

**ORIGINAL  
OPEN MEETING**



0000067528

**RECEIVED MEMORANDUM**

Arizona Corporation Commission

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**DOCKETED**

TO: THE COMMISSION 2007 MAR -1 A 10: 54

FROM: Utilities Division AZ CORP COMMISSION  
DOCUMENT CONTROL

**MAR -1 2007**

DATE: March 1, 2007

DOCKETED BY	<i>nr</i>
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RE: IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, NOTICE OF STEP-ONE ACRM FILING FOR ITS PARADISE VALLEY WATER DISTRICT (DOCKET NOS. W-01303A-05-0405 AND W-01303A-05-0910)

**I. Introduction**

On December 19, 2006, Arizona-American Water Company, Inc. ("Arizona-American" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-One of the Arsenic Cost Recovery Mechanism ("ACRM") authorized under Decision No. 68858<sup>1</sup> for its Paradise Valley Water District. The application proposed a surcharge of \$15.67 on the monthly minimum charge and \$0.4788 per 1,000 gallons on the commodity charge.

On February 14, 2007, Arizona-American filed a revised application that incorporated several adjustments<sup>2</sup> and proposed two revenue requirements. One of the proposals would be adopted contingent upon the in-service status of the sludge handling facility at the time this matter comes before the Commission.

The Company's first proposal ("Plan A") excludes the \$399,715 sludge handling facility and its related depreciation expense from the revenue requirement. The Step-One ACRM surcharge under Plan A would be \$14.48 on the monthly minimum charge and \$0.4425 per 1,000 gallons on the commodity rate. Under the Company's Plan A proposal, the average residential customer bill<sup>3</sup> would increase by approximately \$34.06 (or 56.84 percent) from \$60.30 to \$94.36.

The Company's alternate proposal ("Plan B") includes the \$399,715 sludge handling facility and its related depreciation expense in the revenue requirement. The Company provided adequate support for \$399,715 amount in its original application. The Company does not plan to revise the cost to reflect any increase in the actual cost of the sludge handling facility. The Step-One ACRM surcharge under the Plan B proposal would be \$14.84 on the monthly minimum charge and \$0.4534 per 1,000 gallons on the commodity rate. Under the Company's Plan B

<sup>1</sup> Dated July 28, 2006

<sup>2</sup> Discussed in detail in the "Company's Revisions of the Original Application" section of this memorandum

<sup>3</sup> Average customer consumption: 44.27 (kGal) per Typical Bill Analysis in Original Application

proposal, the average residential customer bill would increase by approximately \$34.91 (or 57.89 percent) from \$60.30 to \$95.21.

Staff's recommended surcharges for Plan A are shown on Schedule CSB-4. Staff's adjustments increase the Company proposed monthly minimum surcharge per equivalent billing unit (5/8-inch meter) from \$14.48 to \$14.65 and the commodity surcharge rate from \$0.4425 to \$0.4476 per 1,000 gallons. The Staff recommended Step-One ACRM surcharge rates would increase the average monthly residential customer bill by \$34.46 (or 57.15 percent) from \$60.30 to \$94.76 as shown on CSB-4. Staff recommends that Plan A be used if the sludge handling facility is not placed in service by the time this matter comes before the Commission.

Staff's recommended surcharges for Plan B<sup>4</sup> are shown on Schedules CSB-8. Staff's adjustments increase the Company proposed monthly minimum surcharge per equivalent billing unit (5/8-inch meter) from \$14.84 to \$15.05 and the commodity surcharge rate from \$0.4534 to \$0.4598 per 1,000 gallons. The Staff recommended Step-One ACRM surcharge rates would increase the average monthly residential customer bill by \$35.40 (or 58.71 percent) from \$60.30 to \$95.70 as shown on CSB-4. Staff recommends Plan B if the sludge handling facility is placed in service and is verified by Commission Staff by the time this matter comes before the Commission.

## II. Background

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

On June 3, 2005, Arizona-American filed an application with the Arizona Corporation Commission ("Commission") for a rate increase in its Paradise Valley Water District. On July 28, 2006, the Commission issued Decision No. 68858 establishing permanent rates for the Paradise Valley Water District.

On December 19, 2006, Arizona-American Water Company, Inc. ("Arizona-American" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-One of the Arsenic Cost Recovery Mechanism ("ACRM") authorized under Decision No. 68858 for its Paradise Valley Water District.

On February 14, 2007, Arizona-American filed a revised application.

On February 16, 2007, the Residential Utility Consumer Office ("RUCO") filed its report on the audit of the ACRM for the instant case.

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<sup>4</sup> For purposes of the Plan B arsenic rate base, Staff has utilized the Company's \$399,715 amount and it shall serve as the maximum allowable plant in service for this recommendation in this proceeding.

### **III. Authorization for an Arsenic Cost Recovery Mechanism (Decision No. 68858)**

Decision No. 68858<sup>5</sup> approved an ACRM surcharge for Arizona-American Water Company's Paradise Valley Water District conditioned upon compliance with the following Staff recommendations:

1. “. . . Arizona-American Water Company shall comply with all requirements discussed in this Order as a condition of approval of the Arsenic Cost Recovery Mechanism.”
2. “. . . Arizona-American Water Company shall file, by July 1<sup>st</sup> of each year subsequent to any year in which it collects surcharges under an ACRM, a report with Docket Control showing the Company's ending capital structure (equity, long-term debt, and short-term debt) by month for the prior year.”
3. “. . . as part of the Earnings Test schedule filed in support of the ACRM, Arizona-American Water Company shall incorporate adjustments conforming to Decision No. 67093, as discussed in Staff's recommendation set forth herein.”
4. “. . . Arizona-American Water Company shall file in this docket hard copies of the schedules discussed in its application, as set forth in Staff's recommendations herein, and shall concurrently provide Microsoft Excel or compatible electronic versions of the filings and all work papers to Staff with all ACRM filings.”
5. “. . . ACRM surcharges shall be designed to apply rate design volumetric charges equally to all usage tiers.”
6. “Arizona-American Water Company 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.”
7. “Arizona-American Water Company shall file a permanent rate application for its Paradise Valley Water District no later than September 30, 2008.”

### **IV. Filing Requirements Compliance (Decision No. 68858)**

Staff performed an examination of the Paradise Valley Water District ACRM filing and concluded that it conforms to the requirements specified in Decision No. 68858.

