

NEW APPLICATION



0000087781

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

2008 AUG 20 P 12:01

Arizona Corporation Commission

DOCKETED

AUG 20 2008

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY [signature]

COMMISSIONERS

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

W-01445A-08-0436

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR APPROVAL OF A WATER INFRASTRUCTURE FACILITIES FEE TARIFF FOR ITS PINAL VALLEY SYSTEM (CASA GRANDE, COOLIDGE AND STANFIELD WATER SYSTEMS)

W-01445A-08-_____

APPLICATION

Pursuant to the provisions of A.R.S. §40-367, Arizona Water Company (the "Company") files this application for approval of a Water Infrastructure Facilities Fee ("Facilities Fee") tariff schedule, Attachment 1 hereto. The Facilities Fee will apply to all new service connections in the Company's Casa Grande, Arizona City, Stanfield, and Coolidge water systems (collectively referred to as the "Pinal Valley System").

The proposed Facilities Fee is \$3,500 for new service connections with 5/8 x 3/4-inch meters, and is graduated in amount for larger meter sizes. The Facilities Fee appropriately assigns to new customers a significant portion of the cost of designing and constructing, or acquiring, future water infrastructure facilities needed to provide water production, supply, treatment, transmission, distribution, storage, pressure and flow for the Pinal Valley system. The Facilities Fee would be in addition to the cost of extending and providing water infrastructure facilities to an applicant's premises or project. As a result of continued customer growth, the Company expects to serve approximately 58,000 customers in its Pinal Valley System by 2015, an increase of about 31,000 over the number currently served. The Company

1 estimates the cost of providing the future water infrastructure facilities required to support
2 service to these customers will be not less than \$107,200,000.

3 Attachment 2 to this application shows the estimates upon which the Facilities Fee is
4 based. Attachment 2 also lists the Facilities Fees by meter size and shows that the Facilities
5 Fees will fund the cost of the water infrastructure facilities through the year 2015. The
6 Company will temporarily fund with internally generated funds or debt the cost of future water
7 infrastructure facilities to the extent sufficient Facilities Fees are not available.

8 To show the reasonableness of the amount of the proposed Facilities Fee, Attachment 3
9 hereto shows the facilities fees for 5/8 x 3/4-inch meters, in nine central Arizona cities, ranging
10 from \$1,216 in Tempe to \$5,542 in Chandler, compared to the Company's proposed Facilities
11 Fee of \$3,500.

12 RELATED ACCOUNTING APPROVALS

13
14 The Company also requests approval to record collected Facilities Fees in a deferred
15 liability account until such future water infrastructure facilities are completed and placed in
16 service, when they will be recorded as contributions in aid of construction. This accounting
17 procedure will avoid sharp increases or decreases in rate base because of such timing
18 differences.

19 Further, the Company requests approval to record an allowance for funds used during
20 construction ("AFUDC") on funds provided by the Company for the period of time from the
21 Company's payment for future water infrastructure facilities and the date the Company receives
22 sufficient Facilities Fees to offset that cost, thereby allowing the Company to be made whole for
23 that interim period. This accounting treatment will not increase rate base because any AFUDC
24 will be completely offset by Facilities Fees.

25 Finally, the Company requests approval to defer post-in-service depreciation in excess of
26 the associated amortization of contributions. Attachment 4 contains journal entries illustrating
27 the Company's requested accounting treatment for post-in-service depreciation and AFUDC.

1 **CONCLUSION**

2

3 The proposed Facilities Fee for the Company's Pinal Valley System represents the most

4 appropriate and cost effective method of funding much of the future water infrastructure

5 facilities needs for this system, as Facilities Fees would be paid by the developers and customers

6 whose new water service requirements necessitate construction of such future water

7 infrastructure facilities. Furthermore, adoption of the Company's proposed accounting

8 treatment will properly match contributions in aid of construction to the future water

9 infrastructure facilities they support and minimize any effect on earnings and customer rates.

