

# OPEN MEETING



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ORIGINAL

## MEMORANDUM

Arizona Corporation Commission

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TO: THE COMMISSION

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2008 SEP 12 P 11:43

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: September 12, 2008

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RE: IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, APPLICATION FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES FOR CHARGES THEREON FOR UTILITY SERVICE BY ITS PARADISE VALLEY DISTRICT (DOCKET NO. W-01303A-05-0405), AND IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY FOR APPROVAL OF AN AGREEMENT WITH THE PARADISE VALLEY COUNTRY CLUB (DOCKET NO. W-01303A-05-0910)

### I. Introduction

Pursuant to Decision No. 68858, Arizona-American Water Company ("Company", "Applicant" or "AAW") filed an application on May 15, 2007, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step Two of its Arsenic Cost Recovery Mechanism ("ACRM").

The monthly arsenic surcharge per customer was established to aid the Company in its efforts to comply with the United States Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb effective January 23, 2006.

Pursuant to Decision No. 68858, Arizona American Water Company filed the required schedules for Commission approval prior to the implementation of the ACRM.

### II. Background

In June 2005, AAW filed an application for rate increases for its Paradise Valley system and for approval of an agreement with the Paradise Valley Country Club. In this application, the Company sought and was granted authority to implement an Arsenic Cost Recovery Mechanism ("ACRM").

On July 28, 2006, the Commission issued Decision No. 68858 granting AAW the authority to implement an ACRM. The Decision also required AAW to file certain schedules to

support its ACRM charges and that AAW file a full rate application no later than September 30, 2008.<sup>1</sup>

On December 19, 2006, AAW filed an application to implement Step-One of its ACRM. On February 14, 2007, AAW filed a revised application for its Step-One surcharge. On March 22, 2007, the Commission issued Decision No. 69396 granting AAW the authority to implement Step-One of its ACRM.

The Step-One surcharge added \$14.84 to the monthly customer charge for a customer with a 5/8-inch meter and \$.4534 per 1,000 gallons to the commodity rate. The Step-One surcharge increased the average residential customer bill by approximately \$34.11 from \$74.88 to \$108.98 (45.6 percent). These monthly billing amounts include the PS surcharge authorized in Decision No. 68858.

On March 13, 2008, AAW filed an application to implement Step-Two of its ACRM. This application seeks to recover eligible arsenic related O&M costs and additional arsenic related plant in service not being recovered in the existing Step-One surcharge.

On August 27, 2008, the Commission amended Decision No. 68858 to reduce the High Block Usage surcharge from \$2.15 per thousand gallons to \$1.00 per thousand gallons and to reset the Public Safety Fire Flow surcharge from \$1.00 per thousand gallons to zero, effective on September 1, 2008. Since these surcharges are recorded as Contributions In Aid of Construction, their reductions have an impact on customer bills but do not affect revenues to the Company.

### **III. Company's Current Application**

In its present application, AAW requests a Step-Two ACRM surcharge which would add \$2.41 to the monthly customer charge for a 5/8-inch meter and \$0.0747 per 1,000 gallons to the commodity rate for all of its Paradise Valley customers. Of the \$2.41 to be added to the monthly customer charge, \$2.02 per month is to fund the additional arsenic related plant since the implementation of the Step-One ACRM and \$0.39 per month is to fund the recovery of deferred, arsenic related O&M expenses incurred for 12 months beginning with the operation of the arsenic remediation. Of the \$.0747 per 1,000 gallons to be added to the commodity rate, \$.0625 per thousand gallons is to fund the additional arsenic related plant since the implementation of the Step-One ACRM and \$0.0121 per thousand gallons is to fund the recovery of deferred, arsenic related O&M expenses incurred for 12 months beginning with the operation of the arsenic remediation.

Under the Company's proposal, the average residential customer bill (with usage of 42,500 gallons) would increase by approximately \$5.60 from \$108.98 to \$114.58 (5.1 percent). Adding the Step-Two amounts to the Step-One amounts approved by Decision No. 69396 means

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<sup>1</sup> On May 1, 2008, the Company filed a rate application for 10 of its systems including Paradise Valley, using a test year ending December 31, 2007.

that total ACRM surcharge will add \$17.25 to the monthly customer charge for a 5/8-inch meter and \$.5280 per 1,000 gallons to the commodity rate for all of its Paradise Valley customers.

If this application is approved, it will include recovery of deferred O&M expenses which will cease after the 12 month recovery period. At the end of the 12 month period, the average monthly bill will decrease by \$.90 from \$114.58 to \$113.68 (0.8 percent) related to decreases of \$.39 per month for a 5/8-inch meter and \$.0121 per thousand gallons related to the recovery of deferred O&M expenses.

**IV. Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 68858 and 69396)**

Decision No. 68858 conditioned approval of an ACRM surcharge on the following criteria:

1. AAW shall file certain schedules described below and show the actual cost of construction of arsenic related facilities. In addition, the projected rate of return with the ACRM may not exceed authorized levels. Such schedules include an earnings test in support of the ACRM.
2. AAW shall also file, by July 1 of each year in which it collects surcharges, a report with Docket Control showing the Company's capital structure as of each month end in the prior calendar year.
3. AAW shall file a full rate application no later than September 30, 2008.
4. AAW shall apply all ACRM surcharges on a volumetric basis and equally to all usage tiers.

Decision No. 69396 granted approval of Step-One of the ACRM surcharge that was provided for in Decision No. 68858 as discussed above. While Decision No. 69396 approved the Step-One surcharge, it did not add any additional conditions that were not specified in Decision No. 68858.

**V. Staff's Analysis**

**A. ACRM Schedules**

The Company's ACRM Step-Two filing includes the following schedules:

1. Balance Sheet – as of December 31, 2007.
2. Income Statement – period ending December 31, 2007.

3. Income Statement Adjustments (Earnings Test) – to conform to Decision No. 68858.
4. Rate Review – a rate review filing for the districts.
5. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for Step-Two.
6. Surcharge Calculation – a detailed surcharge calculation for the district.
7. Rate Base – a schedule showing the elements and the calculation of the rate base, including the deduction for Arsenic Impact Fee Contributions as of December 31, 2007.
8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the construction work in progress account.
9. Four Factor Allocation – a schedule showing the allocation factors to be used for expense allocation. The “four factors” include ratios of each system’s Plant in Service, General Metered Customers, Salaries and Wages, and Direct O&M, excluding labor, as they relate to the total for all systems. A schedule showing the allocation of common plant and based on the relative customer counts is also included in the application.
10. Typical Bill Analysis – ACRM Step 2 – A typical bill analysis showing the effects on residential customers at the average residential usage of at 42,500 gallons for Paradise Valley customers.

The above schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule to limit the ACRM Step-Two revenue to an amount that would not result in a rate of return exceeding the rate authorized in Decision No. 68858.

**B. Filing Requirements Compliance**

Staff does not note any deficiencies related to the Company’s ACRM filing.

**C. Staff’s Adjustments to Company Schedules**

Staff recommends adjustments to the Company’s schedules to remove some O&M amounts that were included in ACRM plant, to re-classify some plant items and to apply depreciation rates that are more accurate, and to adjust accumulated depreciation to reflect the depreciation expense approved in the Step-One ACRM surcharge in Decision No. 69396. These adjustments are shown on the attached schedules GWB-2 and GWB-3 and have the net effect of reducing revenue requirements by \$11,729 from the Company’s

proposed amount of \$384,217 to \$372,488. The adjustments to ACRM plant are discussed further in the attached Engineering Report.

Staff recommended adjustments on Schedules GWB-2 and GWB-3 would reduce the revenue requirement by \$11,729. The calculation of surcharges using Staff's recommended revenue requirements is shown on GWB-4.

Using Staff's recommended revenue requirement, the average residential customer bill would increase by approximately \$5.44 from \$108.98 to \$114.42 (5.0 percent). Supplanting the previously approved Step-One amounts of \$14.84 per month for a 5/8-inch meter and \$0.4534 per thousand gallons, the Step-Two surcharge would be \$17.19 per month for a 5/8 inch meter and \$0.5140 per thousand gallons.

This 5.0 percent increase would be in addition to the effect of previously approved Step-One surcharge which increased the average residential bill by \$34.11 from \$74.88 to \$108.98 (45.6 percent). The total cumulative effect of Step-Two on the average residential bill is an increase of \$39.54 from \$74.88 to \$114.42 (52.8 percent).

If this application is approved using Staff's recommended rates, it will include recovery of deferred O&M expenses which will cease after the 12 month recovery period. At the end of the 12 month period, the average monthly bill would then decrease by \$.90 from \$114.42 to \$113.52 (0.8 percent) which effects decreases of \$.39 per month for a 5/8-inch meter and \$.0121 per thousand gallons related to the recovery of deferred O&M expenses.

Staff also has concerns with the Company's presentation and description of the underlying surcharges and the deferred O&M expenses. In its filings, the Company continues to describe the surcharges previously authorized as a Step-One surcharge augmented by a Step-Two surcharge<sup>2</sup> when, in fact, Step-One surcharges are supplanted by and absorbed into the Step-Two surcharge. Staff recommends clarification to indicate that previously approved Step-One amounts are being supplanted by and absorbed into the Step-Two surcharge amounts and that only this surcharge will continue until the Company's next rate case.

As is also indicated on Schedule GWB-1, Staff recommends approval of a single permanent Step-Two ACRM surcharge that supplants and absorbs the previously approved Step-One ACRM surcharge and adds the costs for net incremental plant added subsequent to the Step-One filing and on-going, recoverable, and arsenic related O&M expenses to remain in effect until the effective date of new rates established in the pending rate case.

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<sup>2</sup> See Company filing of March 13, 2008, Schedule ACRM-5, Rows 22-28.

Finally, Staff notes that the Company did not include invoices in an amount to provide complete support of the amount of O&M being requested. However, discussion with Company personnel indicated that the amount requested reflects issuances as opposed to purchases during the time period, and the Company has provided Staff with adequate documentation to support issuances which, in turn, support the amount requested.

## **VI. Conclusions and Recommendations**

The Company's application contains filed schedules that conform to the requirements of Decision No. 68858. Staff concludes that the ACRM schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return exceeding that authorized in Decision No. 68858.

Staff concludes that the Company has adequately supported the amounts requested for recovery of its O&M expenses, but Staff has made adjustments to Step-Two of the Company's ACRM plant based on Staff's engineering review. Staff has made adjustments and reclassification to the Company's ACRM plant. Thus, the incremental Step-Two plant and associated rate base has been reduced, and depreciation expense has been adjusted accordingly, as shown on Schedules GWB-2 and GWB-3. Staff further concludes that neither Decision No. 68858 nor Decision No. 69396 prohibits the recognition of additional arsenic related plant subsequent to the implementation of Step-One, as argued by the Residential Utility Consumers Office ("RUCO").

Staff recommends approval of the rates as shown on Schedule GWB-1, to be adjusted for the Commission's amendment to Decision No. 68858 on August 27, 2008 to reduce the High Block Usage surcharge from \$2.15 per thousand gallons to \$1.00 per thousand gallons and to reset the Public Safety surcharge from \$1.00 per thousand gallons to zero. As is also indicated on Schedule GWB-1, Staff recommends approval of a single permanent Step-Two ACRM surcharge that supplants and absorbs the previously approved Step-One ACRM surcharge and which adds the costs for net incremental plant added subsequent to the Step-One filing and on-going, recoverable, and arsenic related O&M expenses to remain in effect until the effective date of new rates established in the pending rate case.

Staff further recommends approval of a temporary Step-Two ACRM surcharge as shown on Schedule GWB-1 to recover the deferred O&M expenses as authorized in Decision No. 68858. This temporary surcharge will cease 12 months subsequent to the effective date of the surcharge established in this proceeding. RUCO agrees with the recovery mechanism itself, but disagrees with the recovery amount

Staff further recommends that the Company file with the Commission an arsenic remediation surcharge tariff consistent with Schedule GWB-1.

