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BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES  
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Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

Arizona Corporation Commission

DOCKETED

JAN 20 2009

DOCKETED BY	<i>nr</i>
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IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, AN ARIZONA  
CORPORATION, FOR AUTHORITY TO  
IMPLEMENT STEP TWO OF AN ARSENIC  
COST RECOVERY MECHANISM FOR ITS  
SUN CITY WEST WATER DISTRICT

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

DECISION NO. 70703

ORDER

Open Meeting  
January 13 and 14, 2009  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**A. Introduction**

1. Pursuant to Decision No. 68310,<sup>1</sup> Arizona-American Water Company ("Company", "Applicant" or "AAW") filed an application on April 30, 2008, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step Two of its Sun City West Water District ("District") Arsenic Cost Recovery Mechanism ("ACRM"). On December 16, 2008, the AAW filed a revised application with the Commission.

2. 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

<sup>1</sup> Issued November 14, 2005.

1 January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb  
2 effective January 23, 2006.

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

5 4. Pursuant to Decision No. 68310, Arizona American Water Company filed the  
6 required schedules for Commission approval prior to the implementation of the ACRM.

7 **B. Background**

8 5. On November 22 and December 13, 2002, the AAW filed applications with the  
9 Arizona Corporation Commission ("Commission") for fair value determinations of its utility plant  
10 and for permanent rate increases for ten of its districts (Sun City West Water, Sun City West  
11 Wastewater, Sun City Water, Sun City Wastewater, Mohave Water, Havasu Water, Anthem  
12 Water, Agua Fria Water, Anthem/Agua Fria Wastewater and Tubac Water). On June 30, 2004, the  
13 Commission issued Decision No. 67093 establishing permanent rates for these ten districts.

14 6. On February 15, 2005, the Commission issued Decision No. 67593 granting the  
15 Company's request to reopen the record in its rate case concluded by Decision No. 67093 for the  
16 limited purpose of serving as evidentiary basis for future ACRM filings for the affected Arizona-  
17 American water districts.

18 7. By Procedural Order issued March 29, 2005, Arizona-American was directed to file  
19 a new application indicating the relief sought regarding the ACRM, and to consolidate the new  
20 application with those existing dockets from Decision No. 67093 that would be affected by the  
21 specific relief request in its filing.

22 8. On April 15, 2005, the AAW filed an application (Docket No. W-01303A-05-0280)  
23 for authority to implement ACRMs for its Agua Fria Water, Sun City West Water, Havasu Water,  
24 and Tubac Water Districts. On May 4, 2005, the Company filed a Motion to Delete the Tubac  
25 Water District from its application. By Procedural Order issued May 6, 2005, the Company's  
26 request to delete the Tubac Water District from its application was approved.

27 9. The Commission issued Decision No. 68310 granting the Company's application  
28 for authority to implement an Arsenic Cost Recovery Mechanism in its Agua Fria Water, Sun City  
West Water and Havasu Water Districts and a Havasu District Arsenic Impact Fee Tariff subject to  
the terms and conditions contained in that Decision.

1           10.     On August 30, 2006, AAW filed an application with the Commission requesting  
2 authorization to implement Step-One of the ACRM for its Sun City Water District. On December  
3 5, 2006, the Commission issued Decision No. 69173 granting AAW the authority to implement  
4 Step-One of its ACRM.

5           11.     The Step-One surcharge added \$3.70 to the monthly customer charge for a  
6 customer with a 5/8-inch meter and \$0.4592 per 1,000 gallons to the commodity rate. The average  
7 residential customer bill (with usage of 10,023 gallons) increased by approximately \$8.31 (or  
8 48.85 percent) from \$17.01 to \$25.32.

9           12.     AAW filed an application to implement a Step-Two of its ACRM on April 30,  
10 2008. The Step-Two application sought to recover eligible arsenic related O&M cost and net  
11 additional arsenic related plant not included in the Step-One surcharge. On December 16, 2008,  
12 AAW filed a revised application with the Commission. The revised Step-Two ACRM application  
13 seeks only to recover eligible arsenic related O&M cost.

