

# ORIGINAL OPEN MEETING

## MEMORANDUM



0000097631

Arizona Corporation Commission  
**DOCKETED**

JUN 11 2009

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 11, 2009



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

### I. Introduction

Pursuant to Decision Nos. 67093, 67593, 68310, and 68825, Arizona-American Water Company ("Arizona-American", "Company", or "AAW") filed an application on October 10, 2008, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-Two of the Arsenic Cost Recovery Mechanism ("ACRM") for its Agua Fria Water District.

The Commission established the ACRM to aid the Company in its efforts to comply with the United States Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes both fixed and volumetric charges.

Pursuant to Decision No. 68310, AAW's Step-Two ACRM filing includes the schedules the Commission requires as a condition for approval to implement an ACRM.

### II. Background

On November 22 and December 13, 2002, Arizona-American filed applications with the Commission for fair value determinations of its utility plant and for permanent rate increases for five of its districts (Sun City West Water and Wastewater, Sun City Water and Wastewater, Havasu and Mohave Water, Agua Fria Water and Wastewater, and Tubac Water). On June 30, 2004, the Commission issued Decision No. 67093 establishing permanent rate increases for these five districts.

On December 17, 2004, Arizona-American filed a motion requesting that the Commission reopen the record in the dockets underlying Decision No. 67093. Reopening the

record in those dockets was deemed necessary to allow consideration of a request for imposition of an Arsenic Cost Recovery Mechanism ("ACRM") within the context of the fair value rate base findings of the rate case dockets.

On February 15, 2005, the Commission issued Decision No. 67593 granting the Company's request to reopen the record in Decision No. 67093 for the limited purpose of serving as the evidentiary basis for future ACRM filings for the affected Arizona-American water districts.<sup>1</sup>

Decision No. 67593 was conditioned on dismissal of Arizona-American's pending appeals of Decision Nos. 67093 and 65453 within 30 days of the Decision. The appeals were subsequently dismissed.

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

On April 15, 2005, Arizona-American filed the above captioned application (Docket No. W-01303A-05-0280) for authority to implement ACRMs for its Agua Fria Water, Sun City West Water, Havasu Water, and Tubac Water Districts. As directed by the March 29, 2005 Procedural Order, the Company also filed direct testimony in support of the application, and a proposed form of public notice.

On May 4, 2005, the Company filed a Motion to Delete the Tubac Water District from its Application. The Motion stated that, in response to its customers' desires, Arizona-American is evaluating an alternative arsenic remediation technology for the Tubac District, and has asked the Arizona Department of Environmental Quality ("ADEQ") for a 12-month delay for compliance with the new federal maximum contaminant level ("MCL,") for arsenic in drinking water.

On November 14, 2005, the Commission issued Decision No. 68310 granting AAW's application for authority to implement an ACRM subject to the terms and conditions contained in the Decision.

On June 29, 2006, the Commission issued Decision No. 68825 granting AAW's application for authority to implement Step-One of its ACRM subject to the terms and conditions contained in the Decision.

The Step-One surcharge added \$1.37 to the monthly customer charge for a customer with a 5/8-inch meter and \$0.1598 per thousand gallons to the commodity rate. The average

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<sup>1</sup> Arizona-American was separately granted authority an ACRM for its Paradise Valley Water District in Decision No. 68858, dated July 28, 2006.

residential customer bill (with usage of 10,190 gallons on a 5/8-inch meter) increased by \$3.00 (or 11.0 percent) from \$27.35 to \$30.35.

On October 10, 2008, the Company filed its application to implement Step-Two of its ACRM. On May 6, 2009, the Company provided revised customer counts for its Step-Two application to Staff.

### III. Company's Current Application

#### As Filed

AAW's Step-Two ACRM application, as filed, seeks to recover eligible arsenic related O&M costs, depreciation expense, income taxes and updated values of arsenic related net plant. The Company's present application proposes to supplement the existing Step-One ACRM surcharge (\$1.37 monthly customer charge for 5/8-inch meter customers<sup>2</sup> and \$0.1598 per thousand gallons commodity rate) with two components, a permanent Step-Two surcharge with a \$1,218,037 annual revenue requirement and a temporary Step-Two ACRM surcharge with a \$683,036 revenue requirement. The permanent component of the Step-Two surcharge would increase the monthly minimum customer surcharge for a customer with a 5/8-inch meter by \$1.24 from \$1.37 to \$2.61 and would increase the surcharge commodity rate per thousand gallons by \$0.1102 from \$0.1598 to \$0.2700. The permanent portion of the Step-Two surcharge would increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over the Step-One level by \$2.36 (7.8 percent) from \$30.35 to \$32.71 and over the base rate level by \$5.36 (19.6 percent) from \$27.35 to \$32.71. The permanent Step-Two surcharge will remain in effect until new rates are authorized AAW's pending rate cases (W-01303A-08-0227 and SW-01303A-08-0227).

The temporary portion of the Step-Two surcharge provides for recovery of deferred O&M expenses and expires 12 months after implementation. The temporary component of the Company's proposed Step-Two ACRM surcharge would add \$0.70 to the monthly customer surcharge for 5/8-inch meter customers and \$0.0618 per thousand gallons to the surcharge commodity rate. Supplementing the Step-One surcharge with the combined permanent and temporary Step-Two ACRM surcharge components would result in a \$3.31 (\$2.61 + \$0.70) total monthly customer surcharge and a \$0.3318 (\$0.2700 + \$0.0618) surcharge commodity rate per thousand gallons. Supplementing the Step-One surcharge with the combined permanent and temporary portions of the Step-Two surcharge would increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over the Step-One level by \$3.69 (12.2 percent) from \$30.35 to \$34.04 and over the base rate level by \$6.69 (24.5 percent) from \$27.35 to \$34.04.

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<sup>2</sup>The monthly customer charge increases for larger meters.

With Revised Billing Determinants

On May 6, 2009, the Company provided revised customer billing determinants to Staff. The revised billing determinants represent an increase in customers from those in the filing; thus, the surcharge rates that support the ACRM revenue requirement are lower than those in the Company's initial filing. Using the revised billing determinants, the Company's requested Step-Two ACRM revenue requirement and supplementing the Step-One ACRM surcharge (\$1.37 monthly customer surcharge for 5/8-inch meter customers<sup>3</sup> and \$0.1598 per thousand gallons surcharge commodity rate) with two components, a permanent Step-Two surcharge and a temporary Step-Two ACRM surcharge, the permanent component of the Step-Two surcharge would increase the monthly minimum customer surcharge for a customer with a 5/8-inch meter by \$0.98 from \$1.37 to \$2.35 and would increase the surcharge commodity rate per thousand gallons by \$0.1102 from \$.1598 to \$0.2700. The permanent portion of the Step-Two surcharge would increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over the Step-One level by \$2.10 (6.9 percent) from \$30.35 to \$32.45 and over the base rate level by \$5.10 (18.6 percent) from \$27.35 to \$32.45.

Using the revised billing determinants, the temporary component of the Company's proposed Step-Two ACRM surcharge would add \$0.55 to the monthly customer charge for 5/8-inch meter customers and \$0.0618 per thousand gallons to the surcharge commodity rate. Supplementing the Step-One surcharge with the combined permanent and temporary Step-Two ACRM surcharge components would result in a \$2.90 (\$2.35 + \$0.55) monthly customer surcharge and a \$0.3318 (\$.2700 + \$0.0618) commodity surcharge rate per thousand gallons. Supplementing the Step-One surcharge with the combined permanent and temporary portions of the Step-Two surcharge would increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over the Step-One level by \$3.28 (10.8 percent) from \$30.35 to \$33.63 and over the base rate level by \$6.28 (23.0 percent) from \$27.35 to \$33.63.

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

Decision No. 68310 conditioned approval of an ACRM surcharge as follows:

1. Arizona-American shall comply with all requirements discussed in this Order as a condition of approval of the Arsenic Cost Recovery Mechanism.
2. Arizona-American shall file a plan with Docket Control by December 31, 2005, that describes how the Company expects to attain and maintain a capital structure (equity, long-term debt, and short-term debt) with equity representing between 40 and 60 percent of total capital.
3. Arizona-American shall file, by April 1 of each year subsequent to any year in which it collects surcharges under an ACRM, a report with the Utilities Division

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<sup>3</sup> The monthly customer charge increases for larger meters.

Director showing the Company's ending capital structure by month for the prior year.

4. Arizona-American shall modify the rate base calculation for the Havasu Water District to explicitly show a deduction for Arsenic Impact Fee collections.
5. That as part of the Earnings Test schedule filed in support of the ACRM, Arizona-American shall incorporate adjustments conforming to Decision No. 67093.
6. Arizona-American shall file the schedules discussed in its application, as modified by Staff's recommendations herein. Microsoft Excel or compatible electronic versions of the filings and all work papers should be filed concurrently with all ACRM filings.
7. Arizona-American shall file permanent rate applications for its Sun City West, Agua Fria, and Havasu districts by no later than April 30, 2008, based on a 2007 test year.
8. For the Havasu District, Arizona-American shall file with Docket Control by January 31st of each year, an annual calendar year status report, until the Arsenic Impact Fee ("AIF") Tariff is no longer in effect. The status report shall contain a list of 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.
9. Arizona-American shall file the schedules and information described above, as well as any additional relevant data requested by Staff, as part of any request for an Arsenic Cost Recovery Mechanism step increase.
10. The Commission is concerned about the impact on the bills of customers served by the Havasu system from the implementation of the ACRM. Consequently, we direct Staff and the Company to open a new proceeding to examine other forms of mitigation of the ACRM for the Havasu system, including the use of hook-up fees for adjacent systems.

**V. Authorization for a Step-One Arsenic Cost Recovery Mechanism (Decision No. 68825)**

Decision No. 68825 granted approval of a surcharge under Step-One of the provisions of the ACRM established in Decision No. 68310. It did not place any additional conditions to those specified in Decision No. 68310 for implementation of a surcharge.