Arizona-American's ACRM filing includes the following schedules that conform to the methodologies required by Decision No. 66400 and adopted by Decision No. 68858.

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<sup>5</sup> Page 44, beginning at line 19

1. Balance Sheet – dated September 30, 2006.
2. Income Statement – period ending September 30, 2006.
3. Income Statement Adjustments (Earnings Test) – to conform to Decision No. 68858.
4. Rate Review – a rate review filing for the Paradise Valley 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.
8. CWIP Ledger – a ledger showing the construction work in progress account.
9. 4-Factor Allocation for September 30, 2006 – a schedule showing the allocation for all of the Arizona-American Water Company Districts.
10. Typical Bill Analysis – ACRM Step-1 – A typical bill analysis showing the effects on residential customers at various consumption levels.

Staff finds that the Company is in compliance with all requirements of Decision No. 68858. Commission records show one outstanding compliance issue regarding Decision No. 68917<sup>6</sup>.

The ACRM schedules provide a basis for the calculation of the surcharge based on financial records and an Earnings Test Schedule which limits the ACRM surcharge when the resulting calculation would result in a rate of return exceeding that authorized in Decision No. 68858.

#### **V. Company's Revisions to Original Application**

The Company filed a revised application to address Staff's and RUCO's concerns as follows:

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<sup>6</sup> Tariff sheets in compliance with Decision No. 68917 were scheduled to be filed September 29, 2006. Staff is working with the company to resolve the issue.

**A. Arsenic Plant In Service**

The Company reduced its plant in service balance by \$735,439, from \$19,382,673 in its original application to \$18,647,234 in its revised application as shown on Schedule CSB-1.

Structures and Improvements – The Company, in both Plan A and Plan B, removed \$41,783 to reflect costs related to non-arsenic uses of the structures and improvements.

Back-up Electricity Generator – The Company, in both Plan A and Plan B, removed \$7,230 to reflect costs related to non-arsenic uses of the back-up generator.

Pumps – The Company, in both Plan A and Plan B, removed \$141,911 to reflect the retirement of three on-site pumps (i.e., 300 hp, 150 hp, and 100 hp) installed in 1995.

Tanks – The Company, in both Plan A and Plan B, removed \$144,800 to reflect 400,000 gallons capacity related to non-arsenic uses of the tank.

Sludge Handling Equipment – Under Plan A, the Company removed \$399,715 in sludge handling equipment from arsenic plant in service. Under Plan B, the Company transferred \$399,715 in sludge handling equipment from Account No. 320, Water Treatment Equipment to Account No. 348, other Tangible Plant.

**B. Depreciation Expense**

The Company did not have Commission approved depreciation rates for three plant accounts. Therefore, Staff recommended that the Company use approved depreciation rates that came closest to the useful lives of the plant in question. The Company accepted Staff's recommendation. The Company also corrected a typographical error. These adjustments reduced Plan A Depreciation Expense by \$137,991 from \$683,905 to \$545,914 and Plan B Depreciation Expense by \$118,006 from \$683,905 to \$565,899.

**VI. Staff's Analysis and Adjustments to Company's Schedules**

The Company incorporated an adjustment proposed by RUCO to retire non-arsenic related pumps<sup>7</sup>. According to RUCO, the old pumps were replaced by new pumps that the Company included as part of its arsenic plant. RUCO indicated that these retirements were not properly recorded. RUCO proposed and the Company accepted the proposal to reflect the retirement by reducing the actual reported cost of the arsenic treatment plant.

Staff did not accept the Company's adjustment to reflect the retirements because (1) the intent of the ACRM was to provide recovery for all new arsenic plant that had adequate supporting documentation and was placed in service (2) the ACRM does not provide for changes

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<sup>7</sup> The retired pumps were not used to treat arsenic.

in non-arsenic related plant to be reflected in the calculation and contemplates that changes to non-arsenic plant will be made in a subsequent rate proceeding and (3) reflecting the non-arsenic plant retirements in the arsenic plant balance would under-state the actual arsenic plant in service balance.

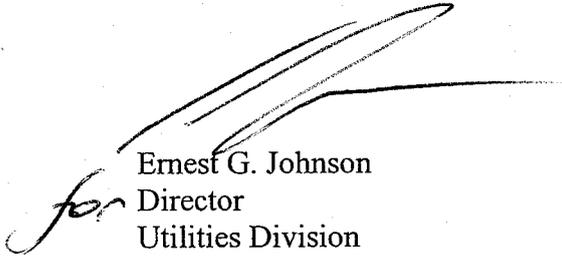
## VII. Conclusion and Recommendations

Staff concludes that the Company's Step-One ACRM filing for its Paradise Valley Water District, as adjusted, is complete and in accordance with Decision No. 68858.

Staff recommends that the Company file with the Commission an arsenic removal surcharge tariff consistent with either ACRM Schedule CSB-4 or CSB-8 approved by the Commission.

Staff recommends that Arizona-American Paradise Valley 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 Arizona-American fails to file a permanent rate application for its Paradise Valley Water system by September 30, 2008, based on a 2007 test year as required by Decision No. 66310, the Arsenic Cost Recovery Mechanism surcharge then in place shall be automatically discontinued.

  
Ernest G. Johnson  
Director  
Utilities Division

EGJ:CSB:lhm\MAS

Originator: Crystal S. Brown

Arizona American Water Company  
 Paradise Valley Water District  
 Docket No. W-01303A-05-0280, et.al.