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

15           13.     The Company's present application proposes to maintain the Step-One ACRM  
16 surcharge and supplement it with a Step-Two ACRM surcharge. The Step-Two surcharge is  
17 composed of permanent or on-going components and temporary (12-months) components. The  
18 permanent portion includes a \$0.36 monthly customer charge and a \$0.0439 per 1,000 gallons  
19 commodity rate, and the temporary portion includes a \$0.36 monthly customer charge and a  
20 \$0.0439 per 1,000 gallons commodity rate.<sup>2</sup> The permanent components provide for recovery of  
21 on-going recoverable arsenic O&M expenses. The temporary components provide for recovery of  
22 deferred recoverable arsenic O&M expenses that the Company incurred for 12 months beginning  
23 with the operation of the arsenic remediation. Decision No. 68310 provides for the Company to  
24 defer recoverable O&M expenses and recover the deferred amount over 12 months. The  
25 permanent components would remain effective until rates are established in a future rate case. The  
26 temporary components would expire 12 months subsequent to their implementation date.

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<sup>2</sup> These monthly customer charges pertain to 5/8-inch and 3/4-inch customers. The amount increases for larger meters.

1           14. Under the Company's Step-Two proposal, the average residential customer bill  
2 (with usage of 9,430 gallons)<sup>3</sup> would increase by approximately \$1.54 from \$24.28 to \$25.82 (6.4  
3 percent) over the Step-One bill in the initial 12-month period until the temporary components  
4 expire. At the end of the initial 12-month period, the average residential customer bill would  
5 decrease by \$0.77 from \$25.82 to \$25.05 (3.0 percent). The permanent and temporary Step-Two  
6 amounts combined with the Step-One amounts approved by Decision No. 69173 would result in  
7 total ACRM charges of \$10.29 to the average residential customer bill composed of \$4.42<sup>4</sup> for the  
8 monthly customer charge and \$5.16 (\$0.5470<sup>5</sup> per 1,000 gallons x 9.430 M-gallons) for  
9 commodity charges.

9 **D. Authorization for an Arsenic Cost Recovery Mechanism (Decision No. 68310)**

10           15. Decision No. 68310 conditioned approval of an ACRM surcharge on the Company  
11 complying with all requirements discussed in the Order including the following criteria:

- 12           a. AAW shall file certain schedules described below and show the actual cost of  
13 construction of arsenic related facilities. In addition, the projected rate of return  
14 with the ACRM may not exceed authorized levels. Such schedules include an  
15 earnings test in support of the ACRM. This earnings test is to include adjustments  
16 conforming to Decision No. 67093.
- 17           b. AAW shall also file, by April 1 of each year in which it collects surcharges, a report  
18 with Docket Control showing the Company's capital structure as of each month end  
19 in the prior calendar year.
- 20           c. AAW shall file a permanent rate application no later than April 30, 2008.<sup>6</sup>
- 21           d. AAW shall apply all ACRM surcharges on a volumetric basis and equally to all  
22 usage tiers.

23           16. Decision No. 69073 granted approval of Step-One of the ACRM surcharge that was  
24 provided for in Decision No. 68310 as discussed above. While Decision No. 69073 approved the  
25 Step-One surcharge, it did not add any additional conditions that were not specified in Decision  
26 No. 69073.

27 <sup>3</sup> The average residential usage decreased from 10,023 gallons per month since the step-one application.

28 <sup>4</sup> \$3.70, step-one + \$0.36, permanent step-one + and \$0.36, temporary step-two = \$4.42.

<sup>5</sup> \$0.4592, step-one + \$0.0439, permanent step-two + and \$0.0439, temporary step-two = \$0.5470.

<sup>6</sup> On May 1, 2008, the Company filed a rate application for 10 of its systems including Sun City West Water using a  
test year ending December 31, 2007.

1 **E. AUTHORIZATION FOR A STEP-ONE ARSENIC COST RECOVERY**  
2 **MECHANISM SURCHARGE (DECISION NO. 69396)**

3 17. Decision No. 69396 granted approval of a Step-One ACRM surcharge pursuant to  
4 the ACRM authorized in Decision No. 68858 as discussed above. Decision No. 69396 made no  
5 modifications to the ACRM as originally authorized in Decision No. 68858.

