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BEFORE THE ARIZONA CORPORATION COMMISSION

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- 2 JEFF HATCH-MILLER  
CHAIRMAN
- 3 WILLIAM A. MUNDELL  
COMMISSIONER
- 4 MIKE GLEASON  
COMMISSIONER
- 5 KRISTIN K. MAYES  
COMMISSIONER
- 6 BARRY WONG  
COMMISSIONER
- 7

2006 OCT -2 A 10: 00

AZ CORP COMMISSION  
DOCUMENT CONTROL

8 IN THE MATTER OF THE APPLICATION OF  
9 ARIZONA-AMERICAN WATER COMPANY,  
10 INC., AN ARIZONA CORPORATION, FOR  
11 AUTHORITY TO IMPLEMENT ARSENIC  
12 COST RECOVERY MECHANISMS FOR ITS  
13 AGUA FRIA WATER, SUN CITY WEST  
14 WATER, HAVASU WATER, AND TUBAC  
15 WATER DISTRICTS.

Docket No. W-01303A-05-0280

12 IN THE MATTER OF THE APPLICATION OF  
13 ARIZONA-AMERICAN WATER COMPANY,  
14 INC., AN ARIZONA CORPORATION, FOR A  
15 DETERMINATION OF THE CURRENT FAIR  
16 VALUE OF ITS UTILITY PLANT AND  
17 PROPERTY AND FOR INCREASES IN ITS  
18 RATES AND CHARGES BASED THEREON  
19 FOR UTILITY SERVICE BY ITS SUN CITY  
20 WEST WATER AND WASTEWATER  
21 DISTRICTS.

Docket No. WS-01303A-02-0867

17 IN THE MATTER OF THE APPLICATION OF  
18 ARIZONA-AMERICAN WATER COMPANY,  
19 INC., AN ARIZONA CORPORATION, FOR A  
20 DETERMINATION OF THE CURRENT FAIR  
21 VALUE OF ITS UTILITY PLANT AND  
22 PROPERTY AND FOR INCREASES IN ITS  
23 RATES AND CHARGES BASED THEREON  
24 FOR UTILITY SERVICE BY ITS MOHAVE  
WATER DISTRICT AND ITS HAVASU  
WATER DISTRICT

Docket No. W-01303A-02-0869

**NOTICE OF FILING RUCO'S REPORT  
ON STEP ONE ARSENIC FILING -  
SUN CITY WEST DISTRICT**

Arizona Corporation Commission  
**DOCKETED**

OCT -2 2006

DOCKETED BY	<i>nr</i>
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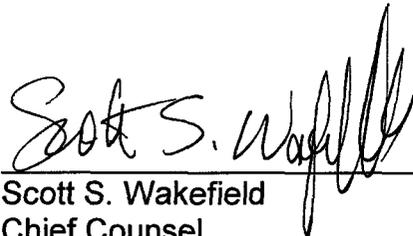
1 IN THE MATTER OF THE APPLICATION OF  
2 ARIZONA-AMERICAN WATER COMPANY,  
3 INC., AN ARIZONA CORPORATION, FOR A  
4 DETERMINATION OF THE CURRENT FAIR  
5 VALUE OF ITS UTILITY PLANT AND  
6 PROPERTY AND FOR INCREASES IN ITS  
7 RATES AND CHARGES BASED THEREON  
8 FOR UTILITY SERVICE BY ITS ANTHEM  
9 WATER DISTRICT, ITS AGUA FRIA WATER  
10 DISTRICT, AND ITS ANTHEM/AGUA FRIA  
11 WASTEWATER DISTRICT.

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8 **NOTICE OF FILING RUCO'S REPORT ON**  
9 **STEP ONE ARSENIC FILING - SUN CITY WEST DISTRICT**

10 On August 30, 2006, Arizona American Water Company filed its Step One ACRM  
11 filing for its Sun City West Water District, seeking a surcharge of \$3.75 to the monthly  
12 minimum charge, and \$0.4654 per 1,000 gallons to the commodity rate.

13 The Residential Utility Consumer Office ("RUCO") hereby files its Report on its audit  
14 of the ACRM filing. RUCO recommends a surcharge of \$3.72 to the monthly minimum  
15 charge and \$0.4620 per 1,000 gallons to the commodity rate.