**PLAN A**  
**DETAIL OF PLANT AND DEPRECIATION EXPENSE**  
 Excludes \$399,715 Sludge Handling Facility

Line No.	Description	Original Total		Company Adjustments		Revised Total		Staff Adjustments		Adjusted Total		Appvd. Depr. Rate <sup>1</sup>	Annual Deprec. Expense	Composite Rate
		Company	Per	Company	Adjustments	Company	Per	Staff	Adjustments	Staff	Per			
3	304 - PV Arsenic Struct. & Imp.	\$ 13,005,440		\$ (41,783)		\$ 12,963,657				\$ 12,963,657		2.00%	\$ 259,273	
4	310 - PV Arsenic Power Prod. Equip.	531,995		(7,230)		524,765				524,765		3.33%	17,475	
7	311 - PV Arsenic Pumping Equip.	471,003		(141,911)	141,911	329,092				471,003		4.39%	20,677	
8	320 - PV Arsenic Wtr. Trtmt. Equip.	3,405,028		(399,715)		3,005,313				3,005,313		7.06%	212,175	
9	330 - PV Arsenic Dist. Res. & Stp.	204,196		(144,800)		59,396				59,396		3.15%	1,871	
10	331 - PV Arsenic T&D Mains	1,649,077		-		1,649,077				1,649,077		2.34%	38,588	
11	339 - PV Arsenic Other Plant & Misc.	8,038		-		8,038				8,038		4.80%	386	
12	340 - PV Arsenic Offc. Furn. & Equip.	-		-		-				-		4.04%	-	
13	343 - PV Arsenic Tools, Shop, & Gar.	4,483		-		4,483				4,483		3.61%	162	
14	344 - PV Arsenic Laboratory Equip.	19,865		-		19,865				19,865		9.76%	1,939	
15	346 - PV Arsenic Commun. Equip.	83,548		-		83,548				83,548		9.76%	8,154	
16	348 - Other Tangible Plant	-		-		-				-		5.00%	-	
17		\$ 19,382,673		\$ (735,439)		\$ 18,647,234			141,911	\$ 18,789,145			\$ 560,700	2.98%

Arsenic Plant Rate Base - Per Staff \$ 18,789,145  
 Arsenic Plant Rate Base - Per Company \$ 18,647,234  
 Staff's Adjustment \$ 141,911

Depreciation Expense - Per Staff \$ 560,700  
 Depreciation Expense - Per Company \$ 545,914  
 Staff's Adjustment \$ 14,786

<sup>1</sup> Decision 68858

**PLAN A**  
**REVENUE REQUIREMENT**  
 Excludes Sludge Handling Facility

Line No.	[A] Revised Per Company	[B] Staff Adjustments	[C] Per Staff
1	Arsenic Plant Revenue Requirement		
2	\$ 18,647,234	\$ 141,911	\$ 18,789,145
3	2.93%	0.057%	2.98%
4	545,914	14,786	560,700
5	335,197	9,079	344,276
6	-	-	-
7	-	-	-
8	\$ (335,197)	\$ (9,079)	\$ (344,276)
9	-1.80%	0	-1.83%
10	7.24%	-	7.24%
11	1,350,060	(10,274)	1,360,334
12	1,685,257	(19,353)	1,704,610
13	1.62863	-	1.62863
14	<u>\$ 2,744,660</u>	<u>\$ (31,519)</u>	<u>\$ 2,776,179</u>
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21	<sup>1</sup> 38.5989 % tax rate per Dec. 68858		
22	<sup>2</sup> Decision no. 68858		
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**PLAN A  
 RATE DESIGN  
 Excludes Sludge Handling Facility**

	<b>Company Present Rates Without Surcharge</b>	<b>Company Proposed Surcharge</b>	<b>Staff Recommended Surcharge</b>
<b>Monthly Customer Charge Surcharge</b>			
5/8" Meter	\$ 9.50	\$ 14.48	\$ 14.65
<b>Commodity Surcharge</b>			
Commodity Rate 0 to 25,000 gallons (per 1,000 gallons)	0.7600	0.4425	0.4476
Commodity Rate 25,001 to 80,000 gallons (per 1,000 gallons)	1.6500	0.4425	0.4476
Commodity Rate 80,001 gallons and over (per 1,000 gallons)	4.3300	0.4425	0.4476
Average Customer Water Usage (gallons)	44,270	44,270	44,270
<b>Typical Residential Bill</b>			
Under Present Rates Without Surcharge	\$ 60.30		
Under Present Rates With Company Proposed Surcharge		\$ 94.36	
Under Present Rates With Staff Recommended Surcharge			\$ 94.76

**CURRENT RATES INCLUDING SURCHARGE - Per Company**

	<b>Company Present Rates Without Surcharge</b>	<b>Company Proposed Surcharge</b>	<b>Company Total</b>
<b>Monthly Customer Charge</b>			
5/8" Meter	\$ 9.50	\$ 14.48	\$ 23.98
<b>Commodity</b>			
Commodity Rate 0 to 25,000 gallons (per 1,000 gallons)	0.7600	0.4425	\$ 1.2025
Commodity Rate 25,001 to 80,000 gallons (per 1,000 gallons)	1.6500	0.4425	\$ 2.0925
Commodity Rate 80,001 gallons and over (per 1,000 gallons)	4.3300	0.4425	\$ 4.7725

**CURRENT RATES INCLUDING SURCHARGE - Per Staff**

	<b>Company Present Rates Without Surcharge</b>	<b>Staff Recommended Surcharge</b>	<b>Staff Total</b>
<b>Monthly Customer Charge</b>			
5/8" Meter	\$ 9.50	\$ 14.65	\$ 24.15
<b>Commodity</b>			
Commodity Rate 0 to 4,000 gallons	0.7600	0.4476	\$ 1.2076
Commodity Rate 4,001 to 15,000 gallons	1.6500	0.4476	\$ 2.0976
Commodity Rate 15,001 gallons and over	4.3300	0.4476	\$ 4.7776

Arizona American Water Company  
 Paradise Valley Water District  
 Docket No. W-01303A-05-0280, et.al.

**PLAN B**  
**DETAIL OF PLANT AND DEPRECIATION EXPENSE**  
 Includes Sludge Handling Facility

Line No.	Description	Original Total Per Company	Company Adjustments	Revised Total Per Company	Staff Adjustments	Adjusted Total Per Staff	Appvd. Depr. Rate <sup>1</sup>	Annual Deprec. Expense	Composite Rate
1									
2									
3	304 - PV Arsenic Struct. & Imp.	\$ 13,005,440	\$ (41,783)	\$ 12,963,657	\$ -	\$ 12,963,657	2.00%	\$ 259,273	
4	310 - PV Arsenic Power Prod. Equip.	531,995	(7,230)	524,765	-	524,765	3.33%	17,475	
7	311 - PV Arsenic Pumping Equip.	471,003	(141,911)	329,092	141,911	471,003	4.39%	20,677	
8	320 - PV Arsenic Wtr. Trtmt. Equip.	3,405,028	-	3,405,028	-	3,405,028	7.06%	240,395	
9	330 - PV Arsenic Dist. Res. & Stp.	204,196	(144,800)	59,396	-	59,396	3.15%	1,871	
10	331 - PV Arsenic T&D Mains	1,649,077	-	1,649,077	-	1,649,077	2.34%	38,588	
11	339 - PV Arsenic Other Plant & Misc.	8,038	-	8,038	-	8,038	4.80%	386	
12	340 - PV Arsenic Offc. Furn. & Equip.	-	-	-	-	-	4.04%	-	
13	343 - PV Arsenic Tools, Shop, & Gar.	4,483	-	4,483	-	4,483	3.61%	162	
14	344 - PV Arsenic Laboratory Equip.	19,865	-	19,865	-	19,865	9.76%	1,939	
15	346 - PV Arsenic Commun. Equip.	83,548	-	83,548	-	83,548	9.76%	8,154	
16	348 - Other Tangible Plant	-	-	-	-	-	5.00%	-	
17		\$ 19,382,673	\$ (335,724)	\$ 19,046,949	141,911	\$ 19,188,860		\$ 588,920	3.07%
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Arsenic Plant Rate Base - Per Staff \$ 19,188,860  
 Arsenic Plant Rate Base - Per Company \$ 19,046,949  
 Staff's Adjustment \$ 141,911

