

ORIGINAL

OPEN MEETING



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**MEMORANDUM
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Arizona Corporation Commission

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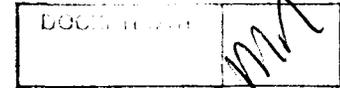
TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

OCT 17 2008

DATE: October 17, 2008



RE: IN THE MATTER OF THE APPLICATION OF ARIZONA AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY TO IMPLEMENT ITS ARSENIC COST RECOVERY MECHANISM STEP TWO FOR ITS HAVASU WATER DISTRICT (DOCKET NOS. W-01303A-05-0280, WS-01303A-02-0867, WS-01303A-02-0869 AND WS-01303A-02-0870)

Introduction

Pursuant to Decision Nos. 68310 and 69162, Arizona American Water Company ("Company", "Applicant" or "AAW") filed an application on April 14, 2008, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-Two of the Arsenic Cost Recovery Mechanism ("ACRM") for its Havasu Water District.

Pursuant to Decision No. 69181,¹ AAW implemented Step-One of its ACRM surcharge. The Step-One surcharge added \$5.62 to the monthly customer charge for a customer with a 5/8-inch meter and \$0.6302 per thousand gallons to the commodity rate. The Step-One surcharge authorized in Decision No. 69181 increased the average customer bill (based on an average consumption of 10,140 gallons used on a 5/8-inch meter in 2006) by \$12.01 from \$25.53 to \$37.54 (47.1 percent).

The Company's present application proposes to maintain the Step-One ACRM surcharge and supplement it with a Step-Two ACRM surcharge which would add \$2.85² to the monthly customer charge for a 5/8-inch meter and \$0.2885 per thousand gallons to the commodity rate for all use and generate \$135,638 of additional annual revenue. The Step-Two ACRM surcharge, as proposed by the Company, increases the average residential customer bill by \$6.23 from \$41.06 (based on average consumption of 11,750 gallons for a 5/8-inch meter in 2008) to \$47.29 (15.2 percent).³ The Company's Step-Two ACRM surcharge proposes to recover net additional arsenic related plant not included in the Step-One surcharge and on-going recoverable arsenic O&M expenses. As directed by Decision No. 69162, the Company has excluded from its Step-Two ACRM surcharge filing a request to implement a temporary, 12-month ACRM surcharge to recover O&M costs capitalized in the 12-month period prior to the Step-Two ACRM surcharge

¹ Issued December 5, 2006.

² The amount increases for larger meters.

³ The 2008 calculation is based on a 5/8-inch meter customer charge and consumption of 11,750 gallons.

filing, and to defer recovery of those amounts to its next rate case, which was filed on May 1, 2008.

Staff's agrees with the Company's calculation of the additional and total revenues to be collected via ACRM surcharges and to the amounts to be collected from each customer. However, Staff recommends simplifying the ACRM surcharge authorizations and customer billing. Instead of maintaining the existing Step-One ACRM surcharge and adding a Step-Two ACRM surcharge, Staff recommends supplanting the Step-one ACRM surcharge and absorbing it into the Step-Two ACRM surcharge resulting in a single surcharge that recovers the same amount as the two separate surcharges proposed by the Company. A single ACRM surcharge is more efficient to bill, and it more clearly shows the current cost of arsenic remediation.

Combining the monthly customer charge and commodity rate portions of the Step-One ACRM surcharge with the Company's proposed Step-Two ACRM surcharge results in an \$8.47⁴ monthly customer charge (5/8-inch meter) and a \$0.9187⁵ per thousand gallons commodity rate. Such a combined permanent surcharge results in the same monthly bill for all customers as would two separate surcharges. For example, the monthly bill for the average residential customer using 11,750 gallons remains \$47.29 as it is with the Company's proposal. Thus, the average customer would still experience a \$6.23 monthly bill increase over a bill with the Step-One ACRM surcharge. The \$47.29 average monthly bill is composed of a \$28.03 base rate amount and a \$19.26 combined ACRM surcharge amount, and reflects that arsenic remediation has increased the average monthly bill by 68.7 percent.⁶

Staff's recommended permanent Step-Two ACRM monthly customer surcharges are presented in GTM-1 and the commodity rate surcharges are presented in GTM-2. Staff recommends a permanent or on-going ACRM surcharge to remain in effect until rates are authorized in a future rate case.

