ORIGINAL

OPEN MEETING

0000063676

MEMORANDUM

RECEIVED

TO: THE COMMISSION

2006 NOV 17 A 8: 25

FROM: Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: November 17, 2006

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, NOTICE OF STEP-ONE ACRM FILING FOR ITS HAVASU WATER DISTRICT (DOCKET NOS. W-01303A-05-0280; WS-01303A-02-0867; WS-01303A-02-0869; AND WS-01303A-02-0870)

Introduction:

Pursuant to Decision No. 68310, Arizona-American Water Company ("Company", "Applicant" or "Arizona-American") filed an application on April 4, 2006, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism ("ACRM").

Arizona-American requests a Step-One ACRM surcharge of $5.74 on the monthly customer charge and $0.6073 per 1,000 gallons on the commodity rate. Under the Company's proposal, the average residential customer bill would increase by approximately $12.49 from $25.53 to $38.01 (48.9 percent).

Staff recommends a Step-One ACRM surcharge of $5.62 on the monthly customer charge and $0.6302 per 1,000 gallons on the commodity rate. Under Staff's rate design, the average residential customer bill would increase by approximately $12.01 (47.1 percent) from $25.53 to $37.54.

Background

The United States Environmental Protection Agency ("EPA") reduced the drinking water standard for arsenic from 50 parts per billion ("ppb") to 10 ppb effective January 23, 2006.

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

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

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

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

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

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

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

On April 21, 2006, Arizona-American Water Company, Inc. filed an application with the Commission requesting authorization to implement Step-One of the ACRM for its Agua Fria water district. On June, 29, 2006, in Decision No. 68825, the Commission authorized Arizona-American's request to implement Step-One of the ACRM for its Agua Fria Water District.

On May 8, 2006, the Residential Utility Consumer Office ("RUCO") filed its report on its audit of the ACRM for this instant case.

On May 11, 2006, the Utilities Division Staff ("Staff") issued a memorandum and Recommended Opinion and Order for this instant case.

On May 26, 2006, RUCO filed exceptions to the Proposed Order. RUCO took exception to three items. First, RUCO was not mentioned as having participated in the ACRM process for the Company's Havasu Water District. Second, RUCO disallowed $45,655 of overhead costs that could not be directly charged to a specific task order. Third, RUCO amended its first report which recommended removing $7,591 of AFUDC charges from plant to adopt Staff's recommendation to remove $26,968 of AFUDC charges. RUCO's restated monthly minimum surcharge is $5.62 and its commodity charge is $0.6302 per thousand gallons.

On May 30, 2006, the Company filed a response to the proposed order regarding implementation of the ACRM. The response requests to modify the requirement set forth in Decision No. 68310 for the Company to file a rate case no later than April 30, 2008, based on a 2007 test year by extending the filing date by 31 days to May 31, 2008.

The item came up for consideration by the Commissioners at the May 31, 2006 Open Meeting.

The Company at that time agreed to waive the overhead charges of $45,655 which RUCO eliminated in its exceptions filed on May 26, 2006.

The item was pulled from consideration by the Commissioners to recognize RUCO's participation and proposed modifications to the Company's filing.

This Memorandum is an update that recognizes RUCO's participation in the proceeding and presents the effect of recognizing RUCO's revised recommendations.

Staff's original recommendation for the Havasu ACRM surcharge would have increased the average residential customer charge at 10,140 gallons by $12.30, (48.2 percent) from $25.33 to $37.83, based on a meter charge increase of $5.76 and a commodity charge increase of 0.6453 per thousand gallons.

The removal of the overhead charges of $45,655 decreases the average residential customer charge by $0.29 from $37.83 to $37.54. The required monthly minimum decreases by $0.14 from $5.76 to $5.62 and the commodity charge per thousand gallons decreases by $0.0151 from $0.6453 to $0.6302.

Authorization for an Arsenic Cost Recovery Mechanism (Decision No. 68310)

Decision No. 68310 conditioned approval of an ACRM surcharge on the following criteria:

1. Arizona-American shall comply with all requirements discussed in this Order as a condition of approval of the Arsenic Cost Recovery Mechanism.

2. Arizona-American shall file a plan with Docket Control by December 31, 2005, that describes how the Company expects to attain and maintain a capital structure (equity, long-term debt, and short-term debt) with equity representing between 40 and 60 percent of total capital.

3. Arizona-American shall file, by April 1st of each year subsequent to any year in which in collects surcharges under an ACRM, a report with the Utilities Division Director showing the Company's ending capital structure by month for the prior year.

4. Arizona-American shall modify the rate base calculation for the Havasu Water District to explicitly show a deduction for Arsenic Impact Fee collections.