Depreciation Expense - Per Staff \$ 588,920  
 Depreciation Expense - Per Company \$ 545,914  
 Staff's Adjustment \$ 43,006

<sup>1</sup>Decision 68858

**PLAN A**  
**REVENUE REQUIREMENT**  
 Excludes Sludge Handling Facility

Line No.	[A] Revised Per Company	[B] Staff Adjustments	[C] Per Staff
1	Arsenic Plant Revenue Requirement		
2	\$19,046,949	\$ 141,911	\$ 19,188,860
3	2.93%	0.141%	3.07%
4	557,616	31,304	588,920
5	342,382	19,221	361,603
6	-	-	-
7	-	-	-
8	\$ (342,382)	\$ (19,221)	\$ (361,603)
9	-1.80%	0	-1.88%
10	7.24%	-	7.24%
11	1,378,999	(10,274)	1,389,273
12	1,721,381	(29,495)	1,750,877
13	1.62863	-	1.62863
14	<u>\$ 2,803,494</u>	<u>\$ (48,037)</u>	<u>\$ 2,851,531</u>
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20			
21	<sup>1</sup> 38.5989 % tax rate per Dec. 68858		
22	<sup>2</sup> Decision no. 68858		
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**PLAN B**  
**SURCHARGE CALCULATION**  
 Includes Sludge Handling Facility

Line No.	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
	Customers	Total Gallons Sold	Gallons Sold Per Cust.	Minimum	Minimum Multiples	Equivalent Meters	Fixed Increment Monthly	Fixed Increment Annual Total
1	4,711	2,993,289	635.38	2,390	1.0	2,390	15.05	431,531
2	4,732	3,208,796	678.11	32	1.0	33	15.57	6,023
3	21	215,507	43	2,019	1.7	3,369	25.10	608,312
4	0.45%	7.20%	6.72%	75	3.4	253	50.68	45,667
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)			267	5.4	1,436	80.78	259,231
6		3,101,043		23	9.9	233	149.68	42,003
7				1	16.6	17	249.07	2,995
8				5	33.2	166	498.93	30,002
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16								
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21								
29	4,803	4,824	4,813			7,896		1,425,765
30								
31								
32	Calculation of Surcharge		Minimum Surcharge	Commodity Surcharge				
33	Total costs to be recovered (Sch. 5 Col A Ln 14)		\$ 2,851,531	\$ 1,425,765	\$ 1,425,765			
34	Monthly Minimum Revenue (Col B Ln 33 + 2)							
35	Commodity Revenue (Col B Ln 33 + 2)							
36	Monthly Increment Per Equivalent Meter							
37	Equivalent Meters (Col F Ln 29 x 12 Months)		94,754					
38	Minimum Surcharge (Ln 34 + Ln 38)		\$ 15.05					
39								
40								
41								
42	Average Gallons (Col B Ln 5)			3,101,043				
43								
44	Commodity Surcharge (Ln 35 + Ln 42)		\$ 0.4598					

**PLAN B  
 RATE DESIGN  
 Includes Sludge Handling Facility**

	<b>Company Present Rates Without Surcharge</b>	<b>Company Proposed Surcharge</b>	<b>Staff Recommended Surcharge</b>
<b>Monthly Customer Charge Surcharge</b>			
5/8" Meter	\$ 9.50	\$ 14.84	\$ 15.05
<b>Commodity Surcharge</b>			
Commodity Rate 0 to 25,000 gallons (per 1,000 gallons)	0.7600	0.4534	0.4598
Commodity Rate 25,001 to 80,000 gallons (per 1,000 gallons)	1.6500	0.4534	0.4598
Commodity Rate 80,001 gallons and over (per 1,000 gallons)	4.3300	0.4534	0.4598
Average Customer Water Usage (gallons)	44,270	44,270	44,270
Typical Residential Bill			
Under Present Rates Without Surcharge	\$ 60.30		
Under Present Rates With Company Proposed Surcharge		\$ 95.21	
Under Present Rates With Staff Recommended Surcharge			\$ 95.70

**CURRENT RATES INCLUDING SURCHARGE - Per Company**

	<b>Company Present Rates Without Surcharge</b>	<b>Company Proposed Surcharge</b>	<b>Company Total</b>
<b>Monthly Customer Charge</b>			
5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
<b>Commodity</b>			
Commodity Rate 0 to 25,000 gallons (per 1,000 gallons)	0.7600	0.4534	\$ 1.2134
Commodity Rate 25,001 to 80,000 gallons (per 1,000 gallons)	1.6500	0.4534	\$ 2.1034
Commodity Rate 80,001 gallons and over (per 1,000 gallons)	4.3300	0.4534	\$ 4.7834

**CURRENT RATES INCLUDING SURCHARGE - Per Staff**

	<b>Company Present Rates Without Surcharge</b>	<b>Staff Recommended Surcharge</b>	<b>Staff Total</b>
<b>Monthly Customer Charge</b>			
5/8" Meter	\$ 9.50	\$ 15.05	\$ 24.55
<b>Commodity</b>			
Commodity Rate 0 to 4,000 gallons	0.7600	0.4598	\$ 1.2198
Commodity Rate 4,001 to 15,000 gallons	1.6500	0.4598	\$ 2.1098
Commodity Rate 15,001 gallons and over	4.3300	0.4598	\$ 4.7898

## MEMORANDUM

**TO:** Crystal Brown  
Public Utilities Analyst V

**FROM:** D. Hains, P. E. DH  
Utilities Engineer

**DATE** February 26, 2007

**RE:** Arizona-American Water Company Paradise Valley District  
Step-One ACRM Surcharge Filing  
(Docket No. W-01303 A-05-0405; WS-01303 A-05-0910)

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### Introduction

Arizona-American Water Company Paradise Valley District ("PV" or "the Company") has filed for approval of its Step-One ACRM Surcharge. An inspection and evaluation of the Company's PV arsenic treatment system was conducted by Dorothy Hains, Water Utilities Engineer, in the accompaniment of Ed Radwanski and Steve Lutringer, representatives from the Company, on January 18, 2007.

