ORIGINAL **OPEN MEETING** 0000076080

MEMORANDUM

Arizona Corporation Commission
DOCKETED
AUG 15 2007
DOCKETED BY

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: August 15, 2007

RE: ARIZONA-AMERICAN WATER COMPANY, INC. - MOHAVE WASTEWATER DISTRICT'S APPLICATION FOR AN INCREASE IN ITS CURRENT HOOK-UP FEE TARIFF (DOCKET NO. W-01303A-07-0407)

Attached is the Staff Report for Arizona-American Water Company, Inc. - Mohave Wastewater District's application for an increase in its current hook-up fee tariff. This Staff Report was originally docketed on August 13, 2007. Also attached is a proposed order for this matter to be heard at an Open Meeting in the near future.

As stated in the original Staff Report, any interested party wishing to file comments regarding the attached may file those comments with the Arizona Corporation Commission's Docket Control no later than noon on August 20, 2007.

Ernest G. Johnson
Director
Utilities Division

EGJ:DWC:lhm

Originator: Darron W. Carlson

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MEMORANDUM

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2007 AUG 13 P 1:56

AZ CORP COMMISSION
DOCKET CONTROL

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: August 13, 2007

RE: STAFF REPORT FOR ARIZONA-AMERICAN WATER COMPANY, INC. - MOHAVE WASTEWATER DISTRICT'S APPLICATION FOR AN INCREASE IN ITS CURRENT HOOK-UP FEE TARIFF (DOCKET NO. W-01303A-07-0407)

Attached is the Staff Report for Arizona-American Water Company, Inc. - Mohave Wastewater District's ("Company") application for an increase in its current hook-up fee tariff. Staff recommends denial of the Company's request for an increase in its current hook-up fee tariff and denial of the Company's request for an accounting order. Staff recommends a continuation of the Company's current hook-up fee tariff along with Staff's additional recommendations.

Any interested party wishing to file comments regarding the attached Staff Report may file those comments with the Arizona Corporation Commission's Docket Control no later than noon on August 20, 2007.

EGJ:DWC:red

Originator: Darron W. Carlson

Attachment: Original and sixteen copies

Service List for: Arizona-American Water Company, Inc. - Mohave Wastewater District
Docket No. W-01303A-07-0407

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA-AMERICAN WATER COMPANY, INC. -

MOHAVE WASTEWATER DISTRICT

DOCKET NO. W-01303A-07-0407

APPLICATION FOR AN INCREASE

IN ITS CURRENT HOOK-UP FEE TARIFF

AUGUST 13, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona-American Water Company, Inc. - Mohave Wastewater District ("Company"), Docket No. W-01303A-07-0407, was the responsibility of the Staff members listed below. Steven Olea was responsible for the history of hook-up fees. Darron W. Carlson was responsible for the background review and the accounting analysis of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Pedro Chaves was responsible for the financial analysis of the Company's application.

Steven Olea
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EXECUTIVE SUMMARY
ARIZONA-AMERICAN WATER COMPANY, INC. - MOHAVE WASTEWATER DISTRICT
DOCKET NO. W-01303A-07-0407

Arizona-American Water Company, Inc. – Mohave Wastewater District ("Company") filed its request to increase its existing hook-up fee tariff on July 2, 2007. The Company requests an increase in its existing hook-up fee tariff from $785 per service lateral to $2,600 per service lateral to fund 50 percent of the capital costs related to a wastewater treatment plant expansion, which results in an increase of $1,815, or 231.2 percent over the existing rate.

Staff recommends denial of the request to increase the existing hook-up fee to $2,600. The existing hook-up fee is set at $785 per service lateral, regardless of the size of the service lateral. Staff recommends that the hook-up fee remain at the existing $785 rate for a four inch service lateral. Staff recommends a graduated increase in the $785 rate for larger volumetric service lateral sizes.

The Company also requests an accounting order to allow it to accrue and recover both post in service allowance for funds used during construction and depreciation expense on plant not in rate base.