Background

The United States Environmental Protection Agency ("EPA") reduced the drinking water maximum contaminant level of arsenic from 50 parts per billion ("ppb") to 10 ppb for all community water systems and non-transient non-community water systems effective January 23, 2006.

On November 22 and December 13, 2002, AAW filed applications with the Commission for a permanent rate increase for five of its water districts, including the Havasu water district. Decision No. 67093, issued on June 30, 2004, established permanent rate increases for all five districts.

⁴ \$5.62 + \$2.85 = \$8.47.

⁵ \$0.6302 + \$0.2885 = \$0.9187.

⁶ \$19.26 ÷ \$28.03 = 68.7 percent.

On November 14, 2005, the Commission issued Decision No. 68310 granting AAW the authority to implement an ACRM in four water districts including the Havasu district and a Havasu District Arsenic Impact Fee ("AIF") Tariff.

On December 5, 2006, the Commission issued Decision No. 69162 modifying the ACRM for the Havasu District by directing the Company to capitalize eligible O&M costs for 12 months prior to the Step-Two ACRM surcharge filing and deferring recovery of those costs until the next Havasu District rate case.

On April 14, 2008, AAW filed an application to implement Step-Two of its ACRM for its Havasu Water District as authorized by Decision Nos. 68310 and 69162. In conformity with Decision Nos. 68310 and 69162, AAW seeks a surcharge to recover a return on its arsenic remediation investment not included in the Step-One ACRM surcharge, related depreciation expense and income taxes and eligible on-going arsenic related O&M expenses. In accordance with Decision No. 69162, the Company is seeking recovery of only the on-going O&M expenses at this time and is requesting recovery of O&M expenses deferred in the 12 months prior to its Step-Two ACRM surcharge filing in its next rate case.

Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 68310 and 69162)

Decision Nos. 68310 and 69162 conditioned approval of an ACRM surcharge on the Company complying with all requirements discussed in the Order including:

1. Filing hard copies of ten schedules (balance sheet, income statement, earnings test, rate review, arsenic revenue requirement, surcharge calculation, adjusted rate base schedule, construction work in progress ledger, four-factor allocation and typical bill analysis) to show the actual cost of construction of arsenic related facilities and that the projected rate of return with the ACRM surcharge does not exceed authorized levels. This earnings test is to include adjustments conforming to Decision No. 67093.
2. Concurrently provide, along with the hard copies, Microsoft Excel or compatible electronic versions of the ACRM filings and all workpapers.
3. Providing any relevant data requested by Staff to support the ACRM increase.
4. Modifying the rate base calculation for the Havasu Water District to explicitly show a deduction for Arsenic Impact Fee collections.

5. Filing with Docket Control by January 31st of each year an annual calendar year status report, until the AIF Tariff is no longer in effect, listing all customers that have paid the AIF, the amount each customer has paid, the amount of money spent from the AIF, and a list of all facilities that have been installed with funds from the AIF Tariff during the 12-month period.
6. Filing, by April 1st of each year subsequent to any year in which it collects ACRM surcharges, a report with the Utilities Division Director showing the Company's ending capital structure by month end in the prior calendar year.
7. Filing a full rate application no later than April 30, 2008⁷, based on a 2007 test year.
8. Filing, as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.
9. Capitalizing prudently incurred, eligible O&M costs for 12 months prior to the Step-Two ACRM surcharge filing and accruing AFUDC as of the effective date of the Step-Two ACRM surcharge and recognizing those costs in the cost of service in the next Havasu District rate case.

Residential Utility Consumer Office ("RUCO") Analysis

On July 8, 2008, RUCO filed its report on its audit of AAW's Havasu Water District Step-Two ACRM surcharge request. RUCO recommends a Step-Two ACRM surcharge composed of a \$1.85 monthly minimum surcharge and a \$0.1878 per thousand gallons commodity rate and \$88,300 in additional annual revenue. RUCO asserts that Decision No. 68310 authorized recovery only of O&M costs and not capital costs. Accordingly, RUCO's recommended ACRM surcharges reflect an adjustment to the Company's Step-Two ACRM revenue requirement to remove the portion of the Company's request that pertains to arsenic plant additions that are not included in the Step-One ACRM surcharge.