### Water System

The Company owns and operates a water system consisting of six wells and 2,207,000 gallon of storage capacity. The Company's six wells can produce 12,500 gallons per minute ("GPM"). Five of the Company's six wells contain arsenic at a level exceeding the new arsenic maximum contaminant level ("MCL") of 10 µg/l. Based on water use data in the Company's 2005 Annual Report, the Company has adequate production and storage capacities to serve its existing customers.

### Arsenic Treatment System

The following table lists the arsenic and flow capacities of the wells in the PV water system. The majority of the wells contain arsenic levels exceeding the new MCL.

Well ID	ADWR Well Registration #	Average Arsenic <sup>1</sup> (µg/l)	Maximum Arsenic <sup>1</sup> (µg/l)	Flow in gallons per minute ("gpm")
11	55-624805	13.5	18	1,800
12	55-624806	11.1	13	1,800

14	55-624807	10.9	12	2,100
15	55-624808	10.9	14	2,100
16	55-624809	12.7	18	2,200
17	55-537967	8.8	10	2,500
PCX-1 <sup>2</sup>	55-564426	8.5	9	2,300

Notes: 1. The average arsenic level for each well was determined based on 10 water quality samples collected between 1995 and 2002.

2. The Company does not own this well. This information is presented for record keeping purposes only.

The Maricopa County of Department of Environmental Services (“MCDES”) issued Certificates of Approval to Commence Operations with Stipulations (“Certificates”) for PV to install a 21.3 million gallon per day (“MGD”) arsenic treatment system on July 11, 2006 and September 13, 2006.<sup>1</sup> The approved project consists of arsenic removal equipment, two 1.5 million gallon (“MG”) finished water storage tanks, a booster pump station, a backwash system and a sludge disposal handling system. The arsenic removal equipment consists of an inline jet mixing system and pressurized filter system.

The raw well water is treated with sulfuric acid solution for pH adjustment, sodium hypochlorite (NaOCl) solution to oxidize arsenic (V) to arsenic (III) and disinfection and ferric chloride (FeCl<sub>3</sub>) solution for coagulation prior to filtration. The treated water will be stored in the storage tanks prior to being pumped to the distribution system for delivery to customers. The non-treated raw water can be blended with treated water via a bypass blending system prior to entering the storage tanks.

Backwash water from the filter system is stored in two clarifiers, the decant water from the clarifiers is recycled back to the head of the arsenic removal equipment. Solids collected from the clarifiers will be treated for sludge thickening/settling and dewatering prior to being hauled to a landfill.

### Project Evaluation

Both Well 15 and Well PCX-1 are located at the Company’s Miller Road Treatment Facility (“MRTF”) which is located within a United States Environmental Protection Agency (“US EPA”) Superfund site. The water produced by these wells contains volatile organic chemicals (“VOC”), such as trichloroethylene, that exceed recommended MCLs. An air stripping tower is used to remove the VOCs before the treated water is pumped to the arsenic removal equipment. Three large booster pumps at the MRTF site had to be replaced with three smaller pumps to reduce pressure and accommodate installation of the arsenic treatment system. Staff therefore concludes that this MRTF pump replacement job was associated with arsenic removal and the cost should be included in this ACRM.

<sup>1</sup> Explain the reason for the two dates in this footnote.

During its field inspection, Staff observed that the arsenic removal equipment, a newly installed booster pump station and two 1.5 MG storage tanks were operating and in service. Staff also observed that construction of the sludge disposal handling system had not been completed. Three on-site storage tanks with total of 700,000 gallons of storage capacity had been disconnected from the Company's water system.

Final treated water from the arsenic treatment system has been sampled and tested. The test results show that the arsenic level in the final treated water is below the new arsenic standard.

Red J. Environmental Corporation has been contracted to haul PV's dry sludge to an approved landfill for disposal.

Staff concludes that the arsenic treatment system, with the exception of the sludge disposal handling system, is operating and in service. Staff concludes that the water being delivered to customers now meets the current water quality standards.

### Cost Analysis

In its original step-one ACRM Surcharge filing, PV did not include the cost of one of the 1.5 MG storage tanks because it was needed for fire flow improvements and not for arsenic treatment. In its original filing the Company reported a total construction cost of \$19,382,673 for purposes of establishing the step-one surcharge amount. Staff had two adjustments to the original filing. The first removed \$399,715 for the sludge disposal handling system because its construction had not been completed at the time of Staff's field inspection. Staff's second adjustment reduced the cost of the remaining 1.5 MG storage tank by \$144,800. After reviewing water usage data Staff concluded that only 1.1 MG of this storage tank should be reflected in the step-one ACRM surcharge. The Company agreed with these adjustments and included them in the February 14, 2007 revisions it made to its original filing. Presented in the following table are itemized plant descriptions, costs and Staff's recommended total project cost.