5. That as part of the Earnings Test schedule filed in support of the ACRM, Arizona-American shall incorporate adjustments conforming to Decision No. 67093.

6. Arizona-American shall file the schedules discussed in its application, as modified by Staff's recommendations herein. Microsoft Excel or compatible electronic versions of the filings and all work papers should be filed concurrently with all ACRM filings.

7. Arizona-American shall file permanent rate applications for its Sun City West, Agua Fria, and Havasu districts by no later than April 30, 2008, based on a 2007 test year.

8. For the Havasu District, Arizona-American shall file with Docket Control by January 31st of each year, an annual calendar year status report, until the AIF Tariff is no longer in effect. The status report shall contain a list of all customers that have paid 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 bill 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.

Filing Requirements Compliance (Decision No. 68310)

Staff performed an examination of the Havasu Water District ACRM filing and concluded that it conforms to the requirement specified in Decision No. 68310.

The Company's Havasu Water District filing includes the following schedules:

1. Balance Sheet – as of December 31, 2005.

2. Income Statement – period ending December 31, 2005.

3. Income Statement Adjustments (Earnings Test) – to conform to Decision No. 67093.

4. Rate Review – a rate review filing for the Havasu Water District.

5. Due Requirement – an arsenic revenue requirement calculation for Step One.

6. Surcharge Calculation – a detailed surcharge calculation.

7. Rate Base – a schedule showing the elements and the calculation of the rate base, including the deduction for Arsenic Impact Fee Contributions as of April 1, 2006.

8. Construction Work In Progress ("CWIP") Ledger – a ledger showing the construction work in progress account.

9. 4-Factor Allocation for December 2005 – a schedule showing the allocation factors for all of the Arizona-American Districts.

10. Typical Bill Analysis – ACRM Step 1 – A typical bill analysis showing the effects on residential customers at various consumption levels as well as the Average Residential change at 10,140 gallons.

The ACRM schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return exceeding that authorized in Decision 67093.

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

1. Arizona-American Water Company shall file a plan with Docket Control by December 31, 2005, that describes how the Company expects to attain and maintain a capital structure (equity, long-term debt, and short-term) with equity representing between 40 and 60 percent of total capital. The Applicant docketed an equity plan on November 30, 2005.

2. For the Havasu District, Arizona-American Water Company shall file with Docket Control by January 31st of each year, an annual calendar year status report, until the AIF Tariff is no longer in effect. The status report shall contain a list of all customers that have paid the AIF. The amount each customer has paid, the amount of money spent from the AIF and list of all facilities that have been installed with funds from the AIF Tariff. The Applicant docketed an AIF compliance report on February 2, 2006.

3. 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. Compliance with this condition is met by Docket No. W-01303A-05-0890.

Staff's Adjustments to Company Schedules:

Staff made two adjustments to the Company's Havasu Water District Filing. The revised filing removes AFUDC charges of $26,968 and Overhead charges of $45,655 (per the Company's agreement with RUCO's exception dated May 26, 2006) which reduced the Company's arsenic treatment plant/rate base from $1,941,792 to $1,869,701, and the revenue requirement from $272,294 to $262,110.

A rate design that generates 50 percent of the revenue requirement from minimum monthly charges and 50 percent from commodity rates, as specified by the Commission for ACRM surcharges, results in a surcharge of $5.62 to the monthly minimum charge per equivalent billing unit (5/8-inch meter) and $0.6302 per thousand gallons to the commodity rate.

These ACRM surcharges would increase the monthly bill for the average residential customer using 10,140 gallons by $12.01 from $25.53 to $37.54 (47.1 percent).

Conclusions and Recommendations:

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

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

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

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

Ernest G. Johnson
for Director
Utilities Division

EGJ:DRR:tdp\JMA

ORIGINATOR: Dennis R. Rogers

ARIZONA-AMERICAN HAVASU WATER DISTRICT
Docket No. W-01303A-05-0280

ACRM Schedule DRR -1

Residential, Commercial, Irrigation, Resale and Miscellaneous Customers

ACRM STEP ONE

								TIER ONE		TIER TWO			TIER THREE		
		Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthy Usage Charge	New Monthly Minimum	Old Commodity Rate	Step One Commodity Surcharge	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
Residential 5/8-inch	Meter	11.78	1.00	5.62	17.40	1.0500	0.6302	1.6802	4,000	1.5550	2.1852	13,000	1.8700	2.5002	Infinite
Residental 3/4-inch	Meter	N/A			N/A										
Commercial 5/8-inch	Meter	11.78	1.00	5.62	17.40	1.5550	0.6302	2.1852	13,000	1.8700	2.5002	Infinite			
Commercial 3/4-inch	Meter	N/A			N/A										
1-inch	Meter	20.27	1.72	9.67	29.94	1.5550	0.6302	2.1852	30,000	1.8700	2.5002	Infinite			
1.5-inch	Meter	28.76	2.44	13.72	42.48	1.5550	0.6302	2.1852	45,000	1.8700	2.5002	Infinite			
2-inch	Meter	39.88	3.39	19.03	58.91	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite			
3-inch	Meter	54.26	4.61	25.89	80.15	1.5550	0.6302	2.1852	90,000	1.8700	2.5002	Infinite			
4-inch	Meter	68.64	5.83	32.75	101.39	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			
6-inch	Meter	236.59	20.08	112.87	349.46	1.5550	0.6302	2.1852	500,000	1.8700	2.5002	Infinite			
8-inch	Meter	457.50	38.84	218.26	675.76	1.5550	0.6302	2.1852	1,000,000	1.8700	2.5002	Infinite			
10-inch	Meter	N/A			N/A										
12-inch	Meter	N/A			N/A										
Multi-family044 1"		259.16	22.0	123.64	382.80	1.5550	0.6302	2.1852	30,000	1.8700	2.5002	Infinite			
Multi-family056 2"		329.84	28.0	157.36	487.20	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite			
Multi-family0064 4"		376.96	32.0	179.84	556.80	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			
Multi-family065 2"		382.85	32.5	182.65	565.50	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite			
Multi-family067 4"		394.63	33.5	188.27	582.90	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			
Multi-family089 1"		524.21	44.5	250.09	774.30	1.5550	0.6302	2.1852	30,000	1.8700	2.5002	Infinite			
Multi-family102 2"		600.78	51.0	286.62	887.40	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite			
Multi-family129 4"		759.81	64.5	362.49	1,122.30	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			
Multi-family153 4"		901.17	76.5	429.93	1,331.10	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
BARRY WONG
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, TO INSTITUTE ITS ACRM STEP ONE FOR ITS HAVASU WATER DISTRICT	DOCKET NOS. W-01303A-05-0280 WS-01303A-02-0867 WS-01303A-02-0869 WS-01303A-02-0870 DECISION NO. _____ **ORDER**

Open Meeting
November 21 and 22, 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 4, 2006, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism ("ACRM"). The average residential customer bill would increase by approximately $12.49 from $25.53 to $38.01 (48.9%) 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 need 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 five of its districts (Sun City West Water and Wastewater, Sun City Water and Wastewater, Havasu and Mohave Water, Agua Fria Water and Wastewater, and Tubac Water). On June 30, 2004, the Commission issued Decision No. 67093 establishing permanent rate increases for these five districts.

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

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

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

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

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

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

On May 8, 2006, RUCO filed a Report on its audit of the application.

On May 11, 2006, the Utilities Division ("Staff") filed its Staff Report and Proposed Order.

On May 26, 2006, RUCO filed exceptions to the Proposed Order. RUCO took the following three exceptions: 1. RUCO was not mentioned as having participated in the ACRM

process for the Company's Havasu Water District, 2. RUCO disallowed $45,655 of overhead costs that could not be directly charged to a specific task order, but were allocated to all the arsenic construction projects, 3. RUCO amended its first report concerning AFUDC charges from $7,591 to Staff's computation of $26,968. RUCO's restated monthly minimum charge would increase by $5.62 and the commodity charge would increase by $0.6302 per thousand gallons.

On May 30, 2006, the Company filed a response to the proposed order regarding implementation of the ACRM. The response requests to modify the requirement set forth in Decision No. 68310 for the Company to file a rate case no later than April 30, 2008, based on a 2007 test year by extending the filing date by 31 days to May 31, 2008.

The item came up for consideration by the Commissioners at the May 31, 2006 Open Meeting.

The Company at that time agreed to waive the overhead charges of $45,655 which RUCO eliminated in its exceptions filed on May 26, 2006.

The item was pulled from consideration by the Commissioners to recognize RUCO's participation and proposed modifications to the Company's filing.

This Recommended Order and Opinion is an update that recognizes RUCO's participation in the proceeding and presents the effect of recognizing RUCO's revised recommendations.

Staff's original recommendation for the Havasu ACRM surcharge would have increased the average residential customer charge at 10,140 gallons by $12.30, (48.2 percent) from $25.33 to $37.83, based on a meter charge increase of $5.76 and a commodity charge increase of 0.6453 per thousand gallons.