Staff concludes that Arizona-American Company has already complied with the requirement to file permanent rate applications for its Paradise Valley District no later than September 30, 2008.

Staff recommends that AAW notify its customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of this Decision.



for Ernest G. Johnson  
Director  
Utilities Division

EGJ:GB:lhM\MAS

ORIGINATOR: Gerald Becker

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two **RESIDENTIAL** (See Note Below)

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50			\$ 9.50
Minimum 3/4" Meter	\$ 9.83			\$ 9.83
Minimum 1" Meter	\$ 15.85			\$ 15.85
Minimum 1 1/2" Meter	\$ 32.00			\$ 32.00
Minimum 2" Meter	\$ 51.00			\$ 51.00
Minimum 3" Meter	\$ 94.50			\$ 94.50
Minimum 4" Meter	\$ 157.25			\$ 157.25
Minimum 6" Meter	\$ 315.00			\$ 315.00
Commodity Rates, Per 1000 gallons				
0 to 25,000 gallons	\$ 0.76			\$ 0.76
25,001 to 80,000 gallons	\$ 1.65	\$ 1.00		\$ 2.65
80,001 gallons and over	\$ 2.18	\$ 1.00	\$ 2.15	\$ 5.33

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
Minimum 3/4" Meter	\$ 9.83	\$ 15.35	\$ 25.18
Minimum 1" Meter	\$ 15.85	\$ 24.75	\$ 40.60
Minimum 1 1/2" Meter	\$ 32.00	\$ 49.98	\$ 81.98
Minimum 2" Meter	\$ 51.00	\$ 79.65	\$ 130.65
Minimum 3" Meter	\$ 94.50	\$ 147.59	\$ 242.09
Minimum 4" Meter	\$ 157.25	\$ 245.60	\$ 402.85
Minimum 6" Meter	\$ 315.00	\$ 491.97	\$ 806.97
Commodity Rates, Per 1000 gallons			
0 to 25,000 gallons	\$ 0.76	\$ 0.4534	\$ 1.2134
25,001 to 80,000 gallons	\$ 2.65	\$ 0.4534	\$ 3.1034
80,001 gallons and over	\$ 5.33	\$ 0.4534	\$ 5.7834

**Pending Application - 12-months: Company Proposed Rates**

	Per Decision No. 69396	Staff Recommended Rates		
		ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ 0.39	\$ 26.75
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ 0.40	\$ 27.67
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ 0.65	\$ 44.62
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ 1.31	\$ 90.10
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ 2.09	\$ 143.59
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ 3.88	\$ 266.06
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ 6.45	\$ 442.74
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ 12.93	\$ 886.87
Commodity Rates, Per 1000 gallons				
0 to 25,000 gallons	\$ 1.2134	\$ 0.0625	\$ 0.0121	\$ 1.2880
25,001 to 80,000 gallons	\$ 3.1034	\$ 0.0625	\$ 0.0121	\$ 3.1780
80,001 gallons and over	\$ 5.7834	\$ 0.0625	\$ 0.0121	\$ 5.8580

**Company Proposed Rates Pending Application - On-going After 12 Months O&M Recovery**

	Per Decision No. 69396	Staff Recommended Rates		
		ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ -	\$ 26.36
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ -	\$ 27.27
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ -	\$ 43.97
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ -	\$ 88.78
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ -	\$ 141.49
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ -	\$ 262.18
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ -	\$ 436.28
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ -	\$ 873.94
Commodity Rates, Per 1000 gallons				
0 to 25,000 gallons	\$ 1.2134	\$ 0.0625	\$ -	\$ 1.2759
25,001 to 80,000 gallons	\$ 3.1034	\$ 0.0625	\$ -	\$ 3.1659
80,001 gallons and over	\$ 5.7834	\$ 0.0625	\$ -	\$ 5.8459

Note: On August 27, 2008, the Commission amended Decision No. 68858, thereby reducing the High Bracket Usage surcharge from \$2.15 to \$1.00 per thousand gallons, and resetting the Public Safety surcharge from \$1.00 per thousand gallons to zero, effective September 1, 2008. All of the above rates should be adjusted accordingly. Hence, the adjusted commodity rates for the pending application would be:

	Amendment 8/27/2008			Amendment 8/27/2008		
	Per Decision	ACRM - Step 2	ACRM - Step 2	Per Decision	ACRM - Step 2	ACRM - Step 2
Commodity Rates, Per 1000 gallons						
0 to 25,000 gallons	1.2134	0.0625	\$ -	1.2134	0.0606	\$ -
25,001 to 80,000 gallons	3.1034	0.0625	(1.00)	3.1034	0.0606	(1.00)
80,001 gallons and over	5.7834	0.0625	(3.15)	5.7834	0.0606	(3.15)

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two COMMERCIAL (See Note Below)

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50			\$ 9.50
Minimum 3/4" Meter	\$ 9.83			\$ 9.83
Minimum 1" Meter	\$ 15.85			\$ 15.85
Minimum 1 1/2" Meter	\$ 32.00			\$ 32.00
Minimum 2" Meter	\$ 51.00			\$ 51.00
Minimum 3" Meter	\$ 94.50			\$ 94.50
Minimum 4" Meter	\$ 157.25			\$ 157.25
Minimum 6" Meter	\$ 315.00			\$ 315.00
Commodity Rates, Per 1000 gallons				
0 to 400,000 gallons	\$ 1.27			\$ 1.27
400,001 gallons and over	\$ 1.56	\$ 1.00	\$ 2.15	\$ 4.71

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 69396 Total
Minimum 5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
Minimum 3/4" Meter	\$ 9.83	\$ 15.35	\$ 25.18
Minimum 1" Meter	\$ 15.85	\$ 24.75	\$ 40.60
Minimum 1 1/2" Meter	\$ 32.00	\$ 49.98	\$ 81.98
Minimum 2" Meter	\$ 51.00	\$ 79.65	\$ 130.65
Minimum 3" Meter	\$ 94.50	\$ 147.59	\$ 242.09
Minimum 4" Meter	\$ 157.25	\$ 245.60	\$ 402.85
Minimum 6" Meter	\$ 315.00	\$ 491.97	\$ 806.97
Commodity Rates, Per 1000 gallons			
0 to 400,000 gallons	\$ 1.27	\$ 0.4534	\$ 1.7234
400,001 gallons and over	\$ 4.71	\$ 0.4534	\$ 5.1634

Pending Application - 12-months	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total	Staff Recommended Rates			
					Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ 0.39	\$ 26.75	\$ 24.34	\$ 1.96	\$ 0.39	\$ 26.69
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ 0.40	\$ 27.67	\$ 25.18	\$ 2.03	\$ 0.40	\$ 27.61
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ 0.65	\$ 44.62	\$ 40.60	\$ 3.27	\$ 0.65	\$ 44.52
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ 1.31	\$ 90.10	\$ 81.98	\$ 6.60	\$ 1.31	\$ 89.89
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ 2.09	\$ 143.59	\$ 130.65	\$ 10.52	\$ 2.09	\$ 143.26
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ 3.88	\$ 266.06	\$ 242.09	\$ 19.49	\$ 3.88	\$ 265.46
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ 6.45	\$ 442.74	\$ 402.85	\$ 32.44	\$ 6.45	\$ 441.74
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ 12.93	\$ 886.87	\$ 806.97	\$ 64.98	\$ 12.93	\$ 884.88
Commodity Rates, Per 1000 gallons								
0 to 400,000 gallons	\$ 1.7234	\$ 0.0625	\$ 0.0121	\$ 1.7980	\$ 1.7234	\$ 0.0606	\$ 0.0121	\$ 1.7961
400,001 gallons and over	\$ 5.1634	\$ 0.0625	\$ 0.0121	\$ 5.2380	\$ 5.1634	\$ 0.0606	\$ 0.0121	\$ 5.2361

Company Proposed Rates Pending Application - On-going After 12 Months O&M Recovery	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going	Staff Recommended Rates			
					Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ -	\$ 26.36	\$ 24.34	\$ 1.96	\$ -	\$ 26.30
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ -	\$ 27.27	\$ 25.18	\$ 2.03	\$ -	\$ 27.21
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ -	\$ 43.97	\$ 40.60	\$ 3.27	\$ -	\$ 43.87
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ -	\$ 88.78	\$ 81.98	\$ 6.60	\$ -	\$ 88.58
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ -	\$ 141.49	\$ 130.65	\$ 10.52	\$ -	\$ 141.17
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ -	\$ 262.18	\$ 242.09	\$ 19.49	\$ -	\$ 261.58
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ -	\$ 436.28	\$ 402.85	\$ 32.44	\$ -	\$ 435.29
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ -	\$ 873.94	\$ 806.97	\$ 64.98	\$ -	\$ 871.95
Commodity Rates, Per 1000 gallons								
0 to 400,000 gallons	\$ 1.7234	\$ 0.0625	\$ -	\$ 1.7859	\$ 1.7234	\$ 0.0606	\$ -	\$ 1.7840
400,001 gallons and over	\$ 5.1634	\$ 0.0625	\$ -	\$ 5.2259	\$ 5.1634	\$ 0.0606	\$ -	\$ 5.2240

Note: On August 27, 2008, the Commission amended Decision No. 68858, thereby reducing the High Bracket Usage surcharge from \$2.15 to \$1.00 per thousand gallons, and resetting the Public Safety surcharge from \$1.00 per thousand gallons to zero, effective September 1, 2008. All of the above rates should be adjusted accordingly. Hence, the adjusted commodity rates for the pending application would be:

	Amendment 8/27/2008				Amendment 8/27/2008			
Commodity Rates, Per 1000 gallons								
0 to 400,000 gallons	1.7234	0.0625	\$ -	\$ 1.7859	1.7234	0.0606	\$ -	\$ 1.7840
400,001 gallons and over	5.1634	0.0625	\$ (3.15)	\$ 2.0759	5.1634	0.0606	\$ (3.15)	\$ 2.0740

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two PV COUNTRY CLUB (CONTRACT RATE) (See Note Below)

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 6" Meter	\$ 267.75			\$ 267.75
Commodity Rates, Per 1000 gallons				
0 to 25,000,000 gallons	\$ 0.85			\$ 0.85
25,000,001 gallons and over	\$ 0.85	\$ 0.85	\$ 1.8275	\$ 3.5275

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 68858 Total
Minimum 6" Meter	\$ 267.75	\$ 418.17	\$ 685.92
Commodity Rates, Per 1000 gallons			
0 to 25,000,000 gallons	\$ 0.85	\$ 0.3854	\$ 1.24
25,000,001 gallons and over	\$ 3.53	\$ 0.3854	\$ 3.91

Pending Application - 12-months	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 6" Meter	\$ 685.92	\$ 56.92	\$ 10.99	\$ 753.83
Commodity Rates, Per 1000 gallons				
0 to 25,000,000 gallons	\$ 1.24	\$ 0.0531	\$ 0.0103	\$ 1.30
25,000,001 gallons and over	\$ 3.91	\$ 0.0531	\$ 0.0103	\$ 3.98

Staff Recommended Rates			
Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 685.92	\$ 55.23	\$ 10.99	\$ 752.14
\$ 1.24	\$ 0.0515	\$ 0.0103	\$ 1.30
\$ 3.91	\$ 0.0515	\$ 0.0103	\$ 3.97

Company Proposed Rates Pending Application - On-going After 12 Months O&M Recovery	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going
Minimum 6" Meter	\$ 685.92	\$ 56.92	\$ -	\$ 742.84
Commodity Rates, Per 1000 gallons				
0 to 25,000,000 gallons	\$ 1.2354	\$ 0.0531	\$ -	\$ 1.2885
25,000,001 gallons and over	\$ 3.9129	\$ 0.0531	\$ -	\$ 3.9660

Staff Recommended Rates			
Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 685.92	\$ 55.23	\$ -	\$ 741.15
\$ 1.2354	\$ 0.0515	\$ -	\$ 1.2869
\$ 3.9129	\$ 0.0515	\$ -	\$ 3.9644