Acct #	Description	Company's Original Filing Total Cost (\$)	Company's Revised Total Cost (\$) <sup>1</sup>	Staff Adjustment (\$)	Staff's Recommended Total Cost (\$)
304	Structure & Improvement	13,005,440	12,963,658 <sup>2</sup>		12,963,658 <sup>2</sup>
310	Power Producing Equipment	531,995	524,765 <sup>3</sup>		524,765 <sup>3</sup>
311	Pumping Equipment	471,003	329,092 <sup>4</sup>	141,911	471,003
320	Water Treatment Equipment	3,405,028	3,005,313 <sup>5</sup>		3,005,313 <sup>5</sup>
330	Reservoir & Standpipe	204,196	59,396 <sup>6</sup>		59,396 <sup>6</sup>
331	Transmissions & Mains	1,649,077	1,649,077		1,649,077
339	Other Plant & Equipment	8,038	8,038		8,038
343	Tools, Shop & Garage	4,483	4,483		4,483
344	Laboratory Equipment	19,865	19,865		19,865
346	Communication Equipment	83,548	83,548		83,548
	<b>Total</b>	<b>19,382,673</b>	<b>18,647,235</b>	<b>141,911</b>	<b>18,789,146</b>

- Notes:
1. Revisions to the Company's original filing docketed on February 14, 2007.
  2. \$41,783 was removed to reflect acceptance of RUCO's adjustment.
  3. \$7,230 was removed to reflect acceptance of RUCO's adjustment.
  4. \$141,911 was removed to reflect acceptance of RUCO's adjustment which retired three booster pumps at the Paradise Valley Treatment Plant. Staff's adjustment of \$141,911 is made to offset this adjustment because Staff doesn't agree with it.
  5. \$399,715 was removed to reflect acceptance of Staff's adjustment for the sludge disposal handling system which consisted of \$144,715 for the filter press and \$255,000 for the sludge thickener.
  6. \$ 144,800 was removed to reflect acceptance of Staff's adjustment for the 400,000 gallons of storage capacity not related to the arsenic removal project.

Staff does not agree with RUCO's adjustment of the pump retirement. Staff believes this adjustment should be considered in the context of PV's next rate application and not the subject ACRM filing because this plant retirement is not arsenic related. Staff recommends that \$18,789,146 be used for establishing the step-one ACRM surcharge.

## **Summary**

### **Recommendations**

1. Staff recommends that \$18,789,146 be used for establishing the step-one ACRM surcharge.
2. If the sludge handling system is completed and in service prior to the March 13, 2007 (March Open Meeting date), Staff will recommend that the cost of this equipments be included in establishing the ACRM surcharge. This would result in Staff adding \$399,715 to the \$18,789,146 for a revised project total of \$19,188,861.

### **II. Conclusions:**

1. Staff therefore concludes that this MRTF pump replacement job was associated with arsenic removal and the cost should be included in this ACRM.
2. Staff concludes that the arsenic treatment system, with the exception of the sludge disposal handling system, is operating and in service
3. Staff concludes that the water being delivered to customers now meets the current water quality standards.

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

JEFF HATCH-MILLER  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
MIKE GLEASON  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR INCREASES  
IN ITS RATES AND CHARGES BASED  
THEREON FOR UTILITY SERVICE BY ITS  
PARADISE VALLEY WATER DISTRICT

DOCKET NO. W-01303A-05-0405

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, AN ARIZONA  
CORPORATION, FOR APPROVAL OF AN  
AGREEMENT WITH THE PARADISE  
VALLEY COUNTRY CLUB

DOCKET NO. W-01303A-05-0910

DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
March 13 and 14, 2007  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACTS

**I. INTRODUCTION**

1. On December 19, 2006, Arizona-American Water Company, Inc. ("Arizona-American" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-One of the Arsenic Cost Recovery

...

1 Mechanism ("ACRM") authorized under Decision No. 68858<sup>1</sup> for its Paradise Valley Water  
2 District. The application proposed a surcharge of \$15.67 on the monthly minimum charge and  
3 \$0.4788 per 1,000 gallons on the commodity charge.

4 2. On February 14, 2007, Arizona-American filed a revised application that  
5 incorporated several adjustments<sup>2</sup> and proposed two revenue requirements. One of the proposals  
6 would be adopted contingent upon the in-service status of the sludge handling facility at the time  
7 this matter comes before the Commission.

8 3. The Company's first proposal ("Plan A") excludes the \$399,715 sludge handling  
9 facility and its related depreciation expense from the revenue requirement. The Step-One ACRM  
10 surcharge under Plan A would be \$14.48 on the monthly minimum charge and \$0.4425 per 1,000  
11 gallons on the commodity rate. Under the Company's Plan A proposal, the average residential  
12 customer bill<sup>3</sup> would increase by approximately \$34.06 (or 56.84 percent) from \$60.30 to \$94.36.

13 4. The Company's alternate proposal ("Plan B") includes the \$399,715 sludge  
14 handling facility and its related depreciation expense in the revenue requirement. The Company  
15 provided adequate support for \$399,715 amount in its original application. The Company does not  
16 plan to revise the cost to reflect any increase in the actual cost of the sludge handling facility. The  
17 Step-One ACRM surcharge under the Plan B proposal would be \$14.84 on the monthly minimum  
18 charge and a \$0.4534 per 1,000 gallons on the commodity rate. Under the Company's Plan B  
19 proposal, the average residential customer bill would increase by approximately \$34.91 (or 57.89  
20 percent) from \$60.30 to \$95.21.

21 5. Staff's recommended surcharges for Plan A are shown on Schedule CSB-4. Staff's  
22 adjustments increase the Company proposed monthly minimum surcharge per equivalent billing  
23 unit (5/8-inch meter) from \$14.48 to \$14.65 and the commodity surcharge rate from \$0.4425 to  
24 \$0.4476 per 1,000 gallons. The Staff recommended Step-One ACRM surcharge rates would  
25 increase the average monthly residential customer bill by \$34.46 (or 57.15 percent) from \$60.30 to  
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<sup>1</sup> Dated July 28, 2006

28 <sup>2</sup> Discussed in detail in the "Company's Revisions of the Original Application" section of this memorandum

<sup>3</sup> Average customer consumption: 44.27 (kGal) per Typical Bill Analysis in Original Application

1 \$94.76 as shown on CSB-4. Staff recommends that Plan A be used if the sludge handling facility  
2 is not placed in service by the time this matter comes before the Commission.

3 6. Staff's recommended surcharges for Plan B<sup>4</sup> are shown on Schedules CSB-8.  
4 Staff's adjustments increase the Company proposed monthly minimum surcharge per equivalent  
5 billing unit (5/8-inch meter) from \$14.84 to \$15.05 and the commodity surcharge rate from  
6 \$0.4534 to \$0.4598 per 1,000 gallons. The Staff recommended Step-One ACRM surcharge rates  
7 would increase the average monthly residential customer bill by \$35.40 (or 58.71 percent) from  
8 \$60.30 to \$95.70 as shown on CSB-4. Staff recommends Plan B if the sludge handling facility is  
9 placed in service and is verified by Commission Staff by the time this matter comes before the  
10 Commission.