Staff recommends denial of the request for an accounting order. The special accounting treatments the Company seeks are inappropriate in this case.

The Company requests that if its request for increase of hook-up fee and accounting order are denied, in the alternative it requests a moratorium on new connections.

Staff recommends denial of the moratorium request and that the Company be ordered to continue and complete the wastewater treatment plant extension in a timely manner.

TABLE OF CONTENTS

SCHEDULE

ATTACHMENT

Introduction

On July 02, 2007, Arizona-American Water Company, Inc. - Mohave Wastewater District ("Mohave" or "Company") filed an application for an increase in its current hook-up fee tariff with the Arizona Corporation Commission ("Commission"). On July 11, 2007, Staff filed a memorandum and recommended opinion and order ("ROO") requesting an extension of the time clock rule. Staff requested an additional 84 days to perform a complete analysis of this complex issue and to allow time for unforeseen circumstances.

The Company's application requests an increase in its current hook-up fee to fund 50 percent of the costs of a wastewater treatment plant expansion. Additionally, the Company requests an accounting order allowing it to (1) accrue post-in-service allowance for funds used during construction ("P-AFUDC"), (2) recover P-AFUDC in an accelerated method, and (3) to recover depreciation expense on the wastewater treatment plant expansion not yet in rate base through an offset to contributions in aid of construction. The Company also promises to file a new rate case by May 31, 2008, in which it will request inclusion of 50 percent of the actual expansion costs in rate base.

In the event that its hook-up fee and accounting order requests do not receive timely approval, the Company requests a moratorium on new connections. The Company asserts that without the requested approvals, it will not be able to fund further construction of the wastewater treatment plant expansion.

Background

The Company is an Arizona class "A" utility engaged in the business of providing water and wastewater services. The Company obtained ownership of the Mohave Wastewater District in its purchase transaction for all of the water and wastewater systems in the state of Arizona owned by Citizens Telecommunications, Inc. ("Citizens"). Arizona-American Water Company, Inc. ("AAWC") is the largest investor-owned water/wastewater utility in Arizona and its parent, American Water Company, Inc. is the largest investor-owned water/wastewater utility in the United States.

The current rates have been in effect since May 1, 2007, per Decision No. 69440. In fact, the Company originally filed this request for an increase in its hook-up fee tariff under the rate case Docket No. WS-01303A-06-0014, which resulted in Decision No. 69440 dated May 1, 2007. Unfortunately, the Company filed its request on May 9, 2007. Since a Decision had already been rendered in the Docket, Staff believed it was too late to consider the late-filed increase request. After discussions between the Company and Staff, the Company withdrew its application under Docket No. WS-01303A-06-0014 and re-filed it under this subject Docket.

Origin of Hook-up Fees

Staff's research suggests that Off-Site Facilities Hook-up Fee Tariffs ("hook-up fees") authorized by the Commission were a result of what was first known as Facilities Construction Advances ("FCA"). FCAs were tariffs approved by the Commission to allow a water and/or wastewater utility to pay for specific backbone plant (e.g., wells, storage tanks, treatment plants, etc.) to be installed to serve new or future customers. As the title implies, FCAs were advances, i.e., they were to be refunded over time.

Subsequently, the Commission concluded that it probably was unfair to require such tariffs to be refundable. The primary reason was that actual utility customers (i.e., the customers actually being provided the utility service and not the developer that paid the FCA) would then be paying twice for the plant being installed with FCAs. The first payment would be the FCA itself, which is usually (if not always) included in the price of the home by developers. The second payment would be in rates because the plant installed with FCAs would eventually be in rate base when refunded to the developer and not the actual utility customer. It was due to this unfairness that hook-up fees were developed. Hook-up fees are non-refundable, i.e., contributions in aid of construction ("CIAC"). CIACs are excluded from rate base.