10 For these reasons, the Company respectfully requests approval of the Facilities Fee tariff

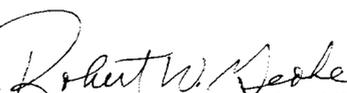
11 schedule and the corresponding accounting treatment at the earliest possible time.

12

13 RESPECTFULLY SUBMITTED this 20th day of August, 2008.

14 **ARIZONA WATER COMPANY**

15

16 By:  _____

17 Robert W. Geake, Esq.
18 Vice President and General Counsel
19 3805 N. Black Canyon Hwy.
20 Phoenix, AZ 85015

21

22

23

24

25

26

27

28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

ORIGINAL and 13 COPIES of the foregoing filed this 20th day of August, 2008, with:

Docket Control Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

COPY of the foregoing was mailed this 20th day of August, 2008, to:

Janice Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

By: Robert W. Decker

TARIFF SCHEDULE

| | | | |
|------------------------------|---|------------------------|-----------------|
| ARIZONA WATER COMPANY | | A.C.C. No. | 487 |
| Phoenix, Arizona | | Cancelling A.C.C. No. | None |
| Filed by: | William M. Garfield | Tariff or Schedule No. | WI-281 |
| Title: | President | Filed: | August 20, 2008 |
| Date of Original Filing: | August 20, 2008 | Effective: | October 1, 2008 |
| System: | PINAL VALLEY (COOLIDGE, CASA GRANDE, STANFIELD, ARIZONA CITY) | | |

WATER INFRASTRUCTURE FACILITIES FEE

I. APPLICABILITY

A Water Infrastructure Facilities Fee ("Facilities Fee") is payable by all Applicants for Service Connections: (a) to premises not previously served, (b) to premises in residential subdivision developments, (c) to all newly created lots or parcels resulting from lot splits or further subdivision of land parcels, (d) for additional Service Connections to existing premises and, (e) for increases in size of meters or Service Connections to existing premises.

II. PURPOSE

The purpose of this Tariff Schedule is to authorize the Company to collect a Facilities Fee from applicants for Service Connections for the costs of designing and constructing, or acquiring, future Water Infrastructure Facilities to provide water supply, production, treatment, transmission, distribution, storage, pressure, and flow for the Pinal Valley System. The Facilities Fee is applicable to all Service Connections established after the effective date of this tariff schedule.

III. DEFINITIONS

Except as set forth below, the definitions provided in R-14-2-401 of the Arizona Corporation Commission ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with the Company for the installation of a Service Connection or for the increase in meter size of an existing Service Connection.

"Water Infrastructure Facilities" means water treatment and supply facilities, including but not limited to, wells, booster pumps, transmission and distribution mains larger than 10 inches in diameter, storage and pressure tanks, and related real property, rights-of-way and appurtenances constructed after the effective date of this Tariff.

"Company" means Arizona Water Company.

"Main Extension Agreement" means any agreement with the Company for the installation of water facilities which requires Commission approval.

"Service Connection" means and includes all new, permanent service connections for general metered service purposes. Should a temporary service later become a permanent service it will be considered a Service Connection at that time and be subject to this tariff.

IV. AMOUNT OF FACILITIES FEE

Applicants for Service Connections shall pay Facilities Fees based on the meter sizes shown in the following table:

| GENERAL METERED SERVICES | | |
|--------------------------|---------------|------------|
| <u>Meter Size</u> | <u>Factor</u> | <u>Fee</u> |
| 5/8" x 3/4" | 1 | \$3,500 |
| 3/4" | 1.5 | \$5,250 |
| 1" | 2.5 | \$8,750 |
| 1-1/2" | 5 | \$17,500 |
| 2" | 8 | \$28,000 |
| 3" | 16 | \$56,000 |
| 4" | 25 | \$87,500 |
| 6" or larger | 50 | \$175,000 |

V. TERMS AND CONDITIONS

(A) Time of Payment:

(1) Applicants entering into a Main Extension Agreement with the Company shall pay the total amount of the Facilities Fee within 15 calendar days after receipt of notification from the Company that the Commission has approved the Main Extension Agreement. If an Applicant fails to pay the Facilities Fees within such 15 calendar days, the Company may suspend or terminate the Main Extension Agreement.