Note: On August 27, 2008, the Commission amended Decision No. 68858, thereby reducing the High Bracket Usage surcharge from \$2.15 to \$1.00 per thousand gallons, and resetting the Public Safety surcharge from \$1.00 per thousand gallons to zero, effective September 1, 2008. Since the Country Club pays 85 percent of the Commercial surcharge, the reductions are \$.85 per thousand gallons for Public Safety surcharge and \$1.8275 per thousand gallons for the High Bracket Usage surcharge. Hence, the adjusted commodity rates are:

	Amendment 8/27/2008				Amendment 8/27/2008			
Commodity Rates, Per 1000 gallons								
0 to 25,000,000 gallons	\$ 1.2354	\$ 0.0531	\$ -	\$ 1.2885	\$ 1.2354	\$ 0.0515	\$ -	\$ 1.2869
25,000,001 gallons and over	\$ 3.9129	\$ 0.0531	\$ (2.68)	\$ 1.2885	\$ 3.9129	\$ 0.0515	\$ (2.6775)	\$ 1.2869

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two **PV TURF CUSTOMERS**

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50			\$ 9.50
Minimum 3/4" Meter	\$ 9.83			\$ 9.83
Minimum 1" Meter	\$ 15.85			\$ 15.85
Minimum 1 1/2" Meter	\$ 32.00			\$ 32.00
Minimum 2" Meter	\$ 51.00			\$ 51.00
Minimum 3" Meter	\$ 94.50			\$ 94.50
Minimum 4" Meter	\$ 157.25			\$ 157.25
Minimum 6" Meter	\$ 315.00			\$ 315.00
Commodity Rates, Per 1000 gallons				
ALL Gallons	\$ 1.00			\$ 1.00

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
Minimum 3/4" Meter	\$ 9.83	\$ 15.35	\$ 25.18
Minimum 1" Meter	\$ 15.85	\$ 24.75	\$ 40.60
Minimum 1 1/2" Meter	\$ 32.00	\$ 49.98	\$ 81.98
Minimum 2" Meter	\$ 51.00	\$ 79.65	\$ 130.65
Minimum 3" Meter	\$ 94.50	\$ 147.59	\$ 242.09
Minimum 4" Meter	\$ 157.25	\$ 245.60	\$ 402.85
Minimum 6" Meter	\$ 315.00	\$ 491.97	\$ 806.97
Commodity Rates, Per 1000 gallons			
ALL Gallons	\$ 1.00	\$ 0.4534	\$ 1.4534

Pending Application - 12-months	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ 0.39	\$ 26.75
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ 0.40	\$ 27.67
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ 0.65	\$ 44.62
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ 1.31	\$ 90.10
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ 2.09	\$ 143.59
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ 3.88	\$ 266.06
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ 6.45	\$ 442.74
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ 12.93	\$ 886.87
Commodity Rates, Per 1000 gallons				
ALL Gallons	\$ 1.4534	\$ 0.0625	\$ 0.0121	\$ 1.5280

**Staff Recommended Rates**

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 24.34	\$ 1.96	\$ 0.39	\$ 26.69
\$ 25.18	\$ 3.98	\$ 0.40	\$ 29.56
\$ 40.60	\$ 4.11	\$ 0.65	\$ 45.37
\$ 81.98	\$ 6.63	\$ 1.31	\$ 89.93
\$ 130.65	\$ 13.40	\$ 2.09	\$ 146.14
\$ 242.09	\$ 21.35	\$ 3.88	\$ 267.32
\$ 402.85	\$ 39.56	\$ 6.45	\$ 448.87
\$ 806.97	\$ 65.84	\$ 12.93	\$ 885.74
\$ 1.4534	\$ 0.0606	\$ 0.0121	\$ 1.5261

**Company Proposed Rates**

Pending Application - On-going After 12 Months O&M Recovery	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ -	\$ 26.36
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ -	\$ 27.27
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ -	\$ 43.97
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ -	\$ 88.78
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ -	\$ 141.49
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ -	\$ 262.18
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ -	\$ 436.28
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ -	\$ 873.94
Commodity Rates, Per 1000 gallons				
ALL Gallons	\$ 1.4534	\$ 0.0625	\$ -	\$ 1.5159

**Staff Recommended Rates**

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 24.34	\$ 1.96	\$ -	\$ 26.30
\$ 25.18	\$ 3.98	\$ -	\$ 29.16
\$ 40.60	\$ 4.11	\$ -	\$ 44.71
\$ 81.98	\$ 6.63	\$ -	\$ 88.61
\$ 130.65	\$ 13.40	\$ -	\$ 144.05
\$ 242.09	\$ 21.35	\$ -	\$ 263.44
\$ 402.85	\$ 39.56	\$ -	\$ 442.41
\$ 806.97	\$ 65.84	\$ -	\$ 872.81
\$ 1.4534	\$ 0.0606	\$ -	\$ 1.5140

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two **OTHER: GENERAL & RESALE**

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50			\$ 9.50
Minimum 3/4" Meter	\$ 9.83			\$ 9.83
Minimum 1" Meter	\$ 15.85			\$ 15.85
Minimum 1 1/2" Meter	\$ 32.00			\$ 32.00
Minimum 2" Meter	\$ 51.00			\$ 51.00
Minimum 3" Meter	\$ 94.50			\$ 94.50
Minimum 4" Meter	\$ 157.25			\$ 157.25
Minimum 6" Meter	\$ 315.00			\$ 315.00
Commodity Rates, Per 1000 gallons				
ALL	\$ 1.46			\$ 1.46

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 69396 Total
Minimum 5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
Minimum 3/4" Meter	\$ 9.83	\$ 15.35	\$ 25.18
Minimum 1" Meter	\$ 15.85	\$ 24.75	\$ 40.60
Minimum 1 1/2" Meter	\$ 32.00	\$ 49.98	\$ 81.98
Minimum 2" Meter	\$ 51.00	\$ 79.65	\$ 130.65
Minimum 3" Meter	\$ 94.50	\$ 147.59	\$ 242.09
Minimum 4" Meter	\$ 157.25	\$ 245.60	\$ 402.85
Minimum 6" Meter	\$ 315.00	\$ 491.97	\$ 806.97
Commodity Rates, Per 1000 gallons			
ALL	\$ 1.46	\$ 0.4534	\$ 1.9134

**Pending Application - 12-months: Company Proposed Rates**

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ 0.39	\$ 26.75
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ 0.40	\$ 27.67
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ 0.65	\$ 44.62
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ 1.31	\$ 90.10
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ 2.09	\$ 143.59
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ 3.88	\$ 266.06
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ 6.45	\$ 442.74
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ 12.93	\$ 886.87
Commodity Rates, Per 1000 gallons				
ALL	\$ 1.9134	\$ 0.0625	\$ 0.0121	\$ 1.9880

**Staff Recommended Rates**

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 1.96	\$ 0.39	\$ 26.69
Minimum 3/4" Meter	\$ 25.18	\$ 2.03	\$ 0.40	\$ 27.61
Minimum 1" Meter	\$ 40.60	\$ 3.27	\$ 0.65	\$ 44.52
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.60	\$ 1.31	\$ 89.89
Minimum 2" Meter	\$ 130.65	\$ 10.52	\$ 2.09	\$ 143.26
Minimum 3" Meter	\$ 242.09	\$ 19.49	\$ 3.88	\$ 265.46
Minimum 4" Meter	\$ 402.85	\$ 32.44	\$ 6.45	\$ 441.74
Minimum 6" Meter	\$ 806.97	\$ 64.98	\$ 12.93	\$ 884.88
Commodity Rates, Per 1000 gallons				
ALL	\$ 1.9134	\$ 0.0606	\$ 0.0121	\$ 1.9861

**Company Proposed Rates Pending Application - On-going After 12 Months O&M Recovery**

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ -	\$ 26.36
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ -	\$ 27.27
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ -	\$ 43.97
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ -	\$ 88.78
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ -	\$ 141.49
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ -	\$ 262.18
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ -	\$ 436.28
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ -	\$ 873.94
Commodity Rates, Per 1000 gallons				
ALL	\$ 1.9134	\$ 0.0625	\$ -	\$ 1.9759

**Staff Recommended Rates**

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 1.96	\$ -	\$ 26.30
Minimum 3/4" Meter	\$ 25.18	\$ 2.03	\$ -	\$ 27.21
Minimum 1" Meter	\$ 40.60	\$ 3.27	\$ -	\$ 43.87
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.60	\$ -	\$ 88.58
Minimum 2" Meter	\$ 130.65	\$ 10.52	\$ -	\$ 141.17
Minimum 3" Meter	\$ 242.09	\$ 19.49	\$ -	\$ 261.58
Minimum 4" Meter	\$ 402.85	\$ 32.44	\$ -	\$ 435.29
Minimum 6" Meter	\$ 806.97	\$ 64.98	\$ -	\$ 871.95
Commodity Rates, Per 1000 gallons				
ALL	\$ 1.9134	\$ 0.0606	\$ -	\$ 1.9740

Line No.		Co. Proposed [A]	Staff Adjustment [B]	Staff Recommended [C]
1	Arsenic Plant Revenue Requirement			
2	Gross Arsenic Plant in Service/Rate Base	\$ 2,587,299	\$ 38,012	(1) \$2,549,287
3	Accumulated Depreciation of Arsenic Plant (Step 1)	(636,636)	22,977	(2) (659,613)
4	Net Arsenic Plant in Service/Rate Base	\$ 1,950,663	\$ 60,989	\$ 1,889,674
5	Depreciation rate on incremental arsenic plant	3.08%	0	2.95%
6	Depreciation expense	79,616	4,538	(3) 75,078
7	Depreciation expense net of tax <sup>1</sup>	48,885	2,786	(4) 46,099
8	Recoverable O&M costs - Ongoing	74,593	-	74,593
9	Recoverable O&M costs - Ongoing net of tax <sup>1</sup>	45,801	-	(4) 45,801
10	Arsenic Operating Income	\$ (94,686)	\$ (2,786)	\$ (91,900)
11	Rate of return	-4.85%		-4.86%
12	Required Rate of Return <sup>2</sup>	7.24%		7.24%
13	Required Operating Income	141,228	4,416	136,812
14	Operating Income deficiency	235,914	7,202	228,712
15	Gross revenue conversion factor <sup>2</sup>	1.62863		1.62863
16	Revenue deficiency	\$ 384,217	\$ 11,729	\$ 372,488

Explanation of Adjustments:

- (1) See engineering report. This represents O&M items charged to ACRM capital projects, in error.
- (2) Adjustment to reflect 13.5 months of depreciation approved in ACRM Step 1, Decision No. 69396
- (3) Staff Recalculated Expense on Schedule GWB-3
- (4) 38.5989 % tax rate per Decision No. 68858
- (5) Decision No. 68858

**Schedule GWB-3**

Arizona-American Water Company  
 Paradise Valley Water District  
 Docket No. W-01303A-05-0405 et al.  
 Arsenic Revenue Requirement, Step-Two

**Arsenic Plant Depreciation Rate**

Line No.	Description	W.O. [A]	Total Project [A]	Appvd. Depr. Rate [A]	Annual Deprec. Expense [A]	Staff Adjustments to Plant				
						Reclassification	Removal	ACRM Step 2 Plant, per Staff [C]	Staff Depreciation [D]	
1										
2										
3										
4										
5	304 - PV Arsenic Struct. & Imp.	50073241	\$ 1,613,911	2.00%	\$ 32,278	\$ 368,440	\$ (747)	\$ 1,981,604	\$ 39,632	
6	310 - PV Arsenic Power Prod. Equip.	50073242	43,179	3.33%	1,438			43,179	1,438	
7	311 - PV Arsenic Pumping Equip.	50073244	63,125	4.39%	2,771			63,125	2,771	
8	320 - PV Arsenic Wtr. Trtmt. Equip.	50073250	413,118	7.06%	29,166		\$ (7,079)	406,039	28,666	
9	330 - PV Arsenic Dist. Res. & Stp.	50073251	38,830	3.15%	1,223			38,830	1,223	
10	331 - PV Arsenic T&D Mains	50073252	368,440	2.34%	8,622	\$ (368,440)		0	0	
11	339 - PV Arsenic Other Plant & Misc.	50073255	893	4.80%	43			893	43	
12	340 - PV Arsenic Off. Furn. & Equip.	50073256	-	4.04%	-			-	-	
13	343 - PV Arsenic Tools, Shop, & Gar.	50073258	6,422	3.61%	232		\$ (2,854)	3,567	129	
14	344 - PV Arsenic Laboratory Equip.	50073260	541	9.76%	53			541	53	
15	346 - PV Arsenic Commun. Equip.	50073261	38,841	9.76%	3,791		(27,332)	11,509	1,123	
16	Totals		\$ 2,587,299		\$ 79,616	\$ -	\$ (38,012)	\$ 2,549,287	\$ 75,078	