The removal of the overhead charges of $45,655 decreases the average residential customer charge by $0.29 from $37.83 to $37.54. The required monthly minimum decreases by $0.14 from $5.76 to $5.62 and the commodity charge per thousand gallons decreases by $0.0151 from $0.6453 to $0.6302.

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

1. Arizona-American shall comply with all requirements discussed in this Order as a condition of approval of the Arsenic Cost Recovery Mechanism.

2. Arizona-American shall file a plan with Docket Control by December 31, 2005, that describes how the Company expects to attain and maintain a capital structure (equity,

long-term debt, and short-term debt) with equity representing between 40 and 60 percent of total capital.

3. Arizona-American shall file, by April 1st of each year subsequent to any year in which in collects surcharges under an ACRM, a report with the Utilities Division Director showing the Company's ending capital structure by month for the prior year.

4. Arizona-American shall modify the rate base calculation for the Havasu Water District to explicitly show a deduction for Arsenic Impact Fee collections.

5. That as part of the Earnings Test schedule filed in support of the ACRM, Arizona-American shall incorporate adjustments conforming to Decision No. 67093.

6. Arizona-American shall file the schedules discussed in its application, as modified by Staff's recommendations herein. Microsoft Excel or compatible electronic versions of the filings and all work papers should be filed concurrently with all ACRM filings.

7. Arizona-American shall file permanent rate applications for its Sun City West, Agua Fria, and Havasu districts by no later than April 30, 2008, based on a 2007 test year.

8. For the Havasu District, Arizona-American shall file with Docket Control by January 31st of each year, an annual calendar year status report, until the AIF Tariff is no longer in effect. The status report shall contain a list of all customers that have paid 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 bill 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.

Staff Analysis

ACRM Schedules

The Company's Havasu Water District filing includes the following schedules:

1. Balance Sheet – as of December 31, 2005.

2. Income Statement – period ending December 31, 2005.

3. Income Statement Adjustments (Earnings Test) – to conform to Decision No. 67093.

. . .

4. Rate Review – a rate review filing for the Havasu Water District.

5. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for Step One.

6. Surcharge Calculation – a detailed surcharge calculation.

7. Rate Base – a schedule showing the elements and the calculation of the rate base, including the deduction for Arsenic Impact Fee Contributions as of April 1, 2006.

8. Construction Work In Progress ("CWIP") Ledger – a ledger showing the construction work in progress account.

9. 4-Factor Allocation for December 2005 – a schedule showing the allocation factors for all of the Arizona-American Districts.

10. Typical Bill Analysis – ACRM Step 1 – A typical bill analysis showing the effects on residential customers at various consumption levels as well as the Average Residential change at 10,140 gallons.

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

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

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

1. Arizona-American Water Company shall file a plan with Docket Control by December 31, 2005 that describes how the Company expects to attain and maintain a capital structure (equity, long-term debt, and short-term) with equity representing between to and 60 percent of total capital. The Applicant docketed an equity plan on November 30, 2005.

2. For the Havasu District, Arizona-American Water Company shall file with Docket Control by January 31st of each year, an annual calendar year status report, until the AIF Tariff is no longer in effect. The status report shall contain a list of all customers that have paid the AIF. The amount each customer has paid, the amount of money spent from the AIF and list of all facilities that have

been installed with funds from the AIF Tariff. The Applicant docketed an AIF compliance report on February 2, 2006.

3. 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. Compliance with this condition is met by Docket No. W-01303A-05-0890.

Staff made two adjustments to the Company's Havasu Water District Filing. The revised filing removes AFUDC charges of $26,968 and Overhead charges of $45,655 which adopts RUCO exceptions per the Company's agreement and results in a reduction in the Company's arsenic treatment plant/rate base from $1,941,792 to $1,869,701, and the revenue requirement from $272,294 to $262,110. A rate design that generates 50 percent of the revenue requirement from minimum monthly charges and 50 percent from commodity rates, as specified by the Commission for ACRM surcharges, results in a surcharge of $5.62 to the monthly minimum charge per equivalent billing unit (5/8-inch meter) and $0.6302 per thousand gallons to the commodity rate. These ACRM surcharges would increase the monthly bill for the average residential customer using 10,140 gallons by $12.01 from $25.53 to $37.54 (47.1 percent).

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

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

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

. . .

. . .

. . .

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

* * * * * * * * * * * *

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

FINDINGS OF FACT

1. Pursuant to Decision No. 68310, the Company seeks an arsenic cost removal mechanism surcharge tariff in this proceeding authorizing a monthly surcharge per customer to aid the Company in it efforts to comply with the EPA new arsenic maximum contaminant level of 10 ppb which went into effect on January 23, 2006.