11 **II. BACKGROUND**

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

14 8. On June 3, 2005, Arizona-American filed an application with the Commission for a  
15 rate increase in its Paradise Valley Water District. On July 28, 2006, the Commission issued  
16 Decision No. 68858 establishing permanent rates for the Paradise Valley Water District.

17 9. On December 19, 2006, Arizona-American filed an application with the  
18 Commission requesting authorization to implement Step-One of the Arsenic Cost Recovery  
19 Mechanism ("ACRM") authorized under Decision No. 68858 for its Paradise Valley Water  
20 District.

21 10. On February 14, 2007, Arizona-American filed a revised application.

22 11. On February 16, 2007, the Residential Utility Consumer Office ("RUCO") filed its  
23 report on the audit of the ACRM for the instant case.

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28 <sup>4</sup> For purposes of the Plan B arsenic rate base, Staff has utilized the Company's \$399,715 amount and it shall serve as the maximum allowable plant in service for this recommendation in this proceeding.

1 **III. AUTHORIZATION FOR AN ARSENIC COST RECOVERY MECHANISM**  
2 **(DECISION NO. 68858)**

3 12. Decision No. 68858<sup>5</sup> approved an ACRM surcharge for Arizona-American Water  
4 Company's Paradise Valley Water District conditioned upon compliance with the following Staff  
5 recommendations:

- 6 a. ". . . Arizona-American Water Company shall comply with all requirements  
7 discussed in this Order as a condition of approval of the Arsenic Cost Recovery  
8 Mechanism."  
9 b. ". . . Arizona-American Water Company shall file, by July 1st of each year  
10 subsequent to any year in which it collects surcharges under an ACRM, a report  
11 with Docket Control showing the Company's ending capital structure (equity, long-  
12 term debt, and short-term debt) by month for the prior year."  
13 c. ". . . as part of the Earnings Test schedule filed in support of the ACRM, Arizona-  
14 American Water Company shall incorporate adjustments conforming to Decision  
15 No. 67093, as discussed in Staff's recommendation set forth herein."  
16 d. ". . . Arizona-American Water Company shall file in this docket hard copies of the  
17 schedules discussed in its application, as set forth in Staff's recommendations  
18 herein, and shall concurrently provide Microsoft Excel or compatible electronic  
19 versions of the filings and all work papers to Staff with all ACRM filings."  
20 e. ". . . ACRM surcharges shall be designed to apply rate design volumetric charges  
21 equally to all usage tiers."  
22 f. "Arizona-American Water Company shall file the schedules and information  
23 described above, as well as any additional relevant data requested by Staff, as part  
24 of any request for an Arsenic Cost Recovery Mechanism step increase."  
25 g. "Arizona-American Water Company shall file a permanent rate application for its  
26 Paradise Valley Water District no later than September 30, 2008."

22 **IV. STAFF ANALYSIS**

23 **A. ACRM Schedules**

24 13. Arizona-American's ACRM filing includes the following schedules that conform to  
25 the methodologies required by Decision No. 66400 and adopted by Decision No. 68858.

26 . . .

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28 <sup>5</sup> Page 44, beginning at line 19

- 1 a. Balance Sheet – dated September 30, 2006.
- 2 b. Income Statement – period ending September 30, 2006.
- 3 c. Income Statement Adjustments (Earnings Test) – to conform to Decision No.
- 4 68858.
- 5 d. Rate Review – a rate review filing for the Paradise Valley Water District.
- 6 e. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for
- 7 Step-One.
- 8 f. Surcharge Calculation – a detailed surcharge calculation.
- 9 g. Rate Base – a schedule showing the elements and the calculation of the rate base.
- 10 h. CWIP Ledger – a ledger showing the construction work in progress account.
- 11 i. 4-Factor Allocation for September 30, 2006 – a schedule showing the allocation for
- 12 all of the Arizona-American Water Company Districts.
- 13 j. Typical Bill Analysis – ACRM Step-1 – A typical bill analysis showing the effects
- 14 on residential customers at various consumption levels.

15 14. Staff finds that the Company is in compliance with all requirements of Decision No.

16 68858. Commission records show one outstanding compliance issue regarding Decision No.

17 68917<sup>6</sup>.

18 15. Staff concludes that the filed schedules conform with the methodologies originally

19 required by Decision No. 66400 and that were subsequently adopted by Decision No. 68858. Staff

20 concludes that the Company's Step-One ACRM filing for its Paradise Valley Water District is

21 complete and in accordance with Decision No. 68858.

22 16. The ACRM schedules also provide for the calculation of a surcharge based on

23 financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an

24 amount that would not result in a rate of return exceeding that authorized in Decision No. 68858.

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28 <sup>6</sup> Tariff sheets in compliance with Decision No. 68917 were scheduled to be filed September 29, 2006. Staff is working with the Company to resolve the issue.

1 **B. Company's Revisions to Original Application**

2 17. The Company filed a revised application to address Staff's and RUCO's concerns  
3 as follows:

4 The Company reduced its plant in service balance by \$735,439, from \$19,382,673 in its  
5 original application to \$18,647,234 in its revised application as shown on Schedule CSB-1.

6 Structures and Improvements – The Company, in both Plan A and Plan B, removed  
7 \$41,783 to reflect costs related to non-arsenic uses of the structures and improvements.

8 Back-up Electricity Generator – The Company, in both Plan A and Plan B, removed \$7,230  
9 to reflect costs related to non-arsenic uses of the back-up generator.

10 Pumps – The Company, in both Plan A and Plan B, removed \$141,911 to reflect the  
11 retirement of three on-site pumps (i.e., 300 hp, 150 hp, and 100 hp) installed in 1995.

12 Tanks – The Company, in both Plan A and Plan B, removed \$144,800 to reflect 400,000  
13 gallons capacity related to non-arsenic uses of the tank.

14 Sludge Handling Equipment – Under Plan A, the Company removed \$399,715 in sludge  
15 handling equipment from arsenic plant in service. Under Plan B, the Company transferred  
16 \$399,715 in sludge handling equipment from Account No. 320, Water Treatment Equipment to  
17 Account No. 348, other Tangible Plant.

18 The Company did not have Commission approved depreciation rates for three plant  
19 accounts. Therefore, Staff recommended that the Company use approved depreciation rates that  
20 came closest to the useful lives of the plant in question. The Company accepted Staff's  
21 recommendation. The Company also corrected a typographical error. These adjustments reduced  
22 Plan A Depreciation Expense by \$137,991 from \$683,905 to \$545,914 and Plan B Depreciation  
23 Expense by \$118,006 from \$683,905 to \$565,899.