6 **F. Staff's Analysis**

7 **ACRM Schedules**

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

- 9 a. Balance Sheet – as of December 31, 2007.
- 10 b. Income Statement – period ending December 31, 2007.
- 11 c. Income Statement Adjustments (Earnings Test) – to conform to Decision No.  
12 67093.
- 13 d. Rate Review – a rate review filing for the District.
- 14 e. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for  
15 Step-Two.
- 16 f. Surcharge Calculation – a detailed calculation for all permanent and temporary  
17 surcharge components for the District.
- 18 g. Rate Base – a schedule showing the elements and the calculation of the rate base as  
19 of December 31, 2007.
- 20 h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the  
21 construction work in progress account.
- 22 i. Four Factor Allocation – a schedule showing the allocation factors to be used for  
23 expense allocation. The “four factors” include ratios of each system’s Plant in  
24 Service, General Metered Customers, Salaries and Wages, and Direct O&M,  
25 excluding labor, as they relate to the total for all systems. A schedule showing the  
26 allocation of common plant and based on the relative customer counts is also  
27 included in the application.
- 28 j. Typical Bill Analysis – ACRM Step 2 – A typical bill analysis showing the effects  
on 5/8-inch meter residential customers at the average residential usage of at 9,430  
gallons for Sun City West Water customers.

**Staff's Findings**

19. Staff found no deficiencies related to the Company's ACRM filing.

20. Staff concludes that the filed 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. 67093.

21. Staff further concludes that neither Decision No. 68310 nor Decision No. 66400 prohibits the recognition of additional arsenic related plant subsequent to the implementation of Step-One, as argued by the Residential Utility Consumers Office ("RUCO") as discussed below.

22. Staff further concludes that an adjustment to the Company's schedules is appropriate to correct for an error in recording an operating expense that resulted in a \$19,463 overstatement of expenses. This adjustment is shown on the attached Schedule BCA-3 and has the net effect of reducing revenue requirements by \$19,463 from the Company's proposed amount of \$175,096 to \$155,633. The ACRM plant is discussed in the attached Engineering Report. Staff concludes that the Company has adequately supported the remaining amounts requested for recovery of its O&M expenses.

23. The Staff recommended adjustment on Schedule BCA-3 would reduce the revenue requirement by \$19,463.

24. The calculation of surcharges using Staff's recommended revenue requirement is shown on BCA-4.

25. Under Staff's Step-Two recommendation, the previously approved Step-One surcharges (\$3.70 monthly customer charge for 5/8-inch residential customers)<sup>7</sup> and \$0.4592 per thousand gallons commodity rate for all customers are supplanted by the Step-Two surcharges. Using Staff's recommended Step-Two revenue requirement, the monthly customer charge increases to \$4.34 and the commodity rate per thousand gallons for all customers increases to \$0.5373 and the average residential customer bill (with usage of 9,430 gallons) increases by approximately \$1.37 from \$24.28 to \$25.65 (5.7 percent) over the Step-One level in the initial 12-month period until the temporary components expire.<sup>8</sup> The permanent portion of the Step-Two

<sup>7</sup> The monthly customer charge increases for larger meters.

<sup>8</sup> The temporary components provide recovery of deferred O&M expenses.

1 ACRM surcharge contributes to \$0.69 of the \$1.37 increase. At the end of the initial 12-month  
2 period, the monthly customer charge would decrease by \$0.32 and the commodity rate per  
3 thousand gallons decreases by \$0.0391 and the average residential customer bill would decrease by  
4 \$0.69 from \$25.65 to \$24.96 (2.7 percent).

5 26. Staff recommends further clarification regarding the recovery of deferred O&M  
6 expenses. Staff notes that the Company seeks recovery of deferred O&M as provided for in  
7 Decision No. 68310 but the supporting schedules in its present application do not clearly state that  
8 these amounts will cease at the end of a 12 month recovery period. If this application is approved,  
9 provision should be made so that the recovery of deferred O&M expenses cease after the 12 month  
10 recovery period.

11 27. As shown in Schedule BCA-1, Staff recommends approval of a single permanent  
12 Step-Two ACRM surcharge that supplants and absorbs the previously approved Step-One ACRM  
13 surcharge and adds on-going, recoverable, and arsenic related O&M expenses to remain in effect  
14 until the effective date of new rates established in the pending rate case.

15 28. Staff further recommends approval of a temporary Step-Two ACRM surcharge as  
16 shown on Schedule BCA-1 to recover the deferred O&M expenses as authorized in Decision No.  
17 68310. This temporary surcharge will cease 12 months subsequent to the effective date of the  
18 surcharge established in this proceeding.