## VI. Residential Utility Consumer Office (“RUCO”) Analysis

On December 30, 2008, RUCO filed its report on its audit of AAW’s Agua Fria Water District Step-Two ACRM surcharge request. RUCO took no exception to the Company’s filing stating that the ACRM Step-Two surcharges should be approved as filed.

## VIII. Staff Analysis

### A. Filing Requirements

Decision No. 68310<sup>4</sup> requires AAW to file ten ACRM schedules as follows: 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. The Company’s ACRM Step-Two filing includes the following ten schedules:

1. Balance Sheet – a balance sheet for its Agua Fria Water District which is the most current balance sheet at the time of the filing - August 31, 2008.
2. Income Statement – a most current income statement for its Agua Fria Water District – 12 month period ending August 31, 2008.
3. Earnings Test – an “Earnings Test” calculation verifying that the proposed ACRM surcharge revenue would not result in excess earnings in the Agua Fria Water District.
4. Rate Review – a rate review for the Agua Fria Water District based on the 12 months ending August 31, 2008, reflecting adjustments conforming to Decision No. 67093.
5. Arsenic Revenue Requirement Calculation – an Agua Fria 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 Agua Fria Water District.
7. Rate Base – a schedule presenting the elements of rate base at August 31, 2008, and showing the effects of the arsenic plant investment for the Agua Fria Water District.

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<sup>4</sup> Decision No. 68310, page 8, lines 4-7.

8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic construction work in progress accounts for the Agua Fria 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 Agua Fria Water District.

**B. Filing Requirements Compliance**

Staff performed an examination of AAW’s Step-Two ACRM surcharge filing for the Agua Fria Water District and concludes that it conforms to the requirements specified in Decision Nos. 68310 and 67093. Staff found that AAW’s filing included the required schedules. 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 for the Agua Fria Water District that would exceed that authorized in Decision No. 67093.

**C. Examination of Company Schedules and Utility Plant In Service**

Staff performed a field inspection and verified that the Agua Fria 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. See attached engineering report. However, Staff determined that the arsenic treatment facilities included excess capacity of 25 percent. Staff estimates the value of this excess capacity at \$126,352. Staff has adjusted for the overcapacity on the attached Schedule GWB-1.

Staff reviewed the Construction Work in Progress (“CWIP”) ledger submitted by the Company in support of its Step-Two ACRM filing and compared this ledger with the CWIP ledger submitted by the Company in its Step-One filing. Staff determined that some plant items valued at \$735,129 were duplicates. Staff removed the duplicate plant as shown in Schedule GWB-1.

Staff reviewed the AAW’s rate base schedule and notes that there is a clerical error whereby the accumulated depreciation for arsenic related plant is not carried to column [F] on Schedule ACRM-7, page 13 of 20. Further, AAW adjusted its Contributions in Aid of Construction (“CIAC”) for CIAC associated with construction work in progress (“CWIP”). Staff disagrees with this adjustment to the CIAC balance and has corrected the error and reinstated the CIAC to its actual balance as shown in the attached Schedule GWB-1. These two adjustments do not impact the calculation of ACRM surcharge rates in this proceeding.

Staff recalculated the Step-Two ACRM surcharge revenue requirement to reflect the effects of its adjustments to remove overcapacity of the arsenic treatment facilities and removal of the duplicate plant. As shown in the attached Schedule GWB-2, Staff calculated \$2,286,519 and \$683,036, respectively, for the permanent (line 18) and temporary (line 10) components of the Step-Two ACRM surcharge revenue requirement. Staff's Step-Two revenue requirement of \$2,286,519 is \$1,109,546 more than the \$1,176,973 in the Company's Step-One filing approved in Decision No. 68825. These amounts (\$1,109,546 and \$683,036) compare with AAW's permanent and temporary Step-Two ACRM surcharge revenue requirement components of \$1,218,037 and \$683,036, respectively.<sup>5</sup>

Staff recalculated the base Step-Two ACRM minimum charge and the commodity components used to design the surcharge rates for the various meter sizes and customer classes for the permanent and temporary revenue requirements as shown in the attached Schedule GWB-3.

Using the revised billing determinants provided by AAW, Staff recommends the permanent and temporary Step-Two ACRM monthly customer surcharges as presented in ACRM Schedule GWB-4 and the surcharge commodity rates as presented in ACRM Schedule GWB-5.

Staff recommends replacement of the Step-One ACRM surcharge (\$1.37 monthly customer charge for 5/8-inch meter customers<sup>6</sup> and \$0.1598 per thousand gallons commodity rate) with two components consisting of a permanent Step-Two ACRM surcharge and a temporary Step-Two ACRM surcharge. The permanent portion of Staff's recommended Step-Two ACRM surcharge would increase the monthly minimum customer surcharge for a customer with a 5/8-inch meter by \$0.47 from \$1.37 to \$1.84 and would increase the surcharge commodity rate per thousand gallons by \$0.0471 from \$0.1598 to \$0.2069. The permanent portion of Staff's recommended Step-Two ACRM surcharge would increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over the Step-One level by \$0.95 (3.14 percent) from \$30.35 to \$31.30 and would increase the average bill over the base rate level by \$3.95 (14.44 percent) from \$27.35 to \$31.30.

The temporary portion of the Step-Two surcharge provides for recovery of deferred O&M expenses and expires 12 months after implementation. The temporary portion of Staff's recommended Step-Two ACRM surcharge would add \$0.55 to the monthly customer surcharge for 5/8-inch meter customers and \$0.0618 per thousand gallons to the surcharge commodity rate. The combined permanent and temporary Step-Two ACRM surcharge would result in a \$2.39 (\$1.84 + \$0.55) monthly customer surcharge and a \$0.2687 (\$0.2069 + \$0.0618) surcharge commodity rate per thousand

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<sup>5</sup> AAW's proposal is to supplement versus to supplant the Step-One surcharge with the Step-Two surcharge.

<sup>6</sup> The monthly customer charge increases for larger meters.

gallons. The combined permanent and temporary portions of the Step-Two surcharge would increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over the Step-One level by \$2.13 (7.02 percent) from \$30.35 to \$32.48 and over the base rate level by \$5.13. (18.76 percent) from \$27.35 to \$32.48.

Staff recommends that the permanent, or on-going component, of the Step-Two surcharge remain in effect until new rates are authorized in AAW's pending rate cases in Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227 and that the temporary surcharge that provides for recovery of deferred O&M expenses expire 12 months after implementation.

## **IX. Conclusions and Recommendations**

Staff concludes that the Company has duly filed an ACRM application as required by Decision Nos. 68310 and 67093.

Staff concludes that authorization of a permanent Step-Two ACRM surcharge that supplants the Step-One ACRM surcharge and that includes costs for the updated net arsenic related plant and associated depreciation expense as well as the costs for eligible arsenic related O&M costs, lease expense and income taxes to remain in effect until new rates are established in the pending rate case is appropriate.

Staff further concludes that authorization of a temporary Step-Two ACRM surcharge that provides recovery of deferred O&M expenses and ceases 12 months after implementation is appropriate.

Staff further concludes that AAW has already complied with the requirement to file a permanent rate application for its Agua Fria Water District no later than September 30, 2008.

Staff recommends approval of a permanent Step-Two ACRM surcharge, which supplants the previously approved Step-One ACRM surcharge, comprised of the monthly customer components presented in ACRM Schedule GWB-4 and the commodity rate components presented in ACRM Schedule GWB-5.

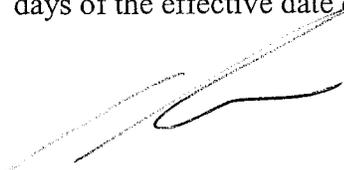
Staff further recommends that the Company file with the Commission an arsenic remedial surcharge tariff consistent with ACRM Schedules GWB-4 and GWB-5 that separately shows the permanent and temporary portions.

THE COMMISSION

June 11, 2009

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Staff further recommends that Arizona American Water Company notify its Agua Fria Water District customers of the arsenic cost recovery surcharge tariffs approved herein within 30 days of the effective date of the Commission Decision.



Ernest G. Johnson

Director

Utilities Division

*for*  
EGJ:GB:lm\AH

ORIGINATOR: Gerald Becker

Arizona-American Water Company  
 Agua Fria Water District  
 Docket No. W-01303A-05-0280, et.al.  
 12 Month Period Ending August, 2008  
 Rate Base