RUCO's assertion that the authorized ACRM does not allow for recovery of capital costs in the Step-Two ACRM surcharge that are not included in the Step-One ACRM is based on a list of items a Company witness presented to describe the mechanics and items included in each step of the Company's proposed ACRM. That list omits reference to recovery of capital costs in the second step. The omission of any reference to recovery of plant costs in Step-Two in the Company witness' summary does not override the Company's broader request for approval of an ACRM that is essentially identical to the ACRM approved for Arizona Water's Northern Group in Decision No. 66400.

⁷ Decision No. 69181 extended the filing deadline for Havasu to file a rate application to May 31, 2008.

Decision No. 68310 adopted Arizona-American's ACRM proposal, consistent with Staff's recommendations, to approve an ACRM that is essentially identical to the ACRM approved for Arizona Water's Northern Group in Decision No. 66400. Decision No. 66400 is the genesis of the ACRM, and it has served as model for uniform regulatory treatment for utilities that have invested their own capital for arsenic remediation. Allowing recovery of capital costs in both steps is essential for addressing situations where utilities develop multiple arsenic remediation facilities at different dates and for addressing the overall goal of assisting utilities with financial stresses related to arsenic remediation. RUCO cites no provision of Decision No. 66400 that imposes restrictions on the timing of capital cost recovery through the ACRM. Accordingly, Staff does not support RUCO's proposed adjustment to remove the portion of the Company's request that pertains to arsenic plant additions that are not included in the Step-One ACRM surcharge.

Staff Analysis

Filing Requirements Compliance

Staff found no deficiencies in the Company's Step-Two ACRM filing. The Company's ACRM Step-Two filing includes the following schedules:

1. Balance Sheet – a balance sheet for its Havasu Water District which is the most current balance sheet at the time of the filing - December 31, 2007.
2. Income Statement – a most current income statement for its Havasu Water District - period ending December 31, 2007.
3. Earnings Test – an “Earnings Test” calculation verifying that the proposed ACRM surcharge revenue would not result in excess earnings in the Havasu Water District.
4. Rate Review – a rate review for the Havasu Water District based on the 12 months ending December 31, 2007, reflecting adjustments to comply with the requirement of Decision No. 68310 to make adjustments conforming to Decision No. 67093.
5. Arsenic Revenue Requirement Calculation – a Havasu Water District arsenic revenue requirement calculation for Step-Two.
6. Surcharge Calculation – a detailed surcharge calculation presenting the monthly minimum charges by meter size and customer class and the commodity rate per thousand gallons for all customers in the Havasu Water District.
7. Rate Base – a schedule presenting the elements of rate base at December 31, 2007, and showing the effects of the arsenic plant investment for the Havasu Water District.

8. Construction Work In Progress ("CWIP") Ledger – a ledger showing the arsenic construction work in progress accounts for the Havasu Water District.
9. Four factor allocation schedule – a schedule showing the components of the four factor allocation attributable to each of the water districts within AAW.
10. Typical Bill Analysis – ACRM Step-Two – a separate typical bill analysis showing the effects on residential customers at the average residential usage for the Havasu Water District.

Staff performed an examination of AAW's Havasu Water District Step-Two ACRM surcharge filing for the Havasu Water District and concludes that it conforms to the requirements specified in Decision Nos. 68310 and 69162. As directed by Decision No. 69162, the Company has excluded from its Step-Two ACRM surcharge filing a request to implement a temporary, 12-month ACRM surcharge to recover O&M costs capitalized in the 12-month period prior to the Step-Two ACRM surcharge filing, and to defer recovery of those amounts to its next rate case which it filed on May 1, 2008.

The ACRM schedules, as filed, 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 on the Havasu Water District that would exceed that authorized in Decision No. 67093.

Examination of Company Schedules and Utility Plant In Service

Staff's examination of the Company's posting of amounts to the CWIP ledger showed that the postings accurately reflect the Company's records, reconcile to the invoices submitted and are mathematically correct.