The primary reason that FCAs and hook-up fees were allowed was to aid utilities that had difficulties obtaining funds to install backbone plant to obtain such funds. The hook-up fees can either be used directly to pay for such plant or they can be used to pay off loans obtained to install backbone plant. In addition, hook-up fees are usually established to pay for estimated costs to serve a typical customer and are expected to remain in effect until the utility is built out and are not tied to specific plant as FCAs originally were.

An added benefit of hook-up fees is that they remove a chance for discrimination between developers resulting from different developers being charged different amounts for similar backbone plant. The Commission's main extension agreement rules allow water utilities to charge for backbone plant when it is necessary to serve a new development. This resulted in some developers paying for backbone plant while others paid nothing for such plant. A utility with an approved hook-up fee is required to charge the tariff to all new developers, therefore, all new developers pay for their share of new backbone plant required to serve their development.

A possible benefit of hook-up fees is the fact that they are CIACs which are not included in rate base. All things being equal, a lower rate base results in lower rates to end-users. The reason the treatment of hook-up fees as CIACs is only a "possible" benefit and not a definite benefit, depends on the utility itself. Hook-up fees work best with a utility that has a fundamentally sound capital structure and sufficient equity. There are some utilities that have used main extension agreements ("MXA") to install most of their plant and have refunded very little of these MXAs. The result is a utility with most of its plant listed as contributions and the utility having little or no rate base. It is Staff's opinion that such a utility should not be a candidate for a hook-up fee. The risk to shareholders (owners) of a utility with little or no rate base is very small, since little or none of their money is tied up in the utility.

Engineering Analysis

Staff concurs with the Company in the need for expansion of the wastewater treatment plant and the estimated cost to build that plant.

AAWC requests that the Treatment Plant Availability Fee be set at $2,600 per new 5/8 inch water-meter connection and greater for larger volumetric meter sizes[1]. In its July 2, 2007 filing, the Company filed its hook-up fee increase request using an old hook-up fee tariff template. On July 19, 2007, the Company, through an Open Meeting item opposition, filed a revised hook-up fee tariff request using Staff's updated template.

Accounting Analysis

Although it is not mentioned in the heading of its application, the Company is requesting an accounting order along with its request for an increase in its hook-up fee tariff. The Company's specific accounting requests are: "1) Recover, each month, post in-service AFUDC on the un-recovered plant balance through recognition of hook-up fees of a like amount in Other Income and 2) Recover, each month, depreciation expense on plant not in rate base through recognition of an offsetting equal amount of amortization of available contribution."

It appears that the Company is under the mistaken belief that P-AFUDC is a normal rate making cost accounting function. The National Association of Regulatory Commissioners ("NARUC") Uniform System of Accounts ("USOA") does recognize AFUDC (account number 420) as a normal component of plant costs, however, the USOA instructions require that the accrual of AFUDC cease when plant is placed in service. Additionally, depreciation expense (account number 403) is also a normal operating expense, however to allow deferral of this expense also requires special circumstances.

This Commission has utilized the concept of P-AFUDC and deferral of depreciation expense on rare occasions when special or very unusual circumstances warrant its use. For instance, AAWC – Paradise Valley Water District was authorized to utilize P-AFUDC and deferral of certain depreciation expenses in Decision No. 68303, dated November 14, 2005. This case allowed the Company to invest significant capital costs associated with public safety and the associated increase in fire flows. Because the capital costs were not associated with the normal requirements of the Company's obligation to provide water services to its customers, the Commission authorized this very special treatment in that case.

[1] Application, Page 4, lines 21-22.

Another example in which the P-AFUDC concept was utilized is in a pending matter, AAWC – Agua Fria Water District, Docket No. WS-01303A-05-0718. No ROO or Decision has yet been issued in this case regarding the White Tanks Water Treatment Project, however Staff has recommended the use of P-AFUDC in this case because of the size of the project ($133 million) and additionally has recommended that contributions from hook-up fees fund 100 percent of this project, as requested by the Company. Further, this project is currently being planned without the Company's original partner, Maricopa Water District who has removed itself from the project. The project will have excess capacity to the needs of its current certificate of convenience & necessity ("CC&N") area but has potential to sell treated water or plant capacity to others, so that there is an overall benefit to the development area beyond the current CC&N area's needs. For these reasons, Staff considers this project very special and unusual.

