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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission

DOCKETED

OCT 23 2008

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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. 70560

ORDER

Open Meeting
October 15 and 16, 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 2008.¹

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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28 ¹ 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,

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

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

6 The above schedules provide for the calculation of a surcharge based on financial
7 records and an Earnings Test Schedule to limit the ACRM Step-Two revenue to an amount
8 that would not result in a rate of return exceeding the rate authorized in Decision No.
9 68858.

10 **Filing Requirements Compliance**

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

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

14 18. Staff concluded that the ACRM schedules provide for the calculation of a surcharge
15 based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue
16 to an amount that would not result in a rate of return exceeding that authorized in Decision No.
17 68858.

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

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

25 21. Arizona-American Company has already complied with the requirement to file
26 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 surcharge² 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 ² 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 No. 68858 nor Decision No. 69396 prohibits the
9 recognition of additional arsenic related plant subsequent to implementation of Step-One.

10 35. On October 6, 2008, the Company filed an exception to Staff's recommended order
11 in which the Company identified several errors in ACRM Schedule GWB-1 that was attached to
12 the recommended order. Attached to the exception was the Company's revised Schedule GWB-1,
13 which incorporates the Company's corrections to the errors.

14 36. On October 9, 2008, Staff filed a response to the Company's exceptions in which
15 Staff concurred with the corrections incorporated in the Company's revised Schedule GWB-1,
16 which we will therefore adopt.

17 CONCLUSIONS OF LAW

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

20 2. The Commission has jurisdiction over the Company and of the subject matter of the
21 application.

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

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

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ORDER

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

IT IS FURTHER ORDERED that the application by Arizona-American Water Company for its Paradise Valley Districts for approval of an arsenic cost recovery mechanism surcharge tariff shall be in accordance with the attached revised ACRM Schedule GWB-1. As indicated on Schedule GWB-1, the rates thereon shall be reduced in accordance with the Commission amendment to Decision No. 68858 on August 27, 2008, and the recovery of deferred O&M costs will cease after 12 months from the effective date of the Decision in this proceeding.

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

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

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


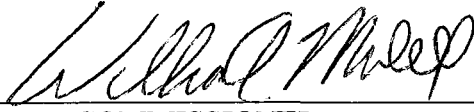
IT IS FURTHER ORDERED that Arizona-American Water Company shall notify its customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of this Decision.

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1 IT IS FURTHER ORDERED that Arizona-American Water Company shall file, by April
 2 1st 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.

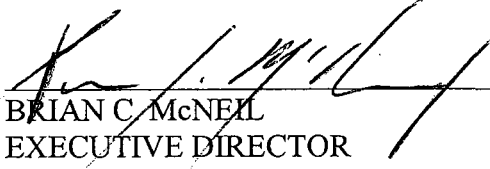
5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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

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 CHAIRMAN COMMISSIONER

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 COMMISSIONER COMMISSIONER COMMISSIONER

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 14 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
 15 Director of the Arizona Corporation Commission, have
 16 hereunto, set my hand and caused the official seal of this
 Commission to be affixed at the Capitol, in the City of
 Phoenix, this 23rd day of October, 2008.

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 19 BRIAN C. McNEIL
 EXECUTIVE DIRECTOR

20
 21 DISSENT: _____

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 23 DISSENT: _____

24 EGJ:GB:lhv\MAS

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

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REVISED GWB-1

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

RESIDENTIAL (See Note Below)

GWB-1
 Page 1 of 5

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. 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 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 ACRM Step 2 Application
 FIRST 12 Months O&M Recovery
 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	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	\$ 143.58	\$ 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 25,000 gallons	\$ 1.2134	\$ 0.0625	\$ 0.0121	\$ 1.2880	\$ 1.2134	\$ 0.0606	\$ 0.0121	\$ 1.2861
25,001 to 80,000 gallons	\$ 3.1034	\$ 0.0625	\$ 0.0121	\$ 3.1780	\$ 3.1034	\$ 0.0606	\$ 0.0121	\$ 3.1761
80,001 gallons and over	\$ 5.7834	\$ 0.0625	\$ 0.0121	\$ 5.8580	\$ 5.7834	\$ 0.0606	\$ 0.0121	\$ 5.8561