| LINE NO. | (A)<br>Per Decision 67093 | (B)<br>Arsenic Treatment Plant Increase | (C)<br>Decision Plus Arsenic Treatment Plant | (D)<br>Actual Balance Aug. 2008 | (E)<br>Step-Two Arsenic Treatment Plant Increase | (F)<br>Staff Adjustments | (G)<br>Actual Balance Plus Arsenic Trmt. Plant |
|----------|---------------------------|---|--|---------------------------------|--|--------------------------|--|
| 1        |                           |   |  |                                 |  |                          |  |
| 2        |                           |   |  |                                 |  |                          |  |
| 3        | \$ 51,062,107             | \$ 51,062,107                           | \$ 51,062,107                                | \$ 217,643,140                  |  |                          | \$ 217,643,140                                 |
| 4        | (5,020,828)               | (5,020,828)                             | (5,020,828)                                  | (22,386,862)                    |  |                          | (23,062,120)                                   |
| 5a       |                           | 4,368,749                               | 4,368,749                                    |                                 | 4,368,749  |                          |  |
| 5b       |                           |   |  |                                 |  | (126,352)                |  |
| 5c       |                           |   |  |                                 |  | (735,129)                |  |
| 6        |                           |   |  |                                 |  | (0)                      | 3,507,288                                      |
| 7        |                           |   |  |                                 |  |                          | (675,259)                                      |
| 8        | \$ 46,041,279             | \$ 4,368,749                            | \$ 50,410,028                                | \$ 195,256,278                  | \$ 3,693,490                                     | \$ (861,461)             | \$ 197,413,028                                 |
| 9        |                           |   |  |                                 |  |                          |  |
| 10       |                           |   |  |                                 |  |                          |  |
| 11       |                           |   |  |                                 |  |                          |  |
| 12       |                           |   |  |                                 |  |                          |  |
| 13       | 27,385,370                |   | 27,385,370                                   | 99,955,246                      |  |                          | 99,955,246                                     |
| 14       |                           |   |  | 27,385,370                      |  |                          | 27,385,370                                     |
| 15       |                           |   |  | (26,629,166)                    |  |                          | (26,629,166)                                   |
| 16       |                           |   |  | 36,392,845                      |  |                          | 36,392,845                                     |
| 17       |                           |   |  | (2,395,160)                     |  | 467,037                  | (2,395,160)                                    |
| 18       | 1,973,438                 |   | 1,973,438                                    | 1,973,438                       |  |                          | 1,973,438                                      |
| 19       |                           |   |  | (1,248,168)                     |  |                          | (1,248,168)                                    |
| 20       |                           |   |  |                                 |  |                          |  |
| 21       | 17,289                    |   | 17,289                                       | 20,230                          |  |                          | 20,230   |
| 22       |                           |   |  | (3,226,596)                     |  |                          | (3,226,596)                                    |
| 23       | \$ 29,376,097             | \$ -                                    | \$ 29,376,097                                | \$ 132,228,039                  | \$ -   | \$ 467,037               | \$ 132,695,076                                 |
| 24       |                           |   |  |                                 |  |                          |  |
| 25       |                           |   |  |                                 |  |                          |  |
| 26       |                           |   |  |                                 |  |                          |  |
| 27       |                           |   |  |                                 |  |                          |  |
| 28       |                           |   |  |                                 |  |                          |  |
| 29       |                           |   |  |                                 |  |                          |  |
| 30       |                           |   |  |                                 |  |                          |  |
| 31       |                           |   |  |                                 |  |                          |  |
| 32       |                           |   |  |                                 |  |                          |  |
| 33       | \$ 16,665,182             | \$ 4,368,749                            | \$ 21,033,931                                | \$ 63,028,239                   | \$ 3,693,490                                     | \$ (1,328,519)           | \$ 64,717,952                                  |
| 34       |                           |   |  |                                 |  |                          |  |

Note 1: Staff adjustment to remove overcapacity of arsenic treatment plant (\$126,352), consistent with Staff position in pending case, W-01303A-08-0227

Note 2: Staff adjustment to remove \$735,129 of arsenic treatment plant from this filing, as these amounts represent amounts already recognized in the Step 1 Arsenic Plant.

Note 3: Company amounts reflect a \$467,037 downward adj. for CIAC associated with plant not-yet-in-service (i.e., CWIP) Staff's adjustment reinstates \$467,037 of CIAC.

Arizona American Water Company  
 Agua Fria Water District  
 Docket No. W-01303A-05-0280, et.al.  
 12 Month Period Ending August, 2008  
 Revenue Requirement

| Line No. | [A]   | [B]                        | [C]                                | [D]   |
|----------|---|----------------------------|------------------------------------|---|
|          | Arsenic Plant Revenue Requirement:  |                            |                                    |   |
| 1        |   |                            |                                    |   |
| 2        | Step 1 Plant  | \$ 8,558,191               |                                    |   |
| 3        | Staff Recommended Net Increase in Arsenic Plant from Step 1 to Step 2       | \$ 3,507,268               |                                    |   |
| 4        | Gross Arsenic Plant in Service/Rate Base Step 2                             | \$ 12,065,459              |                                    |   |
| 5        | Accumulated Depreciation of Arsenic Plant Step 1 (Note 1)                   | (675,259)                  |                                    |   |
| 6        | Net Arsenic Plant in Service/Rate Base Step 2                               | 11,390,200                 |                                    |   |
| 7        | Depreciation rate on Step 2 arsenic plant <sup>1</sup>                      | 3.30%                      |                                    |   |
| 8        | Depreciation expense Step 2 (L4 * L 7)                                      | 397,704                    |                                    |   |
| 9        | Depreciation expense net of tax savings <sup>2</sup>                        | 244,196                    |                                    |   |
| 10       | Recoverable O&M costs - Ongoing   | 683,036                    |                                    |   |
| 11       | Recoverable O&M costs - Ongoing net of tax savings <sup>2</sup>             | 419,394                    |                                    |   |
| 12       | Arsenic Operating Income Step 2 (L9 + L11)                                  | \$ (663,590)               |                                    |   |
| 13       | Rate of return  | -5.83%                     |                                    |   |
| 14       | Required Rate of Return <sup>3</sup>  | 6.50%                      |                                    |   |
| 15       | Required Operating Income on Net Arsenic Plant in Service Step 2 (L4 * L14) | 740,363                    |                                    |   |
| 16       | Operating Income Deficiency Step 2  | 1,403,953                  |                                    |   |
| 17       | Gross revenue conversion factor <sup>3</sup>                                | 1.628663                   |                                    |   |
| 18       | Revenue deficiency  | \$ 2,286,519               |                                    |   |
| 19       |   |                            |                                    |   |
| 20       |   |                            |                                    |   |
| 21       |   |                            |                                    |   |
| 22       |   |                            |                                    |   |
| 23       |   |                            |                                    |   |
| 24       |   |                            |                                    |   |
| 25       |   |                            |                                    |   |
| 26       | Rates   |                            |                                    |   |
| 27       | Minimum 5/8" Meter  | Current Base Rates \$ 9.08 | Current ACRM Step 1 Surcharge 1.37 | Staff Recommended ACRM Step 2 Deferred O&M Surcharge 0.55 |
| 28       | Commodity Rate 0 to 4,000 gallons   | 1.3800                     | 0.1598                             | 0.0618  |
| 29       | Commodity Rate 4,001 to 15,000 gallons                                      | 2.0600                     | 0.1598                             | 0.0618  |
| 30       | Commodity Rate 15,001 gallons and over                                      | 2.4870                     | 0.1598                             | 0.0618  |
| 31       |   |                            |                                    |   |
| 32       |   |                            |                                    |   |
| 33       |   |                            |                                    |   |
| 34       |   |                            |                                    |   |
| 35       |   |                            |                                    |   |
| 36       |   |                            |                                    |   |
| 37       |   |                            |                                    |   |
| 38       |   |                            |                                    |   |
| 39       |   |                            |                                    |   |
| 40       |   |                            |                                    |   |
| 41       |   |                            |                                    |   |

Note 1: Staff recommended accumulated depreciation on arsenic plant included in the Step 1 ACRM surcharge.

<sup>1</sup>This depreciation rate is derived from Step 2 workpaper "Step 2 Depr Rate" and reflects the depreciation expenses of specific utility plant accounts using authorized depreciation rates for those specific accounts, per Decision No. 67093

<sup>2</sup>38.5986 % tax rate per Decision No. 67093

<sup>3</sup>Decision No. 67093

| Current ACRM Step 1 Surcharge | Staff Recommended ACRM Step 2 Base Surcharge | Staff Recommended ACRM Step 2 Deferred O&M Surcharge | Combined Staff Recommended Step-Two ACRM Surcharge | Total Staff Recommended |
|-------------------------------|--|--|--|-------------------------|
| \$ 1.37                       | \$ 1.84                                      | \$ 0.55  | \$ 2.39  | \$ 11.47                |
| 0.1598                        | 0.2069                                       | 0.0618   | 0.2687   | 1.6487                  |
| 0.1598                        | 0.2069                                       | 0.0618   | 0.2687   | 2.3287                  |
| 0.1598                        | 0.2069                                       | 0.0618   | 0.2687   | 2.7557                  |





Commodity Rate - Staff  
(ACRM STEP 2)

| Meter Size                       | Block Size (gallons) | (A) Base Commodity Rate<br>Dec. No. 67093 | (B) Step 1 Commodity Surcharge<br>Dec. No. 68825 | (C) Combined Base & Step 1 Commodity Rate<br>[A] + [B] | (D) Incremental Permanent Step 2 Commodity Surcharge | (E) Permanent Step 2 Commodity Surcharge<br>[B] + [D] | (F) Temporary Step 2 Commodity Surcharge | (G) Combined Permanent & Temporary Commodity Surcharge<br>[E] + [F] | (H) Combined Permanent & Temporary Base Commodity Surcharge<br>[A] + [E] + [F] | (I) Combined Permanent and Base Commodity Surcharge<br>[A] + [E] |
|----------------------------------|----------------------|---|--|--|--|---|--|---|--|--|
| Residential 5/8 & 3/4-inch       | First 4,000          | \$ 1,3800                                 | \$ 0.1598  | \$ 1,5398  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 1,6487  | \$ 1,5869  |
|                                  | Next 9,000           | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 13,000          | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Residential 1-inch               | First 45,000         | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 45,000          | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Residential 1.5-inch             | First 100,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 100,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Residential 2"                   | First 150,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 150,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Residential 3"                   | First 300,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 300,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Residential 6"                   | First 800,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 800,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Commercial 5/8 & 3/4"            | First 13,000         | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 13,000          | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Commercial 1"                    | First 45,000         | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 45,000          | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Commercial 1-1/2"                | First 100,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 100,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Commercial 2"                    | First 150,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 150,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Commercial 3"                    | First 300,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 300,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Commercial 4"                    | First 400,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 400,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Commercial 5"                    | First 600,000        | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 600,000         | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Commercial 8"                    | First 1,500,000      | \$ 2,0600                                 | \$ 0.1598  | \$ 2,2198  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,3287  | \$ 2,2669  |
|                                  | Over 1,500,000       | \$ 2,4870                                 | \$ 0.1598  | \$ 2,6468  | \$ 0.0471  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,7557  | \$ 2,6939  |
| Arizona Water Contract           | First 8,000          | \$ 1,7800                                 | \$ -   | \$ 1,7800  | \$ 0.2069  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,0487  | \$ 1,9869  |
|                                  | Over 8,000           | \$ 2,2400                                 | \$ -   | \$ 2,2400  | \$ 0.2069  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,5087  | \$ 2,4469  |
| OPA - State Prison               | All Usage            | \$ 1,9300                                 | \$ -   | \$ 1,9300  | \$ 0.2069  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 2,1987  | \$ 2,1369  |
| OWU PI Surprise All              | All Usage            | \$ 1,0000                                 | \$ -   | \$ 1,0000  | \$ 0.2069  | \$ 0.2069   | \$ 0.0618                                | \$ 0.2687   | \$ 1,2687  | \$ 1,2069  |
| Private Fire 4"                  | All Usage            | N/A                                       | \$ -   | N/A  | \$ -   | \$ -  | \$ -                                     | \$ -  | N/A  | N/A  |
| Private Fire 4"                  | All Usage            | N/A                                       | \$ -   | N/A  | \$ -   | \$ -  | \$ -                                     | \$ -  | N/A  | N/A  |
| Private Fire 6"                  | All Usage            | N/A                                       | \$ -   | N/A  | \$ -   | \$ -  | \$ -                                     | \$ -  | N/A  | N/A  |
| Private Fire 8"                  | All Usage            | N/A                                       | \$ -   | N/A  | \$ -   | \$ -  | \$ -                                     | \$ -  | N/A  | N/A  |
| Private Fire 12"                 | All Usage            | N/A                                       | \$ -   | N/A  | \$ -   | \$ -  | \$ -                                     | \$ -  | N/A  | N/A  |
| Private Fire 6"                  | All Usage            | N/A                                       | \$ -   | N/A  | \$ -   | \$ -  | \$ -                                     | \$ -  | N/A  | N/A  |
| Agua Fria Irrigation - Raw       | All Usage            | \$ 0.5000                                 | \$ -   | \$ 0.5000  | \$ -   | \$ -  | \$ -                                     | \$ -  | \$ 0.5000  | \$ 0.5000  |
| Agua Fria Irrigation Non Potable | All Usage            | \$ 0.6200                                 | \$ -   | \$ 0.6200  | \$ -   | \$ -  | \$ -                                     | \$ -  | \$ 0.6200  | \$ 0.6200  |