Staff performed a field inspection and verified that the Havasu Water District's arsenic treatment facilities related to the Step-Two ACRM surcharge request are in service and providing water that meets the new arsenic standard.

Conclusions and Recommendations

Staff concludes that the Company has duly filed an ACRM application as required by Decision Nos. 68310 and 69162.

Staff concludes that authorization of a Step-Two ACRM surcharge that includes the amount of the Step-One surcharge as well as the costs for net additional arsenic related plant not included in the Step-One ACRM surcharge and on-going recoverable arsenic related O&M expenses to remain in effect until new rates are established in a future rate case is appropriate.

THE COMMISSION

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Staff recommends approval of a single on-going Step-Two ACRM surcharge which supplants the previously approved Step-One ACRM surcharge comprised of the monthly customer components presented in Schedule ACRM GTM-1 and the commodity rate components presented in Schedule ACRM GTM-2.

Staff further recommends that the Company file with the Commission an arsenic remediation surcharge tariff consistent with Schedules ACRM GTM-1 and ACRM GTM-2.

Staff further recommends that Arizona American Water Company's Havasu Water District notify its customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of the Commission Decision in this case.



Ernest G. Johnson
Director
Utilities Division

EGJ:GM:lhm\JFW

ORIGINATOR: Gary McMurry

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 MIKE GLEASON
Chairman
3 WILLIAM A. MUNDELL
Commissioner
4 JEFF HATCH-MILLER
Commissioner
5 KRISTIN K. MAYES
Commissioner
6 GARY PIERCE
Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
OF ARIZONA-AMERICAN WATER)
9 COMPANY, TO IMPLEMENT STEP TWO)
OF ITS ARSENIC COST RECOVERY)
10 MECHANISM FOR ITS HAVASU)
11 DISTRICT)

DOCKET NOS. W-01303A-05-0280
WS-01303A-02-0867
WS-01303A-02-0869
WS-01303A-02-0870

12 DECISION NO. _____

13 **ORDER**

14 Open Meeting
November 12 and 13, 2008
15 Phoenix, Arizona

16 BY THE COMMISSION:

17 **I. INTRODUCTION**

18 1. Pursuant to Decision Nos. 68310 and 69162, Arizona American Water Company
19 (“Company”, “Applicant” or “AAW”) filed an application on April 14, 2008, with the Arizona
20 Corporation Commission (“Commission”) requesting authorization to implement Step-Two of the
21 Arsenic Cost Recovery Mechanism (“ACRM”) for its Havasu Water District.

22 2. Pursuant to Decision No. 69181,¹ AAW implemented Step-One of its ACRM
23 surcharge. The Step-One surcharge added \$5.62 to the monthly customer charge for a customer
24 with a 5/8-inch meter and \$0.6302 per thousand gallons to the commodity rate. The Step-One
25 surcharge authorized in Decision No. 69181 increased the average customer bill (based on 10,140
gallons used on a 5/8-inch meter in 2006) by \$12.01 from \$25.53 to \$37.54 (47.1 percent).

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28 ¹ Issued December 5, 2006.

1 3. The Company's present application proposes to maintain the Step-One ACRM
2 surcharge and supplement it with a Step-Two ACRM surcharge which would add \$2.85² to the
3 monthly customer charge for a 5/8-inch meter and \$0.2885 per thousand gallons to the commodity
4 rate for all use and generate \$135,638 of additional annual revenue. The Step-Two ACRM
5 surcharge, as proposed by the Company, increases the average residential customer bill by \$6.23
6 from \$41.06 (based on consumption of 11,750 gallons for a 5/8-inch meter in 2008) to \$47.29
7 (15.2 percent).³ The Company's Step-Two ACRM surcharge proposes to recover net additional
8 arsenic related plant not included in the Step-One surcharge and on-going recoverable arsenic
9 O&M expenses. As directed by Decision No. 69162, the Company has excluded from its Step-
10 Two ACRM surcharge filing a request to implement a temporary, 12-month ACRM surcharge to
11 recover O&M costs capitalized in the 12-month period prior to the Step-Two ACRM surcharge
12 filing, and to defer recovery of those amounts to its next rate case which it filed on May 1, 2008.