AFTER 12 Months O&M Recovery
 Company Proposed Rates

	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 25,000 gallons	\$ 1.2134	\$ 0.0625	\$ -	\$ 1.2759	\$ 1.2134	\$ 0.0606	\$ -	\$ 1.2740
25,001 to 80,000 gallons	\$ 3.1034	\$ 0.0625	\$ -	\$ 3.1659	\$ 3.1034	\$ 0.0606	\$ -	\$ 3.1640
80,001 gallons and over	\$ 5.7834	\$ 0.0625	\$ -	\$ 5.8459	\$ 5.7834	\$ 0.0606	\$ -	\$ 5.8440

Note: On September 3, 2008, the Commission issued Decision No. 70488 amending Decision No. 68858, thereby reducing the High Block 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:

FIRST 12 Months O&M Recovery
 Company Proposed Rates

	Decision No. 70488	ACRM - Step 2 12-month Total
Commodity Rates, Per 1000 gallons		
0 to 25,000 gallons	\$ 1.2880	\$ 1.2880
25,001 to 80,000 gallons	\$ 3.1780	\$ (1.00) \$ 2.1780
80,001 gallons and over	\$ 5.8580	\$ (2.15) \$ 3.7080

Staff Recommended Rates

	Decision No. 70488	ACRM - Step 2 12-month Total
Commodity Rates, Per 1000 gallons		
0 to 25,000 gallons	\$ 1.2861	\$ 1.2861
25,001 to 80,000 gallons	\$ 3.1761	\$ (1.00) \$ 2.1761
80,001 gallons and over	\$ 5.8561	\$ (2.15) \$ 3.7061

AFTER 12 Months O&M Recovery
 Company Proposed Rates

	Decision No. 70488	ACRM - Step 2 12-month Total
Company Proposed Rates	\$ 1.2759	\$ 1.2759
FIRST 12 Months O&M Recovery	\$ 3.1659	\$ (1.00) \$ 2.1659
Commodity Rates, Per 1000 gallons	\$ 5.8459	\$ (2.15) \$ 3.6959

Staff Recommended Rates

	Decision No. 70488	ACRM - Step 2 12-month Total
Company Proposed Rates	\$ 1.2740	\$ 1.2740
FIRST 12 Months O&M Recovery	\$ 3.1640	\$ (1.00) \$ 2.1640
Commodity Rates, Per 1000 gallons	\$ 5.8440	\$ (2.15) \$ 3.6940

REVISED GWB-1

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

GWB-1
 Page 2 of 5

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 ACRM Step 2 Application:
 FIRST 12 Months O&M Recovery
 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 400,000 gallons	\$ 1.7234	\$ 0.0625	\$ 0.0121	\$ 1.7980
400,001 gallons and over	\$ 5.1634	\$ 0.0625	\$ 0.0121	\$ 5.2380

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 400,000 gallons	\$ 1.7234	\$ 0.0606	\$ 0.0121	\$ 1.7961
400,001 gallons and over	\$ 5.1634	\$ 0.0606	\$ 0.0121	\$ 5.2361

AFTER 12 Months O&M Recovery
 Company Proposed Rates

	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 400,000 gallons	\$ 1.7234	\$ 0.0625	\$ -	\$ 1.7859
400,001 gallons and over	\$ 5.1634	\$ 0.0625	\$ -	\$ 5.2259

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	\$ -	\$ 871.96
Commodity Rates, Per 1000 gallons				
0 to 400,000 gallons	\$ 1.7234	\$ 0.0606	\$ -	\$ 1.7840
400,001 gallons and over	\$ 5.1634	\$ 0.0606	\$ -	\$ 5.2240

Note: On September 3, 2008, the Commission issued Decision No. 70488 amending Decision No. 68858, thereby reducing the High Block 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:

FIRST 12 Months O&M Recovery
 Company Proposed Rates

	Decision No. 70488	ACRM - Step 2 12-month Total
Commodity Rates, Per 1000 gallons		
0 to 400,000 gallons	\$ 1.7980	\$ 1.7980
400,001 gallons and over	\$ 5.2380	(2.15) \$ 3.0880

Staff Recommended Rates

	Decision No. 70488	ACRM - Step 2 12-month Total
Commodity Rates, Per 1000 gallons		
0 to 400,000 gallons	\$ 1.7961	\$ 1.7961
400,001 gallons and over	\$ 5.2361	(2.15) \$ 3.0861

AFTER 12 Months O&M Recovery
 Company Proposed Rates

	Decision No. 70488	ACRM - Step 2 12-month Total
Commodity Rates, Per 1000 gallons		
0 to 400,000 gallons	\$ 1.7859	\$ 1.7859
400,001 gallons and over	\$ 5.2259	(2.15) \$ 3.0759