**Explanations:**

- [A] As filed by the Company, Depreciation Expense Per Decision No. 68858
- [B] Reclassification due to nature of work done in Step-Two Removals due to O&M included in ACRM Plant Additions! See also Engineering report for more discussion.
- [C] Company Proposed Plant, net of reclassifications and removals
- [D] Staff Depreciation Expense for ACRM Step-Two Plant, based on Staff's adjusted plant balance times depreciation rates in Decision No. 68858

Arizona-American Water Company  
 Paradise Valley Water District  
 Docket No. W-01303A-05-0405 et al.  
 12 Months Ending December, 2007  
 Surcharge Calculation

Schedule GWB-4

(A) (B) (C) (D) (E) (F) (G) (H) (J) (K)

Line No.	Customer No.	Total Gallons Sold	Gallons Sold Per Cust.	Estimated Customers at Dec. 2007	Estimated Customers at Dec. 2008	Estimated Average Customers	Monthly Minimum	Minimum Multiples	Equivalent Meters	Monthly Base	Base Total	Monthly Deferred	Deferred Total
1	4,726	3,077,899	651.27	2,390	2,402	2,396	24.34	1.0	2,396	1.96	56,432	0.39	11,301
2	4,750	3,065,644	645.40	32	32	32	25.18	1.0	33	2.03	782	0.41	157
3	24	(12,255)	(6)	2,019	2,029	2,024	40.60	1.7	3,376	3.27	79,519	0.66	15,924
4	0.51%	-0.40%	-0.90%	75	75	75	81.98	3.4	253	6.61	5,965	1.32	1,194
5	3,071,772			268	268	268	130.65	5.4	1,437	10.54	33,840	2.11	6,777
6				23	23	23	242.09	9.9	229	19.52	5,401	3.91	1,082
7				1	1	1	402.85	16.6	17	32.48	391	6.51	78
8				5	5	5	806.97	33.2	166	65.07	3,914	13.03	784
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22				4,812	4,836	4,824			7,908		186,244		37,296
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Minimum Surcharge (Ln 27 + Ln 31) 94,893  
 Average Gallons (Col B Ln 5) 3,071,772  
 Commodity Surcharge (Ln 28 + Ln 35) \$ 0.0606  
 Calculation of Deferred O&M Surcharge  
 Total deferred O&M costs to be recovered (Sch. 5 Col A Ln 8) \$ 74,593  
 Monthly Minimum Revenue (Col B Ln 41 + 2) \$ 37,296  
 Commodity Revenue (Col B Ln 41 + 2) \$ 37,296  
 Monthly Increment Per Equivalent Meter  
 Equivalent Meters (Col F Ln 22 \* 12 Months) 94,893  
 Minimum Surcharge (Ln 42 + Ln 46) \$ 0.39  
 Average Gallons (Col B Ln 5) 3,071,772  
 Commodity Surcharge (Ln 43 + Ln 50) \$ 0.0121

## MEMORANDUM

**DATE:** August 18, 2008

**TO:** Gerald Becker  
Public Utility Analyst V

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

**RE:** **ACRM Step Two Application for Arizona American Water Company, Inc. – Paradise Valley District**  
**Docket No. W-01303A-05-0405 & Docket No. W-01303A-05-0910**

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### Background

In Decision No. 68858 (issued on July 26, 2006) the Arizona Corporation Commission (“ACC” or “Commission”) approved an Arsenic Cost Recovery Mechanism (“ACRM”) for Arizona-American Water Company - Paradise Valley District (“Company” or “PV”). In Decision No. 69396 (issued on March 22, 2007), the Commission approved the ACRM Step I surcharge tariff for PV. On March 13, 2008, the Company filed for the ACRM Step II surcharge tariff application for PV.

ACC Staff (“Staff”) performed an inspection of the PV system on August 14, 2008. Staff observed that additional plant improvements had been installed since its previous inspections on March 12, 2007 and January 18, 2007. During the period of March 2007 to August 2008 the Company completed construction of 1) a stone block fence with security gates at the PV arsenic treatment plant, 2) an on-site storm water drainage system, 3) sound barriers in the blower building, 4) sound barriers in a building which houses the pump station and, 5) sound barriers in a building which houses the sludge press.

Staff concludes that all capital improvements associated with the ACRM Step II surcharge have been completed and were in-service at the time of Staff’s inspection.

### Cost Analysis

In the application the Company reported a total construction cost of \$2,587,299 for purposes of establishing the Step II surcharge amount. Staff recommends two adjustments to the Company’s total construction cost. The first adjustment is to remove \$38,012 from four accounts as presented in the table below because this construction is not related to construction of the subject arsenic treatment plant. The second adjustment is to reclassify \$368,440 from Transmission and Mains (Account No. 331) to Structure

Arizona-American Water Co., Inc.

Docket # W-01303A-05-00405

Docket # W-01303A-05-0910

Page 2

Improvements (Account No. 304). The Company has indicated to Staff that it is in full agreement with these adjustments. Presented in the following table are itemized plant descriptions, costs and Staff's recommended adjustments and total construction cost.

Acct #	Description	Co.'s Original Filing Total Cost (\$)	Co.'s Allocated engineer & design cost (\$) <sup>1</sup>	Co.'s Total Step II Cost (\$)	Staff Recommended Reclassification <sup>2</sup>	Staff Adjustm ent (\$)	Staff's Recomme nded Total Cost (\$)
	Engineer & design	(5,216,549)					
304	Structure & Improvement	4,867,902	(3,996,845)	1,613,911	368,440	(747) <sup>1</sup>	1,981,605
310	Power Producing Equipment	130,236	(87,058)	43,179			43,179
311	Pumping Equipment	190,399	(127,274)	63,125			63,125
320	Water Treatment Equipment	1,246,051	(832,933)	413,118		(7,079) <sup>2</sup>	406,039
330	Reservoir & Standpipe	117,118	(78,289)	38,830			38,830
331	Transmissions & Mains	1,111,295	(742,855)	368,440	(368,440)		
339	Other Plant & Equipment	2,694	(1,801)	893			893
340	Office furniture & equipment	0					
343	Tools, Shop & Garage	19,369	(12,947)	6,422		(2,855) <sup>2</sup>	3,567
344	Laboratory Equipment	1,633	(1,091)	541			541
346	Communication Equipment	117,152	(78,311)	38,841		(27,333) <sup>4</sup>	11,508
	<b>Total</b>	<b>2,587,299</b>	<b>(5,216,549)</b>	<b>2,587,299</b>	<b>0</b>	<b>(38,012)</b>	<b>2,549,287</b>

- Notes:
1. \$747 was paid for installation of sensors to restroom doors in the office building.
  2. \$7,079 was paid to M P Environmental Service for hauling wastewater to City Scottsdale Wastewater Treatment Plant and other wastewater disposal sites.
  3. \$ 2,206 was paid to UFirst Laundry Services for uniform rental, and \$649 was paid to Cabela's Retail for a gun safety container.
  4. \$26,727 was paid to Emerson Process Management for its work on Well #11, Well #12 and Miller Rd TCE Treatment Plant. \$606 was a monthly bill paid to Qwest for July 2006 service.

## Summary

## Recommendations

1. Staff recommends that \$2,549,287 be used as the total capital cost in calculating the appropriate ACRM Step II surcharge amount.

<sup>1</sup> Plant allocation factors were provided by the Company.

<sup>2</sup> \$368,440 in the Transmission and Mains (Account 331) were reclassified to Structure Improvements (Account 304).

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**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, TO IMPLEMENT STEP TWO  
OF ITS ACRM FOR ITS PARADISE  
VALLEY WATER DISTRICTS

DOCKET NOS. W-01303A-05-0405  
W-01303A-05-0910

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

**ORDER**

Open Meeting  
September 23 and 24, 2008  
Phoenix, Arizona

BY THE COMMISSION:

**FINDINGS OF FACT**

**A. Introduction**

1. Pursuant to Decision No. 68858, Arizona-American Water Company ("Company", "Applicant" or "AAW") filed an application on May 15, 2007, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step Two of its Arsenic Cost Recovery Mechanism ("ACRM").

2. The monthly arsenic surcharge per customer was established to aid the Company in its efforts to comply with the Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on January 23, 2006.

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

4. Pursuant to Decision No. 68858, Arizona-American Water Company filed the required schedules for Commission approval prior to the implementation of the ACRM.

1 **B. Background**

2 5. On June 3, 2005, AAW filed an application for rate increases for its Paradise Valley  
3 system and for approval of an agreement with the Paradise Valley Country Club. In this  
4 application, the Company sought and was granted authority to implement an Arsenic Cost  
5 Recovery Mechanism ("ACRM").

6 6. On July 28, 2006, the Commission issued Decision No. 68858 granting AAW the  
7 authority to implement an ACRM. The Decision also required AAW to file certain schedules to  
8 support its ACRM charges and that AAW file a full rate application no later than September 30,  
9 2008.<sup>1</sup>

10 7. On December 19, 2006, AAW filed an application to implement Step-One of its  
11 ACRM. On February 14, 2007, AAW filed a revised application for its Step-One surcharge. On  
12 March 22, 2007, the Commission issued Decision No. 69396 granting AAW the authority to  
13 implement Step-One of its ACRM.

14 8. The Step-One surcharge added \$14.84 to the monthly customer charge for a  
15 customer with a 5/8-inch meter and \$.4534 per 1,000 gallons to the commodity rate. The Step-  
16 One surcharge increased the average residential customer bill by approximately \$34.11 from  
17 \$74.88 to \$108.98 (45.6 percent). These monthly billing amounts include the PS surcharge  
18 authorized in Decision No. 68858.

19 9. On March 13, 2008, AAW filed an application to implement Step-Two of its  
20 ACRM. This application seeks to recover eligible arsenic related O&M costs and additional  
21 arsenic related plant in service not being recovered in the existing Step-One surcharge.

22 10. On August 27, 2008, the Commission amended Decision No. 68858 to reduce the  
23 High Block Usage surcharge from \$2.15 per thousand gallons to \$1.00 per thousand gallons and  
24 to reset the Public Safety Fire Flow surcharge from \$1.00 per thousand gallons to zero, effective  
25 on September 1, 2008. Since these surcharges are recorded as Contributions In Aid of  
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<sup>1</sup> On May 1, 2008, the Company filed a rate application for 10 of its systems including Paradise Valley, using a test year ending December 31, 2007.

1 Construction, their reductions have an impact on customer bills but do not affect revenues to the  
2 Company.

3 **C. Company's Current Application**

4 11. In its present application, AAW requests a Step-Two ACRM surcharge which  
5 would add \$2.41 to the monthly customer charge for a 5/8-inch meter and \$0.0747 per 1,000  
6 gallons to the commodity rate for all of its Paradise Valley customers. Of the \$2.41 to be added to  
7 the monthly customer charge, \$2.02 per month is to fund the additional arsenic related plant since  
8 the implementation of the Step-One ACRM and \$0.39 per month is to fund the recovery of  
9 deferred, arsenic related O&M expenses incurred for 12 months beginning with the operation of  
10 the arsenic remediation. Of the \$.0747 per 1,000 gallons to be added to the commodity rate,  
11 \$.0625 per thousand gallons is to fund the additional arsenic related plant since the implementation  
12 of the Step-One ACRM and \$0.0121 per thousand gallons is to fund the recovery of deferred,  
13 arsenic related O&M expenses incurred for 12 months beginning with the operation of the arsenic  
14 remediation.