The accounting treatment that the Company requests, in this case, is not reserved for only, and/or any of AAWC's districts. This Commission has utilized these accounting treatments sparingly. The wastewater treatment plant expansion is not unusual, is not special and conversely, is a normal requirement of the operation of a utility in a growth CC&N area. Staff cannot recommend variances from standard ratemaking accounting standards without the existence of extenuating circumstances, which do not exist in this case.

In Staff's analysis of the Company's proposed recovery of the accounting treatments, Staff notes that the Company requests an accelerated recovery and long amortization that will cost those hook-up fee contributors, not $1.96 million (50 percent of the project costs) but more likely, approximately $3.9 million over time. The Company should not be allowed to recover these "accounting" costs for the funding of plant expansions that it is required to fund as part of its obligation to serve.

Staff would also point out that the previously mentioned pending case, "the White Tanks Water Treatment Project", has the potential to create $133 million of plant, entirely funded by contributions which will certainly exacerbate the Company's ability to maintain a balanced capital structure, which has been an on-going problem for AAWC.

Staff recommends denial of the Company's request for the accounting treatments associated with the subject application for an increase in its existing hook-up fee tariff.

Financial Analysis

Proposed Hook-Up Fee

Decision No. 69440, dated May 1, 2007, authorized a Treatment Plant Availability Fee per new connection of $785.

The Company expects that the expansion of the existing Wishing Well Wastewater Treatment Plant ("Wishing Well") will allow for approximately 1,500 additional service connections. Hence, under AAWC's proposal, the Company will collect approximately $3,900,000 ($2,600 * 1,500) in Contributions in Aid of Construction ("CIAC").

Un-audited Financials

Staff based its analysis on un-audited financial statements for the year ending 2006. The Company informed Staff that there will be no meaningful difference from that of the audited financials which will be provided to Staff once they are available. The Company expects to receive audited financials on August 10, 2007.

Staff's analysis is illustrated on Schedule PMC-1. Column [A] reflects AAWC's un-audited financial information for the year ended December 31, 2006. Column [B] presents pro forma financial information that modifies Column [A] to include the proposed $3.9 million of CIAC.

Capital Structure

As of December 31, 2006, the Company's capital structure (short-term debt plus long-term debt plus common equity) is composed of 5.7 percent short-term debt, 58.3 percent long-term debt and 36.1 percent equity. When including advances in aid of construction ("AIAC") and net CIAC, the Company's capital structure is composed of 3.5 percent short-term debt, 36.0 percent long-term debt, 22.3 percent equity, 31.9 percent AIAC and 6.3 percent net CIAC. The current balance of equity is approximately $125.9 million. In contrast, the current balance of AIAC plus net CIAC is approximately $216.1 million. In this scenario, AIAC and net CIAC funding represents 38.2 percent of total capital (common equity, short-term debt and long-term debt), inclusive of AIAC and net CIAC. When including the Company proposed hook-up fees, the ratio of AIAC and net CIAC of total capital (inclusive of AIAC and net CIAC) is 38.7 percent.

Staff typically recommends that combined AIAC and net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and net CIAC, for private and investor owned utilities. Furthermore, for a utility with access to the capital markets, Staff typically recommends a capital structure with a minimum of 40 percent equity of total capital (short-term debt plus long-term debt plus common equity) as appropriate to provide a balance of cost and financial risk for regulated utilities and ratepayers.

Reasonableness of hook-up fees

The reasonableness of a hook-up fee request should be evaluated on a case-by-case basis.

In order to attain Staff's minimum equity percentage recommendation of 40 percent of total capitalization it would be appropriate for the Company to issue or infuse equity. In addition, in order for AAWC to attain and maintain an appropriate capital structure it is fundamental that subsidies between Districts not occur. Any authorization of hook-up fees would result in an implicit subsidy between districts.