Staff Recommended Rates

	Decision No. 70488	ACRM - Step 2 12-month Total
Commodity Rates, Per 1000 gallons		
0 to 400,000 gallons	\$ 1.7840	\$ 1.7840
400,001 gallons and over	\$ 5.2240	(2.15) \$ 3.0740

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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)

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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. 69396 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	\$ 1.2354
25,000,001 gallons and over	\$ 3.5275	\$ 0.3854	\$ 3.9129

Pending ACRM Step 2 Application:
 FIRST 12 Months O&M Recovery
 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 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	\$ 1.2988
25,000,001 gallons and over	\$ 3.9129	\$ 0.0531	\$ 0.0103	\$ 3.9763

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	\$ 1.2972
\$ 3.9129	\$ 0.0515	\$ 0.0103	\$ 3.9747

AFTER 12 Months O&M Recovery
 Company Proposed Rates

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 September 3, 2008, the Commission issued Decision No. 70488 amending Decision No. 68858, thereby reducing the High Block 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:

FIRST 12 Months O&M Recovery
 Company Proposed Rates

Commodity Rates, Per 1000 gallons	Decision No. 70488	ACRM - Step 2 12-month Total
0 to 25,000,000 gallons	\$ 1.2988	\$ 1.2988
25,000,001 gallons and over	\$ 3.9763	(1.8275) \$ 2.1488

Staff Recommended Rates

Decision No. 70488	ACRM - Step 2 12-month Total
\$ 1.2972	\$ 1.2972
\$ 3.9747	(1.8275) \$ 2.1472

AFTER 12 Months O&M Recovery
 Company Proposed Rates

Commodity Rates, Per 1000 gallons	Decision No. 70488	ACRM - Step 2 12-month Total
0 to 25,000,000 gallons	\$ 1.2885	\$ 1.2885
25,000,001 gallons and over	\$ 3.9660	(1.8275) \$ 2.1385

Staff Recommended Rates

Decision No. 70488	ACRM - Step 2 12-month Total
\$ 1.2869	\$ 1.2869
\$ 3.9644	(1.8275) \$ 2.1369

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

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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. 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 Gallons	\$ 1.00	\$ 0.4534	\$ 1.4534

Pending ACRM Step 2 Application:
 FIRST 12 Months O&M Recovery
 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 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
Minimum 5/8" Meter	\$ 24.34	\$ 1.96	\$ 0.39	\$ 26.69
Minimum 3/4" Meter	\$ 25.18	\$ 3.98	\$ 0.40	\$ 29.56
Minimum 1" Meter	\$ 40.60	\$ 4.11	\$ 0.65	\$ 45.37
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.53	\$ 1.31	\$ 89.82
Minimum 2" Meter	\$ 130.65	\$ 13.40	\$ 2.09	\$ 146.14
Minimum 3" Meter	\$ 242.09	\$ 21.35	\$ 3.88	\$ 267.32
Minimum 4" Meter	\$ 402.85	\$ 39.56	\$ 6.45	\$ 448.87
Minimum 6" Meter	\$ 806.97	\$ 65.84	\$ 12.93	\$ 885.74
Commodity Rates, Per 1000 gallons				
ALL Gallons	\$ 1.4534	\$ 0.0606	\$ 0.0121	\$ 1.5261

AFTER 12 Months O&M Recovery:
 Company Proposed Rates

	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
Minimum 5/8" Meter	\$ 24.34	\$ 1.96	\$ -	\$ 26.30
Minimum 3/4" Meter	\$ 25.18	\$ 3.98	\$ -	\$ 29.16
Minimum 1" Meter	\$ 40.60	\$ 4.11	\$ -	\$ 44.71
Minimum 1 1/2" Meter	\$ 81.98	\$ 6.53	\$ -	\$ 88.51
Minimum 2" Meter	\$ 130.65	\$ 13.40	\$ -	\$ 144.05
Minimum 3" Meter	\$ 242.09	\$ 21.35	\$ -	\$ 263.44
Minimum 4" Meter	\$ 402.85	\$ 39.56	\$ -	\$ 442.41
Minimum 6" Meter	\$ 806.97	\$ 65.84	\$ -	\$ 872.81
Commodity Rates, Per 1000 gallons				
ALL Gallons	\$ 1.4534	\$ 0.0606	\$ -	\$ 1.5140

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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 ACRM Step 2 Application:
FIRST 12 Months O&M Recovery
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