19 29. Staff concludes that Arizona-American Company has already complied with the  
20 requirement to file permanent rate applications for its Sun City West District no later than  
21 September 30, 2008.

22 **G. RUCO's Analysis**

23 30. On June 17, 2008, RUCO filed a Report on its audit of the initial ACRM  
24 application<sup>9</sup> and recommends two adjustments. Citing Decision No. 68310, RUCO states that  
25 recovery of incremental plant not included in the Step-one surcharge is not authorized. RUCO  
26 also cites Decision No. 66400 to support its assertion that recover of incremental plant is not

27 \_\_\_\_\_  
28 <sup>9</sup> RUCO did not file comments on the revised application.

1 authorize, but it does not specify which part of the application is not conforming with this  
2 Decision. Accordingly, RUCO removed all incremental plant. RUCO also removed \$19,463 of  
3 O&M expense involving chemical costs which it asserts is due to a calculation error by AAW.

4 CONCLUSIONS OF LAW

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

7 2. The Commission has jurisdiction over the Company and of the subject matter of the  
8 application.

9 3. Approval of an arsenic cost recovery mechanism is consistent with the  
10 Commission's authority under the Arizona Constitution, Arizona ratemaking statues and  
11 applicable case law.

12 4. It is in the public interest to approve the Company's request for implementation of  
13 the Step-two ACRM.

14 ORDER

15 IT IS THEREFORE ORDERED that the application by Arizona-American Water  
16 Company for the implementation of Step-Two of the Arsenic Recovery Mechanism for its Sun  
17 City West Water District is approved as discussed herein.

18 IT IS FURTHER ORDERED that the application by Arizona-American Water Company  
19 for its Sun City West Water District for approval of an arsenic cost recovery mechanism surcharge  
20 tariff shall be in accordance with the attached ACRM Schedule BCA-1 whereby the on-going  
21 Step-Two ACRM surcharge supplants the Step-One ACRM surcharge and the recovery of deferred  
22 O&M costs will cease after 12 months from the effective date of the Decision in this proceeding.

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

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

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1 IT IS FURTHER ORDERED that Arizona-American Water Company file with the  
2 Commission's Docket Control an arsenic remedial surcharge tariff consistent with this Decision,  
3 within 30 days of the effective date of this Decision.

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

7 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 20th day of JAN, 2009.

  
BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

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

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

EGJ:BCA:lhm\AH

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

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Arizona-American Water Company - Sun City West  
Docket Nos. W-01303A-05-0280 et al  
ACRM Step Two