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

3. Staff's adjustment reflects application of the correct AFUDC rates and all conforming adjustments should be adopted.

4. RUCO's adjustment removing Overhead costs from Arsenic Plant In Service in this case should be adopted.

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

CONCLUSIONS OF LAW

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

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

3. Approval of and arsenic cost recovery mechanism is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

. . .

4. It is in the public interest to approve the Company's request for implementation of the ACRM as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the application by Arizona-American Havasu Water District for the implementation of the Arsenic Cost Recovery Mechanism is approved as discussed herein.

IT IS FURTHER ORDERED that the application by Arizona-American Havasu Water District for approval of an arsenic cost recovery mechanism surcharge tariff shall be in accordance with the attached ACRM Schedule DRR-1.

IT IS FURTHER ORDERED that Arizona-American Havasu Water District shall notify its customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Arizona American shall file, by April 1st of each year subsequent to any year in which it collects surcharges under an ACRM, a report with Docket Control, as a compliance item in this docket, showing the Company's ending capital structure by month for the prior year.

IT IS FURTHER ORDERED that Arizona-American shall file a permanent rate application for its Havasu Water District by no later that May 31, 2008, based on a 2007 test year as per Decision No. 68310.

IT IS FURTHER ORDERED that Arizona-American shall docket an Arsenic Removal Surcharge Tariff consistent with Schedule DRR-1 within 30 days of this Order.

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

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____day of _____, 2006.

_____
BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:DRR:tdp\JMA

SERVICE LIST FOR: Arizona-American Water Company
DOCKET NOS.: W-01303A-05-0280 et al

Mr. Craig A. Marks
Arizona-American Water Company
101 Corporate Center
19820 North Seventh Street, Suite 201
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Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

ARIZONA-AMERICAN HAVASU WATER DISTRICT
Docket No. W-01303A-05-0280

ACRM Schedule DRR -1

Residential, Commercial, Irrigation, Resale and Miscellaneous Customers

ACRM STEP ONE

								TIER ONE		TIER TWO			TIER THREE		
		Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthy Usage Charge	New Monthly Minimum	Old Commodity Rate	Step One Commodity Surcharge	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
Residential 5/8-inch	Meter	11.78	1.00	5.62	17.40	1.0500	0.6302	1.6802	4,000	1.5550	2.1852	13,000	1.8700	2.5002	Infinite
Residental 3/4-inch	Meter	N/A			N/A										
Commercial 5/8-inch	Meter	11.78	1.00	5.62	17.40	1.5550	0.6302	2.1852	13,000	1.8700	2.5002	Infinite			
Commercial 3/4-inch	Meter	N/A			N/A										
1-inch	Meter	20.27	1.72	9.67	29.94	1.5550	0.6302	2.1852	30,000	1.8700	2.5002	Infinite			
1.5-inch	Meter	28.76	2.44	13.72	42.48	1.5550	0.6302	2.1852	45,000	1.8700	2.5002	Infinite			
2-inch	Meter	39.88	3.39	19.03	58.91	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite			
3-inch	Meter	54.26	4.61	25.89	80.15	1.5550	0.6302	2.1852	90,000	1.8700	2.5002	Infinite			
4-inch	Meter	68.64	5.83	32.75	101.39	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			
6-inch	Meter	236.59	20.08	112.87	349.46	1.5550	0.6302	2.1852	500,000	1.8700	2.5002	Infinite			
8-inch	Meter	457.50	38.84	218.26	675.76	1.5550	0.6302	2.1852	1,000,000	1.8700	2.5002	Infinite			
10-inch	Meter	N/A			N/A										
12-inch	Meter	N/A			N/A										
Multi-family044 1"		259.16	22.0	123.64	382.80	1.5550	0.6302	2.1852	30,000	1.8700	2.5002	Infinite			
Multi-family056 2"		329.84	28.0	157.36	487.20	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite			
Multi-family0064 4"		376.96	32.0	179.84	556.80	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			
Multi-family065 2"		382.85	32.5	182.65	565.50	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite			
Multi-family067 4"		394.63	33.5	188.27	582.90	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			
Multi-family089 1"		524.21	44.5	250.09	774.30	1.5550	0.6302	2.1852	30,000	1.8700	2.5002	Infinite			
Multi-family102 2"		600.78	51.0	286.62	887.40	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite			
Multi-family129 4"		759.81	64.5	362.49	1,122.30	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			
Multi-family153 4"		901.17	76.5	429.93	1,331.10	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite			

Decision No. _____

Docket Nos. W-01303A-05-0280, et al.