Typically, the advantages and disadvantages of the various leads and lags pertaining to the rate-making process tend to provide a balance that is equitable to investors and ratepayers. However, any imbalance is magnified by large variances from normal activity. Accordingly, some projects may have the potential to introduce a significant imbalance due to their relatively large size. In this case, the magnitude of the required Wishing Well expansion does not have the potential to introduce a significant imbalance to the normal rate-making process due to its relatively small size.

In general, hook-up fees recognized as CIAC are a deduction in the calculation of rate base and plant-in-service is an addition in the calculation of rate base. The Wishing Well expansion has an anticipated in-service date of December, 2007. Therefore, any subsequent rate case will include the Wishing Well expansion investment in the calculation of rate base and rate base would be reduced by the excess of the CIAC over the plant additions. If the Company were to file a rate case shortly after the Wishing Well expansion investment is in service, most of the expansion project would be included in rate base, regardless of the hook-up fee amount. Hence, there is a possible scenario, where a utility service provider may file a rate case when most plant (later to be recovered through CIAC) is in service, earn a return on such investment and at the same time continue to collect CIAC. Accordingly, Staff would like to note that, although one of the perceived goals of implementing hook-up fees is to ameliorate rate impact, hook-up fees may not always be effective in doing so. In fact, said hook-up fees may be detrimental to current rate-payers.

Due to the high ratio of current AIAC and net CIAC to total capital and the high ratio of the proposed funding from hook-up fees, AIAC and net CIAC to total capital, it would not be appropriate for the Commission to authorize the hook-up fees in this case. Accordingly, authorization of hook-up fees should come with suitable conditions to ensure a reasonable balance is maintained between the Company and ratepayer interests, across the various districts.

Staff agrees that hook-up fees should be greater for larger volumetric service lateral sizes; hence, Staff recommends the following hook-up fees:

Treatment Plant Availability Hook-Up Fee		
Service Lateral Size	Factor	Fee ($)
4-inch	1	785
6-inch	2.25	1,770
8-inch	4	3,140
10-inch and larger	6.25	4,910

Open Meeting Discussion

At the July 24, 2007 Open Meeting, the president of AAWC, Mr. Paul Townsley, made a presentation in which he made certain statements that, Staff believes, need clarification. Staff has asked the Company to also file its own clarification in this Docket, regarding certain figures mentioned by Mr. Townsley in his presentation.

Mr. Townsley told the Commission that AAWC has invested over $335 million in Arizona but has only $149 million currently recognized in rate base. That leaves an unrecognized balance of over $186 million not earning a return. Staff asked the Company to file in this Docket, a clearer picture as to what investments the unrecognized $186 million represents.

On July 31, 2007, Staff received a clarification of the aforementioned amounts and this documentation has also been docketed by the Company, so that all interested parties can review the information. Staff notes just three amounts make up the total of $184.6 million of exclusions from rate base that the Company claims in its clarification. The Company describes these as: "$121.5 million for Imputed AIAC & CIAC in temporary exclusion ranging from 6.5 to 10 years, $29.3 million for Acquisition premium in permanent exclusion from rate base, and $33.8 million for Post test year plant in regulatory lag on many completed projects."

It should be noted that the first two amounts totaling $150.8 million (or 82 percent of the total $184.6 million) are directly related to AAWC's acquisition of the Citizens' water/wastewater utility properties in Arizona. As per the Decision authorizing the acquisition, Decision No. 67093, AAWC recognized $112.6 million in regulatory AIAC to be amortized over a six and one-half year period from 2002 through 2008. AAWC also recognized $11.6 million in regulatory CIAC to be amortized over a ten year period from 2002 through 2011. These imputed AIAC and CIAC amounts total $124.2 million as of December 31, 2001. AAWC reflects the amount not currently in rate base as $121.5 million. Staff does not dispute that amount but wishes to point out that the unamortized balance for the imputed AIAC is $19.4 million as of May 31, 2007, and for the imputed CIAC is $5.3 million as of May 31, 2007, for a total of $24.7 million. Therefore, the amortized difference between the Company's $121.5 million and Staff's $24.7 million, or $96.8 million is currently eligible to be included in any rate base calculations in any current rate case filing, depending on its test year. Of course, the filing of its rate cases and the test year used is at the discretion of AAWC.