STAFF RECOMMENDED

	[A] Dec. No. 67093 (No ACRM)	[B] Dec. No. 69173 (ACRM 1)	[C]	[D] <u>Total Current Rates</u>	[E]	[F]	[G]
<b>Monthly Minimum Charges</b>							
Minimum 5/8" Meter	\$ 5.87	\$ 3.70		\$ 9.57			
Minimum 3/4" Meter	\$ 5.87	\$ 3.70		\$ 9.57			
Minimum 1" Meter	\$ 14.97	\$ 9.43		\$ 24.40			
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20		\$ 52.28			
Minimum 2" Meter	\$ 47.05	\$ 29.63		\$ 76.68			
Minimum 3" Meter	\$ 81.26	\$ 51.17		\$ 132.43			
Minimum 4" Meter	\$ 120.82	\$ 76.08		\$ 196.90			
Minimum 6" Meter	\$ 165.73	\$ 104.35		\$ 270.08			
Minimum 8" Meter	\$ 374.23	\$ 235.87		\$ 610.10			
<b>Commodity Rates, Per 1000 gallons</b>							
<b>Residential (5/8-inch and 3/4-inch):</b>							
0 to 4,000 gallons	\$ 0.8500	\$ 0.4592		\$ 1.3092			
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.4592		\$ 1.7442			
15,001 gallons and over	\$ 1.5510	\$ 0.4592		\$ 2.0102			
<b>All Others:</b>							
0 to 15,000 gallons	\$ 1.2850	\$ 0.4592		\$ 1.7442			
15,001 gallons and over	\$ 1.5510	\$ 0.4592		\$ 2.0102			
<b>Pending Application - 12-months</b>							
	<u>Per Decision and 67093</u>	<u>Dec. No. 69173 (ACRM 1)</u>	<u>ACRM - Step 2 On-going O&amp;M</u>	<u>Total On-going ACRM (Col. B + Col. C)</u>	<u>ACRM - Step 2 Deferred 12-month O&amp;M</u>	<u>ACRM - Step 2 Combined On-going &amp; 12-month</u>	<u>ACRM - Step 2 12-month Total Rates</u>
<b>Monthly Minimum Charges</b>							
Minimum 5/8" Meter	\$ 5.87	\$ 3.70	\$ 0.32	\$ 4.02	\$ 0.32	\$ 4.34	\$ 10.21
Minimum 3/4" Meter	\$ 5.87	\$ 3.70	\$ 0.32	\$ 4.02	\$ 0.32	\$ 4.34	\$ 10.21
Minimum 1" Meter	\$ 14.97	\$ 9.43	\$ 0.81	\$ 10.24	\$ 0.81	\$ 11.05	\$ 26.02
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20	\$ 1.74	\$ 21.94	\$ 1.74	\$ 23.67	\$ 55.75
Minimum 2" Meter	\$ 47.05	\$ 29.63	\$ 2.55	\$ 32.18	\$ 2.55	\$ 34.73	\$ 81.78
Minimum 3" Meter	\$ 81.26	\$ 51.17	\$ 4.40	\$ 55.57	\$ 4.40	\$ 59.97	\$ 141.23
Minimum 4" Meter	\$ 120.82	\$ 76.08	\$ 6.54	\$ 82.62	\$ 6.54	\$ 89.17	\$ 209.99
Minimum 6" Meter	\$ 165.73	\$ 104.35	\$ 8.97	\$ 113.32	\$ 8.97	\$ 122.30	\$ 288.03
Minimum 8" Meter	\$ 374.23	\$ 235.87	\$ 20.27	\$ 256.14	\$ 20.27	\$ 276.40	\$ 650.63
<b>Commodity Rates, Per 1000 gallons</b>							
<b>Residential (5/8-inch and 3/4-inch):</b>							
0 to 4,000 gallons	\$ 0.8500	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.3873
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.8223
15,001 gallons and over	\$ 1.5510	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 2.0883
<b>All Others:</b>							
0 to 15,000 gallons	\$ 1.2850	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 1.8223
15,001 gallons and over	\$ 1.5510	\$ 0.4592	\$ 0.0391	\$ 0.4983	\$ 0.0391	\$ 0.5373	\$ 2.0883
<b>Pending Application - On-going</b>							
	<u>Per Decision and 67093</u>			<u>Total On-going ACRM</u>			<u>ACRM - Step 2 On-going Total Rates</u>
<b>Monthly Minimum Charges</b>							
Minimum 5/8" Meter	\$ 5.87			\$ 4.02			\$ 9.89
Minimum 3/4" Meter	\$ 5.87			\$ 4.02			\$ 9.89
Minimum 1" Meter	\$ 14.97			\$ 10.24			\$ 25.21
Minimum 1 1/2" Meter	\$ 32.08			\$ 21.94			\$ 54.02
Minimum 2" Meter	\$ 47.05			\$ 32.18			\$ 79.23
Minimum 3" Meter	\$ 81.26			\$ 55.57			\$ 136.83
Minimum 4" Meter	\$ 120.82			\$ 82.62			\$ 203.44
Minimum 6" Meter	\$ 165.73			\$ 113.32			\$ 279.05
Minimum 8" Meter	\$ 374.23			\$ 256.14			\$ 630.37
<b>Commodity Rates, Per 1000 gallons</b>							
<b>Residential (5/8-inch and 3/4-inch):</b>							
0 to 4,000 gallons	\$ 0.8500			\$ 0.4983			\$ 1.3483
4,001 to 15,000 gallons	\$ 1.2850			\$ 0.4983			\$ 1.7833
15,001 gallons and over	\$ 1.5510			\$ 0.4983			\$ 2.0493
<b>All Others:</b>							
0 to 15,000 gallons	\$ 1.2850			\$ 0.4983			\$ 1.7833
15,001 gallons and over	\$ 1.5510			\$ 0.4983			\$ 2.0493