15 12. Under the Company's proposal, the average residential customer bill (with usage of  
16 42,500 gallons) would increase by approximately \$5.60 from \$108.98 to \$114.58 (5.1 percent).  
17 Adding the Step-Two amounts to the Step-One amounts approved by Decision No. 69396 means  
18 that total ACRM surcharge will add \$17.25 to the monthly customer charge for a 5/8-inch meter  
19 and \$.5281 per 1,000 gallons to the commodity rate for all of its Paradise Valley customers.

20 13. If this application is approved, it will include recovery of deferred O&M expenses  
21 which will cease after the 12 month recovery period. At the end of the 12 month period, the  
22 average monthly bill will decrease by \$.90 from \$114.58 to \$113.68 (0.8 percent). This reflects  
23 decreases of \$.39 per month for a 5/8-inch meter and \$.0121 per thousand gallons related to the  
24 recovery of deferred O&M expenses.

25 **D. Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 68858 and**  
26 **69396)**

27 14. Decision No. 68858 conditioned approval of an ACRM surcharge on the following  
28 criteria:

- 1 a. AAW shall file certain schedules show the actual cost of construction of arsenic  
2 related facilities. In addition, the projected rate of return with the ACRM may  
3 not exceed authorized levels. Such schedules include an earnings test in  
4 support of the ACRM.
- 5 b. AAW shall also file, by July 1 of each year in which it collects surcharges, a  
6 report with Docket Control showing the Company's capital structure as of each  
7 month end in the prior calendar year.
- 8 c. AAW shall file a full rate application no later than September 30, 2008.
- 9 d. AAW shall apply all ACRM surcharges on a volumetric basis and equally to all  
10 usage tiers.

11 15. Decision No. 69396 granted approval of Step-One of the ACRM surcharge that was  
12 provided for in Decision No. 68858 as discussed above. While Decision No. 69396 approved the  
13 Step-One surcharge, it did not add any additional conditions that were not specified in Decision  
14 No. 68858.

15 **E. Staff's Analysis**

16 **ACRM Schedules**

- 17 16. The Company's ACRM Step-Two filing includes the following ten schedules:
- 18 a. Balance Sheet – as of December 31, 2007.
- 19 b. Income Statement – period ending December 31, 2007.
- 20 c. Income Statement Adjustments (Earnings Test) – to conform to Decision  
21 No. 68858.
- 22 d. Rate Review – a rate review filing for district.
- 23 e. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for  
24 Step-Two.
- 25 f. Surcharge Calculation – a detailed surcharge calculation for the district.
- 26 g. Rate Base – a schedule showing the elements and the calculation of the rate  
27 base, including the deduction for Arsenic Impact Fee Contributions as of  
28 December 31, 2007.
- h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the  
construction work in progress account.
- i. Four Factor Allocation – a schedule showing the allocation factors to be used  
for expense allocation. The “four factors” include ratios of each system's Plant  
in Service, General Metered Customers, Salaries and Wages, and Direct O&M,

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excluding labor, as they relate to the total for all systems. A schedule showing the allocation of common plant and based on the relative customer counts is also included in the application.

- j. Typical Bill Analysis – ACRM Step 2 – A typical bill analysis showing the effects on residential customers at the average residential usage of at 42,500 gallons for Paradise Valley customers.

The above schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule to limit the ACRM Step-Two revenue to an amount that would not result in a rate of return exceeding the rate authorized in Decision No. 68858.

**Filing Requirements Compliance**

Staff does not note any deficiencies related to the Company’s ACRM filing.

17. Staff concluded that the filed schedules conform to the requirements of Decision No. 68858.

18. Staff concluded that the ACRM schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return exceeding that authorized in Decision No. 68858.

19. Staff believes that the Company has adequately supported the amounts requested for O&M expenses. However, Staff has made adjustments and reclassification to the Company’s ACRM plant. Thus, the incremental Step-Two plant and associated rate base has been reduced, and depreciation expense has been adjusted accordingly, as described below.

20. Neither Decision No. 68858 nor Decision No. 69396 prohibits the recognition of additional arsenic related plant subsequent to the implementation of Step-One, as argued by the Residential Utility Consumers Office (“RUCO”).

21. Arizona-American Company has already complied with the requirement to file permanent rate applications for its Paradise Valley District no later than September 30, 2008.

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1 **F. Staff's Adjustments to Company Schedules:**

2 22. Staff recommends adjustments to the Company's schedules to remove some O&M  
3 amounts that were included in ACRM plant, to re-classify some plant items and to apply  
4 depreciation rates that are more accurate, and to adjust accumulated depreciation to reflect the  
5 depreciation expense approved in the Step-One ACRM surcharge in Decision No. 69396. These  
6 adjustments are shown on the attached schedules GWB-1 and GWB-2 and have the net effect of  
7 reducing revenue requirements by \$11,729 from the Company's proposed amount of \$384,217 to  
8 \$372,488.

9 23. Staff recommended adjustments on Schedules GWB-2 and GWB-3 would reduce  
10 the revenue requirement by \$11,729. The calculation of surcharges using Staff's revenue  
11 requirements is shown on GWB-4.

12 24. Using Staff's recommended revenue requirement, the average residential customer  
13 bill would increase by approximately \$5.44 from \$108.98 to \$114.42 (5.0 percent). Supplanting  
14 the previously approved Step-One amounts of \$14.84 per month for a 5/8-inch meter and \$0.4534  
15 per thousand gallons, the Step-Two surcharge would be \$17.19 per month for a 5/8 inch meter and  
16 \$0.5140 per thousand gallons.

17 25. This 5.0 percent increase would be in addition to the effect of previously approved  
18 Step-One surcharge which increased the average residential bill by \$34.11 from \$74.88 to \$108.98  
19 (45.6 percent). The total cumulative effect of Step-Two on the average residential bill is an  
20 increase of \$39.54 from \$74.88 to \$114.42 (52.8 percent).

21 26. If this application is approved using Staff's recommended rates, it will include  
22 recovery of deferred O&M expenses which will cease after the 12 month recovery period. At the  
23 end of the 12 month period, the average monthly bill would then decrease by \$.90 from \$114.42 to  
24 \$113.52 (0.8 percent) which reflects decreases of \$.39 per month for a 5/8-inch meter and \$.0121  
25 per thousand gallons related to the recovery of deferred O&M expenses.

26 27. Staff also has concerns with the Company's presentation and description of the  
27 underlying surcharges and the deferred O&M expenses. In its filings, the Company continues to  
28 ...

1 describe the surcharges previously authorized as a Step-One surcharge<sup>2</sup> when, in fact, Step-One  
2 surcharges are supplanted by and absorbed into the Step-Two surcharge. Staff recommends  
3 clarification to indicate that previously approved Step-One amounts are being supplanted by and  
4 absorbed into the Step-Two surcharge amounts and that only this surcharge will continue until the  
5 Company's next rate case.

6 28. Staff recommends further clarification regarding the recovery of deferred O&M  
7 expenses. Staff notes that the Company seeks recovery of deferred O&M as provided for in  
8 Decision No. 68858 but the supporting schedules in its present application do not clearly state that  
9 these amounts will cease at the end of a 12 month recovery period. If this application is approved,  
10 provision should be made so that the recovery of deferred O&M expenses cease after the 12 month  
11 recovery period.

12 29. As is also indicated on Schedule GWB-1, Staff recommends approval of a single  
13 permanent Step-Two ACRM surcharge that supplants and absorbs the previously approved Step-  
14 One ACRM surcharge and adds the costs for net incremental plant added subsequent to the Step-  
15 One filing and on-going, recoverable, and arsenic related O&M expenses to remain in effect until  
16 the effective date of new rates established in the pending rate case.

17 30. Staff also notes that the Company did not include invoices in an amount to provide  
18 complete support of the amount of O&M being requested. However, discussion with Company  
19 personnel indicated that the amount requested reflects issuances as opposed to purchases during  
20 the time period, and the Company has provided staff with adequate documentation to support  
21 issuances which, in turn, support the amount requested.

22 **G. RUCO's Adjustments to Company Schedules**

23 31. RUCO filed a report on this case and recommends two adjustments. Citing  
24 Decision No. 68310 which was for Arizona-American Water Company but not for the Paradise  
25 Valley systems, RUCO states that incremental plant subsequent to the implementation of Step-One  
26 of the ACRM should not be recognized, per Decision No. 68310. RUCO also cites Decision No.

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28 <sup>2</sup> See Company filing of March 13, 2008, Schedule ACRM-5, Rows 22-28

1 66400 which was for Arizona Water Company but does not specify which part of the application is  
2 not conforming with this Decision.

3 32. RUCO also recommends disallowing \$6,279 of O&M expenses. RUCO claims that  
4 of the \$6,279, \$6,187.83 represents amounts either not supported by invoices (\$5,390.75) or  
5 outside the 12 month deferral period (\$797.08). The remaining \$91.65 is due to a math error.

6 33. Staff believes thus Company has adequately supported the amounts requested for  
7 O&M expenses.

8 34. Further, neither Decision 68858 nor Decision No. 69396 prohibits the recognition  
9 of additional arsenic related plant subsequent to implementation of Step-One.

10 CONCLUSIONS OF LAW

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

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

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

18 4. It is in the public interest to approve the Company's request for implementation of  
19 the ACRM.

20 ORDER

21 IT IS THEREFORE ORDERED that the application by Arizona-American Water  
22 Company for the implementation of Step-Two of the Arsenic Cost Recovery Mechanism for its  
23 Paradise Valley districts is approved as discussed herein.

24 IT IS FURTHER ORDERED that the application by Arizona-American Water Company  
25 for its Paradise Valley Districts for approval of an arsenic cost recovery mechanism surcharge  
26 tariff shall be in accordance with the attached ACRM Schedule GWB-1. As indicated on Schedule  
27 GWB-1, the rates thereon shall be reduced in accordance with the Commission amendment to  
28 ...

1 Decision No. 68858 on August 27, 2008, and the recovery of deferred O&M costs will cease after  
2 12 months from the effective date of the Decision in this proceeding.

3 IT IS FURTHER ORDERED that upon approval of the Step-Two surcharge, the Step-One  
4 surcharge amounts are absorbed into the Step-Two amount and the Step-One surcharge shall cease.

5 IT IS FURTHER ORDERED that the recovery of deferred O&M expenses will cease after  
6 the 12-month recovery period.

7 IT IS FURTHER ORDERED that the Company file with the Commission an arsenic  
8 removal surcharge tariff consistent with its filing.

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

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1 IT IS FURTHER ORDERED that Arizona-American Water Company shall file, by April  
 2 1<sup>st</sup> of each year subsequent to any year in which it collects surcharges under an ACRM, a report  
 3 with Docket Control, as a compliance item in this docket, showing the Company's ending capital  
 4 structure by month for the prior year.