Staff notes that in the Company's last three rate case applications, it has requested accelerated amortizations of the imputed AIACs and CIACs. However, both the Residential Utility Consumer's Office ("RUCO") and Staff have recommended denial of any acceleration. The fact is, the amortizations are occurring just as intended by this Commission, when authorized in Decision No.67093, and need no acceleration.

The second amount listed in the clarification is the $29.3 million acquisition premium and is noted as being in permanent exclusion from rate base. Staff would accept that description but would recommend that this item be permanently removed from any future return calculations. While AAWC did spend that money in the acquisition, it also acknowledges that it will never receive rate base recognition and, therefore, no rate of return. It is inappropriate of the Company to include this number in any discussion/presentation of rate base or rate of return against an amount of investment in which it expects no inclusion in rate base and no rate of return. Staff notes here that when the acquisition was completed, the estimated acquisition premium was approximately $71.5 million. Staff believes that approximately $42.2 million of the $71.5 million was reclassified to goodwill and partially amortized. Staff believes that the Company's outside accountants found impairment in, at least some of, the amounts being carried by the Company and instituted write-offs of the impaired amounts.

The third amount listed in the clarification is the $33.8 million post test year plant and is noted as resulting from regulatory lag. Staff finds it confusing that the Company uses the term post test year plant because that is usually the description for plant that the Company attempts to include in test year calculations in its rate cases. Most, if not all, of the Company's rate cases include post test year plant inclusion requests. In any case, Staff believes this number represents plant investments awaiting the "next" rate case filing that was not included in the prior rate case or was built after inclusion was possible in the prior rate case. This is what most utilities have when plant additions are necessary between rate cases, is not unusual, and is usually on-going in the business cycle of utilities. There is a long history in regulation and this Commission as to the vagaries of regulatory lag, however it is Staff's belief that there can be as many benefits for the utility in regulatory lag as there are detriments for the utility.

In addition to the above, Mr. Townsley also made the statement that AAWC lost over $24 million last year in Arizona. While these figures paint a bleak investment picture for AAWC, Staff believes a closer look offers a more realistic interpretation of those figures. Staff believes that at least $20 million, of the $24 million, represents write-offs of impaired amounts identified by the Company's outside accountants, as mentioned earlier in this Report. Further, the Company is carrying a large amount of debt related to the acquisition of the Citizens' utilities that is directly affecting the profitability of AAWC, so Staff does not believe that AAWC is losing money in Arizona when all of the pertinent and relevant factors are considered.

Staff will conclude this section by reminding all interested parties that a re-read of Decision No. 67093 is necessary to fully understand the aforementioned issues. Staff believes that most of the current management of AAWC was not employed by the Company in 2001 and that may even hold true for its parent. This Commission went to great lengths during the acquisition of the Citizens' water/wastewater utilities to protect Arizona ratepayers, Arizona utilities and their infrastructure, as well as the future growth of Arizona. The $124.2 million of imputed AIAC and CIAC was not any kind of purchase penalty invoked by this Commission. Regulatory accounting does not allow for the transfer of AIACs and CIACs in the sale of a utility, so the imputed AIACs and CIACs represent the investment that Arizona customers put into the Citizens utilities plant that AAWC purchased. This Commission made sure that investment did not disappear as capital gain in Citizens' corporate pocket. Further, this Commission did not rule out considering an acquisition adjustment in Decision No. 67093. The conditions set by this Commission for consideration of an acquisition adjustment were fair and reasonable but AAWC has not, to date, made any request for inclusion of an acquisition adjustment for any of the Citizens' utilities.