Arizona-American Water Company - Sun City West  
 Docket Nos. W-01303A-05-0280 et al  
 ACRM Step Two

Schedule BCA-2  
 Page 1 of 1

**Company Proposed**

Monthly Minimum Charges	Dec. No. 67093	Dec. No. 69173	Total Current Rates	
	(No ACRM)	(ACRM 1)		
Minimum 5/8" Meter	\$ 5.87	\$ 3.70	\$	9.57
Minimum 3/4" Meter	\$ 5.87	\$ 3.70	\$	9.57
Minimum 1" Meter	\$ 14.97	\$ 9.43	\$	24.40
Minimum 1 1/2" Meter	\$ 32.08	\$ 20.20	\$	52.28
Minimum 2" Meter	\$ 47.05	\$ 29.63	\$	76.68
Minimum 3" Meter	\$ 81.26	\$ 51.17	\$	132.43
Minimum 4" Meter	\$ 120.82	\$ 76.08	\$	196.90
Minimum 6" Meter	\$ 165.73	\$ 104.35	\$	270.08
Minimum 8" Meter	\$ 374.23	\$ 235.87	\$	610.10

Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):				
0 to 4,000 gallons	\$ 0.8500	0.4592	\$	1.3092
4,001 to 15,000 gallons	\$ 1.2850	0.4592	\$	1.7442
15,001 gallons and over	\$ 1.5510	0.4592	\$	2.0102
All Others:				
0 to 15,000 gallons	\$ 1.2850	\$ 0.4592	\$	1.7442
15,001 gallons and over	\$ 1.5510	\$ 0.4592	\$	2.0102

Pending Application - 12-months	Per Decision	ACRM - Step 2	ACRM - Step 2	ACRM - Step 2
	Nos. 67093 & 69173	On-going O&M	Deferred 12-month O&M	12-month Total Rates
<b>Monthly Minimum Charges</b>				
Minimum 5/8" Meter	\$ 9.57	\$ 0.36	\$ 0.36	\$ 10.29
Minimum 3/4" Meter	\$ 9.57	\$ 0.36	\$ 0.36	\$ 10.29
Minimum 1" Meter	\$ 24.40	\$ 0.91	\$ 0.91	\$ 26.22
Minimum 1 1/2" Meter	\$ 52.28	\$ 1.95	\$ 1.95	\$ 56.17
Minimum 2" Meter	\$ 76.68	\$ 2.87	\$ 2.87	\$ 82.41
Minimum 3" Meter	\$ 132.43	\$ 4.95	\$ 4.95	\$ 142.34
Minimum 4" Meter	\$ 196.90	\$ 7.36	\$ 7.36	\$ 211.62
Minimum 6" Meter	\$ 270.08	\$ 10.09	\$ 10.09	\$ 290.27
Minimum 8" Meter	\$ 610.10	\$ 22.95	\$ 22.95	\$ 656.00

Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):				
0 to 4,000 gallons	\$ 0.8500	\$ 0.0439	\$ 0.0439	\$ 0.9379
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.0439	\$ 0.0439	\$ 1.3729
15,001 gallons and over	\$ 1.5510	\$ 0.0439	\$ 0.0439	\$ 1.6389
All Others:				
0 to 15,000 gallons	\$ 1.7442	\$ 0.0439	\$ 0.0439	\$ 1.8321
15,001 gallons and over	\$ 2.0102	\$ 0.0439	\$ 0.0439	\$ 2.0981

Pending Application - On-going	Per Decision	ACRM - Step 2	ACRM - Step 2	ACRM - Step 2
	Nos. 67093 & 69173	On-going O&M	Deferred 12-month O&M	On-going Total
<b>Monthly Minimum Charges</b>				
Minimum 5/8" Meter	\$ 9.57	\$ 0.36	\$ -	\$ 9.93
Minimum 3/4" Meter	\$ 9.57	\$ 0.36	\$ -	\$ 9.93
Minimum 1" Meter	\$ 24.40	\$ 0.91	\$ -	\$ 25.31
Minimum 1 1/2" Meter	\$ 52.28	\$ 1.95	\$ -	\$ 54.23
Minimum 2" Meter	\$ 76.68	\$ 2.87	\$ -	\$ 79.55
Minimum 3" Meter	\$ 132.43	\$ 4.95	\$ -	\$ 137.38
Minimum 4" Meter	\$ 196.90	\$ 7.36	\$ -	\$ 204.26
Minimum 6" Meter	\$ 270.08	\$ 10.09	\$ -	\$ 280.17
Minimum 8" Meter	\$ 610.10	\$ 22.95	\$ -	\$ 633.05