## MEMORANDUM

**DATE** April 23, 2009

**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. –  
Agua Fria Water District  
Docket Nos. W-01303A-02-0867; W-01303A-02-0869; W-01303A-02-0870;  
W-01303A-05-0280**

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### **Background**

In Decision No. 68310 (issued on November 15, 2005) the Arizona Corporation Commission (“ACC” or “Commission”) approved an Arsenic Cost Recovery Mechanism (“ACRM”) for Arizona-American Water Company – Agua Fria Water District (“Company” or “Agua Fria”). In Decision No. 68825 (issued on June 29, 2006), the Commission approved the ACRM Step I surcharge tariff for Agua Fria. On October 10, 2008, the Company filed its ACRM Step II surcharge tariff application for Agua Fria.

On September 10 and 11, 2008, ACC Staff (“Staff”) visited the Agua Fria water systems. Staff observed that five Arsenic Treatment Plants (“ATPs”) had been installed and were in-service at the time of Staff’s inspection. The specific plants inspected included ATP No. 1, ATP No. 2, ATP No. 5, Agua Fria Transmission Line (“AFTL”) #1 ATP and ATP No. 9.<sup>1</sup>

At the time of Staff’s inspection, the capital improvements associated with the ACRM Step II surcharge had been completed and were in-service.

### **Cost Analysis**

During its review of the Company’s pending rate case in Docket # W-01303A-08-0227, Staff determined that Agua Fria ATP No. 5 included excess capacity of 25 percent. Staff estimates the incremental plant investment associated with this excess capacity to be \$126,352.

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<sup>1</sup> ATP No. 5 has been in service since 2004. ATP No. 1 and ATP No. 2 have been in service since 2005. ATP AFTL #1 has been in service since 2007 and ATP No. 9 has been in service since 2008.

## **Summary**

## **Conclusions**

1. At the time of Staff's inspection, the capital improvements associated with the ACRM Step II surcharge had been completed and were in-service.

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

- KRISTIN K. MAYES  
Chairman
- GARY PIERCE  
Commissioner
- SANDRA KENNEDY  
Commissioner
- PAUL NEWMAN  
Commissioner
- BOB STUMP  
Commissioner

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 AGUA FRIA WATER DISTRICT

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

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

ORDER

Open Meeting  
June 23 and 24, 2009  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. Pursuant to Decision Nos. 67093, 67593, 68310, and 68825, Arizona-American Company ("Arizona-American", "Company", or "AAW") filed an application on October 10, 2008, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-Two of the Arsenic Cost Recovery Mechanism ("ACRM") for its Agua Fria Water District.

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

1 is effectuated through collection of a monthly arsenic surcharge that includes both fixed and  
2 volumetric charges.

3 3. Pursuant to Decision No. 68310, AAW's Step-Two ACRM filing includes the  
4 schedules the Commission requires as a condition for approval to implement an ACRM.

5 **Company's Current Application**

6 4. AAW's Step-Two ACRM application, as filed, seeks to recover eligible arsenic  
7 related O&M costs, depreciation expense, income taxes and updated values of arsenic related net  
8 plant. The Company's present application proposes to supplement the existing Step-One ACRM  
9 surcharge (\$1.37 monthly customer charge for 5/8-inch meter customers<sup>1</sup> and \$0.1598 per  
10 thousand gallons commodity rate) with two components, a permanent Step-Two surcharge with a  
11 \$1,218,037 annual revenue requirement and a temporary Step-Two ACRM surcharge with a  
12 \$683,036 revenue requirement. The permanent component of the Step-Two surcharge would  
13 increase the monthly minimum customer surcharge for a customer with a 5/8-inch meter by \$1.24  
14 from \$1.37 to \$2.61 and would increase the surcharge commodity rate per thousand gallons by  
15 \$0.1102 from \$.1598 to \$0.2700. The permanent portion of the Step-Two surcharge would  
16 increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over the  
17 Step-One level by \$2.36 (7.8 percent) from \$30.35 to \$32.71 and over the base rate level by \$5.36  
18 (19.6 percent) from \$27.35 to \$32.71. The permanent Step-Two surcharge will remain in effect  
19 until new rates are authorized in AAW's pending rate cases (Docket Nos. W-01303A-08-0227 and  
20 SW-01303A-08-0227).

21 5. The temporary portion of the Step-Two surcharge provides for recovery of deferred  
22 O&M expenses and expires 12 months after implementation. The temporary component of the  
23 Company's proposed Step-Two ACRM surcharge would add \$0.70 to the monthly customer  
24 surcharge for 5/8-inch meter customers and \$0.0618 per thousand gallons to the surcharge  
25 commodity rate. Supplementing the Step-One surcharge with the combined permanent and  
26 temporary Step-Two ACRM surcharge components would result in a \$3.31 (\$2.61 + \$0.70) total

27 \_\_\_\_\_  
28 <sup>1</sup> The monthly customer charge increases for larger meters.

1 monthly customer surcharge and a \$0.3318 ( $\$.2700 + \$0.0618$ ) surcharge commodity rate per  
2 thousand gallons. Supplementing the Step-One surcharge with the combined permanent and  
3 temporary portions of the Step-Two surcharge would increase the average customer bill (with  
4 usage of 10,190 gallons on a 5/8-inch meter) over the Step-One level by \$3.69 (12.2 percent) from  
5 \$30.35 to \$34.04 and over the base rate level by \$6.69 (24.5 percent) from \$27.35 to \$34.04.

6         6. On May 6, 2009, the Company provided revised customer billing determinants to  
7 Staff. The revised billing determinants represent an increase in customers from those in the filing;  
8 thus, the surcharge rates that support the ACRM revenue requirement are lower than those in the  
9 Company's initial filing. Using the revised billing determinants, the Company's requested Step-  
10 Two ACRM revenue requirement and supplementing the Step-One ACRM surcharge (\$1.37  
11 monthly customer surcharge for 5/8-inch meter customers<sup>2</sup> and \$0.1598 per thousand gallons  
12 surcharge commodity rate) with two components, a permanent Step-Two surcharge and a  
13 temporary Step-Two ACRM surcharge, the permanent component of the Step-Two surcharge  
14 would increase the monthly minimum customer surcharge for a customer with a 5/8-inch meter by  
15 \$0.98 from \$1.37 to \$2.35 and would increase the surcharge commodity rate per thousand gallons  
16 by \$0.1102 from \$.1598 to \$0.2700. The permanent portion of the Step-Two surcharge would  
17 increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over the  
18 Step-One level by \$2.10 (6.9 percent) from \$30.35 to \$32.45 and over the base rate level by \$5.10  
19 (18.6 percent) from \$27.35 to \$32.45.

20         7. Using the revised billing determinants, the temporary component of the Company's  
21 proposed Step-Two ACRM surcharge would add \$0.55 to the monthly customer charge for 5/8-  
22 inch meter customers and \$0.0618 per thousand gallons to the surcharge commodity rate.  
23 Supplementing the Step-One surcharge with the combined permanent and temporary Step-Two  
24 ACRM surcharge components would result in a \$2.90 ( $\$.235 + \$0.55$ ) monthly customer  
25 surcharge and a \$0.3318 ( $\$.2700 + \$0.0618$ ) commodity surcharge rate per thousand gallons.  
26 Supplementing the Step-One surcharge with the combined permanent and temporary portions of

27 \_\_\_\_\_

28 <sup>2</sup> The monthly customer charge increases for larger meters.

1 the Step-Two surcharge would increase the average customer bill (with usage of 10,190 gallons on  
2 a 5/8-inch meter) over the Step-One level by \$3.28 (10.8 percent) from \$30.35 to \$33.63 and over  
3 the base rate level by \$6.28 (23.0 percent) from \$27.35 to \$33.63.