12 4. Staff's agrees with the Company's calculation of the additional and total revenues
13 to be collected via ACRM surcharges and to the amounts to be collected from each customer.
14 However, Staff recommends simplifying the ACRM surcharge authorizations and customer
15 billing. Instead of maintaining the existing Step-One ACRM surcharge and adding a Step-Two
16 ACRM surcharge, Staff recommends supplanting the Step-one ACRM surcharge and absorbing it
17 into the Step-Two ACRM surcharge resulting in a single surcharge that recovers the same amount
18 as the two separate surcharges proposed by the Company. A single ACRM surcharge is more
19 efficient to bill, and it more clearly shows the current cost of arsenic remediation.

19 5. Combining the monthly customer charge and commodity rate portions of the Step-
20 One ACRM surcharge with the Company's proposed Step-Two ACRM surcharge results in an
21 \$8.47⁴ monthly customer charge (5/8-inch meter) and a \$0.9187⁵ per thousand gallons commodity
22 rate. Such a combined permanent surcharge results in the same monthly bill for all customers as
23 would two separate surcharges. For example, the monthly bill for the average residential customer
24 using 11,750 gallons remains \$47.29 as it is with the Company's proposal. Thus, the average
25 customer would still experience a \$6.23 monthly bill increase over a bill with the Step-One ACRM
26 surcharge. The \$47.29 average monthly bill is composed of a \$28.03 base rate amount and a

27 ² The amount increases for larger meters.

28 ³ The 2008 calculation is based on a 5/8-inch meter customer charge and consumption of 11,750 gallons.

⁴ \$5.62 + \$2.85 = \$8.47.

⁵ \$0.6302 + \$0.2885 = \$0.9187.

1 \$19.26 combined ACRM surcharge amount, and reflects that arsenic remediation has increased the
2 average monthly bill by 68.7 percent.⁶

3 6. Staff's recommended permanent Step-Two ACRM monthly customer surcharges
4 are presented in GTM-1 and the commodity rate surcharges are presented in GTM-2. Staff
5 recommends a permanent or on-going ACRM surcharge to remain in effect until rates are
6 authorized in a future rate case.

6 **II. BACKGROUND**

7 7. The United States Environmental Protection Agency ("EPA") reduced the drinking
8 water maximum contaminant level of arsenic from 50 parts per billion ("ppb") to 10 ppb for all
9 community water systems and non-transient non-community water systems effective January 23,
10 2006.

11 8. On November 22 and December 13, 2002, AAW filed applications with the
12 Commission for a permanent rate increase for five of its water districts, including the Havasu
13 water district. Decision No. 67093, issued on June 30, 2004, established permanent rate increases
14 for all five districts.

15 9. On December 17, 2004, AAW filed a motion requesting the Commission to reopen
16 the dockets underlying Decision No. 67093 to allow consideration of a request for imposition of an
17 ACRM within the context of the fair value rate base findings of the rate case dockets.

18 10. On November 14, 2005, the Commission issued Decision No. 68310 granting
19 AAW the authority to implement an ACRM in four water districts including the Havasu district
20 and a Havasu District Arsenic Impact Fee ("AIF") Tariff.

21 11. On December 5, 2006, the Commission issued Decision No. 69162 modifying the
22 ACRM for the Havasu District by directing the Company to capitalize eligible O&M costs for 12
23 months prior to the Step-Two ACRM surcharge filing and deferring recovery of those costs until
24 the next Havasu District rate case.

25 12. On April 14, 2008, AAW filed an application to implement Step-Two of its ACRM
26 for its Havasu Water District as authorized by Decision Nos. 68310 and 69162. In conformity
27 with Decision Nos. 68310 and 69162, AAW seeks a surcharge to recover a return on its arsenic
28 remediation investment not included in the Step-One ACRM surcharge, related depreciation

⁶ \$19.26 ÷ \$28.03 = 68.7 percent.

1 expense and income taxes and eligible on-going arsenic related O&M expenses. In accordance
2 with Decision No. 69162, the Company is seeking recovery of only the on-going O&M expenses
3 at this time and is requesting recovery of O&M expenses deferred in the 12 months prior to its
4 Step-Two ACRM surcharge filing in its next rate case.