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

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**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN	COMMISSIONER
COMMISSIONER	COMMISSIONER
	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
 BRIAN C. McNEIL  
 EXECUTIVE DIRECTOR

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

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

EGJ:GB:lhM\MAS

1 SERVICE LIST FOR: Arizona-American Water Company  
2 DOCKET NOS. W-01303A-05-0405 and W-01303A-05-0910

3 Mr. Brent Wallace, Esq.  
4 Casa Grande City Attorney  
5 City of Casa Grande Attorney's Office  
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14 Arizona Corporation Commission  
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16 Phoenix, Arizona 85007

17 Ms. Janice M. Alward  
18 Chief Counsel, Legal Division  
19 Arizona Corporation Commission  
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Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two **RESIDENTIAL** (See Note Below)

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50			\$ 9.50
Minimum 3/4" Meter	\$ 9.83			\$ 9.83
Minimum 1" Meter	\$ 15.85			\$ 15.85
Minimum 1 1/2" Meter	\$ 32.00			\$ 32.00
Minimum 2" Meter	\$ 51.00			\$ 51.00
Minimum 3" Meter	\$ 94.50			\$ 94.50
Minimum 4" Meter	\$ 157.25			\$ 157.25
Minimum 6" Meter	\$ 315.00			\$ 315.00
Commodity Rates, Per 1000 gallons				
0 to 25,000 gallons	\$ 0.76			\$ 0.76
25,001 to 80,000 gallons	\$ 1.65	\$ 1.00		\$ 2.65
80,001 gallons and over	\$ 2.18	\$ 1.00	\$ 2.15	\$ 5.33

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
Minimum 3/4" Meter	\$ 9.83	\$ 15.35	\$ 25.18
Minimum 1" Meter	\$ 15.85	\$ 24.75	\$ 40.60
Minimum 1 1/2" Meter	\$ 32.00	\$ 49.98	\$ 81.98
Minimum 2" Meter	\$ 51.00	\$ 79.65	\$ 130.65
Minimum 3" Meter	\$ 94.50	\$ 147.59	\$ 242.09
Minimum 4" Meter	\$ 157.25	\$ 245.60	\$ 402.85
Minimum 6" Meter	\$ 315.00	\$ 491.97	\$ 806.97
Commodity Rates, Per 1000 gallons			
0 to 25,000 gallons	\$ 0.76	\$ 0.4534	\$ 1.2134
25,001 to 80,000 gallons	\$ 2.65	\$ 0.4534	\$ 3.1034
80,001 gallons and over	\$ 5.33	\$ 0.4534	\$ 5.7834

**Pending Application - 12-months: Company Proposed Rates**

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ 0.39	\$ 26.75
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ 0.40	\$ 27.67
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ 0.65	\$ 44.62
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ 1.31	\$ 90.10
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ 2.09	\$ 143.59
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ 3.88	\$ 266.06
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ 6.45	\$ 442.74
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ 12.93	\$ 886.87
Commodity Rates, Per 1000 gallons				
0 to 25,000 gallons	\$ 1.2134	\$ 0.0625	\$ 0.0121	\$ 1.2880
25,001 to 80,000 gallons	\$ 3.1034	\$ 0.0625	\$ 0.0121	\$ 3.1780
80,001 gallons and over	\$ 5.7834	\$ 0.0625	\$ 0.0121	\$ 5.8580

**Staff Recommended Rates**

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 1.96	\$ 0.39	\$ 26.69
Minimum 3/4" Meter	\$ 25.18	\$ 2.03	\$ 0.40	\$ 27.61
Minimum 1" Meter	\$ 40.60	\$ 3.27	\$ 0.65	\$ 44.52
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.60	\$ 1.31	\$ 89.89
Minimum 2" Meter	\$ 130.65	\$ 10.52	\$ 2.09	\$ 143.26
Minimum 3" Meter	\$ 242.09	\$ 19.49	\$ 3.88	\$ 265.46
Minimum 4" Meter	\$ 402.85	\$ 32.44	\$ 6.45	\$ 441.74
Minimum 6" Meter	\$ 806.97	\$ 64.98	\$ 12.93	\$ 884.88
Commodity Rates, Per 1000 gallons				
0 to 25,000 gallons	\$ 1.2134	\$ 0.0606	\$ 0.0121	\$ 1.2861
25,001 to 80,000 gallons	\$ 3.1034	\$ 0.0606	\$ 0.0121	\$ 3.1761
80,001 gallons and over	\$ 5.7834	\$ 0.0606	\$ 0.0121	\$ 5.8561

**Company Proposed Rates Pending Application - On-going After 12 Months O&M Recovery**

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ -	\$ 26.36
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ -	\$ 27.27
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ -	\$ 43.97
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ -	\$ 88.78
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ -	\$ 141.49
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ -	\$ 262.18
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ -	\$ 436.28
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ -	\$ 873.94
Commodity Rates, Per 1000 gallons				
0 to 25,000 gallons	\$ 1.2134	\$ 0.0625	\$ -	\$ 1.2759
25,001 to 80,000 gallons	\$ 3.1034	\$ 0.0625	\$ -	\$ 3.1659
80,001 gallons and over	\$ 5.7834	\$ 0.0625	\$ -	\$ 5.8459

**Staff Recommended Rates**

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 1.96	\$ -	\$ 26.30
Minimum 3/4" Meter	\$ 25.18	\$ 2.03	\$ -	\$ 27.21
Minimum 1" Meter	\$ 40.60	\$ 3.27	\$ -	\$ 43.87
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.60	\$ -	\$ 88.58
Minimum 2" Meter	\$ 130.65	\$ 10.52	\$ -	\$ 141.17
Minimum 3" Meter	\$ 242.09	\$ 19.49	\$ -	\$ 261.58
Minimum 4" Meter	\$ 402.85	\$ 32.44	\$ -	\$ 435.29
Minimum 6" Meter	\$ 806.97	\$ 64.98	\$ -	\$ 871.95
Commodity Rates, Per 1000 gallons				
0 to 25,000 gallons	\$ 1.2134	\$ 0.0606	\$ -	\$ 1.2740
25,001 to 80,000 gallons	\$ 3.1034	\$ 0.0606	\$ -	\$ 3.1640
80,001 gallons and over	\$ 5.7834	\$ 0.0606	\$ -	\$ 5.8440

Note: On August 27, 2008, the Commission amended Decision No. 68858, thereby reducing the High Bracket Usage surcharge from \$2.15 to \$1.00 per thousand gallons, and resetting the Public Safety surcharge from \$1.00 per thousand gallons to zero, effective September 1, 2008. All of the above rates should be adjusted accordingly. Hence, the adjusted commodity rates for the pending application would be:

	Amendment 8/27/2008			Amendment 8/27/2008		
Commodity Rates, Per 1000 gallons						
0 to 25,000 gallons	1.2134	0.0625	\$ -	1.2759	1.2134	0.0606
25,001 to 80,000 gallons	3.1034	0.0625	\$ (1.00)	2.1659	3.1034	0.0606
80,001 gallons and over	5.7834	0.0625	\$ (3.15)	2.6959	5.7834	0.0606

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two **COMMERCIAL** (See Note Below)

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50			\$ 9.50
Minimum 3/4" Meter	\$ 9.83			\$ 9.83
Minimum 1" Meter	\$ 15.85			\$ 15.85
Minimum 1 1/2" Meter	\$ 32.00			\$ 32.00
Minimum 2" Meter	\$ 51.00			\$ 51.00
Minimum 3" Meter	\$ 94.50			\$ 94.50
Minimum 4" Meter	\$ 157.25			\$ 157.25
Minimum 6" Meter	\$ 315.00			\$ 315.00
Commodity Rates, Per 1000 gallons				
0 to 400,000 gallons	\$ 1.27			\$ 1.27
400,001 gallons and over	\$ 1.56	\$ 1.00	\$ 2.15	\$ 4.71

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 69396 Total
Minimum 5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
Minimum 3/4" Meter	\$ 9.83	\$ 15.35	\$ 25.18
Minimum 1" Meter	\$ 15.85	\$ 24.75	\$ 40.60
Minimum 1 1/2" Meter	\$ 32.00	\$ 49.98	\$ 81.98
Minimum 2" Meter	\$ 51.00	\$ 79.65	\$ 130.65
Minimum 3" Meter	\$ 94.50	\$ 147.59	\$ 242.09
Minimum 4" Meter	\$ 157.25	\$ 245.60	\$ 402.85
Minimum 6" Meter	\$ 315.00	\$ 491.97	\$ 806.97
Commodity Rates, Per 1000 gallons			
0 to 400,000 gallons	\$ 1.27	\$ 0.4534	\$ 1.7234
400,001 gallons and over	\$ 4.71	\$ 0.4534	\$ 5.1634

Pending Application - 12-months	Per Decision No. 69396				Staff Recommended Rates			
	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ 0.39	\$ 26.75	\$ 24.34	\$ 1.96	\$ 0.39	\$ 26.69
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ 0.40	\$ 27.67	\$ 25.18	\$ 2.03	\$ 0.40	\$ 27.61
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ 0.65	\$ 44.62	\$ 40.60	\$ 3.27	\$ 0.65	\$ 44.52
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ 1.31	\$ 90.10	\$ 81.98	\$ 6.60	\$ 1.31	\$ 89.89
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ 2.09	\$ 143.59	\$ 130.65	\$ 10.52	\$ 2.09	\$ 143.26
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ 3.88	\$ 266.06	\$ 242.09	\$ 19.49	\$ 3.88	\$ 265.46
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ 6.45	\$ 442.74	\$ 402.85	\$ 32.44	\$ 6.45	\$ 441.74
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ 12.93	\$ 886.87	\$ 806.97	\$ 64.98	\$ 12.93	\$ 884.88
Commodity Rates, Per 1000 gallons								
0 to 400,000 gallons	\$ 1.7234	\$ 0.0625	\$ 0.0121	\$ 1.7980	\$ 1.7234	\$ 0.0606	\$ 0.0121	\$ 1.7961
400,001 gallons and over	\$ 5.1634	\$ 0.0625	\$ 0.0121	\$ 5.2380	\$ 5.1634	\$ 0.0606	\$ 0.0121	\$ 5.2361

Company Proposed Rates Pending Application - On-going After 12 Months O&M Recovery	Per Decision No. 69396				Staff Recommended Rates			
	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ -	\$ 26.36	\$ 24.34	\$ 1.96	\$ -	\$ 26.30
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ -	\$ 27.27	\$ 25.18	\$ 2.03	\$ -	\$ 27.21
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ -	\$ 43.97	\$ 40.60	\$ 3.27	\$ -	\$ 43.87
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ -	\$ 88.78	\$ 81.98	\$ 6.60	\$ -	\$ 88.58
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ -	\$ 141.49	\$ 130.65	\$ 10.52	\$ -	\$ 141.17
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ -	\$ 262.18	\$ 242.09	\$ 19.49	\$ -	\$ 261.58
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ -	\$ 436.28	\$ 402.85	\$ 32.44	\$ -	\$ 435.29
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ -	\$ 873.94	\$ 806.97	\$ 64.98	\$ -	\$ 871.95
Commodity Rates, Per 1000 gallons								
0 to 400,000 gallons	\$ 1.7234	\$ 0.0625	\$ -	\$ 1.7859	\$ 1.7234	\$ 0.0606	\$ -	\$ 1.7840
400,001 gallons and over	\$ 5.1634	\$ 0.0625	\$ -	\$ 5.2259	\$ 5.1634	\$ 0.0606	\$ -	\$ 5.2240

Note: On August 27, 2008, the Commission amended Decision No. 68858, thereby reducing the High Bracket Usage surcharge from \$2.15 to \$1.00 per thousand gallons, and resetting the Public Safety surcharge from \$1.00 per thousand gallons to zero, effective September 1, 2008. All of the above rates should be adjusted accordingly. Hence, the adjusted commodity rates for the pending application would be:

	Amendment 8/27/2008				Amendment 8/27/2008			
Commodity Rates, Per 1000 gallons								
0 to 400,000 gallons	1.7234	0.0625	\$ -	\$ 1.7859	1.7234	0.0606	\$ -	\$ 1.7840
400,001 gallons and over	5.1634	0.0625	\$ (3.15)	\$ 2.0759	5.1634	0.0606	\$ (3.15)	\$ 2.0740

Decision No. \_\_\_\_\_

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two

**PV COUNTRY CLUB (CONTRACT RATE) (See Note Below)**

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 6" Meter	\$ 267.75			\$ 267.75
Commodity Rates, Per 1000 gallons				
0 to 25,000,000 gallons	\$ 0.85			\$ 0.85
25,000,001 gallons and over	\$ 0.85	\$ 0.85	\$ 1.8275	\$ 3.5275

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 68858 Total
Minimum 6" Meter	\$ 267.75	\$ 418.17	\$ 685.92
Commodity Rates, Per 1000 gallons			
0 to 25,000,000 gallons	\$ 0.85	\$ 0.3854	\$ 1.24
25,000,001 gallons and over	\$ 3.53	\$ 0.3854	\$ 3.91