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

5 8. Decision No. 68310 contained the following conditions for approval of an ACRM  
6 surcharge:

- 7 a. Arizona-American shall comply with all requirements discussed in this Order as a  
8 condition of approval of the Arsenic Cost Recovery Mechanism.
- 9 b. Arizona-American shall file a plan with Docket Control by December 31, 2005, that  
10 describes how the Company expects to attain and maintain a capital structure (equity,  
11 long-term debt, and short-term debt) with equity representing between 40 and 60  
12 percent of total capital.
- 13 c. Arizona-American shall file, by April 1 of each year subsequent to any year in which it  
14 collects surcharges under an ACRM, a report with the Utilities Division Director  
15 showing the Company's ending capital structure by month for the prior year.
- 16 d. Arizona-American shall modify the rate base calculation for the Havasu Water District  
17 to explicitly show a deduction for Arsenic Impact Fee collections.
- 18 e. That as part of the Earnings Test schedule filed in support of the ACRM, Arizona-  
19 American shall incorporate adjustments conforming to Decision No. 67093.
- 20 f. Arizona-American shall file the schedules discussed in its application, as modified by  
21 Staff's recommendations herein. Microsoft Excel or compatible electronic versions of  
22 the filings and all work papers should be filed concurrently with all ACRM filings.
- 23 g. Arizona-American shall file permanent rate applications for its Sun City West, Agua  
24 Fria, and Havasu districts by no later than April 30, 2008, based on a 2007 test year.
- 25 h. For the Havasu District, Arizona-American shall file with Docket Control by January  
26 31st of each year, an annual calendar year status report, until the Arsenic Impact Fee  
27 ("AIF") Tariff is no longer in effect. The status report shall contain a list of all  
28 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.
- i. Arizona-American shall file the schedules and information described above, as well as  
any additional relevant data requested by Staff, as part of any request for an Arsenic  
Cost Recovery Mechanism step increase.
- j. The Commission is concerned about the impact on the bills of customers served by the  
Havasú system from the implementation of the ACRM. Consequently, we direct Staff

1 and the Company to open a new proceeding to examine other forms of mitigation of the  
2 ACRM for the Havasu system, including the use of hook-up fees for adjacent systems.

3 **Authorization for a Step-One Arsenic Cost Recovery Mechanism (Decision No. 68825)**

4 9. Decision No. 68825 granted approval of a surcharge under Step-One of the  
5 provisions of the ACRM established in Decision No. 68310. It did not place any additional  
6 conditions to those specified in Decision No. 68310 for implementation of a surcharge.

7 **Residential Utility Consumer Office ("RUCO") Analysis**

8 10. On December 30, 2008, RUCO filed its report on its audit of AAW's Agua Fria  
9 Water District Step-Two ACRM surcharge request. RUCO took no exception to the Company's  
10 filing stating that the ACRM Step-Two surcharges should be approved as filed.

11 **Staff Analysis**

12 **Filing Requirements**

13 11. Decision No. 68310<sup>3</sup> requires AAW to file ten ACRM schedules as follows:  
14 balance sheet, income statement, earnings test, rate review, arsenic revenue requirement, surcharge  
15 calculation, adjusted rate base schedule, construction work in progress ledger, four-factor  
16 allocation and typical bill analysis. The Company's ACRM Step-Two filing includes the  
17 following ten schedules:

- 18 a. Balance Sheet – a balance sheet for its Agua Fria Water District which is the most  
19 current balance sheet at the time of the filing - August 31, 2008.
- 20 b. Income Statement – a most current income statement for its Agua Fria Water District –  
21 12 month period ending August 31, 2008.
- 22 c. Earnings Test – an "Earnings Test" calculation verifying that the proposed ACRM  
23 surcharge revenue would not result in excess earnings in the Agua Fria Water District
- 24 d. Rate Review – a rate review for the Agua Fria Water District based on the 12 months  
25 ending August 31, 2008, reflecting adjustments conforming to Decision No. 67093.
- 26 e. Arsenic Revenue Requirement Calculation – an Agua Fria Water District arsenic  
27 revenue requirement calculation for Step-Two.
- 28 ...

<sup>3</sup> Decision No. 68310, page 8, lines 4-7.

- 1 f. Surcharge Calculation – a detailed surcharge calculation presenting the monthly  
2 minimum charges by meter size and customer class and the commodity rate per  
3 thousand gallons for all customers in the Agua Fria Water District.
- 4 g. Rate Base – a schedule presenting the elements of rate base at August 31, 2008, and  
5 showing the effects of the arsenic plant investment for the Agua Fria Water District.
- 6 h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic  
7 construction work in progress accounts for the Agua Fria Water District.
- 8 i. Four factor allocation schedule – a schedule showing the components of the four factor  
9 allocation attributable to each of the water districts within AAW.
- 10 j. Typical Bill Analysis – ACRM Step-Two – a separate typical bill analysis showing the  
11 effects on residential customers at the average residential usage for the Agua Fria  
12 Water District.

### 11 Staff Findings

12 12. Staff performed an examination of AAW’s Step-Two ACRM surcharge filing for  
13 the Agua Fria Water District and concludes that it conforms to the requirements specified in  
14 Decision Nos. 68310 and 67093.

15 13. Staff found that AAW’s filing included the required schedules. The ACRM  
16 schedules, as filed, provide for the calculation of a surcharge based on financial records and an  
17 Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result  
18 in a rate of return for the Agua Fria Water District that would exceed that authorized in Decision  
19 No. 67093.

20 14. Staff found no deficiencies related to the Company’s ACRM filing.

21 15. Staff concludes that the filed schedules provide for the calculation of a surcharge  
22 based on financial records and an Earnings Test Schedule to limit the ACRM Step-Two revenue to  
23 an amount that would not result in a rate of return exceeding the rate authorized in Decision  
24 No. 67093.

25 16. Staff performed a field inspection and verified that the Agua Fria Water District’s  
26 arsenic treatment facilities related to the Step-Two ACRM surcharge request are in service and  
27 providing water that meets the new arsenic standard. However, Staff determined that the arsenic  
28 ...

1 treatment facilities included excess capacity of 25 percent. Staff estimates the value of this excess  
2 capacity at \$126,352. Staff adjusted for the overcapacity in Schedule GWB-1.

3 17. Staff reviewed the Construction Work in Progress (“CWIP”) ledger submitted by  
4 the Company in support of its Step-Two ACRM filing and compared this ledger with the CWIP  
5 ledger submitted by the Company in its Step-One filing. Staff determined that some plant items  
6 valued at \$735,129 were duplicates. Staff removed the duplicate plant and as shown in Schedule  
7 GWB-1.

8 18. Staff reviewed the AAW’s rate base schedule and notes that there is a clerical error  
9 whereby the accumulated depreciation for arsenic related plant is not carried to column [F] on  
10 Schedule ACRM-7, page 13 of 20. Further, AAW adjusted its Contributions in Aid of  
11 Construction (“CIAC”) for CIAC associated with construction work in progress (“CWIP”). Staff  
12 disagrees with this adjustment to the CIAC balance and has corrected the error and reinstated the  
13 CIAC to its actual balance as shown in the attached Schedule GWB-1. These two adjustments do  
14 not impact the calculation of ACRM surcharge rates in this proceeding.

15 19. Staff recalculated the Step-Two ACRM surcharge revenue requirement to reflect  
16 the effects of its adjustments to remove overcapacity of the arsenic treatment facilities and removal  
17 of the duplicate plant items. As shown in the attached Schedule GWB-2, Staff calculated  
18 \$2,286,519 and \$683,036, respectively, for the permanent (line 18) and temporary (line 10)  
19 components of the Step-Two ACRM surcharge revenue requirement. Staff’s Step-Two revenue  
20 requirement of \$2,286,519 is \$1,109,546 more than the \$1,176,973 in the Company’s Step-One  
21 filing approved in Decision No. 68825. These amounts (\$1,109,546 and \$683,036) compare with  
22 AAW’s permanent and temporary Step-Two ACRM surcharge revenue requirement components  
23 of \$1,218,037 and \$683,036, respectively.

24 20. Staff recalculated the base Step-Two ACRM minimum charge and the commodity  
25 components used to design the surcharge rates for the various meter sizes and customer classes for  
26 the permanent and temporary revenue requirements as shown in the attached Schedule GWB-3.

27 21. Using the revised billing determinants provided by AAW, Staff calculated and  
28 recommends the permanent and temporary Step-Two ACRM monthly customer surcharges as

1 presented in ACRM Schedule GWB-4 and the commodity rate surcharges as presented in ACRM  
2 Schedule GWB-5.

3       22. Staff recommends replacement of the Step-One ACRM surcharge (\$1.37 monthly  
4 customer charge for 5/8-inch meter customers<sup>4</sup> and \$0.1598 per thousand gallons commodity rate)  
5 with two components consisting of a permanent Step-Two ACRM surcharge and a temporary  
6 Step-Two ACRM surcharge. The permanent portion of Staff's recommended Step-Two ACRM  
7 surcharge would increase the monthly minimum customer surcharge for a customer with a 5/8-  
8 inch meter by \$0.47 from \$1.37 to \$1.84 and would increase the surcharge commodity rate per  
9 thousand gallons by \$0.0471 from \$0.1598 to \$0.2069. The permanent portion of Staff's  
10 recommended Step-Two ACRM surcharge would increase the average customer bill (with usage  
11 of 10,190 gallons on a 5/8-inch meter) over the Step-One level by \$0.95 (3.14 percent) from  
12 \$30.35 to \$31.30 and would increase the average bill over the base rate level by \$3.95 (14.44  
13 percent) from \$27.35 to \$31.30.

14       23. The temporary portion of the Step-Two surcharge provides for recovery of deferred  
15 O&M expenses and expires 12 months after implementation. The temporary portion of Staff's  
16 recommended Step-Two ACRM surcharge would add \$0.55 to the monthly customer surcharge for  
17 5/8-inch meter customers and \$0.0618 per thousand gallons to the surcharge commodity rate. The  
18 combined permanent and temporary Step-Two ACRM surcharge would result in a \$2.39 (\$1.84 +  
19 \$0.55) monthly customer surcharge and a \$0.2687 (\$0.2069 + \$0.0618) surcharge commodity rate  
20 per thousand gallons. The combined permanent and temporary portions of the Step-Two surcharge  
21 would increase the average customer bill (with usage of 10,190 gallons on a 5/8-inch meter) over  
22 the Step-One level by \$2.13 (7.02 percent) from \$30.35 to \$32.48 and over the base rate level by  
23 \$5.13 (18.76 percent) from \$27.35 to \$32.48.

24       24. Staff recommends that the permanent, or on-going component, of the Step-Two  
25 surcharge remain in effect until new rates are authorized in AAW's pending rate cases in Docket

26 ...