16 RESPECTFULLY SUBMITTED this 2<sup>nd</sup> day of October, 2006.

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19 \_\_\_\_\_  
20 Scott S. Wakefield  
21 Chief Counsel  
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24

1 AN ORIGINAL AND NINETEEN  
2 COPIES of the foregoing filed this  
2<sup>nd</sup> day of October, 2006 with:

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

6 COPY of the foregoing hand delivered/  
mailed this 2<sup>nd</sup> day of October, 2006 to:

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8 Administrative Law Judge  
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TO: Stephen Ahearn, Director  
Scott Wakefield, Chief Counsel  
Marylee Diaz Cortez, Chief of Accounting and Rates

FROM: Tim Coley

DATE: September 28, 2006

RE: Report on RUCO's audit of the Arizona-American Water Company filing for an Arsenic Cost Recovery Mechanism (ACRM) Step 1 rate increase for its Sun City West system.

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**AUDIT OBJECTIVE:** The purpose and objective of this audit was to verify the capital expenditures of the recently completed Sun City West arsenic plants, to verify that the plants are in service, verify compliance with Decision Nos. 68310 and 66400 authorizing the ACRM, and verify the accuracy of the requested ACRM surcharge.

**AUDIT PROCEDURES:** I performed the following audit procedures:

- 1) Verified that all schedules that are required by Decision No. 66400 are included in the application.
- 2) Reviewed Earnings Test for compliance, accuracy, and determined if the Company had passed the Earnings Test.
- 3) Reviewed all arsenic plant invoices, looking for such things as misallocations, unreasonable costs, non-arsenic plant costs, double billings etc.
- 4) Verified accuracy of Task Order totals and grand total.
- 5) Reviewed Revenue Requirement calculations for accuracy and compliance.
- 6) Reviewed rate design for compliance with 50/50 requirement, accuracy of calculations, and checked the reasonableness of the billing determinants by comparing to the prior rate case.
- 7) Verified that the Sun City West plants were in-service.

**AUDIT FINDINGS:**

The Company voluntarily adjusted the AFUDC accrual rate authorized in Decision No. 67093, which was an issue in the Company's first two ACRM filings.

The Company also voluntarily removed overhead costs that cannot be directly charged to a specific task order and were allocated to all construction projects. Those costs were an issue in AZ-AM first two ACRM filings too because the ACRM process was extraordinary and as a result intentionally limited to those costs that were specifically identifiable to the arsenic plant.

The Sun City West ACRM filing is accurate and in compliance with Decision Nos. 68310 and 66400 with the following exceptions:

- 1) There was one task order (No. 50072961) that involved refurbishing a well that was not related to arsenic plant. The Company agrees that the task order, related AFUDC, and overhead in the amount of \$101,044 should be removed from the ACRM filing.
- 2) There were a couple of invoices charged to Sun City West ACRM plant one that indicated the costs were actually associated with plant two. With the recognition that plant one and two are both in the same system, RUCO makes no adjustment for this audit exception.

#### AUDIT RECOMMENDATIONS:

The Company's ACRM request should be adjusted to reflect the removal of the mentioned \$101,044 for refurbishment of a well not related to arsenic plant. These recommended adjustments and the resultant RUCO recommended ACRM step 1 rate increases are displayed on attached schedule RUCO ACRM -1.

**RUCO ADJUSTMENT TO ACRM - SUN CITY WEST 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	\$ 13,797,494	(101,044)	\$ 13,696,450
3	Depreciation rate	2.70%		2.70%
4	Depreciation expense	373,138		369,804
5	Depreciation expense net of tax savings <sup>1</sup>	229,112		227,065
6	Recoverable O&M costs	-		-
7	Recoverable O&M costs net of tax savings <sup>1</sup>	-		-
8	Arsenic Operating Income	\$ (229,112)		\$ (227,065)
9	Rate of return	-1.66%		-1.66%
10	Required Rate of Return <sup>2</sup>	6.50%		6.50%
11	Required Operating Income	896,837		890,269
12	Operating Income deficiency	1,125,949		1,117,334
13	Gross revenue conversion factor <sup>2</sup>	1.62863		1.62863
14	Revenue deficiency	<u>\$ 1,833,754</u>		<u>\$ 1,819,724</u>

<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	\$ 5.87	\$ 3.75	\$ 9.62
Commodity Rates Per 1,000 Gallons			
0 to 4,000 gallons	\$ 0.8500	\$ 0.4654	\$ 1.3154
4,001 to 15,000 gallons	1.2850	0.4654	1.7504
15,001 gallons and over	1.5510	0.4654	2.0164

**RUCO PROPOSED**

RATES	CURRENT RATES DEC. NO. 67093	ACRM SURCHARGE	TOTAL PROPOSED
Basic Monthly Minimum Service Charge			
5/8" Meter	\$ 5.87	\$ 3.72	\$ 9.59
Commodity Rates Per 1,000 Gallons			
0 to 4,000 gallons	\$ 0.8500	\$ 0.4620	\$ 1.3120
4,001 to 15,000 gallons	1.2850	0.4620	1.7470
15,001 gallons and over	1.5510	0.4620	2.0130

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