Staff Recommendations

Staff recommends denial of the Company's request to increase its hook-up fee tariff.

Staff further recommends denial of the Company's request for an accounting order.

Staff further recommends adoption of the above mentioned graduated hook-up fees based on service lateral size and beginning with the existing rate of $785 for a 4 inch service lateral.

Staff further recommends denial of the Company's request for a moratorium and that the Company be ordered to continue and complete its treatment plant expansion in a timely manner.

Arizona-American Water Company
Docket No. W-01303A-07-0407
Application for a hook-up fee increase

Schedule PMC-1

FINANCIAL ANALYSIS

Capital Structure (inclusive of AIAC and CIAC)

	[A][1] 12/31/2006 (000's)		[B][2] Pro Forma (000's)	
Short-term Debt	$19,765	3.5%	$19,765	3.5%
Long-term Debt	$203,340	36.0%	$203,340	35.7%
Common Equity	$125,873	22.3%	$125,873	22.1%
Advances in Aid of Construction ("AIAC")	$180,482	31.9%	$180,482	31.7%
Contributions in Aid of Construction ("CIAC")[3]	$35,648	6.3%	$39,548	7.0%
Total Capital (Inclusive of AIAC and CIAC)	$565,108	100.0%	$569,008	100.0%

	[A]	[B]
AIAC and CIAC Funding Ratio[4] (9+11)/(13)	38.2%	38.7%

Capital Structure

Short-term Debt	$19,765	5.7%
Long-term Debt	$203,340	58.3%
Common Equity	$125,873	36.1%
Total Capital	$348,978	100.0%

[1] Column [A] is based on unaudited 2006 financial statements for the year ended December 31, 2006.
[2] Column [B] is Column [A] modified to include the proposed CIAC of $3.90 million.
[3] Net CIAC balance.
[4] Staff typically recommends that combined AIAC and net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and net CIAC, for private and investor owned utilities.

Original

Arizona-American Water Company
(Name of Company)

SHEET NO. 3b
SHEET NO.

Mohave Wastewater District
(Name of Service Area)

OFF-SITE FACILITIES HOOK-UP FEE
(Revised Treatment Plant Availability Fee TPA – 1 for Wishing Well System)

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Arizona-American Water Company – Mohave Wastewater District ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment plant facilities among all new service laterals. These charges are applicable to all new service laterals established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builder of new residential subdivisions.

"Company" means Arizona-American Water Company -- Mohave Wastewater District.

"Collection Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities to the Company to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement".

"Off-site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and benefit the entire wastewater system.

"Service Lateral" means and includes all service laterals for single-family residential or other uses.

III. Off-Site Facilities Hook-up Fee

For each new service lateral, the Company shall collect an off-site facilities hook-up fee derived from the following table:

Treatment Plant Availability Hook-Up Fee		
Service Lateral Size	Factor	Total Fee
4-inch	1	$785
6-inch	2.25	$1,770
8-inch	4	$3,140
10-inch and Larger	6.25	$4,910

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

(1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder when operational acceptance is issued for the on-site wastewater facilities constructed to serve the improvement.

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide wastewater service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(G) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(H) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(I) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(J) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR AN INCREASE IN A TREATMENT PLANT AVAILABILITY HOOK-UP FEE FOR ITS MOHAVE WASTERWATER DISTRICT	DOCKET NO. W-01303A-07-0407 DECISION NO. __________ <u>ORDER</u>

Open Meeting
To Be Determined
Phoenix, Arizona

BY THE COMMISSION:

On July 2, 2007, Arizona-American Water Company ("AAWC" or "Company") filed an application for an increase in its current hook-up fee tariff in its Mohave Wastewater District ("Mohave"), Docket No. W-01303A-07-0407, with the Arizona Corporation Commission ("Commission"). AAWC also requests in this application that the hook-up fee be used to partially fund (50 percent) the costs related to its Mohave treatment plant expansion currently under construction. Further, AAWC requests an accounting order authorizing 1) the accrual of post in service allowance for funds used during construction ("P-AFUDC"), 2) recovery of P-AFUDC in an accelerated method, and 3) recovery of depreciation expense on the wastewater treatment plant not in rate base through an offset to contributions in aid of construction ("CIAC"). Additionally, AAWC would file a new rate case for Mohave on or before May 31, 2008, which would reflect the inclusion in rate base of 50 percent of the actual costs related to the treatment plant expansion.