Commodity Rates, Per 1000 gallons

Residential (5/8-inch and 3/4-inch):				
0 to 4,000 gallons	\$ 0.8500	\$ 0.0439	\$ -	\$ 0.8939
4,001 to 15,000 gallons	\$ 1.2850	\$ 0.0439	\$ -	\$ 1.3289
15,001 gallons and over	\$ 1.5510	\$ 0.0439	\$ -	\$ 1.5949
All Others:				
0 to 15,000 gallons	\$ 1.7442	\$ 0.0439	\$ -	\$ 1.7881
15,001 gallons and over	\$ 2.0102	\$ 0.0439	\$ -	\$ 2.0541

ARSENIC PLANT AND O&M EXPENSES

Line No.	Company Proposed [A]	Staff Adjustment [B] Staff	Staff Recommended [C]
1	\$ -	\$ -	\$ -
2	\$ -	\$ -	\$ -
3	\$ -	\$ -	\$ -
4	\$ 2.78%	\$ -	\$ -
5	\$ -	\$ -	\$ -
6	\$ -	\$ -	\$ -
7	\$ 175,096	\$ (19,463) (1)	\$ 155,633
8	\$ 107,511	\$ (11,950) (2)	\$ 95,561
9	\$ (107,511)	\$ (11,950)	\$ (95,561)
10	\$ -	\$ -	\$ -
11	6.50%	0.00%	6.50%
12	\$ -	\$ -	\$ -
13	\$ 107,511	\$ 11,950	\$ 95,561
14	1.62863	\$ -	1.62863
15	\$ 175,096	\$ (19,463)	\$ 155,633
16	\$ -	\$ -	\$ -
17	\$ -	\$ -	\$ -
18	\$ -	\$ -	\$ -
19	\$ -	\$ -	\$ -
20	\$ -	\$ -	\$ -
36	\$ -	\$ -	\$ -
37	\$ -	\$ -	\$ -
38	\$ -	\$ -	\$ -

Arizona-American Water Company  
 Sun City West Water District  
 Docket No. W-01303A-05-0280 et al.  
 12 Months Ending December, 2007  
 Arsenic Revenue Requirement

Arsenic Plant Revenue Requirement  
 Gross Arsenic Plant in Service/Rate Base Step 2  
 Accumulated Depreciation of Arsenic Plant (Step 1)  
 Net Arsenic Plant in Service/Rate Base Step 2 (Ln.2 - Ln. 3)  
 Depreciation rate on Step 2 (Sch.BCA-3 Ln.30 Col.L, Rounded)  
 Depreciation expense Step 2 (Sch.BCA-3 Ln. 30 Col. K)  
 Depreciation expense net of tax<sup>1</sup> (Ln.6 x (1-Tax Rate)  
 Recoverable O&M costs - Ongoing  
 Recoverable O&M costs-Ongoing net of tax<sup>1</sup> (Ln.8 x (1-Tax Rate)  
 Arsenic Operating Income Step 2 -(Ln. 7 + Ln. 9)  
 Rate of return (Ln.10 / Ln. 2)  
 Required Rate of Return<sup>2</sup>  
 Required Operating Income on Net Arsenic Plant in Service Step 2 (Ln.4xLn.12)  
 Operating Income deficiency Step 2 (Ln.13 - Ln. 10)  
 Gross revenue conversion factor<sup>2</sup>  
 Revenue deficiency (Ln.14 x Ln.15)

Explanation of Adjustments:  
 (1) Adjustment to remove double counted O&M expense  
 (2) Net effect of adjustment 1  
<sup>1</sup>38.5986 % tax rate per Decision No. 67093  
<sup>2</sup>Decision No. 67093

Arizona-American Water Company  
 Sun City West Water District  
 Docket No. W-01303A-05-0280 et. al.  
 12 Months Ending December, 2007  
 Surcharge Calculation