5 **III. AUTHORIZATION FOR AN ARSENIC COST RECOVERY MECHANISM**
6 **(DECISION NOS. 68310)**

7 13. Decision No. 68310 conditioned approval of an ACRM surcharge on the Company
8 complying with all requirements discussed in the Order including:

- 9 a. Filing hard copies of ten schedules (balance sheet, income statement, earnings test, rate
10 review, arsenic revenue requirement, surcharge calculation, adjusted rate base schedule,
11 construction work in progress ledger, four-factor allocation and typical bill analysis) to
12 show the actual cost of construction of arsenic related facilities and that the projected
13 rate of return with the ACRM surcharge does not exceed authorized levels. This
14 earnings test is to include adjustments conforming to Decision No. 67093.
- 15 b. Providing any relevant data requested by Staff to support the ACRM increase.
- 16 c. Modifying the rate base calculation for the Havasu Water District to explicitly show a
17 deduction for Arsenic Impact Fee collections.
- 18 d. Concurrently provide, along with the hard copies, Microsoft Excel or compatible
19 electronic versions of the ACRM filings and all work papers.
- 20 e. Filing with Docket Control by January 31st of each year an annual calendar year status
21 report, until the AIF Tariff is no longer in effect, listing all customers that have paid the
22 AIF, the amount each customer has paid, the amount of money spent from the AIF, and
23 a list of all facilities that have been installed with funds from the AIF Tariff during the
24 12-month period.
- 25 f. Filing, by April 1st of each year subsequent to any year in which it collects ACRM
26 surcharges, a report with the Utilities Division Director showing the Company's ending
27 capital structure by month in the prior calendar year.
- 28 g. Filing a full rate application no later than April 30, 2008⁷, based on a 2007 test year.
- h. Filing, as part of its annual report, an affidavit with the Utilities Division attesting that
the Company is current in paying its property taxes in Arizona.

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28 ⁷ Decision No. 69181 extended the filing deadline for Havasu to file a rate application to May 31, 2008.

1 **IV. AUTHORIZATION FOR A STEP-ONE ARSENIC COST RECOVERY MECHANISM**
2 **SURCHARGE (DECISION NO. 69162)**

3 14. Decision No. 69162 granted approval of a Step-One ACRM surcharge pursuant to
4 the ACRM authorized in Decision No. 68310 as discussed above. Decision No. 69162 modified
5 the ACRM for the Havasu District by directing the Company to capitalize prudently incurred,
6 eligible O&M costs for 12 months prior to the Step-Two ACRM surcharge filing to defer recovery
7 of those costs in the cost of service in the next Havasu District rate case.

8 **V. STAFF ANALYSIS**

9 **A. Filing Requirements Compliance**

10 15. Staff found no deficiencies in the Company’s Step-Two ACRM filing.

11 **B. ACRM SCHEDULES**

12 16. The Company’s ACRM Step-Two filing includes the following schedules:

- 13 a. Balance Sheet – a balance sheet for its Havasu Water District which is the most current
14 balance sheet at the time of the filing - December 31, 2007.
- 15 b. Income Statement – a most current income statement for its Havasu Water District -
16 period ending December 31, 2007.
- 17 c. Earnings Test – an “Earnings Test” calculation verifying that the proposed ACRM
18 surcharge revenue would not result in excess earnings in the Havasu Water District.
- 19 d. Rate Review – a rate review for the Havasu Water District based on the 12 months
20 ending December 31, 2007, reflecting adjustments to comply with the requirement of
21 Decision No. 68310 to make adjustments conforming to Decision No. 67093.
- 22 e. Arsenic Revenue Requirement Calculation – a Havasu Water District arsenic revenue
23 requirement calculation for Step-Two.
- 24 f. Surcharge Calculation – a detailed surcharge calculation presenting the monthly
25 minimum charges by meter size and customer class and the commodity rate per
26 thousand gallons for all customers in the Havasu Water District.
- 27 g. Rate Base – a schedule presenting the elements of rate base at December 31, 2007, and
28 showing the effects of the arsenic plant investment for the Havasu Water District.
- h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic
construction work in progress accounts for the Havasu Water District.