AFTER 12 Months O&M Recovery
Company Proposed Rates

	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

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 ¹	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 ¹	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 ²	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 ²	1.62863		(5) 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			ACRM Step 2 Staff	
						Reclassificator [B]	Removal [B]	Staff [C]	Plant, per [C]	Depreciation [D]
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	

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 Staff Depreciation Expense for ACRM Step-Two Plant, based on Staff's adjusted plant balance times depreciation rates in Decision No. 68858
- (D)

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	(A) Customers	(B) Total Gallons Sold	(C) Gallons Sold Per Cust.	(D) Monthly Minimum	(E) Minimum Multiples	(F) Equivalent Meters	(G) Monthly Base	(H) Base Total	(I) Monthly Deferred	(J) Monthly Deferred Total	(K) Deferred Total
1	Dec. 2006 (Year 1)	4,726	3,077,899	651.27	24.34	1.0	2,396	1.96	56,432	0.39	11,301	
2	Dec. 2007 (Year 2)	4,750	3,065,644	645.40	25.18	1.0	33	2.03	782	0.41	157	
3	Year 2 minus Year 1	24	(12,255)	(6)	40.60	1.7	3,376	3.27	79,519	0.66	15,924	
4	Percentage Change	0.51%	-0.40%	-0.90%	81.98	3.4	253	6.61	5,965	1.32	1,194	
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)		3,071,772		130.85	5.4	1,437	10.54	33,840	2.11	6,777	
6					242.09	9.9	229	19.52	5,401	3.91	1,082	
7					402.85	16.6	17	32.48	391	6.51	78	
8					806.97	33.2	166	65.07	3,914	13.03	784	
9												
10	Meter Size	Average Customers at Dec. 2007	Estimated Customers at Dec. 2008	Estimated Average Customers	Monthly Minimum	Minimum Multiples	Equivalent Meters	Monthly Base	Base Total	Monthly Deferred	Monthly Deferred Total	Deferred Total
11	5/8-inch	2,390	2,402	2,396	24.34	1.0	2,396	1.96	56,432	0.39	11,301	
12	3/4-inch	32	32	32	25.18	1.0	33	2.03	782	0.41	157	
13	1-inch	2,019	2,029	2,024	40.60	1.7	3,376	3.27	79,519	0.66	15,924	
14	1.5-inch	75	75	75	81.98	3.4	253	6.61	5,965	1.32	1,194	
15	2-inch	267	268	268	130.85	5.4	1,437	10.54	33,840	2.11	6,777	
16	3-inch	23	23	23	242.09	9.9	229	19.52	5,401	3.91	1,082	
17	4-inch	1	1	1	402.85	16.6	17	32.48	391	6.51	78	
18	6-inch	5	5	5	806.97	33.2	166	65.07	3,914	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				Commodity Surcharge							
26	Total costs to be recovered (Sch. 5 Col A Ln 16)				Minimum Surcharge							
27	Monthly Minimum Revenue (Col B Ln 26 + 2)		\$ 372,488	\$ 186,244	\$ 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	94,893								
32	Minimum Surcharge (Ln 27 + Ln 31)											
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				Commodity Surcharge							
41	Total deferred O&M costs to be recovered (Sch. 5 Col A Ln 6)		\$ 74,593	\$ 37,296	\$ 37,296							
42	Monthly Minimum Revenue (Col B Ln 41 + 2)											
43	Commodity Revenue (Col B Ln 41 + 2)											
44												
45	Monthly Increment Per Equivalent Meter											
46	Equivalent Meters (Col F Ln 22 x 12 Months)		94,893	94,893								
47	Minimum Surcharge (Ln 42 + Ln 46)											
48												
49	Average Gallons (Col B Ln 5)											
50	Commodity Surcharge (Ln 43 + Ln 50)				3,071,772							
51												
52												

Arizona-American Water Co., Inc.
 Docket # W-01303A-05-00405
 Docket # W-01303A-05-0910
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M E M O R A N D U M

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

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.

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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 (\$) ¹	Co.'s Total Step II Cost (\$)	Staff Recommended Reclassification ²	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) ¹	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) ²	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) ³	3,567
344	Laboratory Equipment	1,633	(1,091)	541			541
346	Communication Equipment	117,152	(78,311)	38,841		(27,333) ⁴	11,508
	Total	2,587,299	(5,216,549)	2,587,299	0	(38,012)	2,549,287

- 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.

¹ Plant allocation factors were provided by the Company.

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