(2) If an Applicant is not required to enter into a Main Extension Agreement, the applicant shall pay in full all Facilities Fees at the time of application for service.

(B) Payment for increased meter or Service Connection size: Facilities Fees shall be paid for all increases in size of existing meters or Service Connections, with the amount of the Facilities Fee being the difference between the Facilities Fee previously paid for the existing meter or Service Connection and the Facilities Fee applicable to the increased meter or Service Connection size.

(C) Failure to Pay Facilities Fees: The Company will not be obligated to install a meter or otherwise be required to establish service if the Applicant has not paid in full all Facilities Fees as required under this tariff schedule.

(D) Accounting for Facilities Fees: Facilities Fees shall be recorded in a deferred liability account until recorded in contributions in aid of construction when the Water Infrastructure Facilities have been completed and recorded as utility plant. The Company shall maintain in its accounting records the amount of Facilities Fees collected and their application to Water Infrastructure Facilities. Facilities Fees shall be non-refundable and all Facilities Fees collected will be applied to the cost of designing and constructing, or acquiring, Water Infrastructure Facilities.

(E) Facilities Fees are in Addition to Other Charges: Facilities Fees are in addition to the amounts to be advanced or contributed pursuant to any agreement for the installation of water facilities, including water infrastructure facilities required for an Applicant's specific project, and are in addition to other charges and fees required to be paid pursuant to other applicable Company tariffs.



ARIZONA WATER COMPANY
Facilities Fee Comparison

| <u>Community/City</u> | <u>Facilities Fee</u> |
|--|-----------------------|
| Tempe | \$ 1,266 |
| Buckeye | 1,331 |
| Mesa | 2,220 |
| Anthem | 3,000 |
| Phoenix Metro Average | 3,094 |
| <i>Pinal Valley System (Proposed)</i> | 3,500 |
| City of Peoria | 3,905 |
| Scottsdale | 4,408 |
| Gilbert | 4,652 |
| Avondale | 5,251 |
| Chandler | 5,542 |

Source:
City of Mesa 2007 Impact Fee Study, City of Peoria, City of Scottsdale, City of Avondale



ARIZONA WATER COMPANY

Sample Journal Entries to Record Deferral of Post-in-Service Depreciation and AFUDC, and Subsequent Payoff Through Facility Fees

1) Deferral of depreciation in excess of the associated amortization of contributions.

| | | | | |
|----|-------|------------------------------------|--------------------------|----------|
| Dr | 186.1 | Deferred Debits - Def Depreciation | \$ X,XXX | |
| | | | | |
| | Cr | 111 | Accumulated Depreciation | \$ X,XXX |

Entries to record post in service Depreciation and AFUDC

2) Accrual of post in service Allowance for Funds Used During Construction (AFUDC).

| | | | | |
|----|-------|--|--------------|----------|
| Dr | 186.2 | Deferred Debits - Post in Srv AFUDC | \$ X,XXX | |
| | | Allowance for Funds Used During Construction | | \$ X,XXX |
| | | | | |
| | Cr | 432 | Construction | \$ X,XXX |

3) Entry to record Facility Fees used to pay off Deferred Depreciation

| | | | | |
|----|-----|-------|------------------------------------|----------|
| Dr | 131 | Cash | \$ X,XXX | |
| | | | | |
| | Cr | 186.1 | Deferred Debits - Def Depreciation | \$ X,XXX |

Entries to record Facility Fees paying off deferred depreciation and AFUDC

4) Entry to record Facility Fees used to pay off Post in Service AFUDC.

| | | | | |
|----|-----|-------|-------------------------------------|----------|
| Dr | 131 | Cash | \$ X,XXX | |
| | | | | |
| | Cr | 186.2 | Deferred Debits - Post in Srv AFUDC | \$ X,XXX |