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

Line No.	Growth	Customers	Total Gallons Sold Per Cust.	Estimated Customers at 31-Dec-07	Estimated Customers at 31-Dec-08	Estimated Average Customers	Monthly Minimum	Minimum Multiples	Equivalent Meters	Monthly Base	Base Total	Monthly Deferred	Deferred Total
1		15,416	2,008,303	14,375	14,386	14,380	\$ 9.57	1.0	14,380	\$ 0.32	\$ 54,853	\$ 0.32	\$ 54,853
2	Dec. 2006 (Year 1)	15,428	1,976,010	3	3	3	9.57	1.0	3	0.32	11	0.32	11
3	Dec. 2007 (Year 2)	12	(32,293)	212	212	212	24.40	2.5	541	0.81	2,065	0.81	2,065
4	Year 2 minus Year 1	0.08%	-1.61%	546	546	546	52.28	5.5	2,981	1.74	11,372	1.74	11,372
5	Percentage Change			277	277	277	76.68	8.0	2,220	2.55	8,467	2.55	8,467
6	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)		1,992,157	15	15	15	132.43	13.8	206	4.40	784	4.40	784
7				2	2	2	196.90	20.6	41	6.54	157	6.54	157
8				1	1	1	270.08	28.2	28	8.97	108	8.97	108
9				-	-	-	35.22	3.7	-	1.17	-	1.17	-
10				-	-	-	52.84	5.5	-	1.76	-	1.76	-
11				-	-	-	70.45	7.4	-	2.34	-	2.34	-
12				15,430	15,442	15,436			20,401		\$ 77,817		\$ 77,817
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Arizona-American Water Company  
 Sun City West Water District  
 Docket No. W-01303A-05-0280 et al.  
 12 Months Ending December, 2007  
 Revised Typical Bill Analysis - ACRM Step-2

Schedule BCA-5

## Residential Customers

Line No.	[A]	[B]	[C]	[D]
	Gallons Consumption	Step One Present Rates	Step Two 12-month Staff Recommended Rates	Percent Increase
1				
2	-	\$ 9.57	\$ 10.21	6.6%
3	1,000	\$ 10.88	\$ 11.59	6.6%
4	2,000	\$ 12.19	\$ 12.98	6.5%
5	3,000	\$ 13.50	\$ 14.37	6.4%
6	4,000	\$ 14.81	\$ 15.76	6.4%
7	5,000	\$ 16.55	\$ 17.58	6.2%
8	6,000	\$ 18.30	\$ 19.40	6.0%
9	7,000	\$ 20.04	\$ 21.22	5.9%
10	8,000	\$ 21.78	\$ 23.04	5.8%
11	9,000	\$ 23.53	\$ 24.87	5.7%
	9,430	\$ 24.28	\$ 25.65	5.7%
12	10,000	\$ 25.27	\$ 26.69	5.6%
14	11,000	\$ 27.02	\$ 28.51	5.5%
15	12,000	\$ 28.76	\$ 30.33	5.5%
16	13,000	\$ 30.50	\$ 32.16	5.4%
17	14,000	\$ 32.25	\$ 33.98	5.4%
18	15,000	\$ 33.99	\$ 35.80	5.3%
19	16,000	\$ 36.00	\$ 37.89	5.2%
20	17,000	\$ 38.01	\$ 39.98	5.2%
21	18,000	\$ 40.02	\$ 42.07	5.1%
22	19,000	\$ 42.03	\$ 44.15	5.0%
23	20,000	\$ 44.04	\$ 46.24	5.0%
24	21,000	\$ 46.05	\$ 48.33	4.9%
25	22,000	\$ 48.06	\$ 50.42	4.9%
26	23,000	\$ 50.07	\$ 52.51	4.9%
27	24,000	\$ 52.08	\$ 54.60	4.8%
28	25,000	\$ 54.10	\$ 56.68	4.8%
29				
30				
31	Average Residential Consumption (1,000 Gal)	9.43		
32	Average Residential Bill	\$ 24.28	\$ 25.65	5.7%
33				
34	Monthly Minimum Rate	\$ 9.57	\$ 10.21	6.6%
35	Commodity Rate 0 to 4,000 gallons	1.3092	1.3873	6.0%
36	Commodity Rate 4,001 to 15,000 gallons	1.7442	1.8223	4.5%
37	Commodity Rate 15,001 gallons and over	2.0102	2.0883	3.9%