. . .

Failing the Commission's timely approval of the aforementioned items, AAWC requests approval of a moratorium on new customer hook-ups for Mohave.

On August 13, 2007, Staff filed its Staff Report in this matter with the Commission's Docket Control. Staff concurs with AAWC in its need for the expansion of the wastewater treatment plant and the estimated cost to build that plant.

Staff recommends denial of AAWC's request to increase its hook-up fee from the current $785 per service lateral to $2,600 per service lateral. Staff recommends that the current $785 rate be maintained for the four inch service lateral. Staff believes that the hook-up fee should be greater for larger volumetric service lateral sizes. Those recommended fees are: six inch $1,770, eight inch $3,140, and ten inch or larger $4,910.

Staff recommends denial of AAWC's accounting order requests. Staff believes that the accounting treatments that AAWC requests are extraordinary and should only be considered when extenuating circumstances exist. Staff believes that the wastewater treatment plant expansion that is the subject of this filing is not unusual or extraordinary and should be funded without any special accounting treatments as part of AAWC's obligation to serve.

Staff recommends denial of AAWC's request for a moratorium and further recommends that AAWC be ordered to complete its Mohave treatment plant expansion in a timely manner.

* * * * * * * * * *

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

FINDINGS OF FACT

1. AAWC is a Class-A regulated water/wastewater utility which serves approximately 131,000 customers throughout the state of Arizona pursuant to various certificates of convenience and necessity granted by the Commission to the Company and its predecessors in interest.

2. The Company's request in this docket pertains only to the Company's Mohave wastewater district, where the Company provides wastewater service to approximately 1,200 customers. The Company is **not** the water provider to any of its Mohave wastewater district customers.

3. The Company seeks an increase in its existing hook-up fee tariff and an accounting order in this filing authorizing the deferral of capital costs and expenses it expects to incur before these costs can be recognized in rates. An accounting order is a rate-making mechanism whereby a regulatory commission provides specific deferral authorization to treat costs in a manner that differs from generally accepted accounting principles.

4. Arizona-American seeks an accounting order authorizing it to defer capital costs, specifically P-AFUDC and depreciation expense related to the Mohave treatment plant expansion.

5. Staff recommends denial of an increase in the existing Mohave hook-up fee and denial of accounting order for AAWC.

CONCLUSIONS OF LAW

1. The Company is a public water/wastewater 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.

ORDER

IT IS THEREFORE ORDERED that the application by Arizona-American Water Company for an increase in its existing hook-up fee is denied.

IT IS FURTHER ORDERED that the hook-up fee for a four inch service lateral will remain at $785.

IT IS FURTHER ORDERED that the hook-up fee rates for larger volumetric service lateral sizes shall be as follows: six inch $1,770, eight inch $3,140, and ten inch or larger $4,910.

IT IS FURTHER ORDERED that the Arizona-American Water Company accounting order request is denied.

IT IS FURTHER ORDERED that the Arizona-American Water Company request for a moratorium is denied.

IT IS FURTHER ORDERED that Arizona-American Water Company is ordered to complete its Mohave wastewater treatment plant expansion in a timely manner.

. . .

IT IS FURTHER ORDERED that Arizona-American Water Company shall file with Docket Control, as a compliance item in this matter, a revised tariff consistent with this decision within 15 days of the effective date of this decision.

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 Secretary

DISSENT: ___________________________

DISSENT: ___________________________

EGJ:DWC:lhm

SERVICE LIST FOR: Arizona-American Water Company, Inc.
DOCKET NO. W-01303A-07-0407

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