27 \_\_\_\_\_

28 <sup>4</sup> The monthly customer charge increases for larger meters.

1 Nos. W-01303A-08-0227 and SW-01303A-08-0227 and that the temporary surcharge that  
2 provides for recovery of deferred O&M expenses expire 12 months after implementation.

3 **Staff's Conclusions and Recommendations**

4 25. Staff concludes that the Company has duly filed an ACRM application as required  
5 by Decision Nos. 68310 and 67093.

6 26. Staff concludes that authorization of a permanent Step-Two ACRM surcharge that  
7 supplants the Step-One ACRM surcharge and that includes costs for the updated net arsenic related  
8 plant and associated depreciation expense as well as the costs for eligible arsenic related O&M  
9 costs, lease expense and income taxes to remain in effect until new rates are established in the  
10 pending rate case is appropriate.

11 27. Staff further concludes that authorization of a temporary Step-Two ACRM  
12 surcharge that provides recovery of deferred O&M expenses and ceases 12 months after  
13 implementation is appropriate.

14 28. Staff further concludes that AAW has already complied with the requirement to file  
15 a permanent rate application for its Agua Fria Water District no later than September 30, 2008.

16 29. Staff recommends approval of a permanent Step-Two ACRM surcharge, which  
17 supplants the previously approved Step-One ACRM surcharge, comprised of the monthly  
18 customer components presented in ACRM Schedule GWB-4 and the commodity rate components  
19 presented in ACRM Schedule GWB-5.

20 30. Staff further recommends that the Company file with the Commission an arsenic  
21 remedial surcharge tariff consistent with ACRM Schedules GWB-4 and GWB-5 that separately  
22 shows the permanent and temporary portions.

23 31. Staff further recommends that Arizona American Water Company notify its Agua  
24 Fria Water District customers of the arsenic cost recovery surcharge tariffs approved herein within  
25 30 days of the effective date of the Commission Decision.

26 CONCLUSIONS OF LAW

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



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IT IS FURTHER ORDERED that Arizona-American Water Company shall file a tariff consistent with this Decision within 30 days of this Decision.

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

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

|              |              |              |
|--------------|--------------|--------------|
| CHAIRMAN     | COMMISSIONER |              |
| COMMISSIONER | COMMISSIONER | COMMISSIONER |

IN WITNESS WHEREOF, I MICHAEL P. KEARNS, Interim 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 \_\_\_\_\_, 2009.

\_\_\_\_\_  
MICHAEL P. KEARNS  
INTERIM EXECUTIVE DIRECTOR

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

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

EGJ:GB:lh\AM

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

3 Mr. Miles H. Kiger  
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24  
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Schedule GWB-1

Arizona-American Water Company  
 Agua Fria Water District  
 Docket No. W-01303A-05-0280, et.al.  
 12 Month Period Ending August, 2008  
 Rate Base

| LINE NO. | [A]<br>Per Decision 97093 | [B]<br>Arsenic Treatment Plant Increase | [C]<br>Decision Plus Arsenic Treatment Plant | [D]<br>Actual Balance Aug. 2008 | [E]<br>Step-Two Arsenic Treatment Plant Increase | [F]<br>Staff Adjustments | [G]<br>Actual Balance Plus Arsenic Trtmt. Plant |
|----------|---------------------------|---|--|---------------------------------|--|--------------------------|---|
| 1        |                           |   |  |                                 |  |                          |   |
| 2        | \$ 51,062,107             | \$ 51,062,107                           | \$ 51,062,107                                | \$ 217,643,140                  |  |                          | \$ 217,643,140                                  |
| 3        | (5,020,828)               |   | (5,020,828)                                  | (22,386,882)                    |  |                          | (23,062,120)                                    |
| 4        |                           | 4,368,749                               | 4,368,749                                    |                                 | 4,368,749  |                          |   |
| 5a       |                           |   |  |                                 |  | (126,352)                |   |
| 5b       |                           |   |  |                                 |  | (735,129)                |   |
| 5c       |                           |   |  |                                 |  |                          | 3,507,288                                       |
| 6        |                           |   |  |                                 | (675,259)  | (0)                      | (675,259)                                       |
| 7        |                           |   |  |                                 |  |                          |   |
| 8        | \$ 46,041,279             | \$ 4,368,749                            | \$ 50,410,028                                | \$ 195,256,278                  | \$ 3,693,490                                     | \$ (861,481)             | \$ 197,413,028                                  |
| 9        |                           |   |  |                                 |  |                          |   |
| 10       |                           |   |  |                                 |  |                          |   |
| 11       |                           |   |  | 99,955,246                      |  |                          | 99,955,246                                      |
| 12       |                           |   |  | 27,385,370                      |  |                          | 27,385,370                                      |
| 13       |                           |   | 27,385,370                                   | (26,629,166)                    |  |                          | (26,629,166)                                    |
| 14       |                           |   |  | 36,392,845                      |  | 467,037                  | 36,859,882                                      |
| 15       |                           |   |  | (2,395,160)                     |  |                          | (2,395,160)                                     |
| 16       | 1,973,438                 |   | 1,973,438                                    | 1,973,438                       |  |                          | 1,973,438                                       |
| 17       |                           |   |  | (1,248,168)                     |  |                          | (1,248,168)                                     |
| 18       |                           |   |  |                                 |  |                          |   |
| 19       |                           |   |  |                                 |  |                          |   |
| 20       |                           |   |  | 20,230                          |  |                          | 20,230  |
| 21       | 17,289                    |   | 17,289                                       | (3,226,596)                     |  |                          | (3,226,596)                                     |
| 22       |                           |   |  |                                 |  |                          |   |
| 23       | \$ 29,376,097             |   | \$ 29,376,097                                | \$ 132,228,039                  | \$ -   | \$ 467,037               | \$ 132,695,076                                  |
| 24       |                           |   |  |                                 |  |                          |   |
| 25       |                           |   |  |                                 |  |                          |   |
| 26       |                           |   |  |                                 |  |                          |   |
| 27       |                           |   |  |                                 |  |                          |   |
| 28       |                           |   |  |                                 |  |                          |   |
| 29       |                           |   |  |                                 |  |                          |   |
| 30       |                           |   |  |                                 |  |                          |   |
| 31       |                           |   |  |                                 |  |                          |   |
| 32       |                           |   |  |                                 |  |                          |   |
| 33       | \$ 16,665,182             | \$ 4,368,749                            | \$ 21,033,931                                | \$ 63,028,239                   | \$ 3,693,490                                     | \$ (1,328,518)           | \$ 64,717,952                                   |
| 34       |                           |   |  |                                 |  |                          |   |

Note 1: Staff adjustment to remove overcapacity of arsenic treatment plant (\$126,352), consistent with Staff position in pending case. W-01303A-08-0227

Note 2: Staff adjustment to remove \$735,129 of arsenic treatment plant from this filing, as these amounts represent amounts already recognized in the Step 1 Arsenic Plant.

Note 3: Company amounts reflect a \$467,037 downward adj. for CIAC associated with plant not-yet-in-service (i.e., CWIP) Staff's adjustment reinstates \$467,037 of CIAC.

Arizona American Water Company  
 Agua Fria Water District  
 Docket No. W-01303A-05-0280, et.al.  
 12 Month Period Ending August, 2008  
 Revenue Requirement

| Line No. | [A]   | [B]           | [C]     | [D]     |
|----------|---|---------------|---------|---------|
| 1        | Arsenic Plant Revenue Requirement:  |               |         |         |
| 2        | Step 1 Plant  | \$ 8,558,191  |         |         |
| 3        | Staff Recommended Net Increase in Arsenic Plant from Step 1 to Step 2       | \$ 3,507,268  |         |         |
| 4        | Gross Arsenic Plant in Service/Rate Base Step 2                             | \$ 12,065,459 |         |         |
| 5        | Accumulated Depreciation of Arsenic Plant Step 1 (Note 1)                   | (675,259)     |         |         |
| 6        | Net Arsenic Plant in Service/Rate Base Step 2                               | 11,390,200    |         |         |
| 7        | Depreciation rate on Step 2 arsenic plant <sup>1</sup>                      | 3.30%         |         |         |
| 8        | Depreciation expense Step 2 (L4 * L7)                                       | 397,704       |         |         |
| 9        | Depreciation expense net of tax savings <sup>2</sup>                        | 244,196       |         |         |
| 10       | Recoverable O&M costs - Ongoing   | 683,036       |         |         |
| 11       | Recoverable O&M costs - Ongoing net of tax savings <sup>2</sup>             | 419,394       |         |         |
| 12       | Arsenic Operating Income Step 2 (L9 + L11)                                  | \$ (663,590)  |         |         |
| 13       | Rate of return  | -5.83%        |         |         |
| 14       | Required Rate of Return <sup>3</sup>  | 6.50%         |         |         |
| 15       | Required Operating Income on Net Arsenic Plant in Service Step 2 (L4 * L14) | 740,363       |         |         |
| 16       | Operating Income Deficiency Step 2  | 1,403,953     |         |         |
| 17       | Gross revenue conversion factor <sup>3</sup>                                | 1.62863       |         |         |
| 18       | Revenue deficiency  | \$ 2,286,519  |         |         |
| 19       |   |               |         |         |
| 20       |   |               |         |         |
| 21       |   |               |         |         |
| 22       |   |               |         |         |
| 23       |   |               |         |         |
| 24       |   |               |         |         |
| 25       |   |               |         |         |
| 26       | Rates   |               |         |         |
| 27       | Minimum 5/8" Meter  | \$ 9.08       | \$ 1.37 | \$ 1.84 |
| 28       | Commodity Rate 0 to 4,000 gallons   | 1.3800        | 0.1598  | 0.2069  |
| 29       | Commodity Rate 4,001 to 15,000 gallons                                      | 2.0600        | 0.1598  | 0.2069  |
| 30       | Commodity Rate 15,001 gallons and over                                      | 2.4870        | 0.1598  | 0.2069  |
| 31       |   |               |         |         |
| 32       |   |               |         |         |
| 33       |   |               |         |         |
| 34       |   |               |         |         |
| 35       |   |               |         |         |
| 36       |   |               |         |         |
| 37       |   |               |         |         |
| 38       |   |               |         |         |
| 39       |   |               |         |         |
| 40       |   |               |         |         |
| 41       |   |               |         |         |

Note 1: Staff recommended accumulated depreciation on arsenic plant included in the Step 1 ACRM surcharge.