24 **C. Staff's Analysis and Adjustments to Company's Schedules**

25 18. The Company incorporated an adjustment proposed by RUCO to retire non-arsenic  
26 related pumps.<sup>7</sup> According to RUCO, the old pumps were replaced by new pumps that the  
27

28 <sup>7</sup> The retired pumps were not used to treat arsenic.

1 Company included as part of its arsenic plant. RUCO indicated that these retirements were not  
2 properly recorded. RUCO proposed and the Company accepted the proposal to reflect the  
3 retirement by reducing the actual reported cost of the arsenic treatment plant.

4 19. Staff did not accept the Company's adjustment to reflect the retirements because:  
5 (1) the intent of the ACRM was to provide recovery for all arsenic plant that had adequate  
6 supporting documentation and was placed in service, (2) the ACRM does not provide for changes  
7 in non-arsenic related plant to be reflected in the calculation and contemplates that changes to non-  
8 arsenic plant will be made in a subsequent rate proceeding, and, (3) reflecting the non-arsenic plant  
9 retirements in the arsenic plant balance would under-state the actual arsenic plant in service  
10 balance.

11 **D. Plant Retirements Costs**

12 20. We concur with Staff that it is not appropriate to reflect non-arsenic costs within the  
13 arsenic surcharge

14 21. Staff concluded that the Company's Step-One ACRM filing for its Paradise Valley  
15 Water District, as adjusted, is complete and in accordance with Decision No. 68858.

16 22. Staff recommended that the Company file with the Commission an arsenic removal  
17 surcharge tariff consistent with either ACRM Schedule CSB-4 or CSB-8 as approved by the  
18 Commission.

19 23. Staff recommended that Arizona-American Paradise Valley Water District notify its  
20 customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the  
21 effective date of this Decision.

22 24. Staff recommended that in the event that Arizona-American fails to file a  
23 permanent rate application for its Paradise Valley Water system by September 30, 2008, as  
24 required by Decision No 68858, the Arsenic Cost Recovery Mechanism surcharge then in place  
25 shall be automatically discontinued.

26 25. Pursuant to Decision No. 68858, the Company filed the required schedules prior to  
27 the implementation of the ACRM.

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1           IT IS FURTHER ORDERED that the revised application by Arizona-American Paradise  
2 Valley Water District for approval of an arsenic cost recovery mechanism surcharge tariff shall be  
3 in accordance with the attached ACRM Schedule CSB-4.

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

7           IT IS FURTHER ORDERED that the Company shall file with Docket Control, as a  
8 compliance item in this docket, a report showing the Company's ending capital structure by month  
9 for the prior year. The first report shall be due on July 1, 2008, and shall be provided each July 1<sup>st</sup>  
10 thereafter until such time as a subsequent order of the Commission discontinues the ACRM  
11 surcharge.

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IT IS FURTHER ORDERED that in the event that Arizona-American fails to file a new rate case application for its Paradise Valley Water District 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 \_\_\_\_\_, 2007.

\_\_\_\_\_  
BRIAN C. McNEIL  
Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:CSB:lhm\MAS

1 SERVICE LIST FOR: Arizona-American Water Company  
2 DOCKET NOS. W-01303A-05-0405, et al.

3 Mr. Craig A. Marks  
4 Arizona-American Water Company  
5 101 Corporate Center  
6 19820 North Seventh Street, Suite 201  
7 Phoenix, Arizona 85024

8 Mr. Ernest G. Johnson  
9 Director, Utilities Division  
10 Arizona Corporation Commission  
11 1200 West Washington  
12 Phoenix, Arizona 85007

13 Mr. Christopher C. Kempley  
14 Chief Counsel  
15 Arizona Corporation Commission  
16 1200 West Washington  
17 Phoenix, Arizona 85007

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Arizona-American Water Company  
 Paradise Valley Water District  
 Docket No. W-01303A-05-0280

Schedule CSB-4

**PLAN A  
 RATE DESIGN  
 Excludes Sludge Handling Facility**

	<b>Company Present Rates Without Surcharge</b>	<b>Company Proposed Surcharge</b>	<b>Staff Recommended Surcharge</b>
<b>Monthly Customer Charge Surcharge</b>			
5/8" Meter	\$ 9.50	\$ 14.48	\$ 14.65
<b>Commodity Surcharge</b>			
Commodity Rate 0 to 25,000 gallons (per 1,000 gallons)	0.7600	0.4425	0.4476
Commodity Rate 25,001 to 80,000 gallons (per 1,000 gallons)	1.6500	0.4425	0.4476
Commodity Rate 80,001 gallons and over (per 1,000 gallons)	4.3300	0.4425	0.4476
Average Customer Water Usage (gallons)	44,270	44,270	44,270
Typical Residential Bill			
Under Present Rates Without Surcharge	\$ 60.30		
Under Present Rates With Company Proposed Surcharge		\$ 94.36	
Under Present Rates With Staff Recommended Surcharge			\$ 94.76

**CURRENT RATES INCLUDING SURCHARGE - Per Company**

	<b>Company Present Rates Without Surcharge</b>	<b>Company Proposed Surcharge</b>	<b>Company Total</b>
<b>Monthly Customer Charge</b>			
5/8" Meter	\$ 9.50	\$ 14.48	\$ 23.98
<b>Commodity</b>			
Commodity Rate 0 to 25,000 gallons (per 1,000 gallons)	0.7600	0.4425	\$ 1.2025
Commodity Rate 25,001 to 80,000 gallons (per 1,000 gallons)	1.6500	0.4425	\$ 2.0925
Commodity Rate 80,001 gallons and over (per 1,000 gallons)	4.3300	0.4425	\$ 4.7725

**CURRENT RATES INCLUDING SURCHARGE - Per Staff**

	<b>Company Present Rates Without Surcharge</b>	<b>Staff Recommended Surcharge</b>	<b>Staff Total</b>
<b>Monthly Customer Charge</b>			
5/8" Meter	\$ 9.50	\$ 14.65	\$ 24.15
<b>Commodity</b>			
Commodity Rate 0 to 4,000 gallons	0.7600	0.4476	\$ 1.2076
Commodity Rate 4,001 to 15,000 gallons	1.6500	0.4476	\$ 2.0976
Commodity Rate 15,001 gallons and over	4.3300	0.4476	\$ 4.7776