necessary for the Company to defer such costs for possible future recovery as approved by the Commission.

6. During the July 18, 2003 Procedural Conference held in this docket, and as reflected in the July 21, 2003 Procedural Order, the issues to be addressed in this docket

are limited to the question of whether Arizona-American should be allowed to defer costs associated with Rate Components Three and Four of the Tolleson Agreement, as amended in the Third Amerndment and whether the Commission should enter an Accounting Order allowing said deferral.

7. The Parties are in agreement that Arizona-American should be allowed to defer costs being incurred under the Tolleson Agreement as amended by the Third Amendment and that such costs should be recorded in a deferral account pursuant to an Accounting Order issued by the Commission.

8. The Parties' agreement to allow the Company to defer costs associated with Rate Components Three and Four pursuant to an Accounting Order issued by the Commission is expressly conditioned on the Accounting Order being limited to authorizing the deferral of the increased charges to Arizona-American arising out of the Third Amendment without providing Arizona-American any relief with respect to the ultimate recovery of such costs through rates. In reaching this Stipulated Agreement, the Parties are not taking any position, nor should any position be implied as being taken by any of the Parties, concerning the prudency of such costs for ratemaking purposes, the manner in which such costs should be recovered and/or the time at which the Commission should consider recovery of such costs by Arizona-American through rates. Consisitent with Administrative Law Judge Wolfe's findings in this docket, the Parties specifically agree that the "manner and timing" of recovery, if any, of any deferred costs will be addressed in the pending consolidated rate case docket, although Staff, Youngtown, and RUCO expressly reserve the right to argue that the pending consolidated rate case docket is not the appropriate time or docket to determine the manner of recovery, if any, of the deferred costs.

9. Based on this Stipulated Agreement as outlined herein, the Parties do not believe that a hearing is necessary in this matter and further request that the deadlines for

further filings by the Parties regarding this matter as set forth in the July 21, 2003 Procedural Order be vacated.

Based on the foregoing stipulated agreement, Arizona-American, Utilities Division Staff, RUCO and the Town of Youngtown hereby request that the Administrative Law Judge prepare a recommended form of opinion and order authorizing issuance of the requested Accounting Order and that said recommended opinion and order be placed on an open meeting agenda for the Commission at the earliest possible date.

DATED this 20th day of August, 2003.

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A copy of the foregoing was
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