Pending Application - 12-months	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 6" Meter	\$ 685.92	\$ 56.92	\$ 10.99	\$ 753.83
Commodity Rates, Per 1000 gallons				
0 to 25,000,000 gallons	\$ 1.24	\$ 0.0531	\$ 0.0103	\$ 1.30
25,000,001 gallons and over	\$ 3.91	\$ 0.0531	\$ 0.0103	\$ 3.98

**Staff Recommended Rates**

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 685.92	\$ 55.23	\$ 10.99	\$ 752.14
\$ 1.24	\$ 0.0515	\$ 0.0103	\$ 1.30
\$ 3.91	\$ 0.0515	\$ 0.0103	\$ 3.97

Company Proposed Rates Pending Application - On-going After 12 Months O&M Recovery	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going
Minimum 6" Meter	\$ 685.92	\$ 56.92	\$ -	\$ 742.84
Commodity Rates, Per 1000 gallons				
0 to 25,000,000 gallons	\$ 1.2354	\$ 0.0531	\$ -	\$ 1.2885
25,000,001 gallons and over	\$ 3.9129	\$ 0.0531	\$ -	\$ 3.9660

**Staff Recommended Rates**

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 685.92	\$ 55.23	\$ -	\$ 741.15
\$ 1.2354	\$ 0.0515	\$ -	\$ 1.2869
\$ 3.9129	\$ 0.0515	\$ -	\$ 3.9644

Note: On August 27, 2008, the Commission amended Decision No. 68858, thereby reducing the High Bracket Usage surcharge from \$2.15 to \$1.00 per thousand gallons, and resetting the Public Safety surcharge from \$1.00 per thousand gallons to zero, effective September 1, 2008. Since the Country Club pays 85 percent of the Commercial surcharge, the reductions are \$.85 per thousand gallons for Public Safety surcharge and \$1.8275 per thousand gallons for the High Bracket Usage surcharge. Hence, the adjusted commodity rates are:

	Amendment 8/27/2008				Amendment 8/27/2008			
Commodity Rates, Per 1000 gallons								
0 to 25,000,000 gallons	\$ 1.2354	\$ 0.0531		\$ 1.2885	\$ 1.2354	\$ 0.0515	\$ -	\$ 1.2869
25,000,001 gallons and over	\$ 3.9129	\$ 0.0531	\$ (2.68)	\$ 1.2885	\$ 3.9129	\$ 0.0515	\$ (2.6775)	\$ 1.2869

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two

**PV TURF CUSTOMERS**

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50			\$ 9.50
Minimum 3/4" Meter	\$ 9.83			\$ 9.83
Minimum 1" Meter	\$ 15.85			\$ 15.85
Minimum 1 1/2" Meter	\$ 32.00			\$ 32.00
Minimum 2" Meter	\$ 51.00			\$ 51.00
Minimum 3" Meter	\$ 94.50			\$ 94.50
Minimum 4" Meter	\$ 157.25			\$ 157.25
Minimum 6" Meter	\$ 315.00			\$ 315.00
Commodity Rates, Per 1000 gallons				
ALL Gallons	\$ 1.00			\$ 1.00

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
Minimum 3/4" Meter	\$ 9.83	\$ 15.35	\$ 25.18
Minimum 1" Meter	\$ 15.85	\$ 24.75	\$ 40.60
Minimum 1 1/2" Meter	\$ 32.00	\$ 49.98	\$ 81.98
Minimum 2" Meter	\$ 51.00	\$ 79.65	\$ 130.65
Minimum 3" Meter	\$ 94.50	\$ 147.59	\$ 242.09
Minimum 4" Meter	\$ 157.25	\$ 245.60	\$ 402.85
Minimum 6" Meter	\$ 315.00	\$ 491.97	\$ 806.97
Commodity Rates, Per 1000 gallons			
ALL Gallons	\$ 1.00	\$ 0.4534	\$ 1.4534

Pending Application - 12-months	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ 0.39	\$ 26.75
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ 0.40	\$ 27.67
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ 0.65	\$ 44.62
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ 1.31	\$ 90.10
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ 2.09	\$ 143.59
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ 3.88	\$ 266.06
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ 6.45	\$ 442.74
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ 12.93	\$ 886.87
Commodity Rates, Per 1000 gallons				
ALL Gallons	\$ 1.4534	\$ 0.0625	\$ 0.0121	\$ 1.5280

**Staff Recommended Rates**

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 24.34	\$ 1.96	\$ 0.39	\$ 26.69
\$ 25.18	\$ 3.98	\$ 0.40	\$ 29.56
\$ 40.60	\$ 4.11	\$ 0.65	\$ 45.37
\$ 81.98	\$ 6.63	\$ 1.31	\$ 89.93
\$ 130.65	\$ 13.40	\$ 2.09	\$ 146.14
\$ 242.09	\$ 21.35	\$ 3.88	\$ 267.32
\$ 402.85	\$ 39.56	\$ 6.45	\$ 448.87
\$ 806.97	\$ 65.84	\$ 12.93	\$ 885.74
\$ 1.4534	\$ 0.0606	\$ 0.0121	\$ 1.5261

**Company Proposed Rates**  
Pending Application - On-going  
After 12 Months O&M Recovery

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going
\$ 24.34	\$ 2.02	\$ -	\$ 26.36
\$ 25.18	\$ 2.09	\$ -	\$ 27.27
\$ 40.60	\$ 3.37	\$ -	\$ 43.97
\$ 81.98	\$ 6.80	\$ -	\$ 88.78
\$ 130.65	\$ 10.84	\$ -	\$ 141.49
\$ 242.09	\$ 20.09	\$ -	\$ 262.18
\$ 402.85	\$ 33.43	\$ -	\$ 436.28
\$ 806.97	\$ 66.97	\$ -	\$ 873.94
\$ 1.4534	\$ 0.0625	\$ -	\$ 1.5159

**Staff Recommended Rates**

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 24.34	\$ 1.96	\$ -	\$ 26.30
\$ 25.18	\$ 3.98	\$ -	\$ 29.16
\$ 40.60	\$ 4.11	\$ -	\$ 44.71
\$ 81.98	\$ 6.63	\$ -	\$ 88.61
\$ 130.65	\$ 13.40	\$ -	\$ 144.05
\$ 242.09	\$ 21.35	\$ -	\$ 263.44
\$ 402.85	\$ 39.56	\$ -	\$ 442.41
\$ 806.97	\$ 65.84	\$ -	\$ 872.81
\$ 1.4534	\$ 0.0606	\$ -	\$ 1.5140

Arizona-American Water Company - Paradise Valley  
Docket Nos. W-01303A-05-0405 & W-01303A-05-0910  
ACRM Step Two

OTHER: GENERAL & RESALE

Decision No. 68858	Base Rates	Public Safety Surcharge	High Bracket Surcharge	Decision No. 68858 Total
Minimum 5/8" Meter	\$ 9.50			\$ 9.50
Minimum 3/4" Meter	\$ 9.83			\$ 9.83
Minimum 1" Meter	\$ 15.85			\$ 15.85
Minimum 1 1/2" Meter	\$ 32.00			\$ 32.00
Minimum 2" Meter	\$ 51.00			\$ 51.00
Minimum 3" Meter	\$ 94.50			\$ 94.50
Minimum 4" Meter	\$ 157.25			\$ 157.25
Minimum 6" Meter	\$ 315.00			\$ 315.00
Commodity Rates, Per 1000 gallons				
ALL	\$ 1.46			\$ 1.46

Decision No. 69396 ACRM Step One Surcharge	Per Decision No. 68858	ACRM Step 1 Surcharge	Decision No. 69396 Total
Minimum 5/8" Meter	\$ 9.50	\$ 14.84	\$ 24.34
Minimum 3/4" Meter	\$ 9.83	\$ 15.35	\$ 25.18
Minimum 1" Meter	\$ 15.85	\$ 24.75	\$ 40.60
Minimum 1 1/2" Meter	\$ 32.00	\$ 49.98	\$ 81.98
Minimum 2" Meter	\$ 51.00	\$ 79.65	\$ 130.65
Minimum 3" Meter	\$ 94.50	\$ 147.59	\$ 242.09
Minimum 4" Meter	\$ 157.25	\$ 245.60	\$ 402.85
Minimum 6" Meter	\$ 315.00	\$ 491.97	\$ 806.97
Commodity Rates, Per 1000 gallons			
ALL	\$ 1.46	\$ 0.4534	\$ 1.9134

Pending Application - 12-months:  
Company Proposed Rates

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ 0.39	\$ 26.75
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ 0.40	\$ 27.67
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ 0.65	\$ 44.62
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ 1.31	\$ 90.10
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ 2.09	\$ 143.59
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ 3.88	\$ 266.06
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ 6.45	\$ 442.74
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ 12.93	\$ 886.87
Commodity Rates, Per 1000 gallons				
ALL	\$ 1.9134	\$ 0.0625	\$ 0.0121	\$ 1.9880

Staff Recommended Rates

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 24.34	\$ 1.96	\$ 0.39	\$ 26.69
\$ 25.18	\$ 2.03	\$ 0.40	\$ 27.61
\$ 40.60	\$ 3.27	\$ 0.65	\$ 44.52
\$ 81.98	\$ 6.60	\$ 1.31	\$ 89.89
\$ 130.65	\$ 10.52	\$ 2.09	\$ 143.26
\$ 242.09	\$ 19.49	\$ 3.88	\$ 265.46
\$ 402.85	\$ 32.44	\$ 6.45	\$ 441.74
\$ 806.97	\$ 64.98	\$ 12.93	\$ 884.88
\$ 1.9134	\$ 0.0606	\$ 0.0121	\$ 1.9861

Company Proposed Rates  
Pending Application - On-going  
After 12 Months O&M Recovery

	Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 On-going
Minimum 5/8" Meter	\$ 24.34	\$ 2.02	\$ -	\$ 26.36
Minimum 3/4" Meter	\$ 25.18	\$ 2.09	\$ -	\$ 27.27
Minimum 1" Meter	\$ 40.60	\$ 3.37	\$ -	\$ 43.97
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.80	\$ -	\$ 88.78
Minimum 2" Meter	\$ 130.65	\$ 10.84	\$ -	\$ 141.49
Minimum 3" Meter	\$ 242.09	\$ 20.09	\$ -	\$ 262.18
Minimum 4" Meter	\$ 402.85	\$ 33.43	\$ -	\$ 436.28
Minimum 6" Meter	\$ 806.97	\$ 66.97	\$ -	\$ 873.94
Commodity Rates, Per 1000 gallons				
ALL	\$ 1.9134	\$ 0.0625	\$ -	\$ 1.9759

Staff Recommended Rates

Per Decision No. 69396	ACRM - Step 2 On-going	ACRM - Step 2 12-month O&M	ACRM - Step 2 12-month Total
\$ 24.34	\$ 1.96	\$ -	\$ 26.30
\$ 25.18	\$ 2.03	\$ -	\$ 27.21
\$ 40.60	\$ 3.27	\$ -	\$ 43.87
\$ 81.98	\$ 6.60	\$ -	\$ 88.58
\$ 130.65	\$ 10.52	\$ -	\$ 141.17
\$ 242.09	\$ 19.49	\$ -	\$ 261.58
\$ 402.85	\$ 32.44	\$ -	\$ 435.29
\$ 806.97	\$ 64.98	\$ -	\$ 871.95
\$ 1.9134	\$ 0.0606	\$ -	\$ 1.9740

Schedule GWB-2

Arizona-American Water Company  
 Paradise Valley Water District  
 Docket No. W-01303A-05-0405 et al.  
 12 Months Ending December, 2007  
 Arsenic Revenue Requirement, Step-Two