<sup>1</sup>This depreciation rate is derived from Step 2 workpaper "Step 2 Depr Rate" and reflects the depreciation expenses of specific utility plant accounts using authorized depreciation rates for those specific accounts, per Decision No. 67093

<sup>2</sup>38.5986 % tax rate per Decision No. 67093

<sup>3</sup>Decision No. 67093

Schedule GWB-3

Arizona American Water Company  
 Agua Fria Water District  
 Docket No. W-01303A-05-0280, et al.  
 12 Month Period Ending August, 2008  
 Surcharge Calculation

| Line No. | (A)  | (B)                              | (C)                         | (D)                | (E)               | (F)          | (G)          | (H)        | (I)              | (J)            |
|----------|--|----------------------------------|-----------------------------|--------------------|-------------------|--------------|--------------|------------|------------------|----------------|
| 1        | Revised Customers  | Total Gallons Sold               | Gallons Sold Per Cust.      |                    |                   |              |              |            |                  |                |
| 2        | 34,785   | 4,985,980                        | 143.41                      |                    |                   |              |              |            |                  |                |
| 3        | 35,741   | 6,065,108                        | 169.70                      |                    |                   |              |              |            |                  |                |
| 4        | 876  | 1,079,448                        | 28                          |                    |                   |              |              |            |                  |                |
| 5        | 2.81%  | 21,855                           | 18.33%                      |                    |                   |              |              |            |                  |                |
| 6        |  | 5,525,383                        |                             |                    |                   |              |              |            |                  |                |
| 7        |  |                                  |                             |                    |                   |              |              |            |                  |                |
| 8        |  |                                  |                             |                    |                   |              |              |            |                  |                |
| 9        | As Revised by Company  | Estimated Customers at 31-Aug-08 | Estimated Average Customers | Minimum Multiplier | Equivalent Meters | Monthly Base | Monthly Base | Base Total | Monthly Deferred | Deferred Total |
| 10       |  | 28,214                           | 29,924                      | 1.0                | 29,924            | \$ 1.84      | \$ 664,704   | \$ 0.55    | \$ 166,575       | \$ 166,575     |
| 11       | Meter Size   |                                  |                             |                    |                   |              |              |            |                  |                |
| 12       | Res. 5/8-inch  | 70                               | 71                          | 1.0                | 71                | 1.84         | 1,569        | 0.55       | 468              | 468            |
| 13       | Res. 3/4-inch  |                                  |                             | 1.0                |                   | 1.84         |              | 0.55       |                  |                |
| 14       | Comm. 5/8-inch   | 5,445                            | 5,521                       | 1.0                | 14,129            | 4.71         | 312,240      | 1.41       | 93,276           | 93,276         |
| 15       | Comm. 3/4-inch   | 377                              | 382                         | 5.3                | 2,045             | 9.65         | 45,195       | 2.94       | 13,501           | 13,501         |
| 16       | 1-inch   | 544                              | 552                         | 8.0                | 4,428             | 14.78        | 97,811       | 4.41       | 29,218           | 29,218         |
| 17       | 1.5-inch   | 81                               | 83                          | 15.7               | 1,289             | 28.81        | 28,482       | 8.04       | 8,511            | 8,511          |
| 18       | 2-inch   | 2                                | 2                           | 21.1               | 43                | 38.68        | 948          | 11.62      | 283              | 283            |
| 19       | 3-inch   | 2                                | 2                           | 40.7               | 83                | 74.94        | 1,824        | 22.39      | 545              | 545            |
| 20       | 4-inch   |                                  |                             | 80.0               |                   | 147.26       |              | 43.89      |                  |                |
| 21       | 6-inch   |                                  |                             | 0.0                |                   |              |              |            |                  |                |
| 22       | 8-inch   |                                  |                             | 0.0                |                   |              |              |            |                  |                |
| 23       | AZ Water 2-inch  |                                  |                             | 0.0                |                   |              |              |            |                  |                |
| 24       | Surprise (4 accts)   |                                  |                             | 0.0                |                   |              |              |            |                  |                |
| 25       | > 2 accts @ 8-inch   |                                  |                             | 0.0                |                   |              |              |            |                  |                |
| 26       | > 2 accts @ 8-inch   |                                  |                             | 0.0                |                   |              |              |            |                  |                |
| 27       | State Pison 4-inch   |                                  |                             | 21.1               | 21                | 38.68        | 473          | 11.62      | 141              | 141            |
| 28       | Total  | 35,741                           | 36,744                      | 21.1               | 51,730            |              | \$ 1,143,280 |            | \$ 341,518       | \$ 341,518     |
| 29       |  |                                  |                             |                    |                   |              |              |            |                  |                |
| 30       |  |                                  |                             |                    |                   |              |              |            |                  |                |
| 31       | Calculation of Surcharge                                     | Minimum Surcharge                | Commodity Surcharge         |                    |                   |              |              |            |                  |                |
| 32       | Total costs to be recovered (Sch. 6 Col A Ln 19)             | \$ 2,285,519                     | \$ 1,143,280                |                    |                   |              |              |            |                  |                |
| 33       | Minimum Revenue (Col B Ln 32 + 2)                            |                                  | \$ 1,143,280                |                    |                   |              |              |            |                  |                |
| 34       | Commodity Revenue (Col B Ln 32 + 2)                          |                                  | \$ 1,143,280                |                    |                   |              |              |            |                  |                |
| 35       | Monthly Increment Per Equivalent Meter                       |                                  | 620,763                     |                    |                   |              |              |            |                  |                |
| 36       | Equivalent Meters (Col F Ln 28 * 12 Months)                  |                                  | \$ 1.84                     |                    |                   |              |              |            |                  |                |
| 37       | Minimum Surcharge (Col C Ln 32 + Ln 37)                      |                                  | 5,525,383                   |                    |                   |              |              |            |                  |                |
| 38       | Average Gallons (Col B Ln 5)                                 |                                  | \$ 0.2069                   |                    |                   |              |              |            |                  |                |
| 39       | Commodity Surcharge (Col D Ln 34 + Ln 41)                    |                                  | Commodity Surcharge         |                    |                   |              |              |            |                  |                |
| 40       |  |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 41       |  |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 42       |  |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 43       |  |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 44       |  |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 45       |  |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 46       |  |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 47       | Calculation of Deferred O&M Surcharge                        |                                  |                             |                    |                   |              |              |            |                  |                |
| 48       | Total deferred O&M costs to be recovered (Sch. 5 Col A Ln 8) | \$ 683,036                       |                             |                    |                   |              |              |            |                  |                |
| 49       | Monthly Minimum Revenue (Col B Ln 47 + 2)                    |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 50       | Commodity Revenue (Col B Ln 47 + 2)                          |                                  | \$ 341,518                  |                    |                   |              |              |            |                  |                |
| 51       | Monthly Increment Per Equivalent Meter                       |                                  | 620,763                     |                    |                   |              |              |            |                  |                |
| 52       | Equivalent Meters (Col F Ln 22 * 12 Months)                  |                                  | \$ 0.55                     |                    |                   |              |              |            |                  |                |
| 53       | Minimum Surcharge (Col C Ln 42 + Ln 46)                      |                                  | 5,525,383                   |                    |                   |              |              |            |                  |                |
| 54       | Average Gallons (Col B Ln 5)                                 |                                  | \$ 0.0618                   |                    |                   |              |              |            |                  |                |
| 55       | Commodity Surcharge (Col D Ln 49 + Ln 56)                    |                                  | \$ 2.39                     |                    |                   |              |              |            |                  |                |
| 56       |  |                                  | \$ 0.2667                   |                    |                   |              |              |            |                  |                |
| 57       |  |                                  | \$ 0.2667                   |                    |                   |              |              |            |                  |                |
| 58       |  |                                  | \$ 0.2667                   |                    |                   |              |              |            |                  |                |
| 59       |  |                                  | \$ 0.2667                   |                    |                   |              |              |            |                  |                |
| 60       |  |                                  | \$ 0.2667                   |                    |                   |              |              |            |                  |                |

ACRM Schedule GWB-4

Monthly Customer Charges - Staff  
(ACRM STEP 2)

