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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission
DOCKETED

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DOCKETED BY ne

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. 69181

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.

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1 On November 22 and December 13, 2002, the Company filed applications with the
2 Commission for fair value determinations of its utility plant and for permanent rate increases for
3 five of its districts (Sun City West Water and Wastewater, Sun City Water and Wastewater,
4 Havasu and Mohave Water, Agua Fria Water and Wastewater, and Tubac Water). On June 30,
5 2004, the Commission issued Decision No. 67093 establishing permanent rate increases for these
6 five districts.

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

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

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

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

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

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

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

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

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

1 process for the Company's Havasu Water District, 2. RUCO disallowed \$45,655 of overhead costs
2 that could not be directly charged to a specific task order, but were allocated to all the arsenic
3 construction projects, 3. RUCO amended its first report concerning AFUDC charges from \$7,591
4 to Staff's computation of \$26,968. RUCO's restated monthly minimum charge would increase by
5 \$5.62 and the commodity charge would increase by \$0.6302 per thousand gallons.

6 On May 30, 2006, the Company filed a response to the proposed order regarding
7 implementation of the ACRM. The response requests to modify the requirement set forth in
8 Decision No. 68310 for the Company to file a rate case no later than April 30, 2008, based on a
9 2007 test year by extending the filing date by 31 days to May 31, 2008.

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

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

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

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

18 Staff's original recommendation for the Havasu ACRM surcharge would have increased
19 the average residential customer charge at 10,140 gallons by \$12.30, (48.2 percent) from \$25.33 to
20 \$37.83, based on a meter charge increase of \$5.76 and a commodity charge increase of 0.6453 per
21 thousand gallons.

22 The removal of the overhead charges of \$45,655 decreases the average residential customer
23 charge by \$0.29 from \$37.83 to \$37.54. The required monthly minimum decreases by \$0.14 from
24 \$5.76 to \$5.62 and the commodity charge per thousand gallons decreases by \$0.0151 from \$0.6453
25 to \$0.6302.

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

- 26 1. Arizona-American shall comply with all requirements discussed in this Order as a
27 condition of approval of the Arsenic Cost Recovery Mechanism.
- 28 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,

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

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

27 **Staff Analysis**

28 **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.

- 1 4. Rate Review – a rate review filing for the Havasu Water District.
- 2 5. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for
- 3 Step One.
- 4 6. Surcharge Calculation – a detailed surcharge calculation.
- 5 7. Rate Base – a schedule showing the elements and the calculation of the rate base,
- 6 including the deduction for Arsenic Impact Fee Contributions as of April 1, 2006.
- 7 8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the
- 8 construction work in progress account.
- 9 9. 4-Factor Allocation for December 2005 – a schedule showing the allocation factors
- 10 for all of the Arizona-American Districts.
- 11 10. Typical Bill Analysis – ACRM Step 1 – A typical bill analysis showing the effects
- 12 on residential customers at various consumption levels as well as the Average
- 13 Residential change at 10,140 gallons.

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

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

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

- 22 1. Arizona-American Water Company shall file a plan with Docket Control by
23 December 31, 2005 that describes how the Company expects to attain and
24 maintain a capital structure (equity, long-term debt, and short-term) with equity
25 representing between to and 60 percent of total capital. The Applicant docketed
26 an equity plan on November 30, 2005.
- 27 2. For the Havasu District, Arizona-American Water Company shall file with
28 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

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

3 3. The Commission is concerned about the impact on the bills of customers served
4 by the Havasu system from the implementation of the ACRM. Consequently,
5 we direct Staff and the Company to open a new proceeding to examine other
6 forms of mitigation of the ACRM for the Havasu system, including the use of
7 hook-up fees for adjacent systems. Compliance with this condition is met by
8 Docket No. W-01303A-05-0890.

9 Staff made two adjustments to the Company's Havasu Water District Filing. The revised
10 filing removes AFUDC charges of \$26,968 and Overhead charges of \$45,655 which adopts RUCO
11 exceptions per the Company's agreement and results in a reduction in the Company's arsenic
12 treatment plant/rate base from \$1,941,792 to \$1,869,701, and the revenue requirement from
13 \$272,294 to \$262,110. A rate design that generates 50 percent of the revenue requirement from
14 minimum monthly charges and 50 percent from commodity rates, as specified by the Commission
15 for ACRM surcharges, results in a surcharge of \$5.62 to the monthly minimum charge per
16 equivalent billing unit (5/8-inch meter) and \$0.6302 per thousand gallons to the commodity rate.
17 These ACRM surcharges would increase the monthly bill for the average residential customer
18 using 10,140 gallons by \$12.01 from \$25.53 to \$37.54 (47.1 percent).

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

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

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

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

4 * * * * *

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

7 FINDINGS OF FACT

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

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

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

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

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

20 CONCLUSIONS OF LAW

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

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

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

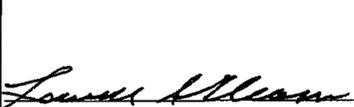
28 ...

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.

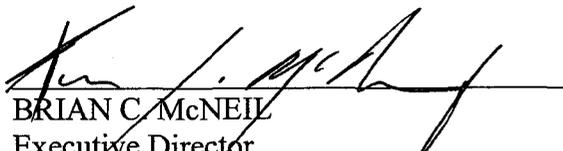
4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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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 5th day of December, 2006.


BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:DRR:tdp\JMA

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2 DOCKET NOS.: W-01303A-05-0280 et al

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Residential, Commercial, Irrigation, Resale and Miscellaneous Customers

ACRM STEP ONE

	TIER ONE										TIER TWO			TIER THREE		
	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly 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		
															Old Commodity Rate	New Commodity Rate
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	13,000		
Residential 5/8-inch	N/A	N/A	5.62	N/A	1.5550	0.6302	2.1852	13,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
Meter	11.78	1.00	5.62	17.40	1.5550	0.6302	2.1852	13,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
Meter	11.78	1.00	5.62	N/A	1.5550	0.6302	2.1852	13,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
Meter	20.27	1.72	9.67	29.94	1.5550	0.6302	2.1852	30,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
Commercial 3/4-inch	28.76	2.44	13.72	42.48	1.5550	0.6302	2.1852	45,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
1-inch	39.88	3.39	19.03	58.91	1.5550	0.6302	2.1852	60,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
1.5-inch	54.26	4.61	25.89	80.15	1.5550	0.6302	2.1852	90,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
Meter	68.64	5.83	32.75	101.39	1.5550	0.6302	2.1852	110,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
Meter	236.59	20.08	112.87	349.46	1.5550	0.6302	2.1852	500,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
Meter	457.50	38.84	218.26	675.76	1.5550	0.6302	2.1852	1,000,000	1.8700	2.5002	Infinite	1.8700	2.5002	Infinite		
Meter	N/A	N/A		N/A												
Meter	N/A	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	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	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	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	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	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	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	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	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	1.8700	2.5002	Infinite		