Line No.		Co. Proposed [A]	Staff Adjustment [B]	Staff Recommended [C]
1	Arsenic Plant Revenue Requirement			
2	Gross Arsenic Plant in Service/Rate Base	\$ 2,587,299	\$ 38,012	(1) \$2,549,287
3	Accumulated Depreciation of Arsenic Plant (Step 1)	(636,636)	22,977	(2) (659,613)
4	Net Arsenic Plant in Service/Rate Base	\$ 1,950,663	\$ 60,989	\$ 1,889,674
5	Depreciation rate on incremental arsenic plant	3.08%	0	2.95%
6	Depreciation expense	79,616	4,538	(3) 75,078
7	Depreciation expense net of tax <sup>1</sup>	48,885	2,786	(4) 46,099
8	Recoverable O&M costs - Ongoing	74,593	-	74,593
9	Recoverable O&M costs - Ongoing net of tax <sup>1</sup>	45,801	-	(4) 45,801
10	Arsenic Operating Income	\$ (94,686)	\$ (2,786)	\$ (91,900)
11	Rate of return	-4.85%		-4.86%
12	Required Rate of Return <sup>2</sup>	7.24%		7.24%
13	Required Operating Income	141,228	4,416	136,812
14	Operating Income deficiency	235,914	7,202	228,712
15	Gross revenue conversion factor <sup>2</sup>	1.62863		1.62863
16	Revenue deficiency	\$ 384,217	\$ 11,729	\$ 372,488

Explanation of Adjustments:

- (1) See engineering report. This represents O&M items charged to ACRM capital projects, in error.
- (2) Adjustment to reflect 13.5 months of depreciation approved in ACRM Step 1, Decision No. 69396
- (3) Staff Recalculated Expense on Schedule GWB-3
- (4) 38.5989 % tax rate per Decision No. 68858
- (5) Decision No. 68858

Schedule GWB-3

Arizona-American Water Company  
 Paradise Valley Water District  
 Docket No. W-01303A-05-0405 et al.  
 Arsenic Revenue Requirement, Step-Two

Arsenic Plant Depreciation Rate

Line No.	Description	W.O. [A]	Total Project [A]	Appvd. Depr. Rate [A]	Annual Deprec. Expense [A]	Staff Adjustments to Plant			Staff Depreciation [D]
						Reclassificator [B]	Removal [B]	ACRM Step 2 Plant, per Staff [C]	
1									
2									
3									
4									
5	304 - PV Arsenic Struct. & Imp.	50073241	\$ 1,613,911	2.00%	\$ 32,278	\$ 368,440	\$ (747)	\$ 1,981,604	\$ 39,632
6	310 - PV Arsenic Power Prod. Equip.	50073242	43,179	3.33%	1,438			43,179	1,438
7	311 - PV Arsenic Pumping Equip.	50073244	63,125	4.39%	2,771			63,125	2,771
8	320 - PV Arsenic Wtr. Trtmt. Equip.	50073250	413,118	7.06%	29,166		\$ (7,079)	406,039	28,666
9	330 - PV Arsenic Dist. Res. & Stp.	50073251	38,830	3.15%	1,223			38,830	1,223
10	331 - PV Arsenic T&D Mains	50073252	\$ 368,440	2.34%	8,622	\$ (368,440)		0	0
11	339 - PV Arsenic Other Plant & Misc.	50073255	893	4.80%	43			893	43
12	340 - PV Arsenic Offc. Furn. & Equip.	50073256	-	4.04%	-			-	-
13	343 - PV Arsenic Tools, Shop, & Gar.	50073258	6,422	3.61%	232		\$ (2,854)	3,567	129
14	344 - PV Arsenic Laboratory Equip.	50073260	541	9.76%	53			541	53
15	346 - PV Arsenic Commun. Equip.	50073261	38,841	9.76%	3,791		(27,332)	11,509	1,123
16	Totals		\$ 2,587,299		\$ 79,616	\$ -	\$ (38,012)	\$ 2,549,287	\$ 75,078

Decisions  
 Explanations:

- [A] As filed by the Company, Depreciation Expense Per Decision No. 68858
- [B] Reclassification due to nature of work done in Step-Two Removals due to O&M included in ACRM Plant Additions
- [C] See also Engineering report for more discussion. Company Proposed Plant, net of reclassifications and removals
- [D] Staff Depreciation Expense for ACRM Step-Two Plant, based on Staff's adjusted plant balance times depreciation rates in Decision No. 68858

Schedule GWB-4

Arizona-American Water Company  
 Paradise Valley Water District  
 Docket No. W-01303A-05-0405 et al.  
 12 Months Ending December, 2007  
 Surcharge Calculation

Line No.	Growth	Customers at Dec. 2007	Total Gallons Sold Dec. 2008	Estimated Average Customers	Minimum Customers	Equivalent Meters	Monthly Base	Base Total	Fixed Increment		Total
									Monthly Minimum	Monthly Deferred	
1	Dec. 2006 (Year 1)	4,726	3,077,899	2,396	24.34	1.0	1.96	56,432	0.39	0.41	11,301
2	Dec. 2007 (Year 2)	4,750	3,065,644	2,402	25.18	1.0	2.03	782	0.39	0.41	157
3	Year 2 minus Year 1	24	(12,255)	2,029	40.60	1.7	3.27	79,519	0.66	0.66	15,924
4	Percentage Change	0.51%	-0.40%	75	81.98	3.4	6.61	5,965	1.32	1.32	1,194
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)	3,071,772		268	130.65	5.4	10.54	33,840	2.11	2.11	6,777
6				23	242.09	9.9	19.52	5,401	3.91	3.91	1,082
7				1	402.85	16.6	32.48	391	6.51	6.51	78
8				5	806.97	33.2	65.07	3,914	13.03	13.03	784
9											
10											
11	5/8-inch	32	32	32	24.34	1.0	1.96	782	0.39	0.41	157
12	3/4-inch	32	32	32	25.18	1.0	2.03	782	0.39	0.41	157
13	1-inch	2,019	2,029	2,024	40.60	1.7	3.27	79,519	0.66	0.66	15,924
14	1.5-inch	75	75	75	81.98	3.4	6.61	5,965	1.32	1.32	1,194
15	2-inch	267	268	268	130.65	5.4	10.54	33,840	2.11	2.11	6,777
16	3-inch	23	23	23	242.09	9.9	19.52	5,401	3.91	3.91	1,082
17	4-inch	1	1	1	402.85	16.6	32.48	391	6.51	6.51	78
18	6-inch	5	5	5	806.97	33.2	65.07	3,914	13.03	13.03	784
19											
20											
21											
22	Total	4,812	4,836	4,824		7,908		\$ 186,244			\$ 37,296
23											
24											
25	Calculation of Base Step 2 Surcharge										
26	Total costs to be recovered (Sch. 5 Col A Ln 16)		\$ 372,488								
27	Monthly Minimum Revenue (Col B Ln 26 + 2)		\$ 186,244								
28	Commodity Revenue (Col B Ln 26 + 2)		\$ 186,244								
29											
30	Monthly Increment Per Equivalent Meter										
31	Equivalent Meters (Col F Ln 22 x 12 Months)		94,893								
32	Minimum Surcharge (Ln 27 + Ln 31)		\$ 1.96								
33											
34	Average Gallons (Col B Ln 5)										
35	Commodity Surcharge (Ln 28 + Ln 35)		3,071,772								
36											
37											
38											
39											
40	Calculation of Deferred O&M Surcharge										
41	Total deferred O&M costs to be recovered (Sch. 5 Col A Ln 8)		\$ 74,593								
42	Monthly Minimum Revenue (Col B Ln 41 + 2)		\$ 37,296								
43	Commodity Revenue (Col B Ln 41 + 2)		\$ 37,296								
44											
45	Monthly Increment Per Equivalent Meter										
46	Equivalent Meters (Col F Ln 22 x 12 Months)		94,893								
47	Minimum Surcharge (Ln 42 + Ln 46)		\$ 0.39								
48											
49	Average Gallons (Col B Ln 5)										
50	Commodity Surcharge (Ln 43 + Ln 50)		3,071,772								
51											
52											

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## MEMORANDUM

**DATE:** August 18, 2008

**TO:** Gerald Becker  
Public Utility Analyst V

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

**RE:** **ACRM Step Two Application for Arizona American Water Company, Inc. – Paradise Valley District**  
**Docket No. W-01303A-05-0405 & Docket No. W-01303A-05-0910**

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### Background

In Decision No. 68858 (issued on July 26, 2006) the Arizona Corporation Commission (“ACC” or “Commission”) approved an Arsenic Cost Recovery Mechanism (“ACRM”) for Arizona-American Water Company - Paradise Valley District (“Company” or “PV”). In Decision No. 69396 (issued on March 22, 2007), the Commission approved the ACRM Step I surcharge tariff for PV. On March 13, 2008, the Company filed for the ACRM Step II surcharge tariff application for PV.

ACC Staff (“Staff”) performed an inspection of the PV system on August 14, 2008. Staff observed that additional plant improvements had been installed since its previous inspections on March 12, 2007 and January 18, 2007. During the period of March 2007 to August 2008 the Company completed construction of 1) a stone block fence with security gates at the PV arsenic treatment plant, 2) an on-site storm water drainage system, 3) sound barriers in the blower building, 4) sound barriers in a building which houses the pump station and, 5) sound barriers in a building which houses the sludge press.

Staff concludes that all capital improvements associated with the ACRM Step II surcharge have been completed and were in-service at the time of Staff’s inspection.

### Cost Analysis

In the application the Company reported a total construction cost of \$2,587,299 for purposes of establishing the Step II surcharge amount. Staff recommends two adjustments to the Company’s total construction cost. The first adjustment is to remove \$38,012 from four accounts as presented in the table below because this construction is not related to construction of the subject arsenic treatment plant. The second adjustment is to reclassify \$368,440 from Transmission and Mains (Account No. 331) to Structure

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Improvements (Account No. 304). The Company has indicated to Staff that it is in full agreement with these adjustments. Presented in the following table are itemized plant descriptions, costs and Staff's recommended adjustments and total construction cost.

Acct #	Description	Co.'s Original Filing Total Cost (\$)	Co.'s Allocated engineer & design cost (\$) <sup>1</sup>	Co.'s Total Step II Cost (\$)	Staff Recommended Reclassification <sup>2</sup>	Staff Adjustment (\$)	Staff's Recommended Total Cost (\$)
	Engineer & design	(5,216,549)					
304	Structure & Improvement	4,867,902	(3,996,845)	1,613,911	368,440	(747) <sup>1</sup>	1,981,605
310	Power Producing Equipment	130,236	(87,058)	43,179			43,179
311	Pumping Equipment	190,399	(127,274)	63,125			63,125
320	Water Treatment Equipment	1,246,051	(832,933)	413,118		(7,079) <sup>2</sup>	406,039
330	Reservoir & Standpipe	117,118	(78,289)	38,830			38,830
331	Transmissions & Mains	1,111,295	(742,855)	368,440	(368,440)		
339	Other Plant & Equipment	2,694	(1,801)	893			893
340	Office furniture & equipment	0					
343	Tools, Shop & Garage	19,369	(12,947)	6,422		(2,855) <sup>3</sup>	3,567
344	Laboratory Equipment	1,633	(1,091)	541			541
346	Communication Equipment	117,152	(78,311)	38,841		(27,333) <sup>4</sup>	11,508
	<b>Total</b>	<b>2,587,299</b>	<b>(5,216,549)</b>	<b>2,587,299</b>	<b>0</b>	<b>(38,012)</b>	<b>2,549,287</b>

- Notes: 1. \$747 was paid for installation of sensors to restroom doors in the office building.  
2. \$7,079 was paid to M P Environmental Service for hauling wastewater to City Scottsdale Wastewater Treatment Plant and other wastewater disposal sites.  
3. \$ 2,206 was paid to UFirst Laundry Services for uniform rental, and \$649 was paid to Cabela's Retail for a gun safety container.  
4. \$26,727 was paid to Emerson Process Management for its work on Well #11, Well #12 and Miller Rd TCE Treatment Plant. \$606 was a monthly bill paid to Qwest for July 2006 service.

## Summary

### Recommendations

- Staff recommends that \$2,549,287 be used as the total capital cost in calculating the appropriate ACRM Step II surcharge amount.

<sup>1</sup> Plant allocation factors were provided by the Company.

<sup>2</sup> \$368,440 in the Transmission and Mains (Account 331) were reclassified to Structure Improvements (Account 304).