ARIZONA AMERICAN WATER COMPANY  
DOCKET NO. W-01303A-05-0280  
AF ACRM STEP-TWO

|                                  | (A)                  | (B)                   | (C)   | (D)                                      | (E)  | (F)  | (G)  | (H)  | (I)  | (J)  |
|----------------------------------|----------------------|-----------------------|---|--|--|--|--|--|--|--|
|                                  | (A)                  | (B)                   | (C)   | (A) + (C)                                | (F) - (B)  | (B) * \$1.84                               | (B) * \$0.55                               | (F) + (G)                                  | (A) + (F) + (G)                                      | (A) + (F)                                    |
|                                  | Base Customer Charge | Equivalent Meter Size | Step 1 Customer Charge Surcharge Decision No. 68825 | Combined Base and Step 1 Customer Charge | Incremental Permanent Step 2 Customer Charge Surcharge | Permanent Step 2 Customer Charge Surcharge | Temporary Step 2 Customer Charge Surcharge | Combined Permanent and Temporary Surcharge | Combined Permanent & Temporary Base Customer Charges | Combined Permanent and Base Customer Charges |
| Meter Size                       | Decision No. 67093   |                       |   |  |  |  |  |  |  |  |
| Residential 5/8 & 3/4"           | \$ 9.08              | 1.0                   | \$ 1.37   | \$ 10.45                                 | \$ 0.47  | \$ 1.84                                    | \$ 0.55                                    | \$ 2.39                                    | \$ 11.47   | \$ 10.92                                     |
| Residential 1"                   | \$ 23.24             | 2.5                   | \$ 3.50   | \$ 26.74                                 | \$ 1.21  | \$ 4.71                                    | \$ 1.41                                    | \$ 6.12                                    | \$ 29.36   | \$ 27.95                                     |
| Residential 1.5"                 | \$ 48.58             | 5.4                   | \$ 7.32   | \$ 55.90                                 | \$ 2.52  | \$ 9.84                                    | \$ 2.94                                    | \$ 12.79                                   | \$ 61.37   | \$ 58.42                                     |
| Residential 2"                   | \$ 72.86             | 8.0                   | \$ 10.98  | \$ 83.84                                 | \$ 3.78  | \$ 14.76                                   | \$ 4.41                                    | \$ 19.18                                   | \$ 92.04   | \$ 87.62                                     |
| Residential 3"                   | \$ 142.55            | 15.7                  | \$ 21.47  | \$ 164.02                                | \$ 7.42  | \$ 28.89                                   | \$ 8.63                                    | \$ 37.52                                   | \$ 180.07  | \$ 171.44                                    |
| Residential 4"                   | \$ 191.75            | 21.1                  | \$ 28.88  | \$ 220.63                                | \$ 9.98  | \$ 38.86                                   | \$ 11.61                                   | \$ 50.47                                   | \$ 242.22  | \$ 230.61                                    |
| Residential 6"                   | \$ 369.55            | 40.7                  | \$ 55.67  | \$ 425.22                                | \$ 19.22   | \$ 74.89                                   | \$ 22.38                                   | \$ 97.27                                   | \$ 466.82  | \$ 444.44                                    |
| Residential 8"                   | \$ 726.26            | 80.0                  | \$ 109.40   | \$ 835.66                                | \$ 37.77   | \$ 147.17                                  | \$ 43.99                                   | \$ 191.16                                  | \$ 917.42  | \$ 873.43                                    |
| Comm. 5/8 & 3/4"                 | \$ 9.08              | 1.0                   | \$ 1.37   | \$ 10.45                                 | \$ 0.47  | \$ 1.84                                    | \$ 0.55                                    | \$ 2.39                                    | \$ 11.47   | \$ 10.92                                     |
| Commercial 1"                    | \$ 23.24             | 2.5                   | \$ 3.50   | \$ 26.74                                 | \$ 1.21  | \$ 4.71                                    | \$ 1.41                                    | \$ 6.12                                    | \$ 29.36   | \$ 27.95                                     |
| Commercial 1-1/2"                | \$ 48.58             | 5.4                   | \$ 7.32   | \$ 55.90                                 | \$ 2.52  | \$ 9.84                                    | \$ 2.94                                    | \$ 12.79                                   | \$ 61.37   | \$ 58.42                                     |
| Commercial 2"                    | \$ 72.86             | 8.0                   | \$ 10.98  | \$ 83.84                                 | \$ 3.78  | \$ 14.76                                   | \$ 4.41                                    | \$ 19.18                                   | \$ 92.04   | \$ 87.62                                     |
| Commercial 3"                    | \$ 142.55            | 15.7                  | \$ 21.47  | \$ 164.02                                | \$ 7.42  | \$ 28.89                                   | \$ 8.63                                    | \$ 37.52                                   | \$ 180.07  | \$ 171.44                                    |
| Commercial 4"                    | \$ 191.75            | 21.1                  | \$ 28.88  | \$ 220.63                                | \$ 9.98  | \$ 38.86                                   | \$ 11.61                                   | \$ 50.47                                   | \$ 242.22  | \$ 230.61                                    |
| Commercial 6"                    | \$ 369.55            | 40.7                  | \$ 55.67  | \$ 425.22                                | \$ 19.22   | \$ 74.89                                   | \$ 22.38                                   | \$ 97.27                                   | \$ 466.82  | \$ 444.44                                    |
| Commercial 8"                    | \$ 726.26            | 80.0                  | \$ 109.40   | \$ 835.66                                | \$ 37.77   | \$ 147.17                                  | \$ 43.99                                   | \$ 191.16                                  | \$ 917.42  | \$ 873.43                                    |
| Arizona Water Contract           | \$ -                 | N/A                   | \$ -  | \$ -                                     | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ -   | \$ -   |
| OPA - State Prison               | \$ 191.75            | 21.1                  | \$ 28.88  | \$ 220.63                                | \$ 9.98  | \$ 38.86                                   | \$ 14.58                                   | \$ 53.44                                   | \$ 245.19  | \$ 230.61                                    |
| OWU PI Surprise - 6"             | \$ -                 | N/A                   | \$ -  | \$ -                                     | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ -   | \$ -   |
| OWU PI Surprise - 8"             | \$ -                 | N/A                   | \$ -  | \$ -                                     | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ -   | \$ -   |
| Private Fire 4"(Sun City West)   | \$ 35.22             | N/A                   | \$ -  | \$ 35.22                                 | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ 35.22   | \$ 35.22                                     |
| Private Fire 4"                  | \$ 27.25             | N/A                   | \$ -  | \$ 27.25                                 | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ 27.25   | \$ 27.25                                     |
| Private Fire 6"                  | \$ 40.86             | N/A                   | \$ -  | \$ 40.86                                 | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ 40.86   | \$ 40.86                                     |
| Private Fire 8"                  | \$ 54.48             | N/A                   | \$ -  | \$ 54.48                                 | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ 54.48   | \$ 54.48                                     |
| Private Fire 12"                 | \$ 163.44            | N/A                   | \$ -  | \$ 163.44                                | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ 163.44  | \$ 163.44                                    |
| Private Fire 6"(Anthem)          | \$ 126.60            | N/A                   | \$ -  | \$ 126.60                                | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ 126.60  | \$ 126.60                                    |
| Agua Fria Irrigation - Raw       | \$ -                 | N/A                   | \$ -  | \$ -                                     | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ -   | \$ -   |
| Agua Fria Irrigation Non Potable | \$ -                 | N/A                   | \$ -  | \$ -                                     | \$ -   | \$ -                                       | \$ -                                       | \$ -                                       | \$ -   | \$ -   |

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

ACRM Schedule GWB-5

ARIZONA AMERICAN WATER COMPANY  
DOCKET NO. W-01303A-05-0280  
AF ACRM STEP-TWO

Commodity Rate - Staff  
(ACRM STEP 2)

| Meter Size                       | Block Size (gallons) | (A) Base Commodity Rate<br>Dec. No. 67093 | (B) Step 1 Commodity Surcharge<br>Dec. No. 68825 | (C) Combined Base & Step 1 Commodity Rate | (D) Incremental Permanent Step 2 Commodity Surcharge | (E) Permanent Step 2 Commodity Surcharge | (F) Temporary Step 2 Commodity Surcharge | (G) Combined Permanent & Temporary Commodity Surcharge | (H) Combined Permanent & Temporary Base Commodity Surcharge | (I) Combined Permanent and Base Commodity Surcharge |
|----------------------------------|----------------------|---|--|---|--|--|--|--|---|---|
| Residential 5/8 & 3/4-inch       | First 4,000          | \$ 1,360                                  | \$ 0.1598  | \$ 1,539                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 1,648  | \$ 1,569  |
|                                  | Next 9,000           | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 13,000          | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Residential 1-inch               | First 45,000         | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 45,000          | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Residential 1.5-inch             | First 100,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 100,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Residential 2"                   | First 150,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 150,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Residential 3"                   | First 300,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 300,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Residential 6"                   | First 800,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 800,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Commercial 5/8 & 3/4"            | First 13,000         | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 13,000          | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Commercial 1"                    | First 45,000         | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 45,000          | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Commercial 1-1/2"                | First 100,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 100,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Commercial 2"                    | First 150,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 150,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Commercial 3"                    | First 300,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 300,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Commercial 4"                    | First 400,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 400,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Commercial 6"                    | First 800,000        | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 800,000         | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Commercial 8"                    | First 1,500,000      | \$ 2,060                                  | \$ 0.1598  | \$ 2,219                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,327  | \$ 2,269  |
|                                  | Over 1,500,000       | \$ 2,487                                  | \$ 0.1598  | \$ 2,646                                  | \$ 0.0471  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,757  | \$ 2,699  |
| Arizona Water Contract           | First 8,000          | \$ 1,780                                  | \$ -   | \$ 1,780                                  | \$ 0.2069  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,048  | \$ 1,989  |
|                                  | Over 8,000           | \$ 2,240                                  | \$ -   | \$ 2,240                                  | \$ 0.2069  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,508  | \$ 2,449  |
| OPA - State Prison               | All Usage            | \$ 1,930                                  | \$ -   | \$ 1,930                                  | \$ 0.2069  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 2,198  | \$ 2,139  |
| OWU PI Surprise All              | All Usage            | \$ 1,000                                  | \$ -   | \$ 1,000                                  | \$ 0.2069  | \$ 0.2069                                | \$ 0.0618                                | \$ 0.2687  | \$ 1,268  | \$ 1,209  |
| Private Fire 4"                  |                      | N/A                                       |  | N/A                                       |  |  |  |  | N/A   | N/A   |
| Private Fire 4"                  |                      | N/A                                       |  | N/A                                       |  |  |  |  | N/A   | N/A   |
| Private Fire 6"                  |                      | N/A                                       |  | N/A                                       |  |  |  |  | N/A   | N/A   |
| Private Fire 8"                  |                      | N/A                                       |  | N/A                                       |  |  |  |  | N/A   | N/A   |
| Private Fire 12"                 |                      | N/A                                       |  | N/A                                       |  |  |  |  | N/A   | N/A   |
| Private Fire 6"                  |                      | N/A                                       |  | N/A                                       |  |  |  |  | N/A   | N/A   |
| Private Fire 6"                  |                      | N/A                                       |  | N/A                                       |  |  |  |  | N/A   | N/A   |
| Agua Fria Irrigation - Raw       | All Usage            | \$ 0.5000                                 |  | \$ 0.5000                                 |  |  |  |  | \$ 0.5000   | \$ 0.5000   |
| Agua Fria Irrigation Non Potable | All Usage            | \$ 0.6200                                 |  | \$ 0.6200                                 |  |  |  |  | \$ 0.6200   | \$ 0.6200   |