27 ...
28 ...

- 1
- 2 i. Four factor allocation schedule – a schedule showing the components of the four factor
- 3 allocation attributable to each of the water districts within AAW.
- 4 j. Typical Bill Analysis – ACRM Step-Two – a separate typical bill analysis showing the
- 5 effects on residential customers at the average residential usage for the Havasu Water
- 6 District.

7 17. Staff performed an examination of AAW's Havasu Water District Step-Two

8 ACRM surcharge filing for the Havasu Water District and concludes that it conforms to the

9 requirements specified in Decision Nos. 68310 and 69162. As directed by Decision No. 69162,

10 the Company has excluded from its Step-Two ACRM surcharge filing a request to implement a

11 temporary, 12-month ACRM surcharge to recover O&M costs capitalized in the 12-month period

12 prior to the Step-Two ACRM surcharge filing, and to defer recovery of those amounts to its next

13 rate case which it filed on May 1, 2008.

14 18. The ACRM schedules, as filed, provide for the calculation of a surcharge based on

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

16 amount that would not result in a rate of return on the Havasu Water District that would exceed

17 that authorized in Decision No. 67093.

18 **VI. RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") ANALYSIS**

19 19. On July 8, 2008, RUCO filed its report on its audit of AAW's Havasu Water

20 District Step-Two ACRM surcharge request. RUCO recommends a Step-Two ACRM surcharge

21 composed of a \$1.85 monthly minimum surcharge and a \$0.1878 per thousand gallons commodity

22 rate and \$88,300 of additional annual revenue. RUCO asserts that Decision No. 68310 authorized

23 recovery only of O&M costs and not capital costs. Accordingly, RUCO's recommended ACRM

24 surcharges reflect an adjustment to the Company's Step-Two ACRM revenue requirement to

25 remove the portion⁸ of the Company's request that pertains to arsenic plant additions that are not

26 included in the Step-One ACRM surcharge.

27 ...

28 ⁸ \$77,338 = \$135,638 - \$88,300

1 (“EPA”) new arsenic maximum contaminant level of 10 particles per billion (“ppb”) which went
2 into effect on January 23, 2001.

3 2. Pursuant to Decision Nos. 68310 and 69162, Arizona American Water Company
4 filed the required schedules prior to the implementation of the ACRM.

5 3. Staff’s examination of the Company’s posting of amounts to the CWIP ledger
6 showed that the postings accurately reflect the Company’s records, reconcile to the invoices
7 submitted and are mathematically correct.

8 4. Staff performed a field inspection and verified that the Havasu Water District’s
9 arsenic treatment facilities related to the Step-Two ACRM surcharge request are in service and
10 providing water that meets the new arsenic standard.

11 CONCLUSIONS OF LAW

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

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

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

19 4. It is in the public interest to approve the Company’s request for implementation of
20 the Step-Two ACRM as discussed herein.

21 ORDER

22 IT IS THEREFORE ORDERED that the application by Arizona American Water
23 Company’s Havasu Water District for the implementation of Step-Two of its Arsenic Cost
24 Recovery Mechanism is approved as discussed herein.

25 IT IS FURTHER ORDERED that the application by Arizona American Water Company’s
26 Havasu Water District for approval of Step-Two of its arsenic cost recovery mechanism surcharge
27 tariff shall be in accordance the combined monthly minimum charges and combined commodity
28 rates presented on the attached ACRM Schedules GTM-1 and GTM-2.

1 IT IS FURTHER ORDERED that Arizona American Water Company's Havasu Water
 2 District shall notify its customers of the arsenic cost recovery surcharge tariff approved herein
 3 within 30 days of the effective date of this Decision.

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

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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN	COMMISSIONER	
COMMISSIONER	COMMISSIONER	COMMISSIONER

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

 BRIAN C. McNEIL
 EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EGJ:GM:lhmJFW

1 SERVICE LIST FOR: Arizona American Water Company
2 DOCKET NOS. W-01303A-05-0280, et al.

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4 Craig A. Marks, PLC
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